THE STATE OF SOUTH CAROLINA
In the Court of Appeals

APPEAL FROM GREENVILLE COUNTY
Court of Common Pleas

Charles B. Simmons, Jr., Special Circuit Court Judge

Case No. 2013-000575

Artemio Alvarez v. Quality HR Services, et.al.
W.C.C. File No.: X030301
William Brockman v. Quality HR Services, et.al.
W.C.C. File No.: X030600
Martha Burke v. Quality HR Services, et.al.
W.C.C. File No.: X030681
Lucille Dwight v. Quality HR Services, et.al.
W.C.C. File No.: 0326238
Robert Hunter v. Quality HR Services, et.al.
W.C.C. File No.: X040142
Tammy Miller v. Quality HR Services, et.al.
W.C.C. File No.: X040301
Patricia Wade-Portee v. Quality HR Services, et.al.
W.C.C. File No.: 0907616
Jessie Pringle v. Quality HR Services, et.al.
W.C.C. File No.: 0327062
Steven Cameron v. Quality HR Services, et.al.
W.C.C. File No.: 0316901
Ruth Harmon v. Spectrum HR, et.al
W.C.C. File No: 040613.....Respondents,

v.

South Carolina Property and Casualty
Insurance Guaranty Association.....Appellant.

RECORD ON APPEAL
(VOLUME III of V)

J. Hubert Wood, III
P.O. Box 20550
Charleston, SC 29413
Attorney for Appellant South Carolina Property & Casualty Insurance Guaranty Assoc.

Duke K. McCall, Jr.
300 East McBee Avenue, Suite 500
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Attorney for Respondent Quality HR Services

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872 S. Pleasantburg Drive
Greenville, SC 29607
Attorneys for Respondents Keith's Welding Services, Inc., Capital City Ins. Co. and ABC Investments

David H. Keller
105 N. Spring Street, Suite 105
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Attorney for Respondent Uninsured Employers' Fund

1000

NEW YORK
LIQUIDATION BUREAU

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Eric R. Dinallo
Superintendent as Receiver

Mark G. Peters
Special Deputy Superintendent in Charge

October 10, 2007

Mr. J. Hubert Wood, III
Wood, Porter & Warder, LLC
Attorneys At Law
One Wesley Drive
Charleston, South Carolina 29407

Re: Realm National Insurance Company in Liquidation
Joseph C. Coonce, Jr. vs Fleet Source, Inc./Spectrum HR
Your File No. 45.54

Dear Mr. Wood,

Regarding your letter of October 1, 2007, please be advised a review of the records obtained from Realm Insurance Company indicated that Realm did not issue Worker's Compensation policy (ies) to Fleet Source, Inc./Spectrum HR

Enclosed please find a copy of communications from Realm to Spectrum HR and the South Carolina Workers' Compensation Commission and the South Carolina Department of Insurance. As indicated, American Insurance Marketing (AIM) issued unauthorized certificates of insurance identifying Realm as the insurance carrier.

Based on the above, Realm did not afford workers' compensation coverage to Fleet Source, Inc./Spectrum HR Inc. As such, the Receiver will not honor any indemnity or medical payments made under the policy (ies) at issue. However, any administrative expenses incurred by the South Carolina Property & Casualty Insurance Guaranty Association to defend the Receivers' "no coverage" posture will be considered for reimbursement, as the assets of the Estate permit.

If you have any questions please feel free to contact me.

Sincerely,

Jeffrey Naimoli, Assistant Director
Estate Management

JB:ic
Realm/Fleet Source, Inc.

36

1001

STEVENS & LEE
LAWYERS & CONSULTANTS

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May 8, 2007

VIA ELECTRONIC FILING

Hon. Stuart M. Bernstein
United States Bankruptcy Court
One Bowling Green
New York, New York

Re: AlphaStar Insurance Group Limited, et al. v. American Insurance Managers, Inc., Adv. Proc. No. 04-02792 (SMB) (Consolidated)

Dear Judge Bernstein:

We represent Richard O'Connell, the chapter 7 Trustee of AlphaStar Insurance Group Limited and Stirling Cooke North American Holdings, two of the plaintiffs in the above-referenced adversary proceeding. At the request of your Law Clerk Jessica Lubarsky, this letter shall update the Court on the status of the above-referenced case.

On October 30, 2006, the Trustee filed a Motion To Withdraw Reference of this adversary proceeding. On January 31, 2007, the Trustee filed the Notice Of Withdrawal Of The Reference and the receipt from the Bankruptcy Court with the United States District Court For the Southern District of New York.

On March 8, 2007, the District Court assigned Judge William H. Pauley, III to the case. The case has since been re-assigned to Judge Richard J. Holwell. By order dated April 5, 2007 (enclosed herein), Judge Holwell scheduled an initial scheduling conference, held on April 26, 2007.

As the Court is aware, the claims of both AlphaStar Insurance Group Limited and Stirling Cooke North American Holdings have been dismissed. The claims pending before the District Court concern only AIM's counterclaims against certain former directors and officers of the Debtors. Thus, the Trustee is not participating in the District Court action in any manner.

STEVENS & LEE
LAWYERS & CONSULTANTS

Should the Court wish to learn more about the District Court action, please contact the attorneys for AIM: (i) Stanley A. Coburn, Esq., Lowendick, Cuzdey, Ehrmann, Wagner & Stine, LLC, P.O. Box 450169, Atlanta, Georgia 31145, (404) 325-2300; or (ii) David Boone, Esq., Boone & Stone, 3166 Mathieson Drive, Atlanta, Georgia 30305, (404) 239-0305.

Respectfully yours,

STEVENS & LEE

Constantine Pourakis

Encl.

CP:iez

SL1 721796v1/071495.00006

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----------x

IN RE: ALPHASTAR INSURANCE GROUP LIMITED, ET AL.,

Plaintiffs,

- against - **2007 Civ. 00762 (RJH)**

AMERICAN INSURANCE MANAGERS, INC. ET AL.,

Defendants.

----------x

Initial Scheduling Conference Notice and Order

This action has been assigned to Judge Richard J. Holwell for all purposes. It is hereby ORDERED as follows:

1. Counsel receiving this Order shall promptly mail or fax copies hereof to all other counsel of record or, in the case of parties for which no appearance has been made, to such parties. Counsel for all parties should note their appearance as counsel in this matter by letter immediately.
2. Counsel for all parties are directed to confer regarding an agreed scheduling order pursuant to Fed. R. Civ. P. 26(f). If counsel are able to agree on a schedule **and the agreed schedule calls for filing of the pretrial order not more than nine (9) months from the date of this order**, counsel shall sign and email a PDF of the proposed schedule to the Orders and Judgment Clerk within fourteen (14) days from the date hereof, following the scheduling order requirements attached hereto. Counsel should note, in submitting their consent scheduling order, that the otherwise scheduled conference should be adjourned.
3. If such a consent order is not filed within the time provided, an initial scheduling conference will be held in this matter on **April 26, 2007 at 10:30 a.m.** in Courtroom 17B at the U.S. Courthouse, 500 Pearl Street, New York, New York 10007. A proposed scheduling order, following the scheduling order requirements attached hereto, should be submitted to Chambers three days before the initial scheduling conference.
4. **Any requests for adjournments** must be made in writing and must be received in Chambers **not later than 48 hours** before the scheduled time. Alternative

dates that are mutually agreeable to all parties must be suggested when requesting to reschedule the initial scheduling conference. Parties should consult the Individual Practices of Judge Holwell with respect to communications with Chambers and related matters.

5. This case has been designated an electronic case. The parties are advised that **all orders after this Initial Scheduling Conference Notice and Order will be issued via the Electronic Case Filing ("ECF") system and parties will not be sent copies by mail or facsimile.** It is the responsibility of counsel to become familiar with and follow ECF procedures. A subsequent Initial Scheduling Conference Notice and Order attaching Judge Holwell's Individual Practices will be issued via ECF. Judge Holwell's individual practices may also be found at http://www1.nysd.uscourts.gov/judge_info.php?id=87. Parties should direct questions regarding ECF to the ECF Help Desk at 212-805-0800.

SO ORDERED

Dated: New York, New York
April 5, 2007.

Richard J. Holwell
United States District Judge

Scheduling Order Requirements

1. Description of the Case
   a. Identify the attorneys of record for each party, including lead trial attorney;
   b. State the basis for federal jurisdiction;
   c. Briefly describe the claims asserted in the complaint and any counterclaims;
   d. State the major legal and factual issues in the case; and
   e. Describe the relief sought.

2. Proposed Case Management Plan
   a. Identify all pending motions;
   b. Propose a cutoff date for joinder of additional parties;
   c. Propose a cutoff date for amendments to pleadings;
   d. Propose a schedule for completion of discovery, including:
      i. A date for Rule 26(a)(1) disclosures, if not previously completed;
      ii. A fact discovery completion date;
      iii. A date for Rule 26(a)(2) disclosures; and
      iv. An expert discovery completion date, including dates for delivery of expert reports;
   e. Propose a date for filing dispositive motions;
   f. Propose a date for filing a final pretrial order; and
   g. Propose a trial schedule, indicating:
      i. Whether a jury trial is requested;
      ii. The probable length of trial; and
      iii. When the case will be ready for trial.

3. Consent to Proceed Before a Magistrate Judge: Indicate whether the parties consent unanimously to proceed before a Magistrate Judge.

4. Status of Settlement Discussions
   a. Indicate whether any settlement discussions have occurred;
   b. Describe the status of any settlement discussions; and
   c. Whether parties request a settlement conference.

ORIGINAL

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In Re: ALPHASTAR INSURANCE GROUP LIMITED, Debtor.	03-17903 (SMB) One Bowling Green New York, New York August 31, 2006
ALPHASTAR INSURANCE GROUP, LTD., et al., Plaintiff, v. AMERICAN INSURANCE MANAGERS, et al., Defendant.	04-2792

TRANSCRIPT OF MOTION TO APPROVE SETTLEMENT
BEFORE THE HONORABLE STUART M. BERNSTEIN
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:

For the Debtor:	NICHOLAS F. KAJON, ESQ. Stevens & Lee, P.C. 485 Madison Avenue New York, New York 10022
For NES:	CRAIG A. DAMAST, ESQ. Blank Rome, LLP 405 Lexington Avenue New York, New York 10174
For Cyrus Corp.:	KIRK L. BRETT, ESQ. Duval & Stachenfeld, LLP 300 East 42nd Street New York, New York 10017
Court Transcriber:	CARLA NUTTER

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311

THE COURT: Alphastar. Good morning.

MR. KAJON: Good morning, Your Honor.

Nicholas F. Kajon of Stevens & Lee representing Richard D. O'Connell, the Chapter 7 Trustee of Alphastar and related debtors.

We're here this morning on a motion for approval of a stipulation that resolves literally years of contentious and extensive litigation between the debtors and American Insurance Managers and related companies known as "AIM." We served the motion on twenty days notice. There were two limited objections that were filed by Cyrus Corp., the DIP lender, and NES. We have resolved both of those, Your Honor, pursuant to the terms of a consent order that was circulated among the parties yesterday and both Cyrus and NES are represented in court today.

Basically, the order approves the stipulation and then just clarifies that neither the order nor the stipulation is intended to prejudice the rights of either Cyrus or NES. Everyone's rights are preserved.

THE COURT: Okay. I just have one comment on your stipulation. There is a consent here to an order transferring AIM's counterclaims that still remain back to the U.S. District Court for the Southern District of New York. I think someone is going to have to make a motion to withdraw the reference and you could all consent to it but I can't send the case back to the District Court. It works the other way.

Okay?

MR. KAJON: We'll do that, Your Honor.

THE COURT: Is there anyone who wants to be heard in connection with the proposed settlement?

MR. BRETT: Your Honor, Kirk Brett from Duval & Stachenfeld on behalf of Cyrus Corp.

I just wanted to confirm some of the segments from Mr. Kajon. Cyrus Corp. is the debtor-in-possession lender. Cyrus has a lien on the stock of Realm held by the debtor Sterling Cook and the transfer of that stock pursuant to the settlement would be made subject to Cyrus' lien. That point was made in the consent order and so we consent to the entry of the order and I note that AIM asked that its rights if any to object to the enforceability or validity of that lien are being preserved and that's fine with us.

THE COURT: Okay.

MR. DAMAST: Good morning, Your Honor. Craig Damast from Blank Rome on behalf of NES.

Counsel for the Trustee has adequately represented that the consent order does in fact resolve our objection and it is acceptable to us.

THE COURT: Okay. Anybody else want to be heard?

[No response.]

THE COURT: All right. I'll approve the settlement. It's a litigation gone wild at least in the early stages but I guess time heals all wounds.

Realm, which was apparently the jewel of this corporate empire is now in liquidation before the superintendent of insurance. It may or may not have value. I don't know. I don't know if the stock has any value. I don't know if there's any value left in any of these entities but, certainly, resolving the litigation saves time and expense. So I'll approve that.

Now, mechanically, the -- how are you going to dispose of this

adversary proceeding because -- you're just going to submit an order dismissing the adversary and the counterclaims without prejudice or what do you -- if you dismiss the adversary then you can't withdraw the reference to the adversary.

MR. KAJON: I guess, procedurally, we'll move to withdraw the reference on the counterclaims and then file a stipulation dismissing the remainder of the adversaries.

THE COURT: Either that or you can just submit an order of closing the adversaries so, mechanically, we can do it.

This also resolves the relief from stay motion, I take it?

MR. KAJON: Yes. Yes, Your Honor.

THE COURT: Okay.

MR. KAJON: It's basically a resolution of all litigation sparing both sides many millions of dollars or at least many millions of dollars before the appointment of a Trustee was wasted on this litigation.

Your Honor noted that time heals all wounds. I think in this case it's --

THE COURT: And lack of money; right?

MR. KAJON: Well, I think the appointment of a Trustee is what healed this wound. There was clearly an inability of debtor's management to resolve this issue.

THE COURT: Okay. I'm going to adjourn this matter only because I want to make sure that you're proceeding getting these counterclaims out of here but what I'll do is I'll give you a holding date and you can report by letter that a motion has been made and argument has been heard. If no motion has been made within the next two months I'm going to want you to come and explain why

that hasn't occurred. So let's use that October 26th date.

Okay?

MR. KAJON: Yes, sir.

THE COURT: That's just for the pre-trial conference.

Okay. Thanks very much.

ALL ATTORNEYS: Thank you, Your Honor.

THE COURT: Okay.

C E R T I F I C A T I O N

I certify that the foregoing is a transcript from an electronic sound recording of the proceedings in the above-entitled matter taken on August 31, 2006, except where, as indicated, the Court has modified the transcript.

Carla Nutter

Carla Nutter

11/19/07

Date

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
One Bowling Green
New York, NY 10004-1408

IN RE: AlphaStar Insurance Group Limited	CASE NO.: 03-17903-smb
SSN/TAX ID: 20-3115965	CHAPTER: 7
	TRUSTEE:
	Richard E. O'Connell Yost & O'Connell 24-44 Francis Lewis Blvd. Whitestone, NY 11357
	Telephone: (718) 767-6400

NOTICE OF POSSIBLE PAYMENT OF DIVIDENDS AND OF LAST DATE TO FILE CLAIMS

To the creditors of the above named debtor:

As a result of the administration of the debtor's estate, a dividend to creditors now appears possible.
You are hereby advised of the opportunity to file a claim in order to share in any distribution.
A creditor must file a PROOF OF CLAIM whether or not the debt is included in the list of creditors filed by the debtor.
The PROOF OF CLAIM must be filed on or before June 19, 2007.
Please take further notice that if you have a PROOF OF CLAIM on file or one has been filed on your behalf, do not file again.
All PROOFS OF CLAIM for the above named debtor, are to be filed with the court at the above address.

Dated: March 19, 2007

Kathleen Farrell-Willoughby
Clerk of the Court

317

1014

YOST & O'CONNELL
Attorneys at Law
24-44 Francis Lewis Boulevard
Whitestone, NY 11357
718-767-6400

Karen M. Yost
Richard E. O'Connell

Fax: 718-767-1824

March 2, 2007

Clerk, US Bankruptcy Court
One Bowling Green
New York, NY 10004

Re: Alphastar Insurance Group LTD, *et al.*, Case #03-17903 smb

Dear Madam:

The above-captioned case is the lead case in a group of cases that are being jointly administered pursuant to Orders of this court. The jointly administered cases include AlphaStar Insurance Group Limited, f/k/a Stirling Cooke Brown Holdings Limited ("AlphaStar") Case #03-17903; AlphaStar Insurance Services, Inc. ("ASIS") Case #03-17904; Employee & Providers Resources Group, Inc. ("EPRG"), Case #03-17905; North American Risk, Inc. ("NAR"), Case #03-17906; Stirling Cooke Brown North American Reinsurance Intermediaries, Inc. ("SCBNAR"), Case #03-17908; Stirling Cooke New York Insurance Agency Services, Inc. ("SCNYIAS") Case #03-17909; Stirling Cooke North American Holdings, Inc. ("SCNAH"), Case #03-17910; Stirling Cooke Risk Management Services, Inc. ("SCRMS") Case #03-17912; Stirling Cooke Southeast, Inc. ("SCSE") Case #03-17913; Stirling Cooke Texas, Inc. ("SCTX") Case #03-17914; World Trade Services (NJ) ("WTNJ") Case #03-17915; and World Trade Services (PA) ("WTPA") Case #03-17916. Each of the jointly administered cases was originally classified as a no asset case. It appears that, pursuant to F.R.Bankr.P. 2002(e), creditors in each of the jointly administered cases were accordingly notified that it was unnecessary to file claims. Assets have been recovered in the jointly administered cases and payment of a dividend now appears possible. Pursuant to F.R.Bankr.P. 3002(c)(5), please send a notice to all creditors in all of the jointly administered cases advising them of the possibility of a dividend and that they may file claims within 90 days after the mailing of the notice. **IF SUCH A NOTICE WAS ALREADY SENT, PLEASE DO NOT SEND A NEW NOTICE**

Sincerely,
S/Richard E. O'Connell
Richard E. O'Connell

318

1015

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re ALPHASTAR INSURANCE GROUP LIMITED, *et al.*, Debtors.	Chapter 7 Case No. 03-17903 (SMB) Jointly Administered

ORDER APPROVING STIPULATION RESOLVING DISPUTES WITH AMERICAN INSURANCE MANAGERS, INC.

Upon the motion dated August 11, 2006 (the "Motion") of Richard E. O'Connell, chapter 7 trustee (the Trustee") of AlphaStar Insurance Group Limited, Stirling Cooke North American Holdings, Inc. ("SCNAH"), Employee & Providers Resources Group, Inc., North American Risk, Inc., Stirling Cooke Brown North American Reinsurance Intermediaries, Inc., AlphaStar Insurance Services, Inc., Stirling Cooke New York Insurance Agency Services, Inc., Stirling Cooke Risk Management Services, Inc., Stirling Cooke Southeast, Inc., Stirling Cooke Texas, Inc., World Trade Services (NJ), and World Trade Services (PA) (collectively, the "Debtors"), pursuant to Rule 9019(a) of the Federal Rules of Bankruptcy Procedure, for approval of a stipulation, a copy of which was annexed to the Motion (the "AIM Settlement Stipulation"), among the Trustee, American Insurance Managers, Inc. and related persons and entities (collectively, "AIM"), and Corporate Resources Management, Inc. ("CRM"); and it appearing that the Trustee provided adequate notice of the Motion; and upon the objections (together, the "Objections") filed by National Employer Solutions, Inc. ("NES") and Cyrus Corp. ("Cyrus"); and no other objections having been filed; and the Trustee having agreed to clarify that the Motion does not seek to prejudice the rights of NES and Cyrus, thereby resolving the Objections; and upon the hearing held before this Court on August 31, 2006 **SMB 8/31/06 and the**

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319

representations made on the record ; and the Court having reviewed the Motion, finds that the relief requested is in the best interests of the Debtors' estates and that the compromises set forth in the AIM Settlement Stipulation are well above the lowest point in the range of reasonableness; and that after due deliberation, good and sufficient cause exists to grant the relief requested in the Motion, it is hereby

ORDERED as follows:

1. The AIM Settlement Stipulation is hereby approved **SMB 8/31/06 except that nothing herein or in the Stipulation shall effect a transfer of any proceeding to the District Court**..

2. The Trustee's transfer to AIM of SCNAH's stock in Realm National Insurance Company shall be subject to Cyrus's security interest, and subject to AIM's rights to contest the validity and enforceability of such security interest.

3. Nothing contained in the AIM Settlement Stipulation shall be deemed to permit CRM, in its capacity as Class Representative, to dismiss with prejudice or release any claims NES has asserted or could assert in that certain action pending against AIM in the State Court of Fulton County, Georgia, Case No. 04-074668A ("Georgia Litigation"), and nothing in the AIM Settlement Stipulation shall affect or be construed as affecting claims asserted by or which could be asserted by NES in the Georgia Litigation.

4. The Trustee, AIM and CRM are hereby authorized and directed to take any and all actions, and execute any and all documents, reasonably required to perform their obligations under the AIM Settlement Stipulation.

5. This Court hereby reserves jurisdiction to determine any disputes under the AIM Settlement Stipulation.

Dated: New York, New York
August 31, 2006

/s/ STUART M. BERNSTEIN
United States Bankruptcy Judge

1018

Hearing Date and Time:
August 31, 2006 at 10:00 a.m.

DUVAL & STACHENFELD LLP
Kirk L. Brett (KB-1288)
300 East 42nd Street
New York, New York 10017
Telephone: (212) 883-1700
Counsel for Cyrus Corp.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	Chapter 7
	Case No. 03-17903 (SMB)
Debtors.	(Jointly Administered)

LIMITED OBJECTION OF CYRUS CORP. TO TRUSTEE'S MOTION FOR APPROVAL OF A SETTLEMENT WITH AMERICAN INSURANCE MANAGERS, INC.

Cyrus Corp. ("Cyrus") by and through its undersigned counsel, hereby objects to the Motion dated August 11, 2006 (the "Motion") of Richard E. O'Connell, chapter 7 trustee (the "Trustee") of AlphaStar Insurance Group Limited ("AlphaStar"), Stirling Cooke North American Holdings, Inc. ("SCNAH") and their affiliated debtors in the above-captioned cases (collectively, the "Debtors"), for approval of a stipulation between the Trustee and American Insurance Managers, Inc. and related persons and entities (collectively, "AIM"). In support of this Objection, Cyrus respectfully represents:

1. Between December 15, 2003 and June 2, 2005, the Debtors operated as debtors-in-possession pursuant to section 1107 of the Bankruptcy Code.

322

2. Cyrus provided $1.4 million in debtor-in-possession financing to Debtors AlphaStar and SCNAH in accordance with an Interim Order entered by this Court on or about February 18, 2004 (which approved a $100,000 loan on an interim basis), and a Final Order entered by this Court on or about March 9, 2004 (which approved the entire $1,400,000 loan on a final basis).

3. Pursuant to the Interim and Final Orders referenced above, Cyrus was granted security interests in certain assets of the Debtors and an administrative, super-priority claim against the Debtors for the $1,400,000 loan plus all interest, costs and fees permitted under the DIP Agreement (as defined in the Final Order).

4. The stock of Realm National Insurance Company ("Realm") held by SCNAH was among the assets in which Cyrus was granted a first priority security interest.

5. The proposed Stipulation between the Trustee and AIM provides that "the Trustee shall quitclaim the estates' interest in SCNAH's stock in Realm to AIM." Neither the Stipulation nor the Motion mentions Cyrus' security interest in the Realm stock, or the intended effect of the Trustee's transfer of the Realm stock on Cyrus' security interest.

6. The purpose of this Objection, therefore, is to ensure that Cyrus' security interest in the Realm stock is preserved. There is no basis or authority to transfer the Realm stock free of Cyrus' security interest. Conversely, Cyrus would have no objection to the Stipulation if all parties (including AIM) recognize that the Realm stock shall continue to be encumbered by Cyrus' valid and perfected first priority security interest.

323

7. Cyrus reserves the right to amend or supplement this Objection at or prior to the hearing to consider the Motion, particularly in light of any forthcoming amendments to the Stipulation or any supplemental information concerning the Motion.

WHEREFORE, Cyrus respectfully requests entry of an order (a) denying the Motion to the extent it seeks to transfer the Realm stock to AIM free of Cyrus' security interest, (b) clarifying that any transfer of the Realm stock to AIM shall be subject to Cyrus' valid, perfected and first-priority security interest, and (c) granting such other and further relief as the Court deems just and proper.

Dated: New York, New York
August 28, 2006

DUVAL & STACHENFELD LLP
Attorneys for Claimant Cyrus Corp.

By: /s/ Kirk L. Brett
Kirk L. Brett (KB-1288)
300 East 42nd Street
New York, New York 10017
(212) 883-1700

1021

UNTIED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, et al.,	Case No. 03-17903
Debtors.	(Jointly Administered)

OBJECTION TO CHAPTER 7 TRUSTEE'S MOTION FOR APPROVAL OF STIPULATION RESOLVING DISPUTES WITH AMERICAN INSURANCE MANAGERS, INC.

COMES NOW National Employer Solutions, Inc. ("NES"), a Georgia corporation and a member of the defendant class certified by this Court, and objects to the Trustee's Motion for Approval of Stipulation Resolving Disputes with American Insurance Managers, Inc. ("Trustee's Motion") and seeks modification of that stipulation on the following grounds:

1.

Plaintiffs' First Amended Complaint contains allegations against a defendant class of professional employer organizations ("PEOs"), which includes NES. (First Amended Complaint, ¶ 147).

2.

On August 17, 2004, this Court issued an Agreed Order Granting Class Certification and Other Related Relief. The Order certified a defendant class of PEOs and named one of the PEOs, Defendant Corporate Resource Management, Inc. ("CRM") as Class Representative.

325

3.

The Trustee has filed a Motion seeking approval of a stipulation resolving disputes with American Insurance Managers, Inc. (Exhibit A to Trustee's Motion). The stipulation provides for, *inter alia*, (a) the dismissal with prejudice of counterclaims of the defendants against AlphaStar and Sterling Cooke; (b) the dismissal without prejudice of crossclaims AIM and CRM have asserted against each other; and (c) the exchange by the Trustee, AIM and CRM of mutual releases as to the claims and counterclaims being dismissed with prejudice.

4.

NES has a lawsuit pending against the AIM entities in the State Court of Fulton County, Georgia, Case Number 04-074668A ("Georgia Litigation").

5.

NES objects to the Trustee's Motion to the extent that the stipulation proposed in that Motion permits or could be interpreted as permitting CRM, in its capacity as Class Representative, to dismiss with prejudice or release any claims NES has asserted or could assert in the Georgia Litigation.

6.

NES respectfully requests that the stipulation proposed in the Trustee's Motion be denied insofar as it permits or could be interpreted as permitting CRM, in its capacity as Class Representative, to dismiss with prejudice or release any claims NES has asserted or could assert in the Georgia Litigation.

326

NES respectfully requests that the stipulation be modified to insert a new paragraph 2(k) as follows:

(k) This stipulation does not permit CRM, in its capacity as Class Representative, to dismiss with prejudice or release any claims NES has asserted or could assert in the Georgia Litigation, and nothing in this stipulation shall affect or be construed as affecting claims asserted by or which could be asserted by NES in the Georgia litigation.

WHEREFORE, NES respectfully requests that the stipulation proposed in the Trustee's Motion be denied insofar as it permits or could be interpreted as permitting CRM, in its capacity as Class Representative, to dismiss with prejudice or release any claims NES has asserted or could assert in the Georgia Litigation and that the stipulation be modified to insert a new paragraph 2(k) as set forth above.

This 25th day of August, 2006.

/s/ Luanne M. Bonnie
Luanne M. Bonnie
LAW OFFICE OF LUANNE M. BONNIE
836 Sycamore Street
Decatur, Georgia 30030
404-371-1540 (Telephone)
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/s/ Mary M. Brockington
Mary M. Brockington
STRICKLAND BROCKINGTON LEWIS LLP
1170 Peachtree Street NE, Suite 2000
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678-347-2210 (Facsimile)

Attorneys for National Employer Solutions, Inc.

1024

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, et al.,	Case No. 03-17903 (SMB)
Debtors.	Jointly Administered

MOTION OF CHAPTER 7 TRUSTEE FOR APPROVAL OF STIPULATION RESOLVING DISPUTES WITH AMERICAN INSURANCE MANAGERS, INC.

TO THE HONORABLE STUART M. BERNSTEIN, UNITED STATES CHIEF BANKRUPTCY JUDGE:

The application of Richard E. O'Connell, chapter 7 trustee (the "Trustee") of the estates of AlphaStar Insurance Group Limited ("AlphaStar"), Stirling Cooke North American Holdings, Inc. ("SCNAH"), Employee & Providers Resources Group, Inc., North American Risk, Inc., Stirling Cooke Brown North American Reinsurance Intermediaries, Inc., AlphaStar Insurance Services, Inc., Stirling Cooke New York Insurance Agency Services, Inc., Stirling Cooke Risk Management Services, Inc., Stirling Cooke Southeast, Inc., Stirling Cooke Texas, Inc., World Trade Services (NJ), and World Trade Services (PA) (collectively, the "Debtors"), by his attorneys, Stevens & Lee, P.C., respectfully sets forth and represents:

Introduction

1. On December 15, 2003 (the "Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). On June 2, 2005, the Debtors' cases were converted from chapter 11 to chapter 7 of the Bankruptcy Code. On June 3, 2005, the United States Trustee appointed

328

Richard E. O'Connell as the chapter 7 trustee of these cases (the "Trustee"), and Mr. O'Connell is currently serving in such a capacity.

2. Upon information and belief: AlphaStar is a corporation organized under the laws of Bermuda, which as of the Petition Date maintained its principal place of business in New York; AlphaStar is the parent company of all of the other Debtors, including SCNAH; SCNAH is the sole shareholder of Realm National Insurance Company ("Realm"); Realm is a non-debtor insurance company. AlphaStar was a public company with numerous subsidiaries that reported consolidated assets and liabilities in excess of $1 billion.

3. Upon information and belief, AlphaStar and its subsidiaries (including non-Debtor subsidiaries) were engaged in the business of providing risk management services and products to small and mid-sized businesses seeking alternatives to traditional workers' compensation insurance, and arranging reinsurance for such products offered by AlphaStar and its subsidiaries as well as other insurance carriers active in the workers' compensation, occupational accident and health insurance markets.

4. Upon information and belief, the business of AlphaStar and its subsidiaries (including certain non-Debtor subsidiaries) consisted of three main geographic business units: London, Bermuda and U.S. operations; and each geographic group consisted of a holding company wholly-owned by AlphaStar and operating entities owned by such holding company subsidiary.

AIM's Relationships and Disputes with the Debtors

5. Prior to the Petition Date, American Insurance Managers, Inc. and related persons and entities (collectively, "AIM") entered into a letter of intent to purchase all of SCNAH's stock in Realm, and in connection with such transaction AIM made loans to

AlphaStar in the aggregate amount of $1.5 million secured by AlphaStar's stock in SCNAH. AIM contends that on March 21, 2003, the Debtors, Realm, AIM and other parties entered into an agreement providing for the purchase by AIM of all Realm stock, and permitting AIM to bind Realm to insurance coverage AIM (the "Sale/Coverage Agreement"). AIM contends the Sale/Coverage Agreement supersedes prior agreements and sets forth the understanding and agreement of the parties herein. AIM further contends that AIM performed all terms of the Sale/Coverage Agreement and noticed the closing in accordance with the terms of the Sale/Coverage Agreement, but Debtors and Realm breached the Sale/Coverage Agreement by refusing to close after receiving AIM's Notice of Intent To Close.

6. Adversary Proceeding No. 04-02792 (SMB) (the "AIM Adversary Proceeding") was commenced by AlphaStar, SCNAH and Realm (when they were under common control) against AIM and Corporate Resources Management, Inc. ("CRM"), both individually and on behalf of all persons and entities similarly situated. The crux of the dispute between the parties concerned whether AIM had authority to bind insurance coverage. Plaintiffs were seeking damages and other relief against AIM for allegedly purporting to bind insurance coverage without authority. Plaintiffs also brought the AIM Adversary Proceeding as a class action against CRM and others to determine coverage issues. AIM took the position it had authority to bind insurance coverage under the operative documents, and sought specific performance thereof.

7. On May 4, 2004, a civil action styled *American Insurance Managers, Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., plaintiffs v. Realm National Insurance Company, Stephen A. Crane, James Lawless, IV, Mark S. Sioma, Anthony J. Del Tufo, Danny Ray Green, Christina Bui Vu, and Leonard Quick, defendants,* C. A.

No. 04-CV-00306, in the United States District Court for the Southern District of New York (the "District Court Action") was transferred to this Court and the claims asserted therein have been asserted as counterclaims by AIM and related entities against the plaintiffs in the AIM Adversary Proceeding. After the case was transferred, the District Court Action was closed.

8. On June 15, 2005, shortly after the Trustee's appointment, an order of liquidation was entered with respect to Realm, and the Superintendent of Insurance of the State of New York ("Superintendent") was appointed Liquidator of Realm. Thus, the three plaintiffs in the AIM Adversary Proceeding are no longer under common control, and are no longer under control of the persons who authorized the AIM Adversary Proceeding to be commenced. The Superintendent, in his capacity as Liquidator of Realm, filed a motion seeking to stay or dismiss the AIM Adversary Proceeding as it pertains to Realm. The motion was granted in part and the claims relating solely to Realm have been dismissed.

9. By motion dated March 10, 2006, AIM sought to modify the automatic stay imposed pursuant to Section 362 of the Bankruptcy Code (the "Stay Modification Motion") so that AIM could continue prosecution of an action pending in Delaware Chancery Court to obtain control of the stock of Realm (the "Delaware Action"). The Trustee interposed a response asking the Court to include certain conditions in an order granting the Stay Modification Motion. The parties subsequently entered into settlement negotiations, leading to the execution of the stipulation annexed hereto as Exhibit A (the "AIM Settlement Stipulation").

The Settlement

10. This motion is made, pursuant to Rule 9019(a) of the Federal Rules of Bankruptcy Procedure, for approval of the AIM Settlement Stipulation, the principal terms of which are: (a) both AlphaStar's and SCNAH's claims against the defendants and the defendants'

counterclaims against AlphaStar and SCNAH shall be dismissed with prejudice and without costs to any party; (b) the Stay Modification Motion shall be denied; (c) the Trustee shall quit claim the estates' interest in SCNAH's stock in Realm to AIM; (d) AIM shall withdraw the Delaware Action with prejudice and without costs to any party; (e) AIM shall release and deliver any collateral it is holding, including without limitation the SCNAH stock, to the Trustee; (f) AIM's claims against the Debtors' estates shall be preserved, but subordinated to the claims of all other creditors (but not the Debtors' stockholders); and (g) AIM's claims against third parties, including but not limited to the officers and directors of AlphaStar and SCNAH and others, shall be preserved.

Legal Standards for Approval of the Settlement

11. The AIM Settlement Stipulation is clearly in the best interests of the estate, and should be approved. Rule 9019(a) of the Federal Rules of Bankruptcy Procedure, which governs the approval of compromises and settlements, provides:

> (a) Compromise. On motion by the trustee after notice and a hearing, the court may approve a compromise or settlement. Notice shall be given to creditors, the United States Trustee, the debtor and indenture trustees as provided in Rule 2002 and to any other entities as the court may direct.

12. Generally, in exercising its discretion regarding the approval of a compromise, the Court should consider several factors. These factors include the likelihood of success in the litigation, the complexity and cost of the litigation, and the interests of the creditors. *Cossoff v. Rodman (In re W.T. Grant Co.)*, 699 F.2d 599 (2d Cir.), *cert. denied*, 464 U.S. 822 (1983); *Saccurato v. Masters, Inc. (In re Masters, Inc.)*, 149 B.R. 289, 292 (E.D.N.Y. 1992). At the same time, the Bankruptcy Court must bear in mind that the "law favors compromise." *Magill v. Springfield Marine Bank (In re Heissinger Resources Ltd.)*, 67 B.R. 378, 383 (C.D. Ill. 1986); *accord Port O'Call Inv. Co., v. Blair (In re Blair)*, 538 F.2d 849, 851

(9th Cir. 1976); *Fogg v. Homes (In re Sherman Homes, Inc.)*, 28 B.R. 176, 177 (Bankr. D. Me. 1983).

13. In passing upon a proposed settlement, "the bankruptcy court does not substitute its judgment for that of the Trustee." *Depo v. Chase Lincoln First Bank, N.A.*, 77 B.R. 381, 384 (N.D.N.Y. 1987); *accord In re Carla Leather, Inc.*, 44 B.R. 457 (1984), aff'd, 50 B.R. 764 (S.D.N.Y. 1985).

14. The bankruptcy court is to "canvass the issues and see whether the settlement 'fall[s] below the lowest point in the range of reasonableness'." *W.T. Grant Co.*, 699 F.2d at 608 (quoting *Newman v. Stein*, 464 F.2d 689, 693 (2d Cir.), *cert. denied, Benson v. Newman*, 409 U.S. 1093 (1972)). In passing upon the reasonableness of a proposed compromise, the court "may give weight to the opinions of the Trustee, the parties and their counsel. . . ." *In re Bell & Beckwith*, 77 B.R. 606, 612 (Bankr. N.D. Ohio), aff'd, 87 B.R. 472 (N.D. Ohio 1987). The courts have noted that potential difficulties in collecting a judgment should be considered in determining the reasonableness of a proposed settlement. *Protective Comm. of Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424 (1968); *Drexel v. Loomis*, 35 F.2d 800, 806 (8th Cir. 1929).

15. As is set forth below, the application of these legal standards to the facts presented in this case demonstrates that the AIM Settlement Stipulation is in the best interests of the estate and should be approved by the Bankruptcy Court. The compromises set forth in the AIM Settlement Stipulation are well above "the lowest point in the range of reasonableness."

The AIM Settlement Stipulation is in the Best Interests of the Debtors' Estates and Creditors

16. The benefits of the AIM Settlement Stipulation are manifold: sparing expense over fruitless litigation, recovering the SCNAH stock free and clear of AIM's lien, and resolving

AIM's claim on a favorable basis. The Trustee does not believe that the claims asserted in the AIM Adversary Proceeding are worth pursuing. As a result, continued prosecution of the AIM Adversary Proceeding would be a waste of the estates' assets. Therefore, the mutual dismissal of the claims and counterclaims with prejudice and without costs is an expeditious and cost-effective manner to dispose of the AIM Adversary Proceeding.

17. The resolution of the Stay Modification Motion will also spare the estates from needless expense, but more importantly it will enable AlphaStar to recover the SCNAH stock free and clear of AIM's lien. In effect, this aspect of the litigation between the parties is resolved by a swapping of the Realm stock for the SCNAH stock. This makes sense for both parties. AIM hopes to use its standing as a shareholder of Realm to negotiate resolutions of various state regulatory issues. However, because the Debtors do not appear to have any equity in the stock of Realm, trading the Realm stock for the SCNAH stock makes sense for the estate. While it appears that the Realm stock is economically worthless, AIM's release of its lien on AlphaStar's stock in SCNAH appears to have some value, as there is potential value in certain of SCNAH's subsidiaries.

18. Under the AIM Settlement Stipulation, AIM has also agreed to subordinate its claims against the Debtors' estates to the claims of all other creditors, but not the Debtors' stockholders. This resolves the disputes over AIM's claims, including whether such claims could be subordinated or offset due to AIM's alleged breach of contract and improper conduct, on a favorable basis without the need for costly litigation.

19. AIM will preserve its claims against non-debtor third parties, namely the individual officers and directors of AlphaStar and SCNAH, and the AIM Settlement Stipulation allows AIM to prosecute its counterclaims against these non-debtor individuals in the United

States District Court for the Southern District of New York. AIM's rights against the third parties are limited solely to the prosecution of claims personal to AIM and not claims that belong to the Debtors' estates. The Debtors' estates are not impacted by AIM's prosecution of such actions, thus the intervention of this Court is not needed.

20. Based on the foregoing, the Trustee submits that the AIM Settlement Stipulation easily satisfies the standard that it rises above the lowest point in the range of reasonableness and should be approved.

Notice

21. The Trustee is serving a complete copy of this Motion, including all exhibits, on all parties and/or counsel to the AIM Adversary Proceeding, and all parties entitled to such notice pursuant to the standing Order Pursuant to 11 U.S.C. § 105(a) and Fed. R. Bankr. P. 2002 Authorizing Limited Notice and Establishing Notice Procedures, dated August 6, 2004, including the United States Trustee, counsel for the Debtors, and counsel for any committee.

22. Because this Motion does not present any novel issues of law, and the relevant case and statutory authority is set forth above, the Trustee respectfully requests that the Court dispense with and waive Local Bankruptcy Rule 9013-1, which requires the submission of a separate memorandum of law.

23. Except as detailed herein, no other application for the relief sought herein has been made to this or any other Court.

WHEREFORE, the Trustee respectfully prays for approval of the AIM Settlement Stipulation, and such other and further relief as is just.

Dated: New York, New York
August 11, 2006

STEVENS & LEE, P.C.
Counsel to Chapter 7 Trustee

By: /s/ Nicholas F. Kajon
Nicholas F. Kajon (NK-1096)
Constantine D. Pourakis (CP-0730)
485 Madison Avenue, 20th Floor
New York, New York 10022
(212) 319-8500

UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re	: Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	: Case No. 03-17903 (SMB)
	: (Jointly Administered)
Debtors.	
ALPHASTAR INSURANCE GROUP LIMITED, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and REALM NATIONAL INSURANCE COMPANY,	:
Plaintiffs,	:
-against-	: Adv. Proc. No. 04-02792 (SMB)
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC., DAVID DENNETT-SMITH, BRIAN IMPERIALE, BRUCE HOLLEY and CORPORATE RESOURCES MANAGEMENT, INC., both individually and on behalf of all persons and entities similarly situated,	:
Defendants.	:

ORDER FOR DISMISSAL

Upon the Motion of the New York Superintendent of Insurance in his capacity as Liquidator (the "Liquidator") of Realm National Insurance Company ("Realm") to Dismiss without prejudice or, in the Alternative, Stay this Adversary Proceeding (the "Motion"), pursuant to the McCarran-Ferguson Act, 15 U.S.C. § 1012(b) (2006), and upon principles of abstention, for entry of an Order pursuant to Rule 7012 of the Federal Rules of Bankruptcy Procedure (the

337

"Bankruptcy Rules") dismissing without prejudice the affirmative claims asserted herein by Realm as well as the counterclaims alleged herein against Realm; upon the response of the Chapter 7 Trustee to Realm's Motion; upon the response of American Insurance Managers, Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc. (collectively "AIM") to Realm's Motion; upon the record of the hearing (the "Hearing") held before this Court on April 11, 2006 regarding the Motion; upon the representations of counsel made at the Hearing, including counsel for Defendant Corporate Resources Management, Inc. ("CRM"), both individually and on behalf of all persons and entities similarly situated (the "Defendant Class"); and full and adequate notice of the Hearing having been given; upon the full record, including all pleadings; after due deliberation and consideration of the foregoing; and good and sufficient cause appearing therefor as set forth herein;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

SMB 5/4/06 The ~~Motion of the New York Superintendent of Insurance in his capacity as Liquidator of Realm National Insurance Company is granted, such that each of the~~ following claims alleged by Realm and counterclaims alleged against Realm are dismissed without prejudice and without costs to any party:

(a) All claims alleged by Realm as against AIM;

(b) All claims alleged by Realm as against David Dennett-Smith, Brian Imperiale and Bruce Holley;

(c) All claims alleged by Realm as against CRM;

(d) All claims alleged by Realm as against the Defendant Class;

(e) All counterclaims alleged by AIM as against Realm;

(f) All counterclaims alleged by David Dennett-Smith, Brian Imperiale and Bruce Holley as against Realm; and

(g) All counterclaims alleged by CRM as against Realm.

Dated: May 4, 2006

/s/ STUART M. BERNSTEIN
STUART M. BERNSTEIN
UNITED STATES BANKRUPTCY JUDGE

BRMFS 907672

Joseph W. Muccia (JM 0197)
Rebecca A. Tapie (RT 3752)
Akiva Cohen (AC 6821)
BROWN RAYSMAN MILLSTEIN
FELDER & STEINER LLP
900 Third Avenue
New York, New York 10022

SECOND REVISED Hearing Date: April 11, 2006
at 10:00 a.m.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	:	Case No. 03-17903 (SMB)
	:	(Jointly Administered)
Debtors.		
ALPHASTAR INSURANCE GROUP LIMITED, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and REALM NATIONAL INSURANCE COMPANY,	:	Adv. No. 04-02792 (SMB)
Plaintiffs,	:	
-against-	:	
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC., DAVID DENNETT-SMITH, BRIAN IMPERIALE, BRUCE HOLLEY and CORPORATE RESOURCES MANAGEMENT, INC., both individually and on behalf of all persons and entities similarly situated,	:	
Defendants.	:	

SECOND REVISED NOTICE OF MOTION OF REALM NATIONAL INSURANCE COMPANY TO DISMISS OR, IN THE ALTERNATIVE, STAY THE ADVERSARY PROCEEDING

TO: ALL PARTIES ON THE ANNEXED SERVICE LIST

340

PLEASE TAKE NOTICE that in accordance with a second request of American Insurance Managers, Inc., American Insurance Management Group, Inc., David Dennett-Smith, Brian Imperiale and Bruce Holley for an adjournment of the motion, and upon the ***previously served*** affidavit of Joseph W. Muccia and the exhibits annexed thereto, and the accompanying Memorandum of Law in Support of the Motion of Realm National Insurance Company ("Realm") to Dismiss, or in the Alternative, Stay the Adversary Proceeding, dated December 7, 2005 (the "Motion"), Realm, through the New York Superintendent of Insurance in his capacity as the State Court appointed Liquidator of Realm (the "Liquidator"), by its attorneys Brown Raysman Millstein Felder & Steiner LLP, will move this court before The Honorable Stuart M. Bernstein, United States Bankruptcy Judge, at the United States Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004 on April 11, 2006 at 10:00 a.m., or as soon thereafter as counsel can be heard, for an order dismissing Realm and all claims by or against Realm from the above-captioned Adversary Proceeding.

PLEASE TAKE FURTHER NOTICE that pursuant to General Order M-182, any responsive papers filed by parties with legal representation shall be filed through the Bankruptcy Court's Electronic Filing System which may be accessed at the Bankruptcy Court's internet web site at www.nysb.uscourts.gov, using Netscape Navigator software version 3.0 or higher, and (ii) in portable document format (.PDF) using Adobe Exchange Software for conversion.

PLEASE TAKE FURTHER NOTICE that responsive papers, if any, must be filed and served in accordance with the provisions of General Order M-182 so that they are received by Brown Raysman Millstein Felder & Steiner LLP at 900 Third Avenue, New York, New York

341

10022, Attn.: Joseph W. Muccia, Esq., **on or before 5:00 p.m., March 10, 2006 (the "Response Deadline")**.

PLEASE TAKE FURTHER NOTICE that a hard copy of any responsive papers must be hand delivered to the Chambers of the Honorable Stuart M. Bernstein at United States Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004, on or before the Response Deadline.

PLEASE TAKE FURTHER NOTICE that the Liquidator will serve a reply to any papers filed in response to the Motion on or before March 31, 2006.

DATED: New York, New York
January 20, 2006

Respectfully submitted,

BROWN RAYSMAN MILLSTEIN
FELDER & STEINER LLP

By: _____
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A Member of the Firm
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342

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UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re	: Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	: Case No. 03-17903 (SMB)
Debtors.	: (Jointly Administered)
ALPHASTAR INSURANCE GROUP LIMITED, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and REALM NATIONAL INSURANCE COMPANY,	:
Plaintiffs,	:
-against-	: Adv. Proc. No. 04-02792 (SMB)
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC., DAVID DENNETT-SMITH, BRIAN IMPERIALE, BRUCE HOLLEY and CORPORATE RESOURCES MANAGEMENT, INC., both individually and on behalf of all persons and entities similarly situated,	: **AFFIDAVIT**
Defendants.	:

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

JOSEPH W. MUCCIA, being duly sworn, deposes and says:

344

1. I am a member of the law firm of Brown Raysman Millstein Felder & Steiner LLP, attorneys for Superintendent of Insurance of the State of New York, in his capacity as Liquidator (the "Liquidator") of Realm National Insurance Company ("Realm"). I make this affidavit in support of Realm's motion to dismiss or, in the alternative, stay the captioned Adversary Proceeding.

2. The bases for granting the motion are set forth in detail in the accompanying memorandum of law – which establishes that this action is barred by the McCarran-Ferguson Act by virtue of the New York State Court's Liquidation Order (Exhibit 1 hereto), and pursuant to principles of discretionary abstention, this matter, as it pertains to Realm, should be dismissed or in the alternative stayed so that claims by and against Realm may be resolved in the Liquidation Court as part of the overall liquidation of Realm.

3. The purpose of this affidavit is to place the following documents before the Court:

Exhibit 1	Order of Liquidation, dated June 15, 2005, in *In re Realm Nat'l Ins. Co.*, No. 401876/05 (N.Y. Sup. Ct.)
Exhibit 2	Non-Binding Letter of Intent between Atlanta Insurance Marketing, Inc. and Stirling Cooke North American Holdings Ltd., dated October 2, 2002
Exhibit 3	First Amended Complaint in this Adversary Proceeding, dated May 6, 2004
Exhibit 4	Complaint, dated December 27, 2002, in *Realm Nat'l Ins. Co. v. American Ins. Managers, Inc.*, No. 02-CV-10278 (S.D.N.Y.)
Exhibit 5	Don Mecoy, *State Accuses Atlanta Insurer of Bad Policies*, The Daily Oklahoman, December 5, 2002

Exhibit 6	Press Release, Missouri Attorney General's Office, Nixon Obtains Judgment Against Workers' Comp Company That Will Protect Small Businesses, Injured Workers (Oct. 7, 2005), *available at* http://www.ago.mo.gov/newsreleases/2005/100705.htm
Exhibit 7	Order of the Commissioner of Insurance of the State of Texas, No. 04-1119, dated November 22, 2004
Exhibit 8	Petition of Howard Mills, dated June 10, 2005, *In re Realm Nat'l Ins. Co.*, No. 401876/05 (N.Y. Sup. Ct.)
Exhibit 9	*Covington v. Sun Life of Can. (U.S.) Holdings, Inc.*, No. C-2-00-069, 2000 U.S. Dist. LEXIS 20902 (S.D. Ohio May 17, 2000)
Exhibit 10	*United of Omaha Life Ins. Co. v. Udisky*, No. C-2-00-158, 2001 WL 102670 (S.D. Ohio Jan. 23, 2001)
Exhibit 11	*Official Comm. of Unsecured Creditors of FMI Forwarding Co. v. Union Trans. Corp. (In re FMI Forwarding Co.)*, No. 00 B. 41815, 01 Civ. 9462 / Adv. Proc. 01-02992, 2004 U.S. Dist. LEXIS 10941 (S.D.N.Y. June 10, 2004)
Exhibit 12	*Serio v. Black, Davis & Shue Agency, Inc.*, No. 05 Civ. 15, 2005 U.S. Dist. LEXIS 23392 (S.D.N.Y. Oct. 11, 2005)

Joseph W. Muccia (JM 0197)

Sworn to before me this
7th day of December, 2005

Maxine V. Lothian
Notary Public

MAXINE V. LOTHIAN
Notary Public State of New York
No. 03-4889952
Qualified in Bronx County
Certificate Filed in New York County
Commission Expire Dec. 23, 2007

BRMFS| 635821

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Rebecca Tapie (RT 3752)
Akiva Cohen (AC 6821)
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UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re	: Chapter 7
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	: Case No. 03-17903 (SMB)
Debtors.	: (Jointly Administered)
ALPHASTAR INSURANCE GROUP LIMITED, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and REALM NATIONAL INSURANCE COMPANY,	:
Plaintiffs,	:
-against-	:
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC., DAVID DENNETT-SMITH, BRIAN IMPERIALE, BRUCE HOLLEY and CORPORATE RESOURCES MANAGEMENT, INC., both individually and on behalf of all persons and entities similarly situated,	: Adv. Proc. No. 04-02792 (SMB)
Defendants.	:

MEMORANDUM IN SUPPORT OF THE MOTION OF REALM NATIONAL INSURANCE COMPANY TO DISMISS OR, IN THE ALTERNATIVE, STAY THE ADVERSARY PROCEEDING

347

TABLE OF CONTENTS

Page

STATEMENT 1

FACTS 3

The Early Negotiations 3

AIM's Unauthorized Sale of Coverage 3

Earlier Litigations 4

The Bankruptcy Action 5

The Adversary Proceeding 5

State Regulatory Findings 6

The Liquidation 6

I ALL CLAIMS BY OR AGAINST REALM IN THIS COURT SHOULD BE DISMISSED OR STAYED 7

A. Claims by And Against Realm in This Court Are Reverse Pre-Empted by The McCarran-Ferguson Act 7

1. The Bankruptcy Code Does Not Specifically Relate to The Business of Insurance 8

2. New York's Statutory Scheme For Liquidation Was Enacted For The Purpose of Regulating The Business of Insurance 9

3. Litigation in The Bankruptcy Court Would Impair The New York Liquidation Regime 10

B. This Is a Non-Core Proceeding 13

II THE COURT SHOULD ABSTAIN FROM HEARING CLAIMS RAISED BY AND AGAINST REALM 14

CONCLUSION 18

348

TABLE OF AUTHORITIES

FEDERAL CASES

Advanced Cellular Sys. v. Mayol (In re Advanced Cellular Sys.),
235 B.R. 713 (Bankr. D.P.R. 1999) 9, 10, 12

Am. Disposal Servs., Inc. v. O'Brien,
839 F.2d 84 (2d Cir. 1988) 15

Barnett Bank, N.A. v. Nelson,
517 U.S. 25, 116 S. Ct. 1103, 134 L. Ed. 2d 237 (1996) 8

In re Bd. of Dirs. of Hopewell Int'l Ins. Ltd.,
238 B.R. 25 (Bankr. S.D.N.Y. 1999) 12

Burford v. Sun Oil Co.,
319 U.S. 315, 63 S. Ct. 1098 87, L. Ed. 1424(1943) 14

Colo. Water Conservation Dist. v. United States (Colorado River),
424 U.S. 800, 96 S. Ct. 1236, 47 L. Ed. 2d 483 (1976) 16, 17

Corcoran v. Ardra Ins. Co.,
842 F.2d 31 (2d Cir. 1988) 16

Covington v. Sun Life of Can. (U.S.) Holdings, Inc.,
No. C-2-00-069, 2000 U.S. Dist. LEXIS 20902 (S.D. Ohio May 17, 2000) 10, 12

Humana Inc. v. Forsyth,
525 U.S. 299, 119 S. Ct. 710, 142 L. Ed. 2d 753 (1999) 11

Law Enforcement Ins. Co. v. Corcoran,
807 F.2d 38 (2d Cir. 1986) 16

Levy v. Lewis,
635 F.2d 960 (2d Cir. 1980) 11, 15, 16, 17

Logan v. Credit General Ins. Co. (In re PRS Ins. Group, Inc.),
294 B.R. 609 (Bankr. D. Del. 2003) 8

Official Comm. of Unsecured Creditors of FMI Forwarding Co. v. Union Transp. Corp. (In re FMI Forwarding Co.),
No. 00 B. 41815, 01 Civ. 9462 / Adv. Proc. 01-02992, 2004 U.S. Dist. LEXIS 10941 (S.D.N.Y. June 10, 2004) 13

In re Phillips Offset Co., Inc.,
152 B.R. 836 (Bankr. S.D.N.Y. 1992) 16

Serio v. Black, Davis & Shue Agency, Inc.,
No. 05 Civ. 15, 2005 U.S. Dist. LEXIS 23392 (S.D.N.Y. Oct. 11, 2005) 14, 15

Stephens v. Am. Int'l Ins. Co.,
66 F.3d 41 (2d Cir. 1995) 10

United of Omaha Life Ins. Co. v. Udisky,
No. C-2-00-158, 2001 WL 102670 (S.D. Ohio Jan. 23, 2001) 12

U.S. Dep't of Treasury v. Fabe,
508 U.S. 491, 113 S. Ct. 2202, 124 L. Ed. 2d 449 (1993) 8, 9, 10

Wagner v. Amwest Ins. Group, Inc. (In re Amwest Ins. Group, Inc.),
285 B.R. 447 (Bankr. C.D. Cal. 2002) 8, 9

Washburn v. Corcoran,
643 F. Supp. 554 (S.D.N.Y. 1986) 10, 12

STATE CASES

Corcoran v. Ardra Ins. Co.,
567 N.E.2d 969, 77 N.Y.2d 225 (1990) 11

Knickerbocker Agency, Inc. v. Holz,
149 N.E.2d 885, 4 N.Y.2d 245 (1958) 9, 10, 11

STATUTES

11 U.S.C. § 109 (2005) 13

11 U.S.C. § 157(b) (2005) 13

15 U.S.C. § 1012(b) (2005) 7, 8

28 U.S.C. § 1334(c)(2) (2005) 14

28 U.S.C. § 157(c)(2) (2005) 14

This memorandum is submitted in support of the motion of plaintiff Realm National Insurance Company ("Realm"), through the New York Superintendent of Insurance in his capacity as the State Court appointed Liquidator of Realm (the "Liquidator"), to dismiss or to stay this Adversary Proceeding insofar as it pertains to Realm, (1) because it is barred by the McCarran-Ferguson Act by virtue of the State Court's Liquidation Order (more fully described below), and (2) under principles of discretionary abstention. The dismissal or stay would be without prejudice to the initiation of like claims by Realm, through the Liquidator, in the State Court.[1]

This motion also is supported by the accompanying affidavit of Joseph W. Muccia (the "Muccia Aff.").

STATEMENT

The bottom line issue in this Adversary Proceeding is whether defendants American Insurance Managers, Inc. and its affiliates and representatives (collectively, "AIM") had authority to issue several thousands of insurance certificates they sold under Realm's name. The plaintiffs (the Debtors, which are Realm's parent companies, and Realm) seek a declaratory judgment that the insurance certificates are not valid and are unenforceable as against Realm. AIM has counterclaimed against Realm, seeking a declaratory judgment that the insurance certificates bound by it are valid, reimbursement from Realm for claims paid by AIM under the insurance certificates, and other claims for damages. Whether the subject insurance certificates sold by AIM are valid and binding on Realm will have a profound impact, of course, on Realm and its thousands of legitimate insureds; the answer will affect both the amount of money

[1] Realm was named as a plaintiff in this Adversary Proceeding with its parent companies, the Debtors AlphaStar Insurance Group, Ltd. and Stirling Cooke North American Holdings, Inc., *before* Realm was found to be insolvent and put in liquidation by the State Court. The Liquidator as yet has been unable to find any evidence that Realm independently authorized joining this proceeding as plaintiff.

351

available to pay claims of insureds who purchased legitimate coverage from Realm, and the amount of money available to satisfy Realm's other creditors. Pursuant to the Liquidation Order, and the McCarran-Ferguson Act, this question must be resolved in the State Court.

Realm is a New York insurance company. In accordance with New York's Insurance Law, in June 2005 the New York Superintendent of Insurance sought and obtained an Order declaring that Realm was insolvent (the "Liquidation Order," a copy of which is annexed as Ex. 1 to the Muccia Aff.). The Order was entered by Justice Faviola Soto of the State Supreme Court, New York County (the "Liquidation Court"). By that Order, the Liquidation Court appointed the Superintendent as Liquidator of Realm and directed the Liquidator to take possession of Realm's assets and property, to liquidate Realm's affairs for the benefit of its policyholders, creditors and investors, and resolve liabilities and claims against Realm's estate. Consistent with the New York Insurance Law, the Liquidation Order "permanently enjoin[s]" all persons from commencing or proceeding with any action or proceeding against Realm. New York law further mandates that all claims affecting the distribution of Realm's assets be brought before the Liquidation Court, as the statutory forum charged with resolving claims affecting Realm's assets.

At bottom, this Adversary Proceeding, including the counterclaims alleged against Realm, all relate and have a direct and substantive consequence to the resolution of Realm's insurance business. Accordingly, the Liquidator seeks dismissal or a stay of all claims raised in this Adversary Proceeding by and against Realm, so that such claims may be resolved in the Liquidation Court as part of the overall liquidation of Realm.

352

FACTS

The core facts leading up to this Adversary Proceeding, and bearing upon the appropriate forum for resolution of claims by and against Realm, are as follows:

The Early Negotiations. Following discussions over Summer 2002, AIM entered on October 2, 2002, into a Non-Binding Letter of Intent ("Non-Binding LOI") with Realm's parent corporation, Stirling Cooke North American Holdings, Inc. ("SCNAH"), to negotiate for the purchase of all of the outstanding stock of Realm "subject to the approval of regulatory authorities having jurisdiction over Realm" (a copy of the Non-Binding LOI is annexed as Ex. 2 to the Muccia Aff.). AIM also agreed to make an interim loan of up to $3.5 million to Realm's ultimate parent AlphaStar Insurance Group, Ltd. ("AlphaStar"), pending regulatory approval and final agreement and documentation of the Realm acquisition. The contemplated purchase price for Realm's stock was set at $12,000,000 (if the agreement was finalized, the loan would be treated as part of AIM's payment for the Realm stock). *See* First Amended Complaint in this Adversary Proceeding ("Compl.") ¶ 40 (a copy of the Complaint is annexed to the Muccia Aff. as Ex. 3).

AIM's Unauthorized Sale of Coverage. Before any further terms were negotiated, and notwithstanding that regulatory approval for the transactions was never obtained, AIM immediately purported to bind workers compensation coverage under Realm's name. *See* Compl. ¶ 55. Realm first learned of AIM's unlawful activities on November 19, 2002, when an employee at the Texas Workers' Compensation Board advised Realm that a broker in Georgia had written coverage purportedly on Realm's behalf (Compl. ¶ 67). In response to Realm's demand for an explanation (Compl. ¶ 69), AIM claimed this reflected an isolated action of a "rogue broker" (Compl. ¶ 70). On November 20, 2002, Realm was informed by the Florida Department of Insurance that another certificate had been issued purportedly on its behalf

(Compl. ¶¶ 72-73). Realm again protested to AIM and was told the Florida certificate was a "forgery" (Compl. ¶¶ 74-75). Despite its representations that such insurance certificates were issued by a "rogue" broker or forged, on November 22, 2002, AIM wrote a letter claiming that Realm was estopped from denying coverage under the certificates because Realm had authorized AIM to act as Realm's agent to bind such coverage (Compl. ¶ 83). Realm has steadfastly denied that AIM was ever authorized to issue insurance certificates using Realm's name. It is undisputed that no signed agency agreement had ever been approved by any state, as required.[2] Moreover, the transactional documents state that no insurance could be written by AIM until such time as regulatory approval was obtained, which has never occurred.

Realm subsequently learned that AIM had issued several thousand unauthorized insurance certificates purportedly in Realm's name (Compl. ¶¶ 89-91). Realm notified state regulators across the county, and named "insureds," that the certificates were invalid (Compl. ¶ 92).

Earlier Litigations. Unable to resolve the coverage issues arising from the disputed insurance certificates, and facing threats from AIM to foreclose on stock given as security in connection with the interim AlphaStar loan described above, the Debtors in this bankruptcy action, AlphaStar and SCNAH (Realm's indirect and direct parent, respectively) and Realm filed suit against AIM in the United States District Court, Southern District of New York (the "SDNY Action") (a copy of the complaint in the SDNY Action is annexed to the Muccia Aff. as Ex. 4) seeking a declaratory judgment that AIM was not authorized to bind insurance on behalf of Realm, damages and other relief. The Court directed at the outset that the parties

[2] The single possible exception was a 2003 appointment of defendant Bruce Holley (an AIM agent) in Georgia. That appointment, however, was subject to a contract forbidding Mr. Holley from writing any insurance as Realm's agent unless and until (a) a certain closing occurred, and (b) Realm gave its express written consent. Neither condition was satisfied.

engage in settlement negotiations (Compl. ¶ 103). As a result, on March 21, 2003 the parties entered into a Stock Purchase Agreement for the sale of Realm to AIM (Compl. ¶ 104).

The Bankruptcy Action. When this latest version of the transaction broke down, AIM brought suit in the Delaware Chancery Court (the "Delaware Action") to foreclose on the stock given as security on the earlier interim loan to AlphaStar (Compl. ¶ 138). AlphaStar, SCNAH and Realm voluntarily dismissed the SDNY Action, and on December 15, 2003, the Debtors AlphaStar and SCNAH filed for bankruptcy protection in this Court (Compl. ¶ 140). Despite the automatic stay, on January 12, 2004, AIM commenced yet another action in the United States District Court, Southern District of New York (04-CV-00306, the "SDNY Action II"), raising allegations of fraud against the Debtors' individual officers and directors and seeking a declaratory judgment of validity of that coverage it had issued purportedly on behalf of Realm. The SDNY Action II was stayed, and on May 3, 2004, this Court consolidated into the Adversary Proceeding the SDNY Action II as well as various lawsuits that had been filed against Realm and AIM by persons to whom coverage had purportedly been sold by AIM.

The Adversary Proceeding. On March 22, 2004, the Debtors, acting on their own behalf and with Realm also named as a plaintiff (*see* p. 1 n.1, above), commenced the instant Adversary Proceeding seeking, among other things, a declaration that the insurance certificates issued by AIM were unauthorized.

AIM counterclaimed for a declaratory judgment that the subject insurance certificates were authorized, for reimbursement of any claims it paid under the insurance certificates and for other alleged damages.

A motion to approve certification of the defendant class of insureds to whom AIM had bound coverage in Realm's name was granted by Order dated August 17, 2004.

State Regulatory Findings. In December 2002, the Oklahoma Insurance Department determined that AIM did not have authority to bind insurance coverage on behalf of Realm (Muccia Aff. Ex. 5). Similar findings were made by the Missouri Attorney General and the Texas Department of Insurance (Muccia Aff. Exs. 6 and 7).

The Liquidation. In Spring 2005, the Liquidator concluded that Realm should be placed in liquidation. New York Insurance Law § 7402 provides that a domestic insurer may be placed into liquidation if, among other things, it is insolvent; or is found after examination to be in such condition that its further transaction of business would be hazardous to policyholders, creditors or the public; or consents to liquidation. In the case of Realm, each of these alternative criteria for liquidation were met. (*See* Petition of Howard Mills, dated June 10, 2005, a copy of which is annexed to Muccia Aff. as Ex. 8).

On Petition of the Superintendent (*id.*), the Liquidation Order of Justice Faviola Soto of the State Supreme Court was entered on June 15, 2005 (Muccia Aff. Ex. 1). The Liquidation Order directs the Liquidator to take possession of Realm's property, and to liquidate Realm's business affairs, and it vests the Liquidator with title to all of Realm's property, contracts and rights of action (*id.*). It provides that, per New York Insurance Law § 7432 (b), all claims against Realm are to be presented to the Liquidator (*id.* at 2). Additionally, Justice Soto entered an injunction mandated by Insurance Law § 7419, which directs and permanently enjoins and restrains, among other things:

- The commencement or prosecution of any actions or proceedings against Realm;
- Obtaining preferences, judgments, attachment or other liens, or making any levy against Realm's assets;
- All contracts, leases, tax sharing agreements, employment contracts and obligations of Realm, however described, shall terminate and liability cease unless ratified.

Liquidation Order at 4-5.

Since appointed, the Liquidator has studied the facts and allegations giving rise to the claims and to the counterclaims asserted in this Adversary Proceeding. The Liquidator has concluded and submits that this proceeding should be dismissed or stayed as to Realm, for the reasons that: (a) the parties to the Adversary Proceeding cannot prosecute their claims and counterclaims against Realm without violating the Liquidation Order, and (b) principles of judicial efficiency and economy indicate that claims bearing on Realm's business and assets all should be resolved in the Liquidation Court.

The Liquidator has not yet made any determination concerning who will ultimately attain ownership over Realm's stock. In the event AIM pursues and some day prevails on its claims against the Debtors to force transfer of Realm's stock, AIM still must submit such transfer for regulatory review and approval, per Insurance Law § 1506. Even if the transfer is ultimately approved, moreover, AIM would then simply become another creditor of Realm and must come before the Liquidation Court and present its claim. All roads lead back to the Liquidation Court where the claims and issues affecting Realm's insurance business, and its assets and liabilities, must be litigated.

ARGUMENT

POINT I

ALL CLAIMS BY OR AGAINST REALM IN THIS COURT SHOULD BE DISMISSED OR STAYED

A. Claims By And Against Realm in This Court Are Reverse Preempted by The McCarran-Ferguson Act

The McCarran-Ferguson Act provides that "[n]o Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance . . . unless such Act specifically relates to the business of

insurance." 15 U.S.C. § 1012(b) (2005). Courts across the country repeatedly have held that the McCarran-Ferguson Act thus precludes the use of any Federal legislation – including the Bankruptcy Code – as a basis for Federal jurisdiction with respect to matters pertaining to the business of insurance. Thus, the McCarran-Ferguson Act is said to "reverse preempt" application of any Federal statute to resolve matters pertaining to insurance where, as here, (1) the Federal statute (the Bankruptcy Code) does not specifically relate to the business of insurance; (2) the State statute (the New York Insurance Law provides for the State court's liquidation proceeding) was enacted for the purpose of regulating the business of insurance; and (3) the Federal statute (the Bankruptcy Code, to the extent it is used here to permit an action involving Realm outside the State liquidation proceeding) would invalidate, impair or supersede the State statute. *Wagner v. Amwest Ins. Group, Inc. (In re Amwest Ins. Group, Inc.)*, 285 B.R. 447, 451 (Bankr. C.D. Cal. 2002), (citing *U.S. Dep't of Treasury v. Fabe*, 508 U.S. 491, 501, 113 S. Ct. 2202, 2208, 124 L. Ed. 2d 449 (1993)).

1. The Bankruptcy Code Does Not Specifically Relate to The Business of Insurance. There can be no legitimate dispute that the Bankruptcy Code, pursuant to which this Court has maintained jurisdiction over the instant Adversary Proceeding, does not specifically relate to insurance. *See Barnett Bank, N.A. v. Nelson*, 517 U.S. 25, 42, 116 S. Ct. 1103, 1113, 134 L. Ed. 2d 237, 251 (1996) (noting that "the bankruptcy statutes[] use general language that does not appear to 'specifically relate' to insurance"). *See also Fabe*, 508 U.S. at 491, 113 S. Ct. at 2202, 124 L. Ed. 2d at 449 (finding provision of the Bankruptcy Code reverse preempted under the McCarran-Ferguson Act); *Logan v. Credit Gen. Ins. Co. (In re PRS Ins. Group, Inc.)*, 294 B.R. 609, 612 (Bankr. D. Del. 2003) ("the Bankruptcy Code does not specifically relate to the business of insurance"); *Wagner*, 285 B.R. at 452 ("[I]t is clear that the Bankruptcy Code in

general, and § 541 which defines property of the bankruptcy estate in particular, does not relate to the business of insurance."); *Advanced Cellular Sys. v. Mayol (In re Advanced Cellular Sys.)*, 235 B.R. 713, 719 (Bankr. D.P.R. 1999)("In this case, there is no question that the Bankruptcy Code does not specifically relate to the business of insurance").

2. New York's Statutory Scheme For Liquidation Was Enacted For The Purpose of Regulating The Business of Insurance. Equally, there can be no reasonable dispute that New York's statutory liquidation scheme (Article 74 of the Insurance Law) was enacted for the purpose of regulating the business of insurance.

The Supreme Court has articulated the standard for determining whether a state statute was enacted to regulate the business of insurance:

> Statutes aimed at protecting or regulating this relationship [between insurer and insured] [*sic*], directly or indirectly, are laws regulating the 'business of insurance,' within the meaning of the phrase . . . The focus of McCarran-Ferguson is upon the relationship between the insurance company and its policyholders: The relationship between insurer and insured, the type of policy which could be issued, its reliability, interpretation, and enforcement – these were the core of the 'business of insurance.' Undoubtedly, other activities of insurance companies relate so closely to their status as reliable insurers that they too must be placed in the same class. But whatever the exact scope of the statutory term, it is clear where the focus was – it was on the relationship between the insurance company and the policyholder.

Fabe, 508 U.S. at 501, 113 S. Ct. at 2208, 124 L. Ed. 2d at 459.

Clearly, provisions of the New York Insurance Law governing the liquidation of domestic insurers do fit within the *Fabe* definition of "business of insurance." Indeed, the New York Court of Appeals explained the rationale for New York's legislative creation of a single liquidation court as being "for the benefit of all creditors," which includes insureds.

> Experience has demonstrated that, in order to secure an economical, efficient, and orderly liquidation and distribution of the assets of an insolvent corporation **for the benefit of all**

> **creditors and stockholders, it is essential that the title, custody, and control of the assets be instrusted [*sic*] to a single management under the supervision of one court.** Hence other courts, except when called upon by the court of primary jurisdiction for assistance, are excluded from participation. This should be particularly true as to proceedings for the liquidation of insolvent insurance companies . . . . therefore, another court should not be permitted to interfere with the jurisdiction of the court in which the liquidation proceeding is pending.

Knickerbocker Agency, Inc. v. Holz, 149 N.E.2d 885, 890, 4 N.Y.2d 245, 252-53 (1958) (emphasis added).

Federal courts faced with the New York Insurance Law liquidation provisions, or similar statutes enacted in other states, have consistently held that the state statutes relate to the business of insurance. *See, e.g., Fabe*, 508 U.S. 491, 113 S. Ct. 2202, 124 L. Ed. 2d 449 (Ohio liquidation statute relates to the business of insurance); *Stephens v. Am. Int'l Ins. Co.*, 66 F.3d 41 (2d Cir. 1995) (Kentucky liquidation statute relates to the business of insurance); *Advanced Cellular*, 235 B.R. at 713 (provision of Puerto Rico liquidation statute that requires all claims to be litigated in the liquidation court relates to the business of insurance); *Washburn v. Corcoran*, 643 F. Supp. 554 (S.D.N.Y. 1986) (New York liquidation statute relates to the business of insurance); *see also Covington v. Sun Life of Can. (U.S.) Holdings, Inc.*, No. C-2-00-069, 2000 U.S. Dist. LEXIS 20902 (S.D. Ohio May 17, 2000) (agreeing with the Supreme Court decision in *Fabe* that the Ohio liquidation statute relates to the business of insurance) (a copy of this decision is annexed to the Muccia Aff. as Ex. 9).

3. Litigation in The Bankruptcy Court Would Impair The New York Liquidation Regime. The third and final factor is whether application of the Bankruptcy Code to permit litigation of the controversy between AIM and Realm in this Court would "impair" New York's statutory scheme concerning liquidation of Realm, and there is no doubt that it would.

Application of Federal law "impairs" a state statute where it would frustrate state policy or would "interfere with a State's administrative regime." *See Humana Inc. v. Forsyth*, 525 U.S. 299, 310, 119 S. Ct. 710, 717, 142 L. Ed. 2d 753, 763 (1999) (defining "impair" as used in the McCarran-Ferguson Act). That standard is met here, as the New York Supreme Court "with the agency of the Superintendent of Insurance, was intended to have exclusive jurisdiction of claims both for and against an insurance company in liquidation." *Knickerbocker Agency, Inc.*, 149 N.E.2d at 889, 4 N.Y.2d at 250. By operation of the Liquidation Order, Realm's authority to pursue claims vested with the Liquidator, and the Liquidation Court became the exclusive forum for claims pertaining to Realm.

The Second Circuit has recognized that allowing multiple courts to determine issues involved in the liquidation of an insolvent insurance company would "impair" New York's regulatory scheme. *Levy v. Lewis*, 635 F.2d 960, 964 (2d Cir. 1980) ("[T]he liquidation process would be greatly impeded by subjecting it to two authorities. The experience of our own federal bankruptcy courts evidences the importance of consolidating all of the assets of an insolvent company and gathering all those who have claims against those assets in a single forum.") (dismissing ERISA claim against Superintendent as Liquidator of insolvent insurance company based on abstention and McCarran-Ferguson). New York's statute was enacted because of its interest in ensuring that custody and control of an insurer's assets are marshaled by and ultimately governed by a single authority, which it concluded would protect insureds. *Knickerbocker Agency, Inc.*, 149 N.E.2d at 890, 4 N.Y.2d at 252. New York has a "strong public policy [interest in] maintaining Supreme Court's exclusive jurisdiction over liquidation proceedings," *Corcoran v. Ardra Ins. Co.*, 567 N.E.2d 969, 973, 77 N.Y.2d 225, 233 (1990), an interest this Court recognized as stemming from "[t]he public policy reasons of centralization of

the claims adjudication process as approved in the main proceeding and, conversely, the avoidance of piecemeal litigation in secondary fora which support the primacy of a state's regulation of insurance insolvencies." *In re Bd. of Dirs. of Hopewell Int'l Ins. Ltd.*, 238 B.R. 25, 65 (Bankr. S.D.N.Y. 1999) (internal citation omitted). *See also Washburn v. Corcoran*, 643 F. Supp. 554 (S.D.N.Y. 1986) (application of Federal Arbitration Act would impair New York's statutory liquidation scheme); *United of Omaha Life Ins. Co. v. Udisky*, No. C-2-00-158, 2001 WL 102670 (S.D. Ohio Jan. 23, 2001) (a copy of the decision is annexed to the Muccia Aff. as Ex. 10) (application of federal interpleader statute would impair Ohio liquidation scheme); *Covington v. Sun Life of Can. (U.S.) Holdings, Inc.*, No. C-2-00-069, 2000 U.S. Dist. LEXIS 20902 (S.D. Ohio May 17, 2000) (application of federal removal statute would impair Ohio liquidation scheme).

As in *Advanced Cellular, supra,* litigation in the Bankruptcy Court of the validity of the coverage written by AIM purportedly on Realm's behalf would impair the State statute because it would allow the parties to "invoke[] the Bankruptcy Code to obtain what the state court expressly prohibited – an action against [the] liquidator to be adjudicated in a forum outside the Court of First Instance with jurisdiction. This would certainly impair the progress of the orderly liquidation of all matters involving the insolvent company." *Advanced Cellular*, 235 B.R. at 724. Moreover, "[i]n addition to the interests served by orderly adjudication of claims, . . . consolidation [in the State Court proceeding] prevents the unnecessary and wasteful dissipation of the insolvent company's funds that would occur if the receiver had to defend unconnected suits in different forums across the country. Consolidation also eliminates the risk of conflicting rulings, piecemeal litigation of claims, and unequal treatment of claimants, all of which are of particular interest to insurance companies and policy holders." *Id.* at 721.

* * * * *

Because the Bankruptcy Code does not specifically relate to the business of insurance, because New York's statutory liquidation scheme does regulate the business of insurance, and because litigating claims and counterclaims alleged vis-à-vis Realm in this Bankruptcy Court will impair the orderly administration of the liquidation of Realm, McCarran-Ferguson reverse preemption applies and the Court should dismiss Realm from the Adversary Proceeding without prejudice to the initiation of like claims in the liquidation Court, or stay such proceedings until the claims by and against Realm have been addressed by the Liquidation Court.

B. This Is a Non-Core Proceeding

A further reason for dismissal of Realm, which adds weight to the McCarran-Ferguson ground in tipping the balance of interests *away* from the Bankruptcy Court, is that this is *not* a core proceeding. Realm is not – and, under the Bankruptcy Code, cannot be – a debtor. 11 U.S.C. § 109 (2005). And issues raised by plaintiffs in this Adversary Proceeding relate only to the assets of Realm, and not to either of the Debtors (except indirectly, insofar as Realm itself is ultimately an asset of the Debtors). As such, this proceeding does not fall within any of the categories enumerated in 11 U.S.C. § 157(b) (2005).

The peculiar procedural history of this case demonstrates that this is emphatically not a core proceeding. Courts in the Second Circuit "have emphasized that core proceedings must 'invoke a substantive right' created by federal bankruptcy law and that they would not exist outside of a bankruptcy case." *Official Comm. of Unsecured Creditors of FMI Forwarding Co. v. Union Transp. Corp. (In re FMI Forwarding Co.)*, No. 00 B. 41815, 01 Civ. 9462 / Adv. Proc. 01-02992, 2004 U.S. Dist. LEXIS 10941 (S.D.N.Y. June 10, 2004) (a copy of the decision is annexed to the Muccia Aff. as Ex. 11). Far from meeting this standard, this Adversary

Proceeding concerns contract claims and rehashes cross allegations that have been raised by various parties in numerous other lawsuits prior to the Debtors' bankruptcy filing.

In these circumstances in particular, the claims by and against Realm in this Court should be dismissed without prejudice or stayed in favor of litigation in the Liquidation Court.[3]

POINT II

THE COURT SHOULD ABSTAIN FROM HEARING CLAIMS RAISED BY AND AGAINST REALM

Principles of discretionary abstention also should result in the Court declining to hear claims raised by or against Realm in this Adversary Proceeding. Nothing in 28 U.S.C. § 1334's grant of jurisdiction over civil proceedings arising under the Bankruptcy Code "prevents a district court in the interest of justice, or in the interest of comity with State courts or respect for State law, from abstaining from hearing a particular proceeding arising under title 11 or arising in or related to a case under title 11." 28 U.S.C. § 1334(c)(2) (2005). Here, abstention is appropriate under *Burford v. Sun Oil Co.*, 319 U.S. 315, 63 S. Ct. 1098, 87 L. Ed. 1424(1943). Indeed, a Court in this District recently held that *Burford* abstention is the appropriate result where claims are asserted against an insolvent insurance company under State administration. *Serio v. Black, Davis & Shue Agency, Inc.*, No. 05 Civ. 15, 2005 U.S. Dist. LEXIS 23392 (S.D.N.Y. Oct. 11, 2005) (a copy of the decision is annexed to the Muccia Aff. as Ex. 12) (staying counterclaims raised against Frontier Insurance Company in action brought by Superintendent as Rehabilitator of Frontier).

In *Burford*, the Supreme Court ruled that Federal courts "have the discretion to abstain from deciding cases to 'avoid interfering with state efforts to maintain a coherent policy

[3] Finally, the Liquidator submits that any *prior* purported consent by or on behalf of Realm to adjudication of its claims in the Bankruptcy Court under 28 U.S.C. § 157(c)(2) (2005), whether or not such consent was obtained with regard to Realm's corporate formalities (*see* p. 1 n.1, above), became void upon appointment of the Liquidator.

in an area of comprehensive regulation or administration.'" *Serio*, 2005 U.S. Dist. Lexis 23392 at * 8, (quoting *Am. Disposal Servs., Inc. v. O'Brien*, 839 F.2d 84, 87 (2d Cir. 1988)). Applying *Burford*, the Court in *Serio* held:

> **There is no question that to allow BDS to litigate affirmative claims against Frontier in federal court would pose a recognizable danger to the ongoing administrative process that is being supervised by the New York State Supreme Court,** under which the Superintendent and his Administrator are charged with marshaling assets, paying or compromising claims, and otherwise overseeing the affairs of Frontier in an effort to either put it back on its financial feet or determine that rehabilitation is not feasible and that the company must be liquidated. Indeed, the need for uniformity of treatment and centralization of the claims process is precisely the reason why the Insurance Law authorizes the state court to issue the type of injunction that was granted in the Frontier proceeding, and it explains why the state court exercised that authority with regard to Frontier. **To allow BDS to pursue its counterclaims would permit it to violate that injunction and to undercut the policies that the state-court order embodies.**

Serio, 2005 U.S. Dist. LEXIS 23392 at *10-11 (emphasis added).

Serio is the latest in a long line of precedent in this Circuit holding that *Burford* abstention is appropriate in cases involving liquidation or rehabilitation of New York insurers under Article 74 of the Insurance Law. For instance, in *Levy v. Lewis*, 635 F.2d 960 (2d Cir. 1980), the Second Circuit held that *Burford* abstention was appropriate, and noted that:

> New York State has a complex administrative and judicial system for regulating and liquidating domestic insurance companies. . . . The Superintendent of Insurance is an experienced state official who has been involved both in rehabilitating and liquidating [the insolvent insurer]. **Liquidation in particular is an area in which the Superintendent's expertise is critical.** Liquidation proceedings involve the adjustment of thousands of claims against the insurer by policyholders and those who claim under them, as well as claims by present employees, past employees, and general creditors. Moreover, the claims must be satisfied by marshalling the existing assets of the insolvent company and by reinsuring existing policies using a state fund established for this purpose.

Levy, 635 F.2d at 963 (emphasis added). Thus, as summarized at p. 11 above, the Court in *Levy* held that the district court should have abstained from deciding an ERISA claim against a liquidator of an insolvent insurer, as that was a matter best left to the Liquidation Court. Similarly, in *Law Enforcement Insurance Co. v. Corcoran*, 807 F.2d 38 (2d Cir. 1986), the Second Circuit held that New York's regulatory scheme for the rehabilitation or liquidation of insolvent insurers "closely parallel [the facts involved] in *Burford* [which involved a regulatory scheme for oil well drilling permits]. New York has set up a comprehensive plan of regulation of insurance companies, with particularly detailed provisions concerning their rehabilitation and liquidation." 807 F.2d at 43. The Court therefore held that *Burford* abstention is appropriate in a case such as this. *See also Corcoran v. Ardra Ins. Co.*, 842 F.2d 31 (2d Cir. 1988) (*Burford* abstention was appropriate where reinsurance company sought to remove issue of whether reinsurance payments were required from state liquidation court to the Southern District of New York). Indeed, in 1992, this Court applied *Burford* abstention in refusing to hear claims raised in an adversary proceeding against a New Jersey insurer that had been placed in rehabilitation. *In re Phillips Offset Co., Inc.*, 152 B.R. 836 (Bankr. S.D.N.Y. 1992). The Court explicitly held that the New Jersey statutory scheme, which is similar to New York's statutory liquidation scheme at issue here, "entail[ed] the very type of 'partnership' between the New Jersey state courts and the Commissioner of Insurance as discussed in *Burford*. The New Jersey courts issue the orders of rehabilitation, enjoin suits against the rehabilitator (i.e. the Commissioner of Insurance) to protect the proceedings, and oversee the assessment of claims against the insurer's estate." 152 B.R. 836, 838.

Moreover, the abstention principles enumerated in *Colorado Water Conservation District v. United States (Colorado River)*, 424 U.S. 800, 96 S. Ct. 1236, 47 L. Ed. 2d 483

(1976), also militate in favor of dismissal. Under *Colorado River*, "even where none of the other abstention categories appl[y], federal courts ought to refuse to decide cases when considerations of 'wise judicial administration giving regard to conservation of judicial resources and comprehensive disposition of litigation' require abstention." *Levy*, 635 F.2d at 965 (internal citation omitted) (quoting *Colorado River*, 424 U.S. at 817, 96 S. Ct. at 1246). As in *Levy*, the instant case "falls squarely within" *Colorado River*. As in *Colorado River* and *Levy*, litigation of claims by and against Realm in this Court are "properly described as an in personam action for declaration of rights in property under the control of another suit." *Levy*, 635 F.2d at 966 (principles of *Colorado River* abstention "require us to stay our hand").

Considerations of judicial economy favoring abstention here extend beyond the mere fact that the New York State Liquidation Court has jurisdiction over the *res* (i.e. Realm). The Liquidation Court's familiarity with Realm and New York insurance law, the Superintendent's vast experience with such issues and the fact that all other claims against Realm will be litigated in one forum all demonstrate that judicial efficiency is best served by one litigation in the Liquidation Court.

CONCLUSION

Provisions of the Bankruptcy Code allowing for litigation of this controversy in this Court are reverse preempted by the McCarran-Ferguson Act, and the Liquidation Court is the appropriate forum for this litigation. Under principles of *Burford* and *Colorado River* abstention, moreover, the Court should decline to hear claims by and against Realm. Realm therefore should be dismissed from this Adversary Proceeding or the Adversary Proceeding should be stayed insofar as it pertains to Realm.

Dated: New York, New York
December 7, 2005

Respectfully submitted,

BROWN RAYSMAN MILLSTEIN
FELDER & STEINER LLP

By: _____
Joseph W. Muccia
A Member of the Firm
900 Third Avenue
New York, New York 10022
(212) 895-2000

Attorneys for the New York Superintendent of Insurance as Liquidator of Realm National Insurance Company

BRMFS1 627462

EXHIBIT 1

At IAS Part 7 of the Supreme Court of the State of New York, County of New York at the Courthouse, 111 Centre Street, New York, New York on the 15 day of June 2005.

PRESENT:

HON. FAVIOLA SOTO,

JUSTICE

----------x

In the Matter of

the Application of

HOWARD MILLS, Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of and dissolve

REALM NATIONAL INSURANCE COMPANY

Index No.: 401876/05

ORDER OF LIQUIDATION

FILED
JUN 15 2005
COUNTY CLERK'S OFFICE
NEW YORK

Petitioner, Howard Mills, Superintendent of Insurance of the State of New York (the "Superintendent"), having moved this court for an order to take possession of the property of and liquidate the business and affairs and dissolve the corporate charter of Realm National Insurance Company ("REALM");

NOW, upon reading and filing the petition of the Superintendent, duly verified on the 10th day of June, 2005, the exhibits annexed thereto; the emergency affidavit of Howard Mills, dated June 10, 2005; and it appearing to my satisfaction that:

1. REALM is a New York corporation, with its principal office in New York County;

2. REALM is insolvent;

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370

3. REALM has consented to an order of liquidation being entered against it in the Supreme Court, County of New York;

4. REALM is amenable to the Insurance Law of the State of New York and particularly to Article 74 thereof;

5. REALM should be dissolved and its corporate charter annulled and forfeited.

6. It is impossible to reinsure in whole or in part the existing policy obligations of REALM pursuant to Section 7405 (c) of the Insurance Law;

7. REALM is in such condition that its further transaction of business would be hazardous to its policyholders, creditors or to the public;

8. It is in the best interest of all persons concerned that the Superintendent be directed to take possession of the property and liquidate the business and affairs and dissolve the corporate charter of REALM.

NOW, on motion of the Honorable Eliot Spitzer, Attorney General of the State of New York, it is hereby ORDERED as follows:

1. The petition is granted;

2. REALM is insolvent;

3. The Superintendent, and his successors in office as Superintendent, are appointed liquidator of REALM, authorized and directed to immediately take possession of its property, are vested with title to its property, contracts and rights of action and directed to liquidate its business and affairs in accordance with Article 74 of the Insurance Law. The Superintendent as Liquidator may deal with the property and business of REALM in its name or in the name of the Superintendent, as Liquidator;

4. In accordance with Insurance Law § 7432 (b), all claims against REALM must be presented to the Superintendent, as Liquidator, within four months of the date of entry of this order;

5. In accordance with Insurance Law § 7433 (b)(2), all persons who appear on REALM's books and records as policyholders or claimants as of the date of entry of this order shall be deemed to have duly filed proofs of claim prior to the last day set for filing claims;

6. All former policyholders of REALM whose policies expired within three (3) years of the date of entry of this order shall be deemed to have duly filed a proof of claim prior to the last day set for filing claims;

7. The Superintendent, as Liquidator, shall provide notice, by publication in the New York Times, National Edition and the Journal of Commerce once a week for two consecutive weeks commencing within three weeks of entry of this order, to all other creditors, claimants and interested persons to present claims within four months of the date of entry of this order;

8. The Superintendent, as Liquidator, shall provide notice by publication in one newspaper in the capital cities of each state in the United States wherein REALM is licensed to do business, once a week for two successive weeks within the period allowed for the presenting of claims, the newspaper to be selected by the Liquidator at his discretion;

9. In the event one or more Insurance Departments and/or Guaranty Funds or Associations of foreign states, that have adopted the Uniform Insurers Liquidation Act, in which REALM was licensed to do business, desire to give formal notice to policyholders and creditors in their respective State Insurance Departments or Guaranty Fund or Association, the Superintendent, as Liquidator, may permit the giving of such notice as he in his discretion may find desirable;

10. The notice prescribed herein is sufficient notice to all persons interested in REALM;

11. All outstanding insurance policies, bonds, and other insurance obligations, if any, issued and undertaken by REALM shall terminate and all liability thereunder shall cease and be fixed as of 12:01 a.m. on the thirtieth day after entry of this order or upon cancellation or procurement of replacement policies, bonds or insurance coverage, whichever is earlier;

372

12. In accordance with Insurance Law § 7405, all other contracts, leases, tax sharing agreements, employment contracts, and obligations of REALM, however described, shall terminate and all liability thereunder shall cease and be fixed as of the date of entry of this order unless ratified by the Superintendent, as Liquidator;

13. The Superintendent, as Liquidator, is relieved of the provisions set forth in Section 7405(c) of the Insurance Law to reinsure in whole or in part the policy obligations of REALM;

14. The Superintendent, as Liquidator, is authorized, permitted and allowed to sell, assign, or transfer any and all real or personal property, stocks, bonds or securities of REALM at market price or better, or if there is no market price, at the best price obtainable at private sale at such times and upon such terms and conditions, as in his discretion, he deems is in the best interest of the creditors of REALM, and he is further authorized to take such steps and to make and execute such agreements and other papers as may be necessary to effect and carry out such sales, transfers, and assignments;

15. REALM, its officers, directors, depositories, trustees, agents, servants, employees, attorneys, and all other persons, having any property or records belonging or relating to REALM, including, but not limited to insurance policies, loss, claim or legal files are directed to assign, transfer, set over and deliver to the Superintendent, as Liquidator, all such property or records;

16. Any persons, firms, corporations, or associations having any books, papers or records relating to the business of REALM shall preserve them and submit them to the Superintendent, as Liquidator, for examination and copying at all reasonable times;

17. The officers, directors, shareholders, trustees, agents, servants, employees, attorneys, and managers of REALM, and all other persons are permanently enjoined and restrained from the transaction of REALM's business, the waste or disposition of its property, interfering with the Superintendent, as Liquidator, in the possession, control and management of the property of REALM or in the discharge of his duties;

18. All persons are permanently enjoined and restrained from commencing or prosecuting any actions or proceedings against REALM, the Superintendent, as Liquidator of REALM, or the New York Liquidation Bureau, its employees, attorneys and agents with respect to claims against REALM;

373

19. All persons are permanently enjoined and restrained from obtaining preferences, judgments, attachments or other liens, or making any levy against REALM's assets or any part thereof;

20. All parties to lawsuits in this state and all other states and territories of the United States, are hereby enjoined and restrained from proceeding with, including but not limited to, any discovery, pre-trial conferences, trial, application for judgment or proceeding on judgments or settlements in such actions at law, suits in equity, special or other proceedings in which REALM is obligated to defend by virtue of its insurance contract and any and all actions being defended by a primary or other underlying insurer where such primary or underlying insurer has tendered or offered its full policy limits or where said policy limits have been exhausted by payment of the underlying insurer's aggregate and REALM is the next excess of umbrella layer of insurance for a period of 180 days from the date hereof;

21. Those persons who may have first-party or New York Comprehensive Automobile Insurance Reparations Act (No-Fault) policyholder loss claims against REALM coming within the purview of Article 76 of the Insurance Law are enjoined from presenting and filing such claims in this proceeding for 90 days from the date of entry of this order;

22. The corporate charter of REALM is relinquished, forfeited, surrendered and annulled, and REALM is dissolved;

23. The Superintendent of Insurance as Liquidator, may at any time make further application to this court for such further and different relief as he sees fit;

24. All further papers in this proceeding shall bear the caption:

"In the Matter of

the Liquidation of

REALM NATIONAL INSURANCE COMPANY"

25. The Superintendent, as Liquidator, shall serve a conformed copy of this order upon the county clerk and the clerk of the trial support office for amendment of the court and computer records.

ENTER

J.S.C.
HON. FAVIOLA SOTO

FILED
JUN 15 2005
COUNTY CLERK'S OFFICE
NEW YORK

375

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EXHIBIT 2

376

October 2, 2002

Stirling Cooke North American Holdings Ltd.
125 Maiden Lane
New York, New York 10038

Attention: Stephen A. Crane, Chairman

Re: Realm National Insurance Company

Dear Mr. Crane:

This will memorialize the intent of Atlanta Insurance Marketing , Inc. ("AIM"), to negotiate and enter into agreements with Stirling Cooke North American Holdings Ltd. ("SCNAH"), as shareholder of Realm National Insurance Company ("Realm") and World Trade Services, Inc ("WTC"). It is proposed that AIM, or an assignee affiliated with AIM, purchase all of the outstanding shares of Realm's and WTC's common stock, subject to the approval of regulatory authorities having jurisdiction over Realm. In addition, AIM seeks to enter into general agency ("GA") agreements with Realm pending the closing of the purchase, as more fully described below.

Purchase of Stock

As represented to SCNAH, the purchase price for all of the outstanding shares of the common stock will be $12,000,000. The purchase price is based upon, in part, the statutory surplus of Realm as of June 30, 2002 as set forth in its statutory financial statements. Simultaneous with the execution of this letter of intent, the parties will enter into a loan agreement, subject to the specific terms of which (a) AIM will provide AlphaStar Insurance Group Limited with a loan in an amount up to $3,500,000 and (b) loan balances then due and outstanding would be repaid upon consummation, and out of the proceeds, of the share purchase transaction.

The entirety of the $12,000,000 purchase price is to be paid at the closing, by the application of the loan repayment and by a cash payment for the remainder, less the amount of a "Reinsurance Escrow." "Reinsurance Escrow" shall mean an amount representing one-half of 80% of Realm's reinsurance recoverables on loss and loss adjustment expense payments at June

EXHIBIT A

3MM

30, 2002 ("Paid Loss Recoverables"), excluding Paid Loss Recoverables due from Sphere Drake or Odyssey Re, which shall be identified on a schedule to be supplied by Realm. The Reinsurance Escrow will be maintained until April 15, 2003 ("the Release Date"). On the Release Date, AIM will be paid from the Reinsurance Escrow:

(a) To the extent that Realm fails to collect at least 80% of the Paid Loss Recoverables (excluding the scheduled recoverables), 50.0% of the amount of the shortfall.

(b) Any liabilities of the selling shareholder to AIM under representations and warranties incorporated in the definitive contract documents.

(c) AIM's pro-rata share of interest earned on any amounts paid to AIM for (a) and/or (b) above, for the period commencing on the date of deposit into the Reinsurance Escrow and ending on the Release Date.

All monies remaining in the Reinsurance Escrow after payments to AIM under (a), (b) and (c) above will be released to SCNAH on the day after the Release Date.

AIM shall promptly complete the Form A registration process and seek approvals of the contemplated purchase from all appropriate regulators within six months of execution of the definitive contract documents. AIM shall also commence its due diligence review of Realm and WTC pending the execution of the definitive contract documents.

Cooperation

During the period from the date on which this letter is accepted through the earlier of (i) the termination or expiration of this letter or (ii) the closing date of the transaction contemplated herein ("Termination Date"), SCNAH shall use its best efforts to cause Realm and WTS to conduct their business in the ordinary course of business consistent with past practice, and to use commercially reasonable efforts to (a) preserve intact their present business organization, (b) preserve the rights, franchises, goodwill and relations of those with whom business relationships exist, (c) keep available the services of their present directors, officers, employees and producers, (d) defend and protect their assets from infringement or usurpation, (e) perform all of their obligations under all contracts relating to or affecting their assets or business, (f) maintain their books, accounts and records in the usual manner consistent with past practice, (g) comply in all material respects with all applicable laws, (h) preserve and maintain in full force and effect all governmental licenses and permits. Without limiting the generality of the foregoing, during the period from the date of this letter to the Termination Date, SCNAH shall use its best efforts to cause Realm and WTS not to, without the prior written consent of AIM:

- initiate any material change to their underwriting, reinsurance, marketing, pricing, claim processing and payments, reserving, financial or accounting practices or

378

policies, except as required by law or statutory accounting practice or as contemplated pursuant to this letter;

- make or pay any dividends or distributions (whether in cash, securities or other property) to the holders of capital stock;
- merge with, enter into a consolidation with or acquire an interest of 5% or more in any person or acquire a substantial portion of the assets or business of any person or any division or line of business thereof, or otherwise acquire any assets (other than fixed maturity securities, equity securities, cash and short-term investments) other than in the ordinary course of their business consistent with past practice;
- make any material capital expenditure or commitment for any material capital expenditure;
- sell or offer to sell the common stock which is the subject matter of this letter, or all or substantially all of the assets of Realm and/or WTS, or enter into any negotiations with third parties with respect to any such sale or offer;
- incur indebtedness for money borrowed; or
- make any loan to, guarantee any indebtedness for money borrowed of, or otherwise incur such indebtedness on behalf of, any person other than investments made in the ordinary course of business.

SCNAH agrees, from the date hereof until the Termination Date, to use its best efforts to cause Realm and WTS to consult with AIM regularly regarding all material aspects of their business, including without limitation financial results, loss experience, underwriting practices, claims practices, marketing and distribution of products, regulatory communications, filings and approvals, correspondence and communications with ratings agencies and reinsurance.

SCNAH shall use its best efforts to cause Realm, subject to any necessary regulatory approvals, to enter into a general agency agreement with AIM, pursuant to which Realm would agree to consider in good faith the writing of business introduced by AIM to the extent that it meets Realm's underwriting criteria. SCNAH further shall use its best efforts to cause Realm, subject to any necessary regulatory approvals, to enter into a claims service agreement between and among Realm, the TPA's and the insureds. Both the MGA and claims service agreements shall be subject to cancellation upon the termination of this letter of intent, or decision on the part of either party not to proceed with the closing of the transaction contemplated herein.

The parties agree that they shall agree to make appropriate provision for Realm to be indemnified and held harmless, in the event that the contemplated purchase of Realm's common stock is not consummated, from and against any liability (net of reinsurance recoverables) arising from the coverages placed with Realm by AIM.

379

It is the parties' intent to negotiate in good faith towards the execution of binding and definitive agreements as soon as is reasonably possible upon receiving favorable approvals from counsel and regulators having jurisdiction over Reshu.

Very truly yours,

ATLANTA INSURANCE MARKETING INC.

By: David Bennett-Smith

ACCEPTED:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD

By: _____

STEPHEN A. CRANE
PRESIDENT & CEO

380

EXHIBIT 3

1078

ARENT FOX PLLC
William J. McSherry, Jr. (WJM-1194)
Robert E. Grossman (RG-3602)
Edward S. Feig (ESF-6064)
Schuyler G. Carroll (SC-0100)
Attorneys for Plaintiffs
1675 Broadway
New York, New York 10019
(212) 484-3900

Attorneys for the Debtors and Plaintiffs

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	Chapter 11
ALPHASTAR INSURANCE GROUP LIMITED, *et al.*,	Case No. 03-17903 (SMB)
	(Jointly Administered)
Debtors.	
ALPHASTAR INSURANCE GROUP LIMITED, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and REALM NATIONAL INSURANCE COMPANY	
Plaintiffs,	
-against-	
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC., DAVID DENNETT-SMITH, BRIAN IMPERIALE, BRUCE HOLLEY and CORPORATE RESOURCES MANAGEMENT, INC., both individually and on behalf of all persons and entities similarly situated,	Adv. Proc. No. 04-02792 (SMB)
	FIRST AMENDED COMPLAINT
Defendants.	

Plaintiffs AlphaStar Insurance Group Limited ("AlphaStar"), Stirling Cooke North American Holdings, Inc. ("SCNAH") (AlphaStar and SCNAH sometimes collectively referred to

as "Debtors"),[1] and Realm National Insurance Company ("Realm"), by their attorneys, Arent Fox PLLC, as and for their First Amended Complaint against defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc. (collectively, "AIM"), David Dennett-Smith ("Dennett-Smith"), Brian Imperiale ("Imperiale") and Bruce Holley ("Holley") (collectively, the "Individual Defendants," and AIM and the Individual Defendants collectively referred to as the "AIM Defendants"), and as against defendant Corporate Resource Management, Inc. ("CRM"), individually and on behalf of a class of all persons and entities similarly situated, allege as follows:

NATURE OF THE ACTION

1. This action seeks declaratory relief, damages and the imposition of a constructive trust, all arising out of the AIM Defendants' year-long scheme to steal Realm, misappropriate its valuable name, commercial reputation, licenses and goodwill, and to enrich themselves at the expense of plaintiffs and literally hundreds, if not thousands, of innocent third-party employers (and their employees) which the AIM Defendants fraudulently led to believe were protected by workers' compensation insurance from Realm. The AIM Defendants continued to mislead these third parties as well as the insurance regulators of numerous states even after Realm discovered these defendants' deception and attempted to set the record straight.

2. Through an outrageous series of illegal, deceptive and surreptitious actions, the AIM Defendants – since as early as September of 2002 – have been masquerading in at least eighteen states as authorized insurance agents and/or owners of the plaintiff Realm, which is an insurer domiciled in and licensed by the State of New York.

[1] The Debtors in these Chapter 11 cases include AlphaStar, SCNAH and their affiliates Employee & Providers Resources Group, Inc.; North American Risk, Inc.; Stirling Cook Brown North American Reinsurance Intermediaries, Inc.; AlphaStar Insurance Services, Inc.; Stirling Cooke New York Insurance Agency Services, Inc. ("SCNYIAS"); Stirling Cooke Risk Management Services, Inc.; Stirling Cooke Southeast, Inc.; Stirling Cooke Texas, Inc.; World Trade Services (NJ); and World Trade Services (PA).

3. As will be demonstrated, AIM was never authorized by the plaintiffs to act as a broker, agent or representative of Realm, never acquired any ownership interest in Realm, and neither sought nor received the necessary prior approvals of the New York State Insurance Department ("NYSID") to validate either assertion.

4. In truth, Realm is and at all relevant times has been a wholly-owned subsidiary of SCNAH (which in turn is wholly-owned by AlphaStar), and constitutes the single most significant asset of the Debtors' Estates, and would itself be a debtor were it not for statutes that preclude the filing of a bankruptcy petition by an insurance company.

5. In connection with their widespread fraud, the AIM Defendants have collected, and/or received commitments regarding the payment of, at least $10 million in supposed "premium" for non-existent workers compensation insurance.

6. By pretending to be Realm's agent, the AIM Defendants violated insurance laws and regulations of numerous states and also created massive confusion as to the ownership and control of Realm. The AIM Defendants also exposed Realm and the Debtors to incalculable actual and potential claims by, among others, the tens of thousands of employers, certificate holders and employees purportedly "benefited" by these fraudulent insurance certificates.

7. At present, and as a direct result of the AIM Defendants' illicit campaign, there are several pending investigations by various state regulators, pending and threatened proceedings before state workers compensation boards, and at least three lawsuits involving some or all of the parties herein.

8. Ultimately, it was the AIM Defendants' relentless pursuit of this illicit scheme, and the proliferation of legal proceedings, that forced AlphaStar and SCNAH (and the other Debtors) to commence these Chapter 11 proceedings.

9. As set forth in detail below, the AIM Defendants' conduct has substantially impaired the value of Realm, SCNAH and AlphaStar, and threatened the consummation of the contemplated sale of Realm, and thus continues to threaten the successful conclusion of the Debtors' Chapter 11 cases. To be certain, the AIM Defendants' masquerade and persistent false and misleading statements to regulators, courts and the public continues to significantly damage the plaintiffs, which have been forced to expend considerable resources in attempting to set the record straight before myriad state insurance and workers' compensation agencies, courts and the public generally, in addition to defending multiple lawsuits and, ultimately, seeking bankruptcy court protection.

10. This action is necessary both to finally resolve the massive confusion created by the AIM Defendants, and to protect and enhance the value of the Debtors' Estates for the benefit of creditors.

THE PARTIES

11. Plaintiff and Debtor AlphaStar is a Bermuda corporation. It conducts business, *inter alia*, from its office in New York at 125 Maiden Lane, Fourteenth Floor, New York, New York 10038. AlphaStar is the owner of ten thousand (10,000) shares of the common stock of SCNAH, which constitute all of the issued and outstanding shares of SCNAH's capital stock.

12. Plaintiff and Debtor SCNAH is a Delaware corporation with offices at 125 Maiden Lane, New York, New York 10038 and 1515 South Federal Highway, Suite 301, Boca Raton, Florida 33432.

13. Plaintiff Realm is an insurance company organized and existing under the laws of the State of New York. Realm maintains its principal place of business at 125 Maiden Lane, Fifth Floor, New York, New York 10038 and is a duly licensed insurance company authorized to do business in the State of New York and numerous other states. Realm is a wholly owned

subsidiary of Debtor SCNAH and indirect subsidiary of Debtor AlphaStar, and the single most significant asset of the Debtors' Estates. As alleged further herein, Realm was the principal object of each of the transactions that give rise to the claims asserted herein. As such, Realm is a necessary and indispensable party plaintiff in this proceeding.

14. Defendants American Insurance Management Group, Inc., American Insurance Managers, Inc., and Atlanta Insurance Marketing, Inc. (collectively, "AIM") are each Georgia corporations with their respective principal places of business at 3101 Towercreek Parkway, Suite 750, Atlanta, Georgia 30339.

15. Upon information and belief, defendant David Dennett-Smith is a resident of the State of Georgia, and is Chairman and Chief Executive Officer of AIM.

16. Upon information and belief, defendant Imperiale is a resident of the State of Georgia and is an officer of AIM.

17. Upon information and belief, defendant Holley is a resident of the State of Georgia and is an employee of AIM.

18. Upon information and belief, at all relevant times, none of the AIM Defendants was licensed in any State to conduct business as an insurance broker, agent or producer, except that, upon information and belief, Holley was licensed only by the State of Georgia as an insurance agent.

19. Upon information and belief, Defendant CRM is a corporation organized under the laws of, and has its principal place of business in, the State of Oklahoma. Upon information and belief, CRM is a professional employer organization ("PEO") that provides human resource services to business clients by becoming the co-employer of employees of its clients. As discussed below, as part of the fraudulent scheme as alleged herein, AIM led at least twelve

different PEOs (including CRM) to believe that AIM was authorized to procure workers' compensation insurance for said PEOs and their clients from Realm.

JURISDICTION

20. This Court has jurisdiction over this proceeding pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding pursuant to 28 U.S.C. § 157(B). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

PROCEDURAL BACKGROUND

21. On December 15, 2003 (the "Petition Date"), the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code. Since that time the Debtors have remained in possession of their assets and operations of their business pursuant to sections 1107 and 1108 of the Bankruptcy Code.

22. A committee of creditors was appointed in these bankruptcy cases on or about February 3, 2004.

23. Since the Petition Date, the Debtors have made considerable progress in bringing these cases to fruition and formulating a plan for payment to the creditors. The single most significant component of the Debtors' plan is the contemplated sale of Realm. The Debtors have worked diligently to find a buyer for Realm, and recently entered into a binding stock purchase agreement and DIP financing and related agreements. The Bankruptcy Court recently approved the contemplated sale of Realm to a third-party bidder pursuant to the executed stock purchase agreement, pending the closing of that transaction after requisite regulatory approvals. However, the Debtors believe that they may be unable to realize the full potential value to the Estate from the sale of Realm as a result of the confusion and exposure to liability created by AIM, which has materially and adversely affected the value of Realm. This proceeding therefore is intended to fully and finally resolve the confusion created by AIM's false claims of agency and/or

ownership of Realm, to facilitate the closing of the sale of Realm at a purchase price properly reflective of Realm's value, to recover for the Estate damages representing the significant loss in Realm's value caused by AIM's chicanery, and to disallow, or at least subordinate, AIM's claims against the Debtors pursuant to this Court's equitable and statutory powers.

FACTUAL BACKGROUND

A. Realm's Business

24. Plaintiff Realm is licensed to write insurance in twenty-four states, although certain of those licenses and authorities are currently suspended, due in part to the conduct complained of herein.

B. PEOs

25. As noted above, PEO is an abbreviation for a Professional Employer or Employment Organization. A PEO is an organization that arranges with operating businesses to employ the staff of such businesses and, for a fee, provides certain administrative services attendant to such employment, such as the provision of workers compensation insurance, while "leasing" the staff back to the operating business.

26. In this way, the PEO becomes a "co-employer" of its clients' employees.

27. The terms of the reinsurance contracts entered into by Realm have for several years contained an express exclusion for the writing of "PEO" business. Realm does not write insurance covering PEOs or clients of PEOs and did not (prior to the Spring of 2003) have in place any underwriting criteria for that type of insurance.

28. From an insurance underwriting perspective, "PEO business" is rife with potential for abuse and is extremely risky because of the insurer's lack of accurate knowledge concerning the insured employees, their locations, and the nature of their employment, and the consequent difficulty in underwriting the risk.

C. AIM's Plan To Enter The Insurance Business To Service The PEO Market

29. Upon information and belief, during the Summer of 2002, AIM was actively searching for an insurance company that held licenses in multiple states, as part of AIM's overall strategy to generate fees and commissions resulting from the placement of workers' compensation insurance for PEOs.

30. Upon information and belief, AIM was unsuccessful in convincing established carriers to provide the underwriting capacity necessary to support its insurance program. Moreover, upon information and belief, AIM not only lacked sufficient cash or other resources to pay for any meaningful acquisition, or to capitalize a new insurance business, but also did not wish to own – and thus have direct responsibility for the financial performance of – its own insurance carrier. Rather, AIM developed a plan whereby it would pre-market its proposed insurance program to various PEOs, and offer those PEOs the opportunity to "invest" in an affiliated new business entity that AIM intended effectively to control, but which would be formally owned by the PEOs. Specifically, PEOs would pay AIM a non-refundable application fee, as well as a subscription fee that was based upon a percentage of projected annual premiums for their workers compensation insurance; in exchange, the PEO would receive "equity" in the entity that would acquire the "captive" insurance carrier.

31. Under this plan, while AIM was out shopping for a suitably-licensed carrier through which it could sell insurance, it could simultaneously raise the funds necessary to effect the acquisition and, at the same time, lock in customers for the insurance that AIM intended to broker after it had acquired a licensed insurer.

32. During the Summer of 2002, AlphaStar's insurance businesses were suffering from "soft" market conditions, and Realm's statutory surplus had declined to just over $10 million. AlphaStar's board of directors was actively considering various strategic alternatives,

ranging from raising new funds to selling AlphaStar and some or all of its subsidiaries. By August of 2002, AlphaStar already had received expressions of interest from various potential buyers of some or all of its subsidiaries, including Realm.

33. As a broadly-licensed insurance company with owners in need of capital, Realm appeared to be the perfect target for AIM's plan. However, the asking price for Realm and its valuable licenses was around $12 million – a sum that AIM simply did not (and never would) have the ability to pay.

D. AIM's Courtship Of Realm And Purported Intent To Purchase Realm

34. On or about August 9, 2002, AIM approached plaintiffs through an intermediary, a reinsurance broker known to both parties, to discuss the acquisition of Realm. Upon information and belief, that intermediary also subsequently stood to earn a "finder's fee" from AIM upon a successful transaction.

35. During a series of subsequent meetings on or about August 12, 13 and 29, and September 4, 2002, and numerous telephone calls, AIM – through its President Dennett-Smith, AIM's then-counsel and through the intermediary reinsurance broker – expressed a strong interest in acquiring Realm from AlphaStar/SCNAH. In fact, a draft letter of intent for the purchase of Realm was presented by Mr. Dennett-Smith to Mr. Stephen A. Crane, CEO of the Debtors and Chairman of Realm, at their first meeting on August 12, 2002. A subsequent draft letter of intent was sent to Debtors by AIM's counsel on August 14, 2002.

36. During these meetings and calls, Mr. Dennett-Smith explained AIM's business plan to plaintiffs' executives, and made a series of representations that (i) before the end of the year, AIM expected to have firm commitments for tens of millions of dollars through its ongoing marketing and subscription efforts; (ii) a cost-beneficial reinsurance program was available to AIM (and therefore to Realm) to offset the risk from the proposed PEO program; and (iii) the

PEO insurance program that AIM intended to pursue was both viable and profitable, and would address the historical problems that had made the underwriting of PEO-based insurance programs problematic for the industry.

37. These representations were important to plaintiffs for two important reasons: First, they portrayed AIM as a serious and viable buyer with adequate resources to effect an acquisition of Realm; at that time, AlphaStar was in active discussions with several other prospective buyers. Second, since AIM contemplated that it would first be appointed as an agent of Realm so that it could pursue its insurance program pending regulatory approval of the acquisition, suitable reinsurance, as well as the underwriting integrity and discipline underlying the program, were of critical importance since, if regulatory approval were not obtained, Realm would still be obligated to provide any insurance coverage bound to that point.

38. When AIM's strong interest in the transaction was confirmed by its submission of a proposed letter of intent at the first meeting, and based upon AIM's representations, AlphaStar, and SCNAH then agreed to enter into negotiations with AIM concerning a possible sale of all of the outstanding shares of Realm's capital stock, and that of an affiliate, World Trade Services, Inc. ("WTS").

39. Through these negotiations, AIM learned that one of the critical components of any purchase of Realm would be the need to provide AlphaStar with a down payment pending the receipt of required regulatory approvals of the proposed acquisition of Realm. Those funds were needed by AlphaStar for working capital to ensure that its business operations could continue during the period between executing a contract of sale, and ultimately closing after regulatory approval of the transaction was obtained, a process typically entailing 90-120 days.

40. The parties preliminarily agreed that the down payment would need to be in the amount of $3.5 million, and that such payment would be made in the form of a bridge loan that would be credited against the purchase price at the closing after regulatory and other approvals were received.

41. Upon information and belief, AIM did not have the $3.5 million down-payment at that time, although Dennett-Smith repeatedly assured plaintiffs that adequate funds would be available when needed, from the non-refundable application fees AIM was supposedly collecting. AIM negotiated to have the contemplated bridge loan advanced in four separate tranches, with an initial advance of $500,000, and three subsequent advances of $1 million each.

E. **The Parties Enter Into A Non-Binding Letter Of Intent**

42. The parties' negotiations ultimately led to the execution of a Non-Binding Letter of Intent ("Non-Binding LOI") dated October 2, 2002 that was addressed to Mr. Crane, as President and CEO of SCNAH, and signed by Mr. Crane for SCNAH and by Mr. Dennett-Smith, President and CEO of AIM.

43. The Non-Binding LOI contemplated that the parties would enter into prospective future agreements, including (i) a definitive stock purchase agreement providing for the purchase by AIM of Realm and WTS stock for twelve million dollars ($12,000,000); and (ii) a loan agreement whereby AIM would make the down payment via a loan to AlphaStar of up to $3.5 million dollars ($3,500,000) for working capital. The Non-Binding LOI also contemplated that:

> SCNAH shall use its best efforts to cause Realm, subject to any necessary regulatory approvals, to enter into a general agency agreement with AIM, pursuant to which Realm would agree to consider in good faith the writing of business introduced by AIM to the extent that it meets Realm's underwriting criteria.

44. Thus, the Non-Binding LOI expressly stated that the yet to be negotiated general agency agreement was subject to, and thus could not be effective until, the approval by NYSID

which would have been effected, if at all, by means of a "Form 1" application to be submitted by Realm for approval by NYSID.

45. The parties to the Non-Binding LOI expressly understood that insurance regulators not only would have to grant specific prior approval for AIM to acquire Realm and WTC, but also specific prior approval for an agency agreement with AIM. Such regulatory approval was essential, as without it, it would have been illegal and, indeed, a criminal offense in several states, for AIM to purport to act as a broker, agent or producer of insurance on behalf of Realm.

46. Accordingly, the Non-Binding LOI additionally provided that: "[i]t is the parties' intent to *negotiate in good faith towards the execution of binding and definitive agreements* as soon as is reasonably possible *upon receiving favorable approvals from counsel and regulators having jurisdiction over Realm.*" (emphasis added).

47. Though not specifically addressed in the Non-Binding LOI, the defendants also were, or should have been, aware that, before any coverage could be written, several other prerequisites had to be met. For example: (a) defendants were obligated under various state laws to obtain appropriate agent licenses and "agency appointments" for every state in which coverage was to be written; (b) appropriate rate information had to be obtained for each state in order to properly price the coverages; (c) policy issuance and data systems had to be in place so that Realm could comply with its statutory reporting requirements; (d) provision had to be made to maintain surplus levels at Realm adequate to support the amount of premium written; and (e) adequate and appropriate reinsurance needed to be bound.

48. Significantly, Realm was not itself a party to the Non-Binding LOI, or any other document with AIM at this time, and assumed no obligation of any kind to permit the writing of coverage, much less the commencement of a multi-million dollar program of PEO insurance.

49. Indeed, AIM required, in the Non-Binding Letter of Intent, that SCNAH use its best efforts, *inter alia*, to cause Realm to conduct its business in conformity with past practice and, specifically, to prevent it from "initiat[ing] any material change to [its] underwriting, reinsurance [or] pricing. . ."

F. The Loan Agreement and Pledge Agreement

50. On the same day the Non-Binding LOI was executed, AIM and AlphaStar entered into the contemplated loan agreement dated October 2, 2002 (the "Loan Agreement"). Pursuant to the Loan Agreement, AIM was required to advance four separate tranches of funds totaling $3,500,000 to AlphaStar during the period between the agreement's signing (i.e., October 2) and the closing (expected to be in the second quarter of 2003, subject, of course, to prior approval by NYSID).

51. The Loan Agreement provided, inter alia, that, notwithstanding any other provision of the Loan Agreement, if AIM were to fail to make the Third Tranche Loan or Final Tranche Loan within three business days of the dates specified – i.e., December 15, 2002 and January 15, 2003, respectively – "the First Tranche Loan, together with all accrued and unpaid interest thereon, shall be forfeited by [AIM] to [AlphaStar]."

52. The loan was to be secured by a pledge of the shares of SCNAH (which in turn, holds the capital stock of Realm and WTS, among other assets) pursuant to a separate pledge agreement dated October 2, 2002 (the "Pledge Agreement").

53. Consistent with the overall understanding that these contemplated transactions were all subject to the receipt of prior NYSID regulatory approval, the Pledge Agreement also

expressly limited AIM's rights in the event of a default under the Loan Agreement. Thus, AIM's rights with respect to the collateral, including the right to vote the SCNAH stock, were expressly "subject to the receipt of all required regulatory approvals."

54. Neither the Loan Agreement nor the Pledge Agreement contains any express or implied grant of any authority to AIM to act in any capacity whatsoever on behalf of any of AlphaStar, SCNAH or Realm, particularly in the absence of prior regulatory approval. Nor could such agreements bestow any such authority upon AIM in respect of Realm, as Realm was not even a party to either the Loan Agreement or Pledge Agreement. Indeed, similar to the LOI, the Loan Agreement (at paragraph 7.02) contained a negative covenant entitled "New Business" that obligated SCNAH to use its best efforts, *inter alia*, to cause Realm not to "engage (directly or indirectly) in any lines of business other than the line of business in which it is engaged on the Closing Date [*i.e.*, execution date]." As such, the Loan Agreement expressly precluded the pursuit – whether by Realm directly, or by AIM purportedly on behalf of Realm – of a new multi-million dollar PEO program.

G. The Trap Is Set – AIM's Scheme Already Is Underway

55. Unbeknownst to plaintiffs, during September 2002 – prior to the execution of the Non-Binding LOI – AIM already was actively marketing a workers compensation insurance program to prospective PEOs, and representing that its program would "commence" in October 2002. Upon information and belief, at that time, AIM did not have any authority from any insurance carrier to broker or sell any workers compensation insurance; and AIM was negotiating only with Realm.

56. In truth, during September 2002, AIM did not have (and has never even suggested it had) any right or authority whatsoever to obligate Realm, much less to represent publicly that coverage would be available in October or at any time. Among other things, there did not exist

any agreements between the parties, AIM was not licensed or appointed to broker or sell any insurance products in Realm's name, and Realm was not protected under its reinsurance treaties for insurance issued to PEOs.

57. Critically, AIM never disclosed to plaintiffs its public intention to produce, underwrite, or bind workers compensation coverage beginning in October 2002, and also omitted to disclose to plaintiffs that AIM was in fact gearing up to start issuing (and/or authorizing the issuance of) certificates of insurance in Realm's name in the absence of any authorizing agreement or regulatory approval.

58. Had plaintiffs known the truth as of October 2, 2002, AlphaStar never would have executed the LOI, or the Loan Agreement and Pledge Agreement.

59. The first tranche of the loan was not funded when due, and was thereafter funded only partially, on October 24, 2002, at which time AlphaStar transferred the SCNAH stock certificate to defendants to hold as collateral. Unbeknownst to plaintiffs, defendants had already begun by that time to issue unauthorized certificates of insurance in Realm's name, purporting to obligate Realm under non-existent policies of workers compensation insurance.

60. Had plaintiffs known by October 24, 2002 that AIM actually had issued (and/or authorized the issuance of) such certificates, plaintiffs never would have accepted the first partial funding of the loan, nor delivered the SCNAH stock certificate to AIM as collateral, and AIM never would have had the leverage it later used repeatedly to keep the plaintiffs ensnared in AIM's web of deceit.

61. Upon information and belief, AIM never intended to proceed in good faith to acquire Realm and WTS for the agreed-upon price of $12 million, and never intended to advance the entire $3.5 million provided under the Loan Agreement.

62. Upon information and belief, AIM intended that once it obtained the SCNAH stock certificate as collateral, plaintiffs would be powerless to terminate the transaction, and AIM would be able to renege on its commitments, continue to "bind" fraudulent insurance coverage and drive the purchase price downward by putting the plaintiffs in an impossible situation: namely, of either acceding to AIM's scheme or facing the prospect of possible foreclosure on the collateral and an onslaught of regulatory complications, a welter of potential litigation, and the potential end of its insurance business.

63. Moreover, upon information and belief, AIM at all times believed and intended that by putting its aggressive unauthorized sales program in motion prior to any authorizing agreements, it could render Realm unattractive to any other potential buyer, putting further pressure on plaintiffs, which AIM knew were in dire need of additional capital.

64. AIM's motivation for pursuing this scheme was simple: AIM did not (and never would) have the funds necessary to acquire Realm at the agreed price of $12 million. And despite AIM's representations to plaintiffs that its non-refundable application fees were generating sufficient funds to enable AIM to advance the bridge loan and, together with the PEOs' investments, ultimately would be sufficient to pay $12 million for Realm, in truth AIM's program was running way behind the optimistic expectations conveyed by Dennett-Smith to plaintiffs in August of 2002 and thereafter.

65. The only way for AIM to pursue its scheme and keep plaintiffs in place was to aggressively issue fraudulent insurance certificates using Realm's name, collect as much as it could in fees, subscription payments and premiums, and thereby maximize the potential harm plaintiffs would face if they determined to abandon the AIM transaction upon learning of the illicit scheme.

H. AIM Funds Only Part Of The Loan And Its Scheme Begins To Unravel

66. On or about October 24, 2002, AIM advanced the First Tranche Loan of $500,000, and on or about November 15, 2002, AIM advanced the Second Tranche Loan of $1 million. The remaining funds were to be advanced in the amount of $1 million by no later than December 15, 2002 upon the execution of a definitive stock purchase agreement, and the final $1 million was due no later than January 15, 2003. However, no advance was made to AlphaStar on December 15, 2002, or at any time thereafter, as AIM's scheme began to unravel and was uncovered in late November 2002. Indeed, even before AIM's scheme unraveled, upon information belief AIM never intended to fund the remaining balance under the Loan Agreement, as no steps were taken by defendants to propose a draft stock purchase agreement as of December 15, 2002, and for a long while thereafter.

I. November 19, 2002: Realm First Discovers AIM's Misconduct

67. On or about November 19, 2002, Realm learned for the first time that AIM had caused a certificate of insurance to be issued which purported to reflect coverage bound by Realm. This certificate came to Realm's attention when the Texas Workers Compensation Commission sought to confirm that Realm – contrary to its prior practice – was actually insuring PEOs.

68. AIM caused said insurance certificate to be issued without Realm's knowledge, much less the benefit of an agency agreement, a prior presentation of underwriting information to Realm, reinsurance or compliance with any of the other prerequisites to issuing coverage, as described above.

69. On November 19, 2002, AlphaStar's General Counsel, James Lawless, corresponded with AIM's President and Chief Executive Officer, David Dennett-Smith, stating

that the insurance certificate to "Texas Leasing" was not authorized by Realm and seeking an immediate explanation.

J. November 20, 2002: AIM Affirmatively Deceives Realm

70. On November 20, 2002, Mark Sioma (Realm's President) and Mr. Lawless called AIM's Senior Vice-President, Stephen J. Landin, regarding their concerns about Texas Leasing. Mr. Landin stated in substance that the "Texas Leasing" certificate was unauthorized; that a "rogue broker," who had issued the certificate, would be terminated; and that AIM would inform the affected insureds that the certificates were unauthorized.

71. Mr. Landin wrote to the "rogue broker" on that same day, copying plaintiffs, demanding that it cease and desist all representation of the workers compensation insurance program. In a conscious act of deception by omission, Mr. Landin made the aforementioned representations and forwarded that correspondence to Realm without ever informing plaintiffs that AIM had been issuing (and authorizing others to issue) similar certificates to clients of other PEOs for several weeks.

72. Later that same day, Realm learned of another unauthorized certificate of insurance in which AIM purportedly bound Realm to provide workers compensation insurance to "Staffmasters," another PEO client of AIM, located in the State of Florida.

73. Realm learned of this "Staffmasters" certificate when contacted by the Florida Department of Insurance. Realm immediately again contacted David Dennett-Smith, AIM's President, and Steve Landin seeking an additional explanation and informed them that the Florida Department of Insurance required a formal response to its inquiry into the possible issuance of unauthorized insurance certificates. Mr. Lawless again corresponded with Dennett-Smith, noting: "Finally, we encourage you to . . . eliminate the obvious misperception in the ranks that AIM has authority to bind cover for Realm."

74. In further acts of deception by omission, Messrs. Dennett-Smith and Landin informed Realm that the "Staffmasters" certificate had not been authorized by AIM. In fact, they maintained that it was the product of a forgery that was under an internal investigation – without revealing AIM's yet undiscovered issuance of numerous similar certificates. Alternatively, they suggested that AIM personnel may have acted improperly, and that AIM might be required to terminate certain of its employees, including possibly Mr. Holley.. Mr. Dennett-Smith and Mr. Landin compounded their misconduct by allowing Realm to respond formally to the Florida Department of Insurance without the benefit of the operative facts. Indeed, AIM gave prior approval to the contents of the letter, before subsequently claiming it was incorrect.

75. Based on AIM's representations, Realm communicated with the Florida Department of Insurance and informed this regulator in relevant part:

> We have communicated extensively with the staff at AIM and believe that the certificates were pre-maturely issued in error. While we do not know the precise details of events, we have requested, and AIM has agreed to investigate the matter thoroughly....

76. At the time of these revelations, Realm had a statutory surplus of approximately ten and one-half million dollars ($10,500,000). Because of this relatively low-level of surplus, Realm needed to have reinsurance in place to spread or transfer the risk created by new policies written. By improperly issuing unauthorized certificates to clients of PEOs in amounts far exceeding that able to be covered by Realm without reinsurance in place, AIM's conduct threatened to place Realm in severe financial and regulatory jeopardy. Upon information and belief, that was precisely what AIM intended to do in order to leverage its position to effectively steal Realm.

K. **November 21, 2002: Realm Learns AIM Itself Issued Or Authorized The Issuance Of Certificates In Realm's Name**

77. Much to its surprise, late in the evening of November 21, 2002, Realm learned for the first time that AIM itself was authorizing the issuance of certificates to clients of PEOs in Realm's name and had also authorized sub-producers to issue them in Realm's name – notwithstanding AIM's express representations and assurances to the contrary, as well as express negative covenants that clearly prevented Realm from doing so. These certificates were executed by Messrs. Holley and Imperiale, among others.

78. AIM had previously scheduled a meeting in Bermuda to take place on November 22, 2002 with representatives of reinsurers that were considering providing a portion of the reinsurance coverage for AIM's PEO insurance program. Mr. Sioma (Realm's President) was scheduled to attend, but given the emerging awareness of AIM's misconduct and deception, Mr. Sioma and Mr. Crane considered canceling Mr. Sioma's attendance at the meeting.

79. After consultation with Mr. Crane, Mr. Sioma decided to attend that meeting for fear that his refusal to attend could later be used by AIM, *inter alia*, to claim lack of cooperation and good faith in consummating the sale of Realm contemplated in the Non-Binding LOI.

L. **November 22, 2002: Realm and SCNAH Get Independent Confirmation of AIM's Misconduct; AIM Concocts "Apparent Authority" Argument**

80. On November 22, 2002, just prior to the Bermuda meeting, AlphaStar's Mr. Crane contacted AIM's Mr. Dennett-Smith for additional explanations concerning this conduct. Mr. Dennett-Smith at first responded that, like the Texas and Florida certificates referred to above, more "rogue brokers" had issued additional certificates; however, when Mr. Crane challenged him further, Mr. Dennett-Smith admitted (for the first time) that AIM itself had in fact been authorizing certificates to be issued.

81. Contemporaneously Mr. Sioma learned, while in attendance at the aforementioned meeting in Bermuda, that AIM was in fact making commitments to PEO clients in Realm's name, despite the lack of an agency agreement, any of the other prerequisites noted above, and AIM's legal inability to issue any workers compensation insurance policy in any state, as Realm's agent.

82. Later that same day, following Mr. Dennett-Smith's admission of AIM's direct issuance and authorization of insurance certificates to PEO clients (and apparently aware that AIM might be implicated in multiple acts of unauthorized issuance of insurance certificates without proper authorization and regulatory authority), AIM abandoned its prior contention that the unauthorized certificates were the product of "rogue brokers" and "forgeries."

83. In a dramatic reversal of AIM's position, Howard A. Becker, Esq., an attorney for AIM (and the intended CEO of the entity that was to acquire AIM), wrote a letter to Mr. Lawless on November 22, 2002, in which AIM asserted for the first time that it had acted with "apparent authority" from Realm. Mr. Becker stated in relevant part, "...AIM had apparent authority to bind coverage pursuant to the Letter of Intent, the conduct of the parties, the performance of the parties under this agreement and the authority granted by the Loan Agreement and the Pledge Agreement obligation." Of course, none of the Non-Binding LOI, Loan Agreement or Pledge Agreement expressly or impliedly grants any authority whatsoever to AIM to act on behalf of Realm; indeed, Realm was not a party to any of these agreements.

84. Mr. Becker's letter also marked the implementation of AIM's preconceived plan to coerce plaintiffs into proceeding with the deal, notwithstanding AIM's now-acknowledged deception. Thus, in that same letter, Mr. Becker expressly threatened that AIM would seize control of Realm or force it into receivership -- in other words, destroy Realm -- unless Realm

capitulated to AIM's extortionist demand that it "immediately execute" a palpably deficient draft agency agreement previously furnished by AIM, and otherwise acquiesce in AIM's unauthorized and illegal conduct.

85. In an unmitigated act of chutzpah, AIM and its counsel – in the midst of engaging in this widespread fraud – also asserted that AlphaStar had breached its obligations under the Loan Agreement, and sought to accelerate AlphaStar's repayment obligations and declared a default.

86. Unbeknownst to plaintiffs at that time, AIM not only was issuing fraudulent insurance certificates in Realm's name, but it was also affirmatively representing to PEOs and others that AIM owned Realm, thereby adding to the confusion and deception already caused by AIM's conduct.

87. Despite having a virtual gun pointed at its head by AIM's counsel, plaintiffs still refused to authorize AIM to issue insurance certificates in Realm's name, or to have Realm execute an agency agreement with AIM.

88. This was not the last time that AIM would invent purported breaches by plaintiffs and seek to exploit its possession of the SCNAH shares (albeit as collateral only) as leverage to attempt to extort plaintiffs' acquiescence in AIM's scheme.

M. **The Extent Of AIM's Scheme Continues To Be Revealed**

89. Despite AIM's eventual acknowledgement of deceit, the full extent of that deceit only slowly began to emerge during the days and weeks following the November 22 meeting. For example, at a face-to-face meeting on November 26, 2002, Dennett-Smith and Imperiale told plaintiffs that only seven hundred (700) certificates had been issued by AIM under Realm's name.

90. Despite AIM's insistence that this was the full extent of the problem, Realm soon learned that AIM had actually issued (and/or caused or authorized the issuance of) thousands of insurance certificates in at least the following eighteen states using Realm's name, without its permission or authority (in no particular order): New York, Texas, Nebraska, North Carolina, Ohio, Georgia, South Dakota, Arizona, Tennessee, New Mexico, Oklahoma, Missouri, Indiana, Illinois, Louisiana, Mississippi, Florida and South Carolina.

91. Indeed, AIM recently admitted to this Court that it issued at least 10,000 certificates and collected premiums (and/or commitments to pay premiums) approximating ten million dollars ($10,000,000) through its unauthorized "sale" of insurance using Realm's name. Realm had no prior knowledge of, and never authorized, any of these certificates and has not received a single penny of these fraudulently procured premiums.

N. **Plaintiffs' Efforts To Set The Record Straight**

92. Upon learning of the magnitude of AIM's unauthorized issuance of insurance certificates in Realm's name, Realm immediately (and at significant expense) sent written notification to the authorities in each of the states whose residents it had information to believe may have been issued such unauthorized certificates. Each such notification was also copied to AIM.

93. Those notices to state authorities apprised them of the situation, invited further inquiries as appropriate and offered to assist the states in alleviating any harm to their residents.

94. Realm also notified all of the known PEO clients of AIM and the named "insureds" and certificate holders known to plaintiffs, informing each that the certificates were unauthorized, invalid and should be considered void *ab initio*.

95. The plaintiffs conducted an extensive factual investigation and retained attorneys in order to protect and prosecute their rights with respect to AIM as well as insurance regulators in over a dozen states, incurring enormous costs and expenses, which are continuing.

96. For its part, and despite numerous promises to do so, however, AIM has never provided a full accounting to Realm of either the number of certificates issued, the individuals or entities affected, or the amount (or use) of the funds collected as a result.

O. **Plaintiffs Terminate The Non-Binding LOI And Commence Litigation Against AIM**

97. AIM's misconduct adversely affected Realm's name and reputation in the eyes of multiple state insurance authorities, as well as the thousands of "named insureds," certificate holders and employees who may have mistakenly believed that the certificates of insurance with Realm were valid.

98. On December 4, 2002, AlphaStar and SCNAH terminated the Non-Binding LOI, thereby confirming that there did not exist any agreements respecting either the acquisition of Realm or the issuance of coverage, or any obligation to proceed with any such agreements, as of that time. However, that did not stop AIM from continuing to issue additional insurance certificates purporting to bind Realm to coverage.

99. On December 27, 2002, AlphaStar, SCNAH and Realm commenced an action in the United States District Court for the Southern District of New York against AIM seeking, *inter alia*, damages and injunctive relief prohibiting further unauthorized issuances of insurance certificates, as well as an injunction preventing foreclosure by AIM on the SCNAH stock held as loan collateral (the "2002 New York Action"). That action was assigned to the Honorable Richard M. Berman.

100. However, even the commencement of litigation did not stop AIM from continuing to issue fraudulent insurance certificates purporting to bind Realm.

P. **AIM's Derails The Litigation By Lying To The Court**

101. Faced with the prospect of being enjoined by a federal court while in the midst of a nationwide fraud, AIM sought to derail the 2002 New York Action by falsely representing in open court and in written submissions that it had ceased, *inter alia*, issuing certificates of insurance in Realm's name or otherwise presenting itself as an agent of Realm.

102. In truth, however, AIM never ceased issuing certificates of insurance in Realm's name.

103. In view of AIM's representations, however, Judge Berman strongly encouraged the parties to resolve their differences and try to forge a transaction prior to his hearing any part of the action. AlphaStar and Realm concluded that they had little choice but to resume negotiations with AIM in view of: (a) the expressed position of Judge Berman; (b) the fact that a transaction with AIM appeared to be the only way by which the issuance of the unauthorized certificates could be substantially and finally resolved without significant litigation; and (c) AIM's threats of foreclosure on the pledged SCNAH shares in the event a transaction did not take place. Moreover, AIM repeated to plaintiffs the same false assurances it had made to the Court – *i.e.*, that it had stopped issuing insurance certificates in Realm's name – as well as its more general assertion that it would thereafter deal with plaintiffs in good faith.

104. After extended negotiations and further encouragement from the Court, on March 21, 2003, AIM and AlphaStar (along with Realm and certain other subsidiaries) entered into a stock purchase agreement (the "Stock Purchase Agreement") for the purchase by AIM of Realm, WTS and SCNYIAS for a purchase price to be based upon the December 31, 2002 financial statements of Realm that were expected to be certified by KPMG no later than April 1, 2003. Thus, by its own actions, AIM had already accomplished part of its original objective – a reduced purchase price, caused by AIM's own conduct.

105. This time, however, plaintiffs sought far more explicit protections from a recurrence of AIM's conduct.

Q. The Stock Purchase Agreement

106. The Stock Purchase Agreement contained myriad representations, covenants and conditions to a closing.

107. The single most critical condition to closing of the Stock Purchase Agreement was AIM's receipt of regulatory approval from NYSID. Such approval could only be obtained by AIM, inasmuch as applicable statutory New York Insurance Law requires any proposed-acquirer of a New York-domiciled insurer to file an application (known as a "Form A") and other submissions for consideration by NYSID, which must be satisfied with "the trustworthiness of the acquiring person or any of its officers or directors." AIM, however, never completed or filed any application with NYSID.

108. In addition, the Stock Purchase Agreement stated on page one that it did not "permit the binding of coverage or issuance of Certificates of Insurance. . ."

109. The Stock Purchase Agreement also required AIM to furnish AlphaStar with an affidavit attesting to AIM's claim that it had ceased issuing insurance certificates in Realm's name. AIM never furnished the affidavit or other required information.

110. Finally, in advance of the execution of the Stock Purchase Agreement, plaintiffs had procured a written representation from Mr. Holley – the only licensed agent at AIM – that he would neither bind coverage nor issue certificates absent "express written permission from Realm National Insurance Company."

111. Unbeknownst to plaintiffs as of March 2003, AIM had failed to raise sufficient proceeds through its subscription efforts to fund the acquisition provided in the Stock Purchase

Agreement, and was continuing to issue certificates, many of which were again executed by Mr. Holley.

112. As a result of the foregoing (among various other breaches), AIM was not prepared to proceed to a closing of the transaction provided in the Stock Purchase Agreement. AIM therefore needed to divert attention away from its own inability to close in order to keep its scheme alive.

113. At AIM's insistence, the Stock Purchase Agreement also included a provision, *inter alia*, that if Realm were unable to deliver audited financial statements for the year-ended December 31, 2002 by April 1, 2003, the final purchase price for the transaction would be based upon an alternate auditor's (to be selected by AIM) determination of an "estimated" purchase price.

R. AIM's Further Attempt To Strong-Arm A Fire-Sale

114. After that April 1 deadline passed without any audit report forthcoming from KPMG, AIM focused its attention on the alternative price provision of the Stock Purchase Agreement. AIM immediately dispatched its "auditors" – the firm of Israeloff, Trattner & Co., P.C. ("Israeloff") – to visit Realm's offices to conduct a review of financial information necessary to reach the alternate estimated purchase price.

115. Israeloff spent two days – April 3-4 – at Realm's offices reviewing some of Realm's books and records, and announced that they would return on April 8. After being told by Mr. Sioma that April 10 would be more convenient, Israeloff never returned. Instead, Israeloff stated that it had decided to wait until it could review KPMG's workpapers before completing its procedures.

116. Meanwhile, KPMG continued to delay in delivering its opinion – a delay that, upon information and belief, was based in part upon KPMG's concerns arising out of AIM's

issuance of bogus insurance certificates and the unresolved questions of Realm's potential liability therefore and the effects of the resulting anticipated regulatory scrutiny.

117. AIM was keenly aware of the sensitive nature of the KPMG situation – plaintiffs consistently kept AIM apprised of all developments, including the nature of discussions that were ongoing between plaintiffs and KPMG. AIM also was equally aware that if KPMG failed to deliver its opinion on audited financials for Realm, AIM might be able to seek to exercise the alternate purchase price provision in the Stock Purchase Agreement.

118. On or about April 24, Israeloff's Richard Mills (upon information and belief, at AIM's urging) sent a letter to KPMG offering his unsolicited comments and criticisms concerning specific items in Realm's financials. This and other communications between Israeloff and KPMG had no legitimate purpose other than to disrupt KPMG's ongoing engagement with respect to Realm.

119. On or about May 5, Mills again contacted KPMG partner Richard Caporaso seeking an update on the status of the Realm audit.

120. On May 8, AIM's Dennett-Smith sent AlphaStar's Crane a letter purporting to invoke the alternate purchase price provision in the Stock Purchase Agreement, and claiming that Israeloff had estimated a new purchase price of $3.5 million – or some $8.5 million less than the $12 million AIM originally agreed to pay in 2002 – based upon its limited review of Realm's books (a review that Israeloff admittedly never completed), as well as on knowingly false factual assumptions given to Israeloff by AIM.

121. On May 30, 2003 – and without any further review by Israeloff having occurred – AIM's Dennett-Smith sent plaintiffs yet another letter from Israeloff to AIM setting forth a new and even lower "estimated" value of $1.5 million – not coincidentally the precise amount of

money already advanced by AIM to AlphaStar under the Loan Agreement. The Israeloff letter confirmed that this "estimate" was based upon "preliminary work" and a "limited review" that was further limited by the absence of KPMG workpapers – which Israeloff never had a reasonable expectation of receiving from KPMG under the circumstances. Moreover, the Israeloff letter stated that the "estimate" did not constitute an audit, review, compilation or any other kind of engagement recognized by AICPA Standards, and further that it was "limited to AIM's internal use."

122. Despite the plain language of the May 30 Israeloff letter, AIM sought to invoke the alternative purchase price provision based thereon – essentially demanding that plaintiffs hand Realm to AIM without any further consideration.

123. On or about June 17, 2003, AIM's lawyer, Becker, called KPMG's in-house counsel inquiring as to the status of the audit, falsely claiming that he was doing so at the behest of Judge Berman. This led to a bitter exchange of e-mail between Becker and KPMG several days later and, upon information and belief, gave KPMG further cause for apprehension concerning the completion of its work.

124. Beginning in or about March 2003, plaintiffs learned that AIM had accepted and approved risks submitted by the PEOs in AIM's program that did not satisfy even AIM's own underwriting criteria, much less those eventually agreed to tentatively between AIM and Realm pursuant to the Stock Purchase Agreement. An AIM representative admitted to plaintiffs that AIM had failed to provide Realm with all relevant information necessary for Realm's underwriting review – as had been required.

125. In mid-June, AIM – without informing plaintiffs – acknowledged and paid a claim from an employee of an Oklahoma PEO that had been issued a bogus insurance certificate

in Realm's name. AIM also paid for a lawyer to represent Realm before the workers' compensation board, and managed to get Realm dismissed. Realm has since learned that AIM has administered and paid claims on numerous occasions without Realm's knowledge, operating, in substance, as an unlicensed insurer in further violation of various state laws. Through these actions, AIM has, at a minimum, admitted its own responsibility and liability for this and all similarly-situated claims arising out of AIM's unauthorized issuance of insurance certificates in Realm's name. Indeed, in one such instance, AIM consented on the record to the dismissal of Realm and expressly acknowledged AIM's sole obligation for the claim.

126. On July 1, 2003 – despite the fact that AIM had still not sought, much less received NYSID approval, and further despite the fact that AIM did not have the funds to proceed with the purchase and was in fact continuing to issue certificates and even pay claims without the authority to do so – AIM's lawyer wrote a letter to plaintiffs asserting that AIM was prepared to close, and demanding a closing date be scheduled. Upon information and belief, AIM knew that it was not prepared to close when the demand was issued.

127. AIM's strong-arm tactics were not limited to harassing KPMG and making absurd demands of plaintiffs. Despite the fact that AIM had never answered the complaint in the 2002 New York Action and that such action had been lying dormant, AIM's lawyer sent Judge Berman a letter asserting that plaintiffs were refusing to close at the $1.5 million price that AIM had concocted with Israeloff's assistance. This prompted Judge Berman to direct the parties to attend yet another settlement conference in his chambers on August 13.

S. **AIM Agrees To A "Settlement" At The August 13 Conference, And Then Quickly Reneges And Resorts To Further Strong-Arm Tactics**

128. The parties engaged in further negotiations during the month leading to the August 13 conference, and it appeared on several occasions that AIM would be willing to proceed to a closing even in the absence of the KPMG audit report on the Realm financials.

129. On August 13, Judge Berman directed the parties to retire to his jury room and not to emerge unless and until they were able to report that a final agreement had been reached.

130. During those final negotiations, AIM's Dennett-Smith had finally conceded to plaintiffs that AIM did not have the money to proceed with a closing pursuant to the existing agreement. In the jury room, however, AIM agreed that if AlphaStar were willing to execute an amendment to the Stock Purchase Agreement giving AIM additional time to fund, that AIM would forgive the $1.5 million advanced under the Loan Agreement and would proceed with a closing at an $8 million purchase price (subject to downward adjustment under certain circumstances), but that Realm would be required to engage Israeloff to complete the audit in lieu of the still-stalling KPMG. AlphaStar's Crane agreed to these terms, subject of course to AIM's compliance with other pre-closing requirements. The parties then jointly reported to Judge Berman that a settlement had been reached.

131. Within a matter of days, AIM reneged on the terms it agreed to at the August 13 conference, and reiterated to plaintiffs that AIM did not have the funds to proceed to closing.

132. Faced with the real risk of losing any hope of a legitimate transaction, AIM yet again resorted to additional strong-arm tactics. These proved to be the final nail in the coffin for the plaintiffs.

133. In late August, Mr. Becker served a subpoena on KPMG seeking extensive documents and information concerning its audit of Realm. In view of the fact that AIM had

never responded to the complaint in the 2002 New York Action (in which the subpoena was issued) and that the complaint never mentioned KPMG or the audit, there was absolutely no legitimate basis for AIM to seek discovery from KPMG. Rather, the only conceivable purpose of this subpoena was to further harass KPMG and ensure that no audit opinion would ever be issued.

134. Indeed, KPMG ultimately resigned as AlphaStar's auditor in September 2003. KPMG did not resign as the result of any finding or conclusion of fraud or wrongful conduct by anyone at, or associated with, any of the Debtors or Realm.

135. In addition to spooking KPMG, AIM also sought to stir up controversy with the NYSID. On August 25, AIM's attorney, Becker, wrote to NYSID and falsely asserted that NYSID had indicated that it was prepared to take action against Realm for having failed to file audited financial statements. NYSID categorically denied having made such statements.

136. Finally, AIM once again threatened to foreclose under the Loan Agreement and take possession of the collateral it held – *i.e.*, the stock of SCNAH. On August 27, 2003, AIM's Becker wrote a letter to AlphaStar demanding that it cause SCNAH to re-register ownership of the SCNAH stock from AlphaStar to AIM.

137. Had AlphaStar acceded to that demand, it would have unlawfully transferred the ownership and control of Realm to AIM without receiving the prior approval of NYSID. AlphaStar thus had no choice but to decline.

T. AIM Improperly Commences Foreclosure Proceedings Forcing Debtors To File For Bankruptcy Protection

138. On September 12, 2003, AIM commenced an action in the Delaware Chancery Court against SCNAH seeking to foreclose on the SCNAH stock (the "Delaware Action"). Specifically, in the Delaware Action, AIM sought an order compelling SCNAH to transfer the

ownership of its shares from AlphaStar to AIM, claiming that it had the right to seek this relief pursuant to the Loan Agreement and Pledge Agreement.

139. As alleged above, however, AIM's remedies under the Pledge Agreement – including its right to seek foreclosure of the SCNAH shares it held as collateral – were expressly conditioned upon AIM first obtaining the approval of NYSID. The relief AIM sought in Delaware was a clear attempt to end-run both the Pledge Agreement and applicable New York law.

140. After the Delaware petition was filed, AlphaStar, SCNAH and Realm voluntarily dismissed their complaint in the 2002 New York Action (which AIM had never answered). SCNAH moved to dismiss the Delaware Action, and the Debtors ultimately filed the chapter 11 petitions, thereby staying the Delaware Action.

U. **Recent Developments**

141. In December 2003, CRM – one of the PEOs which AIM had purported to insure through Realm (albeit without authority) – brought suit in the United States District Court for the Southern District of Texas against AIM and certain of its principals, as well as against Debtors AlphaStar and SCNAH, and Realm and certain of their respective officers and directors, seeking declaratory relief and damages (the "CRM Action"). CRM was one of the PEOs notified by Realm in December 2002 of the invalidity of the AIM certificates of insurance.

142. In January 2004, AIM commenced a new lawsuit in the United States District Court for the Southern District of New York against Realm and certain officers and directors of Realm, AlphaStar and SCNAH (the "2004 New York Action"). While AIM's complaint does not name AlphaStar or SCNAH as defendants, the claims asserted in the 2004 New York Action all arise out of the Non-Binding LOI, Loan Agreement, Pledge Agreement and Stock Purchase Agreement to which AlphaStar and SCNAH were parties. In its complaint in the 2004 New

York Action, AIM seeks a declaration that it was authorized to issue over 10,000 insurance certificates it admits it issued in Realm's name, as well as damages arising out of what AIM claims was a fraud on it by Realm and certain officers and directors of Realm, AlphaStar and SCNAH.

143. On February 5, 2004, AlphaStar and SCNAH filed an application before the Bankruptcy Court seeking to enforce the automatic stay with respect to both the CRM Action and the AIM 2004 New York Action as against Realm, and seeking to enjoin further prosecution of both Actions as against the individual officers and directors.

144. On February 20, 2004, three purported PEOs based in Texas and Florida brought suit in the state court in Bexar County, Texas, against AIM, certain of its principals, and against Realm, AlphaStar, certain of their officers and directors, as well as against an insurance broker, seeking damages as a result of alleged claims of fraud, breach of contract and negligence.

145. Throughout this period, Realm and the Debtors have been required to respond to numerous inquiries by regulators in numerous states, providing them with documentation and other information, all in an effort to ensure that no adverse action is taken against Realm which might further impair its value or, ultimately, destroy it. To date, Realm has not been sanctioned by any such regulatory body as a result of the issuance of the unauthorized certificates by AIM.

146. Incredibly, AIM has continued to issue and/or authorize or cause the issuance of certificates in the name of Realm, including, on information and belief, as recently as February of 2004.

147. Upon information and belief, AIM – directly or through its "authorized" sub-producers and brokers – purported to broker workers' compensation insurance in the name of Realm to the following PEOs, among others:

Corporate Solutions, Inc., of McAllen, Texas;

Select Services, Inc. of Salisbury, North Carolina;

Carolina Professional Employers, Inc. d/b/a Emcore Professional Employers, of Greenville, North Carolina;

Galactic, Inc. d/b/a Galactic Employer Services, of Birmingham, Alabama;

Prime Source Management (a/k/a LJM Services, Inc.), Alamo Staff Leasing d/b/a LCI-TX, TX Works, Equity Concepts, Inc., and Travel Ease, all of San Antonio, Texas;

Texas Leasing Co., of Comesneil, Texas;

Quality HR Services, Inc. of Travelers Rest, South Carolina;

Xcelerate Solutions, Inc. of Alpharetta, Georgia;

Corporate Resources Management, Inc. of Oklahoma City, Oklahoma;

Moresource, Inc. of Columbia, Missouri;

MRIK Group, Inc. of Tampa, Florida;

Freedom Group of Oklahoma City, Oklahoma;

EBBS/Employee Benefits & Business Services, Inc. (a/k/a Meritas Group) of Lisle, Illinois;

Spectrum HR, LLC of Troy, Michigan;

NES/National Employer Solutions, Inc. of Alpharetta Georgia;

SSL Florida; and

Quick Labor, Inc. of Farmington, Missouri.

148. Each of the foregoing PEOs, in turn, had numerous customers, which, upon information and belief, were or would have been represented by AIM and its brokers, sub-producers, agents and affiliates to be the insureds under any workers' compensation coverage that AIM claimed it had the right to offer or sell in the name of Realm.

CLASS ALLEGATIONS

149. This action is being brought, in part (specifically as to Count One below), as against CRM both individually and on behalf of all other persons or entities that, between September 1, 2002 and the date hereof, were provided by AIM (directly or indirectly through its sub-producers, brokers, agents or affiliates) with written or oral representations or assurances that such person or entity was or would be covered by workers' compensation or employer liability insurance bound by Realm, including without limitation (i) each of the PEOs identified in Paragraph 148, (ii) each of the employer-customers of each of the PEOs identified in Paragraph 148, (iii) the brokers, sub-producers, agents or other affiliates through which any workers' compensation or employer liability insurance purporting to bind Realm was brokered, offered or sold through AIM, (iv) any person or entity that received an ACORD certificate or other written documentation purporting to evidence workers' compensation or employer liability insurance bound by Realm and issued through or on behalf of AIM (the "Defendants' Class").

150. Upon information and belief, AIM issued or caused to be issued at least 1,500 and as many as 10,000 ACORD (if not more) certificates to PEOs and their customers.

151. Upon information and belief, PEOs and their customers are deemed "co-employers" under the respective State laws in which such PEOs are organized. As such, inasmuch as it concerns claims of right to workers' compensation insurance coverage, the PEOs and their customers have the same interests, rights and claims, and the PEOs essentially stand in the same shoes as their customers.

152. The Defendants' Class is believed to include at least 1,500, and likely more than 10,000, individuals and entities.

153. The members of the Defendants' Class are thus so numerous that joinder of all members in this Action is impracticable.

154. There exist questions of law or fact common to the Defendants' Class, including: (a) whether AIM was authorized by Realm to issue or to cause the issuance of the insurance certificates or engage in other insurance-related business activities on behalf of Realm or in Realm's name; (b) whether Realm or any of its authorized representatives ever communicated directly with any member of the Defendants' Class in a manner that indicated that AIM was authorized to issue the certificates in Realm's name; (c) whether Realm or any of its authorized representatives ever engaged in any conduct that cloaked AIM with the apparent authority – as to any member of the Defendants' Class – to issue the certificates in Realm's name; (d) whether Realm had the legal power to authorize or purport to authorize AIM to engage in any conduct on Realm's behalf, including but not limited to the issuance of the certificates in Realm's name; and (e) whether Realm is legally obligated to provide workers' compensation insurance to any member of the Defendants' Class.

155. As alleged above, in the CRM Action, CRM already has asserted certain claims as against, *inter alia*, Realm, including the claim that Realm is bound to provide workers' compensation insurance to CRM and its employer-customers by virtue of the actions and representations of AIM. Moreover, in the other PEO litigation pending in Texas, similar claims have been made based upon the same underlying factual allegations.

156. As such, the claims or defenses of CRM are typical of the claims or defenses of the Defendants' Class.

157. CRM already has manifested its resolve to prosecute its claims, by intervening in the original 2002 New York Action, by commencing its own CRM Action in Texas, and by appearing before the Bankruptcy Court in connection with – and specifically filing an objection

to – the Debtors' motion to enforce the automatic stay and otherwise enjoin prosecution of the CRM Action.

158. As a result, CRM will fairly and adequately protect the interests of the Defendants' Class.

CLAIMS FOR RELIEF

COUNT ONE

CLAIM FOR A DECLARATORY JUDGMENT THAT AIM WAS NOT AND IS NOT AUTHORIZED TO ENGAGE IN ANY FORM OF BUSINESS ACTIVITY ON REALM'S BEHALF OR IN REALM'S NAME OR USING REALM'S NAME
(Against AIM, CRM and the Defendants' Class)

159. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 158 with the same force and effect as if fully set forth at length herein.

160. An actual case and controversy exists between the parties in which AIM claims to have acted and to continue to act with "apparent" or "actual" authority from Realm to issue or cause the issuance of insurance certificates using Realm's name as the "insurer," and CRM and other members of the Defendants' Class have asserted that they are entitled to receive workers' compensation insurance coverage from Realm by virtue of the ACORD certificates issued or caused to be issued by AIM, and other assurances and representations made or caused to be made by AIM, purporting to bind Realm.

161. In sharp contrast, plaintiffs have steadfastly asserted that they have never authorized AIM to engage in any business activities on behalf of or in the name of Realm, and further that plaintiffs could not have given such authority to AIM as a matter of law, *inter alia*, without obtaining prior regulatory approval which has not been obtained. Moreover, even assuming, *arguendo*, that AIM had been granted some form of "authority" by Realm, the fact

remains that AIM nonetheless still would not have been licensed to engage in any insurance business on Realm's behalf as a matter of controlling law.

162. Plaintiffs never directly or indirectly authorized AIM to issue or write any insurance certificates using Realm's name in any State, or otherwise to engage in any business activities on behalf of or in the name of Realm.

163. In fact, AIM was never authorized to issue, broker, offer or procure insurance under Realm's name in any State.

164. This claim and controversy directly affects plaintiffs' valuable legal rights to a specific and substantial degree.

165. The AIM Defendants' conduct, which is ongoing, has caused and will cause irreparable harm to plaintiffs.

166. An expeditious resolution of this question is necessary to protect the Debtors' Estates, prevent AIM from improperly claiming it had authority to issue insurance certificates using Realm's name, prevent further damage to Realm's good will and reputation, halt an inexcusable fraud on the general public in multiple states, and allow the pending sale of Realm to proceed.

167. Moreover, it is essential that the question of AIM's lack of authority be resolved in a manner that is dispositive not only as to AIM, but also as to CRM and all members of the Defendants' Class, which had been led by AIM to believe that they were insured by Realm, when that was not the case. Resolution of the central question of AIM's lack of authority herein will be dispositive as to the rights of all members of the Defendants' Class as to the plaintiffs herein, without affecting the rights of the Defendants' Class members as to the AIM Defendants.

168. By reason of the foregoing, Realm, SCNAH and AlphaStar are entitled to a declaratory judgment holding that the AIM Defendants were not authorized agents of Realm, and they could not and cannot legally issue or cause the issuance of any certificates of insurance using Realm's name, or otherwise engage in any form of business activity on Realm's behalf or in Realm's name; and further holding that plaintiffs are not obligated to provide insurance coverage to CRM or any members of the Defendants' Class by virtue of any of the actions or representations by or on behalf of the AIM Defendants, including without limitation the issuance of ACORD certificates in Realm's name.

COUNT TWO

FRAUDULENT INDUCEMENT
(By AlphaStar and SCNAH Against the AIM Defendants)

169. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 168 with the same force and effect as if fully set forth at length herein.

170. As alleged above, during a series of face-to-face and telephonic meetings between August 9 and October 2, 2002, and thereafter up through the commencement of these Chapter 11 cases, each of the AIM Defendants made material misrepresentations, and omitted to disclose material facts, concerning such defendants' intentions, plans, conduct and abilities with intent to deceive plaintiffs and to induce them into proceeding with the Non-Binding LOI, Loan Agreement, Pledge Agreement, Stock Purchase Agreement and other related agreements and transactions.

171. The AIM Defendants, and each of them, knew that their representations made to plaintiffs were false and misleading at the times they were made, and said defendants purposefully concealed and did not disclose to plaintiffs their true intentions and material facts.

172. Plaintiffs reasonably relied on each of the AIM Defendants' misrepresentations and omissions in deciding to forego further pursuit of other interested buyers for Realm and/or AlphaStar, and in deciding to enter into the Non-Binding Letter of Intent, Loan Agreement and Pledge Agreement, in accepting the untimely tender of the First Loan Tranche, and in delivering the SCNAH stock certificates to AIM as collateral for the expected $3.5 million loan pursuant to the Pledge Agreement.

173. Moreover, had plaintiffs known the truth concerning the AIM Defendants' real intentions, their nefarious plan, and their inability to consummate any reasonable legal transaction – much less the one that had been negotiated at that time – the plaintiffs never would have (i) committed to pursuing any transaction with AIM; (ii) entered into any of the Non-Binding LOI, Loan Agreement or Pledge Agreement; (iii) accepted any advance under the Loan Agreement; (iv) delivered the SCNAH shares as collateral; (v) expended considerable resources in working with AIM to begin developing underwriting guidelines and in working towards negotiating an acceptable general agency agreement and definitive stock purchase agreement; or (vi) ultimately been exposed to the massive confusion, incalculable claims and threat to their very existence that resulted from defendants' fraudulent scheme.

174. As alleged above, the AIM Defendants never intended to fulfill their respective obligations under the Non-Binding LOI, Loan Agreement or Pledge Agreement, never intended to proceed in good faith, never intended to advance the full amount of the down payment/loan, and never intended to treat the SCNAH stock as collateral – but rather at all times intended to use that stock improperly as leverage to threaten and coerce plaintiffs.

175. The AIM Defendants' deception did not end with the inducement of plaintiffs to enter into the Loan and Pledge Agreements, but continued through additional false and

422

misleading statements, false reassurances and material omissions concerning the truth of defendants' ongoing unauthorized activities leading up to, including and subsequent to the execution of the Stock Purchase Agreement.

176. Plaintiffs reasonably relied on the AIM Defendants' representations and assurances in deciding to execute the Stock Purchase Agreement. Had plaintiffs known the truth concerning the AIM Defendants' ongoing fraudulent scheme and inability to proceed with the acquisition of Realm at the agreed upon price, plaintiffs would not have executed the LOI, Loan and Pledge and Stock Purchase Agreements, or would have negotiated different terms.

177. Plaintiffs have suffered, and continue to suffer, enormous harm and damages as a direct and foreseeable result of the AIM Defendants' fraud and deceit, in an amount to be determined at trial in excess of $1 million.

178. Plaintiffs also are entitled to rescission of the Loan Agreement, Pledge Agreement and Stock Purchase Agreement as a result of the AIM Defendants' fraudulent conduct that induced plaintiffs into entering into such agreements.

179. In addition, and due to the willful, wanton and deliberate nature of the AIM Defendants' widespread fraud and deceit on plaintiffs, the courts and the public generally, plaintiffs seek an award of punitive damages in the amount of $10 million, exclusive of interest and costs.

COUNT THREE

BREACH OF THE IMPLIED
COVENANT OF GOOD FAITH AND FAIR DEALING
(By AlphaStar and SCNAH Against AIM)

180. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 179 with the same force and effect as if fully set forth at length herein.

181. The AIM Defendants' conduct as described herein also constitutes a breach of the implied covenant of good faith and fair dealing inherent in each of the Loan Agreement, the Pledge Agreement and the Stock Purchase Agreement – as well as conduct in direct contravention to the parties' expressed intention to proceed in good faith as set forth in the Non-Binding LOI.

182. Plaintiffs are thereby entitled to damages flowing from AIM's breaches of the covenant of good faith and fair dealing, the amount of which are not ascertainable at present, but which are clearly in excess of $75,000, exclusive of interest and costs.

COUNT FOUR

CLAIM FOR A DECLARATORY JUDGMENT THAT
PLAINTIFFS ARE DISCHARGED OF ALL OBLIGATIONS UNDER
THE LOAN AGREEMENT AND PLEDGE AGREEMENT AND ANCILLARY RELIEF
(By AlphaStar Against AIM)

183. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 183 with the same force and effect as if fully set forth at length herein.

184. An actual case and controversy have clearly developed between the parties that do not require further factual development and directly affect plaintiffs' valuable legal rights to a specific and substantial degree.

185. AIM's conduct described above is not only a breach of the implied covenant of good faith and fair dealing, but also constitutes willful and wanton bad faith by AIM as a lender to AlphaStar.

186. Plaintiff AlphaStar is entitled to a declaratory judgment that it is fully discharged of all obligations under the Loan Agreement and Pledge Agreement which judgment shall also require AIM to return the collateral which AIM holds under the Pledge Agreement (and threatens to abuse) and awards plaintiff AlphaStar such other and further relief as the Court shall deem

appropriate, including compensatory damages as a result of the AIM Defendants' conduct, which is so egregious, wanton, willful and malicious that an award of punitive damages is warranted to prevent a recurrence of such conduct.

COUNT FIVE

CLAIM FOR AN ACCOUNTING AND THE IMPOSITION OF A CONSTRUCTIVE TRUST OVER AIM'S ILLEGALLY OBTAINED PREMIUMS
(By All Plaintiffs Against AIM)

187. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 186 with the same force and effect as if fully set forth at length herein.

188. The AIM Defendants waged an illicit and unauthorized campaign to obtain millions of dollars of premiums through false pretense, illegally holding themselves out as Realm's agent.

189. The AIM Defendants have actively perpetrated a fraud on the public, improperly holding themselves out as Realm's agent and unjustly enriching themselves by billing, collecting and retaining up to or exceeding ten million dollars ($10,000,000) in illegally obtained and/or committed premiums.

190. It would be both unconscionable and inequitable for the AIM Defendants to continue retaining these collected premiums under the guise of purchasing insurance from Realm, and to prevent the AIM Defendants' unjust enrichment, the Court should order a constructive trust over defendants' illegally obtained property.

191. Plaintiffs are entitled to, and respectfully request the Court to impose, a constructive trust on all premiums collected by or owed to the AIM Defendants through the improper writing of insurance certificates as described herein in an amount believed to be ten million dollars ($10,000,000) or more. While Realm does not assert an entitlement to these funds, as it disclaims any responsibility for the coverages arranged either without its knowledge

or against its stated wishes, the imposition of a constructive trust is nonetheless essential to protect and preserve the value of the Debtors' Estates – including its most significant asset, Realm – which continue to be exposed to claims by the holders of bogus insurance certificates.

192. In furtherance of this requested relief, plaintiffs also request the Court to order defendants to account to the plaintiffs and to make immediate and full disclosure to the Court and to plaintiffs of: (i) all certificates of insurance (or other evidence of the existence of insurance) it issued or caused to be issued using the name of Realm; (ii) all premiums received by AIM with respect to such certificates of insurance and any related insurance commitments; and (iii) all other commitments received by AIM with respect to the payment of future premiums to be received on all insurance which in any way uses the name of Realm as a putative insurer, and all documents which reflect any commitment to issue insurance made by any of the defendants purportedly on behalf of any of the plaintiffs.

COUNT SIX

CLAIM FOR INJUNCTIVE RELIEF BASED ON DEFENDANTS' VIOLATION OF NEW YORK GENERAL BUSINESS LAW §133
(Against AIM Defendants)

193. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 192 with the same force and effect as if fully set forth at length herein.

194. As described herein, the AIM Defendants actively perpetrated a fraud on the general public in at least eighteen states, including New York, improperly writing insurance certificates in Realm's name, without plaintiffs' prior knowledge, consent or authority.

195. The AIM Defendants repeatedly held themselves out as Realm's agent supposedly authorized to write such insurance certificates when it was clearly aware that no such relationship existed. Consequently, Realm has no adequate remedy at law since it cannot possibly protect itself from this ongoing clandestine activity.

196. The AIM Defendants' conduct has both deceived and misled the public as to its identity and authority, thereby violating Section 133 New York General Business Law repeatedly on occasions and in places that are currently unknown to the plaintiffs.

197. Plaintiffs are entitled to an injunction under General Business Law §133 ordering the AIM Defendants to cease and desist any public claim that they are an agent of Realm authorized to issue or cause the issuance of certificates of insurance in Realm's name, or administer or adjust claims thereunder in its name.

COUNT SEVEN

CLAIM FOR INJUNCTIVE RELIEF AND ACTUAL DAMAGES AND ATTORNEYS' FEES PURSUANT TO DEFENDANTS' VIOLATION OF NEW YORK GENERAL BUSINESS LAW §349(h)
(Against AIM Defendants)

198. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 182 with the same force and effect as if fully set forth at length herein.

199. The AIM Defendants' acts and business practices described herein were willful and knowing acts of deception which misled the public in a material way in violation of New York General Business Law §349.

200. Plaintiffs have no adequate remedy at law and, due to the AIM Defendants' refusal to account to the plaintiffs, are not presently aware of the exact details or occasions of the AIM Defendants' multiple violations of the New York General Business Law.

201. Plaintiffs are entitled to an injunction under General Business Law §349(h) ordering the AIM Defendants (and any of their sub-producers, brokers, agents or affiliates) to cease and desist any public claim or assertion that they are an agent of Realm authorized to issue or to cause the issuance of certificates of insurance using Realm's name and to cease and desist from issuing or causing the issuance of certificates of insurance in Realm's name in any state or

jurisdiction and administering or adjusting claims thereunder in its name, along with plaintiffs' actual damages in an amount to be determined at trial, trebled in accordance with the statute, plus costs, attorneys' fees and interest as permitted by law.

COUNT EIGHT

EQUITABLE SUBORDINATION PURSUANT TO 11 U.S.C. § 510(c)
(Against AIM)

202. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 201 with the same force and effect as if fully set forth at length herein.

203. By virtue of the conduct of AIM as alleged herein AIM engaged in inequitable conduct.

204. The inequitable conduct of the AIM Defendants resulted in harm to the Debtors and its creditors and/or caused an unfair advantage for AIM.

205. Equitable subordination of AIM's claims is appropriate pursuant to 11 U.S.C. §510. Accordingly, to the extent not otherwise invalidated or eliminated for the reasons alleged above, AIM's claim as a purported secured creditor of the Debtors should be equitably subordinated to the claims of all other creditors of each of the Debtors.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs respectfully request that this Court grant the following relief:

(a) as to Count One, a declaration that (i) the AIM Defendants were never, and are not now, authorized agents or representatives of Realm, and they could not and cannot legally issue or cause the issuance of any certificates of insurance using Realm's name, or otherwise engage in any form of business activity on Realm's behalf or in Realm's name, and (ii) that none of the plaintiffs is bound by or otherwise liable for any assertion or claim of workers'

compensation or employer liability insurance that has been or may hereafter be made by any member of the Defendants' Class;

(b) as to Count Two, an award of damages against the AIM Defendants in an amount to be determined at trial; an award of rescission and/or rescissory damages with respect to the Loan Agreement, Pledge Agreement and Stock Purchase Agreement; and punitive damages of at least $10 million;

(c) as to Count Three, an award of damages in amount to be determined at trial;

(d) as to Count Four, a declaration that AlphaStar is fully discharged of any and all obligations under the Loan Agreement and Pledge Agreement, and directing the immediate return of the pledged collateral to AlphaStar, and an award of compensatory damages in an amount to be determined at trial;

(e) as to Count Five, an order compelling the AIM Defendants to account to plaintiffs for the full extent of all activities undertaken and/or directed by the AIM Defendants purportedly in the name of and on behalf of Realm, including without limitation the issuance of certificates of insurance in Realm's name, the collection of premiums, fees or other consideration in connection therewith, and the payment of claims thereon; and the imposition of a constructive trust over all proceeds received by the AIM Defendants in connection with the sale and marketing of insurance certificates or other products purportedly in the name of or on behalf of Realm;

(f) as to Count Six, an injunction under General Business Law §133 ordering the AIM Defendants to cease and desist any public claim that they are an agent of Realm

authorized to issue or cause the issuance of certificates of insurance in Realm's name, or to administer or adjust claims thereunder in its name;

(g) as to Count Seven, an injunction under General Business Law §349(h) ordering the AIM Defendants to cease and desist any public claim or assertion that they are an agent of Realm authorized to issue or to cause the issuance of certificates of insurance using Realm's name and to cease and desist from issuing certificates of insurance in Realm's name in any state or jurisdiction, and administering or adjusting claims thereunder in its name, along with plaintiffs' actual damages in an amount to be determined at trial, trebled in accordance with the statute, plus costs, attorneys' fees and interest as permitted by law;

(h) as to Count Eight, the disallowance and/or equitable subordination of AIM's claim to the claims of all other creditors of each of the Debtors;

(i) as to All Counts, an award of plaintiffs' costs of suit, interest, and such other and further relief as this Court may deem appropriate.

Dated: New York, New York
May 6, 2004

Respectfully submitted,

ARENT FOX PLLC
Attorneys for the Plaintiffs

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49

430

Schedule P - Part 6R - SN2B

NONE

SCHEDULE P - PART 7A - PRIMARY LOSS SENSITIVE CONTRACTS
($000 OMITTED)

SECTION 1

Schedule P - Part 1	1 Total Net Losses and Expenses Unpaid	2 Net Losses and Expenses Unpaid on Loss Sensitive Contracts	3 Loss Sensitive as Percentage of Total	4 Total Net Premiums Written	5 Net Premiums Written on Loss Sensitive Contracts	6 Loss Sensitive as Percentage of Total
1. Homeowners/Farmowners	0		0.0	0		0.0
2. Private Passenger Auto Liability/Medical	0		0.0	0		0.0
3. Commercial Auto/Truck Liability/Medical	132		0.0	0		0.0
4. Workers' Compensation	15,048		0.0	25		0.0
5. Commercial Multiple Peril	0		0.0	0		0.0
6. Medical Malpractice - Occurrence	0		0.0	0		0.0
7. Medical Malpractice - Claims-Made	0		0.0	0		0.0
8. Special Liability	0		0.0	0		0.0
9. Other Liability - Occurrence	13,638		0.0	(539)		0.0
10. Other Liability - Claims-Made	0		0.0	0		0.0
11. Special Property	258		0.0	(171)		0.0
12. Auto Physical Damage	0		0.0	0		0.0
13. Fidelity/Surety	0		0.0	0		0.0
14. Other	0		0.0	0		0.0
15. International	0		0.0	0		0.0
16. Reinsurance - Nonproportional Assumed Property	XXX	XXX	XXX	XXX	XXX	XXX
17. Reinsurance - Nonproportional Assumed Liability	XXX	XXX	XXX	XXX	XXX	XXX
18. Reinsurance - Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX	XXX	XXX
19. Products Liability - Occurrence	0		0.0	0		0.0
20. Products Liability - Claims-Made	0		0.0	0		0.0
21. Financial Guaranty/Mortgage Guaranty	0		0.0	0		0.0
22. Totals	29,101	0	0.0	(684)	0	0.0

SECTION 2

Years in Which Policies Were Issued	INCURRED LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED) 1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

SECTION 3

Years in Which Policies Were Issued	BULK AND INCURRED BUT NOT REPORTED RESERVES FOR LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES AT YEAR END ($000 OMITTED) 1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

SCHEDULE P - PART 7A - PRIMARY LOSS SENSITIVE CONTRACTS
(continued)

SECTION 4

NET EARNED PREMIUMS REPORTED AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SECTION 5

NET RESERVE FOR PREMIUM ADJUSTMENTS AND ACCRUED RETROSPECTIVE PREMIUMS AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SCHEDULE P - PART 7B - REINSURANCE LOSS SENSITIVE CONTRACTS
($000 OMITTED)

SECTION 1

Schedule P - Part 1	1 Total Net Losses and Expenses Unpaid	2 Net Losses and Expenses Unpaid on Loss Sensitive Contracts	3 Loss Sensitive as Percentage of Total	4 Total Net Premiums Written	5 Net Premiums Written on Loss Sensitive Contracts	6 Loss Sensitive as Percentage of Total
1. Homeowners/Farmowners	0		0.0	0		0.0
2. Private Passenger Auto Liability/Medical	0		0.0	0		0.0
3. Commercial Auto/Truck Liability/Medical	132		0.0	0		0.0
4. Workers' Compensation	15,040		0.0	26		0.0
5. Commercial Multiple Peril	0		0.0	0		0.0
6. Medical Malpractice - Occurrence	0		0.0	0		0.0
7. Medical Malpractice - Claims-Made	0		0.0	0		0.0
8. Special Liability	0		0.0	0		0.0
9. Other Liability - Occurrence	13,638		0.0	(539)		0.0
10. Other Liability - Claims-Made	0		0.0	0		0.0
11. Special Property	258		0.0	(171)		0.0
12. Auto Physical Damage	0		0.0	0		0.0
13. Fidelity/Surety	0		0.0	0		0.0
14. Other	0		0.0	0		0.0
15. International	0		0.0	0		0.0
16. Reinsurance - Nonproportional Assumed Property	0		0.0	0		0.0
17. Reinsurance - Nonproportional Assumed Liability	0		0.0	0		0.0
18. Reinsurance - Nonproportional Assumed Financial Lines	0		0.0	0		0.0
19. Products Liability - Occurrence	0		0.0	5		0.0
20. Products Liability - Claims-Made	0		0.0	0		0.0
21. Financial Guaranty/Mortgage Guaranty	0		0.0	0		0.0
22. Totals	29,101	0	0.0	(684)	0	0.0

SECTION 2

Years in Which Policies Were Issued	INCURRED LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED) 1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

SECTION 3

Years in Which Policies Were Issued	BULK AND INCURRED BUT NOT REPORTED RESERVES FOR LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES AT YEAR END ($000 OMITTED) 1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

SCHEDULE P - PART 7B - REINSURANCE LOSS SENSITIVE CONTRACTS
(continued)

SECTION 4

NET EARNED PREMIUMS REPORTED AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SECTION 5

NET RESERVE FOR PREMIUM ADJUSTMENTS AND ACCRUED RETROSPECTIVE PREMIUMS AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SECTION 6

INCURRED ADJUSTABLE COMMISSIONS REPORTED AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SECTION 7

RESERVES FOR COMMISSION ADJUSTMENTS AT YEAR END ($000 OMITTED)

Years in Which Policies Were Issued	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	
2. 1995	0	0	0	0	0	0	0	0	0	
3. 1996	XXX	0	0	0	0	0	0	0	0	
4. 1997	XXX	XXX	0	0	0	0	0	0	0	
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	

NONE

SCHEDULE P INTERROGATORIES

1. What is the extended loss and expense reserve - direct and assumed - for the following classes? An example of an extended loss and expense reserve is the actuarial reserve for the free-toll coverage arising upon death, disability or retirement in most medical malpractice policies. Such a liability is to be reported here even if it was not reported elsewhere in Schedule P, but otherwise reported as a liability here on Page 3. Show the full reserve amount, not just the change during the current year.

Years in which premiums were earned and losses were incurred	1 Medical Malpractice	2 Other Liability	3 Products Liability
1.01 Prior			
1.02 1995			
1.03 1996			
1.04 1997			
1.05 1998			
1.06 1999			
1.07 2000			
1.08 2001			
1.09 2002			
1.10 2003			
1.11 2004			
1.12 Totals	0	0	0

2. The definition of allocated loss adjustment expenses (ALAE) and, therefore, unallocated loss adjustment expenses (ULAE) was changed effective January 1, 1998. This change in definition applies to both paid and unpaid expenses. Are these expenses (now reported as "Defense and Cost Containment" and "Adjusting and Other") reported in compliance with these definitions in this statement? Yes [X] No [ ]

3. The Adjusting and Other expense payments and reserves should be allocated to the years in which the losses were incurred based on the number of claims reported, closed and outstanding in those years. When allocating Adjusting and Other expense between companies in a group or a pool, the Adjusting and Other expense should be allocated in the same percentage used for the loss amounts and the claim counts. For reinsurers, Adjusting and Other expense assumed should be reported according to the reinsurance contract. For Adjusting and Other expenses incurred by reinsurers, or in those situations where suitable claim count information is not available, Adjusting and Other expense should be allocated by a reasonable method determined by the company and described in Interrogatory 7, below. Are they so reported in this Statement? Answer: Yes [X] No [ ]

4. Do any lines in Schedule P include reserves that are reported gross of any discount to present value of future payments, and that are reported net of such discounts on Page 10? Yes [ ] No [X]

   If Yes, proper reporting must be made in the Notes to Financial Statements, as specified in the Instructions. Also, the discounts must be reported in Schedule P - Part 1, Columns 33 and 33.

   Schedule P must be completed gross of non-tabular discounting. Work papers relating to discount calculations must be available for examination upon request.

   Discounting is allowed only if expressly permitted by the state insurance department to which this Annual Statement is being filed.

5. What were the net premiums in force at the end of the year for:
   (in thousands of dollars)

   5.1 Fidelity _____

   5.2 Surety _____

6. Claim count information is reported per claim or per claimant (indicate which) CLAIM
   If not the same in all years, explain in Interrogatory 7.

7.1 The information provided in Schedule P will be used by many persons to estimate the adequacy of the current loss and expense reserves, among other things. Are there any especially significant events, coverage, retention or accounting changes which have occurred which must be considered when making such analyses? Yes [ ] No [X]

7.2 An extended statement may be attached.

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

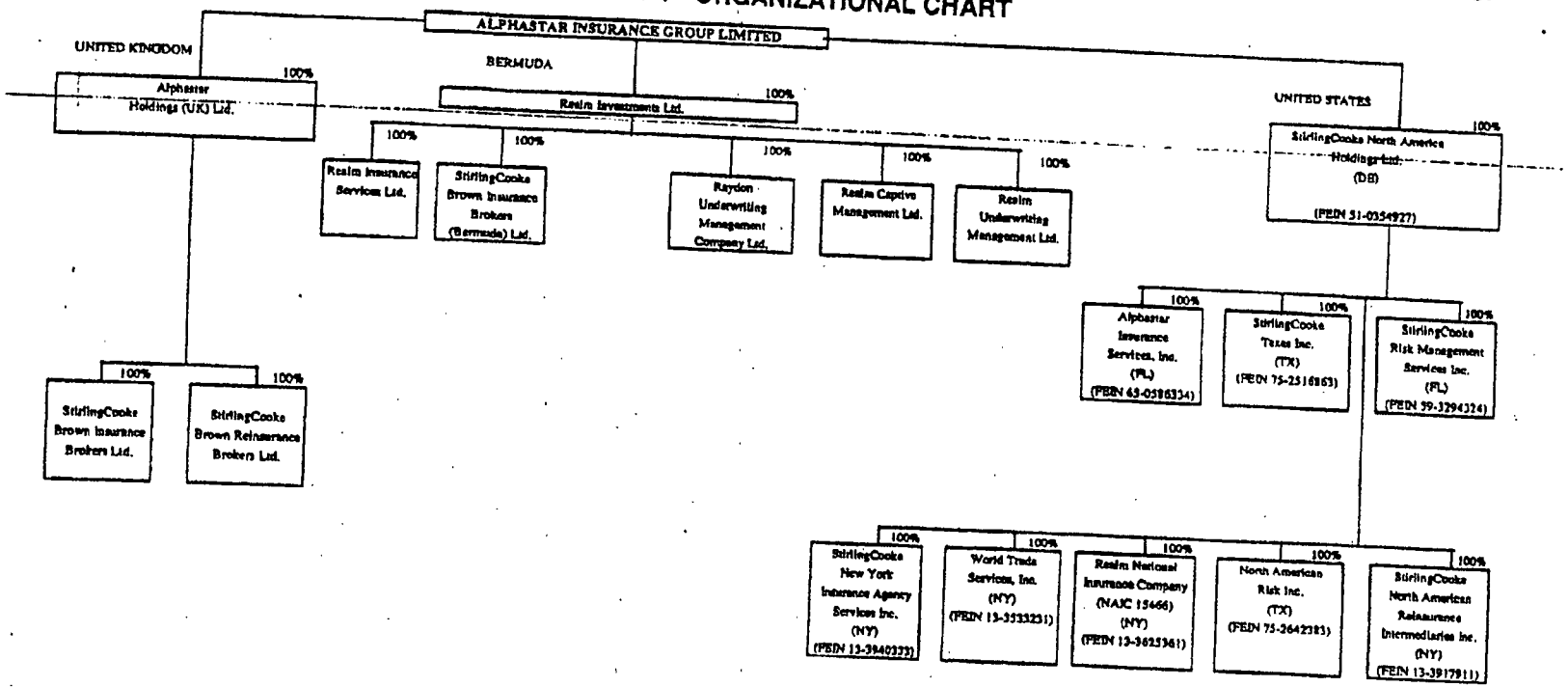
States, etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Returns Premiums and Premiums on Policies Not Taken: 2 Direct Premiums Written	Gross Premiums, Including Policy and Membership Fees Less Returns Premiums and Premiums on Policies Not Taken: 3 Direct Premiums Earned	4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premiums Written for Federal Purchasing Groups (Included in Col. 2)
1. Alabama AL	Yes	356	356	0	87,508	(133,152)	318,000	0	
2. Alaska AK	No	0	0	0	0	0	0	0	
3. Arizona AZ	Yes	0	0	0	0	0	0	0	
4. Arkansas AR	Yes	0	0	0	56,204	(28,410)	140,931	0	
5. California CA	No	0	0	0	0	0	0	0	
6. Colorado CO	No	0	0	0	0	0	0	0	
7. Connecticut CT	No	0	0	0	0	0	0	0	
8. Delaware DE	No	0	0	0	0	0	0	0	
9. District of Columbia DC	No	0	0	0	0	0	0	0	
10. Florida FL	Yes	84,799	85,008	0	44,834	(137,585)	272,972	0	
11. Georgia GA	Yes	(58,838)	(58,838)	0	2,174,123	(91,839)	2,981,816	0	
12. Hawaii HI	No	0	0	0	0	0	0	0	
13. Idaho ID	No	0	0	0	0	0	0	0	
14. Illinois IL	Yes	(2,132)	(2,169)	0	172	(203)	10	0	
15. Indiana IN	Yes	0	0	0	0	0	0	0	
16. Iowa IA	Yes	0	0	0	13,845	(227,696)	297,832	0	
17. Kansas KS	No	0	0	0	0	0	0	0	
18. Kentucky KY	Yes	(4,926)	(4,923)	0	453,358	(545,680)	3,138,886	0	
19. Louisiana LA	Yes	0	0	0	12,709	(104,464)	139,771	0	
20. Maine ME	No	0	0	0	0	0	0	0	
21. Maryland MD	No	0	0	0	0	0	0	0	
22. Massachusetts MA	No	0	0	0	0	0	0	0	
23. Michigan MI	No	0	0	0	0	0	0	0	
24. Minnesota MN	No	0	0	0	0	0	0	0	
25. Mississippi MS	Yes	41,227	41,227	0	23,888	11,883	0	0	
26. Missouri MO	Yes	(7,834)	(7,835)	0	0	0	0	0	
27. Montana MT	No	0	0	0	0	0	0	0	
28. Nebraska NE	Yes	0	0	0	0	0	0	0	
29. Nevada NV	No	0	0	0	0	0	0	0	
30. New Hampshire NH	No	0	0	0	0	0	0	0	
31. New Jersey NJ	No	0	0	0	0	0	0	0	
32. New Mexico NM	Yes	0	0	0	0	0	0	0	
33. New York NY	Yes	(390,811)	2,782,285	0	8,809,915	10,240,362	38,697,772	0	
34. North Carolina NC	Yes	0	0	0	0	0	0	0	
35. North Dakota ND	Yes	0	0	0	0	0	0	0	
36. Ohio OH	No	0	0	0	0	0	0	0	
37. Oklahoma OK	Yes	223	223	0	144,278	14,784	375,521	0	
38. Oregon OR	No	0	0	0	0	0	0	0	
39. Pennsylvania PA	Yes	0	0	0	0	0	0	0	
40. Rhode Island RI	No	0	0	0	0	0	0	0	
41. South Carolina SC	Yes	(5,878)	(5,878)	0	89,521	2,538	28,505	0	
42. South Dakota SD	Yes	0	0	0	0	0	0	0	
43. Tennessee TN	Yes	(31,081)	(31,081)	0	1,869,338	(1,385,972)	4,483,955	0	
44. Texas TX	Yes	(26,678)	(26,678)	0	300,196	(251,813)	694,848	0	
45. Utah UT	No	0	0	0	0	0	0	0	
46. Vermont VT	No	0	0	0	0	0	0	0	
47. Virginia VA	No	0	0	0	0	0	0	0	
48. Washington WA	No	0	0	0	0	0	0	0	
49. West Virginia WV	Yes	0	0	0	0	0	0	0	
50. Wisconsin WI	No	0	0	0	0	0	0	0	
51. Wyoming WY	No	0	0	0	0	0	0	0	
52. American Samoa AS	No	0	0	0	0	0	0	0	
53. Guam GU	No	0	0	0	0	0	0	0	
54. Puerto Rico PR	No	0	0	0	0	0	0	0	
55. U.S. Virgin Islands VI	No	0	0	0	0	0	0	0	
56. Canada CN	No	0	0	0	0	0	0	0	
57. Aggregate Other Aliens OT	XXX	0	0	0	0	0	0	0	
58. Totals	(a) 24	(460,773)	2,777,466	0	11,678,819	7,953,316	42,952,819	0	0
DETAILS OF WRITE-INS									
5701.	XXX								
5702.	XXX								
5703.	XXX								
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	0	0	0	0	0	0	0	0
5799. Totals (Lines 5701 through 5703 + 5798) (Line 57 above)	XXX	0	0	0	0	0	0	0	0

(a) Insert the number of yes responses except for Canada and Other Aliens.

Explanation of basis of allocation of premiums by states, etc.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



SCHEDULE Y (continued)

PART 2 - SUMMARY OF INSURER'S TRANSACTIONS WITH ANY AFFILIATES

1 NAIC Company Code	2 Federal ID Number	3 Names of Insurers and Parent, Subsidiaries or Affiliates	4 Shareholder Dividends	5 Capital Contributions	6 Purchases, Sales or Exchanges of Loans, Securities, Real Estate, Mortgage Loans or Other Investments	7 Income/ (Disbursements) Incurred in Connection with Guarantees or Undertakings for the Benefit of any Affiliate(s)	8 Management Agreements and Service Contracts	9 Income/ (Disbursements) Incurred Under Reinsurance Agreements	10	11 Any Other Material Activity Not in the Ordinary Course of the Insurer's Business	12 Totals	13 Reinsurance Recoverable/ (Payable) on Losses and/or Reserve Credit Taken/(Liability)
15385	13-3825387	REALM NATIONAL INSURANCE COMPANY					(108,850)				(108,850)	
00000	65-0596334	ALPHASTAR INSURANCE SERVICES, INC.					108,850				108,850	
9999999 Control Totals			0	0	0	0	0	0	XXX	0	0	0

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ANNUAL STATEMENT FOR THE YEAR 2004 OF THE REALM NATIONAL INSURANCE COMPANY

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted as day of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

		RESPONSES
	MARCH FILING	
1.	Will Supplement A to Schedule T (Medical Malpractice Supplement) be filed by March 1?	NO
2.	Will Schedule SIS (Stockholder Information Supplement) be filed with the state of domicile by March 1?	NO
3.	Will the Financial Guaranty Insurance Exhibit be filed March 1?	NO
4.	Will the Medicare Supplement Insurance Experience Exhibit be filed with the state of domicile and the NAIC by March 1?	NO
5.	Will an actuarial opinion be filed by March 1?	YES
6.	Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC by March 1?	NO
7.	Will the Supplemental Compensation Exhibit be filed with the state of domicile by March 1?	YES
8.	Will the Risk-based Capital Report be filed with the NAIC by March 1?	YES
9.	Will the Risk-based Capital Report be filed with the state of domicile, if required by March 1?	YES
10.	Will the Premiums Attributed to Protected Cells Exhibit be filed by March 1?	YES
	APRIL FILING	
11.	Will the Insurance Expense Exhibit be filed with the state of domicile and the NAIC by April 1?	YES
12.	Will Management's Discussion and Analysis be filed by April 1?	YES
13.	Will the Credit Insurance Experience Exhibit be filed with the state of domicile and the NAIC by April 1?	NO
14.	Will the Long-term Care Experience Reporting Forms be filed with the state of domicile and the NAIC by April 1?	NO
15.	Will the Accident and Health Policy Experience Exhibit be filed by April 1?	NO
16.	Will the Investment Risk Interrogatories be filed by April 1?	YES
	MAY FILING	
17.	Will this company be included in a combined annual statement which is filed with the NAIC by May 1?	NO
	JUNE FILING	
18.	Will an audited financial report be filed by June 1?	YES

Explanations:

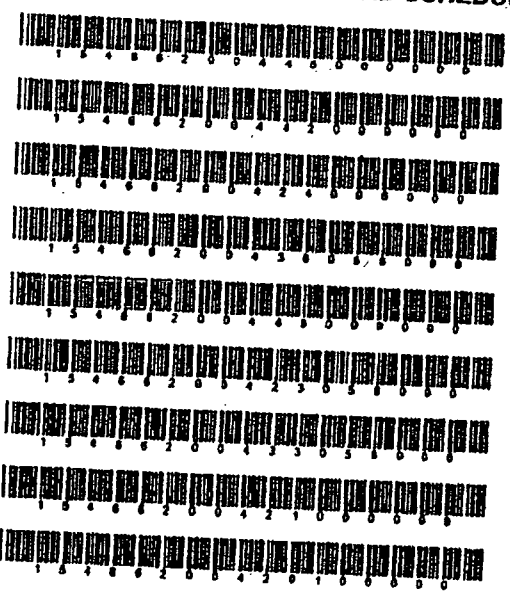
1.
2.
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Bar Codes:

1.

440

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES



OVERFLOW PAGE FOR WRITE-INS

ANNUAL STATEMENT FOR THE YEAR 2004 OF THE REALM NATIONAL INSURANCE COMPANY

SCHEDULE A - PART 1

Showing All Real Estate OWNED December 31 of Current Year

1	2	Location 3	Location 4	5	6	7	8	9	10	11	12	13	14	15	16
Description of Property	Code	City	State	Date Acquired	Date of Last Appraisal	Actual Cost	Amount of Encumbrances	Book/Adjusted Carrying Value Less Encumbrances	Fair Value Less Encumbrances	Increase (Decrease) by Adjustment	Increase (Decrease) by Foreign Exchange Adjustment	Amounts Received During Year	Expended for Additions, Permanent Improvements and Changes in Encumbrances During Year	Gross Income Earned Less Interest Incurred on Encumbrances	Taxes, Repairs and Expenses Incurred
243 Acres Parcel of Land		[illegible]	North Carolina	06/28/2004	10/31/2004	3,481,375	1,250,182	2,212,343	3,400,000						
9.5 Acres Parcel of Land with 125,000 Square Foot Warehouse		Albemarle	North Carolina	05/28/2004	05/05/2004	11,177,878	1,288,182	9,904,646	11,100,000						
24 Acres Parcel of Land		Albemarle	North Carolina	08/19/2004	04/20/2004	9,782,754	1,000,000	8,782,154	9,650,000						
0199999 - Property occupied by the reporting entity - Health Care Delivery						24,441,607	3,538,364	[illegible]	24,150,000						
0399999 - Total property occupied by the reporting entity						24,441,607	3,538,364	[illegible]	24,150,000						
0999999 Totals						24,441,607	3,538,364	[illegible]	24,150,000						

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SCHEDULE A - PART 2

Showing All Real Estate ACQUIRED During the Year

1 Description of Property	2 Location City	3 Location State	4 Date Acquired	5 Name of Vendor	6 Actual Cost	7 Amount of Encumbrances	8 Book/Adjusted Carrying Value Less Encumbrances	9 Expended for Additions and Permanent Improvements
242 Acres Parcel of Land	Albemarle	North Carolina	08/26/2004	Fitzgerald Holdings, Inc	7,181,574	1,388,192	7,319,387	
9.8 Acres Parcel of Land with a 165,000 Square Foot Warehouse	Albemarle	North Carolina	08/26/2004	Fitzgerald Holdings, Inc	11,177,676	1,388,192	5,806,486	
24 Acres Parcel of Land	Albemarle	North Carolina	08/26/2004	Fitzgerald Holdings, Inc	3,782,154	2,055,000	4,782,154	
0199999 - Acquired by Purchase					24,441,807	1,388,192	18,903,272	
0399999 - Total					24,441,807	1,388,192	18,903,272	

ANNUAL STATEMENT FOR THE YEAR 2004 OF THE REALM NATIONAL INSURANCE COMPANY

SCHEDULE A - PART 3

Showing All Real Estate SOLD During the Year, Including Payments During the Final Year on "Sales Under Contract"

1	Location		4	5	6	7	8	9	10	11	12	13	14	15	16
	2	3													
Description of Property	City	State	Disposal Date	Name of Purchaser	Actual Cost	Increase (Decrease) By Adjustment	Increase (Decrease) By Foreign Exchange Adjustment	Expended for Additions, Permanent Improvements and Changes in Encumbrances	Book/ Adjusted Carrying Value Less Encumbrances	Amounts Received	Foreign Exchange Profit (Loss) on Sale	Realized Profit (Loss) on Sale	Total Profit (Loss) on Sale	Gross Income Earned Less Interest Incurred on Encumbrances	Taxes, Repairs and Expenses Incurred
[illegible] Totals															

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Schedule B - Part 1

NONE

Schedule B - Part 2

NONE

Schedule BA - Part 1

NONE

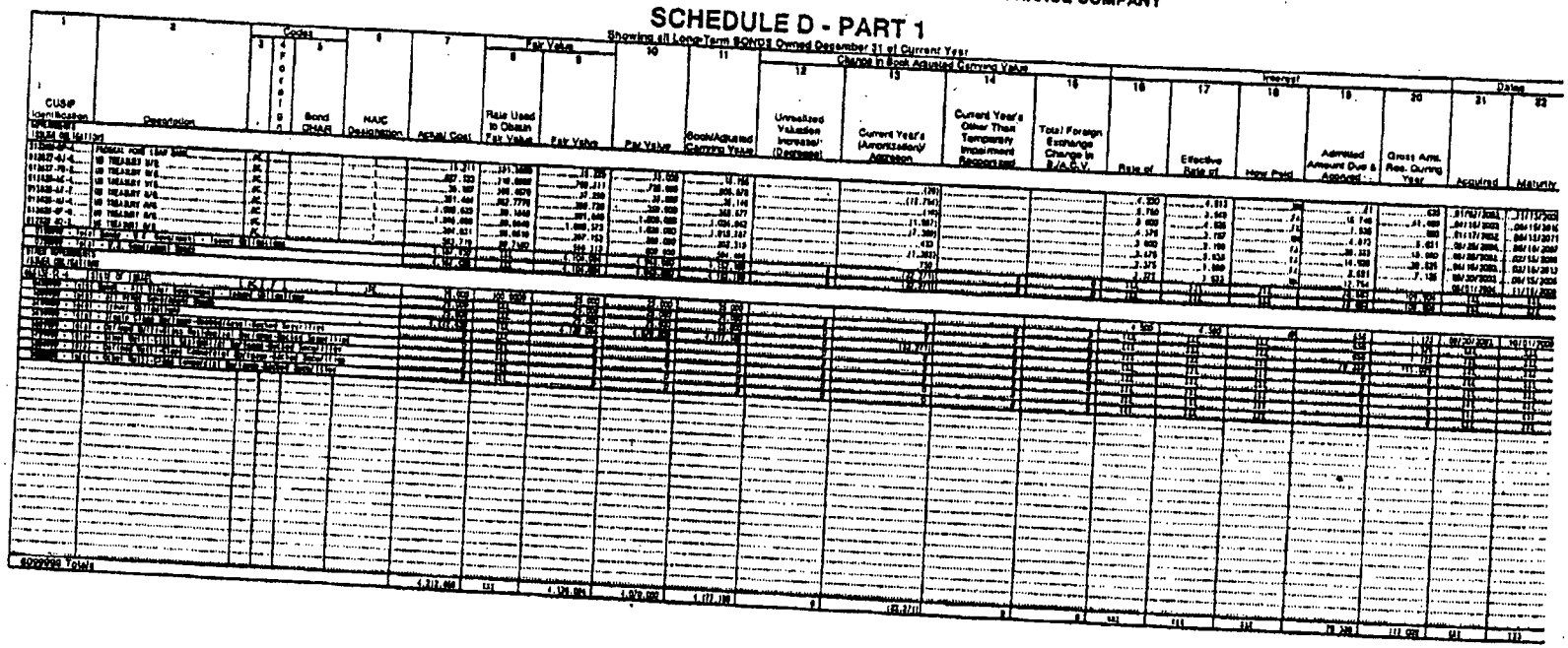
Schedule BA - Part 2

NONE

446

SCHEDULE D - PART 1

Showing all Long-Term BONDS Owned December 31 of Current Year



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SCHEDULE D - PART 2 - SECTION 1

Showing ALL PREFERRED STOCKS Owned December 31 of Current Year

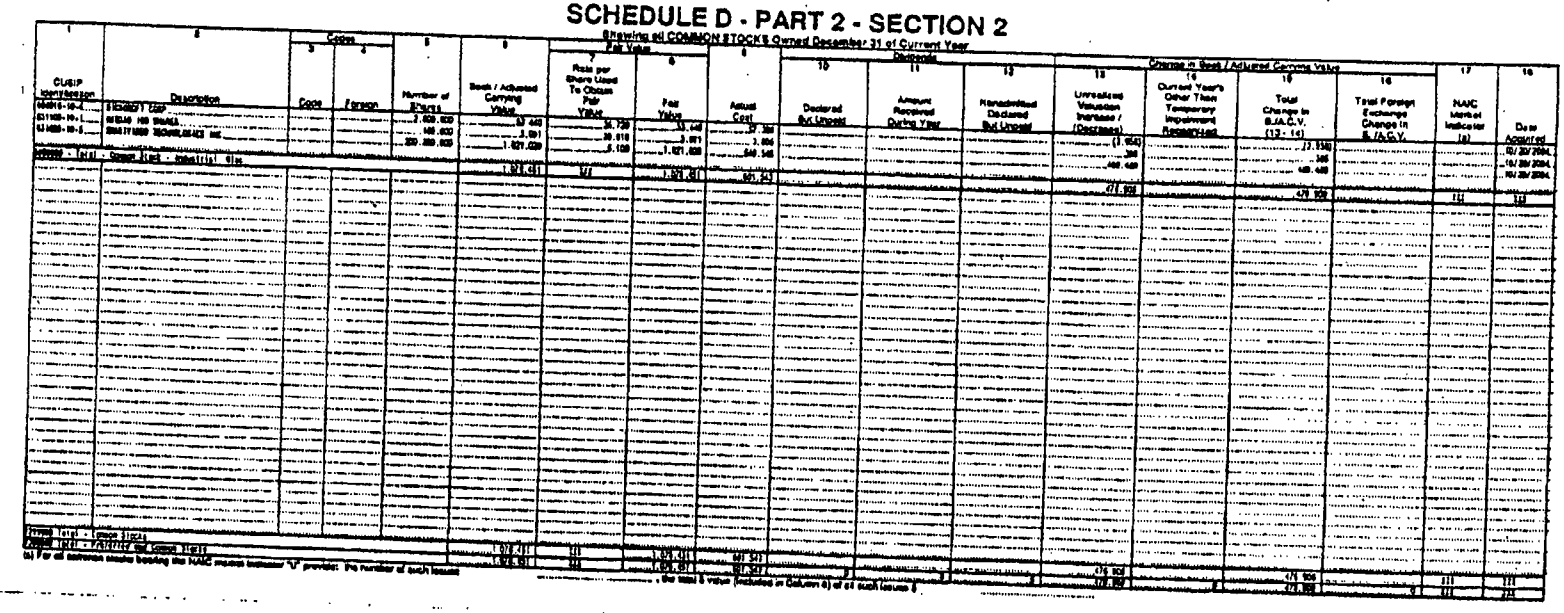
1	2	Codes		5	6	7	8	Fair Value		11	Dividends			Change in Book/ Adjusted Carrying Value					20	21
		3	4					9	10		12	13	14	15	16	17	18	19		
CUSIP Identification	Description	Code	Foreign	Number Of Shares	Par Value Per Share	Rate Per Share	Book/ Adjusted Carrying Value	Rate Per Share Used to Obtain Fair Value	Fair Value	Actual Cost	Declared But Unpaid	Amount Received During Year	Nonadmitted Declared But Unpaid	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization) Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change In B./A.C.V. (15 + 16 - 17)	Total Foreign Exchange Change In B./A.C.V.	NAIC Designation	Date Acquired
Grand Total - Preferred Stocks								XXX											XXX	XXX

448

1144

SCHEDULE D - PART 2 - SECTION 2

Showing all COMMON STOCKS Owned December 31 of Current Year



1	2	Codes		5	6	Fair Value		8	Dividends			Change in Book / Adjusted Carrying Value				17	18
CUSIP Identification	Description	3 Code	4 Foreign	Number of Shares	Book / Adjusted Carrying Value	7 Rate per Share Used To Obtain Fair Value	Fair Value	Actual Cost	10 Declared But Unpaid	11 Amount Received During Year	12 Nonadmitted Declared But Unpaid	13 Unrealized Valuation Increase / (Decrease)	14 Current Year's Other Than Temporary Impairment Recognized	15 Total Change in B./A.C.V. (13 - 14)	16 Total Foreign Exchange Change in B./A.C.V.	NAIC Market Indicator (a)	Date Acquired
[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Common - Total - Common Stocks - Industrial Misc.					1,971,481	XXX	1,971,481	991,543				479,909		479,909		XXX	XXX
Preferred Total - Common Stocks					1,971,481	XXX	1,971,481	991,543				479,909		479,909		XXX	XXX
Preferred Total - Publicly Traded Common Stocks					1,971,481	XXX	1,971,481	991,543				479,909		479,909		XXX	XXX

(a) For all common stocks bearing the NAIC market indicator "U" provide: the number of such issues, the total B / A value (included in Column 8) of all such issues.

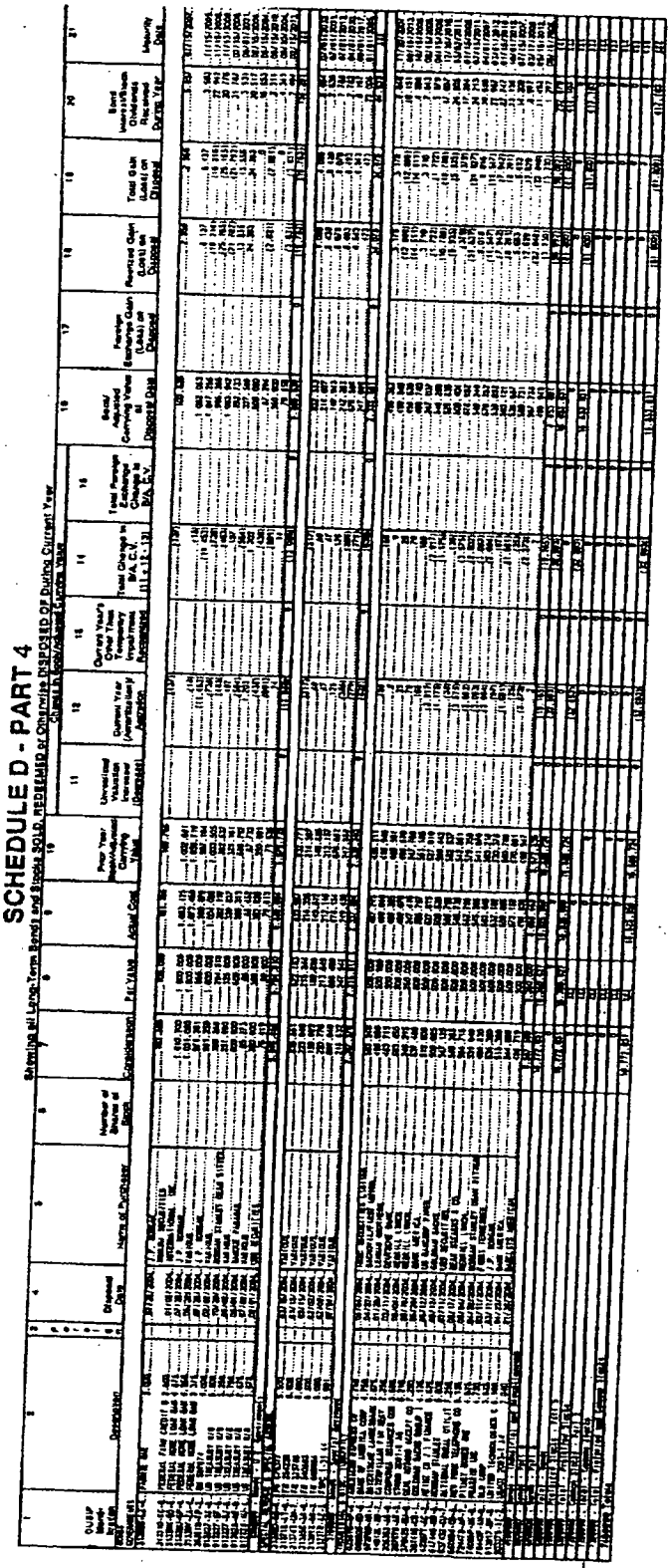
SCHEDULE D - PART 3

Showing All Long-Term Bonds and Stocks ACQUIRED During Current Year

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends
Bonds (GOVERNMENT)								
912820-YC-2	US TREASURY NTB 09/15/2004 1.5%		10/28/2004	BEAR STEARNS & CO.		361,484	350,000	1,831
912828-BD-2	US TREASURY NTB 11/15/2004 1.5%		04/01/2004	SALOMON SMITH BARNEY HSB		582,719	600,000	1,046
0109999	Total - Bonds - U.S. Government					854,203	850,000	2,876
0209997	Total - Bonds - Part 3					854,203	850,000	2,876
0209998	Total - Bonds - Part 5					0	0	0
0209999	Total - Bonds					854,203	850,000	2,876
4109997	Total - Preferred Stocks - Part 3					0	0	0
4109998	Total - Preferred Stocks - Part 5					0	0	0
4109999	Total - Preferred Stocks					0	XXX	0
594918-10-4	MICROSOFT CORP		10/28/2004	HFS PRIVATE EQUITY, LLC	7,000,000	37,996	XXX	0
651229-10-6	NEWBRIDGE NETWORKS CORP		10/28/2004	HFS PRIVATE EQUITY, LLC	100,000	3,808	XXX	0
893641-10-0	TRANSMETA CORP		10/28/2004	HFS PRIVATE EQUITY, LLC	200,000,000	240,940	XXX	0
4209997	Total - Common Stocks - Industrial, Misc.					281,943	XXX	
4209998	Total - Common Stocks - Part 3					801,943	XXX	
4209998	Total - Common Stocks - Part 5					0	XXX	0
4209999	Total - Common Stocks					801,943	XXX	0
4309999	Total - Preferred and Common Stocks					801,943	XXX	0
7499999	Totals					1,656,146	XXX	2,876

SCHEDULE D - PART 4

Showing all Long-Term Bonds and Stocks SOLD, REDEEMED or Otherwise DISPOSED OF During Current Year



SCHEDULE D - PART 5

Showing all Long-Term Bonds and Stocks ACQUIRED During Year and Fully DISPOSED OF During Current Year

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Disposal Date	7 Name of Purchaser	8 Par Value (Bonds) or Number of Shares (Stocks)	9 Actual Cost	10 Consideration	11 Book/Adjusted Carrying Value at Disposal Date	Change in Book/Adjusted Carrying Value 12 Unrealized Valuation Increase/(Decrease)	13 Current Year's (Amortization)/Accretion	14 Current Year's Other Than Temporary Impairment Recognized	15 Total Change in B./A. C.V. (12 + 13 - 14)	16 Total Foreign Exchange Change in B./A. C.V.	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Interest and Dividends Received During Year	21 Paid for Accrued Interest and Dividends
[illegible] Totals																				

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SCHEDULE D - PART 6 - SECTION 1

Valuation of Shares of Subsidiary, Controlled or Affiliated Companies

1	2	3	4	5	6	7	8	Stock of Such Company Owned by Insurer on Statement Date	
								9	10
CUSIP Identification	Description Name of Subsidiary, Controlled or Affiliated Company	Foreign	NAIC Company Code or Alien Insurer Identification Number	NAIC Valuation Method (See SVO Purposes and Procedures manual)	Do Insurer's Admitted Assets Include Intangible Assets Connected with Holding of Such Company's Stock?	Total Amount of Such Intangible Assets	Book / Adjusted Carrying Value	Number of Shares	% of Outstanding
1905898 Totals								XXX	XXX

NONE

1. Amount of insurer's capital and surplus from the prior period's statutory statement reduced by any admitted EDP, goodwill and net deferred tax assets included therein $
2. Total amount of intangible assets nonadmitted $

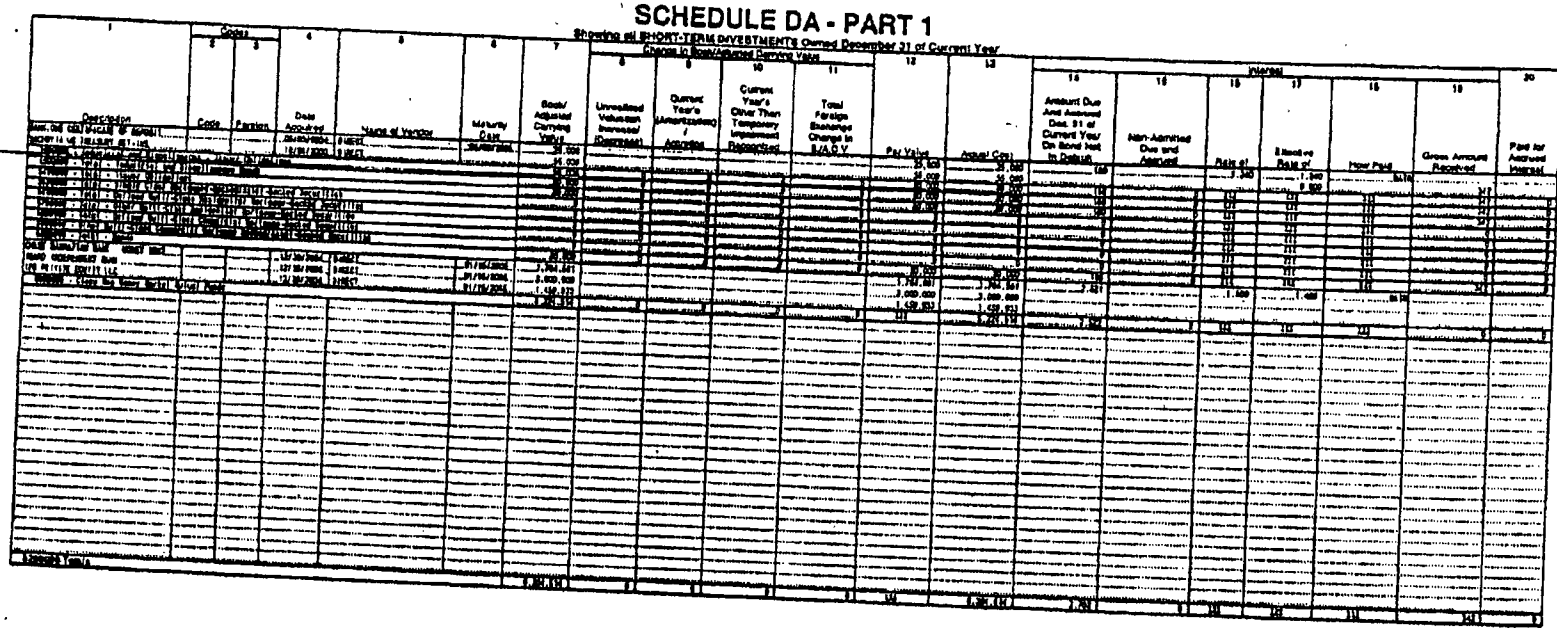
SCHEDULE D - PART 6 - SECTION 2

1	2	3	4	Stock in Lower-Tier Company Owned Indirectly by Insurer on Statement Date	
				5	6
CUSIP Identification	Name of Lower-Tier Company	Name of Company Listed in Section 1 Which Controls Lower-Tier Company	Total Amount of Intangible Assets Included in Amount Shown in Column 7, Section 1	Number of Shares	% of Outstanding
1099999 Total				XXX	XXX

NONE

SCHEDULE DA - PART 1

Showing all SHORT-TERM INVESTMENTS Owned December 31 of Current Year



Schedule DB - Part A - Section 1

NONE

Schedule DB - Part A - Section 2

NONE

Schedule DB - Part A - Section 3

NONE

Schedule DB - Part B - Section 1

NONE

Schedule DB - Part B - Section 2

NONE

Schedule DB - Part B - Section 3

NONE

Schedule DB - Part C - Section 1

NONE

Schedule DB - Part C - Section 2

NONE

Schedule DB - Part C - Section 3

NONE

Schedule DB - Part D - Section 1

NONE

Schedule DB - Part D - Section 2

NONE

Schedule DB - Part D - Section 3

NONE

Schedule DB - Part E - Section 1

NONE

SCHEDULE E - PART 1 - CASH

1 Depository	2 Code	3 Rate of Interest	4 Amount of Interest Received During Year	5 Amount of Interest Accrued December 31 of Current Year	6 Balance	7
JPMORGAN CHASE BANK NEW YORK, NEW YORK		1.420	4,327	0	553,424	XXX
0199998 Deposits in depositories which do not exceed the allowable limit in any one depository (See instructions) - open depositories	XXX	XXX				XXX
0199999 Totals - Open depositories	XXX	XXX	4,327		553,424	XXX
0299998 Total Cash on Deposit	XXX	XXX	4,327		553,424	XXX
0499998 Cash in Company's Office	XXX	XXX	XXX	XXX	250	XXX
0599999 Total Cash	XXX	XXX	4,327		553,674	XXX

TOTALS OF DEPOSITORY BALANCES ON THE LAST DAY OF EACH MONTH DURING THE CURRENT YEAR

1. January	888,888	4. April	510,885	7. July	1,956,878	10. October	828,721
2. February	1,088,193	5. May	1,523,498	8. August	1,789,089	11. November	828,955
3. March	1,449,859	6. June	3,347,924	9. September	771,880	12. December	553,674

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SCHEDULE E - PART 2 CASH EQUIVALENTS

Showing Investments owned December 31 of current year

1 CUSIP Identification	2 Description	3 Code	4 Date Acquired	5 Rate of Interest	6 Maturity Date	7 Book/Adjusted Carrying Value	8 Amount of Interest Due & Accrued	9 Gross Investment Income
0199999 Total Cash Equivalents								

SCHEDULE E - PART 3 - SPECIAL DEPOSITS

1 Line Number	2 Type	3 Description of Deposit	4 Where Deposited and Purpose of Deposit	5 Par or Book Value	6 Statement Value (a)	7 Fair Value
AL000001	B	U.S. Treasury Notes 6.750% Due 08/15/10 Cusip 912827RC6	Bankers Bank, N.A., AZ RSD by Ins A.R.S. 21-481 Subsect C	125,000	138,910	137,617
AL000002	B	U.S. Treasury Notes 4.375% Due 05/15/07 Cusip 912828AC4	Bankers Bank, N.A., AZ RSD by Ins A.R.S. 21-481 Subsect C	350,000	359,577	359,735
AR99999 - Arizona				475,000	498,487	497,353
AR000001	B	U.S. Treasury Notes 5.750% Due 08/15/10 Cusip 912827RC6	Bankers Bank, N.A., AR RSD by Ins Code, Sect 826-51	100,000	111,128	110,064
AR99999 - Arkansas				100,000	111,128	110,064
FL000001	B	U.S. Treasury Notes 3.875% Due 02/15/13 Cusip 912828AX0	Bankers Bank, N.A., FL RSD by Ins Code, Sect 826-51	55,000	54,773	54,261
FL000002	B	U.S. Treasury Notes 5.750% Due 08/15/10 Cusip 912827RC6	Bankers Bank, N.A., FL RSD by Ins Code, Sect 826-51	150,000	166,692	165,141
FL99999 - Florida				205,000	221,465	219,402
GA000001	B	U.S. Treasury Notes 3.000% Due 02/15/11 Cusip 912827TB7	Bankers Bank, N.A., GA RSD by Ins Code, Sect 33-11-10	35,000	35,140	34,864
GA99999 - Georgia				35,000	35,140	34,864
LA000001	B	U.S. Treasury Notes 3.375% Due 02/15/13 Cusip 912828AU4	Hibernia Nat'l Bk-N.A., LA RSD by Ins Code, Sect 22:841	20,000	19,917	19,731
LA99999 - Louisiana				20,000	19,917	19,731
MO000001	B	U.S. Treasury Notes 3.875% Due 02/15/13 Cusip 912828AX0	Central Bank, MO RSD by Ins Code	210,000	209,131	207,178
MO99999 - Missouri				210,000	209,131	207,178
NM000001	B	U.S. Treasury Notes 5.750% Due 08/15/10 Cusip 912827RC6	Sanwest Trust and Asset Mgmt, NM, NM RSD by Ins Code, Sect 58A-7-2	125,000	138,910	137,617
NM99999 - New Mexico				125,000	138,910	137,617
NY000001	B	U.S. Treasury Notes 3.375% Due 11/15/08 Cusip 912828BG5	Citizens Trust Bank, FSB, NY, NY RSD by Ins Code, Sect 11.14	125,000	126,133	125,305
NY000002	B	U.S. Treasury Notes 3.000% Due 02/15/08 Cusip 912828AH7	Citizens Trust Bank, FSB, NY, NY RSD by Ins Code, Sect 11.14	125,000	126,133	125,305
NY99999 - New York				250,000	252,266	250,610
NC000001	C	U.S. Treasury Notes 6.500% Due 02/15/10 Cusip 912827RC6	Bankers Bank, N.A., NC RSD Ins Code/Article 20, Chapter 58-184 S	350,000	389,498	386,173
NC000002	C	Bankers U.S. Treasury MMKT Cusip 99C000041	Bankers Bank, N.A., NC RSD by Ins Code, Sect 33-11-10	1,000,000	1,024,042	991,973
NC000003	B	U.S. Treasury Notes 2.375% Due 08/15/06 Cusip 912828AF4	Bankers Bank, N.A., NC RSD Ins Code/Article 20, Chapter 58-184 S	1,000,000	1,018,510	1,000,000
NC99999 - North Carolina				2,350,000	2,432,050	2,378,146
OK000001	C	Bank One OK 1.245 Due 08/00/05 Cusip 1140005010	Bank One Oklahoma, OK RSD by Ins Code, Pursuant to 36 O.S. 613	25,000	27,782	27,523
OK99999 - Oklahoma				55,000	55,000	55,000
SC000001	B	PHLB 4.250% Due 11/13/08 Cusip 313380BP4	Bankers Bank, SC RSD by Act 857, Section 1, 1962 Acts	300,000	302,316	297,188
SC000002	B	U.S. Treasury Notes 3.875% Due 02/15/13 Cusip 912828AX0	Bank of Beaufort, SC RSD by Act 857, Section 1, 1962 Acts	325,000	324,097	321,711
SC99999 - South Carolina				25,000	25,000	24,000
QT0000001	B	U.S. Treasury Notes 3.875% Due 02/15/13 Cusip 912828AX0	Federal Reserve Bk of St. Louis, MO for U.S. Dept. of Labor	25,000	25,000	24,000
QT99998 - Other				50,000	50,000	48,000
9999997 - Totals - Not All Policyholders				135,000	16,185	15,225
9999998 Totals				150,000	134,447	133,186
				600,000	149,597	148,411
				800,000	597,122	591,938
				4,125,000	597,122	591,938
				4,125,000	4,239,188	4,184,074
					4,239,188	4,184,074

(a) Including $ cash and short-term investments as defined in SSAP No. 2 of the NAIC Accounting Practices and Procedures Manual.

REALM NATIONAL INSURANCE COMPANY

VIA HAND DELIVERY

June 8, 2005

RECEIVED
JUN 8 2005
FINANCIAL CONDITION
PROPERTY / CASUALTY BUREAU

Honorable Howard Mills,
Superintendent of Insurance
State of New York Insurance Department
25 Beaver Street
New York, NY 10004

Subject: Realm National Insurance Company

Dear Superintendent Mills,

Pursuant to the authority vested in me by the Board of Directors of Realm National Insurance Company ("the "Company"), I hereby confirm that the Company consents to the entry of an order of liquidation pursuant to Article 74 of the New York Insurance Law.

The Company further consents to the Superintendent filing an application for such order in the Supreme Court of the State of New York, County of New York.

Attached hereto is a certified copy of the resolutions of the Board of Directors of Realm National Insurance Company which authorized the undersigned to make this consent.

Sincerely,

Mark S. Sloma, CPCU
President
Realm National Insurance Company

mss/

attachment(s)

125 MAIDEN LANE FIFTH FLOOR NEW YORK, NY 10038 PHONE (212) 269-6700 FAX (212)269-6758

460

RESOLUTION OF THE BOARD OF DIRECTORS OF REALM NATIONAL INSURANCE COMPANY

Upon motion duly made, seconded an carried, the following resolutions were adopted by the unanimous affirmative vote of the directors present at the time of the vote at a duly called special meeting of the board, a quorum being present.

RESOLVED, that the corporation, by action of Mr. Sioma, President of Realm National, consents to the entry of an Order of Liquidation pursuant to Article 74 of the New York Insurance Law and to said proceeding being brought in the Supreme Court of the State of New York, County of New York and it is further;

RESOLVED, that Mr. Sioma is authorized to certify a copy of such resolutions as having been adopted by this board in accordance with the resolution, and the acting secretary is herby directed to affix a copy thereof to the minutes.

I have compared the foregoing with the resolutions adopted by the Board of Directors of Realm National Insurance Company at a special meeting held at 125 Maiden Lane. 5th Floor, New York, New York 10038, a quorum being present on the 8th day of June 2005, as recorded in the minute book of said company, and I hereby certify that the same is a true, correct, and complete copy thereof, and that the same has not been rescinded.

WITNESS my hand and the seal of the Company, this 8th day of June 2005.

Anthony J. Del Tufo, Acting Secretary

461

In accordance with Part 130, I advise that the following papers are attached:

1.Order to Show Cause and Petition with Exhibits

Eliot Spitzer
Attorney General of the State of New York
120 Broadway
New York, New York 10721
(212) 416-8658

By: Neil S. Mann

462

Sir:

Please take notice that the within is a true copy of
duly filed and entered in the office of the clerk of
the County, on
day of 20

Yours, etc.,
ELIOT SPITZER
Attorney General,
Attorney for

Office and Post Office Address
120 Broadway, New York, N.Y. 10271

To
, Esq.
Attorney for

Sir

Please take notice that the within
will be presented for settlement and signature herein to the HON.
one of the judges of the within named Court, at
in the Borough of
City of New York, on the day of
200 , at A. M.

Date, N.Y.,

Yours, etc.,
ELIOT SPITZER
Attorney General,
Attorney for

Office and Post Office Address
120 Broadway, New York, N.Y. 10271

To:

43

Index No.: *Year*

SUPREME COURT: NEW YORK COUNTY

In the Matter of

the Application of

HOWARD MILLS, Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of and dissolve

REALM NATIONAL INSURANCE COMPANY

05 JUL 13 PM 3:15

ORDER TO SHOW CAUSE

ELIOT SPITZER
Attorney General
Attorney for the Superintendent of Insurance

Office and Post Office Address
120 Broadway, New York, N.Y. 10271
Tel. (212) 416-8658

Personal service of a copy of
within. . . . . .
is admitted this . . . . . day of
. 20

EXHIBIT 4

ARENT FOX KINTNER PLOTKIN & KAHN, PLLC
William J. McSherry, Jr. (WJM-1194)
Edward S. Feig (ESF-6064)
M. Scott Peeler (MSP-1240)
Attorneys for Plaintiffs
1675 Broadway
New York, New York 10019
Tel. No.: 212-484-3900

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY, STIRLING COOKE NORTH AMERICAN HOLDINGS, INC., and ALPHASTAR INSURANCE GROUP LIMITED,	:	Civil Action No.
Plaintiffs,	:	
-against-	:	COMPLAINT
AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC. and ATLANTA INSURANCE MARKETING, INC.,	:	
Defendants.	:	

Plaintiffs Realm National Insurance Company ("Realm"), Stirling Cooke North American Holdings, Inc. ("SCNAH"), and AlphaStar Insurance Group Limited ("AlphaStar"), by their attorneys, Arent Fox Kintner Plotkin & Kahn, PLLC, as and for their Complaint allege as follows:

NATURE OF THE ACTION

1. This action seeks injunctive and declaratory relief, along with damages and the imposition of a constructive trust, to stop a recently-discovered fraud on the general public, multiple state regulatory agencies and the plaintiffs in this action. This action arises from an

outlandish series of illegal and surreptitious actions by the defendants.

2. Without any binding written or other agreement in place, the defendants have been masquerading in at least eighteen states as an authorized insurance agent of the plaintiff Realm, which is an insurer domiciled in and licensed by the State of New York. During this two month long masquerade, the defendants have misled literally thousands of businesses in over a dozen states into believing that these businesses were paying them millions of dollars (in total) for workers compensation insurance coverage supposedly underwritten by Realm. As will be demonstrated, there never was an agreement to allow the defendants to hold themselves out as Realm's agent, and by pretending to be Realm's agent, the defendants have violated insurance laws and regulations of numerous states and have also created massive confusion as to the ownership and control of Realm. As a result, there are tens of thousands of fraudulent insurance certificates outstanding in at least eighteen different states, and the defendants continue to engage in this conduct, collecting and retaining premiums of approximately ten million dollars ($10,000,000) for policies which Realm has not written and cannot write. The need for an immediate cessation of this extraordinary behavior is clear.

3. In conducting this widespread unauthorized sales activity, the defendants have, in effect, stolen Realm's name and business and, in express violation of the applicable insurance laws of at least eighteen states, have "sold" hundreds of millions of dollars of workers' compensation insurance coverage purportedly under the "Realm" name without any license or legal authority to do so.

4. As a consequence of this behavior, Realm faces potential exposure to incalculable claims, loss of business, and damage to its reputation and good will, as well as regulatory

scrutiny and potential disenfranchisement -- all as a result of the defendants' surreptitious, unauthorized and illegal acts purportedly on Realm's behalf.

5. It is clearly not logical for this conduct by the defendants to be allowed to continue; yet, upon information and belief, the defendants continue to engage in this activity.

6. Not content to expose plaintiffs to millions of dollars of unknown consequences from this rogue sales agent activity, one of the defendants, Atlanta Insurance Marketing, Inc. has now threatened to foreclose on the capital stock of Realm based upon manufactured or imagined defaults under a Loan Agreement between that defendant and the plaintiff AlphaStar.

7. AlphaStar in fact received a loan of $1.5 million from this defendant, but was supposed to receive an additional loan of $1.0 million on December 15, 2002. Instead of paying the amount owed -- or ceasing the unauthorized sales activity (as a result of which defendants have already collected and retained approximately $10 million in premiums) -- the defendants have concocted a new strategy of coercive extortion in an apparent attempt to steal the capital stock of Realm from its owners by purporting to exercise collateral pledge rights under a pledge agreement.

8. Of course, if the defendants were to gain control of Realm, they can presumably "cure" their unauthorized sales activities by a retroactive agency appointment, an objective which is expressly conceded in defendants' counsel's most recent threatening letter dated December 24, 2002. Although any change in control of Realm is subject to the prior approval of the New York State Department of Insurance ("NYSDOI"), the defendants have amply demonstrated that they will misrepresent their position vis-à-vis the plaintiffs to regulators as well as customers.

9. Plaintiffs are entitled to an injunction precluding this takeover of Realm from taking place, and from defendants' claiming that such a change of control has occurred as well. Irreparable injury is manifest.

10. Before the plaintiff SCNAH entered into a non-binding letter of intent to sell Realm to the defendants on October 2, 2002, Realm had a regulatory surplus of approximately $10.5 million, commanding a purchase price of $12.0 million. As a result of the defendants' ultra vires actions, Realm has been exposed to tens of millions of dollars of claims under policies it had no knowledge of, which were "written" by the defendants with no authority and, now, the plaintiffs are exposed to the dual threat that (a) the defendants will neither stop their unauthorized authority, nor account for what they have done, including the receipt of and retention of millions of dollars of premiums collected on the strength of Realm's licenses and policyholder surplus, and (b) if the plaintiffs do not give in to the defendants' extortionate threats to authorize these activities retroactively, the defendants claim that they will assume ownership and control of Realm in less than two weeks by "foreclosing" on a $1.5 million loan even though (i) the loan is not in default, (ii) the only claimed defaults were created by the defendants' usurpation of Realm's licensure, and (iii) of the $1.5 million advanced, defendants have already forfeited their right to be repaid $500 thousand due to their failure to advance an additional $1.0 million on December 15, 2002, as they were obligated by the terms of the same Loan Agreement on which they purport to rely as a predicate to their threatened direct appropriation of Realm's stock.

11. Incredibly, the tenets of this scheme are laid bare unequivocally in correspondence from AIMI's Chief Executive Officer dated December 11, 2002 and in two

intemperate and extortionist letters from AIMI's outside counsel dated November 22, 2002 and December 24, 2002.

THE PARTIES

A. Plaintiffs

12. Plaintiff Realm National Insurance Company ("Realm") is a corporation organized and existing under the laws of the State of New York. Realm maintains its principal place of business at 125 Maiden Lane, Fifth Floor, New York, New York 10038 and is a duly licensed insurance company authorized to do business in the State of New York.

13. Plaintiff Stirling Cooke North American Holdings Ltd. ("SCNAH"), a Delaware corporation, has its primary place of business at 125 Maiden Lane, Fifth Floor, New York, New York 10038. Realm is a wholly owned subsidiary of SCNAH.

14. Plaintiff AlphaStar Insurance Group Limited ("AlphaStar") is a Bermuda corporation. It conducts business, *inter alia*, from its office in New York at 125 Maiden Lane, Fifth Floor, New York, New York 10038. AlphaStar is the owner of ten thousand (10,000) shares of the common stock of SCNAH, which constitute all of the issued and outstanding shares of SCNAH's capital stock.

B. Defendants

15. Defendants American Insurance Management Group, Inc., American Insurance Managers, Inc., and Atlanta Insurance Marketing, Inc. (collectively, "AIMI") are each Georgia corporations with their collective principal place of business at 3101 Towercreek Parkway, Suite 750, Atlanta, Georgia 30339.

16. Upon information and belief, none of the defendants is licensed in any State to conduct business as an insurance broker, agent or producer. Upon information and belief, one employee of one of the defendants, American Insurance Managers, Inc., is licensed by the State of Georgia as an insurance agent, as is his employer, but these licenses are currently listed as "inactive" by the Georgia Department of Insurance, and neither that employee nor his employer has ever been approved by Realm as its agent.

JURISDICTION AND VENUE

17. This Court has jurisdiction over the claims alleged herein pursuant to 28 U.S.C. §1332(a) given the diversity of citizenship between the parties and that the amount in controversy exceeds $75,000, exclusive of interest and costs. This Court has jurisdiction to award the injunctive relief sought pursuant to Fed. R. Civ. P. 65 and New York General Business Law §133 and §349(h); and the declaratory relief sought pursuant to 28 U.S.C. §§2201-2202.

18. Venue is based upon 28 U.S.C. §1391(a), and the parties' mutual agreement to submit to the non-exclusive jurisdiction of any Federal Court located in New York City for the adjudication of certain matters as alleged in this Complaint.

FACTUAL BACKGROUND

A. Realm's Business

19. Plaintiff Realm is New York domiciled insurance company that is licensed and approved to conduct its business by the New York State Department of Insurance ("NYSDOI").

20. Realm is also admitted and approved to write insurance in twenty-four additional states and is authorized by four other states to write policies on a "surplus lines" non-admitted basis.

21. Realm is a wholly owned subsidiary of plaintiff SCNAH, and in turn, SCNAH is wholly owned by plaintiff AlphaStar.

B. PEOs

22. The terms of the reinsurance treaties issued to Realm have for several years contained an express exclusion for the writing of "PEO" business. PEO is an acronym for a Professional Employment Organization. Realm does not write insurance covering PEOs or clients of PEOs and does not have in place current underwriting criteria for that type of insurance.

23. A PEO is an organization that arranges with operating businesses to employ the staff of such businesses and, for a fee, provides certain administrative services attendant to such employees, like the provision of workers compensation insurance, while "leasing" the staff back to the operating business.

24. From an insurance underwriting perspective, this type of business is rife with widespread abuse and is extremely risky because of the inherent lack of control over the employees, their locations, identities and jobs, and the consequent difficulty in underwriting the risk.

C. AIMI's Intent To Purchase Realm

25. During the summer of 2002, AIMI entered into negotiations with SCNAH and AlphaStar concerning a possible purchase of all of the outstanding shares of Realm's capital stock, and that of an affiliate, World Trade Services, Inc. ("WTS"), from SCNAH.

26. These negotiations led to the execution of a non-binding Letter of Intent ("LOI") dated October 2, 2002 addressed to Stephen A. Crane, President and Chief Executive Officer of SCNAH and signed by Mr. Crane for SCNAH and by David Dennett-Smith, President and Chief Executive Officer of AIMI.

27. The LOI anticipated prospective future agreements, including (i) a definitive stock purchase agreement providing for the purchase by AIMI of Realm and WTS stock for twelve million dollars ($12,000,000); (ii) a general agency agreement and claim services agreement pending the closing of the stock purchase; and (iii) a loan agreement whereby AIMI would loan AlphaStar up to $3.5 million dollars ($3,500,000) for working capital, to be repaid at the closing of the contemplated stock purchase through a purchase price reduction.

28. The LOI also reveals that the parties expressly intended that the contemplated stock purchase agreement and the general agency agreement would each be subject to, among other things, obtaining necessary prior regulatory approvals from applicable insurance regulators, including the NYSDOI.

29. In that regard, the LOI specifically provided that: "[i]t is the parties' intent to *negotiate in good faith towards the execution of binding and definitive agreements* as soon as is reasonably possible *upon receiving favorable approvals from counsel and regulators having jurisdiction over Realm.*" (emphasis added).

30. The parties to the LOI expressly understood that insurance regulators would have to grant specific approval for AIMI to acquire Realm and WTC, as well as specific approval for any grant of authority from Realm to AIMI pursuant to an agency agreement. Such regulatory approval is essential, as without it, it would be illegal and, indeed, a criminal offense, for AIMI to purport to act as a broker, agent or producer of insurance, whether on its own or on behalf of Realm.

31. The parties have never agreed upon, much less executed, a stock purchase agreement or a general agency or a claims services agreement.

D. The Absence Of An Agency Agreement Between Realm and AIMI

32. Although the LOI contemplated that SCNAH would use its best efforts to have Realm negotiate and execute an agency agreement between Realm and AIMI, no such agreement was ever reached.

33. In this regard, the LOI provided as follows:

> SCNAH shall use its best efforts to cause Realm, *subject to any necessary regulatory approvals*, to enter into a general agency agreement with AIMI, pursuant to which *Realm would agree to consider in good faith the writing of business introduced by AIMI to the extent that it meets Realm's underwriting criteria.*

(emphasis added)

34. The parties to the LOI expressly understood that any agency agreement was subject not only to regulatory approval, but if and when executed, it would bind Realm to write insurance introduced to it by AIMI only to the extent that this business met Realm's underwriting criteria. As alleged above, Realm does not have current underwriting criteria for workers compensation insurance issued to PEOs or their clients. PEO business is also

specifically excluded from the workers compensation reinsurance treaties which protect Realm, and the defendants were informed of these exclusions from the commencement of negotiations.

35. None of the parties has received any approval from any insurance regulator either for the contemplated stock purchase of Realm and WTS or for any proposed agency agreement between Realm and AIMI.

36. AIMI has never presented Realm, SCNAH, or AlphaStar with a single specific prospective insurance proposal involving PEO business for Realm to consider issuing pursuant to any underwriting criteria to be developed by Realm. Recently, AIMI has provided Realm with some of its own underwriting materials.

37. On or about August 29, 2002, prior to the execution of the LOI, AIMI sent plaintiffs a proposed draft agency agreement for review. Shortly after reviewing AIMI's proposed draft, Realm's President, Mark S. Sioma, informed AIMI that its draft was unacceptable for several reasons, including but not limited to, its failure to comply with New York State Insurance Department Regulation No. 120 ("Reg. No. 120"). That regulation specifically deals with Managing General Agents ("MGAs") and the conditions pursuant to which an insurance company may enter into agreements with MGAs to conduct all or part of their insurance business.

38. AIMI never addressed this or any other deficiency, despite its obvious importance in view of the LOI's express contemplation that regulatory approval would be required for any agency agreement.

39. To date, the parties have not agreed upon an acceptable form of any general agency agreement, much less executed one.

E. The Loan Agreement and Pledge Agreement

40. The only binding agreements completed between the parties thus far have been the loan agreement ("Loan Agreement") specifically contemplated in the LOI, and a related pledge agreement ("Pledge Agreement"), each dated October 2, 2002.

41. The Loan Agreement called for AIMI to loan AlphaStar up to four separate tranches of funds totaling $3.5 million dollars during the period between the agreement's signing (i.e., October 2) and the closing (expected to be in early 2003, subject, of course, to approval by the Superintendent of Insurance of the State of New York). To date, AIMI has advanced a total of $1.5 million, representing the First Tranche Loan ($500,000) and the Second Tranche Loan ($1 million). The remaining funds were to be advanced by no later than December 15, 2002 upon the execution of a definitive stock purchase agreement (the "Third Tranche Loan" in the amount of $1 million), and the final $1 million (the "Final Tranche Loan") no later than January 15, 2003. No advance was made to AlphaStar on December 15, 2002.

42. The Loan Agreement also provided, inter alia, that if AIMI were to fail to make the Third Tranche Loan or Final Tranche Loan within three business days of the date specified for such loan -- i.e., December 15, 2002 and January 15, 2003, respectively -- "the First Tranche Loan, together with all accrued and unpaid interest thereon, shall be forfeited by [AIMI] to [AlphaStar]." More than three business days have passed since the date on which the Third Tranche Loan was to have been made.

43. Pursuant to the Pledge Agreement, AlphaStar pledged its shares in SCNAH (which in turn holds the capital stock of Realm and WTS, among other assets) to AIMI as collateral security for the loan(s) to be provided under the Loan Agreement.

44. Among other things, the Pledge Agreement provides AIMI with certain rights with respect to the collateral, including the right to vote the SCNAH stock upon an "Event of Default" -- but only "subject to the receipt of all required regulatory approvals." (emphasis added).

F. November 19, 2002: Realm First Discovers AIMI's Misconduct

45. Notwithstanding the absence of any executed general agency agreement, plaintiffs learned in late November 2002 that AIMI had been purporting to act as Realm's "agent" for at least six weeks.

46. On or about November 19, 2002, Realm learned for the first time that AIMI had caused a certificate of insurance to be issued which purported to reflect coverage bound by Realm under an AIMI insurance program. The certificate listed "Texas Leasing," a PEO, as the named insured. This certificate came to Realm's attention when the Texas Workers Compensation Commission sought to confirm that Realm was actually insuring PEOs.

47. AIMI caused said insurance certificate to be issued without the benefit of an agency agreement, a prior presentation to Realm to consider such a policy under its underwriting criteria, or any other authority from Realm or from the NYSDOI.

48. As Texas Leasing is clearly a PEO, Realm would never have approved the issuance of said insurance certificate.

49. From the outset of the negotiations between the parties, plaintiffs informed defendants that Realm was unable to issue such insurance to a PEO or a client of a PEO, given, among other reasons, the absence of reinsurance or underwriting guidelines for the issuance of such insurance.

50. On November 19, 2002, AlphaStar's General Counsel, James Lawless, corresponded with AIMI's President and Chief Executive Officer, David Dennett-Smith, stating that the insurance certificate to "Texas Leasing" was not authorized by Realm and seeking an immediate explanation.

G. November 20, 2002: AIMI Affirmatively Deceives Realm

51. On November 20, 2002, Mr. Sioma and Mr. Lawless called AIMI's Senior Vice-President, Stephen J. Landin, regarding their concerns about Texas Leasing. Mr. Landin stated in substance that the "Texas Leasing" certificate was unauthorized; that a "rogue broker," The Barrow Group ("Barrow Group"), which had issued the certificate, would be terminated; and that AIMI had informed the affected insureds that the certificates were unauthorized.

52. Mr. Landin wrote to The Barrow Group on that same day, copying plaintiffs, demanding that The Barrow Group cease and desist all representation of the workers compensation insurance program. In a conscious act of deception by omission, Mr. Landin made the aforementioned representations and forwarded that correspondence to Realm without ever informing plaintiffs that AIMI had been issuing similar certificates to clients of other PEOs for several weeks.

53. Later that same day, Realm learned of another unauthorized certificate of insurance in which AIMI purportedly bound Realm to provide workers compensation insurance to "Staffmasters," a PEO client of AIMI, located in the State of Florida.

54. Realm learned of this "Staffmasters" certificate when contacted by the Florida Department of Insurance. Realm immediately contacted David Dennett-Smith, AIMI's President, and Steve Landin seeking an additional explanation and informed them that the

477

Florida Department of Insurance required a formal response to its inquiry into the possible issuance of unauthorized insurance certificates.

55. In further acts of deception by omission, Messrs. Dennett-Smith and Landin informed Realm that the "Staffmasters" certificate was also unauthorized -- in fact, they maintained that it was the product of a forgery that was under an internal investigation -- without revealing AIMI's yet undiscovered issuance of numerous similar certificates. Mr. Dennett-Smith and Mr. Landin compounded their misconduct by allowing Realm to respond formally to the Florida Department of Insurance without the benefit of the operative facts.

56. Based on AIMI's representations, Realm communicated with the Florida Department of Insurance and informed this regulator in relevant part:

> "We have communicated extensively with the staff at AIMI and believe that the certificates were pre-maturely issued in error. While we do not know the precise details of events, we have requested, and AIMI has agreed to investigate the matter thoroughly...."

H. November 21, 2002: Realm Learns AIMI Itself Issued Or Authorized The Issuance Of Certificates In Realm's Name

57. Much to its surprise, late in the evening of November 21, 2002, Realm learned for the first time that AIMI itself was authorizing the issuance of certificates to clients of PEOs in Realm's name and had authorized sub-producers to issue them in Realm's name as well.

58. AIMI had previously scheduled a meeting in Bermuda to take place on November 22, 2002 with representatives of a reinsurance company that was considering providing a portion of the reinsurance coverage for AIMI's PEO insurance program. Mr. Sioma was scheduled to attend, but given the emerging awareness of AIMI's misconduct and deception, Mr. Sioma and Mr. Crane considered canceling Mr. Sioma's attendance at the meeting.

59. After consultation with Mr. Crane, Mr. Sioma decided to attend that meeting for fear that his refusal to attend could later be used by AIMI, *inter alia*, to claim lack of cooperation and good faith in reaching a prospective agency agreement and consummating the sale of Realm contemplated in the LOI.

I. November 22, 2002: Realm and SCNAH Get Independent Confirmation of AIMI's Misconduct; AIMI Concocts "Apparent Authority" Argument

60. On November 22, 2002, while Mr. Sioma was at the Bermuda meeting, AlphaStar's Mr. Crane contacted AIMI's Mr. Dennett-Smith for additional explanations concerning this conduct. Mr. Dennett-Smith at first responded that, like the Texas and Florida certificates referred to above, more "rogue brokers" had issued additional certificates; however, when Mr. Crane challenged him further, Mr. Dennett-Smith admitted (for the first time) that AIMI itself had in fact been authorizing certificates to be issued.

61. Contemporaneously Mr. Sioma learned, while in attendance at the aforementioned meeting in Bermuda, that AIMI was in fact making commitments to PEO clients in Realm's name, despite the lack of an agency agreement and AIMI's legal inability to issue any workers compensation insurance policy in any state, as Realm's agent or otherwise.

62. Later that same day, following Mr. Dennett-Smith's admission of AIMI's direct issuance of insurance certificates to PEO clients, and with an awareness that AIMI might be implicated in multiple acts of unauthorized issuance of insurance certificates without proper authorization and regulatory authority, AIMI abandoned its prior contention that the unauthorized certificates were the product of "rogue brokers" and "forgeries."

63. In a dramatic reversal of AIMI's position, Howard A. Becker, Esq., an attorney for AIMI, wrote a letter to Mr. Lawless on November 22, 2002, in which AIMI asserted for the

first time that it had acted with "apparent authority" from Realm in engaging in this conduct. Mr. Becker stated in relevant part, "...AIMI had apparent authority to bind coverage pursuant to the Letter of Intent, the conduct of the parties, the performance of the parties under this agreement and the authority granted by the Loan Agreement and the Pledge Agreement obligation."

64. In that same letter, Mr. Becker also expressly threatened that AIMI would seize control of Realm or force it into receivership -- in other words, destroy Realm -- unless Realm capitulated to AIMI's extortionist demand that it "immediately execute" the palpably deficient draft general agency agreement and otherwise acquiesce in AIMI's unauthorized and illegal conduct.

65. Despite having a virtual gun pointed at its head by AIMI's counsel, plaintiffs never authorized AIMI to issue insurance certificates in Realm's name, no general agency agreement was signed between the parties, and plaintiffs could not in good conscience accede to AIMI's improper threats and demands.

J. The Degree of AIMI's Known Misconduct

66. A fuller extent of the truth, albeit not emanating from the defendants, began to emerge in the days and weeks following the November 22 meeting. By November 26, 2002, Realm had been told that seven hundred (700) certificates had been issued by AIMI with the pretense that Realm was bound to the coverage.

67. Despite AIMI's begrudging insistence that this was the full extent of the problem, Realm subsequently learned that AIMI has actually issued (or authorized the issuance of) over ten-thousand (10,000) insurance certificates in the following eighteen states using Realm's name, without its permission or authority: New York, Texas, Nebraska, North Carolina, Ohio, Georgia,

480

South Dakota, Arizona, Tennessee, New Mexico, Oklahoma, Missouri, Indiana, Illinois, Louisiana, Mississippi, Florida and South Carolina.

68. Upon information and belief, AIMI has collected premiums approximating ten million dollars ($10,000,000) through its unauthorized "sale" of insurance using Realm's name. Realm had no prior knowledge of, and never authorized, any of these certificates and has not received a single penny of these fraudulently procured premiums.

K. The Urgent Need for Injunctive Relief

(a) Relating To These Unauthorized Certificates

69. Realm has borne the brunt of AIMI's misconduct in numerous devastating ways.

70. Since learning of AIMI's unauthorized issuance of insurance certificates to PEOs and to clients of PEOs in Realm's name, Realm has notified the authorities in each of the states whose residents it has information to believe may have been issued such unauthorized certificates.

71. These notices to state authorities apprise them of the current situation, invite further inquiries as appropriate and offer to assist the states in alleviating any harm to their residents.

72. Realm has also notified all of the known PEO clients of AIMI and is currently notifying the named insureds and certificate holders, informing each that the certificates were unauthorized, invalid and should be considered void *ab initio*.

73. AIMI's misconduct has already adversely affected Realm's name and reputation in the eyes of multiple state insurance authorities, as well as the thousands of named insureds and certificate holders who mistakenly believed in good faith that they possessed valid certificates of insurance with Realm.

74. Realm has a statutory surplus of approximately ten and one-half million dollars ($10,500,000); Realm's ability to issue insurance policies is regulated by the NYSDOI. Because of this relatively low-level of surplus, Realm needs to have reinsurance in place to spread or transfer the risk created by policies written. By improperly issuing unauthorized certificates to clients of PEOs in amounts far exceeding that able to be covered by Realm without reinsurance in place, AIMI's conduct has obviously threatened to place Realm in severe financial and regulatory jeopardy.

75. Due to the aforementioned acts of deception, directed at the plaintiffs, multiple state insurance agencies and the general public, and by attempting to make Realm an unwitting party to the improper issuance of insurance certificates to clients of PEOs, Realm has also been forced to terminate its contemplated sale to AIMI.

(b) Relating To Defendants' Threats To Take Over Realm

76. Given the clear and immediate danger that AIMI will make good on its threats to seize control of Realm and improperly assert ownership over plaintiffs' business, it is no exaggeration to state that Realm's continued ability to do business is very much at risk. As a regulated business, it is essential that there be no confusion as to the ownership of Realm in the minds of the regulators and of the participants in the insurance marketplace.

77. Based on explicit threats contained in AIMI's counsel's most recent demands of December 24, 2002, it is clear that, unless enjoined, AIMI intends to claim that it owns and controls Realm and SCNAH, notwithstanding defendants' failure to pay for this stock (or even make the loans to AlphaStar which it committed to make in the Loan Agreement) and its outrageous usurpation of Realm's underwriting authority (as a result of which it has received approximately $10 million dollars, all of which it has retained without an accounting).

78. Plaintiffs have no adequate remedy at law and will clearly suffer irreparable injury if the self-executing transactions expressed in these extortionist threats are not halted immediately.

(c) Ongoing Nature Of The Harm

79. Moreover, plaintiffs believe that AIMI is continuing to issue unauthorized insurance certificates using Realm's name, exposing Realm and the general public to additional potential harm and fostering even more confusion about who has authority to write insurance for Realm.

80. Realm has also been forced to conduct an extensive factual investigation and to retain attorneys in order to protect and prosecute its rights in this Court and with respect to insurance regulators in over a dozen states, incurring enormous costs and expenses, which are continuing.

FIRST CLAIM FOR RELIEF FOR TEMPORARY PRELIMINARY AND PERMANENT INJUNCTIVE RELIEF BASED ON IRREPARABLE HARM
(Count One -- By All Plaintiffs)

81. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 80 with the same force and effect as if fully set forth at length herein.

82. As a direct and proximate result of defendant's conduct, plaintiffs have sustained and will continue to sustain incalculable damage to their business, good will and reputation, and otherwise have been irreparably harmed.

83. AIMI's unauthorized conduct vis-à-vis the insurance marketplace has resulted in on-going damage to Realm's good will and reputation in multiple states and in the eyes of thousands of certificate holders. Moreover, AIMI has also threatened to exercise rights against

AlphaStar and SCHAH under the Pledge Agreement improperly in order to continue and advance the pretense that the defendants actually own or control SCNAH and Realm.

84. Defendants' acts are imminent and ongoing and the damages they are causing to plaintiffs are irreparable. It would be difficult to ascertain the quantum of damages that defendants have caused and will continue to cause plaintiffs, such that Realm, SCNAH and AlphaStar have no adequate remedy at law.

85. By reason of the foregoing, Realm, SCNAH and AlphaStar are entitled to temporary, preliminary and permanent injunctive relief against defendants restraining and enjoining the defendants from taking the actions specified below in the prayer for relief and to damages in an amount to be determined at trial, which will exceed $75,000 exclusive of interests and costs.

SECOND CLAIM FOR A DECLARATORY JUDGMENT
THAT AIMI WAS NOT AND IS NOT AUTHORIZED TO ENGAGE
IN ANY FORM OF BUSINESS ACTIVITY ON
REALM'S BEHALF OR IN REALM'S NAME OR USING REALM'S NAME
(Count Two – By Realm)

86. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 85 with the same force and effect as if fully set forth at length herein.

87. An actual case and controversy has developed between the parties in which AIMI claims to have acted and to continue to act with "apparent authority" from Realm to issue or cause the issuance of insurance certificates using Realm's name as the "insurer".

88. In sharp contrast, plaintiffs have steadfastly asserted that they have never authorized AIMI to engage in any business activities on behalf of or in the name of Realm, and

484

further that plaintiffs could not have given such authority to AIMI as a matter of law without obtaining prior regulatory approval which has not been obtained.

89. The parties never executed any agency or other agreement that authorized AIMI to engage in any business on behalf of Realm and plaintiffs never directly or indirectly authorized AIMI to issue or write any insurance certificates using Realm's name in any State.

90. In fact, AIMI was never authorized, licensed or approved to issue insurance under Realm's name in any State.

91. This claim and controversy directly affects plaintiff's valuable legal rights to a specific and substantial degree.

92. Defendants conduct and threatened conduct has caused and will cause irreparable harm to plaintiffs.

93. The question of whether authority was granted is a purely legal matter of interpretation and does not require further factual development. An expeditious resolution of this question would prevent AIMI from improperly claiming it had apparent authority to issue insurance certificates using Realm's name, prevent further damage to Realm's good will and reputation and halt an inexcusable fraud on the general public in multiple states.

94. By reason of the foregoing, Realm, SCNAH and AlphaStar are entitled to a declaratory judgment holding that defendants were not authorized agents of Realm, and they could not and cannot legally issue or cause the issuance of any certificates of insurance using Realm's name, or otherwise engage in any form of business activity on Realm's behalf or in Realm's name.

THIRD CLAIM FOR
BREACH OF CONTRACT
(Count Three – By SCNAH)

95. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 94 with the same force and effect as if fully set forth at length herein.

96. AIMI has breached its contractual obligation to proceed in "good faith" as required by the LOI by:

(i) surreptitiously and illegally holding itself out as Realm's "agent" during the pending "negotiation" contemplated by the LOI, a negotiation which in fact never occurred before AIMI caused widespread chaos by issuing thousands of insurance certificates without Realm's authorization;

(ii) affirmatively deceiving Realm and thousands of innocent customers in the manner set forth herein; and

(iii) improperly threatening to take control of Realm or to force Realm into receivership unless Realm were to execute a legally deficient general agency agreement and otherwise capitulate to AIMI's scheme to acquire or destroy Realm.

97. Plaintiffs are entitled to damages flowing from AIMI's breach of the LOI, the amount of which all not ascertainable at present, but which are clearly in excess of $75,000, exclusive of interest and costs.

FOURTH CLAIM FOR BREACH OF THE IMPLIED
COVENANT OF GOOD FAITH AND FAIR DEALING
(Count Four – By SCNAH and AlphaStar)

98. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 97 with the same force and effect as if fully set forth at length herein.

99. Defendants' conduct as described herein also constitutes a breach of the implied covenant of good faith and fair dealing inherent in each of the LOI, the Loan Agreement and the Pledge Agreement.

100. AIMI has embarked on an illicit and unauthorized campaign to obtain millions of dollars of premiums through false pretense, illegally holding itself out as Realm's agent, and exposing Realm to incalculable claims and potential liability in connection with the unauthorized issuance of thousands of insurance certificates.

101. After creating this imminent and irreparable harm to Realm and its owners, AIMI accused Realm of failing to maintain its "good standing" and -- based upon that pretense -- has threatened to seize control over Realm, to exercise certain rights in the Pledge Agreement to vote SCNAH's stock and has recently sought to accelerate AlphaStar's repayment obligations pursuant to the Loan Agreement by manufacturing claims of default thereunder.

102. Plaintiffs are thereby entitled to damages flowing from AIMI's breaches of the covenant of good faith and fair dealing, the amount of which are not ascertainable at present, but which are clearly in excess of $75,000, exclusive of interest and costs.

FIFTH CLAIM FOR A DECLARATORY JUDGMENT THAT
PLAINTIFFS ARE DISCHARGED OF ALL OBLIGATIONS UNDER
THE LOAN AGREEMENT AND PLEDGE AGREEMENT AND ANCILLARY RELIEF
(Count Five -- By AlphaStar)

103. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 102 with the same force and effect as if fully set forth at length herein.

104. An actual case and controversy has clearly developed between the parties that does not require further factual development and directly affects plaintiff's valuable legal rights to a specific and substantial degree.

105. AIMI's conduct described above is not only a breach of the implied covenant of good faith and fair dealing, but also constitutes willful and wanton bad faith by AIMI as a lender to AlphaStar.

106. Plaintiff AlphaStar is entitled to a declaratory judgment that it is fully discharged of all obligations under the Loan Agreement and Pledge Agreement which judgment shall also require AIMI to return the collateral which AIMI holds under the Pledge Agreement (and threatens to abuse) and awards plaintiff AlphaStar such other and further relief as the Court shall deem appropriate, including compensatory damages as a result of defendants' conduct, which is so egregious, wanton, willful and malicious that an award of punitive damages is warranted to prevent a recurrence of such conduct.

SIXTH CLAIM FOR AN ACCOUNTING AND THE IMPOSITION OF A CONSTRUCTIVE TRUST OVER AIMI'S ILLEGALLY OBTAINED PREMIUMS
(Count Six -- By All Plaintiffs)

107. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 106 with the same force and effect as if fully set forth at length herein.

108. AIMI has embarked on an illicit and unauthorized campaign to obtain millions of dollars of premiums through false pretense, illegally holding itself out as Realm's agent, and exposing Realm to incalculable claims and potential liability in connection with the unauthorized issuance of thousands of insurance certificates far in excess of the amount AIMI improperly collected as premiums, none of which has been remitted to any of the plaintiffs.

109. Moreover, AIMI has actively perpetrated a fraud on the public, improperly holding itself out as Realm's agent and, upon information and belief, unjustly enriching itself by billing, collecting and retaining approximately ten million dollars ($10,000,000) in illegally obtained premiums.

110. It would be both unconscionable and inequitable for AIMI to continue retaining these collected premiums, and to prevent AIMI's unjust enrichment, the Court should order a constructive trust over AIMI's illegally obtained property.

111. Plaintiffs are entitled to, and respectfully request the Court to impose, a constructive trust on all premiums collected by AIMI through the improper writing of insurance certificates as described herein in an amount believed to be approximately ten million dollars ($10,000,000).

112. In furtherance of this requested relief, plaintiffs also request the Court to order AIMI to account to the plaintiffs and to make immediate and full disclosure to the Court and to plaintiffs of:

(i) all certificates of insurance (or other evidence of the existence of insurance) it issued or caused to be issued using the name of Realm;

(ii) all premiums received by AIMI with respect to such certificates of insurance and any related insurance commitments; and

(iii) all other commitments received by AIMI with respect to the payment of future premiums to be received on all insurance which in any way uses the name of Realm as a putative insurer, and all documents which reflect any commitment to issue insurance made by any of the defendants purportedly on behalf of any of the plaintiffs.

SEVENTH CLAIM FOR INJUNCTIVE RELIEF BASED ON DEFENDANTS' VIOLATION OF NEW YORK GENERAL BUSINESS LAW §133
(Count Seven -- By Realm)

113. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 112 with the same force and effect as if fully set forth at length herein.

114. As described herein, AIMI has actively perpetrated a fraud on the general public in at least eighteen states, including New York, improperly writing insurance certificates in Realm's name, without plaintiff's prior knowledge, consent or authority.

115. AIMI has repeatedly held itself out as Realm's agent supposedly authorized to write such insurance certificates when it was clearly aware that no such relationship existed. Consequently, Realm has no adequate remedy at law since it cannot possibly protect itself from this ongoing clandestine activity.

116. AIMI's conduct has both deceived and mislead the public as to its identity and authority, thereby violating Section 133 New York General Business Law repeatedly on occasions and in places which are currently unknown to the plaintiffs.

117. Plaintiffs are entitled to an injunction under General Business Law §133 ordering defendants to cease and desist any public claim that they are an agent of Realm authorized to issue or cause the issuance of certificates of insurance in Realm's name.

EIGHTH CLAIM FOR INJUNCTIVE RELIEF AND ACTUAL DAMAGES AND ATTORNEYS' FEES PURSUANT TO DEFENDANTS' VIOLATION OF NEW YORK GENERAL BUSINESS LAW §349(h)
(Count Eight – By Realm)

118. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 117 with the same force and effect as if fully set forth at length herein.

119. Defendants' acts and business practices described herein were willful and knowing acts of deception which mislead the public in a material way in violation of New York General Business Law §349.

120. Plaintiffs have no adequate remedy at law and, due to the defendants' refusal to account to the plaintiffs, are not presently aware of the exact details or occasions of the defendants' multiple violations of the New York General Business Law.

121. Plaintiffs are entitled to an injunction under General Business Law §349(h) ordering defendants to cease and desist any public claim or assertion that they are an agent of Realm authorized to issue or to cause the issuance of certificates of insurance using Realm's name and to cease and desist from issuing certificates of insurance in Realm's name in any state or jurisdiction, along with plaintiffs' actual damages in an amount to be determined at trial, trebled in accordance with the statute, plus costs, attorneys' fees and interest as permitted by law.

NINTH CLAIM FOR A PRELIMINARY AND PERMANENT INJUNCTION PREVENTING AIMI FROM TAKING ACTION PURSUANT TO THE PLEDGE AGREEMENT OR OTHERWISE HOLDING ITSELF OUT AS IN CONTROL OF REALM STOCK
(Count Nine – By All Plaintiffs)

122. Plaintiffs repeat and re-allege each and every allegation contained in paragraphs 1 through 121 with the same force and effect as if fully set forth at length herein.

123. AIMI has consistently acted in bad faith and has breached the implied covenant of good faith and fair dealing inherent in the LOI, the Loan Agreement and the Pledge Agreement.

124. Despite their own misconduct and bad faith, defendants are actively threatening to assert ownership over Realm and to vote the shares placed with AIMI in good faith pursuant to the Pledge Agreement, holding themselves out to be the rightful owner of said shares.

125. Defendants acts are imminent and ongoing and the damages they are causing to plaintiffs are irreparable. It would be difficult to quantify the damages that defendants have caused and will continue to cause plaintiffs, such that Realm, SCNAH and AlphaStar have no adequate remedy at law.

126. By reason of the foregoing, Realm, SCNAH and AlphaStar are entitled to a preliminary and permanent injunction ordering defendants to take no action pursuant to the Pledge Agreement with respect to the stock of SCNAH delivered pursuant thereto, and to cease and desist from any and all claims that it owns or controls any of the plaintiffs.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs respectfully request that this Court grant the following relief:

A. A temporary restraining order and preliminary and permanent injunctions, enjoining and restraining defendants, individually and collectively, and their respective agents, attorneys, officers, servants, representatives, employees, affiliates, successors and assigns, and all other persons and/or entities acting in concert and/or conjunction with them, from, either directly or indirectly:

(1) issuing certificates of insurance, or otherwise marketing, selling or soliciting the sale of insurance products, on behalf of, or in the name of, or using the name of, Realm;

(2) holding themselves (or any one of them) out as an agent, broker or representative of Realm, or as the owner, or controlling shareholder, of Realm, or otherwise engaging in or purporting to engage in any business activities or commercial communications on behalf of or in the name of or using the name of Realm; and

(3) exercising, or seeking or purporting to exercise, any rights under a Pledge Agreement dated October 2, 2002 between AlphaStar and Atlanta Insurance Marketing, Inc. (the "Pledge Agreement") pursuant to which AlphaStar pledged all of the outstanding capital stock of the plaintiff SCNAH, a wholly-owned

subsidiary of AlphaStar which, among other things, owns all of the outstanding capital stock of Realm; and

B. A temporary restraining order and preliminary and permanent injunctions under General Business Law §133, enjoining and restraining defendants, individually and collectively, and their respective agents, attorneys, officers, servants, representatives, employees, affiliates, successors and assigns, and all other persons and/or entities acting in concert and/or conjunction with them, from, either directly or indirectly in making any public claim that they are an agent of Realm authorized to issue or cause the issuance of certificates of insurance in Realm's name; and

C. A temporary restraining order and preliminary and permanent injunctions under General Business Law §349(h), enjoining and restraining defendants, individually and collectively, and their respective agents, officers, servants, representatives, employees, affiliates, successors and assigns, and all other persons and/or entities acting in concert and/or conjunction with them, from, either directly or indirectly, making any public claim that they are an agent of Realm authorized to issue or cause the issuance of certificates of insurance in Realm's name and to cease and desist from issuing certificates of insurance in Realm's name in any State or jurisdiction; and

D. A declaratory judgment which holds that defendants were not and are not authorized to issue or authorize the issuance of certificates of insurance in any State using Realm's name in any way; and

E. On the Fifth Count, a declaratory judgment which holds that plaintiffs are discharged of all further obligations under the Loan Agreement and Pledge Agreement and that defendants must return to AlphaStar the collateral they hold and have threatened to abuse,

493

without any payment by plaintiffs to defendants, and that the plaintiffs are entitled to compensatory and punitive damages in an amount to be determined at trial; and

F. On Counts Three, Four and Eight, compensatory damages in an amount to be determined at trial, exclusive of interest and costs, as a result of defendants' breach of contract, breach of the implied covenant of good faith and fair dealing and, with respect to the Eighth Count, Realm's actual damages in an amount to be determined, trebled, together with the costs, attorneys' fees and interest permitted by law for violations of New York General Business Law §349; and

G. On the Sixth Count, an Order imposing a constructive trust over all premiums collected by defendants through their writing of, or authorizing the writing of, insurance certificates or other insurance commitments using Realm's name in an amount to be determined, but which is believed to be in excess of $10,000,000, and an accounting of all sums received and commitments made by, for, or in the name of the plaintiffs; and

H. An Order that AIMI make a full accounting and full and immediate disclosure to the Court and to plaintiffs of:

(i) all certificates of insurance (or other evidence of the existence of insurance) it issued or caused to be issued using the name of Realm;

(ii) all premiums received by AIMI with respect to such certificates of insurance and any related insurance commitments; and

(iii) all other commitments received by AIMI with respect to the payment of future premiums to be received on all insurance which in any way uses the name of Realm as a putative insurer, and all documents which reflect any

commitment to issue insurance made by any of the defendants purportedly on behalf of any of the plaintiffs.

I. Punitive damages arising out of defendants' malicious, willful, wanton and egregious conduct directed at plaintiffs and at the public generally; and

J. The costs and disbursements of this action, including attorneys' fees; and

K. Such other and further relief as this Court may deem just and proper.

Dated: New York, New York
December 27, 2002

Respectfully submitted,

ARENT FOX KINTNER PLOTKIN & KAHN, PLLC

By: _____
William J. McSherry, Jr. (WJM-1194)
Edward S. Feig (ESF-6064)
M. Scott Peeler (MSP-1240)

1675 Broadway
New York, New York 10019
Tel. No.: 212-484-3900

Attorneys for Plaintiffs

31

EXHIBIT 5

1 of 1 DOCUMENT

Copyright 2002 The Daily Oklahoman
Daily Oklahoman (Oklahoma City, OK)

December 05, 2002, Thursday CITY EDITION

SECTION: BUSINESS;

LENGTH: 512 words

HEADLINE: State accuses Atlanta insurer of bad policies Many left with no coverage for workers' compensation

BYLINE: Don Mecoy, Business Writer

BODY:

State officials are trying to determine how many Oklahoma employers have been left without required workers' compensation insurance after an Atlanta company issued unauthorized policies, the state Insurance Department said Wednesday.

"This is an unfortunate and very serious situation since many people may think they have coverage but do not," Insurance Commissioner Carroll Fisher said.

American Insurance Managers of Atlanta or one of its subsidiaries sold the unauthorized certificates, which were issued in the name of Realm National Insurance Co. Officials with Realm National believe the certificates were issued after Oct. 1.

The unauthorized policies were issued in several states, Oklahoma Insurance Department spokesman David Meuser said.

When the policies were issued, Realm National's parent company was negotiating with American Insurance Managers. Under the proposal, American Insurance Managers would have represented Realm. But the negotiations were not completed, and the Atlanta company was never authorized to issue policies on Realm's behalf, Meuser said.

American Insurance Managers is not licensed to sell insurance in Oklahoma under that name, Meuser said. A voice mail message left at the company's Atlanta office on Wednesday was not returned.

State officials don't know how many companies might have purchased workers compensation insurance from American Insurance Managers, but Realm National is trying to identify and notify employers that certificates issued by American Insurance provide no coverage, Meuser said.

"There are an unknown number of employers. I think probably in Oklahoma it's a small number," he said. "But it's a nationwide situation and it's enough policies that this insurance company (Realm National) can't take them all on."

State law requires employers to carry workers' compensation coverage.

4PM

"The most important thing we want to accomplish right now is to alert anyone that may have one of these policies and get them insured before there is an accident," Meuser said. "The second thing is finding out how many (uninsured employers) are out there."

Meuser said he was not aware of any claims that had been filed against the valueless policies issued by American Insurance Managers. But if there are unpaid claims, the Insurance Department would like to know about it so that the agency can seek compensation for the injured employee and the company, Meuser said.

Employers who find themselves without coverage must find a company to provide the necessary insurance, he said. The Insurance Department can provide lists of insurance providers, but does not make recommendations, Meuser said.

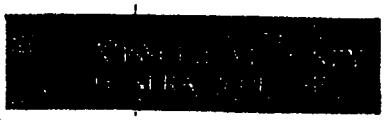
The premiums for the workers compensation coverage were paid to American Insurance Managers; Realm National received nothing from those sales, Meuser said.

Employers with questions about their workers' compensation certifications should contact Realm National at (212) 269-6700, or the state Insurance Department at (800) 522-0071.

LOAD-DATE: December 6, 2002

498

EXHIBIT 6



All news releases

All media inquiries should be directed to Press Secretary Jim Gardner.
• E-mail • Phone: 573-751-8844 • Fax: 573-751-5818

Consumers with questions about a product, service or company should e-mail the Consumer Protection Division or file a complaint if they believe they have been defrauded.

Oct. 7, 2005

Nixon obtains judgment against workers' comp company that will protect small businesses, injured workers

Farmington, Mo. — Attorney General Jay Nixon has obtained a judgment against a group of companies that collected $900,000 in premiums to provide workers' compensation insurance coverage to small businesses in Missouri, and then failed to implement the coverage.

The consent judgment, filed in St. Francois County Circuit Court, resolves a lawsuit filed by Nixon in July 2004 against Quick Labor Inc., Quick Labor National Inc., Quick Labor Management Inc., Career Management Services Inc. and National Career Management Services Inc., all located at 536 Maple Valley Drive, Farmington. The lawsuit also named corporate officers Matthew E. Kearns and Jeffrey L. Kearns.

"Through its actions, Quick Labor put numerous businesses and its workers in financial peril by accepting monies for the purchase of workers' compensation insurance, and then failing to obtain the promised coverage," Nixon said. "Through this judgment, businesses that contracted with Quick Labor can rest easy knowing they are covered, and workers injured on the job will have their claims paid."

The original lawsuit states that prior to 2003, Quick Labor bought workers' compensation insurance for its clients from Travelers and other licensed insurance providers. But in January 2003, the company switched much of its client base to a group of Atlanta, Ga., companies: American Insurance Managers Inc., American Insurance Management Group Inc., and Atlanta Insurance Marketing Inc. Quick Labor did not notify its clients of the change, nor were the Atlanta-based companies ever licensed to issue workers' compensation insurance in Missouri.

The lawsuit alleged that the Atlanta companies issued certificates of insurance to some of Quick Labor's clients, listing Realm National Insurance Company, of New York, as the provider. No one affiliated with Realm signed the certificates. Nixon said the Atlanta-based group, which was attempting to purchase Realm, acted prematurely by issuing the certificates before the purchase was completed. In the end the purchase did not go through, leaving dozens of businesses without workers' compensation insurance from January 2003 to January 2004. The lawsuit against American Insurance Management Group and affiliated companies is still pending.

At least 14 workers' compensation injury claims are pending from that time period, Nixon said.

"This is a situation that could have been tragic for these small businesses and their employees," Nixon said.

The judgment holds Quick Labor responsible for paying all claims, awards, settlements or workers' compensation benefits arising from the time period when insurance coverage was not in force. As part of the consent judgment, Quick Labor has supplied Nixon's office with a letter of credit for $301,480 as security to ensure their obligations under the state's Workers' Compensation Law will be met. The company must also pay a penalty of $75,000 to the state.

EXHIBIT 7

No. 04-1119

OFFICIAL ORDER
of the
COMMISSIONER OF INSURANCE
of the
STATE OF TEXAS
AUSTIN, TEXAS

Date: NOV 22 2004

Subject Considered:

AMERICAN INSURANCE MANAGERS, INC.
c/o Stanley A. Coburn, Registered Agent
3975 Roswell Road, N.E.
Atlanta, Georgia 30342

DEFAULT ORDER
DISCIPLINARY ACTION
SOAH DOCKET NO. 454-04-6429.D

General remarks and official action taken:

On this date came on for consideration by the Commissioner of Insurance, the matter of whether disciplinary action should be taken against American Insurance Managers, Inc. (AIM), a managing general insurance agency (MGA) whose principal office is located in Atlanta, Georgia. The Texas Department of Insurance ("TDI") alleges that AIM is not licensed in Texas, but was engaged in the unauthorized business of insurance in Texas. It is further alleged that such conduct constitutes grounds for the imposition of sanctions as authorized by TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. §§ 101.001, 101.105, 101.201 and 101.153.

The Commissioner of Insurance has authority and jurisdiction pursuant to TEX. INS. CODE ANN. art. 21.07-3, TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. Ch. 101. The Commissioner of Insurance has authority to informally dispose of this case pursuant to the provisions of TEX. INS. CODE ANN. § 82.055, TEX. GOVT CODE ANN. § 2001.056, and 28 TEX. ADMIN. CODE §§ 1.47, 1.88 and 1.89.

The Commissioner of Insurance, after review and due consideration, adopts the following findings of fact and conclusions of law:

502

FINDINGS OF FACT

1. AIM is a MGA whose principal office is located in Atlanta, Georgia. AIM is not licensed in Texas.

2. Realm National Insurance Company (REALM) is a New York based insurance carrier licensed in Texas.

3. In October 2002, AIM entered into a "non-binding letter of intent" to purchase REALM. However, the purchase agreement contemplated by the "non-binding letter of intent" was never finalized or executed.

4. Notwithstanding the absence of a final executed purchase agreement, AIM began to issue certificates of workers compensation insurance in at least 18 states, including Texas. The certificates of insurance named REALM as the responsible insurance carrier. However, REALM never expressly authorized AIM to act as its agent, and therefore the certificates issued by AIM constitute unauthorized insurance.

5. In connection with the contemplated purchase agreement REALM accepted a $1,500,000 loan from AIM.

6. After the purchase agreement fell apart, AIM attempted an involuntary acquisition of REALM.

7. At the same time, AIM issued unauthorized certificates of insurance to more than 234 Texas employers at 2,985 job sites.

8. AIM was not licensed as a Managing General Agent in Texas at the time it marketed this unauthorized insurance as required by TEX. INS. CODE ANN. art. 21.07-3.

9. AIM sold this unauthorized insurance through at least five "Professional Employment Organizations" ("PEO's") located in Texas. "Professional Employment Organization" is an industry term for a company that provides other businesses with administrative and staff leasing services, including the purchase of insurance.

10. Among these PEO's, Corporate Solutions, Inc. was the largest. Corporate Solutions, Inc. issued unauthorized insurance certificates to 204 employers, covering 2,340 job sites. The remaining four PEO's are: Select (2 employers, 24 job sites), Corporate Resource Management (15 employers, 325 job sites), Spectrum (12 employers, 291 job sites), and Exceptional (1 employer, 5 job sites).

11. In November 2002, REALM notified the TDI and AIM's customers that REALM had not issued (and would not honor) the insurance being marketed by AIM. Despite REALM's notice to AIM and its customers that the insurance was not authorized, AIM continued to accept premium payments from a number of PEO's and continued to tell some employers that workers compensation insurance was in place.

12. In addition, AIM was never authorized to act as an insurer in Texas. Nevertheless, AIM placed the premiums received from employers for these certificates into an escrow account, from which it paid claims. AIM also contracted with several third party administrators to administer these claims. Therefore, AIM has been acting as an unauthorized insurer, placing employers and their employees in financial jeopardy should this unauthorized insurance system collapse.

13. AIM has acted without proper authority with the result that hundreds of employers, and many more employees, are in danger of not having workers compensation coverage in place.

CONCLUSIONS OF LAW

1. The Commissioner of Insurance has jurisdiction over this matter pursuant to TEX. INS. CODE ANN. art. 21.07-3, TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. Ch. 101.

2. The Commissioner of Insurance has authority to informally dispose of this case pursuant to the provisions of TEX. INS. CODE ANN. § 82.055, TEX. GOV'T CODE ANN. § 2001.056, and 28 TEX. ADMIN. CODE §§ 1.47, 1.88 and 1.89.

3. TDI sent the Notice of Hearing in this matter to the last known address of American Insurance Managers, Inc. as reflected in TDI's computer records as evidenced by the attached affidavit. By such means, AIM was afforded proper and timely notice of the hearing, pursuant to 28 TEX. ADMIN. CODE §§ 1.28(c) and 1.88(c), 1 TEX. ADMIN. CODE § 155.55(b) and TEX. GOV'T CODE ANN., Ch. 2001.

4. AIM has operated an unauthorized insurance business in the State of Texas, in violation of TEX. INS. CODE ANN. § 101.102, which provides that a person, including an insurer, may not directly or indirectly do an act that constitutes the business of insurance under this chapter except as authorized by statute. The Commissioner of Insurance may issue a cease and desist order under TEX. INS. CODE ANN. § 101.153.

5. AIM engaged in the business of an insurance agency without a license in violation of TEX. INS. CODE ANN. arts. 21.07 § 1(a) and 21.14 § 2.

6. AIM acted as a managing general agent on behalf of REALM without a license in violation of TEX. INS. CODE ANN. arts. 21.07 and 21.07-3, and TEX. INS. CODE ANN. § 101.102(a).

7. AIM sold insurance on behalf of REALM without holding an appointment in violation of TEX. INS. CODE ANN. arts. 21.07 § 1(a) and 21.14 § 2.

8. Based upon the Findings of Fact and Conclusions of Law stated above, a disposition by default is proper pursuant to 28 TEX. ADMIN. CODE §§ 1.88 and 1.89.

9. TDI's allegations in the Notice of Hearing are deemed admitted as true pursuant to 28 TEX. ADMIN. CODE § 1.89.

10. Based upon the Findings of Fact and Conclusions of Law stated above, the Commissioner of Insurance is warranted in (1) requiring AIM to cease and desist conducting the business of insurance in the State of Texas pursuant to TEX. INS. CODE ANN. § 101.153; (2) to pay all claims pursuant to TEX. INS. CODE ANN. § 101.201, and (3) requiring AIM to pay an administrative penalty up to and including $10,000 per violation pursuant to TEX. INS. CODE ANN. § 101.105, and/or $25,000 per violation pursuant to TEX. INS. CODE ANN. § 84.022.

IT IS THEREFORE ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. cease and desist conducting the business of insurance in the State of Texas.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay all claims arising out of the unauthorized insurance business set forth above.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay an administrative penalty of TWO MILLION DOLLARS AND NO CENTS ($2,000,00.00). The administrative penalty must be paid on or before two hundred ten (210) days from the date of this Order by cashier's check or money order made payable to "State of Texas" and transmitted to the Catherine Bell, Texas Department of Insurance, Enforcement Section, P.O. Box 149104, Mail Code 110-1A, Austin, Texas 78714-9104, or her successor.

The Commissioner of Insurance FURTHER ORDERS that American Insurance Managers, Inc. shall receive a dollar-for-dollar reduction in said administrative penalty, not to exceed ONE MILLION NINE HUNDRED THOUSAND DOLLARS AND NO CENTS ($1,900,000.00), for any restitution paid to any person that is or would have been entitled to benefits under an insurance policy issued by or through American Insurance Managers, Inc. Any payment of funds which are held in an escrow account

on the date this Order is entered shall not count toward the dollar-for-dollar reduction in the administrative penalty. All such payments must be made on or before three hundred and sixty five (365) days from the date of this Order, provided that American Insurance Managers, Inc. furnishes the Department with a copy of a canceled check, money order or cashier's check evidencing proof of restitution payment on or before three hundred and ninety five (395) days from the date of this Order. Such copies of cancelled checks, money orders or cashier's checks shall be mailed or delivered to Catherine Bell, Texas Department of Insurance, Enforcement Section, P.O. Box 149104, Mail Code 110-1A, Austin, Texas 78714-9104, or her successor.

JOSE MONTEMAYOR
COMMISSIONER OF INSURANCE

04-1119
COMMISSIONER'S ORDER
American Insurance Managers, Inc.
Page 6 of 8

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT

Before me the undersigned authority personally appeared Martha Redford, who, being by me duly sworn, deposed as follows:

"My name is Martha Redford. I am of sound mind, capable of making this affidavit, and personally acquainted with the facts herein stated.

I have reviewed the computer records of the Texas Department of Insurance ("Department") and have confirmed that the last mailing address provided to the Department by American Insurance Managers in writing was 3101 Towercreek Pkwy., #750, Atlanta, Georgia 30339. In addition, a review of the website of Georgia's Secretary of State reveals that the registered agent for American Insurance Manager's, Inc. is Stanley A. Coburn, whose address is 3975 Roswell Road, N.E., Atlanta, Georgia 30342.

I hereby attest that the file maintained by Enforcement also contains a Notice of Hearing dated August 26, 2004, filed with the State Office of Administrative Hearings. The Notice of hearing was addressed to American Insurance Mangers, Inc., by and through its President, David Dennett-Smith, at its last known address and mailed certified, with return receipt requested, on August 26, 2004. A copy of the certified mail log maintained by Enforcement is attached hereto as Exhibit A.

I further hereby attest that the file maintained by Enforcement also contains a First Amended Notice of Hearing dated September 28, 2004, filed with the State Office of Administrative Hearings. The First Amended Notice of Hearing was addressed to American Insurance Mangers, Inc., by and through its Registered Agent, Stanley A. Coburn, at its last known address, through the Texas Secretary of State, and mailed certified, with return receipt requested, on September 28, 2004. A copy of the certified mail log maintained by Enforcement is attached hereto as Exhibit B."

Further Affiant sayeth not.

Martha Redford
Affiant

BEFORE ME, Ginger Yocom, a notary public in and for the State of Texas, on this day personally appeared Martha Redford, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed. Given under my hand and seal of office on Nov. 8, 2004.

Ginger Yocom
Notary Public, State of Texas

GINGER YOCOM
Notary Public, State of Texas
My Commission Expires
DECEMBER 21, 2004

1204

11/04/05 FRI 16:16 FAX 512 475 2025 GC/GOV REL/CHIEF CLK 009

TEXAS DEPARTMENT OF INSURANCE
333 GUADALUPE
MAIL CODE 110
AUSTIN, TEXAS 78701-1998
Martha Redford

CERTIFIED MAIL

EXHIBIT A

DATE: August 26, 2004

TOTAL NUMBER OF PIECES RECEIVED AT POST OFFICE:_____ POSTMASTER, (RECEIVING EMPLOYEE):_____

NO.	ARTICLE NUMBER	NAME	ADDRESS	CITY	STATE	ZIP	POSTAGE	FEE	R.R. FEE	COMMENTS
1.	7000 1530 0001 3783 2477	Michael L Trent President American Trust Administrators, Inc,	PO Box 87	Shawnee Mission	KS	66201	.37	2.30	1.75	Richter
2.	7002 2030 0004 7992 9819	Rod M Solow	2800 Veterans Blvd Ste 203	Metarie	LA	70002	.83	2.30	1.75	Walt
3.	7002 2030 0003 6973 7786	Paul A Guerrero c/o Tina Torres Attorney at Law	454 Soledad Ste 290	San Antonio	TX	78205	.60	2.30	1.75	Klug
4.	7002 2030 0004 7989 5864	Mark Sloma President Realm National Ins. Co.	125 Maiden Lane 5th Floor	New York City	NY	10038	.60	2.30	1.75	Rigby
5.	7002 2030 0004 7989 5857	David Dennett Smith President American Ins Managers, Inc,	3101 Towercreek Pkwy #750	Atlanta	GA	30339	.60	2.30	1.75	Rigby

04-1119

USPS AUSTIN TX DOWNTOWN STA AUG 26 2004

11/04/2005 FRI 16:24 [TX/RX NO 9118] 009

1203

1205

11/04/05 FRI 16:18 FAX 512 475 2025 GC/GOV REL/CHIEF CLK 010

TEXAS DEPARTMENT OF INSURANCE
333 GUADALUPE
MAIL CODE 110
AUSTIN, TEXAS 78701-1998
Martha Redford

CERTIFIED MAIL

EXHIBIT B

DATE: September 28, 2004

TOTAL NUMBER OF PIECES RECEIVED AT POST OFFICE:_____ POSTMASTER, (RECEIVING EMPLOYEE):_____

NO.	ARTICLE NUMBER	NAME	ADDRESS	CITY	STATE	ZIP	POSTAGE	FEE	R.R. FEE	COMMENTS
1.	7004 0550 0000 4338 5756	Ron Ray Ray Ins Agency	PO Box 691910	San Antonio	TX	78269-1910	.83	2.30	1.75	Rigby
2.	7002 2030 0004 7993 0008	Richard J Reynolds Thornton Summers Biechlin Dunham & Brown LC	Airport City – Ste 300 10100 Reunion Place	San Antonio	TX	78216-4186	.83	2.30	1.75	Gregory
3.	7002 2030 0004 7992 9996	Jeanne Bryant	PO Box 3889	Brentwood	TN	37024	.83	2.30	1.75	Gregory
4.	7002 2030 0004 7989 5925	Office of the Secretary of State Statutory Documents Section Citation Unit	PO Box 12079	Austin	TX	78711-2079	1.06	2.30	1.75	Rigby
5.	7002 2030 0003 6973 7847	Paul A. Guerrero c/o Tina Torres Attorney at Law	454 Soledad Ste 200	San Antonio	TX	78205	.83	2.30	1.75	Dwyer
6.	7002 2030 0004 7989 5918	Chris Taylor Raymond White Akin Gump Strauss Hauer & Feld LLP	300 W 6th St Ste 2100	Austin	TX	78701-2916	1.98	2.30	1.75	Rigby

04-1119

AUSTIN TX DOWNTOWN STA SEP 28 2004 USPS

11/04/2005 FRI 16:24 [TX/RX NO 9118] 010

1204

1206

EXHIBIT 8

510

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

----------x

In the Matter of

the Application of

Index No.

HOWARD MILLS, Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of and dissolve

PETITION

REALM NATIONAL INSURANCE COMPANY

----------x

TO THE SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK:

HOWARD MILLS, Superintendent of Insurance of the State of New York, respectfully petitions the court as follows:

1. I am the Superintendent of Insurance of the State of New York ("Superintendent").

2. I am seeking an order directing that the Superintendent take possession of, liquidate the business and affairs of and dissolve Realm National Insurance Company ("Realm" or the "Company") because a) Realm has consented to the entry of such an order through a majority of its directors, shareholders or members, b) Realm is insolvent, and c) Realm's further transaction of business will be hazardous to its policyholders, creditors and the public. As set forth below, I am entitled to the relief sought for any one of these reasons.

511

3. The Company was incorporated under the laws of the State of New York on March 12, 1892 as Lloyds Association and became licensed to transact insurance business on that same day.

4. On July 1, 1992, the Company converted to a stock company and changed the name to Lloyds New York Insurance Company. At the same time, the charter was expanded to include casualty lines of business. On September 5, 1996, Stirling Cooke North American Holdings, Ltd., a Delaware corporation, purchased 100% of the issued and outstanding shares of the capital stock of Lloyds New York Insurance Company. The present title of the Company was adopted on September 26, 1996.

5. The Company is a member of the AlphaStar Group Limited. The Company is a wholly-owned subsidiary of Stirling Cooke North American Holdings Limited, a Delaware corporation, which is wholly-owned by AlphaStar Insurance Group Limited (Bermuda). AlphaStar Insurance Group Limited filed for bankruptcy protection under Chapter XI of the Federal Bankruptcy Laws on December 15, 2003.

6. As of December 31, 2002, the Company was licensed to transact business in the states of New York, Alabama, Arizona, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas and West Virginia. It also operates in a surplus lines or in a non-admitted basis in Kansas, Montana, Ohio and Oregon.

7. The Company is currently licensed[1] to transact the kinds of insurance as set forth in the following numbered paragtaphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Kind of Insurance
3(i)	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
24	Credit unemployment

8. The Company was also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurance as described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, 33 USC Section 901 et seq. as amended).

9. In addition, the Company was licensed to write special risk insurance subject to the provisions of Article 63 of the New York Insurance Law. Effective August 31, 2003, the special risk license was not renewed.

[1] Subsequent to December 31, 2002, the states of Arizona, Florida and Kentucky suspended the Company's licenses. The State of Montana has also suspended the Company's authority to write on a surplus lines basis.

513

10. Based upon the lines of business for which the Company is licensed, the Company's current capital structure and pursuant to the requirements of Articles 13 and 14 of the New York Insurance Law, the Company is required to maintain minimum surplus to policyholders in the amount of $4,800,000.

11. Realm is subject to supervision and examination by the Superintendent of Insurance under the New York Insurance Law and to liquidation under Article 74 thereof when any of the conditions set forth in Section 7402 are found to exist.

12. Pursuant to Appointment Number 22036 dated April 12, 2003, the Insurance Department (the "Department") conducted an examination of Realm's condition and affairs.

13. The Department conducted an examination of the Company as of December 31, 2002, which recorded a preliminary finding indicating an impairment. By letter dated December 14, 2003, the Department advised Realm of a surplus impairment and Realm was ordered to eliminate the impairment within 30 days. Realm was also advised not to issue any new policies. Realm voluntarily suspended all new business and renewal activity.

14. Realm filed an annual statement which is required by law for the year ending 2004 (Exhibit "A").

15. Realm's annual statement as of December 31, 2004 indicates a surplus to policyholders of ($5,520,350) (see page 4, line 38 of Exhibit A) and is, therefore, insolvent within the meaning of Section 1309 of the New York Insurance Law.

16. Realm has indicated that its current cash position has reached the point where it is unable to pay claims.

514

17. Realm, by resolution of its board of directors adopted June 8, 2005, consented to entry of an order of liquidation by the unanimous affirmative vote of the board of directors present at the time of the vote at a duly called special meeting of the board, a quorum being present. A copy of the consent is annexed hereto as Exhibit "B".

18. Insurance Law §7402 provides that a domestic insurer may be placed into liquidation, if, among other things, it is insolvent; or is found after examination to be in such condition that its further transaction of business would be hazardous to its policyholders, creditors or the public; or consents to such through a majority of its directors, shareholders or members. Insurance Law §7402 (a), (e) and (l).

19. Each of the grounds for liquidation set forth above exists in this case. Realm is insolvent; the Company's inability to pay claims herein reveals that its further transaction of business would be hazardous to its policyholders, creditors or the public; and Realm has consented to liquidation.

20. Section 7405 (c) of the Insurance Law provides that the liquidator of any domestic insurance corporation shall reinsure all the policy obligations of the corporation in any solvent corporation authorized to do business in this state if the unearned premium reserve of such corporation is sufficient to effect such reinsurance; if insufficient for that purpose, the Liquidator shall reinsure a percentage of each policy obligation to the extent that the unearned premium reserve may be sufficient for that purpose. It is further provided therein that no contract of reinsurance shall be entered into by the Liquidator except pursuant to an order of the court in which the Liquidator shall be appointed, directing the reinsurance and establishing the general form of such reinsurance contract. A review of the financial reports and records indicate that reinsurance of the Company's

policy obligations is not feasible. It is, therefore, requested that the order to be entered in this proceeding, appointing the petitioner as Liquidator, shall contain a provision relieving the Liquidator from such obligations to reinsure pursuant to Section 7405 (c).

21. I also respectfully request that the court issue the injunctions mandated by Insurance Law §7419. Subsection (a) provides that the court, upon application of the Superintendent, without notice, may issue an injunction restraining the insurer, its officers, directors, shareholders, members, trustees, agents, servants, employees, policyholders, attorneys, managers and all other persons from the transaction of its business or the waste or disposition of its property. Subsection (b) further provides that the court may issue such other injunctions as it deems necessary to prevent interference with the Superintendent or the proceeding, or the waste of the assets of the insurer, or the commencement or prosecution of any actions, the obtaining of preferences, judgments, attachment or other liens, or the making of any levy against the insurer, its assets or any part thereof.

22. Section 7433(b)(2) provides that upon the liquidation of any domestic insurer or United States branch which has issued property/casualty policies, the Superintendent shall, within thirty (30) days after the last day set for filing claims make a list of all persons whose name appears on the books and records of the Company as policyholder or claimants. As the Company has been in existence since 1892 creating such a list would be impractical and impossible. Accordingly, the Superintendent is recommending that the list consists of all former policyholders of REALM whose policies expired within three (3) years of the date of entry of the Order of Liquidation.

23. In accordance with Insurance Law § 7416, which provides that the Superintendent may apply for an order dissolving the corporate existence of an insurer upon application for an order of liquidation, I request that the court dissolve the corporate existence of REALM.

24. Finally, given the above, it is also my understanding that the Company cannot meet its current obligations. As such, in order to avoid further uncertainty about the Company's situation, and to protect policyholders, creditors and the public, I respectfully request that I be appointed as Temporary Receiver of the Company.

25. There has been no previous application for the relief requested herein.

WHEREFORE, it is respectfully requested that the petition be granted and that the court grant an order placing REALM into liquidation and dissolving its corporate existence in accordance with Article 74 of the Insurance Law.

Dated: New York, New York
June 10, 2005

HOWARD MILLS
Superintendent of Insurance of
the State of New York

519

STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

HOWARD MILLS, being duly sworn, deposes and says:

That he is the Superintendent of Insurance of the State of New York and that he executed the foregoing Petition; that he is acquainted with the facts therein stated; that he knows the contents of said Petition and that the same is true to his own knowledge, except as to the matters therein stated to be alleged upon information and belief, and that as to those matters he believes them to be true.

Deponent says that the sources of his information and the grounds of his belief as to the matters stated in said Petition to be alleged upon information and belief are the records of the Insurance Department of the State of New York.

HOWARD MILLS
Superintendent of Insurance

Sworn to before me this
10th day of June, 2005

Dora M. Lewis
Notary Public

DORA M. LEWIS
Notary Public, State of New York
No. 24-4853787
Qualified in Kings County
Commission Expires Feb. 17, 2006

8

518

RECEIVED
MAY 5 2005
FINANCIAL CONDITION
PROPERTY CASUALTY BUREAU

ANNUAL STATEMENT

RECEIVED
MAY 5 2005
FINANCIAL CONDITION
PROPERTY CASUALTY BUREAU

OF THE

RECEIVED
MAY 5 2005
FINANCIAL CONDITION
PROPERTY CASUALTY BUREAU

REALM NATIONAL INSURANCE COMPANY

OF NEW YORK
IN THE STATE OF NEW YORK

2004

TO THE

Insurance Department

OF THE

STATE OF

_____

FOR THE YEAR ENDED
DECEMBER 31, 2004

PROPERTY AND CASUALTY

2004

5A

PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

OF THE CONDITION AND AFFAIRS OF THE

REALM NATIONAL INSURANCE COMPANY

NAIC Group Code 0000 (Current Period) 0000 (Prior Period) NAIC Company Code 15466 Employer's ID Number 13-3625361

Organized under the Laws of New York, State of Domicile or Port of Entry New York

Country of Domicile United States of America

Incorporated 08/12/1991 Commenced Business 07/01/1992

Statutory Home Office 125 Maiden Lane, 5th Floor (Street and Number), New York, NY 10038 (City or Town, State and Zip Code)

Main Administrative Office 125 Maiden Lane, 5th Floor (Street and Number), New York, NY 10038 (City or Town, State and Zip Code), 212-269-6700 (Area Code) (Telephone Number)

Mail Address 125 Maiden Lane, 5th Floor (Street and Number or P.O. Box), New York, NY 10038 (City or Town, State and Zip Code)

Primary Location of Books and Records 125 Maiden Lane, 5th Floor (Street and Number), New York, NY 10038 (City or Town, State and Zip Code), 212-269-6700-103 (Area Code) (Telephone Number)

Internet Website Address

Statutory Statement Contact CHRISTINA BUI VU (Name), 212-269-6700-103 (Area Code) (Telephone Number) (Extension)

CHRISTINA_VU@BDACOS.BM (E-mail Address), 212-269-6758 (Fax Number)

Policyowner Relations Contact (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

OFFICERS

Name	Title	Name	Title
MARK STEVEN SIOMA	PRESIDENT	CHRISTINA BUI VU	VICE PRESIDENT/CONTROLLER
DANNY RAY GREEN	VICE PRESIDENT/SECRETARY		

OTHER OFFICERS

ROBERT LETOURNEAU FINCHER #			
WARREN LEE TRAVER #	VICE PRESIDENT	BILLY VICTOR RAY JR #	VICE PRESIDENT
JAYA BANSKOTA	VICE PRESIDENT	RONATA LINN ZINNERT	VICE PRESIDENT
	ASST VICE PRESIDENT	THOMAS DICK	ASST VICE PRESIDENT

DIRECTORS OR TRUSTEES

JAYA BANSKOTA	ANTHONY JOSEPH DEL TUFO	THOMAS DICK	ROBERT LETOURNEAU FINCHER #
DANNY RAY GREEN	JAMES LAWLESS IV	BILLY VICTOR RAY #	MARK STEVEN SIOMA
WARREN LEE TRAVER #	CHRISTINA BUI VU	RONATA LINN ZINNERT	

State of NEW YORK ss

County of NEW YORK

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures Manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

MARK STEVEN SIOMA
PRESIDENT

CHRISTINA BUI VU
VICE PRESIDENT/CONTROLLER

DANNY RAY GREEN
VICE PRESIDENT/SECRETARY

Subscribed and sworn to before me this
18 day of FEBRUARY, 2005

MINERVA GORDUAN, NOTARY PUBLIC, STATE OF NEW YORK
MAY 31, 2008

a. Is this an original filing? Yes [X] No [ ]
b. If no,
1. State the amendment number
2. Date filed
3. Number of pages attached

MINERVA GORDUAN
Notary Public, State of New York
No. 01GO5870819
Qualified in Bronx County
Commission Expires May 31, 2008

520

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	4,177,169		4,177,169	20,130,961
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	0
2.2 Common stocks	1,078,451		1,078,451	0
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ ... encumbrances)			0	0
4.2 Properties held for the production of income (less $ ... encumbrances)			0	0
4.3 Properties held for sale (less $ ... encumbrances)			0	0
5. Cash ($ 553,674, Schedule E, Part 1), cash equivalents ($ 0, Schedule E, Part 2) and short-term investments ($ 3,304,513, Schedule DA)	18,903,229	15,009,208	3,894,015	0
6. Contract loans, (including $ ... premium notes)	6,858,188		6,858,188	1,560,621
7. Other invested assets (Schedule BA)	0	0	0	0
8. Receivable for securities	0	0	0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	31,017,031	15,009,208	16,007,823	39,118
11. Investment income due and accrued	85,480		85,480	21,721,892
12. Premiums and considerations:				228,573
12.1 Uncollected premiums and agents' balances in the course of collection	4,215,267	4,051,691	163,576	198,369
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ ... earned but unbilled premiums)			0	0
12.3 Accrued retrospective premiums			0	0
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers	5,192,650		5,192,650	16,692,381
13.2 Funds held by or deposited with reinsured companies	1,994,625		1,994,625	2,498,956
13.3 Other amounts receivable under reinsurance contracts			0	0
14. Amounts receivable relating to uninsured plans			0	0
15.1 Current federal and foreign income tax recoverable and interest thereon			0	0
15.2 Net deferred tax asset	272,284		272,284	339,329
16. Guaranty funds receivable or on deposit			0	0
17. Electronic data processing equipment and software	1,132		1,132	3,212
18. Furniture and equipment, including health care delivery assets ($ ...)			0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates	8,000		8,000	225,401
21. Health care ($ ...) and other amounts receivable			0	0
22. Other assets nonadmitted	171,810	171,810	0	0
23. Aggregate write-ins for other than invested assets	881,519	389,141	492,378	992,868
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	43,759,758	19,801,859	24,157,948	42,798,758
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	43,759,758	19,801,859	24,157,948	42,798,758
DETAILS OF WRITE-INS				
0901. Real Deposit			0	39,118
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	39,118
2301. Loss Funds Advance to Third Party Administrator	834,081	389,141	444,940	990,868
2302. Other Assets	27,438		27,438	2,000
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	861,519	389,141	492,378	992,868

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 9)	25,393,788	29,170,328
2. Reinsurance payable on paid loss and loss adjustment expenses (Schedule F, Part 1, Column 6)		0
3. Loss adjustment expenses (Part 2A, Line 34, Column 8)	3,797,135	4,750,241
4. Commissions payable, contingent commissions and other similar charges		0
5. Other expenses (excluding taxes, licenses and fees)		0
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	58,244	35,366
7.1 Current federal and foreign income taxes (including $ ..... on realized capital gains (losses))		0
7.2 Net deferred tax liability		0
8. Borrowed money $ ..... and interest thereon $		0
9. Unearned premiums (Part 1A, Line 27, Column 5) (after deducting unearned premiums for ceded reinsurance of $ ..... and including warranty reserves of $ .....)	57,908	2,754,885
10. Advance premiums		0
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	(25,120)	1,565,888
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	114,608	763,583
14. Amounts withheld or retained by company for account of others	294,592	144,016
15. Remittances and items not allocated		0
16. Provision for reinsurance (Schedule F, Part 7)	67,145	1,772,034
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates		0
20. Payable for securities		0
21. Liability for amounts held under uninsured accident and health plans		0
22. Capital Notes $ ..... and interest thereon $		0
23. Aggregate write-ins for liabilities	0	0
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	29,679,298	40,956,281
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	29,679,298	40,956,281
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock	5,000,000	5,000,000
29. Preferred capital stock		0
30. Aggregate write-ins for other than special surplus funds	0	0
31. Surplus notes		0
32. Gross paid in and contributed surplus	48,382,809	19,944,685
33. Unassigned funds (surplus)	(59,903,159)	(23,110,159)
34. Less treasury stock, at cost:		
34.1 ..... shares common (value included in Line 28 $ .....)		0
34.2 ..... shares preferred (value included in Line 29 $ .....)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 38)	(5,520,350)	1,834,485
36. TOTALS (Page 2, Line 28, Col. 3)	24,157,948	42,790,766
DETAILS OF WRITE-INS		
2301.		0
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	0	0
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	0	0
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above)	0	0

522

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 34, Column 4)	2,013,349	14,628,602
DEDUCTIONS		
2. Losses incurred (Part 2, Line 34, Column 7)	4,188,574	9,511,085
3. Loss expenses incurred (Part 3, Line 25, Column 1)	4,324,369	3,456,795
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	4,569,341	4,015,945
5. Aggregate write-ins for underwriting deductions	0	0
6. Total underwriting deductions (Lines 2 through 5)	13,082,275	16,983,825
7. Net income of protected cells	0	0
8. Net underwriting gain or (loss) (Line 1 minus Line 6 plus Line 7)	(11,068,926)	(2,355,223)
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	288,715	922,196
10. Net realized capital gains (losses) (Exhibit of Capital Gains (Losses))	(87,800)	1,480,723
11. Net investment gain or (loss) (Lines 9 + 10)	204,915	2,402,919
OTHER INCOME		
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered $ _____ amount charged off $ _____)	(4,343,531)	(171,080)
13. Finance and service charges not included in premiums	0	0
14. Aggregate write-ins for miscellaneous income	50,372	88,881
15. Total other income (Lines 12 through 14)	(4,293,159)	(82,199)
16. Net income before dividends to policyholders and before federal and foreign income taxes (Lines 8 + 11 + 15)	(15,157,170)	(34,503)
17. Dividends to policyholders	0	0
18. Net income, after dividends to policyholders but before federal and foreign income taxes (Line 16 minus Line 17)	(15,157,170)	(34,503)
19. Federal and foreign income taxes incurred	0	0
20. Net income (Line 18 minus Line 19) (to Line 22)	(15,157,170)	(34,503)
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 36, Column 2)	1,834,485	6,481,151
GAINS AND (LOSSES) IN SURPLUS		
22. Net income (from Line 20)	(15,157,170)	(34,503)
23. Change in net unrealized capital gains or (losses)	0	0
24. Change in net unrealized foreign exchange capital gain (loss)	0	0
25. Change in net deferred income tax	(122,045)	(712,525)
26. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 28, Col. 3)	(14,218,643)	(3,510,841)
27. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	1,708,189	(379,587)
28. Change in surplus notes	0	0
29. Surplus (contributed to) withdrawn from protected cells	0	0
30. Cumulative effect of changes in accounting principles	0	0
31. Capital changes:	0	0
31.1. Paid in	0	0
31.2. Transferred from surplus (Stock Dividend)	0	0
31.3. Transferred to surplus	0	0
32. Surplus adjustments:	20,438,124	0
32.1. Paid in	0	0
32.2. Transferred to capital (Stock Dividend)	0	0
32.3. Transferred from capital	0	0
33. Net remittances from or (to) Home Office	0	0
34. Dividends to stockholders	0	0
35. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
36. Aggregate write-ins for gains and losses in surplus	0	0
37. Change in surplus as regards policyholders for the year (Lines 22 through 36)	(7,354,845)	(4,646,656)
38. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 37) (Page 3, Line 39)	(5,520,360)	1,834,495
DETAILS OF WRITE-INS		
0501.		
0502.		
0503.		
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0
1401. Miscellaneous Income	50,372	88,881
1402.		
1403.		
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	50,372	88,881
3601.		
3602.		
3603.		
3698. Summary of remaining write-ins for Line 36 from overflow page	0	0
3699. Totals (Lines 3601 thru 3603 plus 3698) (Line 36 above)	0	0

503

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance	(1,534,813)	16,925,832
2. Net investment income	485,972	1,074,271
3. Miscellaneous income	(4,293,159)	3,802,915
4. Total (Lines 1 to 3)	(5,342,000)	21,803,018
5. Benefits and loss related payments	(3,446,597)	18,322,439
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions	9,936,807	8,437,433
8. Dividends paid to policyholders	0	0
9. Federal and foreign income taxes paid (recovered) $ ... net of tax on capital gains (losses)	(244,090)	(712,525)
10. Total (Lines 5 through 9)	6,246,120	26,047,338
11. Net cash from operations (Line 4 minus Line 10)	(11,588,120)	(4,244,321)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	15,772,031	22,105,234
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
12.7 Miscellaneous proceeds	81,800	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	15,853,831	22,105,234
13. Cost of investments acquired (long-term only):		
13.1 Bonds	955,200	20,878,233
13.2 Stocks	601,543	0
13.3 Mortgage loans	0	0
13.4 Real estate	18,900,223	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	478,908	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	20,936,867	20,878,233
14. Net increase (or decrease) in policy loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(4,083,048)	1,227,001
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	20,438,124	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	469,771	(4,722,821)
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	44,833	92,888
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6)	20,970,728	(4,629,941)
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17)	5,297,562	(8,347,261)
19. Cash and short-term investments:		
19.1 Beginning of year	1,560,621	9,907,882
19.2 End of period (Line 18 plus Line 19.1)	6,858,183	1,560,621

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

Lines of Business	1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	3 Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1. Fire	(124,380)	703,747	0	579,667
2. Allied lines	(46,993)	130,132	0	83,139
3. Farmowners multiple peril	0	0	0	0
4. Homeowners multiple peril	0	0	0	0
5. Commercial multiple peril	0	0	0	0
6. Mortgage guaranty	0	0	0	0
8. Ocean marine	0	0	0	0
9. Inland marine	0	0	0	0
10. Financial guaranty	0	0	0	0
11.1 Medical malpractice - occurrence	0	0	0	0
11.2 Medical malpractice - claims-made	0	0	0	0
12. Earthquake	0	0	0	0
13. Group accident and health	0	0	0	0
14. Credit accident and health (group and individual)	0	0	0	0
15. Other accident and health	0	0	0	0
16. Workers' compensation	0	0	0	0
17.1 Other liability - occurrence	28,194	101,956	57,908	72,242
17.2 Other liability - claims-made	(538,749)	1,819,059	0	1,280,301
18.1 Products liability - occurrence	0	0	0	0
18.2 Products liability - claims-made	0	0	0	0
19.1,19.2 Private passenger auto liability	0	0	0	0
19.3,19.4 Commercial auto liability	0	0	0	0
21. Auto physical damage	0	0	0	0
22. Aircraft (all perils)	0	0	0	0
23. Fidelity	0	0	0	0
24. Surety	0	0	0	0
26. Burglary and theft	0	0	0	0
27. Boiler and machinery	0	0	0	0
28. Credit	0	0	0	0
29. International	0	0	0	0
30. Reinsurance - Nonproportional Assumed Property	0	0	0	0
31. Reinsurance - Nonproportional Assumed Liability	0	0	0	0
32. Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0
33. Aggregate write-ins for other lines of business	0	0	0	0
34. TOTALS	(683,528)	2,754,895	57,908	2,973,349
DETAILS OF WRITE-INS				
3301.				
3302.				
3303.				
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

(a) Gross premiums (less reinsurance) and unearned premiums on all unexpired risks and reserve for return premiums under rate credit or retrospective rating plans based upon experience, viz.

Line of Business	1 Amount Unearned (Running One Year or Less from Date of Policy) (b)	2 Amount Unearned (Running More Than One Year from Date of Policy) (b)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1. Fire					0
2. Allied lines					0
3. Farmowners multiple peril					0
4. Homeowners multiple peril					0
5. Commercial multiple peril					0
6. Mortgage guaranty					0
8. Ocean marine					0
9. Inland marine					0
10. Financial guaranty					0
11.1 Medical malpractice - occurrence					0
11.2 Medical malpractice - claims-made					0
12. Earthquake					0
13. Group accident and health					0
14. Credit accident and health (group and individual)					0
15. Other accident and health					0
16. Workers' compensation	57,908				57,908
17.1 Other liability - occurrence					0
17.2 Other liability - claims-made					0
18.1 Products liability - occurrence					0
18.2 Products liability - claims-made					0
19.1,19.2 Private passenger auto liability					0
19.3,19.4 Commercial auto liability					0
21. Auto physical damage					0
22. Aircraft (all perils)					0
23. Fidelity					0
24. Surety					0
26. Burglary and theft					0
27. Boiler and machinery					0
28. Credit					0
29. International					0
30. Reinsurance - Nonproportional Assumed Property					0
31. Reinsurance - Nonproportional Assumed Liability					0
32. Reinsurance - Nonproportional Assumed Financial Lines					0
33. Aggregate write-ins for other lines of business	0	0	0	0	0
34. TOTALS	57,908	0	0	0	57,908
35. Accrued retrospective premiums based on experience					
36. Earned but unbilled premiums					
37. Balance (Sum of Line 34 through 36)					57,908
DETAILS OF WRITE-INS					
3301.					
3302.					
3303.					
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0

(a) By gross premiums is meant the aggregate of all the premiums written in the policies or renewals in force.

Are they so returned in this statement? Yes [ ] No [ ]

(b) State here basis of computation used in each case

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

Gross Premiums (Less Return Premiums), Including Policy and Membership Fees Written and Renewed During Year

Line of Business	1 Direct Business (a)	Reinsurance Assumed 2 From Affiliates	Reinsurance Assumed 3 From Non-Affiliates	Reinsurance Ceded 4 To Affiliates	Reinsurance Ceded 5 To Non-Affiliates	6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
1. Fire	(219,122)		559		(85,083)	(124,080)
2. Allied lines	(46,993)					(46,993)
3. Farmowners multiple peril						0
4. Homeowners multiple peril						0
5. Commercial multiple peril						0
6. Mortgage guaranty						0
8. Ocean marine						0
9. Inland marine						0
10. Financial guaranty						0
11.1 Medical malpractice - occurrence						0
11.2 Medical malpractice - claims-made						0
12. Earthquake						0
13. Group accident and health						0
14. Credit accident and health (group and individual)						0
15. Other accident and health						0
16. Workers' compensation	255,353					0
17.1 Other liability - occurrence	(389,812)		(261,543)		(32,784)	28,159
17.2 Other liability - claims-made					139,737	(538,749)
18.1 Products liability - occurrence						0
18.2 Products liability - claims-made						0
19.1,19.2 Private passenger auto liability						0
19.3,19.4 Commercial auto liability						0
21. Auto physical damage						0
22. Aircraft (all perils)						0
23. Fidelity						0
24. Surety						0
26. Burglary and theft						0
27. Boiler and machinery						0
28. Credit						0
29. International						0
30. Reinsurance - Nonproportional Assumed Property	XXX					0
31. Reinsurance - Nonproportional Assumed Liability	XXX					0
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
33. Aggregate write-ins for other lines of business	0	0	0	0	0	0
34. TOTALS	(400,774)	0	(260,984)	0	21,870	(680,620)
DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [ ]

If yes: 1. The amount of such installment premiums $ _____

2. Amount at which such installment premiums would have been reported had they been reported on an annualized basis $ _____

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage 1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)	5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Previous Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 3) to Premiums Earned (Col. 4, Part 1)
1. Fire	878,405		413,321	465,084	187,316	587,808	65,492	11.3
2. Allied lines	30,076		11,903	18,173	84,974	146,242	(27,095)	(32.6)
3. Farmowners multiple peril				0	0	0	0	0.0
4. Homeowners multiple peril				0	0	0	0	0.0
5. Commercial multiple peril				0	0	0	0	0.0
6. Mortgage guaranty				0	0	0	0	0.0
8. Ocean marine				0	0	0	0	0.0
9. Inland marine				0	0	0	0	0.0
10. Financial guaranty				0	0	0	0	0.0
11.1 Medical malpractice - occurrence				0	0	0	0	0.0
11.2 Medical malpractice - claims-made				0	0	0	0	0.0
12. Earthquake				0	0	0	0	0.0
13. Group accident and health				0	0	0	0	0.0
14. Credit accident and health (group and individual)				0	0	0	0	0.0
15. Other accident and health				0	0	0	0	0.0
16. Workers' compensation				0	0	0	0	0.0
17.1 Other liability - occurrence				0	0	0	0	0.0
17.2 Other liability - claims-made				0	0	0	0	0.0
18.1 Products liability - occurrence	5,184,564	2,352,505	5,204,062	5,336,991	12,605,083	17,096,486	847,588	0.0
18.2 Products liability - claims-made	7,331,708		438,103	1,918,605	12,476,676	10,671,792	3,720,489	1,208.7
19.1,19.2 Private passenger auto liability				0	0	0	0	290.6
19.3,19.4 Commercial auto liability				0	0	0	0	0.0
21. Auto physical damage				0	0	0	0	0.0
22. Aircraft (all perils)	228,291			228,291	0	0	0	0.0
23. Fidelity				0	28,836	575,000	(417,900)	0.0
24. Surety				0	0	0	0	0.0
26. Burglary and theft				0	0	0	0	0.0
27. Boiler and machinery				0	0	0	0	0.0
28. Credit				0	0	0	0	0.0
29. International				0	0	0	0	0.0
30. Reinsurance - Nonproportional Assumed Property				0	0	0	0	0.0
31. Reinsurance - Nonproportional Assumed Liability				0	0	0	0	0.0
32. Reinsurance - Nonproportional Assumed Financial Lines				0	0	0	0	0.0
33. Aggregate write-ins for other lines of business	XXX			0	0	0	0	0.0
34. TOTALS	XXX			0	0	0	0	0.0
DETAILS OF WRITE-INS	0	0	0	0	0	0	0	0.0
3301.	13,653,044	2,352,505	6,067,489	9,938,060	25,383,784	29,770,329	4,188,574	208.0
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0.0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Line of Business	Reported Losses				Incurred But Not Reported				
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded	8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
1. Fire	331,581		163,643	179,833	2,635	4,438		187,216	8,742
2. Allied lines	168,300		73,326	94,974				94,974	
3. Farmowners multiple peril				0				0	
4. Homeowners multiple peril				0				0	
5. Commercial multiple peril				0				0	
6. Mortgage guaranty				0				0	
8. Ocean marine				0				0	
9. Inland marine				0				0	
10. Financial guaranty				0				0	
11.1 Medical malpractice - occurrence				0				0	
11.2 Medical malpractice - claims-made				0				0	
12. Earthquake				0				0	
13. Group accident and health				0				0	
14. Credit accident and health (group and individual)				0				0	
15. Other accident and health				0				0	
16. Workers' compensation				0				0	
17.1 Other liability - occurrence	10,224,587	1,086,036	9,548,947	10,742,688	9,159,000	317,769	7,604,374	(a) 12,608,083	2,434,365
17.2 Other liability - claims-made	9,364,476			9,364,476	4,670,300		1,578,000	(a) 12,476,876	1,161,708
18.1 Products liability - occurrence				0				0	
18.2 Products liability - claims-made				0				0	
19.1,19.2 Private passenger auto liability				0				0	
19.3,19.4 Commercial auto liability				0				0	
21. Auto physical damage	28,639			28,639				28,639	102,922
22. Aircraft (all perils)				0				0	
23. Fidelity				0				0	
24. Surety				0				0	
26. Burglary and theft				0				0	
27. Boiler and machinery				0				0	
28. Credit				0				0	
29. International				0				0	
30. Reinsurance - Nonproportional Assumed Property	XXX			0	XXX			0	
31. Reinsurance - Nonproportional Assumed Liability	XXX			0	XXX			0	
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX			0	XXX			0	
33. Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0
34. TOTALS	28,129,793	1,086,036	9,785,931	20,430,910	13,823,935	322,207	9,182,374	25,390,788	3,707,735
DETAILS OF WRITE-INS									
3301.				0				0	
3302.				0				0	
3303.				0				0	
3398. Summary of remaining write-ins for Line 33 from overflow page				0				0	
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0

(a) Including $ for present value of life indemnity claims.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	3,484,021			3,484,321
1.2 Reinsurance assumed	6,168			6,168
1.3 Reinsurance ceded	1,355,391			1,355,391
1.4 Net claim adjustment service (1.1 + 1.2 - 1.3)	2,134,798	0	0	2,134,798
2. Commission and brokerage:				
2.1 Direct excluding contingent		(90,699)		(90,699)
2.2 Reinsurance assumed excluding contingent		(69,080)		(69,080)
2.3 Reinsurance ceded excluding contingent		(48,309)		(48,309)
2.4 Contingent-direct				0
2.5 Contingent-reinsurance assumed				0
2.6 Contingent-reinsurance ceded				0
2.7 Policy and membership fees				0
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)	0	(111,470)	0	(111,470)
3. Allowances to managers and agents				0
4. Advertising				0
5. Boards, bureaus and associations	59,423	110,255	(1,254)	168,395
6. Surveys and underwriting reports				0
7. Audit of assureds' records	8,105	10,784	389	19,248
8. Salary and related items:				
8.1 Salaries	538,948	957,699	20,056	1,626,586
8.2 Payroll taxes	44,732	66,387	1,439	112,058
9. Employee relations and welfare	77,193	112,020	2,046	186,259
10. Insurance	89,702	129,683	3,172	221,557
11. Directors' fees				0
12. Travel and travel items	51,528	73,602	1,987	127,117
13. Rent and rent items	74,377	110,955	2,477	187,809
14. Equipment	114,471	160,729	2,985	278,185
15. Cost or depreciation of EDP equipment and software				0
16. Printing and stationery	35,392	24,102	418	59,912
17. Postage, telephone and telegraph, exchange and express	21,430	32,926	634	54,990
18. Legal and auditing	569,862	1,412,971	42,017	2,464,850
19. Totals (Lines 3 to 18)	2,189,564	3,232,095	76,317	5,497,976
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of $		243,683		243,683
20.2 Insurance department licenses and fees		16,388		16,388
20.3 Gross guaranty association assessments		1,188,645		1,188,645
20.4 All other (excluding federal and foreign income and real estate)				0
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	0	1,448,716	0	1,448,716
21. Real estate expenses				0
22. Real estate taxes				0
23. Reimbursements by uninsured accident and health plans				0
24. Aggregate write-ins for miscellaneous expenses	0	0	0	0
25. Total expenses incurred	4,324,360	4,568,341	76,317	(a) 8,970,018
26. Less unpaid expenses - current year	3,709,135	48,525	19,715	3,775,375
27. Add unpaid expenses - prior year	4,750,241	8,965	26,401	4,785,607
28. Amounts receivable relating to uninsured accident and health plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured accident and health plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	5,367,469	4,527,781	83,003	9,980,250
DETAILS OF WRITE-INS				
2401.				
2402.				0
2403.				
2498. Summary of remaining write-ins for Line 24 from overflow page	0	0	0	0
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above)	0	0	0	0

(a) Includes management fees of $ _____ paid to affiliates and $ _____ paid to non-affiliates.

530

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 219,048	287,868
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 266,044	149,993
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	(c)	
2.21	Common stocks of affiliates	(c)	
3.	Mortgage loans	(d)	
4.	Real estate	(e)	
5.	Contract loans	(f)	
6.	Cash, cash equivalents and short-term investments	(a)	
7.	Derivative instruments	(g)	
8.	Other invested assets	(h) 12,382	14,420
9.	Aggregate write-ins for investment income	(i)	
10.	Total gross investment income	477,454	452,281
11.	Investment expenses	(j)	0
12.	Investment taxes, licenses and fees, excluding federal income taxes	(k)	352,991
13.	Interest expense	(l)	76,276
14.	Depreciation on real estate and other invested assets	(m)	
15.	Aggregate write-ins for deductions from investment income	(n)	
16.	Total (Lines 11 through 15)	(o)	0
17.	Net investment income - (Line 10 minus Line 16)		429,267
	DETAILS OF WRITE-INS		
0901.			
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page		
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0
1501.			0
1502.			0
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		
1599.	Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

(a) Includes $ 3,238 accrual of discount less $ 58,403 amortization of premium and less $ 2,878 paid for accrued interest on purchases.
(b) Includes $ accrual of discount less $ amortization of premium and less $ paid for accrued dividends on purchases.
(c) Includes $ accrual of discount less $ amortization of premium and less $ paid for accrued interest on purchases.
(d) Includes $ for company's occupancy of its own buildings; and excludes $ interest on encumbrances.
(e) Includes $ accrual of discount less $ amortization of premium and less $ paid for accrued interest on purchases.
(f) Includes $ accrual of discount less $ amortization of premium.
(g) Includes $ investment expenses and $ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ interest on surplus notes and $ interest on capital notes.
(i) Includes $ depreciation on real estate and $ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increase (Decrease) by Adjustment	4 Total
1.	U.S. Government bonds	(19,783)			(19,783)
1.1	Bonds exempt from U.S. tax				0
1.2	Other bonds (unaffiliated)	(62,017)			(62,017)
1.3	Bonds of affiliates				0
2.1	Preferred stocks (unaffiliated)				0
2.11	Preferred stocks of affiliates				0
2.2	Common stocks (unaffiliated)				0
2.21	Common stocks of affiliates				0
3.	Mortgage loans				0
4.	Real estate				0
5.	Contract loans				0
6.	Cash, cash equivalents and short-term investments				0
7.	Derivative instruments				0
8.	Other invested assets				0
9.	Aggregate write-ins for capital gains (losses)				0
10.	Total capital gains (losses)	0	0	0	0
	DETAILS OF WRITE-INS	(81,800)	0	0	(81,800)
0901.					
0902.					
0903.					
0998.	Summary of remaining write-ins for Line 9 from overflow page				
0999.	Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule E, Part 1), cash equivalents (Schedule E, Part 2) and short-term investments (Schedule DA)	15,009,208	0	(15,009,208)
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	0	0
8. Receivable for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	0	0	0
11. Investment income due and accrued	15,009,208	0	(15,009,208)
12. Premiums and considerations:	0	0	0
12.1 Uncollected premiums and agents' balances in the course of collection	4,051,691	4,764,649	712,958
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	0	0
12.3 Accrued retrospective premiums	0	0	0
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers	0	0	0
13.2 Funds held by or deposited with reinsured companies	0	0	0
13.3 Other amounts receivable under reinsurance contracts	0	0	0
14. Amounts receivable relating to uninsured plans	0	0	0
15.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
15.2 Net deferred tax asset	0	0	0
16. Guaranty funds receivable or on deposit	0	0	0
17. Electronic data processing equipment and software	0	0	0
18. Furniture and equipment, including health care delivery assets	0	0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
20. Receivables from parent, subsidiaries and affiliates	0	0	0
21. Health care and other amounts receivable	0	357,428	357,428
22. Other assets nonadmitted	0	0	0
23. Aggregate write-ins for other than invested assets	171,818	136,139	(35,679)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	369,141	125,000	(244,141)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	19,801,858	5,383,207	(14,418,643)
26. Total (Lines 24 and 25)	0	0	0
	19,801,858	5,383,207	(14,418,643)
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0
2301. Loss Funds Advance to Third Party Administrator	369,141	125,000	(244,141)
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	369,141	125,000	(244,141)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. The financial statements of Realm National Insurance Company are presented on the basis of accounting practices prescribed or permitted by the New York State Insurance Department.

The Commissioner of Insurance has the right to permit other specific practices which deviate from prescribed practices.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums are earned over the terms of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by policies effective date and pro rata methods.

Expenses incurred in connection with acquiring new business, including such acquisition costs are charged to operations as incurred.

Investments in bonds are carried pursuant to the instructions prepared by the Securities Valuation Office of the NAIC. As such, the Company's investments in bonds are generally carried at cost adjusted for amortization of premium or discount. Realized gains on sales of invested assets are determined on the basis of specific identification.

Cash and short-term investments include demand deposits and qualified money market investments and are carried at cost, which approximates their fair value.

The reserve for unpaid losses and loss adjustment expenses represents management's estimate of the ultimate cost to settle claims, both reported and unreported, incurred through December 31, 2004. While management believes that the aggregate provision for losses and loss adjustment expenses is reasonable and adequate to meet the ultimate cost of covered losses after reinsurance, such an estimate is necessarily based on estimates. Considerable uncertainty and variability are inherent in such estimates, and accordingly, the subsequent development of these reserves may not conform to the assumptions inherent in the determination. In addition, workers' compensation and general liability are long-tailed lines of insurance subject to considerable loss variability attributable to social, economic and legal considerations that are not directly quantifiable. Therefore, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statement and the ultimate net cost may vary significantly from such estimates, as it is subject to the outcome of events yet to occur. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

2. Accounting Changes and Corrections of Errors

A. Describe material changes in accounting principles and/or correction of errors.

NONE

B. Disclose the cumulative effect of changes in accounting principles as a result of the initial implementation of codification.

NONE

3. Business Combinations and Goodwill

A. Statutory Purchase Method

Not applicable

B. Statutory Mergers

Not applicable

C. Impairment Loss

Not applicable

4. Discontinued Operations

Not applicable

5. Investments

Bonds and stocks are stated at amortized cost using the scientific method of amortization. Stocks are stated at values which approximate market. Short term investments consist of NAIC Class 1 Money Market Fund.

A. Mortgage Loans, Including Mezzanine Real Estate Loans

Not applicable

B. Debt Restructuring

Not applicable

C. Reverse Mortgages

Not applicable

D. Loan-Backed Securities

Not applicable

E. Repurchase Agreements

Not applicable

F. Real Estate

633

NOTES TO FINANCIAL STATEMENTS

During 2004, REALM purchased three parcels of real estate located in North Carolina. Each parcel was purchased from Flagship Holdings, Inc. On June 02,2004, Flagship filed Form A application for a change in control with the New York State Insurance Department. The purchase and sale agreement remains pending, awaiting a decision on the pending Form A application. The properties were purchased at appraised value with a substantial part of the purchase price being returned to the company in the form of a capital contribution (paid in surplus). Two of the three properties were vacant land and the third was partially vacant land with a warehouse structure. It was the company's intention to develop two of the properties for resale.

Property	Purchase Price In Millions	Capital Contribution in Millions
242 Acres Parcel of Land	$ 3.5	$ 2.2
9.5 Acres Parcel of Land	11.2	9.3
24 Acres Parcel of Land	9.7	8.1
	24.4	19.6

Subsequent to the purchase of the real estate, the company entered into two mortgage loans collateralized by the properties. The loans were intended to be short term while permanent financing was arranged. The two loans mature in the first quarter of 2005. The proceeds of these loans reside in restricted accounts subject to call upon default. The two loans totaled $5.5 million and are carried on the balance sheet as a reduction of the real estate.

5. Joint Ventures, Partnerships and Limited Liability Companies

A. For investment in joint ventures, Partnership and Limited Liability Company that exceed 10% of the admitted assets of the insurer, disclose the following information:

Not applicable

B. For investment in impaired Joint Ventures, Partnerships and Limited Liability Companies disclose in the year of an impairment write down the following:

Not applicable

7. Investment Income

A Accrued Investment Income

There are no exclusions for investment income.

B. Amounts Non-admitted

Not applicable

8. Derivative Instruments

NONE

9. Income taxes

A. The main components of 2003 deferred tax amounts were as follows: -

	2004	2003	Change
Deferred tax assets			
Loss reserves discounting	1,738,445	1,853,282	(114,837)
20% of Unearned premiums	3,939	187,332	(183,393)
Net Operating Loss carry-forward	12,412,536	3,431,782	8,980,748
Total DTAs	14,154,914	5,472,396	8,682,518
DTAs Non-admitted	13,942,630	5,114,202	8,827,928
Admitted DTAs	212,284	357,964	(145,680)
Deferred tax liabilities			
Bond market discount	0	(4,245)	4,245
Depreciation	0	(19,120)	19,120
Total DTLs	0	(23,365)	23,365
Net admitted deferred tax assets	0	344,329	(122,315)

B. Unrecognized DTLs

Not applicable

C. Current Tax and Change in Deferred Tax

Current income tax is $0

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate

Book to tax adjustments:	2004	2003
Income before taxes		
20% of increase (decrease) in unearned premium reserve	(15,157,170)	(34,585)
Loss reserve discounting	(539,393)	(1,094,772)
Deferral of accretion of bond market discount	(848,819)	(521,662)
Adjustments for prior year loss reserve discounts	0	(3,128)
Realization of accreted market discount on bonds disposed	0	7,834
Taxable income (loss)	(16,543,384)	(1,646,454)

E. Operating Loss and Tax Credit Carry-forwards

Net operating loss carry-forwards are scheduled to expire as follows : -

2024	(16,543,382)
2023	(1,646,452)

534

NOTES TO FINANCIAL STATEMENTS

2024	(6,883,899)
2021	(1,996,564)
2020	(2,589,925)
TOTAL	(29,660,252)

F. Consolidated Federal Income Tax Return

The Company's federal income tax return is filed on a consolidated basis with the U.S. entities listed on Schedule Y, Part 1 Organizational Chart. The Company's tax allocation is based on an inter-company expense allocation agreement. Income tax expense is primarily calculated as if each company in the Group filed a separate return.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. Nature of Relationships

All outstanding shares of Realm National Insurance Company(the company) are owned by Stirling Cooke North American Holding, Ltd., (SCNAH) an insurance holding company domiciled in the state of Delaware. Most of the premiums are written through two subsidiaries of SCNAH, World Trade Services and Alphastar Insurance Services Inc. In addition certain outward reinsurance is brokered through an additional subsidiary.

B. Detail of Transactions greater than 1/2% of Admitted Assets

NONE

C. Change in Terms of Inter-company Arrangements

NONE

D. Amounts Due to or from Related Parties: (Payable)/Receivable

NONE

E. Guarantees or contingencies for Related Parties

NONE

F. Management, Service Contracts, Cost Sharing Arrangements

There is a tax sharing agreement with the Company's immediate parent, Stirling Cooke North American Holdings, Ltd.

G. Nature of Relationships that Could Affect Operations

The Company's immediate parent, Stirling Cooke North American Holdings, Ltd. (SCNAH) as well as its ultimate parent, AlphaStar Insurance Group Limited (ASIG) and certain other affiliates, filed for protection under Chapter 11 of the United States Bankruptcy Code. In addition, the following subsidiaries of SCNAH also filed bankruptcy: AlphaStar Insurance Services, Inc., Stirling Cooke North American Reinsurance Intermediaries, North American Risk, Stirling Cooke Texas, Inc., and Stirling Cooke N.Y. Insurance Agency Services, Inc.. The Company is not a party to this proceeding.

H. Amount Deducted for Investment in Upstream Company

Not applicable

I. Detail of Investments in Affiliates Greater than 10% of Admitted Assets

NONE

J. Write-down for Impairments of Investments in Subsidiary, controlled or Affiliated Companies

NONE

11. Debt

A. Capital Notes

NONE

B. All other debt

NONE

12. Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans

A. Defined Benefit Plans

NONE

B. Defined Contribution Plans

The Parent sponsored a defined contribution savings plan covering substantially all employees of the Company The Company may make a matching contribution at a value determined annually. This plan was terminated in January 2003. Currently the Company does not have 401K plan.

C. Multiemployer Plans

Not applicable

D. Consolidated/Holding Company Plans

Same as 12B

E. Post-employment Benefits and Compensated Absences

NONE

535

NOTES TO FINANCIAL STATEMENTS

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

1 Outstanding Shares

The Company has 250,000 shares of $20 par value common stock authorized, issued and outstanding. The Company has no preferred stock authorized, issued and outstanding."

2 Dividend Rate of Preferred Stock

Not applicable

3, 4 and 5 Dividend Restrictions"

The maximum dividend distribution which may be paid for the last twelve months without approval of the Superintendent of Insurance of the State of New York Insurance Department is the lesser of adjusted net investment income or 10% of statutory surplus. Cash dividends are further restricted in that they are only to be paid out of earned surplus. No dividends were declared or paid during 2004.

6 Mutual Surplus Advances

Not applicable

7 Company Stock Held for Special Purposes

Not applicable

8 Changes in Special Surplus funds

Not applicable

9 Changes in Unassigned Funds

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows: -

Description	Net Change in Surplus
Capital Contributions	20,438,124
Net Unrealized Capital gain(loss)	- 0 -
Change in non-admitted assets	(14,340,588)
Change in provision for reinsurance	1,704,889
Total increase (decrease)	7,802,345

Codification effective January 1, 2001

10. Surplus Notes

Not applicable

11. and 12. Quasi Reorganizations

Not applicable

14. Contingencies

A. Contingent Commitments

NONE

B. Guaranty Fund and Assessments

The Company is subject to guaranty fund and other assessments by the states in which it writes business. The company has paid $38,204 and accrued $14,131 liability for guaranty fund and other assessments. This accrual represents management's best estimates based on information received from the states (GA & TN) in which the Company writes business and may change due to many factors including the Company's share of the ultimate cost of current insolvencies.

C. Gain Contingencies

Not applicable

D. All Other Contingencies

Not applicable

15. Leases

A. Lessee Leasing Arrangements

The Company occupies leased office space. The lease expires in 2008. The future annual rental commitments are $1,200,000 in the aggregate and $200,000 for each of the next six (6) years.

B. Lessor Leasing Arrangements

Not applicable

16. Information about Financial Instruments with Off-Balance Sheet Risk and with Concentrations of Credit Risk

Not applicable

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

A. Transfers of Receivables Reported as Sales

Not applicable

NOTES TO FINANCIAL STATEMENTS

B. Transfers and Servicing of Financial assets

Not applicable

C. Wash sales

Not applicable

18. Gain or Loss to the Reporting from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

A. Administrative Services Only (ASO) Plans

Not applicable

B. Administrative Services Contract (ASC) Plans

Not applicable

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contracts

Not applicable

19. Direct Premiums Written by Managing General Agents / Third Party Administrators

Names	Address	FEIN #	Direct Premium	Types of Insurance
B&S Underwriters Inc.	1412 Centre Court, Alexandria, LA	72-1153620	(45,110)	Workers' Comp
Alphastar Insurance Services, Inc.	6311 Ahlam Drive, Bradenton, FL	59-3294324	(62,809)	Workers' Comp
		TOTAL -	$(107,919)	

Underwriting authority was granted to all MGA's. In addition claims authority was granted to B&S Underwriters Inc., Midlands Management Group and AlphaStar Insurance Services, Inc.

20. September 11 Events

Insignificant losses resulted from the Sept 11 event.

21. Other Items

A. Extraordinary Items

Not applicable

B. Troubled Debt Restructuring for Debtors

Not applicable

C. Other Disclosures

NONE

D. Uncollectible Premiums Receivable

At December 31, 2004 the Company had admitted agents balances of $9,708. The Company routinely assesses the collectibility of these receivables. The Company does not expect the amount to become uncollectible to be material to the Company's financial condition.

E. Business Interruption Insurance Recoveries

NONE

22. Events Subsequent

As of February 5, 2004, ASIG and SCNAH have entered into a purchase and sale agreement to sell the Company and provide additional surplus funds. The agreements have been approved by the Federal Bankruptcy Court. The auction sale of The Company pursuant to the Bankruptcy Code is currently scheduled for March 4, 2004.

Pursuant to the auction process sanctioned by the Court, the successful bidder is to be confirmed by the Court on March 4, 2004, and an initial contribution of $1,050,000 is to be made to bolster The Company's surplus. Additional surplus contributions are anticipated to follow shortly thereafter. Actual consummation of the sale will await approval by the State of New York Insurance Department of the successful bidder's Form A application for Change in Control, which was filed in June 2, 2004.

23. Reinsurance

A. Unsecured Reinsurance Recoverables

Name of Reinsurer	Amount	NAIC #	FEIN #
Houston Casualty Corp.	$1,222,000	42374	74-2195939
Clarendon American Company	$298,000	43095	22-2328909

B. Reinsurance Recoverables in Dispute

NONE

C. Reinsurance Assumed and Ceded (Unearned premium as of 12/31/04)

The Company (Realm) participates in quota share reinsurance treaties with Clarendon National Insurance Company (Clarendon) in which RNIC assumes risks related to the workers' compensation program written and administered by Clarendon during 2000 and 2001. To secure the Company's obligations to Clarendon, the terms of treaties call for Clarendon to collect and retain premiums and pay program expense and claims

537

NOTES TO FINANCIAL STATEMENTS

("funds held"). The company reports premiums in excess of expenses and claims payments as funds held by reinsured companies on the statutory balance sheet. In addition, RNIC has recorded case and supplemental reserve liabilities for future claims.

The Company has recognized a net asset due from Clarendon in the amount of $1,121,000, made up of the following account balances with in the financial statements:

	December 31, 2004
Funds held	1,995,000
Loss reserves	(874,000)

The Company received conflicting loss payment and reserve data as of December 31,2003 from Clarendon and its intermediary, Axioms. Per review of Clarendon's detailed loss reports, management noted that Clarendon had recognized a substantial strengthening of the programs case reserve during the fourth quarter of 2003. Management was unable to obtain a satisfactory explanation for the changes and subsequently performed a claims audit. The Company believes the results of its audit confirm that the fourth quarter reserve activity was not justified in view of the facts and circumstances reflected in the documentation contained in the claims files. In addition, Realm's analysis of the detailed claims data suggests several potential discrepancies related to the other aspects of the program. The Company has formalized its response to these issues in the four letters sent to Clarendon (the earliest being in March 2004). To date, Clarendon has not responded to the issues by our correspondence.

The Company believes that the amounts recorded in the financial statements represent its best estimate base on the information presently available. However, due to the circumstances noted above as well as matters yet to be resolved, significant uncertainties exist related to the ultimate amount that will become due to or due from Clarendon. It is likely that a significant period of time will elapse before the ultimate outcome will become known. As these issues are resolved, adjustments to the receivables from and/or payables to Clarendon will be reflected in the financial statements of the period in which such adjustments are determined.

D. Uncollectible Reinsurance

NONE

E. Commutation of Ceded Reinsurance

Treaties with three reinsurers, ING Re(UK), Phoenix Home Life Mutual and Sun Life Insurance were commuted during 2004, which resulted in a loss to the company of $2,008,000. This loss was offset in part by a reduction in the Company's Schedule F penalty relating to two of these companies of $1.8 million.

F. Retroactive Reinsurance

Not applicable

G. Reinsurance Accounted for as a Deposit

Not applicable

24. Retrospectively Rated Contracts

Not applicable

25. Change in Incurred Losses and Loss Adjustment Expenses

A. The estimated cost of loss and loss adjustment expenses attributable to insured events of prior years increased by $4,372,000 during 2004. Increase of this nature occur as a result of claim strengthening during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

26. Inter-company Pooling Arrangements

Not applicable

27. Structured Settlements

A. Life Insurance Company	Licensed in NY	Statement Value
American Mayflower Life	YES	399,484
New York Life Ins Co	YES	172,368
A.I. Life Ins Co	YES	634,965
Connecticut General Life	YES	200,809
American General Life	YES	105,509
GE Financial Assurance	YES	362,126
Metropolitan Life	YES	69,976

28. Health Care receivables

Not applicable

29. Participating Policies

Not applicable

30. Premium Deficiency Reserves

Not applicable

31. High Deductibles

Not applicable

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

A. Tabular Discounts

Not applicable

B. Non-Tabular Discounts

NOTES TO FINANCIAL STATEMENTS

Not applicable

33. Asbestos / Environmental Reserves

Not applicable

34. Subscriber savings Account

Not applicable

35. Multiple Peril Crop Insurance

Not applicable

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	4,137,013	25.844	4,137,013	25.844
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	25,000	0.156	25,000	0.156
1.22 Issued by U.S. government sponsored agencies	15,155	0.095	15,155	0.095
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	0	0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	0	0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	0	0.000		0.000
1.43 Revenue and assessment obligations	0	0.000		0.000
1.44 Industrial development and similar obligations	0	0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	0	0.000		0.000
1.512 Issued or guaranteed by FNMA and FHLMC	0	0.000		0.000
1.513 All other	0	0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	0	0.000		0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	0	0.000		0.000
1.523 All other	0	0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	0	0.000		0.000
2.2 Unaffiliated foreign securities	0	0.000		0.000
2.3 Affiliated securities	0	0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds	0	0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated	0	0.000		0.000
3.22 Unaffiliated	0	0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000		0.000
3.32 Unaffiliated	1,078,451	6.737	1,078,451	6.737
3.4 Other equity securities:				
3.41 Affiliated	0	0.000		0.000
3.42 Unaffiliated	0	0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	0	0.000		0.000
3.52 Unaffiliated	0	0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development	0	0.000		0.000
4.2 Agricultural	0	0.000		0.000
4.3 Single family residential properties	0	0.000		0.000
4.4 Multifamily residential properties	0	0.000		0.000
4.5 Commercial loans	0	0.000		0.000
4.6 Mezzanine real estate loans	0	0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company	0	0.000	0	0.000
5.2 Property held for the production of income (including $ ____ of property acquired in satisfaction of debt)	0	0.000	0	0.000
5.3 Property held for sale ($ ____ including property acquired in satisfaction of debt)	3,894,015	24.326	3,894,015	24.326
6. Policy loans	0	0.000		0.000
7. Receivables for securities	0	0.000	0	0.000
8. Cash, cash equivalents and short-term investments	5,858,188	42.843	5,858,188	42.843
9. Other invested assets	0	0.000	0	0.000
10. Total invested assets	16,007,822	100.000	16,007,822	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] NA [ ]

1.3 State Regulating? NEW YORK

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]

2.2 If yes, date of change:

If not previously filed, furnish herewith a certified copy of the instrument as amended.

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2002

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2002

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 04/01/2004

3.4 By what department or departments? STATE OF NEW YORK INSURANCE DEPARTMENT

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [X] No [ ]

4.12 renewals? Yes [X] No [ ]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [X] No [ ]

4.22 renewals? Yes [X] No [ ]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]

5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if it is confidentiality clause is part of the agreement.) Yes [X] No [ ]

6.2 If yes, give full information ALABAMA-CONSENT TO SUSPENSION; GEORGIA-AGREED TO SUSPENSION;ILLINOIS-AGREED TO SUSPENSION;LOUISIANA-AGREED TO SUSPENSION ORDER;TENNESSEE-AGREED TO ORDER OF SUSPENSION;TEXAS-AGREED TO CONSENT ORDER FOR SUSPENSION

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [X] No [ ]

7.2 If yes,

7.21 State the percentage of foreign control: 100.0

7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity
BERMUDA	CORPORATION

GENERAL INTERROGATORIES

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
JOHNSON LAMBERT & CO., 7500 OLD GEORGETOWN ROAD, SUITE 700, BETHESDA,MD. 20814-6133

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(m) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
RICHARD W. LO, 203 JOSHUA COURT, NORTH WALES, PA. 19454, ACTUARY FOR ALLIANCE ACTUARIAL SERVICES, INC.

11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

11.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?

11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? ..... Yes [ ] No [ ]

11.3 Have there been any changes made to any of the trust indentures during the year? ..... Yes [ ] No [ ]

11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? ..... Yes [ ] No [ ] NA [ ]

BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? ..... Yes [X] No [ ]

13. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? ..... Yes [X] No [ ]

14. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such persons? ..... Yes [X] No [ ]

FINANCIAL

15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
15.11 To directors or other officers ..... $ 0
15.12 To stockholders not officers ..... $ 0
15.13 Trustees, supreme or grand (Fraternal only) ..... $ 0

15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
15.21 To directors or other officers ..... $ 0
15.22 To stockholders not officers ..... $ 0
15.23 Trustees, supreme or grand (Fraternal only) ..... $ 0

16.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? ..... Yes [ ] No [X]

16.2 If yes, state the amount thereof at December 31 of the current year:
16.21 Rented from others ..... $
16.22 Borrowed from others ..... $
16.23 Leased from others ..... $
16.24 Other ..... $

Disclose in Notes to Financial the nature of each obligation.

17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? ..... Yes [ ] No [X]

17.2 If answer is yes,
17.21 Amount paid as losses or risk adjustment ..... $
17.22 Amount paid as expenses ..... $
17.23 Other amounts paid ..... $

5412

GENERAL INTERROGATORIES

INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited? Yes / No	6 Are Dividends Cumulative? Yes / No
Preferred					[ ] [ ]	[ ] [ ]
Common	250,000	250,000	20.000	XXX	XXX XXX	XXX XXX

18.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [ ] No [X]

18.2 If no, give full and complete information relating thereto:

STOCKS WERE HELD IN TRUST BY IFG PRIVATE EQUITY, LLC

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 18.1) Yes [ ] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21	Loaned to others	$
20.22	Subject to repurchase agreements	$
20.23	Subject to reverse repurchase agreements	$
20.24	Subject to dollar repurchase agreements	$
20.25	Subject to reverse dollar repurchase agreements	$
20.26	Pledged as collateral	$
20.27	Placed under option agreements	$
20.28	Letter stock or other securities restricted as to sale	$
20.29	Other	$

20.3 For category (20.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] NA [X]
If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [X]

22.2 If yes, state the amount thereof as December 31 of the current year. $

GENERAL INTERROGATORIES

INVESTMENT

22. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? ..... Yes [ ] No [X]

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
SANDERSON PERSONAL ASSET MANAGEMENT SERVICES	P.O. BOX 21412, ROCHESTER, NY 14603

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)
IFG PRIVATE EQUITY, LLC	300 COLONIAL PARKWAY, ROSWELL, GA. 30076	HELD COMMON STOCKS AND CASH IN TRUST

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? ..... Yes [ ] No [X]

23.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

23.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
	COWLES ASSET MANAGEMENT	CITY PLACE II, 185 ASYLUM ST., HARTFORD, CT. 06103-3309

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)]? ..... Yes [ ] No [X]

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9899999. TOTAL		0

24.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding Of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

GENERAL INTERROGATORIES

INVESTMENT

25. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
25.1 Bonds	4,177,169	4,129,094	(48,075)
25.2 Preferred stocks	0		0
25.3 Totals	4,177,169	4,129,094	(48,075)

25.4 Describe the sources or methods utilized in determining fair values:

26.1 Have all the filing requirements of the *Purposes and Procedures manual* of the NAIC Securities Valuation Office been followed? ..... Yes [X] No [ ]

26.2 If no, list the exceptions:

OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? ..... $ .....

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
ISO	44,075

28.1 Amount of payments for legal expenses, if any? ..... $ .....

28.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
ARENT, FOX, KOTHER	523,333

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? ..... $ .....

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]

1.2 If yes, indicate premium earned on U. S. business only $

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $

1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. $

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $ 0

1.62 Total incurred claims $ 0

1.63 Number of covered lives $ 0

All years prior to most current three years:

1.64 Total premium earned $ 0

1.65 Total incurred claims $ 0

1.66 Number of covered lives $ 0

1.7 Group policies:

Most current three years:

1.71 Total premium earned $ 0

1.72 Total incurred claims $ 0

1.73 Number of covered lives $ 0

All years prior to most current three years:

1.74 Total premium earned $ 0

1.75 Total incurred claims $ 0

1.76 Number of covered lives $ 0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ 0	$ 0
2.2	Premium Denominator	$ 0	$ 0
2.3	Premium Ratio (2.1/2.2)	0.000	0.000
2.4	Reserve Numerator	$ 0	$ 0
2.5	Reserve Denominator	$ 0	$ 0
2.6	Reserve Ratio (2.4/2.5)	0.000	0.000

3.1 Does the reporting entity issue both participating and non-participating policies? Yes [ ] No [X]

3.2 If yes, state the amount of calendar year premiums written on:

3.21 Participating policies $

3.22 Non-participating policies $

4. For Mutual Reporting Entities and Reciprocal Exchanges Only:

4.1 Does the reporting entity issue assessable policies? Yes [ ] No [ ]

4.2 Does the reporting entity issue non-assessable policies? Yes [ ] No [ ]

4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? %

4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums? $

5. For Reciprocal Exchanges Only:

5.1 Does the Exchange appoint local agents? Yes [ ] No [ ]

5.2 If yes, is the commission paid:

5.21 Out of Attorney-in-fact compensation Yes [ ] No [ ] NA [ ]

5.22 As a direct expense of the Exchange Yes [ ] No [ ] NA [ ]

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?

5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? Yes [ ] No [ ]

5.5 If yes, give full information

5.46

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss?
SPECIAL UNDERWRITING, ZIP CODE MODELING AND EXCESS OF LOSS REINSURANCE

6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of these exposures and the effects of reinsurance recoveries (such as consulting firms or computer software models), if any, used in the estimation process.
NEW YORK PROPERTY AND WORKERS COMPENSATION ZIP CODE MODELING AND AGGREGATE ACCUMULATIONS

6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
ZIP CODE MODELING, UNDERWRITING LIMITATIONS AND EXCESS OF LOSS REINSURANCE

6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes [X] No [ ]

6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to mitigate its exposure to unreinsured catastrophic loss.

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract which includes a provision which would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit or any similar provision)? Yes [X] No [ ]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions: 1

8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes [ ] No [X]

8.2 If yes, give full information

9. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurance a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [ ] No [X] NA [ ]

10.1 Has this reporting entity guaranteed policies issued by any other entity and now in force? Yes [ ] No [X]

10.2 If yes, give full information

11.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 12.3 of the assets schedule, Page 2, state the amount of corresponding liabilities recorded for:

11.11 Unpaid losses $ 0

11.12 Unpaid underwriting expenses (including loss adjustment expenses) $ 0

11.2 Of the amount on Line 12.3 of the assets schedule, Page 2, state the amount which is secured by letters of credit, collateral and other funds $ 0

11.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation are premiums or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [ ] No [X] NA [ ]

11.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:

11.41 From %

11.42 To %

11.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium or promissory notes taken by the reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [ ] No [X]

11.6 If yes, state the amount thereof at December 31 of the current year:

11.61 Letters of Credit $

11.62 Collateral and other funds $

12.1 What amount of installment notes is owned and now held by the reporting entity? $ 0

12.2 Were any of these notes been hypothecated, sold or used in any manner as security for money loaned within the past year? Yes [ ] No [X]

12.3 If yes, what amount? $

13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): $ 500,000

13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes [ ] No [X]

13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of this amount 1

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

14.1 Is the company a cedant in a multiple cedant reinsurance contract? ..... Yes [ ] No [X]

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? ..... Yes [ ] No [ ]

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? ..... Yes [ ] No [ ]

14.5 If answer to 14.4 is no, please explain:

15.1 Has the reporting entity guaranteed any financed premium accounts? ..... Yes [ ] No [X]

15.2 If yes, give full information

16.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? ..... Yes [ ] No [X]

16.11 Name of real estate holding company

16.12 Number of parcels involved

16.13 Total book/adjusted carrying value $

16.2 If yes, provide explanation.

17.1 Does the reporting entity write any warranty business? ..... Yes [ ] No [X]

If yes, disclose the following information for each of the following types of warranty coverage:

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premiums	4 Direct Premium Unearned	5 Direct Premium Earned
17.11 Home	$	$	$	$	$
17.12 Products	$	$	$	$	$
17.13 Automobile	$	$	$	$	$
17.14 Other*	$	$	$	$	$

* Disclose type of coverage:

542

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.3.

	1 2004	2 2003	3 2002	4 2001	5 2000
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	(405,602)	7,565,417	22,720,052	35,930,311	55,307,859
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(256,156)	2,581,632	3,105,599	4,039,450	6,087,767
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	0	0	0	0	0
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	0	0	0	0	0
5. Non-proportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	0	0
6. Total (Line 34)	(661,758)	10,147,049	25,825,651	39,969,761	61,395,625
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	(512,555)	7,269,615	17,782,198	30,059,210	20,797,815
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	(171,073)	1,885,126	1,575,784	2,709,143	1,615,664
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	0	0	0	0	0
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	0	0	0	0	0
11. Non-proportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	0	0
12. Total (Line 34)	(683,628)	9,154,741	19,357,983	32,768,353	22,213,280
Statement of Income (Page 4)					
13. Net underwriting gain (Loss) (Line 8)	(11,058,526)	(2,355,223)	(7,921,589)	(5,916,655)	(8,079,930)
14. Net investment gain (Loss) (Line 11)	204,915	2,402,819	1,868,486	1,651,454	1,739,578
15. Total other income (Line 15)	(4,283,159)	(82,199)	(1,573,190)	(283,219)	(528,782)
16. Dividends to policyholders (Line 17)	0	0	0	0	0
17. Federal and foreign income taxes incurred (Line 19)	0	0	0	0	(734,184)
18. Net income (Line 20)	(15,157,170)	(34,503)	(7,626,273)	(4,558,420)	(4,186,958)
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	24,157,948	42,790,758	57,702,788	62,421,423	41,732,871
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 12.1)	163,576	189,351	1,871,248	12,157,283	1,088,468
20.2 Deferred and not yet due (Line 12.2)	0	0	2,118,813	4,597,645	2,873,244
20.3 Accrued retrospective premiums (Line 12.3)	0	0	0	0	0
21. Total liabilities excluding protected cell business (Page 3, Line 26)	29,678,298	40,956,261	51,221,615	48,581,852	27,616,941
22. Losses (Page 3, Lines 1 and 2)	25,393,788	29,178,328	29,874,097	28,218,271	11,373,639
23. Loss adjustment expenses (Page 3, Line 3)	3,787,135	4,758,261	5,714,504	3,822,287	3,588,608
24. Unearned premiums (Page 3, Line 9)	57,908	2,754,885	8,228,746	12,764,317	7,759,319
25. Capital paid up (Page 3, Lines 28 & 29)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
26. Surplus as regards policyholders (Page 3, Line 35)	(5,520,350)	1,834,495	6,481,151	13,840,571	14,115,930
Risk-Based Capital Analysis					
27. Total adjusted capital	(5,520,350)	1,834,495	6,481,151	13,840,571	14,115,930
28. Authorized control level risk-based capital	3,053,649	5,145,098	4,821,541	5,285,985	4,893,998
Percentage Distribution of Cash and Invested Assets (Page 2, Col. 3) (Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	28.1	92.7	88.8	80.7	53.7
30. Stocks (Lines 2.1 & 2.2)	5.7	0.0	0.0	0.2	2.0
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.0	0.0	0.0
32. Real estate (Lines 4.1, 4.2 & 4.3)	26.3	0.0	0.0	0.0	0.0
33. Cash and short-term investments (Line 5)	42.8	7.2	33.1	18.9	44.2
34. Contract loans (Line 6)	0.0		XXX	XXX	XXX
35. Other invested assets (Line 7)	0.0	0.0	0.0	0.0	0.0
36. Receivables for securities (Line 8)	0.0	0.0	0.0	0.0	0.0
37. Aggregate write-ins for invested assets (Line 9)	0.0	0.1	0.1	0.1	0.1
38. Cash and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
39. Affiliated bonds (Schedule D, Summary, Line 25, Col. 1)	0	0	0	0	0
40. Affiliated preferred stocks (Schedule D, Summary, Line 39, Col. 1)	0	0	0	0	0
41. Affiliated common stocks (Schedule D, Summary, Line 53, Col. 2)	0	0	0	0	0
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 8, Line 11)	0	0	0	0	0
43. Affiliated mortgage loans on real estate	0	0	0	0	0
44. All other affiliated	0	0	0	0	0
45. Total of above Lines 39 to 44	0	0	0	0	0
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	0.0	0.0	0.0	0.0	0.0

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2004	2 2003	3 2002	4 2001	5 2000
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (Losses) (Line 23)	0	0	(529)	89,738	(757,681)
48. Dividends to stockholders (Line 34)	0	0	0	0	0
49. Change in surplus as regards policyholders for the year (Line 37)	(7,354,845)	(9,546,656)	(7,359,220)	(275,559)	(3,060,945)
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	13,121,042	17,758,604	24,433,275	26,278,278	27,254,384
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	709,481	804,859	484,635	2,208,916	3,189,787
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	0	0	0	0	0
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	0	0	0	0	0
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	0	0
55. Total (Line 34)	13,830,523	17,863,463	25,917,910	28,487,194	30,435,171
Net Losses Paid (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	7,480,857	10,005,718	7,698,283	7,930,238	4,552,714
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	484,257	209,138	(530,708)	853,375	834,885
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	0	0	0	0	0
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	0	0	0	0	0
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	0	0
61. Total (Line 34)	7,965,114	10,214,854	7,167,555	8,783,613	5,387,709
Operating Percentages (Page 4) (Items divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	208.8	65.0	70.4	83.4	72.8
64. Loss expenses incurred (Line 3)	214.8	23.6	24.4	13.0	19.7
65. Other underwriting expenses incurred (Line 4)	227.9	27.5	38.4	44.9	48.3
66. Net underwriting gain (loss) (Line 8)	(549.8)	(16.1)	(33.2)	(21.3)	(32.9)
Other Percentages					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	(1,298.4)	44.8	55.5	39.8	38.3
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	422.8	88.6	94.8	76.4	92.6
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	12.4	499.0	298.7	238.8	157.4
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P - Part 2 - Summary, Line 12, Col. 11)	4,372	855	3,318	2,158	1,542
71. Percent of development of loss and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	238.3	10.1	24.8	15.3	9.9
Two Year Loss Development (000 omitted)					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	5,438	3,853	852	2,148	(859)
73. Percent of development of loss and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	83.9	22.1	6.8	17.5	(4.6)

ANNUAL STATEMENT FOR THE YEAR 2004 OF THE REALM NATIONAL INSURANCE COMPANY

NAIC Group Code 0000

EXHIBIT OF PREMIUMS AND LOSSES (Statutory Page 14)

BUSINESS IN THE STATE OF Consolidated DURING THE YEAR 2004

NAIC Company Code 16486

Line of Business	1 Direct Premiums Written	2 Direct Premiums Earned	3 Dividends Paid or Credited to Policyholders on Direct Business	4 Direct Unearned Premium Reserves	5 Direct Losses Paid (deducting salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Direct Defense and Cost Containment Expense Paid	9 Direct Defense and Cost Containment Expense Incurred	10 Direct Defense and Cost Containment Expense Unpaid	11 Commissions and Brokerage Expenses	12 Taxes, Licenses and Fees
2.1 Allied lines	(310,122)	576,838	0	0	878,408	(375,181)	322,581	83,581	83,581	0	(40,044)	353,672
2.2 Multiple peril crop	(46,983)	139,071	0	0	30,076	(219,144)	168,300	39,447	39,447	0	0	72,670
2.3 Federal flood	0	0	0	0	0	0	0	0	0	0	0	0
3. Farmowners multiple peril	0	0	0	0	0	0	0	0	0	0	0	0
4. Homeowners multiple peril	0	0	0	0	0	0	0	0	0	0	0	0
5.1 Commercial multiple peril (non-liability portion)	0	0	0	0	0	0	0	0	0	0	0	0
5.2 Commercial multiple peril (liability portion)	0	0	0	0	0	0	0	0	0	0	0	0
6. Mortgage guaranty	0	0	0	0	0	0	0	0	0	0	0	0
8. Ocean marine	0	0	0	0	0	0	0	0	0	0	0	0
9. Inland marine	0	0	0	0	0	0	0	0	0	0	0	0
10. Financial guaranty	0	0	0	0	0	0	0	0	0	0	0	0
11. Medical malpractice	0	0	0	0	0	0	0	0	0	0	0	0
12. Earthquake	0	0	0	0	0	0	0	0	0	0	0	0
13. Group accident and health (b)	0	0	0	0	0	0	0	0	0	0	0	0
14. Credit A & H (group and individual)	0	0	0	0	0	0	0	0	0	0	0	0
15.1 Collectively renewable A & H (b)	0	0	0	0	0	0	0	0	0	0	0	0
15.2 Non-cancellable A & H (b)	0	0	0	0	0	0	0	0	0	0	0	0
15.3 Guaranteed renewable A & H (b)	0	0	0	0	0	0	0	0	0	0	0	0
15.4 Non-renewable for stated reasons only (b)	0	0	0	0	0	0	0	0	0	0	0	0
15.5 Other accident only	0	0	0	0	0	0	0	0	0	0	0	0
15.6 All other A & H (b)	0	0	0	0	0	0	0	0	0	0	0	0
15.7 Federal employees health benefits program premium (b)	0	0	0	0	0	0	0	0	0	0	0	0
16. Workers' compensation	0	0	0	0	0	0	0	0	0	0	0	0
17. Other liability	365,354	270,661	0	57,452	3,188,566	2,729,053	28,377,423	3,168,905	1,960,883	6,337,450	16,346	141,413
18. Products liability	(388,012)	1,885,835	0	0	2,351,708	5,346,537	13,744,676	1,213,845	1,843,945	1,051,000	(80,774)	880,982
19.1 Private passenger auto no-fault (personal injury protection)	0	0	0	0	0	0	0	0	0	0	0	0
19.2 Other private passenger auto liability	0	0	0	0	0	0	0	0	0	0	0	0
19.3 Commercial auto no-fault (personal injury protection)	0	0	0	0	0	0	0	0	0	0	0	0
19.4 Other commercial auto liability	0	0	0	0	0	0	0	0	0	0	0	0
21.1 Private passenger auto physical damage	0	0	0	0	0	0	0	0	0	0	0	0
21.2 Commercial auto physical damage	0	0	0	0	0	0	0	0	0	0	0	0
22. Aircraft (all perils)	0	0	0	0	228,261	(107,880)	338,639	86,402	(80,877)	103,926	0	0
23. Fidelity	0	0	0	0	0	0	0	0	0	0	0	0
24. Surety	0	0	0	0	0	(11,940)	0	0	(1,327)	0	0	0
26. Burglary and theft	0	0	0	0	0	0	0	0	0	0	0	0
27. Boiler and machinery	0	0	0	0	0	0	0	0	0	0	0	0
28. Credit	0	0	0	0	0	0	0	0	0	0	0	0
29. Aggregate write-ins for other lines of business	0	0	0	0	0	0	0	0	0	0	0	0
34. TOTALS (a)	(420,777)	2,772,485	0	57,452	11,478,019	7,353,316	42,952,639	4,611,280	3,865,232	8,492,376	(111,473)	1,448,717
DETAILS OF WRITE-INS												
3301.												
3302.												
3303.												
3398. Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0
3399. Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0	0	0	0

(a) Finance and service charges not included in Line 1 to 34 0

(b) For health business on indicated lines report: Number of persons insured under PPO managed care products ..... 0 and number of persons insured under indemnity only products 0

551

SCHEDULE A - VERIFICATION BETWEEN YEARS

1. Book adjusted carrying value, December 31, prior year (prior year statement)	0
2. Increase (decrease) by adjustment:	
2.1 Totals, Part 1, Column 11	0
2.2 Totals, Part 3, Column 7	0
3. Cost of acquired, (Totals, Part 2, Column 8, net of encumbrances (Column 7) and net of additions and permanent improvements (Column 9)	18,903,223
4. Cost of additions and permanent improvements:	
4.1 Totals, Part 1, Column 14	0
4.2 Totals, Part 3, Column 8	0
5. Total profit (loss) on sales, Part 3, Column 14	0
6. Increase (decrease) by foreign exchange adjustment:	0
6.1 Totals, Part 1, Column 12	0
6.2 Totals, Part 3, Column 9	0
7. Amounts received on sales, Part 3, Column 11 and Part 1, Column 13	0
8. Book/adjusted carrying value at end of current period	0
9. Total valuation allowance	18,903,223
10. Subtotal (Lines 8 plus 9)	18,903,223
11. Total nonadmitted amounts	15,009,208
12. Statement value, current period (Page 2, real estate lines, Net Admitted Assets column)	3,894,015

SCHEDULE B - VERIFICATION BETWEEN YEARS

NONE

1. Book value/recorded investment excluding accrued interest on mortgages owned, December 31 of prior year	0
2. Amount loaned during year:	
2.1 Actual cost at time of acquisitions	
2.2 Additional investment made after acquisitions	
3. Accrual of discount and mortgage interest points and commitment fees	0
4. Increase (decrease) by adjustment	
5. Total profit (loss) on sale	
6. Amounts paid on account or in full during the year	
7. Amortization of premium	
8. Increase (decrease) by foreign exchange adjustment	
9. Book value/recorded investment excluding accrued interest on mortgages owned at end of current period	0
10. Total valuation allowance	
11. Subtotal (Lines 9 plus 10)	
12. Total nonadmitted amounts	0
13. Statement value of mortgages owned at end of current period (Page 2, mortgage lines, Net Admitted Assets column)	0

SCHEDULE BA - VERIFICATION BETWEEN YEARS

NONE

1. Book/adjusted carrying value of long-term invested assets owned, December 31 of prior year	0
2. Cost of acquisitions during year:	
2.1 Actual cost at time of acquisitions	
2.2 Additional investment made after acquisitions	
3. Accrual of discount	0
4. Increase (decrease) by adjustment	
5. Total profit (loss) on sale	
6. Amounts paid on account or in full during the year	
7. Amortization of premium	
8. Increase (decrease) by foreign exchange adjustment	
9. Book/adjusted carrying value of long-term invested assets at end of current period	0
10. Total valuation allowance	
11. Subtotal (Lines 9 plus 10)	0
12. Total nonadmitted amounts	
13. Statement value of long-term invested assets at end of current period (Page 2, Line 7, Column 3)	0

552

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS					
Governments (Including all obligations guaranteed by governments)	1. United States	4,152,169	4,104,094	4,187,458	4,045,000
	2. Canada				
	3. Other Countries	25,000	25,000	25,000	25,000
	4. Totals	4,177,169	4,129,094	4,212,458	4,070,000
States, Territories and Possessions (Direct and guaranteed)	5. United States				
	6. Canada				
	7. Other Countries				
	8. Totals	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States				
	10. Canada				
	11. Other Countries				
	12. Totals	0	0	0	0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States				
	14. Canada				
	15. Other Countries				
	16. Totals	0	0	0	0
Public Utilities (unaffiliated)	17. United States				
	18. Canada				
	19. Other Countries				
	20. Totals	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States				
	22. Canada				
	23. Other Countries				
	24. Totals	0	0	0	0
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. Total Bonds	4,177,169	4,129,094	4,212,458	4,070,000
PREFERRED STOCKS					
Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. Total Preferred Stocks	0	0	0	
COMMON STOCKS					
Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	49. United States	1,078,451	1,078,451	801,543	
	50. Canada				
	51. Other Countries				
	52. Totals	1,078,451	1,078,451	801,543	
Parent, Subsidiaries and Affiliates	53. Totals	0	0	0	
	54. Total Common Stocks	1,078,451	1,078,451	801,543	
	55. Total Stocks	1,078,451	1,078,451	801,543	
	56. Total Bonds and Stocks	5,255,620	5,207,545	4,813,993	

SCHEDULE D - VERIFICATION BETWEEN YEARS

1.	Book/adjusted carrying value of bonds and stocks, prior year		20,730,981
2.	Cost of bonds and stocks acquired, Column 7, Part 3		1,558,746
3.	Increase (decrease) by adjustment:		
	3.1 Columns 12 + 13 - 14, Part 1	(22,271)	
	3.2 Column 16, Part 2, Sec. 1	0	
	3.3 Column 15, Part 2, Sec. 2	476,988	
	3.4 Column 14, Part 4	(32,883)	421,744
4.	Total gain (loss), Col. 19, Part 4		(81,809)
5.	Deduct consideration for bonds and stocks disposed of Column 7, Part 4		16,772,031
6.	Foreign Exchange Adjustment:		
	6.1 Column 15, Part 1	0	
	6.2 Column 19, Part 2, Sec. 1	0	
	6.3 Column 16, Part 2, Sec. 2	0	
	6.4 Column 15, Part 4	0	0
7.	Book/adjusted carrying value at end of current period		5,255,620
8.	Total valuation allowance		
9.	Subtotal (Lines 7 plus 8)		5,255,620
10.	Total nonadmitted amounts		5,255,620
11.	Statement value of bonds and stocks, current period		5,255,620

SCHEDULE D - PART 1A - SECTION 1

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

Quality Rating per the NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total from Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed (a)
1. U.S. Governments, Schedules D & DA (Group 1)											
1.1 Class 1		2,295,558	1,856,611			4,152,169	30.6	9,363,346	45.2	4,152,169	
1.2 Class 2						0	0.0	0	0.0		
1.3 Class 3						0	0.0	0	0.0		
1.4 Class 4						0	0.0	0	0.0		
1.5 Class 5						0	0.0	0	0.0		
1.6 Class 6						0	0.0	0	0.0		
1.7 Totals	0	2,295,558	1,856,611	0	0	4,152,169	30.6	9,363,346	45.2	4,152,169	0
2. All Other Governments, Schedules D & DA (Group 2)											
2.1 Class 1		25,000				25,000	0.2	25,000	0.1	25,000	
2.2 Class 2						0	0.0	0	0.0		
2.3 Class 3						0	0.0	0	0.0		
2.4 Class 4						0	0.0	0	0.0		
2.5 Class 5						0	0.0	0	0.0		
2.6 Class 6						0	0.0	0	0.0		
2.7 Totals	0	25,000	0	0	0	25,000	0.2	25,000	0.1	25,000	0
3. States, Territories and Possessions etc., Guaranteed, Schedules D & DA (Group 3)											
3.1 Class 1						0	0.0	0	0.0		
3.2 Class 2						0	0.0	0	0.0		
3.3 Class 3						0	0.0	0	0.0		
3.4 Class 4						0	0.0	0	0.0		
3.5 Class 5						0	0.0	0	0.0		
3.6 Class 6						0	0.0	0	0.0		
3.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
4. Political Subdivisions of States, Territories and Possessions, Guaranteed, Schedules D & DA (Group 4)											
4.1 Class 1						0	0.0	0	0.0		
4.2 Class 2						0	0.0	0	0.0		
4.3 Class 3						0	0.0	0	0.0		
4.4 Class 4						0	0.0	0	0.0		
4.5 Class 5						0	0.0	0	0.0		
4.6 Class 6						0	0.0	0	0.0		
4.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
5. Special Revenue & Special Assessment Obligations etc., Non-Guaranteed, Schedules D & DA (Group 5)											
5.1 Class 1						0	0.0	2,334,140	11.2		
5.2 Class 2						0	0.0	0	0.0		
5.3 Class 3						0	0.0	0	0.0		
5.4 Class 4						0	0.0	0	0.0		
5.5 Class 5						0	0.0	0	0.0		
5.6 Class 6						0	0.0	0	0.0		
5.7 Totals	0	0	0	0	0	0	0.0	2,334,140	11.2	0	0

554

SCHEDULE D - PART 1A - SECTION 1 (continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

Quality Rating per the NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total from Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed (a)
6. Public Utilities (Unaffiliated), Schedules D & DA (Group 6)											
6.1 Class 1						0	0.0	0	0.0		
6.2 Class 2						0	0.0	0	0.0		
6.3 Class 3						0	0.0	0	0.0		
6.4 Class 4						0	0.0	0	0.0		
6.5 Class 5						0	0.0	0	0.0		
6.6 Class 6						0	0.0	0	0.0		
6.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
7. Industrial & Miscellaneous (Unaffiliated), Schedules D & DA (Group 7)											
7.1 Class 1	6,304,514					6,304,514	80.1	8,436,384	40.7	6,304,514	
7.2 Class 2						0	0.0	527,010	2.5		
7.3 Class 3						0	0.0	0	0.0		
7.4 Class 4						0	0.0	0	0.0		
7.5 Class 5						0	0.0	0	0.0		
7.6 Class 6						0	0.0	0	0.0		
7.7 Totals	6,304,514	0	0	0	0	6,304,514	80.1	8,963,394	43.3	6,304,514	0
8. Credit Tenant Loans, Schedules D & DA (Group 8)											
8.1 Class 1						0	0.0	0	0.0		
8.2 Class 2						0	0.0	0	0.0		
8.3 Class 3						0	0.0	0	0.0		
8.4 Class 4						0	0.0	0	0.0		
8.5 Class 5						0	0.0	0	0.0		
8.6 Class 6						0	0.0	0	0.0		
8.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
9. Parent, Subsidiaries and Affiliates, Schedules D & DA (Group 9)											
9.1 Class 1						0	0.0	0	0.0		
9.2 Class 2						0	0.0	0	0.0		
9.3 Class 3						0	0.0	0	0.0		
9.4 Class 4						0	0.0	0	0.0		
9.5 Class 5						0	0.0	0	0.0		
9.6 Class 6						0	0.0	0	0.0		
9.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0

555

SCHEDULE D - PART 1A - SECTION 1 (continued)

Quality and Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types of Issues and NAIC Designations

Quality Rating per the NAIC Designation	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total from Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed (a)
10. Total Bonds Current Year											
10.1 Class 1	8,304,514	7,330,558	1,856,811			10,481,683	100.0	XXX	XXX	10,481,683	
10.2 Class 2								XXX	XXX		
10.3 Class 3								XXX	XXX		
10.4 Class 4								XXX	XXX		
10.5 Class 5								XXX	XXX		
10.6 Class 6								XXX	XXX		
10.7 Totals	8,304,514	7,330,558	1,856,811			10,481,683	100.0	XXX	XXX	10,481,683	
10.8 Line 10.7 as a % of Col. 6	80.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	100.0	0.0
11. Total Bonds Prior Year											
11.1 Class 1	1,782,255	3,171,868	6,853,918	836,757	1,852,031	XXX	XXX	20,158,670	97.4	20,158,670	
11.2 Class 2			527,010			XXX	XXX	527,010	2.5	527,010	
11.3 Class 3						XXX	XXX		0.0		
11.4 Class 4						XXX	XXX		0.0		
11.5 Class 5						XXX	XXX		0.0		
11.6 Class 6						XXX	XXX		0.0		
11.7 Totals	1,782,255	3,171,868	7,380,928	836,757	1,852,031	XXX	XXX	20,685,680	100.0	20,685,680	
11.8 Line 11.7 as a % of Col. 6	8.6	44.3	35.7	4.0	7.5	XXX	XXX	100.0	XXX	100.0	0.0
12. Total Publicly Traded Bonds											
12.1 Class 1	8,304,514	7,330,558	1,856,811			10,481,683	100.0	20,158,670	97.4	10,481,683	XXX
12.2 Class 2							0.0	527,010	2.5		XXX
12.3 Class 3							0.0		0.0		XXX
12.4 Class 4							0.0		0.0		XXX
12.5 Class 5							0.0		0.0		XXX
12.6 Class 6							0.0		0.0		XXX
12.7 Totals	8,304,514	7,330,558	1,856,811			10,481,683	100.0	20,685,680	100.0	10,481,683	XXX
12.8 Line 12.7 as a % of Col. 6	80.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	100.0	XXX
12.9 Line 12.7 as a % of Line 10.7, Col. 6, Section 10	80.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	XXX	XXX
13. Total Privately Placed Bonds											
13.1 Class 1							0.0	0	0.0	XXX	0
13.2 Class 2							0.0	0	0.0	XXX	0
13.3 Class 3							0.0	0	0.0	XXX	0
13.4 Class 4							0.0	0	0.0	XXX	0
13.5 Class 5							0.0	0	0.0	XXX	0
13.6 Class 6							0.0	0	0.0	XXX	0
13.7 Totals	0	0	0	0	0	0	0.0	0	0.0	XXX	0
13.8 Line 13.7 as a % of Col. 6	0.0	0.0	0.0	0.0	0.0	0.0	XXX	XXX	XXX	XXX	0.0
13.9 Line 13.7 as a % of Line 10.7, Col. 6, Section 10	0.0	0.0	0.0	0.0	0.0	0.0	XXX	XXX	XXX	XXX	0.0

(a) Includes $ ..... Issuer Credit Obligations and $ ..... Residential Mortgage-Backed Securities.

(b) Includes $ ..... freely tradable under SEC Rule 144 or qualified for resale under SEC Rule 144A.

Securities Valuation Office (SVO) at the date of this statement. "Z" means the SVO could not evaluate the obligation because valuation procedures for the security class is under regulatory review.

(c) Includes $ ..... current year, $ ..... prior year of bonds with 6* designations and $ ..... current year, $ ..... prior year of bonds with 6* designations. "5" means the NAIC designation was assigned by the SVO due to inadequate certification of principal and interest payments. "6" means the NAIC designation was assigned by the SVO in reliance on the issuer's certification that the issuer is current in all principal and interest payments.

556

SCHEDULE D - PART 1A - SECTION 2

Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Type and Subtype of Issues

Distribution by Type	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total from Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
1. U.S. Governments, Schedule D, Part 1A (Group 1)											
1.1 Issuer Obligations		2,396,588	1,755,611			4,152,199	38.6	8,979,610	43.8	4,152,199	
1.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	292,537	1.4		
1.7 Totals	0	2,396,588	1,755,611	0	0	4,152,199	38.6	9,272,147	45.2	4,152,199	0
2. All Other Governments, Schedule D, Part 1A (Group 2)											
2.1 Issuer Obligations		25,000				25,000	0.2	25,000	0.1	25,000	
2.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
2.3 Defined						0	0.0	0	0.0		
2.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
2.5 Defined						0	0.0	0	0.0		
2.6 Other						0	0.0	0	0.0		
2.7 Totals	0	25,000	0	0	0	25,000	0.2	25,000	0.1	25,000	0
3. States, Territories, and Possessions (Guaranteed), Schedule D, Part 1A (Group 3)											
3.1 Issuer Obligations						0	0.0	0	0.0		
3.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
3.3 Defined						0	0.0	0	0.0		
3.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
3.5 Defined						0	0.0	0	0.0		
3.6 Other						0	0.0	0	0.0		
3.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
4. Political Subdivisions of States, Territories and Possessions (Guaranteed), Schedule D, Part 1A (Group 4)											
4.1 Issuer Obligations						0	0.0	0	0.0		
4.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
4.3 Defined						0	0.0	0	0.0		
4.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
4.5 Defined						0	0.0	0	0.0		
4.6 Other						0	0.0	0	0.0		
4.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
5. Special Revenue & Special Assessment Obligations and Non-Guaranteed, Schedule D, Part 1A (Group 5)											
5.1 Issuer Obligations						0	0.0	0	0.0		
5.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	2,085,252	10.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
5.3 Defined						0	0.0	0	0.0		
5.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
5.5 Defined						0	0.0	0	0.0		
5.6 Other						0	0.0	0	0.0		
5.7 Totals	0	0	0	0	0	0	0.0	247,888	1.1	0	0
								2,334,140	10.0		

SCHEDULE D - PART 1A - SECTION 2 (continued)

Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Type and Subtype of Issues

Distribution by Type	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total from Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
6. Public Utilities (Unaffiliated), Schedules D & DA (Group 6)											
6.1 Issuer Obligations						0	0.0	0	0.0		
6.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES						0	0.0	0	0.0		
6.3 Defined						0	0.0	0	0.0		
6.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES						0	0.0	0	0.0		
6.5 Defined						0	0.0	0	0.0		
6.6 Other						0	0.0	0	0.0		
6.7 Totals	0	0	0	0	0	0	0.0	0	0.0		
7. Industrial & Miscellaneous (Unaffiliated), Schedules D & DA (Group 7)							0.0	0	0.0		
7.1 Issuer Obligations	6,304,514					6,304,514	60.1	7,912,282	38.2	6,304,514	
7.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES						0	0.0	0	0.0		
7.3 Defined						0	0.0	0	0.0		
7.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES						0	0.0	0	0.0		
7.5 Defined						0	0.0	0	0.0		
7.6 Other						0	0.0	0	0.0		
7.7 Totals	6,304,514	0	0	0	0	6,304,514	60.1	7,912,282	38.2	6,304,514	0
8. Parent, Subsidiaries and Affiliates, Schedules D & DA (Group 8)							0.0	1,051,132	5.0		
8.1 Issuer Obligations						0	0.0	0	0.0		
8.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0
9. Parents, Subsidiaries and Affiliates, Schedules D & DA (Group 9)											
9.1 Issuer Obligations						0	0.0	0	0.0		
9.2 Single Class Mortgage-Backed/Asset-Based Securities						0	0.0	0	0.0		
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES						0	0.0	0	0.0		
9.3 Defined						0	0.0	0	0.0		
9.4 Other						0	0.0	0	0.0		
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES						0	0.0	0	0.0		
9.5 Defined						0	0.0	0	0.0		
9.6 Other						0	0.0	0	0.0		
9.7 Totals	0	0	0	0	0	0	0.0	0	0.0	0	0

SCHEDULE D - PART 1A - SECTION 2 (continued)

Maturity Distribution of All Bonds Owned December 31, at Book/Adjusted Carrying Values by Major Types and Subtypes of Issues

Distribution by Type	1 1 Year or Less	2 Over 1 Year Through 5 Years	3 Over 5 Years Through 10 Years	4 Over 10 Years Through 20 Years	5 Over 20 Years	6 Total Current Year	7 Col. 6 as a % of Line 10.7	8 Total From Col. 6 Prior Year	9 % From Col. 7 Prior Year	10 Total Publicly Traded	11 Total Privately Placed
10. Total Bonds Current Year											
10.1 Issuer Obligations	6,304,814	2,330,558	1,856,611	0	0	10,491,983	100.0	XXX	XXX	10,491,983	0
10.2 Single Class Mortgage-Backed/Asset-Backed Securities	0	0	0	0	0	0	0.0	XXX	XXX	0	0
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
10.3 Defined	0	0	0	0	0	0	0.0	XXX	XXX	0	0
10.4 Other	0	0	0	0	0	0	0.0	XXX	XXX	0	0
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
10.5 Defined	0	0	0	0	0	0	0.0	XXX	XXX	0	0
10.6 Other	0	0	0	0	0	0	0.0	XXX	XXX	0	0
10.7 Totals	0	0	0	0	0	0	0.0	XXX	XXX	0	0
10.8 Line 10.7 as a % of Col. 6	6,304,814	2,330,558	1,856,611	0	0	10,491,983	100.0	XXX	XXX	10,491,983	0
11. Total Bonds Prior Year	60.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	100.0	0.0
11.1 Issuer Obligations	1,504,407	5,671,921	6,631,743	0	0	XXX	XXX	17,008,071	82.2	17,008,071	0
11.2 Single Class Mortgage-Backed/Asset-Backed Securities	0	0	0	828,757	1,552,031	XXX	XXX	2,378,788	11.4	2,378,788	0
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
11.3 Defined	0	0	0	0	0	XXX	XXX	0	0.0	0	0
11.4 Other	0	0	0	0	0	XXX	XXX	0	0.0	0	0
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
11.5 Defined	0	0	0	0	0	XXX	XXX	0	0.0	0	0
11.6 Other	0	0	0	0	0	XXX	XXX	0	0.0	0	0
11.7 Totals	347,058	499,047	551,188	0	0	XXX	XXX	0	0.0	0	0
11.8 Line 11.7 as a % of Col. 6	1,747,295	5,171,968	7,082,926	828,757	1,552,031	XXX	XXX	1,799,020	8.2	1,799,020	0
12. Total Publicly Traded Bonds	8.5	44.3	35.7	4.0	7.5	XXX	XXX	20,885,880	100.0	20,885,880	0
12.1 Issuer Obligations	6,304,814	2,330,558	1,856,611			10,491,983	100.0	17,008,071	0.0	10,491,983	XXX
12.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	2,378,788	0.0	0	XXX
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
12.3 Defined						0	0.0	0	0.0	0	XXX
12.4 Other						0	0.0	0	0.0	0	XXX
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
12.5 Defined						0	0.0	0	0.0	0	XXX
12.6 Other						0	0.0	0	0.0	0	XXX
12.7 Totals	6,304,814	2,330,558	1,856,611	0	0	10,491,983	100.0	1,799,020	0.0	0	XXX
12.8 Line 12.7 as a % of Col. 6	60.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	10,491,983	XXX
12.9 Line 12.7 as a % of Line 10.7, Col. 6, Section 10	60.1	22.1	17.7	0.0	0.0	100.0	XXX	XXX	XXX	100.0	XXX
13. Total Privately Placed Bonds											
13.1 Issuer Obligations						0	0.0	0	0.0	XXX	0
13.2 Single Class Mortgage-Backed/Asset-Backed Securities						0	0.0	0	0.0	XXX	0
MULTI-CLASS RESIDENTIAL MORTGAGE-BACKED SECURITIES											
13.3 Defined						0	0.0	0	0.0	XXX	0
13.4 Other						0	0.0	0	0.0	XXX	0
MULTI-CLASS COMMERCIAL MORTGAGE-BACKED/ASSET-BACKED SECURITIES											
13.5 Defined						0	0.0	0	0.0	XXX	0
13.6 Other						0	0.0	0	0.0	XXX	0
13.7 Totals	0	0	0	0	0	0	0.0	0	0.0	XXX	0
13.8 Line 13.7 as a % of Col. 6	0.0	0.0	0.0	0.0	0.0	0.0	XXX	XXX	XXX	XXX	0.0
13.9 Line 13.7 as a % of Line 10.7, Col. 6, Section 10	0.0	0.0	0.0	0.0	0.0	0.0	XXX	XXX	XXX	XXX	0.0

SCHEDULE DA - PART 2

Verification of SHORT-TERM INVESTMENTS Between Years

	1 Total	2 Bonds	3 Mortgage Loans	4 Other Short-term Investment Assets(a)	5 Investments in Parent, Subsidiaries and Affiliates
1. Book/adjusted carrying value, prior year	554,918	554,918	0	0	0
2. Cost of short-term investments acquired	23,144,876	18,684,843	4,459,933		
3. Increase (decrease) by adjustment	0				
4. Increase (decrease) by foreign exchange adjustment	0				
5. Total profit (loss) on disposal of short-term investments	0				
6. Consideration received on disposal of short-term investments	17,395,281	17,395,281			
7. Book/adjusted carrying value, current year	6,304,513	1,844,580	4,459,933	0	0
8. Total valuation allowance	0				
9. Subtotal (Lines 7 plus 8)	6,304,513	1,844,580	4,459,933	0	0
10. Total nonadmitted amounts	0				
11. Statement value (Lines 9 minus 10)	6,304,513	1,844,580	4,459,933	0	0
12. Income collected during year	12,538	12,538			
13. Income earned during year	14,320	14,320			

(a) Indicate the category of such assets, for example, joint ventures, transportation equipment.

Schedule DB - Part A - VBY

NONE

Schedule DB - Part B - VBY

NONE

Schedule DB - Part C - VBY

NONE

Schedule DB - Part D - VBY

NONE

Schedule DB - Part E - VBY

NONE

Schedule DB - Part F - Section 1

NONE

Schedule DB - Part F - Section 2

NONE

561

SCHEDULE F - PART 1

Assumed Reinsurance as of December 31, Current Year (000 Omitted)

1	2	3	4	5	Reinsurance On			9	10	11	12	13	14
Federal ID Number	NAIC Company Code	Name of Reinsured	Domiciliary Jurisdiction	Assumed Premium	6 Paid Losses and Loss Adjustment Expenses	7 Known Case Losses and LAE	8 Cols. 6 + 7	Contingent Commissions Payable	Assumed Premiums Receivable	Unearned Premium	Funds Held By or Deposited With Reinsured Companies	Letters of Credit Posted	Amount of Assets Pledged or Compensating Balances to Secure Letters of Credit
22-2316004	00000	LIBERTY MUTUAL INSURANCE COMPANY	MA	(191)		724	724				1,995		
00000	Total - Other U.S. Unaffiliated Insurers - Rating Cat. I + 100,000			(191)		724	724				1,995		
00000	Total - Other U.S. Unaffiliated Insurers			(191)		724	724				1,995		
41-0417775	00000	NATIONAL WORKERS' COMPENSATION REINSURANCE	FL	(190)		341	341						
00000	Total - Pools and Associations - Rating Cat. I + 100,000			(190)		341	341						
00000	Total - Pools and Associations - Mandatory Pools			(190)		341	341						
00000	Total - Pools and Associations - Rating Cat. II + 100,000			(190)		341	341						
00000	Total - Pools and Associations			(190)		341	341						
00000	Other Non-U.S. Insurers - Rating Cat. II + 100,000			(381)		1,065	1,065				1,995		
9999999 Totals													

SCHEDULE F - PART 2

Premium Portfolio Reinsurance Effected or (Canceled) during Current Year

1 Federal ID Number	2 NAIC Company Code	3 Name of Company	4 Date of Contract	5 Original Premium	6 Reinsurance Premium

NONE

SCHEDULE F - PART 3

Ceded Reinsurance as of December 31, Current Year (000 Omitted)

1	2	3	4	5	6	Reinsurance Recoverable On									Reinsurance Payable		16	17
Federal ID Number	NAIC Company Code	Name of Reinsurer	Domiciliary Jurisdiction	Reinsurance Contracts Ceding 75% or More of Direct Premiums Written	Reinsurance Premiums Ceded	7 Paid Losses	8 Paid LAE	9 Known Case Loss Reserves	10 Known Case LAE Reserves	11 IBNR Loss Reserves	12 IBNR LAE Reserves	13 Unearned Premiums	14 Contingent Commissions	15 Cols. 7 thru 14 Totals	16 Ceded Balances Payable	17 Other Amounts Due to Reinsurers	Net Amount Recoverable From Reinsurers Cols. 15 - [16 + 17]	Funds Held By Compo Under Reinsuran Treaties
0199999 - Total - Authorized - Affiliates																		
74-2440038	60739	AMERICAN NATIONAL INSURANCE COMPANY	TX					15						15			15	
95-1988876	27448	ASSOCIATED INTERNATIONAL INSURANCE COMPANY	CA							7				7			7	
23-1321800	43095	CLARENDON AMERICAN INSURANCE COMPANY	NJ		178	39	84	12		31	6			296			296	
94-1152716	39098	EMPIRE INSURANCE COMPANY	NE								3			3			3	
74-2156836	42374	HOUSTON CASUALTY CORPORATION	TX		194	22	374	56	330	250				1,272			1,272	
13-5028946	21652	MARLINE GLOBAL REINS CORP OF AMERICA	NY		(30)		1,215	149	1,291	1,187				3,843			3,843	
36-3080511	37257	INSURANCE CORP OF HANOVER	IL		87		229	11	1,591	50				1,972			1,972	
04-1414683	66086	JOHN HANCOCK MUTUAL LIFE INSURANCE CO	MA		761	37	1,151	142	1,173	384				3,648			3,648	
31-1188436	23612	MIDWEST EMPLOYERS CASUALTY COMPANY	DE				235	32	909	50				3,160			3,160	
13-2991178	38636	MMC RE INSURANCE CORPORATION	NY		165		811	48	900	115				3,663			3,663	
06-0974907	31488	PARTNER REINSURANCE COMPANY	CT		(3)	58	79		800	50				672			672	
75-1644067	20508	REPUBLIC WESTERN INSURANCE COMPANY	AZ		(64)	39	1,084	49	813	29				1,917			1,917	
13-1879836	11304	SCOR REINSURANCE COMPANY	NY			11	133		1,044	441				671			671	
41-0428660	24767	SWISS REINSURANCE OF AMERICA	NY				345	38	632					3,588			3,588	
36-2421396	23663	ST PAUL FIRE AND MARINE INSURANCE COMPANY	MN		(20)		361	18	350	350				2,581			2,581	
95-4461552	27154	TRUSTMARK INSURANCE COMPANY	IL		(4)	46	288	36	223	58				173			173	
		WESTCHESTER FIRE INSURANCE COMPANY	NY		(17)	4	139	6	141	728				1,073			1,073	
0599999 - Other U.S. Unaffil Insurers (Under $100,000)										184				735			735	
0599999 - Authorized - Other U.S. Unaffiliated Insurers														713	16		697	11
AA-1126035	00000	LLOYDS OF LONDON SYNDICATE 33			48	1,322	66	5,587	532	5,661	1,854			15,667			481	
AA-1126436	00000	LLOYDS OF LONDON SYNDICATE 435			(1)	89	7	179	36	309	146			731	16		0	
AA-1127101	00000	LLOYDS OF LONDON SYNDICATE 1183						57	12	174				318			17,317	11
AA-1126492	00000	LLOYDS OF LONDON SYNDICATE 2488			(1)	83	3	41	5	29	17			308	(3)		731	
AA-1120355	00000	LLOYDS OF LONDON SYNDICATE 480							16	78	11			187			318	
AA-3190535	00000	CNA REINSURANCE COMPANY LIMITED						88	4	155	150			180			308	
0699999 - Authorized - Other Non-U.S. Insurers		CORP INDEMNITY REINSURANCE COMPANY LIMITED												87			303	
0699999 - Total - Authorized					24	2	7							385			87	
0799999 - Unauthorized - Affiliates														35	(31)		110	
0799999 - Unauthorized - Other Non-U.S.					(1)	178	11	795	70	796	324			1,973	(31)		386	
0799999 - Total - Unauthorized					(1)	1,300	300	7,080	642	7,787	2,315			18,963	(31)		1,910	
0899999 - Unauthorized - Other U.S. Unaffiliated Insurers (Under $100,000)														0	(18)		18,281	11
AA-1126003	00000	CHUBB REINSURANCE COMPANY OF LONDON												0			0	
		XIS REINSURANCE (UK)												0			0	
0999999 - Unauthorized - Other Non-U.S. Insurers (Under $100,000)					138	2,353	235	1,660	274	1,425	344			6,429			0	
1099999 - Unauthorized - Other Non-U.S. Insurers						800	180							1,324			0	
1199999 - Total - Unauthorized														0			0	
1299999 - Total - Authorized and Unauthorized					(25)	2,353	235	1,660	274	1,425	344			7,753	(1)		0	
1399999 - Total - Payment on Sale					(25)	2,353	235	1,660	274	1,425	344			1,000			7,320	
9999999 Totals					24	2,355	235	1,660	274	1,425	344			0			1,000	
					24	4,708	437	8,740	916	9,212	2,659			8,753	(1)		0	
												0		27,716	(31)		8,320	
														0			27,501	115
														27,716	(31)		0	
																	27,501	115

NOTE: Report the five largest provisional commission rates included in the cedant's reinsurance treaties.
The commission rate to be reported is by contract with ceded premiums in excess of $50,000.

	1 Name of Company	2 Commission Rate	3 Ceded Premium
1.	PARTNER REINSURANCE COMPANY	31.500	165
2.			
3.			
4.			
5.			

SCHEDULE F - PART 4

Aging of Ceded Reinsurance as of December 31, Current Year (000 Omitted)

1	2	3	4	5	Reinsurance Recoverable on Paid Losses and Paid Loss Adjustment Expenses Overdue					11	12	13
Federal ID Number	NAIC Company Code	Name of Reinsurer	Domiciliary Jurisdiction	Current	6 - 1 to 89 Days	7 - 90 Days	8 - 91 - 120 Days	9 - Over 120 Days	10 - Total Overdue Cols. 6 + 7 + 8 + 9	Total Due Cols. 5 + 10	Percentage Overdue Col. 10/Col. 11	Percentage more Than 120 Days Overdue Col. 9 / Col. 11
0199999 - Authorized - Affiliates - U.S. Intercompany Pooling											0.0	0.0
0299999 - Authorized - Affiliates - U.S. Non-Pool											0.0	0.0
0399999 - Total - Authorized - Affiliates - Other (Non-U.S.)											0.0	0.0
25-0727815	00000	ALLEGHENY AMERICAN INSURANCE COMPANY									0.0	0.0
74-2186838	42374	ALLSTATE CASUALTY CORP									0.0	0.0
06-1414660	65366	JOHN HANCOCK MUTUAL LIFE INSURANCE CO									0.0	0.0
13-3031176	39624	PARTNER REINSURANCE COMPANY									0.0	0.0
98-0371803	31666	REPUBLIC WESTERN INSURANCE COMPANY									0.0	0.0
75-1644305	30256	SCOR REINSURANCE COMPANY									0.0	0.0
36-0743830	61425	TRUSTMARK INSURANCE COMPANY									0.0	0.0
0599999 - Authorized - Other U.S. Unaffiliated Insurers											0.0	0.0
0699999 - Authorized - Pools - Mandatory Pools											0.0	0.0
0799999 - Authorized - Pools - Voluntary Pools											0.0	0.0
AA-1126001	00000	LLOYDS OF LONDON SYNDICATE 33									0.0	0.0
AA-1127101	00000	LLOYDS OF LONDON SYNDICATE 1701									0.0	0.0
AA-1128400	00000	LLOYDS OF LONDON SYNDICATE 2488									0.0	0.0
AA-1128402	00000	LLOYDS OF LONDON SYNDICATE abc									0.0	0.0
AA-1128053	00000	OMNI INDEMNITY RE INS COMPANY LTD									0.0	0.0
0899999 - Authorized - Other Non-U.S. Insurers											0.0	0.0
0999999 - Total - Authorized											0.0	0.0
1099999 - Unauthorized - Affiliates - U.S. Intercompany Pooling											0.0	0.0
1199999 - Unauthorized - Affiliates - U.S. Non-Pool											0.0	0.0
1299999 - Unauthorized - Affiliates - Other (Non-U.S.)											0.0	0.0
1399999 - Total - Unauthorized - Affiliates											0.0	0.0
1499999 - Unauthorized - Other U.S. Unaffiliated Insurers											0.0	0.0
1599999 - Unauthorized - Pools - Mandatory Pools											0.0	0.0
1699999 - Unauthorized - Pools - Voluntary Pools											0.0	0.0
AA-1128004	00000	CHINA RESOURCES COMPANY OF EUROPE AND REINSURANCE GROUP (AA)									0.0	0.0
1799999 - Unauthorized - Other Non-U.S. Insurers											0.0	0.0
1899999 - Total - Unauthorized											0.0	0.0
1999999 - Total - Authorized and Unauthorized											0.0	0.0
3099999 - Total - Protected Cells											0.0	0.0
9999999 Totals											0.0	0.0

SCHEDULE F - PART 5

Provision for Unauthorized Reinsurance as of December 31, Current Year (000 Omitted)

1 Federal ID Number	2 NAIC Company Code	3 Name of Reinsurer	4 Domiciliary Jurisdiction	5 Reinsurance Recoverable all items Schedule F Part 3, Col. 15	6 Funds Held By Company Under Reinsurance Treaties	7 Letters of Credit	8 Ceded Balances Payable	9 Miscellaneous Balances	10 Other Allowed Offset Items	11 Sum of Cols. 6 thru 10 but not in excess of Col. 5	12 Subtotal Col. 5 minus Col. 11	13 Recoverable Paid Losses & LAE Expenses Over 90 Days Past Due not in Dispute	14 20% of Amount in Col. 13	15 Smaller of Col. 11 or Col. 14	16 Smaller of Col. 11 or 20% of Amount in Dispute Included in Col. 5	17 Total Provision for Unauthorized Reinsurance Smaller of Col.5 or Cols. 12 +15 + 16
98-1180033	00000	ODYSSEY REINSURANCE COMPANY OF EUROPE	BE	7,213		7,726	(7)			7,213	0		0	0	0	0
98-1180033	00000	HIH REINSURANCE (UK)	BE	1,000		1,439				1,000	0		0	0	0	0
0599999 - Other Non-U.S. Insurers				8,213		9,165	(7)			8,213	0		0	0	0	0
0699999 - Total - Affiliates and Others				8,213		9,165	(7)			8,213	0		0	0	0	0
0899999 - Total - Protected Cells											0					
													0	0	0	
proposed Totals				8,213		9,165	(7)			8,213	0					0

1. Amounts in dispute totaling $ ..... are included in Columns 5,
2. Amounts in dispute totaling $ ..... are excluded from Column 13.
3. Column 5 excludes $ ..... recoverables on ceded IBNR on contracts in force prior to July 1, 1984 and not subsequently renewed.

SCHEDULE F - PART 6

Provision for Overdue Authorized Reinsurance as of December 31, Current Year

1 Federal ID Number	2 NAIC Company Code	3 Name of Reinsurer	4 Reinsurance Recoverable on Paid Losses and LAE More Than 90 Days Overdue (a)	5 Total Reinsurance Recoverable on Paid Losses and Paid LAE (b)	6 Amounts Received Prior 90 Days	7 Col. 4 divided by (Cols. 5 + 6)	8 Amounts in Col. 4 for Companies Reporting less than 20% in Col. 7	9 Amounts in Dispute Excluded from Col. 4 for Companies Reporting less than 20% in Col. 7	10 20% of Amount in Col. 8	11 Amount Reported in Col. 8 + 20% + Col. 10
13-2838024	10696	CLARENDON INSURANCE COMPANY	176,388			0.000	176,388	0	0	35,660
04-1414660	65099	JOHN HANCOCK MUTUAL LIFE INSURANCE CO	22,341			0.000	22,341	0	0	4,468
98-1128351	00000	LLOYDS OF LONDON SYNDICATE 63	2,837			0.000	2,837	0	0	567
98-1127101	00000	LLOYDS OF LONDON SYNDICATE 1183	66,777			0.000	66,777	0	0	13,355
44-0186356	00000	CORP MEDIATY AS INSURANCE COMPANY	64,488				64,488	0	0	12,894
9999999 Totals			332,831			0.000	332,831		0	67,145

(a) From Schedule F - Part 4 Columns 5 + 6, total authorized, less $ _____ in dispute.
(b) From Schedule F - Part 3 Columns 7 + 8, total authorized, less $ _____ in dispute.

1263

ANNUAL STATEMENT FOR THE YEAR 2004 OF THE REALM NATIONAL INSURANCE COMPANY

SCHEDULE F - PART 7

Provision for Overdue Reinsurance as of December 31, Current Year

1 Federal ID Number	2 NAIC Company Code	3 Name of Reinsurer	4 Reinsurance Recoverable All Items	5 Funds Held By Company Under Reinsurance Treaties	6 Letters of Credit	7 Ceded Balances Payable	8 Other Miscellaneous Balances	9 Other Allowed Offset Items	10 Sum of Cols. 5 thru 9 but not in excess of Col. 4	11 Col. 4 minus Col. 10	12 Greater of Col. 11 or Schedule F - Part 4 Cols. 8 + 9
9999999 Totals											

1. Total	0
2. Line 1 x .2	0
3. Schedule F - Part 6 Col. 11	67,145
4. Provision for Overdue Authorized Reinsurance (Lines 2 + 3)	67,145
5. Provision for Unauthorized Reinsurance (Schedule F - Part 5 Col. 17 x 1000)	0
6. Provision for Reinsurance (sum Lines 4 + 5) [Enter this amount on Page 3, Line 16]	67,145

1264

SCHEDULE F - PART 8

Restatement of Balance Sheet to Identify Net Credit for Reinsurance

	1 As Reported (Net of Ceded)	2 Restatement Adjustments	3 Restated (Gross of Ceded)
ASSETS (Page 2, Col. 3)			
1. Cash and invested assets (Line 10)	16,087,823		16,087,823
2. Premiums and considerations (Line 12)	163,576		163,576
3. Reinsurance recoverable on loss and loss adjustment expense payments (Line 12.1)	5,192,650		5,192,650
4. Funds held by or deposited with reinsured companies (Line 13.2)	1,594,625		1,594,625
5. Other assets			0
6. Net amount recoverable from reinsurers	799,274		799,274
7. Totals (Line 28)	24,157,948	0	24,157,948
LIABILITIES (Page 3)			
8. Losses and loss adjustment expenses (Lines 1 through 3)	29,109,923		29,109,923
9. Taxes, expenses, and other obligations (Lines 4 through 8)	68,244		68,244
10. Unearned premiums (Line 9)	57,908		57,908
11. Advance Premiums (Line 10)	0		0
12. Dividends declared and unpaid (Line 11.1 and 11.2)	0		0
13. Ceded reinsurance premiums payable (net of ceded commissions) (Line 12)	(25,120)		(25,120)
14. Funds held by company under reinsurance treaties (Line 13)	114,688		114,688
15. Amounts withheld or retained by company for account of others (Line 14)	294,592		294,592
16. Provision for reinsurance (Line 16)	67,145		67,145
17. Other liabilities (Lines 15 and 17 through 27)	0		0
18. Total liabilities excluding protected cell business (Line 28 minus Line 25)	29,676,298	0	29,676,298
19. Surplus as regards policyholders (Line 35)	(5,528,350)	XXX	(5,528,350)
20. Totals (Line 38)	24,157,948	0	24,157,948

NOTE: Is the restatement of this exhibit the result of grossing up balances ceded to affiliates under 100 percent reinsurance or pooling arrangements? Yes [ ] No [ ]

If yes, give full explanation:

Schedule H - Part 1

NONE

Schedule H - Part 2

NONE

Schedule H - Part 3

NONE

Schedule H - Part 4

NONE

Schedule H - Part 5

NONE

SCHEDULE P - ANALYSIS OF LOSSES AND LOSS EXPENSES
SCHEDULE P - PART 1 - SUMMARY

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss and Loss Expense Payments: Loss Payments 4 Direct and Assumed	5 Ceded	Defense and Cost Containment Payments 6 Direct and Assumed	7 Ceded	Adjusting and Other Payments 8 Direct and Assumed	9 Ceded	10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	12 Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 1995	19,928	15,808	4,120	15,929	13,656	873	738	435	0	42	2,651	XXX
3. 1996	13,954	11,139	2,815	8,779	7,035	654	359	328	8	314	2,157	XXX
4. 1997	15,403	12,497	2,921	11,828	9,984	1,306	1,229	898	318	70	2,591	XXX
5. 1998	39,526	31,810	7,716	28,381	24,285	3,458	3,137	1,564	595	48	3,386	XXX
6. 1999	49,856	40,405	9,451	39,948	35,034	5,150	4,447	2,569	830	89	5,747	XXX
7. 2000	60,315	41,803	18,512	35,143	25,167	5,443	3,275	1,919	692	311	14,371	XXX
8. 2001	65,391	37,597	27,794	23,395	10,015	8,899	2,852	1,875	823	73	17,474	XXX
9. 2002	30,396	6,502	23,894	12,288	1,739	7,265	130	1,083	5	2	13,764	XXX
10. 2003	17,760	3,072	14,628	3,308	177	972	31	1,522	0	0	5,585	XXX
11. 2004	2,514	691	2,013	203	0	71	2	448	0	0	718	XXX
12. Totals	XXX	XXX	XXX	179,285	128,892	34,931	15,407	12,649	3,083	547	68,495	XXX

	Losses Unpaid: Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Defense and Cost Containment Unpaid: Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	Adjusting and Other Unpaid 21 Direct and Assumed	22 Ceded	23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
2.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
3.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
4.	343	316	328	799	42	31	139	117	2	0	0	91	XXX
5.	1,313	1,088	1,224	1,017	212	172	204	163	31	0	88	548	XXX
6.	3,785	3,849	1,988	1,635	274	218	281	187	18	8	86	1,258	XXX
7.	3,178	1,439	2,197	1,403	303	149	298	233	26	0	298	2,771	XXX
8.	8,644	3,524	2,451	1,333	844	276	314	233	58	38	492	6,924	XXX
9.	5,982	91	2,873	1,182	728	23	565	458	107	31	745	7,579	XXX
10.	5,605	171	2,585	1,428	338	11	1,128	941	232	51	91	7,258	XXX
11.	1,338	11	1,498	984	0	0	848	19	71	0	0	2,632	XXX
12. Totals	30,196	9,764	16,145	9,182	2,741	877	3,744	2,351	552	162	1,779	29,109	XXX

	Total Losses and Loss Expenses Incurred 26 Direct and Assumed	27 Ceded	28 Net	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 29 Direct and Assumed	30 Ceded	31 Net	Nontabular Discount 32 Loss	33 Loss Expenses	34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	17,237	14,588	2,651	86.5	92.3	84.3	0	0		0	0
3.	9,601	7,444	2,157	68.8	66.5	73.8	0	0		0	0
4.	14,777	12,185	2,592	95.9	97.6	89.7	0	0		65	26
5.	34,367	30,435	3,932	86.9	95.7	51.0	0	0		454	92
6.	54,002	46,997	7,005	108.3	116.3	74.1	0	0		1,092	168
7.	49,497	32,355	17,142	82.1	77.4	92.6	0	0		2,531	240
8.	42,529	18,081	24,448	93.7	102.8	88.0	0	0		8,248	728
9.	25,100	3,788	21,334	82.6	58.0	89.3	0	0		8,892	878
10.	15,753	2,810	12,943	99.0	91.5	88.5	0	0		5,571	687
11.	4,376	1,028	3,358	167.4	170.7	166.4	0	0		1,748	852
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	25,303	3,707

Note: Parts 2 and 4 are gross of all discounts, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

SCHEDULE P - PART 2 - SUMMARY

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior	594	755	530	333	279	279	279	279	279	279	0	0
2. 1995	2,505	2,338	2,324	2,325	2,350	2,216	2,216	2,216	2,216	2,216	0	0
3. 1996	XXX	1,935	1,868	1,866	1,893	1,869	1,869	1,869	1,869	1,869	0	0
4. 1997	XXX	XXX	2,355	2,305	2,347	2,248	2,251	2,416	2,078	2,010	(68)	(400)
5. 1998	XXX	XXX	XXX	4,227	2,799	3,574	3,555	3,377	2,729	2,952	223	(425)
6. 1999	XXX	XXX	XXX	XXX	4,964	5,636	6,348	5,202	4,642	5,259	617	57
7. 2000	XXX	XXX	XXX	XXX	XXX	13,081	14,635	14,494	15,934	15,889	(45)	1,395
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	16,774	21,396	21,232	20,119	1,887	1,723
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	17,082	18,000	20,170	2,170	3,088
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	11,651	11,240	(411)	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,833	XXX	XXX
										12. Totals	4,372	5,439

SCHEDULE P - PART 3 - SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
1. Prior	368	383	413	384	279	279	279	279	279	279	XXX	XXX
2. 1995	1,058	1,978	2,043	2,194	2,216	2,216	2,216	2,216	2,216	2,216	XXX	XXX
3. 1996	XXX	892	1,658	1,724	1,869	1,869	1,869	1,869	1,869	1,869	XXX	XXX
4. 1997	XXX	XXX	876	2,081	2,192	2,188	2,223	2,274	1,985	1,921	XXX	XXX
5. 1998	XXX	XXX	XXX	1,345	2,295	2,169	2,763	2,552	2,387	2,417	XXX	XXX
6. 1999	XXX	XXX	XXX	XXX	1,976	3,713	4,468	3,353	3,933	4,017	XXX	XXX
7. 2000	XXX	XXX	XXX	XXX	XXX	4,221	7,915	8,792	12,122	13,144	XXX	XXX
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	4,324	9,479	13,353	16,222	XXX	XXX
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,831	8,334	12,578	XXX	XXX
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,342	4,163	XXX	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	272	XXX	XXX

SCHEDULE P - PART 4 - SUMMARY

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Prior	200	84	1	0	5	0	0	0	0	0
2. 1995	77	19	12	7	0	0	0	0	0	0
3. 1996	XXX	79	12	10	0	0	0	0	0	0
4. 1997	XXX	XXX	267	118	15	65	27	14	(1)	51
5. 1998	XXX	XXX	XXX	1,888	155	1,239	479	284	16	248
6. 1999	XXX	XXX	XXX	XXX	3,115	546	778	366	25	447
7. 2000	XXX	XXX	XXX	XXX	XXX	4,812	2,570	1,478	656	851
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	5,514	12,798	3,915	1,209
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	7,884	1,959	988
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	6,933	1,316
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,238

Schedule P - Part 1A - Home/Farm

NONE

Schedule P - Part 1B - Private Passenger

NONE

SCHEDULE P - PART 1C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

(000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								
				Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	12
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	0	0	0	0	0	0	0	0	0	0	0	0
4. 1997	0	0	0	0	0	0	0	0	0	0	0	0
5. 1998	331	336	(5)	124	117	29	19	12	0	0	79	139
6. 1999	1,872	1,668	144	3,924	3,311	609	442	98	0	0	875	210
7. 2000	2,635	1,217	1,418	1,750	916	648	150	139	0	0	1,512	15
8. 2001	481	212	269	288	39	33	6	10	0	0	267	0
9. 2002	0	0	0	0	0	0	0	0	0	0	0	0
10. 2003	0	0	0	0	0	0	0	0	0	0	0	0
11. 2004	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals	XXX	XXX	XXX	6,177	4,383	1,790	609	257	0	0	2,733	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	0
2.	0	0	0	0	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0	0	0	0	0
4.	0	0	0	0	0	0	0	0	0	0	0	0	0
5.	0	0	0	0	0	0	0	0	0	0	0	0	0
6.	338	0	0	0	0	0	23	0	0	0	0	23	0
7.	0	0	0	0	0	0	72	0	0	0	0	428	0
8.	0	0	0	0	0	0	0	0	0	0	0	0	2
9.	0	0	0	0	0	0	0	0	0	0	0	0	0
10.	0	0	0	0	0	0	0	0	0	0	0	0	0
11.	0	0	0	0	0	0	0	0	0	0	0	0	0
12.	338	0	0	0	0	0	95	0	0	0	0	443	2

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
3.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
4.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
5.	229	127	102	69.2	37.8	(2,040.0)	0	0	0.0	0	0
6.	5,048	3,753	1,295	270.6	225.0	898.3	0	0	0.0	0	23
7.	2,578	1,066	1,512	97.6	97.6	168.6	0	0	0.0	338	81
8.	312	45	267	64.9	21.2	99.3	0	0	0.0	0	0
9.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
10.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
11.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
12.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	338	104

SCHEDULE P - PART 1D - WORKERS' COMPENSATION

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 1	2	3	Loss and Loss Expense Payments 4	5	6	7	Adjusting and Other Payments 8	9	10	11	12
	Direct and Assumed	Ceded	Net (Cols. 1 - 2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 1995	0	0	0	0	0	0	0	0	0	0	0	XXX
3. 1996	0	0	0	0	0	0	0	0	0	0	0	0
4. 1997	3,827	3,100	727	4,501	4,396	852	707	438	318	9	170	275
5. 1998	30,295	24,109	6,186	23,752	22,274	3,159	2,935	1,253	595	29	2,370	2,611
6. 1999	40,727	32,303	8,424	32,329	30,354	4,158	3,741	2,313	839	89	3,073	3,282
7. 2000	48,938	34,879	14,059	28,556	21,156	3,734	2,712	1,567	892	111	9,297	2,835
8. 2001	36,110	13,984	22,126	20,206	8,709	3,868	1,973	1,620	623	73	14,429	1,851
9. 2002	23,247	3,947	19,300	10,486	692	1,737	88	871	5	2	12,308	588
10. 2003	8,804	886	7,918	1,919	74	521	10	1,099	0	0	3,455	162
11. 2004	112	(33)	145	51	0	0	0	9	0	0	68	1
12. Totals	XXX	XXX	XXX	121,800	87,655	17,858	12,158	9,180	3,053	384	45,954	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13	14	15	16	17	18	19	20	21	22			
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	0
2.	0	0	0	0	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0	0	0	0	0
4.	343	316	228	190	42	31	139	117	2	0	0	91	11
5.	1,313	1,066	1,224	1,017	212	172	181	153	11	0	86	523	32
6.	3,324	3,001	1,987	1,635	255	218	308	187	15	0	86	719	53
7.	2,562	1,439	1,712	1,403	303	145	260	233	16	0	288	1,632	68
8.	5,718	3,486	3,606	1,301	844	276	288	233	79	39	482	6,191	116
9.	3,981	126	3,365	1,058	728	23	529	466	92	31	745	4,984	112
10.	3,941	113	3,321	1,062	338	11	1,040	833	208	53	91	2,738	87
11.	108	9	53	0	0	0	0	0	1	0	0	109	0
12.	20,289	9,547	9,476	7,604	2,732	877	2,599	2,302	422	102	1,778	15,055	458

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26	27	28	29	30	31	32	33		35	36
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expense		Losses Unpaid	Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
3.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
4.	6,338	6,075	351	165.6	196.0	35.9	0	0	0.0	86	35
5.	31,115	28,222	2,893	102.7	117.1	46.8	0	0	0.0	454	69
6.	44,577	39,958	4,611	109.5	123.7	54.7	0	0	0.0	659	83
7.	38,719	27,781	10,928	79.1	79.6	77.7	0	0	0.0	1,432	200
8.	35,232	16,821	18,411	97.6	118.9	84.1	0	0	0.0	3,539	654
9.	19,780	7,487	17,293	85.1	53.8	89.6	0	0	0.0	6,164	820
10.	8,386	2,194	6,491	95.2	247.6	78.2	0	0	0.0	2,147	569
11.	220	0	220	196.4	0.0	151.7	0	0	0.0	159	1
12.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	12,843	2,442

Schedule P - Part 1E - Comm Multi Peril

NONE

Schedule P - Part 1F - Medical Mal Occur

NONE

Schedule P - Part 1F - Medical Mal Claim

NONE

SCHEDULE P - PART 1G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								
				Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	12
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 1995	0	0	0	4	0	0	0	0	0	0	4	XXX
3. 1996	0	0	0	0	0	0	0	0	0	0	0	XXX
4. 1997	0	0	0	0	0	0	0	0	0	0	0	XXX
5. 1998	0	0	0	0	0	0	0	0	0	0	0	XXX
6. 1999	0	0	0	0	0	0	0	0	0	0	0	XXX
7. 2000	0	0	0	0	0	0	0	0	0	0	0	XXX
8. 2001	0	0	0	0	0	0	0	0	0	0	0	XXX
9. 2002	0	0	0	0	0	0	0	0	0	0	0	XXX
10. 2003	0	0	0	0	0	0	0	0	0	0	0	XXX
11. 2004	0	0	0	0	0	0	0	0	0	0	0	XXX
12. Totals	XXX	XXX	XXX	4	0	0	0	0	0	0	4	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	0
2.	0	0	0	0	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0	0	0	0	0
4.	0	0	0	0	0	0	0	0	0	0	0	0	0
5.	0	0	0	0	0	0	0	0	0	0	0	0	0
6.	0	0	0	0	0	0	0	0	0	0	0	0	0
7.	0	0	0	0	0	0	0	0	0	0	0	0	0
8.	0	0	0	0	0	0	0	0	0	0	0	0	0
9.	0	0	0	0	0	0	0	0	0	0	0	0	0
10.	0	0	0	0	0	0	0	0	0	0	0	0	0
11.	0	0	0	0	0	0	0	0	0	0	0	0	0
12.	0	0	0	0	0	0	0	0	0	0	0	0	0

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	4	0	4	0.0	0.0	0.0	0	0	0.0	0	0
3.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
4.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
5.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
6.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
7.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
8.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
9.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
10.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
11.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
12.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0

SCHEDULE P - PART 1H - SECTION 1 - OTHER LIABILITY - OCCURRENCE

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss and Loss Expense Payments: Loss Payments 4 Direct and Assumed	5 Ceded	Defense and Cost Containment Payments 6 Direct and Assumed	7 Ceded	Adjusting and Other Payments 8 Direct and Assumed	9 Ceded	10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	12 Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	0	0	0	0	0	0	0	0	0	0	0	0
4. 1997	0	0	0	0	0	0	0	0	0	0	0	0
5. 1998	202	185	17	53	50	58	41	4	0	0	44	4
6. 1999	822	809	13	278	243	182	94	16	0	0	116	22
7. 2000	2,699	966	1,734	3,215	905	786	209	82	0	0	2,988	103
8. 2001	3,725	749	2,976	1,373	5	848	9	137	0	0	2,344	729
9. 2002	3,576	740	2,836	682	0	441	0	134	0	0	1,037	94
10. 2003	5,667	895	4,772	542	0	372	0	193	0	0	1,107	154
11. 2004	1,688	408	1,280	65	0	64	0	437	0	0	548	46
12. Totals	XXX	XXX	XXX	5,978	1,203	2,741	353	1,003	0	0	8,166	XXX

	Losses Unpaid: Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Defense and Cost Containment Unpaid: Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	Adjusting and Other Unpaid 21 Direct and Assumed	22 Ceded	23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	0
2.	0	0	0	0	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0	0	0	0	0
4.	0	0	0	0	0	0	0	0	0	0	0	0	0
5.	0	0	0	0	0	0	0	0	0	0	0	0	0
6.	82	0	21	0	0	0	1	0	1	0	0	85	1
7.	614	0	485	0	0	0	30	0	10	0	0	1,139	13
8.	1,850	0	855	32	0	0	54	0	18	0	0	2,745	33
9.	1,887	0	788	128	0	0	45	2	15	0	0	2,521	42
10.	3,484	0	1,244	428	0	0	88	0	28	0	0	5,400	94
11.	1,194	0	1,359	994	0	0	846	19	70	0	0	2,437	37
12.	9,975	0	4,999	1,578	0	0	1,058	29	140	0	0	13,327	229

	Total Losses and Loss Expenses Incurred 26 Direct and Assumed	27 Ceded	28 Net	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 29 Direct and Assumed	30 Ceded	31 Net	Nontabular Discount 32 Loss	33 Loss Expense	34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
3.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
4.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
5.	135	91	44	66.8	49.2	258.8	0	0	0.0	0	0
6.	541	337	204	65.8	41.7	1,569.2	0	0	0.0	83	2
7.	5,222	1,114	4,108	194.1	115.3	239.3	0	0	0.0	1,089	40
8.	5,135	46	5,089	137.9	8.1	171.0	0	0	0.0	2,873	72
9.	3,686	128	3,558	100.3	17.3	121.2	0	0	0.0	2,463	58
10.	5,941	434	5,507	104.8	48.5	315.4	0	0	0.0	4,302	96
11.	3,988	1,013	2,983	237.0	249.5	733.0	0	0	0.0	1,548	891
12.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	12,188	1,161

SCHEDULE P - PART 1H - SECTION 2 - OTHER LIABILITY - CLAIMS-MADE

NONE

NONE

NONE

SCHEDULE P - PART 1I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, BURGLARY AND THEFT)

(000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								
				Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments				
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	12 Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	294	0	77	16	0	0	0	333	XXX
2. 2003	3,229	1,291	1,938	938	103	79	21	230	3	0	1,123	XXX
3. 2004	816	228	588	107	0	7	2	0	0	0	112	XXX
4. Totals	XXX	XXX	XXX	1,339	103	163	67	230	3	0	1,568	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
1	268	148	0	0	0	0	0	0	0	0	0	139	6
2	189	56	0	0	0	0	0	0	0	0	0	122	9
3	48	11	0	0	0	0	0	0	0	0	0	35	5
4	492	217	0	0	0	0	0	0	0	0	0	275	17

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	318	0
2	1,427	182	1,245	44.2	14.1	64.2	0	0	0.0	122	0
3	160	13	147	19.6	5.7	25.0	0	0	0.0	35	0
4	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	275	0

SCHEDULE P - PART 1J - AUTO PHYSICAL DAMAGE

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								
				Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	12
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported - Direct and Assumed
1. Prior	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX
2. 2003	0	0	0	0	0	0	0	0	0	0	0	0
3. 2004	0	0	0	0	0	0	0	0	0	0	0	0
4. Totals	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding - Direct and Assumed
1.	0	0	0	0	0	0	0	0	0	0	0	0	0
2.	0	0	0	0	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0	0	0	0	0
4.	0	0	0	0	0	0	0	0	0	0	0	0	0

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0
2.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
3.	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
4.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	0	0

581

Schedule P - Part 1K - Fidelity/Surety

NONE

Schedule P - Part 1L - Other

NONE

Schedule P - Part 1M - International

NONE

Schedule P - Part 1N - Reinsurance A

NONE

Schedule P - Part 1O - Reinsurance B

NONE

Schedule P - Part 1P - Reinsurance C

NONE

Schedule P - Part 1R - Prod Liab Occur

NONE

Schedule P - Part 1R - Prod Liab Claims

NONE

Schedule P - Part 1S-Fin./Mtg. Guaranty

NONE

59 60 61 62 63 64 65 66 67

582

SCHEDULE P - PART 2A - HOMEOWNERS/FARMOWNERS

NONE

SCHEDULE P - PART 2B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

NONE

SCHEDULE P - PART 2C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

SCHEDULE P - PART 2D- WORKERS' COMPENSATION

SCHEDULE P - PART 2E- COMMERCIAL MULTIPLE PERIL

NONE

SCHEDULE P - PART 2F - SECTION 1 - MEDICAL MALPRACTICE - OCCURRENCE

NONE

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior	0	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12. Totals										0	0	0

SCHEDULE P - PART 2F - SECTION 2 - MEDICAL MALPRACTICE - CLAIMS-MADE

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12. Totals										0	0	0

SCHEDULE P - PART 2G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1. Prior	484	337	236	140	89	89	89	89	[50]	[89]	1	(178)
2. 1995	0	0	0	4	4	4	4	4	0	0	0	(4)
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12. Totals										0	1	(187)

SCHEDULE P - PART 2H - SECTION 1 - OTHER LIABILITY - OCCURRENCE

1. Prior	0	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	13	17	42	73	55	49	49	0
7. 2000	XXX	XXX	XXX	XXX	XXX	187	178	281	224	197	197	9
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	1,000	2,888	2,365	3,792	6,018	224
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,284	2,585	3,549	4,934	3,394
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,212	2,778	3,409	538
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	4,714	5,288	514
12. Totals											2,478	XXX
											2,754	5,205

SCHEDULE P - PART 2H - SECTION 2 - OTHER LIABILITY - CLAIMS-MADE

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12. Totals										0	0	0

SCHEDULE P - PART 2I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, BURGLARY, AND THEFT)

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	One Year	Two Year
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	528	278	405	130	(122)
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	553	1,015	367	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	147	XXX	XXX
4. Totals											497	(122)

SCHEDULE P - PART 2J - AUTO PHYSICAL DAMAGE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
4. Totals												0	0

SCHEDULE P - PART 2K - FIDELITY, SURETY

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
4. Totals												0	0

SCHEDULE P - PART 2L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
4. Totals												0	0

SCHEDULE P - PART 2M - INTERNATIONAL

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX	
12. Totals											0	0	

585

Schedule P - Part 2N

NONE

Schedule P - Part 2O

NONE

Schedule P - Part 2P

NONE

Schedule P - Part 2R - Prod Liab Occur

NONE

Schedule P - Part 2R - Prod Liab Claims

NONE

Schedule P - Part 2S

NONE

71 72

5860

SCHEDULE P - PART 3A - HOMEOWNERS/FARMOWNERS

NONE

CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)

Years in Which Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

NONE

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	1	46	38	38	40	67	87	58	0
6. 1999	XXX	XXX	XXX	XXX	111	530	543	(101)	633	779	288	0
7. 2000	XXX	XXX	XXX	XXX	XXX	344	762	508	1,205	1,373	147	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	63	94	257	257	0	127
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	87
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3D - WORKERS' COMPENSATION

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	68	218	299	213	248	299	34	58	2,007	25
5. 1998	XXX	XXX	XXX	573	1,639	1,497	2,053	3,884	1,823	1,702	5,335	177
6. 1999	XXX	XXX	XXX	XXX	1,398	2,313	2,814	2,582	2,478	2,388	3,188	132
7. 2000	XXX	XXX	XXX	XXX	XXX	3,378	6,380	6,331	8,122	8,422	2,655	182
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	3,761	8,883	11,643	13,423	1,391	321
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,974	7,720	11,443	215	245
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	874	2,358	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	51	0	0

SCHEDULE P - PART 3E - COMMERCIAL MULTIPLE PERIL

NONE

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3F - SECTION 1 - MEDICAL MALPRACTICE - OCCURRENCE

NONE

CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)

Years in Which Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5	6	7	8 2002	9 2003	10 2004	11 Number of Claims Closed With Loss Payment	12 Number of Claims Closed Without Loss Payment
1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3F - SECTION 2 - MEDICAL MALPRACTICE - CLAIMS-MADE

NONE

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1. Prior	000	139	141	115	89	89	89	89	89	(89)	XXX	XXX
2. 1995	0	0	0	4	4	4	4	4	4	0	XXX	XXX
3. 1996	XXX	0	0	0	0	0	0	0	0	0	XXX	XXX
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	XXX	XXX
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	XXX	XXX
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	XXX	XXX
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	XXX	XXX
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	XXX	XXX
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX	XXX
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX

SCHEDULE P - PART 3H - SECTION 1 - OTHER LIABILITY - OCCURRENCE

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	2	25	52	38	38	48	69	0
7. 2000	XXX	XXX	XXX	XXX	XXX	3	38	58	83	94	103	85
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	31	157	481	2,341	2,887	65
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	32	276	9,126	2,209	32
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	34	359	903	9
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	136	814	0

SCHEDULE P - PART 3H - SECTION 2 - OTHER LIABILITY - CLAIMS-MADE

NONE

1. Prior	000	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3I - SPECIAL PROPERTY
(FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, BURGLARY, AND THEFT)

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	000	(45)	269	XXX	XXX
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	332	883	XXX	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	117	XXX	XXX

SCHEDULE P - PART 3J - AUTO PHYSICAL DAMAGE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	000	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0

SCHEDULE P - PART 3K - FIDELITY/SURETY

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	000	0	0	XXX	XXX
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX

SCHEDULE P - PART 3L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	000	0	0	XXX	XXX
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	XXX
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX

SCHEDULE P - PART 3M - INTERNATIONAL

NONE

1. Prior	XXX	0	0	0	0	0	0	0	0	0	0	XXX	XXX
2. 1995	0	0	0	0	0	0	0	0	0	0	0	XXX	XXX
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0	XXX	XXX
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0	XXX	XXX
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0	XXX	XXX
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0	XXX	XXX
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0	XXX	XXX
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	XXX	XXX
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	XXX	XXX
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX	XXX
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	XXX

Schedule P - Part 3N

NONE

Schedule P - Part 3O

NONE

Schedule P - Part 3P

NONE

Schedule P - Part 3R - Prod Liab Occur

NONE

Schedule P - Part 3R - Prod Liab Claims

NONE

Schedule P - Part 3S

NONE

76 77

590

SCHEDULE P - PART 4A - HOMEOWNERS/FARMOWNERS

NONE

SCHEDULE P - PART 4B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

NONE

SCHEDULE P - PART 4C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

SCHEDULE P - PART 4D - WORKERS' COMPENSATION

SCHEDULE P - PART 4E - COMMERCIAL MULTIPLE PERIL

NONE

SCHEDULE P - PART 4F - SECTION 1 - MEDICAL MALPRACTICE - OCCURRENCE

NONE

BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)

Years in Which Losses Were Incurred	1 1995	2 1996	3 1997	4	5	6	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4F - SECTION 2 - MEDICAL MALPRACTICE - CLAIMS-MADE

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1. Prior	260	74	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4H - SECTION 1 - OTHER LIABILITY - OCCURRENCE

1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	7	0	0	0	1	0
7. 2000	XXX	XXX	XXX	XXX	XXX	70	88	95	2	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	744	559	152	22
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	503	292	515
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	659	377
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,653	625
									XXX	869
									XXX	3,472
									XXX	1,183

SCHEDULE P - PART 4H - SECTION 2 - OTHER LIABILITY - CLAIMS-MADE

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4I - SPECIAL PROPERTY
(FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, BURGLARY AND THEFT)

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END (000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	368	75	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	75	0
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4J - AUTO PHYSICAL DAMAGE

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4K - FIDELITY/SURETY

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

NONE

1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
2. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
3. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 4M - INTERNATIONAL

NONE

1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0

Schedule P - Part 4N

NONE

Schedule P - Part 4O

NONE

Schedule P - Part 4P

NONE

Schedule P - Part 4R - Prod Liab Occur

NONE

Schedule P - Part 4R - Prod Liab Claims

NONE

Schedule P - Part 4S

NONE

Schedule P - Part 5A- SN1

NONE

Schedule P - Part 5A- SN2

NONE

Schedule P - Part 5A- SN3

NONE

Schedule P - Part 5B- SN1

NONE

Schedule P - Part 5B- SN2

NONE

Schedule P - Part 5B- SN3

NONE

Schedule P - Part 5C- SN1

NONE

Schedule P - Part 5C- SN2

NONE

Schedule P - Part 5C- SN3

NONE

Schedule P - Part 5D- SN1

NONE

Schedule P - Part 5D- SN2

NONE

Schedule P - Part 5D- SN3

NONE

Schedule P - Part 5E- SN1

NONE

Schedule P - Part 5E- SN2

NONE

Schedule P - Part 5E- SN3

NONE

Schedule P - Part 5F- SN1A

NONE

595

Schedule P - Part 5F- SN2A

NONE

Schedule P - Part 5F- SN3A

NONE

Schedule P - Part 5F- SN1B

NONE

Schedule P - Part 5F- SN2B

NONE

Schedule P - Part 5F- SN3B

NONE

SCHEDULE P - PART 5H - OTHER LIABILITY - OCCURRENCE

SECTION 1A

CUMULATIVE NUMBER OF CLAIMS CLOSED WITH LOSS PAYMENT DIRECT AND ASSUMED AT YEAR END

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	60	59	60	60	60
7. 2000	XXX	XXX	XXX	XXX	XXX	83	83	83	83	83
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	65	65	65	65
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	32	32	32
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	9	9
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SECTION 2A

NUMBER OF CLAIMS OUTSTANDING DIRECT AND ASSUMED AT YEAR END

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	1	1	52	1	0	1	0
7. 2000	XXX	XXX	XXX	XXX	2	94	0	0	2	1
8. 2001	XXX	XXX	XXX	XXX	XXX	105	65	0	40	13
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	58	0	54	33
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	64	42
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	77	54
									XXX	32

SECTION 3A

CUMULATIVE NUMBER OF CLAIMS REPORTED DIRECT AND ASSUMED AT YEAR END

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004
1. Prior	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	1	1	122	80	89	4	4
6. 1999	XXX	XXX	XXX	XXX	2	177	83	83	71	22
7. 2000	XXX	XXX	XXX	XXX	XXX	179	85	85	101	103
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	97	117	129
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	43	83	94
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	104	154
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	46

Schedule P - Part 5H- SN1B

NONE

Schedule P - Part 5H- SN2B

NONE

Schedule P - Part 5H- SN3B

NONE

Schedule P - Part 5R- SN1A

NONE

Schedule P - Part 5R- SN2A

NONE

Schedule P - Part 5R- SN3A

NONE

Schedule P - Part 5R- SN1B

NONE

Schedule P - Part 5R- SN2B

NONE

Schedule P - Part 5R- SN3B

NONE

SCHEDULE P - PART 6C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

SECTION 1

CUMULATIVE PREMIUMS EARNED DIRECT AND ASSUMED AT YEAR END ($000 OMITTED)

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	331	331	331	331	331	331	331	0
6. 1999	XXX	XXX	XXX	XXX	1,812	1,812	1,812	1,812	1,812	1,812	0
7. 2000	XXX	XXX	XXX	XXX	XXX	2,635	2,635	2,635	2,635	2,635	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	491	491	491	491	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
13. Earned Premiums (Sch P, Part 1)	0	0	0	331	1,812	2,635	491	0	0	0	XXX

SECTION 2

CUMULATIVE PREMIUMS EARNED CEDED AT YEAR END ($000 OMITTED)

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	335	335	335	335	335	335	335	0
6. 1999	XXX	XXX	XXX	XXX	1,668	1,668	1,668	1,668	1,668	1,668	0
7. 2000	XXX	XXX	XXX	XXX	XXX	1,217	1,217	1,217	1,217	1,217	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	712	712	712	712	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
13. Earned Premiums (Sch P, Part 1)	0	0	0	335	1,668	1,217	712	0	0	0	XXX

SCHEDULE P - PART 6D - WORKERS' COMPENSATION

SECTION 1

CUMULATIVE PREMIUMS EARNED DIRECT AND ASSUMED AT YEAR END ($000 OMITTED)

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	3,827	7,654	7,654	7,654	7,654	7,654	7,654	7,654	0
5. 1998	XXX	XXX	XXX	30,295	30,295	30,295	30,295	30,295	30,295	30,295	0
6. 1999	XXX	XXX	XXX	XXX	42,727	42,727	42,727	42,727	42,727	42,727	0
7. 2000	XXX	XXX	XXX	XXX	XXX	48,938	48,938	48,938	48,938	48,938	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	35,119	35,119	35,119	35,119	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	23,247	23,247	23,247	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	8,804	8,804	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	712	712
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	712
13. Earned Premiums (Sch P, Part 1)	0	0	3,827	30,295	42,727	48,938	35,119	23,247	8,804	712	XXX

SECTION 2

CUMULATIVE PREMIUMS EARNED CEDED AT YEAR END ($000 OMITTED)

Years in Which Premiums Were Earned and Losses Were Incurred	1 1995	2 1996	3 1997	4 1998	5 1999	6 2000	7 2001	8 2002	9 2003	10 2004	11 Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	3,190	6,208	6,208	6,208	6,208	6,208	6,208	6,208	0
5. 1998	XXX	XXX	XXX	24,109	24,109	24,109	24,109	24,109	24,109	24,109	0
6. 1999	XXX	XXX	XXX	XXX	32,303	32,303	32,303	32,303	32,303	32,303	0
7. 2000	XXX	XXX	XXX	XXX	XXX	34,679	34,679	34,679	34,679	34,679	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	13,984	13,984	13,984	13,984	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,947	3,947	3,947	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	888	888	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(33)	(33)
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	(33)
13. Earned Premiums (Sch P, Part 1)	0	0	3,190	24,109	32,303	34,679	13,984	3,947	888	(33)	XXX

SCHEDULE P - PART 6E - COMMERCIAL MULTIPLE PERIL

SECTION 1

NONE

Years in Which Premiums Were Earned and Losses Were Incurred	CUMULATIVE PREMIUMS EARNED DIRECT AND ASSUMED AT YEAR END ($000 OMITTED)										
	1	2	3	4	5	6	7	8	9	10	11
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
13. Earned Premiums (Sch P, Part 1)	0	0	0	0	0	0	0	0	0	0	XXX

SECTION 2

NONE

Years in Which Premiums Were Earned and Losses Were Incurred	CUMULATIVE PREMIUMS EARNED CEDED AT YEAR END ($000 OMITTED)										
	1	2	3	4	5	6	7	8	9	10	11
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	XXX	0	0	0	0	0	0	0
7. 2000	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0	0
8. 2001	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
13. Earned Premiums (Sch P, Part 1)	0	0	0	0	0	0	0	0	0	0	XXX

SCHEDULE P - PART 6H - OTHER LIABILITY - OCCURRENCE

SECTION 1A

Years in Which Premiums Were Earned and Losses Were Incurred	CUMULATIVE PREMIUMS EARNED DIRECT AND ASSUMED AT YEAR END ($000 OMITTED)										
	1	2	3	4	5	6	7	8	9	10	11
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	202	202	202	202	202	202	202	0
7. 2000	XXX	XXX	XXX	XXX	822	822	822	822	822	822	0
8. 2001	XXX	XXX	XXX	XXX	XXX	2,880	2,880	2,880	2,880	2,880	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	3,725	3,725	3,725	3,725	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,576	3,576	3,576	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	5,667	5,667	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,686	1,686
13. Earned Premiums (Sch P, Part 1)	0	0	0	202	822	2,880	3,725	3,576	5,667	1,686	XXX

SECTION 2A

Years in Which Premiums Were Earned and Losses Were Incurred	CUMULATIVE PREMIUMS EARNED CEDED AT YEAR END ($000 OMITTED)										
	1	2	3	4	5	6	7	8	9	10	11
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Current Year Premiums Earned
1. Prior	0	0	0	0	0	0	0	0	0	0	0
2. 1995	0	0	0	0	0	0	0	0	0	0	0
3. 1996	XXX	0	0	0	0	0	0	0	0	0	0
4. 1997	XXX	XXX	0	0	0	0	0	0	0	0	0
5. 1998	XXX	XXX	XXX	0	0	0	0	0	0	0	0
6. 1999	XXX	XXX	XXX	185	185	185	185	185	185	185	0
7. 2000	XXX	XXX	XXX	XXX	809	809	809	809	809	809	0
8. 2001	XXX	XXX	XXX	XXX	XXX	988	988	988	988	988	0
9. 2002	XXX	XXX	XXX	XXX	XXX	XXX	749	749	749	749	0
10. 2003	XXX	XXX	XXX	XXX	XXX	XXX	XXX	740	740	740	0
11. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	855	855	0
12. Total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	488	488
13. Earned Premiums (Sch P, Part 1)	0	0	0	185	809	988	749	740	855	488	XXX

600

Schedule P - Part 6H - SN1B

NONE

Schedule P - Part 6H - SN2B

NONE

Schedule P - Part 6M - SN1

NONE

Schedule P - Part 6M - SN2

NONE

Schedule P - Part 6N - SN1

NONE

Schedule P - Part 6N - SN2

NONE

Schedule P - Part 6O - SN1

NONE

Schedule P - Part 6O - SN2

NONE

Schedule P - Part 6R - SN1A

NONE

Schedule P - Part 6R - SN2A

NONE

Schedule P - Part 6R - SN1B

NONE

601

EXHIBIT 9

602

McCarran-Ferguson Act should not apply because federal court jurisdiction of this case would not invalidate, impair, or supersede the purposes of the Liquidation Act.

For the reasons that follow, the Court GRANTS plaintiff's motion to remand.

I. Facts

A. The Liquidation Act

The Liquidation Act is a comprehensive administrative scheme which regulates delinquency proceedings in connection with insolvent insurance companies. It is designed to protect the "interests of insureds, claimants, creditors, and the public generally," to enhance the "efficiency [*4] and economy of liquidation," and "to minimize legal uncertainty and litigation." Ohio Rev. Code § 3903.02(D). Ohio's superintendent of insurance may commence delinquency proceedings against a financially troubled insurer in order to rehabilitate or liquidate it. Ohio Rev. Code § § 3903.12 and 3903.17. An insurance company may be placed into liquidation if it is insolvent; the superintendent believes that rehabilitation would substantially increase the risk of loss to creditors, policyholders, or the public, or would be futile; and it "is in such condition that the further transaction of business would be hazardous, financially, to its policyholders, creditors, or the public." Ohio Rev. Code § § 3903.12 and 3903.17. When an insurance company is placed into delinquency proceedings, the Franklin County Court of Common Pleas is vested with exclusive jurisdiction over all actions authorized by the Liquidation Act. Ohio Rev. Code § 3903.04(E).

B. P.I.E. delinquency proceedings

P.I.E. is a domestic insurance company licensed under the laws of the State of Ohio. In March of 1998, the Franklin County Court of Common Pleas found that P.I.E. was insolvent and was in such condition that [*5] "further attempts to rehabilitate it would substantially increase the risk of loss to its policyholders, creditors or the public or would be futile" as described in Ohio Rev. Code § 3903.16(A). (Pl.'s Mot. to Remand, Ex. A, p. 3, PP3-4.) As a result, the court ordered P.I.E. into liquidation pursuant to Ohio Rev. Code Chapter 3903 and appointed plaintiff as Liquidator. (*Id.*, p. 4, PP1-2.) Pursuant to the liquidation order, plaintiff was vested by operation of law with the title to all assets of P.I.E. and was granted authority to collect all debts and monies due and claims belonging to P.I.E. (*Id.*, pp. 4 and 7, PP4 and 7g.) Plaintiff was granted all powers and authority in Ohio Rev. Code Chapter 3903, including the power and authority under Ohio Rev. Code § § 3903.26, 3903.27, and 3903.28 to avoid fraudulent or preferential transfers, and the authority to do all other things permitted by law to effectuate the liquidation of P.I.E. (*Id.*, pp. 9 and 16, PP8 and 24-25.)

C. The Liquidator's claims against defendants

The complaint alleges that in 1997, while P.I.E. was insolvent, several of its executives (including its President and Chief Executive Officer, Larry Rogers; [*6] its Chief Financial Officer, James Marietta, III; and its Chief Legal Counsel, Warren Udisky) caused P.I.E. to purchase annuities and universal life insurance policies from defendants. The complaint further alleges that P.I.E. received no value in exchange for these policies that were issued to third parties, *i.e.*, Rogers, Marietta, and Udisky.

The Liquidator claims that he is entitled to avoid each of these purchases and recover the full value of the assets transferred from P.I.E. to defendants because the asset transfers were fraudulent transfers under Ohio Rev. Code § 3903.26 or preferences under Ohio Rev. Code § 3903.28. n1 The Liquidator also claims that to the extent that the asset transfers were not fraudulent transfers or preferences, defendants converted assets belonging to P.I.E.

n1 Section 3903.26 of the Liquidation Act provides that "every transfer made or suffered and every obligation incurred by an insurer within one year prior to the filing of a successful complaint for . . . liquidation under sections 3903.01 to 3903.59 of the Revised Code is fraudulent as to then existing and future creditors if made or incurred without fair consideration, or with actual intent to hinder, delay, or defraud either existing or future creditors." Ohio Rev. Code § 3903.26(A).

Section 3903.28 of the Liquidation Act allows the Liquidator to avoid preferential transfers made by an insolvent insurance company. "A preference is a transfer of any of the property of an insurer to or for the benefit of a creditor, for or on account of an antecedent debt, made or suffered by the insurer within one year before the filing of a successful complaint for liquidation under sections 3903.01 to 3903.59 of the Revised Code, the effect of which transfer may be to enable the creditor to obtain a greater percentage of his debt than another creditor of the same class would receive." Ohio Rev. Code § 3903.28(A)(1).

[*7]

Defendants maintain that they gave fair value to P.I.E. for the monies received by them because they is-

sued insurance policies payable to P.I.E. executives. Defendants further assert that there was nothing unusual about the transactions. Companies frequently purchase annuities and life insurance policies for their executives.

II. Discussion

The Court will now address the Liquidator's motion to remand. Defendants have removed this action in accordance with 28 U.S.C. § 1446. Plaintiff is a resident of Columbus, Ohio. Mutual of Omaha Life Insurance Company and United of Omaha Life Insurance Company are corporations licensed under the laws of Nebraska with their principal places of business in Omaha, Nebraska. Sun Life Assurance Company of Canada and Sun Life Assurance Company of Canada (U.S.) (collectively "Sun Life defendants") are not incorporated in the State of Ohio, and they do not have their principal places of business within Ohio. The amount in controversy exceeds $ 75,000. Based upon these facts, the Court would appear to have diversity jurisdiction pursuant to 28 U.S.C. § 1332 and removal would appear to be appropriate [*8] under 28 U.S.C. § 1441. The Liquidator seeks to remand this case, however, based upon the argument that, by virtue of the McCarran-Ferguson Act, the statutory authority governing the removal of this action, 28 U.S.C. § § 1332 and 1441, is reverse preempted by the Liquidation Act, Ohio Rev. Code § § 3903.01 to 3903.59.

Congress enacted the McCarran-Ferguson Act for the specific purpose of consigning to the States broad and primary responsibility for regulating the insurance industry. *See SEC v. National Securities, Inc.* 393 U.S. 453, 458, 21 L. Ed. 2d 668, 89 S. Ct. 564 (1969). Section 2(b) of the McCarran-Ferguson Act provides in relevant part:

> No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance . . . unless such Act specifically relates to the business of insurance.

15 U.S.C. § 1012(b). Thus, the McCarran-Ferguson Act permits a state law to reverse preempt a federal statute if: (1) the federal statute does not specifically relate to the "business of insurance"; (2) the state [*9] law was enacted for the "purpose of regulating the business of insurance"; and (3) the federal statute operates to "invalidate, impair, or supersede" the state law. *See Munich Am. Reinsurance Co. v. Crawford*, 141 F.3d 585, 590 (5th Cir.), *cert. denied*, 525 U.S. 1016, 142 L. Ed. 2d 448, 119 S. Ct. 539 (1998). Because the federal statutory authority at issue does not specifically relate to the business of insurance, the Court need only address the last two requirements.

A. Whether the Ohio law was enacted for the purpose of regulating the business of insurance

The Court will first decide whether the Ohio law at issue was enacted for the purpose of regulating the business of insurance. In *United States Treasury Dept. v. Fabe*, 508 U.S. 491, 505, 124 L. Ed. 2d 449, 113 S. Ct. 2202 (1993), the Supreme Court considered whether § 3903.42 of the Liquidation Act, which confers fifth priority to claims of the United States in proceedings to liquidate an insolvent insurance company, reverse preempted 31 U.S.C. § 3713, which confers first priority to the United States with respect to a bankrupt debtor's obligations. [*10] The Court decided that § 3903.42 is a law enacted for the purpose of regulating the business of insurance to the extent that it protects policyholders. 508 U.S. at 508.

In reaching this decision, the Court distinguished the first clause of § 2(b) of the McCarran-Ferguson Act, which commits laws "enacted . . . for the purpose of regulating the business of insurance" to the states, from the second clause of § 2(b), which exempts only "the business of insurance" itself from the antitrust laws. *Id.* at 504. The second clause requires a court to examine three factors in determining what constitutes the "business of insurance":

> first, whether the practice has the effect of transferring or spreading a policyholder's risk; second, whether the practice is an integral part of the policy relationship between the insurer and the insured; and third, whether the practice is limited to entities within the insurance industry.

Life Ins. Co. v. Pireno, 458 U.S. 119, 129, 73 L. Ed. 2d 647, 102 S. Ct. 3002 (1982).

The first clause, however, is not so narrowly circumscribed. *See Fabe*, 508 U.S. at 504. "The broad category [*11] of laws enacted 'for the purpose of regulating the business of insurance' consists of laws that possess the 'end, intention, or aim' of adjusting, managing, or controlling the business of insurance. This category necessarily encompasses more than just the 'business of insurance.'" *Id.* at 505 (quoting Black's Law Dictionary 1236, 1286 (6th ed. 1990)). The focus of this language is on the relationship between the insurance company and its policyholders, and "statutes aimed at protecting or regulating this relationship, directly or indirectly, are laws regulat-

ing the 'business of insurance,'" *Id.* at 501 (quoting *National Securities*, 393 U.S. at 460).

In *International Ins. Co. v. Duryee*, 96 F.3d 837 (6th Cir. 1996), the Sixth Circuit considered whether Ohio Rev. Code § 3927.05, which effectively prohibited out-of-state insurance companies from removing cases from state to federal court by barring such companies from transacting further business in Ohio, reverse preempted the federal removal statute. The court examined the *Fabe* decision and stated that it was not clear how far its holding extends. 96 F.3d at 839. [*12] Even assuming that "any law which redounds to the benefit of the policyholders is, *ipso facto*, a law enacted to regulate the business of insurance," *Id.* (quoting *Fabe*, 508 U.S. at 511)(Kennedy, J., dissenting), the court concluded that the McCarran-Ferguson Act did not apply:

> Unlike the statute at issue in *Fabe*, which substantively altered the rights of policyholders, § 3927.05 neither regulates the policy relationship nor affects an insured's right to obtain payment on a policy.
>
> . . .
>
> The statute would effectively allow any person or entity from Ohio who has a grievance with a foreign insurance company, whether related to insurance coverage or not, to keep the insurance company from removing the case to federal court.
>
> . . .
>
> It is evident that § 3927.05 was not enacted so much "for the purpose of regulating the business of insurance" as for the parochial purpose of regulating a foreign insurer's choice of forum and punishing the insurer for going into federal court. The McCarran-Ferguson Act was not meant to protect a statute so tangentially related to insurance from the general rule of federal law supremacy.

Id. at 840. [*13]

Before these principles are applied in this case, the Court will address defendants' argument that it should consider only the specific provisions at issue here, *i.e.*, those provisions granting exclusive original jurisdiction of liquidation proceedings in the Franklin County Court of Common Pleas, rather than the Liquidation Act as a whole. Defendants argue that the Court in *Griffin* looked only generally at whether Ohio Rev. Code § § 3903.26, 3903.27, and 3903.28 were enacted for the purpose of regulating the business of insurance. Defendants contend that the inquiry should be limited to Ohio Rev. Code § 3903.04(E), which provides that "all actions authorized in sections 3903.01 to 3903.59 of the Revised Code shall be brought in the court of common pleas of Franklin county," and to the first sentence of Ohio Rev. Code § 3903.28(G), which provides that "the Franklin county court of common pleas has exclusive jurisdiction of any proceeding by the liquidator to hear and determine the rights of any parties under this section." Because § § 3903.04(E) and 3903.28(G) are "simply procedural statutes which provide the specific state forum in which a liquidation-related action can be [*14] brought under Ohio Rev. Code Chapter 3903," defendants maintain that these "forum-designation statutes do not have any effect on the relationship between insured and insurer." (Defs.' Mem in Opp'n, doc. 10, pp. 7-8.)

Although the parties have not fully developed this argument, the Court notes that there is some disagreement among the circuits as to whether *Fabe* requires a statute to be parsed in determining the extent of its preemptive power under the McCarran-Ferguson Act. The Fifth Circuit has stated that *Fabe's* holding and analysis suggest that a statute may require parsing but that, at the same time, "the Court stopped short of directing that this approach be taken in every case." *Munich*, 141 F.3d at 592. Although the Fifth Circuit did not decide this issue, the First Circuit has held that every provision must be parsed, *see Antonio Garcia v. Island Program Designer, Inc.*, 4 F.3d 57, 61-62 (1st Cir. 1993), and the Second Circuit has held that the statutory scheme may be considered in its entirety. *See Stephens v. American International Ins. Co.*, 66 F.3d 41, 45 (2d Cir. 1995). For purposes of this decision, the Court will [*15] not consider the Liquidation Act as a whole but will examine the provisions granting exclusive jurisdiction to the Franklin County Court of Common Pleas.

The Liquidator maintains that by consolidating all liquidation-related legal matters in the Franklin County Court of Common Pleas, the Liquidation Act's jurisdictional provisions work "to ensure that, if possible, policyholders ultimately will receive payment on their claims" and, thus, were enacted "for the purpose of regulating the business of insurance." (Pl.'s Reply, doc. 14, p. 4)(quoting *Fabe*, 508 U.S. at 506). The Liquidator contends that the jurisdictional provisions lessen administrative costs and increase the pool of assets available to satisfy policyholder claims by consolidating litigation in one forum and that the provisions promote uniformity and certainty with respect to the application of the Liquidation Act. Not only does the Franklin County Court of Common Pleas develop expertise in applying the Liquidation Act, but all appeals are directed to a single appel-

late court, "thereby promoting uniformity in the development of legal precedent governing future disputes and limiting the potential for unresolved [*16] conflicts between different reviewing courts applying the same law." (*Id.*, p. 3.)

In *Munich Am. Reinsurance Co. v. Crawford, supra*, the Fifth Circuit examined a provision which vested exclusive jurisdiction of delinquency proceedings in connection with insolvent insurance companies in the district court of Oklahoma County. n2 The court held that the jurisdictional provision was enacted for the purpose of regulating the business of insurance because "Oklahoma's policy of placing ultimate control over all issues relating to the insolvency proceedings in a single court is aimed at protecting the relationship between the insurance company and its policyholders." 141 F.3d at 593. The court reasoned that the effect of this provision "grants the Oklahoma County District Court a special relationship of cooperation, technical oversight and concentrated review with the Oklahoma Commissioner of Insurance in the process of liquidating insurers" and that "this special relationship contributes markedly to the orderly liquidation or rehabilitation of the insurance company and the adjudication of claims against it." *Id.* (citations omitted). The court further [*17] reasoned:

> Consolidation also eliminates the risk of conflicting rulings, piecemeal litigation of claims, and unequal treatment of claimants, all of which are of particular interest to insurance companies and policyholders, who are often relying on policies with the same or similar provisions.

Id.

> n2 The Oklahoma statute at issue provided that "the district court is vested with exclusive original jurisdiction of delinquency proceedings pursuant to the provisions of this article, and is authorized to make all necessary and proper orders to carry out the purposes of this article." 36 Okla. Stat. § 1902(A).

In *Davister Corp. v. United Republic Life Ins. Co.*, 152 F.3d 1277, 1281 (10th Cir. 1998), *cert. denied*, 525 U.S. 1177, 143 L. Ed. 2d 108, 119 S. Ct. 1112 (1999), the Tenth Circuit examined a Utah provision which provided that "the filing of a petition for liquidation of a domestic insurer or of an alien insurer domiciled in this state stays all actions and [*18] all proceedings against the insurer in Utah or elsewhere[.]" Utah Code § 31A-27-317(1). Adopting the Fifth Circuit's reasoning in *Munich*, the court held that the Utah statute was enacted to regulate the business of insurance because it protected policyholders:

> The stay makes clear it is the policy of the State of Utah to consolidate in one forum all matters attendant to the liquidation of a domiciled insurance company. That policy guarantees that the entire process is more than a simple liquidation of debt. Indeed, all decisions in Utah affecting the ultimate benefits to be accorded policyholders of a liquidated insurance company are circumscribed in one proceeding. Because the stay prevents conflicting rulings on claims, the unequal treatment of claimants, and the unnecessary and wasteful dissipation of the remaining funds of the insolvent insurer, the stay manifests a purpose of protecting policyholders.

152 F.3d at 1281.

In *U.S. Financial Corp. v. Warfield*, 839 F. Supp. 684 (D. Ariz. 1993), U.S. Financial Corporation ("USF") brought an action against an investment firm and the Arizona director of insurance in his capacity as receiver [*19] of an insolvent insurance company. USF's claims arose out of a transaction between USF and the insurance company which was brokered by the investment firm. The receiver argued that the court lacked jurisdiction over the case because the McCarran-Ferguson Act exempted Arizona's statutory scheme for regulating insolvent insurers from the preemptive force of contrary federal laws and under the statutory scheme, the Arizona Superior Court is granted exclusive jurisdiction over insurance company rehabilitation and liquidation proceedings.

After considering the Supreme Court's decision in *Fabe*, the district court concluded that Arizona's statutory provisions vesting exclusive jurisdiction over insurer liquidation proceedings in the Arizona Superior Court were enacted for the purpose of regulating the business of insurance and that these provisions were impaired to the extent the court exerted jurisdiction pursuant to 28 U.S.C. § 1367. The court reasoned that the jurisdictional provisions were an integral part of Arizona's scheme for regulating insolvent insurers and that they protected the relationship between insurer and insured by "marshaling all the insurance [*20] company's assets into one forum where they most efficiently can be monitored, preserved, and eventually distributed to deserving insureds and

beneficiaries"; by conserving "insurance company assets for ultimate payment to policyholders as well as other creditors"; by "protecting receivers from having to litigate in multiple forums, which might lead to a depletion of the insurance company's assets"; and by ensuring "that questions relevant to Arizona's statutory scheme are resolved by the Arizona courts." 839 F. Supp. at 689.

In reaching this conclusion, the court conceded that it was "somewhat hesitant" to conclude that a state law divested it of jurisdiction. *See id.* at 689. However, "given the Supreme Court's broad interpretation in *Fabe* of what constitutes 'the business of insurance,' and the lack of an expressed, supported rationale within the case law for exempting jurisdictional statutes from the reach of McCarran-Ferguson, the court is reluctant to apply McCarran-Ferguson in a manner inconsistent with the Act's terms." *Id.* at 690. Accordingly, the court held that it lacked jurisdiction over USF's claims against the insurer. [*21] *See id.*

In *Corcoran v. Universal Reinsurance Corp.*, 713 F. Supp. 77 (S.D.N.Y. 1989), the New York state superintendent of insurance acting as liquidator of an insolvent insurance company brought an action against a creditor of the insurance company. The creditor removed the case to federal court on the basis of diversity jurisdiction. The liquidator filed a motion to remand.

The liquidator argued that by exercising jurisdiction over the case, the district court would be construing the federal removal statute to "invalidate, impair, or supersede" New York's regulatory scheme governing the liquidation of insolvent insurance companies, and in particular, that part of the regulatory scheme placing exclusive jurisdiction of the liquidation of an insolvent insurance company in the New York State Supreme Court. 713 F. Supp. at 80. The court found that New York law "insures economical, efficient and orderly liquidation" by "vesting control of all claims for and against a bankrupt insurer in one court" and concluded that "to permit resort to the removal statute to extricate this case from state court jurisdiction would 'impair, invalidate or supersede' New [*22] York's law requiring a unified proceeding in the state court and would accordingly violate McCarran-Ferguson." *Id.* at 80-81. Thus, the court held that remand was appropriate under both the *Burford* doctrine of abstention and the McCarran-Ferguson Act. *Id.* at 82.

After considering the foregoing authority, the Court concludes that Ohio Rev. Code § § 3903.04(E) and 3903.28(G) are laws enacted for the purpose of regulating the business of insurance. Unlike the statute reviewed by the Sixth Circuit in *International Ins. Co. v. Duryee, supra,* which applied to all suits brought against foreign insurance companies, § 3903.04(E) applies only to claims brought by the Liquidator during delinquency proceedings. Moreover, § 3903.28(G) applies only to actions brought under § 3903.28. Section 3903.28 allows the Liquidator to avoid any preference, as defined in § 3903.28(A), if (1) the insurer was insolvent at the time of the transfer, (2) the transfer was made within four months before the filing of a successful complaint for liquidation, (3) the creditor had reasonable cause to believe that the insurer was insolvent or was about to become [*23] insolvent at the time of the transfer, or (4) the creditor was an officer, employee, shareholder, or other person who was in a position of influence. Section 3903.28 is aimed at protecting policyholders by increasing the likelihood of payment of their claims despite the insurer's insolvency, *see Griffin*, No. C-2-98-913, slip op. at p. 9, and it applies only to preferential transfers made by insolvent insurance companies; it does not apply generally to transfers involving insurance companies or insolvent companies.

By vesting exclusive jurisdiction over all claims relating to insolvent insurance companies in the Franklin County Court of Common Pleas, n3 the State of Ohio aims to protect the relationship between insurer and insured (1) by eliminating the risk of conflicting rulings, piecemeal litigation of claims, and unequal treatment of claimants, all of which are of particular interest to insurance companies and policyholders, who are often relying on policies with the same or similar provisions, (2) by assuring both the insurance company and its policyholders that the insurance company will be liquidated in an organized fashion, and (3) by preventing the unnecessary and wasteful [*24] dissipation of the insolvent insurance company's funds that would occur if the Liquidator had to litigate unconnected suits in different forums across the country. *See Munich*, 141 F.3d at 592-94; *Davister*, 152 F.3d at 1280-81; *U.S. Financial Corp.*, 839 F. Supp. at 689; *see also Eden Fin. Group, Inc. v. Fidelity Bankers Life Ins. Co.*, 778 F. Supp. 278, 281 (E.D. Va. 1991) (holding that "creation by statute of a single, exclusive forum for insurance company rehabilitation proceedings is regulation of the 'business of insurance' for purposes of the McCarran-Ferguson Act"); *Washburn v. Corcoran*, 643 F. Supp. 554, 556 (S.D.N.Y.1986)(holding that New York statute which confers exclusive jurisdiction over the liquidation of insurance companies on the New York Supreme Court that takes charge of the liquidation is a "law enacted by [a] ... State for the purpose of regulating the business of insurance").

n3 Relying on Ohio Rev. Code § 3903.21(A)(12), the Sun Life defendants argue that § § 3903.04(E) and 3903.28(G) are not laws regulating the business of insurance because these provisions fail to vest exclusive jurisdiction for claims relating to an insolvent insurance com-

pany in the Franklin County Court of Common Pleas. Subsection (A)(12) provides that the liquidator may:

> continue to prosecute and to commence in the name of the insurer or in his own name any and all suits and other legal proceedings, in this state or elsewhere, and to abandon the prosecution of claims he considers unprofitable to pursue further. If the insurer is dissolved under section 3903.20 of the Revised Code, he shall have the power to apply to any court in this state or elsewhere for leave to substitute himself for the insurer as plaintiff.

Ohio Rev. Code § 3903.21(A)(12).

Section 3903.21 sets forth the general powers of the Liquidator, including, *inter alia*, "collect all debts and moneys due and claims belonging to the insurer, wherever located," "conduct public and private sales of the property of the insurer," "acquire, . . . encumber, lease, . . . sell, transfer . . . any property of the insurer," and "prosecute any action which may exist in behalf of the creditors, members, policyholders, or shareholders of the insurer against any officer of the insurer or any other person." Ohio Rev. Code. § § 3903.21(6), (7), (9), and (13).

Subsection (A)(12) acknowledges the practical reality that in order to fully carry out his statutory obligations, the Liquidator may be required to commence some legal proceedings outside the State of Ohio when the Franklin County Court of Common Pleas is unable to exercise jurisdiction over certain parties or property. Subsection (A)(12) is not inconsistent with Ohio's aim to consolidate all proceedings relating to an insolvent insurance company because the Liquidator is still required under § § 3903.04(E) and 3903.28(G) to bring any actions arising in Ohio in the Franklin County Court of Common Pleas, and it is not inconsistent with Ohio's aim to conserve the insurance company's assets because the Liquidator may not pursue claims outside the State of Ohio if he considers them unprofitable. Also, there appears to be little risk of inconsistent rulings or unequal treatment of claimants because actions brought outside the state presumably would not involve issues relevant to Ohio's statutory scheme for regulating insolvent insurance companies.

[*25]

B. Whether the federal statute operates to "invalidate, impair, or supersede" the Ohio law

Having found that § § 3903.04(E) and 3903.28(G) are laws enacted for the purpose of regulating the business of insurance, the Court will next decide whether the federal statutory authority governing the removal of this action operates to "invalidate, impair, or supersede" these laws. Defendants argue that neither statute would be impaired, invalidated, or superseded if the Court retained jurisdiction over this action because this Court is as capable as the Franklin County Court of Common Pleas in applying the provisions of § § 3903.26 and 3903.28 to the Liquidator's fraudulent conveyance and preferential transfer claims and in applying Ohio common law to the Liquidator's conversion claim.

Defendants' argument is misplaced. The issue is not whether the Court is capable of applying Ohio law to the claims brought by the Liquidator but whether the federal statutory authority governing the removal of this action, 28 U.S.C. § § 1332 and 1441, invalidates, impairs, or supersedes the provisions of the Liquidation Act vesting exclusive jurisdiction in the Franklin County Court [*26] of Common Pleas. In this regard, the Sun Life defendants have also argued that the McCarran-Ferguson Act is not intended to completely divest federal courts of diversity jurisdiction in relation to the regulation of insurers and that federal courts may properly exercise diversity jurisdiction over cases involving insurers during liquidation proceedings. Defendants have cited the following cases in support of their argument: *Quackenbush v. Allstate Ins. Co.*, 517 U.S. 706, 135 L. Ed. 2d 1, 116 S. Ct. 1712 (1996); *Grimes v. Crown Life Ins. Co.*, 857 F.2d 699 (10th Cir. 1988); *Commissioner of Insurance of the State of Michigan v. DMB Kyoto Plaza Shopping Center*, 42 F. Supp. 2d 726 (W.D. Mich. 1998); *Castle v. Fremont Indemnity Co.*, 839 F. Supp. 265 (D. Vt. 1993); *American Securities Life Assur. Co. v. Mason*, 836 F. Supp. 333 (E.D.N.C. 1993).

The Court finds that these cases are factually distinguishable from the case at bar. Both the Supreme Court in *Quackenbush* and the district court in *Mason* examined the *Burford* doctrine of abstention; neither court addressed reverse preemption under the McCarran-Ferguson [*27] Act. n4 In *Castle*, the court examined whether a provision in a liquidation order giving the liquidator the power to collect reinsurance proceeds was a provision which regulated the business of insurance. 839 F. Supp. at 274. The court held the provision did not protect the relationship between insurer and insured because

the policyholders had already been paid. *See id.* The court also noted that the Vermont statutory scheme did not contain an exclusive jurisdiction requirement. *See id.* at 275.

n4 In *Quackenbush*, the Supreme Court held that the *Burford* doctrine of abstention allows a federal court to dismiss or remand a case to state court only if the relief being sought is equitable or otherwise discretionary in nature. 517 U.S. at 730-31. As noted by the Fifth Circuit, prior to *Quackenbush*, courts had consistently approved *Burford* abstention in actions involving an insolvent insurance company in state delinquency proceedings without regard for the type of relief being sought in federal court. *See Munich*, 141 F.3d at 589 n. 2 (citing cases).

[*28]

In *Grimes*, the liquidator of an insolvent Oklahoma insurance company brought an action in state court seeking a declaration of rights under a reinsurance agreement. The reinsurer removed the case to federal court, and the district court entered judgment in favor of the reinsurer. The Tenth Circuit held that the district court should have abstained from exercising jurisdiction over the case. 857 F.2d at 706.

The Tenth Circuit also considered the liquidator's argument that the McCarran-Ferguson Act in conjunction with a statute giving the Oklahoma County District Court jurisdiction over all claims "both for and against an insurance company in liquidation" divested the district court of federal diversity jurisdiction. *See id.* at 702. The Tenth Circuit concluded that federal diversity jurisdiction was proper because the liquidator did not seek a determination of the reinsurer's liability as a part of the liquidation action. *See id.* The court also stated that, as a further matter, it was "hesitant to accept the proposition that a state statute, even when buttressed by the federal policy expressed in the McCarran-Ferguson Act, can affect the invocation [*29] of federal diversity jurisdiction." *Id.* Without further discussion, the court then stated that "the policy of the McCarran-Ferguson Act was to leave the regulation of insurers to the states, it did not intend to divest federal courts of the right to apply state law regarding the regulation of insurers in appropriate diversity proceedings." *Id.*

In *DMB*, the Michigan commissioner of insurance acting in his capacity as liquidator of an insolvent insurance company entered into a purchase agreement under which he agreed to sell certain commercial mortgage loans and real properties owned by the insurance company to a Delaware corporation. The liquidator subsequently filed an action in Michigan state court seeking a declaratory judgment that the assignees of the Delaware corporation's rights were not entitled to reimbursement for certain environmental remediation costs which the assignees claimed to have incurred. After the assignees removed the action to federal court, the liquidator argued that the action should be remanded because the commencement of delinquency proceedings against the insolvent insurer gave the state court constructive possession and in *rem* jurisdiction [*30] over the assets at issue.

The liquidator also argued that the McCarran-Ferguson Act operated to prevent the assignees from invoking the court's removal jurisdiction because the Ingham County Circuit Court is vested with "sole jurisdiction" over liquidation proceedings. The court did not examine whether the relevant provisions of Michigan's Insurance Code protected the relationship between insurer and insured because it concluded that Michigan law failed to create an exclusive single-state forum for resolution of disputes arising during the course of liquidation. 42 F. Supp. 2d at 733. The court also stated, without discussion, that "the McCarran-Ferguson Act does not remove diversity jurisdiction from federal courts in insurance matters" and that "although abstention may be appropriate in some disputes which could implicate state liquidation proceedings, . . . the posture of the present case does not permit it." *Id.* at 734.

After considering the case law cited by defendants, the Court concludes that the federal statutory authority governing the removal of this action effectively invalidates, impairs, or supersedes Ohio Rev. Code § § 3903.04(E) and 3903.28(G) [*31] by preventing the consolidation of all liquidation proceedings related to an insolvent insurance company in one forum. Thus, the Liquidator's claims against defendants should be remanded to the Franklin County Court of Common Pleas.

III. Conclusion

For the reasons stated above, the Court HOLDS that plaintiff's February 18, 2000 motion to remand (doc. 7) is GRANTED. This action is hereby REMANDED to the Franklin County Court of Common Pleas.

John D. Holschuh, Judge

United States District Court

JUDGMENT IN A CIVIL CASE

Decision by Court. This action was decided by the Court without a trial or hearing.

IT IS ORDERED AND ADJUDGED
that pursuant to the Opinion and Order of

May 17, 2000, the plaintiff's motion for remand is GRANTED and this action is REMANDED to the Franklin County Court of Common Pleas.

Date: May 17, 2000

1307

EXHIBIT 10

612

Westlaw.
Not Reported in F.Supp.2d
Not Reported in F.Supp.2d, 2001 WL 102670 (S.D.Ohio)
(Cite as: 2001 WL 102670 (S.D.Ohio))

Motions, Pleadings and Filings

Only the Westlaw citation is currently available.

United States District Court, S.D. Ohio, Eastern Division.
UNITED OF OMAHA LIFE INSURANCE COMPANY, Plaintiff
v.
Warren L. UDISKY et al., Defendants
No. C-2-00-158.

Jan. 23, 2001.

OPINION AND ORDER

KINNEARY, J.

*1 Plaintiff United of Omaha Life Insurance Company brings this action as a complaint in interpleader. Named as defendants are Warren L. Udisky, Chief Legal Counsel of the P.I.E. Mutual Insurance Company ("P.I.E."); James M. Marietta, III, Chief Financial Officer of P.I.E.; and J. Lee Covington II, in his capacity as liquidator of P.I.E. ("Liquidator").

Defendants have made competing claims to annuity funds held by United of Omaha. United of Omaha asks the Court to discharge it from liability against defendants' claims to the annuity funds. It asks the Court to require defendants to interplead and settle their rights to the annuity funds.

This case is set against the backdrop of a separate, but related case that will be explained in more detail in Parts I.C and II.A. [FN1] Briefly put, Liquidator commenced an action on December 8, 1999 against United of Omaha and others in the Court of Common Pleas, Franklin County, Ohio. On January 21, 2000, defendants timely removed the case to this Court on the basis of diversity jurisdiction. By Order of the Court, the case was remanded to the Court of Common Pleas. *See Covington v. Sun Life of Canada (U.S.) Holdings, Inc., et al.*, No. C-2-00-69 (S.D.Ohio May 17, 2000).

FN1. Liquidator argues that United of Omaha's interpleader action should have been brought as a compulsory counterclaim in this other case. However, United of Omaha's complaint in interpleader does not assert any claims against Liquidator and thus is properly brought before the Court as a complaint in interpleader.

This matter is before the Court on Liquidator's March 29, 2000 motion to dismiss for lack of subject matter jurisdiction (doc. 4). For the reasons that follow, the Court grants the motion to dismiss.

I. Background

A. The Liquidation Act

Ohio's Insurers Supervision, Rehabilitation, and Liquidation Act ("Liquidation Act"). Ohio Rev.Code § § 3903.01 to 3903.59, is a comprehensive administrative scheme which regulates delinquency proceedings in connection with insolvent insurance companies. It is designed to protect the "interests of insureds, claimants, creditors, and the public generally," to enhance the "efficiency and economy of liquidation," and "to minimize legal uncertainty and litigation." Ohio Rev.Code § 3903.02(D). Ohio's superintendent of insurance may commence delinquency proceedings against a financially troubled insurer in order to rehabilitate or liquidate it. Ohio Rev.Code § § 3903.12 and 3903.17. An insurance company may be placed into liquidation if it is insolvent; the superintendent believes that rehabilitation would substantially increase the risk of loss to creditors, policyholders, or the public, or would be futile; and it "is in such condition that the further transaction of business would be hazardous, financially, to its policyholders, creditors, or the public." Ohio Rev.Code § § 3903.12 and 3903.17. When an insurance company is placed into delinquency proceedings, the Franklin County Court of Common Pleas is vested with exclusive jurisdiction over all actions authorized by the Liquidation Act. Ohio Rev.Code § 3903.04(E).

B. P.I.E. delinquency proceedings

P.I.E. is a domestic insurance company licensed under the laws of the State of Ohio. In March of 1998, the Franklin County Court of Common Pleas found that P.I.E. was insolvent and was in such condition that "further attempts to rehabilitate it

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613

would substantially increase the risk of loss to its policyholders, creditors or the public or would be futile" as described in Ohio Rev.Code § 3903.16(A). (Pl.'s Mot. to Dismiss, Ex. A, p. 3, ¶ ¶ 3-4.) As a result, the court ordered P.I.E. into liquidation pursuant to Ohio Rev.Code Chapter 3903 and appointed J. Lee Covington II as Liquidator. (*Id.*, p. 4, ¶ ¶ 1-2.) Pursuant to the liquidation order, J. Lee Covington II was vested by operation of law with the title to all assets of P.I.E. and was granted authority to collect all debts and monies due and claims belonging to P.I.E. (*Id.*, pp. 4 and 7, ¶ ¶ 4 and 7g.) He was granted all powers and authority in Ohio Rev.Code Chapter 3903, including the power and authority under Ohio Rev.Code § § 3903.26, 3903.27, and 3903.28 to avoid fraudulent or preferential transfers, and the authority to do all other things permitted by law to effectuate the liquidation of P.I.E. (*Id.*, pp. 9 and 16, ¶ ¶ 8 and 24-25.)

C. The Liquidator's claims

*2 The Liquidator brought suit on December 8, 1999 in the Franklin County Court of Common Pleas, seeking to recover certain allegedly preferential and fraudulent transfers received by Sun Life of Canada (U.S.) Holdings, Inc., Sun Life Assurance Company of Canada (U.S.), Mutual of Omaha Life Insurance Company, and United of Omaha Life Insurance Company from P.I.E. Mutual Insurance Company ("P.I.E."). *See Covington v. Sun Life of Canada (U.S.) Holdings, Inc.*, No. 99CVH12 10362 (Franklin County Ct. Com. Pl.). The complaint alleges that in 1997, while P.I.E. was insolvent, several of its executives (including its President and Chief Executive Officer, Larry Rogers; its Chief Financial Officer, James Marietta, III; and its Chief Legal Counsel, Warren Udisky) caused P.I.E. to purchase annuities and universal life insurance policies from Sun Life, Mutual of Omaha, and United of Omaha. The complaint further alleges that P.I.E. received no value in exchange for these policies that were issued to third parties, *i.e.*, Rogers, Marietta, and Udisky.

The Liquidator claims that he is entitled to avoid each of these purchases and recover the full value of the assets transferred from P.I.E. to Sun Life, Mutual of Omaha, and United of Omaha because the asset transfers were fraudulent transfers under Ohio Rev.Code § 3903 .26 or preferences under Ohio Rev.Code § 3903.28. [FN2] The Liquidator also claims that to the extent that the asset transfers were not fraudulent transfers or preferences, Sun Life, Mutual of Omaha, and United of Omaha converted assets belonging to P.I.E.

FN2. Section 3903.26 of the Liquidation Act provides that "[e]very transfer made or suffered and every obligation incurred by an insurer within one year prior to the filing of a successful complaint for ... liquidation under sections 3903.01 to 3903.59 of the Revised Code is fraudulent as to then existing and future creditors if made or incurred without fair consideration, or with actual intent to hinder, delay, or defraud either existing or future creditors." Ohio Rev.Code § 3903.26(A).
Section 3903.28 of the Liquidation Act allows the Liquidator to avoid preferential transfers made by an insolvent insurance company. "A preference is a transfer of any of the property of an insurer to or for the benefit of a creditor, for or on account of an antecedent debt, made or suffered by the insurer within one year before the filing of a successful complaint for liquidation under sections 3903 .01 to 3903.59 of the Revised Code, the effect of which transfer may be to enable the creditor to obtain a greater percentage of his debt than another creditor of the same class would receive." Ohio Rev.Code § 3903.28(A)(1).

Sun Life, Mutual of Omaha, and United of Omaha maintain that they gave fair value to P.I.E. for the monies received by them because they issued insurance policies payable to P.I.E. executives. They further assert that there was nothing unusual about the transactions. Companies frequently purchase annuities and life insurance policies for their executives.

D. United of Omaha's Complaint in Interpleader

In February 2000, Marietta and Udisky demanded annuity payments from United of Omaha on the Single Premium Immediate Annuity policies issued to them. (Compl. in Interpleader, ¶ 14). This demand conflicts with the claims of the Liquidator, who seeks to recover the same funds. United of Omaha claims no interest in these funds and has deposited them in interest bearing accounts. (*Id.*, ¶ ¶ 12,15).

United of Omaha brings this action because of the conflicting claims made against it by defendants. United of Omaha seeks to bring all parties together in the same forum to determine ownership of the funds so that United of Omaha will not be subject to inconsistent judgments and liabilities. United of

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Omaha asks the Court to discharge it from liability and to require defendants to interplead and settle their rights to the annuity funds.

II. Discussion

A. *Covington v. Sun Life of Canada (U.S.) Holdings, Inc., et al.*, No. C-2- 00-69 (S.D.Ohio May 17, 2000)

*3 Defendants in *Covington* removed the claim brought by Liquidator in the Franklin County Court of Common Pleas to this Court on the basis of diversity jurisdiction. [FN3] Liquidator filed a motion for remand. Relying on Judge Marbley's decision in *Duryee v. Griffin*, No. C-2-98-913 (S.D.Ohio May 27, 1999), Liquidator argued that the action should be remanded to state court because the claims against defendants were brought in accordance with the Orders of Judge Michael Watson of the Franklin County Court of Common Pleas governing the liquidation of P.I.E. and under Ohio's Liquidation Act. Liquidator contended that the Liquidation Act, by virtue of the McCarran-Ferguson Act, "reverse preempts" the federal removal statute because the Liquidation Act was enacted for the purpose of regulating the business of insurance and the federal removal statute invalidates, impairs, or supersedes the Act's jurisdictional provisions.

FN3. Defendants removed the action in accordance with 28 U.S.C. § 1446. Liquidator is a resident of Columbus, Ohio. Mutual of Omaha Life Insurance Company and United of Omaha Life Insurance Company are corporations licensed under the laws of Nebraska with their principal places of business in Omaha, Nebraska. Sun Life Assurance Company of Canada and Sun Life Assurance Company of Canada (U.S.) (collectively "Sun Life defendants") are not incorporated in the State of Ohio, and they do not have their principal places of business within Ohio. The amount in controversy exceeds $75,000. Based upon these facts, the Court had diversity jurisdiction pursuant to 28 U.S.C. § 1332 and removal was appropriate under 28 U.S.C. § 1441.

Defendants argued that the jurisdictional provisions in the Liquidation Act did not fall within the reverse preemption principles of the McCarran-Ferguson Act because these provisions are not related to the regulation of the insurance industry and they are not an integral part of the relationship between insurer and insured. Defendants contended that the McCarran-Ferguson Act should not apply because federal court jurisdiction of the case would not invalidate, impair, or supersede the purposes of the Liquidation Act.

Judge Holschuh granted Liquidator's motion to remand. The Court ruled that, by virtue of the McCarran-Ferguson Act, the statutory authority governing the removal of the action, 28 U.S.C. § § 1332 and 1441, was reverse preempted by the Liquidation Act, Ohio Rev.Code § § 3903.01 to 3903.59.

Section 2(b) of the McCarran-Ferguson Act provides in relevant part:

> No Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any State for the purpose of regulating the business of insurance ... unless such Act specifically relates to the business of insurance.

15 U.S.C. § 1012(b). Congress enacted the McCarran-Ferguson Act for the specific purpose of consigning to the States broad and primary responsibility for regulating the insurance industry. *See SEC v. National Securities, Inc.* 393 U.S. 453, 458 (1969).

The McCarran-Ferguson Act permits a state law to reverse preempt a federal statute if: (1) the federal statute does not specifically relate to the "business of insurance"; (2) the state law was enacted for the "purpose of regulating the business of insurance"; and (3) the federal statute operates to "invalidate, impair, or supersede" the state law. *See Munich Am. Reinsurance Co. v. Crawford*, 141 F.3d 585, 590 (5th Cir.), *cert. denied*, 525 U.S. 1016 (1998).

The Court found that Ohio's Liquidation Act was enacted for the purpose of regulating the business of insurance. Even considering the Act's jurisdictional provisions, § 3903.04(E) [FN4] and § 3903.28(G), [FN5] apart from the Act as a whole, the Court concluded that § § 3903.04(E) and 3903.28(G) are laws enacted for the purpose of regulating the business of insurance because they indispensably serve the purpose of the Act. The Court observed:

FN4. Section 3903.04(E) provides, "All actions authorized in sections 3903.01 to 3903.59 of the Revised Code shall be brought in the court of common pleas of Franklin county."

FN5. Section 3903.28(G) provides, "The

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615

> Franklin county court of common pleas has exclusive jurisdiction of any proceeding by the liquidator to hear and determine the rights of any parties under this section."

*4 By vesting exclusive jurisdiction over all claims relating to insolvent insurance companies in the Franklin County Court of Common Pleas, the State of Ohio aims to protect the relationship between insurer and insured (1) by eliminating the risk of conflicting rulings, piecemeal litigation of claims, and unequal treatment of claimants, all of which are of particular interest to insurance companies and policyholders, who are often relying on policies with the same or similar provisions, (2) by assuring both the insurance company and its policyholders that the insurance company will be liquidated in an organized fashion, and (3) by preventing the unnecessary and wasteful dissipation of the insolvent insurance company's funds that would occur if the Liquidator had to litigate unconnected suits in different forums across the country.

Covington v. Sun Life of Canada (U.S.) Holdings, Inc., et al., No. C-2-00- 069, pp. 19-20 (S.D.Ohio May 17, 2000)(footnotes and citations omitted).

The Court also found that the federal statutory authority governing the action--the removal and diversity jurisdiction statutes, 28 U.S.C. § § 1332, 1441--operated to "invalidate, impair, or supersede" Ohio's Liquidation Act. The federal statutes did so by placing jurisdiction in federal courts when the Liquidation Act places jurisdiction in only the Franklin County Court of Common Pleas. Therefore, ruled the Court, the Liquidation Act reverse preempts § § 1332 and 1441 by virtue of the McCarran-Ferguson Act, *Id.* at pp. 21-25.

B. United of Omaha's Complaint in Interpleader

Liquidator argues for dismissal based on a straightforward application of Judge Holschuh's decision in *Covington*. Liquidator contends that the Liquidation Act, and its several provisions, reverse preempt 28 U.S.C. § § 1332 and 1335 by virtue of the McCarran-Ferguson Act. As such, the Court lacks jurisdiction over the matter.

United of Omaha makes two basic arguments against dismissal. First, it maintains that the jurisdictional provisions of the Liquidation Act, considered separately, are unrelated to the purpose of regulating the business of insurance. However, *Covington* clearly held otherwise and this argument merits no further discussion.

Second, United of Omaha distinguishes this case from *Covington* on the basis that this case involves an interpleader. United of Omaha appears to argue that a state cannot establish immunity from suit against equitable relief. Because an interpleader is an "equitable proceeding," *see* Metropolitan Life Insurance Co. v. Marsh, 119 F.3d 415, 418 (6th Cir.1997), and because Liquidator is also a state official (Superintendent of Insurance), United of Omaha argues that Ohio cannot, through § 3903.24(A) of the Liquidation Act, immunize Liquidator from an interpleader.

United of Omaha's argument is creative at best and confusing at worst. United of Omaha seems to suggest applying Eleventh Amendment immunity doctrine to the case at hand. United of Omaha is correct that is some instances state officials lose their Eleventh Amendment immunity from suit. *See* Hess v. Port Authority Trans-Hudson Corp., 513 U.S. 30, 51 (1994). But this does not address whether state officials may be immune by operation of some other law. More importantly, the argument does not address the fact that Congress, through the McCarran-Ferguson Act, put the regulation of the insurance business into the hands of the states. Ohio has responded with the Liquidation Act, which immunizes liquidators from suit in all courts but the Franklin County Court of Common Pleas.

*5 What remains to be determined is whether § 1335, the federal interpleader statute, operates to "invalidate, impair, or supersede" the Liquidation Act. *See* Munich Am. Reinsurance Co. v. Crawford, 141 F.3d 585, 590 (5th Cir.), *cert. denied*, 525 U.S. 1016 (1998). If so, the Liquidation Act reverse preempts § 1335. The Court in *Covington* found that § § 1332 and 1441 operated to "invalidate, impair, or supersede" Ohio's Liquidation Act because they place jurisdiction in federal courts when the Liquidation Act places jurisdiction in only the Franklin County Court of Common Pleas.

There is no reasoned basis to depart from *Covington*. United of Omaha seeks to invoke § 1335 in order to give this Court jurisdiction to decide the ownership of certain annuities to which Liquidator makes a claims. (Compl. in Interpleader, ¶ 16). Entitlement to these funds is governed by Ohio Revised Code § § 3903.26,.28. Section 3903.04(E) clearly places jurisdiction over such matters in the Franklin County Court of Common Pleas.

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616

For the Court to use § 1335 to decide this matter would be to "impair" Ohio's Liquidation Act. The Act provides an efficient and equitable process to collect and distribute assets of insolvent insurers. It does so by consolidating all of the assets and claims into a single forum, the Franklin County Court of Common Pleas. A ruling by the Court on this matter could be inconsistent with the determinations of the Court of Common Pleas and would thereby impair the purpose of the Liquidation Act.

Accordingly, this Court is without subject matter jurisdiction under the reverse preemption doctrine of the McCarran-Ferguson Act.

III. Conclusion

For the reasons stated above, the Court GRANTS Liquidator's March 29, 2000 motion to dismiss.

The Clerk of Court is DIRECTED to enter JUDGMENT for defendants. This action is hereby DISMISSED.

Not Reported in F.Supp.2d, 2001 WL 102670 (S.D.Ohio)

Motions, Pleadings and Filings (Back to top)

2:00CV00158 (Docket)
(Feb. 15, 2000)

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617

EXHIBIT 11

LEXSEE

In Re: FMI FORWARDING CO., INC., Debtor. OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF FMI FORWARDING CO., INC., Appellant, - against- UNION TRANSPORT CORP., ICLEARIT. COM, LLC, EAST END TRANSPORT CONSULTANTS, LLC, ROBERT MANN, HOWARD MANN, MARCUS & COMPANY, LLC, and FREIDMAN, KAPLAN & SEILER, LLP, Defendants.

00 B. 41815 (CB), 01 Civ. 9462 (DAB) / Adv. Proc. 01-02992 (CB)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2004 U.S. Dist. LEXIS 10941

June 10, 2004, Decided
June 16, 2004, Filed

SUBSEQUENT HISTORY: Adversary proceeding at, Motion denied by Official Comm. of Unsecured Creditors of FMI Forwarding Co. v. Union Transp. Corp. (In re FMI Forwarding Co.), 2005 U.S. Dist. LEXIS 941 (S.D.N.Y., Jan. 21, 2005)

DISPOSITION: [*1] Defendant Marcus & Company's motion to withdraw reference of plaintiff's malpractice claim and UTi's cross-claim against it from bankruptcy court granted.

LexisNexis(R) Headnotes

COUNSEL: For Friedman, Kaplan & Seiler, L.L.P., Appellant: Janice DiGennaro, Rivkin, Radler & Kremer, Uniondale, NY.

For Official Committee Of Unsecured Creditors Of FMI Forwarding Co., Inc., Appellee: Bruce J. Zabarauskas, Meltzer, Lippe, Goldstein & Schlissel, P.C., Mineola, NY.

For Union Transport, Corp., Appellee: August C. Venturini, Venturini & Associates, New York, NY.

For Iclearit.com, L.L.C., Appellee: Michael McAuliffe, Garden City, NY.

For East End Transport Consultants, L.L.C., Robert Mann, Howard Mann, Appellees: Richard E. Haftel, Modlin Haftel & Nathan, L.L.P., New York, NY.

For Marcus & Company, L.L.C., Appellee: Peter J. Larkin, Wilson Elser Moskowitz Edelman & Dicker, New York, NY.

JUDGES: Deborah A. Batts, United States District Judge.

OPINIONBY: Deborah A. Batts

OPINION:

MEMORANDUM AND ORDER

DEBORAH A. BATTS, United States District Judge.

Plaintiff commenced an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York, Adversary Proceeding No. 01-2992 (Blackshear, [*2] B.J.), alleging various fraudulent conveyance, breach of fiduciary duty, successor and alter-ego liability, and professional malpractice claims against the above-named Defendants. In addition, Defendant Union Transport Corporation ("UTi") brought a series of cross-claims against Defendants Robert & Howard Mann, East End Transport Consultants, LLC, iClearit.com, LLC, and Marcus & Company, LLC ("Marcus"). Presently before this Court is Marcus' motion to withdraw the reference of Plaintiff's professional malpractice claim and UTi's professional malpractice/indemnification cross-claim against it from the Bankruptcy Court pursuant to 28 U.S.C. § 157(d). For the reasons stated below, Marcus' motion is GRANTED.

I. BACKGROUND

619

The causes of action at issue here arose from the sale of the assets of FMI Forwarding Co., Inc. ("FMI"), a corporation engaged in the custom brokerage and freight forwarding business, to UTi on January 3, 2000 for $ 2 million. (Complaint in Adv. Proc. No. 01-2992 ["Compl."] PP17, 23). Pursuant to the asset sale, UTi assumed full control of FMI's business operations, utilizing FMI's premises and employing substantially all of FMI's existing [*3] employees. (Id. P17).

The sale was consummated pursuant to an Asset Purchase Agreement executed by FMI and UTi on December 23, 1999. (Compl. P21). The Agreement specified that the sale price of FMI's assets could not exceed $ 2 million. (Id.) However, Plaintiff alleges that UTi's parent company, UTI Worldwide, Inc., stated in a prospectus for a public offering of its stock that the cost of the FMI asset sale was estimated at $ 4.6 million. (Id. P26.). Plaintiff also alleges that, at the time of the asset sale, FMI was in fact insolvent, that no funds from the proceeds of the sale were set aside to make payments to any of FMI's general unsecured creditors, nor were these creditors even notified of the sale prior to its closing. (Id. P22, 28-29).

On December 21, 1999, FMI retained Defendant Marcus to perform a valuation to establish an estimate of the fair market value of the assets to be sold to UTi pursuant to the Asset Purchase Agreement. (Compl. P121). This valuation was in turned relied upon by FMI in determining whether to close on the Asset Sale to UTi. (Id. P125). Marcus allegedly performed the valuation in six days, issuing a valuation for FMI which stated [*4] that the aggregate value of the assets to be acquired by UTi was $ 1,554,555. (Id. PP123-124).

On July 24, 2000, facing $ 4,640,000 in outstanding liabilities owed to over 600 creditors while possessing only $ 1,175,000 in assets, FMI filed a voluntary Chapter 11 petition for bankruptcy in the United States Bankruptcy Court for the Southern District of New York, 00-B-41815 (Blackshear, B.J.). (Compl. PP15, 19). On February 8, 2001, United States Bankruptcy Judge Cornelius Blackshear issued an order authorizing Plaintiff, the duly appointed official committee of FMI's unsecured creditors, to bring certain causes of action belonging to the Debtor's (FMI's) estate and creditors against Union Transport and insiders and affiliates of FMI. (Id. PP4-5; see also Exhibit Book in Support of Plaintiff's Objection and Incorporated Memorandum of Law to Marcus & Company, LLC's Motion to Withdraw the Reference ["Pl. Ex. Book"], Ex. A [Stipulation and Order in Bankruptcy Case No. 00-B-41815 (CB), dated February 8, 2001] at 3). Plaintiff's authority to bring such claims was subsequently extended in June 2001 to include claims against Defendants Friedman, Kaplan & Seiler, LLP and Marcus. [*5] (Pl. Ex. Book, Ex. B [Stipulation and Order in Bankruptcy Case No. 00-B-41815 (CB), dated June 6, 2001] at 2).

Thereafter, on July 27, 2001, Plaintiff commenced the present adversary proceeding before Judge Blackshear, alleging, among other things, that the sale of FMI's assets to UTi was a fraudulent conveyance and seeking to recover the true value of the sold assets. (Compl. PP3(i), 57, 64, 70). In addition, Plaintiff brought a professional malpractice claim against Marcus, alleging that Marcus had negligently completed its valuation of FMI's assets by greatly undervaluing the assets, and that this inaccurate valuation influenced FMI's decision to close the sale of its assets to Union Transport at a price far below their actual value. (Id. PP125, 130-134). Plaintiff seeks a minimum of $ 4,600,000 in damages from Marcus, which is Plaintiff's approximation of the supposedly true value of the assets sold to UTi. (Id. P134).

On October 2, 2001, Marcus filed in the Bankruptcy Court a motion to dismiss Plaintiff's malpractice claim against it and a motion to withdraw the reference to the Bankruptcy Court of such claim so that the claim could be adjudicated in the United States [*6] District Court. Similarly, on October 16, 2001, Freidman & Kaplan moved to dismiss and to withdraw the reference of Plaintiff's two claims against it. The two withdrawal motions were then both included in the above-captioned civil action filed in this Court on October 29, 2001. However, Plaintiff subsequently settled its claims against Freidman & Kaplan (see Order Approving Compromise and Settlement, in Adv Proc. 01-02992 (CB) (Bankr.S.D.N.Y. Jan. 30, 2002). Marcus's motion to withdraw is therefore the sole motion before the Court.

On October 19, 2001, after Marcus had already filed its original motion to withdraw, UTi served its Amended Answer and Cross-Claims, alleging that Marcus, by negligently preparing the FMI asset valuation that it knew UTi would rely on in choosing to complete the FMI asset purchase, exposed UTi to potential fraudulent conveyance liability and, as such, must therefore indemnify UTi for any damages exceeding $ 2 million that UTi is ordered to pay to Plaintiff. (UTi's Amended Answer and Cross Claims at 28-29).

Judge Blackshear denied Marcus' motion to dismiss on January 3, 2002, after which Marcus filed an Answer and Demand for Jury Trial on January 10, 2002. On [*7] June 26, 2002, Marcus filed its reply to UTi's claims, denying the allegations therein and demanding a jury trial with respect to the cross-claim. (Marcus & Company's Reply to Union Transport's Amended Answer & Cross-Claims at 16).

On February 18, 2004, Marcus requested and was granted permission to amend its motion to withdraw to include UTi's cross claim against it. (See Memo-

Endorsement dated February 27, 2004). Accordingly, the Court will now consider Marcus' motion to withdraw from the Bankruptcy Court both Plaintiff's claim and UTI's cross-claim against it.

II. DISCUSSION

Under 28 U.S.C. § 157(d), a "district court may withdraw, in whole or in part, any case or proceeding referred [to the bankruptcy court] under this section, on its own motion or on timely motion of any party, for cause shown." 28 U.S.C. § 157(d). While section 157(d) itself does not define "for cause," the Second Circuit has set forth several factors to consider in evaluating whether there is cause to withdraw a reference to the bankruptcy court: (1) whether the claim or proceeding is core or non-core; (2) whether it is legal or equitable; (3) and considerations [*8] of efficiency, forum shopping, and uniformity of the administration of bankruptcy law. In re Orion Pictures Corp., 4 F.3d 1095, 1101 (2d Cir. 1993); In re Burger Boys, Inc., 94 F.3d 755, 762 (2d Cir. 1996) (same).

A district court considering a motion to withdraw "should first evaluate whether the claim is core or non-core, since it is upon this issue that questions of efficiency and uniformity will turn." Id. For example, "non-core proceedings are subject to de novo review [by the district court], see 28 U.S.C. § 157(c)(1), and, hence, withdrawing the reference for these matters may be an efficient procedure to avoid unneeded duplication of judicial effort." Cohen v. National Union Fire Ins. Co. (In re County Seat Stores), 2002 U.S. Dist. LEXIS 1555, 01 Civ. 2966, 2002 WL 141875, *4 (S.D.N.Y. Jan. 31, 2002) (citing Orion). "These considerations are generally absent in the case of core proceedings, which Bankruptcy Courts can adjudicate to final binding judgment, and which often involve matters within a bankruptcy court's particular expertise." Id. (citing Orion). "Thus, once a district court makes the core/non-core determination, it should weigh [*9] questions of efficient use of judicial resources, delay and costs to the parties, uniformity of bankruptcy administration, the prevention of forum shopping, and other related factors." Orion, 4 F.3d at 1101.

Moreover, "the core/non-core evaluation also determines the relevance of the parties' jury trial rights to deciding a motion to withdraw the reference." Orion, 4 F.3d at 1101. Because the Second Circuit has definitively held that the "Constitution prohibits bankruptcy courts from holding jury trials in non-core matters," Id., n1 a finding that Plaintiff's malpractice claim against Marcus, for which Marcus has reserved its right to a jury trial, is non-core could create sufficient cause for withdrawing the reference of the claim to the bankruptcy court. See id. ("If a case is non-core and a jury demand has been filed, a district court might find that the inability of the bankruptcy court to hold the trial constitutes cause to withdraw the reference."); In re CIS Corp., 172 B.R. 748, 755 (S.D.N.Y. 1994) ("The fact that an adversary proceeding concerns non-core matters for which the right to jury trial is available is sufficient [*10] cause for discretionary withdrawal of reference under § 157(d)."") (citing Orion).

n1 Because all bankruptcy court rulings in non-core proceedings are reviewable, under 28 U.S.C. § 157(c), by a district court, a jury verdict in a bankruptcy court trial of a non-core action would be reviewed by a district court, which would run afoul of the Reexamination Clause of the Seventh Amendment. Orion, 4 F.3d at 1101.

A. Core/Non-Core Determination

The origin of the core/non-core distinction is Northern Pipeline Construction Co. v. Marathon Pipe Line Co., 458 U.S. 50, 73 L. Ed. 2d 598, 102 S. Ct. 2858 (1982). In response to the Marathon ruling, as part of the 1984 revisions to the Bankruptcy Code, Congress enacted 28 U.S.C. § 157, which distinguishes between a "core" proceeding, which the bankruptcy courts may "hear and determine" and for which they "may enter appropriate orders and judgments," 28 U.S.C. § 157(b)(1), and [*11] a "non-core" proceeding "otherwise related" to a bankruptcy case, in which bankruptcy courts may only issue "proposed findings of fact and conclusions of law" to the district court, which has exclusive authority to issue final orders and judgments, unless the parties to such proceeding consent to the bankruptcy court's adjudicating the dispute. 28 U.S.C. § 157(c)(1)-(2).

Section 157(b)(2) sets forth a non-exhaustive list of categories of core proceedings, which includes "(A) matters concerning the administration of the estate," and "(H) proceedings to determine, avoid, or recover fraudulent conveyances. . ." 28 U.S.C. § 157(b)(2). More generally, the courts of this Circuit have emphasized that core proceedings must "invoke a substantive right" created by federal bankruptcy law and that they would not exist outside of a bankruptcy case. Weschler v. Squadron, Ellenoff, Plesent & Sheinfeld, LLP, 201 B.R. 635, 639 (S.D.N.Y. 1996) (finding that Chapter 11 trustee's malpractice, breach of fiduciary duty and breach of contract claims against law firm that represented debtor in the course of allegedly fraudulent business activity [*12] were not core proceedings) (citation omitted); In re Burger Boys, Inc., 183 B.R. 682, 685 (S.D.N.Y. 1994); In re New York Int'l Hostel, Inc., 157 B.R. 748, 752 (S.D.N.Y. 1993).

Importantly, however, 28 U.S.C. § 157(b)(3) specifies that "[a] determination that a proceeding is not a core proceeding shall not be made solely on the basis that its resolution may be affected by State law," a view confirmed by the Second Circuit. See In re Ben Cooper, Inc., 896 F.2d 1394 1399 (2d. Cir. 1990) (reading § 157(b)(3) "as a demonstration of Congress' intent that bankruptcy courts are not precluded from adjudicating state-law claims when such claims are at the heart of the administration of the bankrupt estate."); In re Manville Forest Products Corp., 896 F.2d 1384, 1389 (2d. Cir. 1990) ("the mere fact that [plaintiff's] claim raises issues of state law does not preclude a holding that the adversary proceeding is core") (citing Ben Cooper). Moreover, the Second Circuit has emphasized that "'core proceedings' should be given a broad interpretation that is close to or congruent with constitutional [*13] limits as set forth in Marathon, and that Marathon is to be construed narrowly." United States Lines, Inc. v. American Steamship Owners Mutual Protection and Indemnity Assoc., Inc., 197 F.3d 631, 636-37 (2d Cir. 1999) (internal quotations omitted); Resolution Trust Corp. v. Best Products Co., Inc., 68 F.3d 26, 31 (2d Cir. 1995) (noting that sponsors of the 1984 Bankruptcy Code revisions "repeatedly said that 95 percent of the proceedings brought before the bankruptcy judges would be core proceedings.").

Plaintiff's and UTi's claims against Marcus are nothing more than state-law professional malpractice causes of action arising out of Marcus' business valuation services performed prior to and independent of FMI's petition for bankruptcy, and the parties do not dispute that such claims do not fit within any of the categories of core proceedings listed in 28 U.S.C. § 157(b)(2). Moreover, while the fact they are state law claims does not automatically render them non-core, FMI, on whose behalf Plaintiff brings the malpractice claim against Marcus (see Pl. Ex. Book., Ex. B at 2; Compl. PP134-135), and UTi could have brought [*14] their malpractice claims in state court even if FMI had never entered Chapter 11 bankruptcy proceedings. Thus, Plaintiff's and UTi's malpractice claims against Marcus are "precisely the sort of case which the Supreme Court in Marathon held must be decided by an Article III court rather than a bankruptcy court." Interconnect Telephone Serv. v. Farren, 59 B.R. 397, 400 (S.D.N.Y. 1986). Indeed, courts in this Circuit have consistently found professional malpractice claims arising out of pre-petition misconduct to be non-core. See Wechsler, 201 B.R. at 639-40 (holding that malpractice, breach of fiduciary duty and breach of contract claims against debtor's law firm arising out of pre-bankruptcy petition legal work were non-core); In re Green, 200 B.R. 296, 298-99 (S.D.N.Y. 1996) (bankruptcy debtor's third-party malpractice claims against law firm that provided legal advice for pre-petition real estate transaction at issue in adversary proceeding in bankruptcy court were non-core); In re Luis Electrical Contracting Corp., 100 B.R. 155, 156 (E.D.N.Y. 1989) (bankruptcy trustee's malpractice claims against debtor's accountants [*15] for alleged pre-petition misconduct were non-core).

Plaintiff argues that its malpractice claim against Marcus should nevertheless be treated as a core proceeding because it is "inextricably intertwined" with Plaintiff's fraudulent conveyance claims, which are undeniably core proceedings under 28 U.S.C. § 157(b)(2). (Objection and Incorporated Memorandum of Law of the Official Committee of Unsecured Creditors of FMI Forwarding Co., Inc. to Defendant Marcus & Company, LLC's Motion to Withdraw the Reference of the Adversary Proceeding ["Pl. Mem."] at 19-22). n2 In particular, Plaintiff points to the fact that the malpractice claim against Marcus "arises out of the same common nucleus of operative facts and the same transaction as most of the fraudulent conveyance claims," namely the Union Transport asset purchase, and argues the "crux" of the malpractice claim is that Marcus' malpractice allowed the fraudulent conveyance to take place by satisfying a precondition to the closing of the sale. (Id. at 21). Thus, Plaintiff concludes, it "would not even have a claim against Marcus had the Sale not been a fraudulent conveyance." (Id.). In addition, Plaintiff [*16] argues that because core claims predominate in the present adversary proceeding, the Court has the authority to treat the entire proceeding as core. (Id. at 23-24).

n2 Neither Plaintiff nor UTi has objected to the withdrawal of UTi's cross-claim against Marcus from the Bankruptcy Court. See Plaintiff's Objections to Marcus' Amended Withdrawal Motion P8 ("Since the Creditors' Committee is not a party to the Union Transport Cross-Claim, the Creditors Committee takes no position with respect to Marcus' request that the reference be withdrawn with respect to such cross-claim."); Memorandum of Law of Defendant Union Transport Corp. In Support of Motion of Withdrawal of the Reference of the Adversary Proceeding for Cause, filed in the related case 04 Civ. 630 (DAB), at 6-7 (arguing that UTi's cross-claim against Marcus is non-core and should be withdrawn from the Bankruptcy Court).

Plaintiff's arguments are unavailing for several reasons. First, three of the cases Plaintiff cites in support of its "inextricably [*17] intertwined" argument are a Ninth Circuit decision, a Ninth Circuit Bankruptcy Appeal Panel decision, and a United States Bankruptcy Court decision from the District of Vermont, and are not bind-

ing authority on this Court. Further, several of these cases and the Second Circuit case cited by Plaintiff are factually distinguishable from the present adversary proceeding in important ways. For instance, unlike the state law claims at issue in In re Harris Pine Mills, 44 F.3d 1431 (9th Cir. 1995), Plaintiff's malpractice claim against Marcus did not arise from the bankruptcy trustee's post-petition sale of bankruptcy estate property. Similarly, the state law malicious prosecution claim in Honigman, Miller, Schwartz & Cohn v. Weitzman., 155 B.R. 521 (9th Cir. BAP 1993), was deemed inextricably linked to a core fraudulent conveyance action because the claim was brought against the bankruptcy trustee's attorney for conduct in prosecuting a post-petition fraudulent conveyance action in bankruptcy court. Finally, the state law cause of action inextricably linked to the core proceeding in In re Lionel Corp., 29 F.3d 88 (2d Cir. 1994), also arose after debtor had filed [*18] its bankruptcy petition. Thus, in the Court's view, none of the cases Plaintiff cites stand for the proposition that a cause of action arising before and completely independent of the filing of a bankruptcy petition is inextricably intertwined with core bankruptcy proceedings, and thus none of these cases support classifying the malpractice claim against Marcus as core. n3

n3 On the other hand, the Court is aware of at least one decision by a court in this Circuit, In re Environmental Research & Dev., Inc., 46 B.R. 774 (S.D.N.Y. 1985), in which the Court used the "inextricably intertwined" analysis to find that malpractice claims against debtor's law firm for the work it did in conjunction with a fraudulent transfer of debtor's assets were within the district court's "related case" subject matter jurisdiction under 28 U.S.C. § 1334, which encompasses both core and non-core claims. Id. at 779-80. However, the Court was silent as to whether the malpractice claim was core, and in a bench ruling earlier in the case, the Court granted defendants' motion to withdraw the reference of the malpractice claim from the bankruptcy court, id. at 776, suggesting that the Court viewed the malpractice claim as non-core.

[*19]

Similarly, Plaintiff cites no binding authority to support its "predominance of core claims" argument; n4 and, in fact, the "predominance" approach itself has been called into question by a great many federal courts. See, e.g., Glinka v. Abraham & Rose Co., 1994 U.S. Dist. LEXIS 21328, No. 93 Civ. 291, 1994 WL 905714, *10 (D. Vt. June 6, 1994); Nationwide Roofing and Sheet Metal, Inc. v. Cincinnati Ins. Co., 130 B.R. 768, 776 (Bankr. S.D. Ohio 1991); Halper v. Halper, 164 F.3d 830 (3d Cir. 1999); In re Cinematronics, Inc., 111 B.R. 892, 901 (Bankr. S.D. Cal. 1990).

n4 Plaintiff cites cases from the bankruptcy courts of the Middle District of Florida, the Southern District of California, the District of Vermont, and the Southern District of Ohio.

Accordingly, the Court finds that Plaintiffs and UTi's malpractice claims against Marcus are not core proceedings under 28 U.S.C. § 157(b). n5

n5 Plaintiff also argues that 28 U.S.C. § 157(b)(3), which states that "the bankruptcy judge shall determine. . . whether a proceeding is a core proceeding. . .or otherwise related. . ." (emphasis added), precludes this Court from ruling on the withdrawal motion unless and until the bankruptcy court determines whether the malpractice claim is core or non-core. (Pl. Mem. at 14). However, the courts of this Circuit have ruled time and again that, in the context of a withdrawal motion, the district court ruling on such motion does not have to wait for the bankruptcy court to determine whether the claims at issue are core or non-core. See 176-60 Union Turnpike, Inc. v. Howard Beach Fitness Center, Inc., 209 B.R. 307 (S.D.N.Y. 1997) ("rejecting [defendant's] argument that the bankruptcy court alone decides whether a proceeding is 'core' or 'non-core.'"); In re CIS Corp., 172 B.R at 755 ("Nothing in [§ 157(b)(3)] vests that power exclusively in the bankruptcy court."); Interconnect Telephone Serv., 59 B.R. at 401 n.2 (emphasizing that § 157(b)(3) "says nothing of the district court's ability to classify a proceeding where the bankruptcy court has not already done so.").

[*20]

B. Additional Considerations

While the non-core nature of Plaintiff and UTi's malpractice claims against Marcus weighs in favor of withdrawing the reference of both claims from the Bankruptcy Court, the non-core determination does not end the inquiry. As the Second Circuit directed in Orion, "once a district court makes the core/non-core determination, it should weigh questions of efficient use of judicial resources, delay and costs to the parties, uniformity of bankruptcy administration, the prevention of forum shopping, and other related factors." 4 F.3d at 1101. In-

deed, courts in this Circuit have consistently refused to withdraw a bankruptcy reference for non-core proceedings when the above-mentioned factors weigh against doing so. See, e.g., Enron Power Mktg. v. City of Santa Clara (In re Enron Power Mktg.), 2003 U.S. Dist. LEXIS 189, No. 01 Civ. 7964, 2003 WL 68036, at *11 (S.D.N.Y. Jan. 8, 2003) (refusing to withdraw reference for non-core proceeding where, given the preliminary stage of the litigation, the possibility of resolution by dispositive motion, the extensive pending discovery, and the bankruptcy court's familiarity with the issues involved in the action, keeping the case in the bankruptcy [*21] court for pre-trial supervision would promote judicial economy); In re Times Circle East, Inc., 1995 U.S. Dist. LEXIS 11642, No. 95 Civ. 2858, 1995 WL 489551, at *3 (S.D.N.Y. Aug. 15, 1995) (Citing judicial economy, uniform administration of bankruptcy laws and prevention of forum shopping as reasons for denying motion to withdraw); In re Kenai Corp., 136 B.R. 59, 61-62 (S.D.N.Y. 1992) (denying motion to withdraw reference of non-core proceeding still in its preliminary stages where "the interests of judicial economy and sound judicial administration militated in favor of denying defendants motion to withdraw" and defendants had failed to show how denial of motion to withdraw would prejudice them). Thus, this Court shall consider the additional Orion factors in order to determine whether withdrawal of the reference is proper.

First, withdrawing the reference at this stage in the adversary proceeding will further rather than undermine judicial economy. Because the malpractice claim against Marcus is a non-core proceeding, the bankruptcy court cannot adjudicate it but may only issue proposed findings of fact and conclusions of law, which would then have to be reviewed de [*22] novo by this Court, which has the sole authority to adjudicate non-core claims. See 28 U.S.C. § 157(c)(1). However, transferring the malpractice action against Marcus to this Court would allow for the claim to be adjudicated and disposed of in one proceeding, thereby saving judicial and party time and resources. See Orion, 4 F.3d at 1101. Meanwhile, the fact that the bankruptcy court would be better able than this Court to oversee discovery and other pre-trial activities, cited by Plaintiff and several of the courts in the above-cited cases as a rationale for opposing withdrawal, (Pl. Mem. at 8-14); In re Enron, supra 2003 U.S. Dist. LEXIS 189 at *11; In re Times Circle, supra 1995 U.S. Dist. LEXIS 11642 at 3, is no longer a relevant consideration at this stage of the present adversary proceeding where, as Plaintiff freely admitted at the parties most recent appearance before Judge Blackshear, "there is very little discovery left, and this case is on the eve of trial." (Transcript of February 11, 2004 Hearing in Adv. Proc. No. 01-02992 (CB) (Bankr. S.D.N.Y. 2001) at 8).

As for other Orion factors, adjudicating the malpractice claim against Marcus in this Court while [*23] Plaintiff litigates the rest of its claims against the other Defendants in the Adversary Proceeding in bankruptcy court will not disrupt administration of the bankruptcy because, as discussed above, this malpractice claim is not brought under bankruptcy law and arose prior to and independent of FMI's bankruptcy, and does not otherwise concern administration of the bankruptcy estate. Moreover, withdrawing the reference does not promote forum-shopping because, since Marcus has a right to a jury trial on the claim, absent consent by Marcus to a trial in bankruptcy court, the parties have no choice but to try the case in this Court. Thus, the Court sees no reason not to withdraw the reference of the malpractice claim against Marcus from the bankruptcy court.

III. CONCLUSION

For the reasons stated above, Defendant Marcus & Company's motion to withdraw the reference of Plaintiff's malpractice claim and UTi's cross-claim against it from the bankruptcy court is GRANTED. Accordingly, the reference of Adversary Proceeding 01-A-2992 is hereby withdrawn with respect to Plaintiff's cause of action and UTi's counter-claim against Marcus & Company.

SO ORDERED

DATED: New York, New York [*24]

June 10, 2004

Deborah A. Batts

United States District Judge

1320

EXHIBIT 12

625

LEXSEE

GREGORY SERIO, Superintendent of Insurance of the State of New York, as Rehabilitator of FRONTIER INSURANCE COMPANY, Plaintiff, -against- BLACK, DAVIS & SHUE AGENCY, INC., Defendant.

05 Civ. 15 (MHD)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2005 U.S. Dist. LEXIS 23392

October 11, 2005, Decided
October 11, 2005, Filed

DISPOSITION: [*1] Plaintiff's motion to stay the adjudication in this case of defendant's counterclaims granted.

LexisNexis(R) Headnotes

COUNSEL: For Gregory V. Serio, Superintendent of Insurance of the State of New York, as Rehabilitator of Frontier Insurance Company, Plaintiff: William S. Gyves, Entwistle & Cappucci LLP, Florham Park, NJ.

For Black, Davis & Shue Agency, Inc., Counter Claimant: John Edward Lawlor, John E. Lawlor, Esq, Mineola, NY.

For Gregory V. Serio, Superintendent of Insurance of the State of New York, as Rehabilitator of Frontier Insurance Company, Counter Defendant: Michael Anthony McDonough, Entwistle & Cappucci LLP, Florham Park, NJ.

For Black, Davis and Shue Agency, Inc., ThirdParty Plaintiff: John Edward Lawlor, John E. Lawlor, Esq, Mineola, NY.

JUDGES: MICHAEL H. DOLINGER, UNITED STATES MAGISTRATE JUDGE.

OPINIONBY: MICHAEL H. DOLINGER

OPINION:

MEMORANDUM & ORDER

MICHAEL H. DOLINGER
UNITED STATES MAGISTRATE JUDGE:

The Insurance Superintendent of the State of New York commenced this lawsuit earlier this year in his capacity as the court-appointed rehabilitator of Frontier Insurance Company. n1 He seeks by this litigation to recover premiums allegedly owed to Frontier by defendant Black Davis [*2] and Shue Agency ("BDS") under a brokerage contract that authorized BDS to place certain types of insurance with Frontier and required BDS to collect and transmit premiums to the carrier.

n1 When this suit was filed, Gregory V. Serio was the Insurance Superintendent. He subsequently left office and was succeeded as acting Superintendent by Howard Mills, who thereby succeeded to the status of plaintiff in this case. See Fed. R. Civ. P. 25(d)(1).

BDS in turn has filed a series of counterclaims against plaintiff, on the basis of which it asserts that Frontier owes it substantial sums of money based on a variety of legal theories. The counterclaims include claims of negligence, breach of contract, breach of fiduciary duty, unjust enrichment and defamation. Among the claims asserted by BDS is a contention that Frontier owes it a sum of money representing commissions that it earned in the placement of the insurance in question.

The Superintendent has moved to stay the counterclaims [*3] of BDS based on the abstention principles recognized by the United States Supreme Court in Burford v. Sun Oil Co., 319 U.S. 315, 87 L. Ed. 1424, 63 S. Ct. 1098 (1943), and its progeny. Specifically, plaintiff contends that claims against Frontier -- which is now in a rehabilitation process before the New York State Supreme Court under the provisions of Article 74 of the New York Insurance Law -- should be heard exclusively in the state rehabilitation forum. In support of that argument, the Superintendent asserts that adjudication of those counterclaims in this court would interfere with the orderly Article 74 process for putting the affairs of the carrier in order. Alternatively, plaintiff seeks the dismissal of all of the non-contract counterclaims for failure to state a cognizable claim.

BDS opposes both aspects of plaintiff's motion. It contends that plaintiff has not satisfied the Burford criteria, and that to stay the counterclaims while permitting plaintiff to seek a recovery here against it would be fundamentally unfair and indeed would threaten BDS with financial ruination. It further argues that the counterclaims that it asserts against plaintiff are legally sufficient.

For the reasons [*4] that follow, we grant plaintiff's motion to stay the adjudication of defendant's counterclaims at this time in light of the showing by plaintiff as to the availability of an alternative, state-court forum. We therefore do not address the Rule 12(b)(6) arguments proffered by the parties. We further conclude, however, that any obligation by Frontier to pay withheld commissions to BDS constitutes a proper set-off in this litigation and may therefore be proven by BDS in calculating the amount owed by BDS to Frontier.

The Pertinent Facts

Frontier was initially incorporated in 1962 under the name P.T.F. Health Insurance Co. (Declaration of H. Neal Connolly, Esq., executed June 1, 2005, at P11). In 1977 its name was changed to Frontier, and it began to perform as an insurance carrier. (Id. at PP12, 14). Frontier's operations proved relatively profitable, and in 1986 it was acquired by the Frontier Insurance Group, Inc. (Id. at PP16-17).

Although Frontier's business expanded considerably through 1996, by the late 1990s its financial situation had deteriorated, and by the first quarter of 2000 it was operating at a loss of $ 13.6 million. (Id. at PP22, 24). With a net loss [*5] of more than $ 50 million in 2000, Frontier was examined by the New York Insurance Superintendent, who reported that, as of year-end 1999, Frontier was insolvent in the amount of $ 145,736,693, that its capital was impaired by $ 150,736,693, and that its required surplus of $ 6.7 million was impaired by $ 152,436,693. (Id. at P28). n2

n2 The Superintendent also determined that, for the same time period, Frontier had understated its liabilities by $ 267,181,000. (Id. at P29).

On March 1, 2001, the New York Insurance Department ordered Frontier to show cause why it should not be subjected to regulatory action, and on March 12 the company stipulated with the Department that its surplus was inadequate in relation to its liabilities and current financial needs. It further agreed not to write any new or renewal insurance policies until authorized by the Department. (Id. at PP31-32).

On August 24, 2001, the Superintendent commenced a rehabilitation proceeding in New York State Supreme Court, New York County [*6] under Article 74 of the New York Insurance Law. (Id. at P34). The court appointed the Superintendent as Frontier's temporary receiver. (Id. at P35 & Ex. A). On October 15, 2001 the court issued an order designed to govern the rehabilitation process. Under its terms, the court deemed Frontier to be insolvent and authorized the Superintendent

to immediately take possession of its property, conduct its business, including but not limited to settling claims within his sole discretion, take such steps toward the removal of the causes and conditions which

> made this proceeding necessary as he shall deem wise and expedient, and deal with the property and business of [Frontier] in its name or in the name of the Superintendent as Rehabilitator.

(Id., Ex. A at p. 2). The order also provided, under N.Y. Insur. Law § 7419(b), that "all persons are enjoined and restrained from commencing or prosecuting any actions, lawsuits, or proceedings against [Frontier] or the Superintendent as Rehabilitator". (Id., Ex. A at p. 3). As further protection, the court ordered that "all persons are enjoined and restrained from obtaining preferences, judgments, [*7] attachments or other liens or making any levy against [Frontier's] assets or any part thereof." (Id.).

The Superintendent authorized the filing of the current lawsuit in federal court this year as part of his effort to marshal the assets of the carrier. According to plaintiff, the decision to file in this forum was triggered by the expectation that Frontier's claims would be adjudicated more quickly and efficiently here than in state court, thus ensuring reasonably prompt and low-cost recovery of assets belonging to Frontier. (Id. at P47).

As for the state-court proceeding, the process of rehabilitation continues, and, according to the Administrator of Frontier, who was appointed by the Superintendent in 2002, it is still not clear whether the company will emerge from rehabilitation as a functioning carrier or will be required to go to liquidation. (Id. at PP2, 4. But see Sept. 30, 2005 letter to the Court from William D. Chapman, Esq., at annexed exhs.). The Administrator represents that plaintiff's application for a stay is intended to implement the injunction of the rehabilitation court and to ensure that, by enforcing the centralized claim-adjustment process [*8] prescribed by the Insurance Law, the Administrator will be able to minimize the costs of litigation, prevent BDS from obtaining an improper preference over creditors who have filed their claims in the rehabilitation court, and ensure uniformity of treatment of similarly-situated claimants. (Id. at PP3, 6-8, 52-53).

ANALYSIS

The underlying premise for the stay motion is the holding of the Supreme Court in Burford that federal courts have the discretion to abstain from deciding cases to "avoid interfering with state efforts to maintain a coherent policy in an area of comprehensive regulation or administration." American Disposal Servs., Inc. v. O'Brien, 839 F.2d 84, 87 (2d Cir. 1988). In Burford, the High Court held that the district court should not, "as a matter of sound equitable discretion", have exercised jurisdiction over a challenge to a state order permitting a party to drill oil wells on a specific piece of land, because the order was issued as part of a complex regulatory scheme that would be disrupted if the federal courts intervened on a piecemeal basis. 319 U.S. at 318. See Hartford Courant Co. v. Pellegrino, 380 F.3d 83, 102 (2d Cir. 2004). [*9] As the Second Circuit has observed, in the wake of Burford "the federal courts have abstained in numerous areas where state regulation involved matters of substantial state concern and where state policies were carried out in a statutorily established regulatory program by state officials." Levy v. Lewis, 635 F.2d 960, 963 (2d Cir. 1980) (citing cases).

The regulation of insurance has long been recognized as an appropriate area for detailed state regulation, as mandated by the McCarran-Ferguson Act, 15 U.S.C. § 1011 et seq. Moreover, the Second Circuit has repeatedly held that the New York regulatory framework for supervising the insurance industry and, most pertinently, for rehabilitating and liquidating failing insurance carriers is an administrative process meriting Burford abstention in appropriate circumstances. See, e.g., Corcoran v. Ardra Ins. Co., 842 F.2d 31, 36-37 (2d Cir. 1988); Law Enforcement Ins. Co. v. Corcoran, 807 F.2d 38, 43-44 (2d Cir. 1986); Levy, 635 F.2d at 963-65. Those circumstances are typically found to exist when a party seeks to assert a federal-court [*10] claim that would otherwise be dealt with in an ongoing rehabilitation or liquidation proceeding. See, e.g., Corcoran, 842 F.2d at 32-33, 36-37 (remanding removed action by Superintendent in the context of liquidation proceeding); Law Enforcement Ins. Co., 807 F.2d at 39-40, 43-44 (abstaining from federal-court challenge by dissatisfied claimant to Superintendent's disallowance of claim in liquidation proceeding); Levy, 635 F.2d at 961-62, 963-64 (abstaining from federal-court challenge to Superintendent's termination of retirement benefits of carrier's former employees in liquidation proceeding). Compare Alliance of American Insurers v. Cuomo, 854 F.2d 591, 599-601 (2d Cir. 1988) (rejecting abstention in case that involved challenge to state insurance statute but no interference with any ongoing rehabilitation or liquidation proceeding).

There is no question that to allow BDS to litigate affirmative claims against Frontier in federal court would pose a recognizable danger to the ongoing administrative process that is being supervised by the New York State Supreme Court, under which the Superintendent and his Administrator [*11] are charged with marshaling assets, paying or compromising claims, and otherwise overseeing the affairs of Frontier in an effort to either put it back on its financial feet or determine that rehabilitation is not feasible and that the company must be liquidated. Indeed, the need for uniformity of

treatment and centralization of the claims process is precisely the reason why the Insurance Law authorizes the state court to issue the type of injunction that was granted in the Frontier proceeding, and it explains why the state court exercised that authority with regard to Frontier. To allow BDS to pursue its counterclaims would permit it to violate that injunction and to undercut the policies that the state-court order embodies.

It is therefore not surprising that the numerous courts around the country in which various plaintiffs have filed claims against Frontier have consistently refused, since commencement of the rehabilitation action, to entertain those suits in deference to the New York State proceeding. (See Declaration of Barton W. Bloom, Esq., executed June 24, 2005, at PP5-66 & Exs. 1-54; Oct. 3, 2005 letter to the Court from William S. Gyves, Esq., annexing [*12] Resource Mgt., Inc. v. Frontier Ins. Co., Civil Action No. 01-11218-DPW, Judgment (D. Mass. Sept. 29, 2005)). We reach the same conclusion and accordingly grant the application to stay the counterclaims of the defendant. n3

n3 As plaintiff recognizes, the stay may be subject to a motion to vacate if it turns out that BDS does not have a means of presenting its current counterclaims in the rehabilitation forum. (See Conolly Decl. at P57).

There remains, however, one significant issue to consider. In opposing the stay, BDS makes the point that plaintiff has chosen to sue it in federal court, and it suggests that, in assessing the amount it may owe to Frontier for premiums allegedly not forwarded to the carrier, account must also be taken of any amounts owed by Frontier to the broker. n4 Defendant appears to imply by this assertion that its counterclaims should survive here, although its argument on this point is not a model of precision. In response, the Superintendent argues that any claims by the broker for moneys [*13] owed it can be satisfactorily determined in the rehabilitation proceeding, and that even the claim by BDS for offsetting premiums is properly dealt with in the state court.

n4 BDS also asserts, albeit in purely conclusory terms, that granting a stay will cause the company to fail financially. (See Declaration of Robert Howell, Esq., executed June 20, 2005, at P20).

We conclude that plaintiff's filing of suit here does not preclude Burford abstention with respect to defendant's counterclaims. The state-court injunction precludes potential claimants from commencing lawsuits or obtaining a judgment against Frontier other than in the context of the rehabilitation proceeding. Neither that order nor the Insurance Law, however, limits the discretion of the Superintendent to determine how most efficiently to marshal the assets that properly belong to the estate of the carrier. The decision of the Superintendent to proceed in this court in amassing some of those assets is thus legally permissible. Moreover, it [*14] does not pose any danger of undermining the state rehabilitation process. Indeed, to the contrary, if the Superintendent is correct in his estimate that this case can more efficiently be brought to a conclusion in this court, it will enhance the effectiveness of the rehabilitation process.

Under these circumstances, we reject the implicit argument of BDS that its counterclaims should be adjudicated here because the Superintendent has sued here. Nonetheless, one aspect of defendant's position must be upheld.

BDS notes that, as one part of its claimed damages, it seeks an award of commissions allegedly owed and unpaid by Frontier. It suggests that, to measure the amount it owes Frontier under their contractual brokerage arrangement while ignoring the offsetting debt of Frontier is fundamentally unfair as well as inefficient. In response, the Superintendent argues that any debt owed by Frontier to BDS for premiums is properly addressed as an independent claim, not a setoff, and hence must be included within the scope of the stay order.

The distinction between an independent claim and a set-off is the controlling concern in determining the scope of the stay. Indeed, although the Insurance [*15] Law authorizes an injunction in the form issued by the state court in this case, see N.Y. Insur. Law § 7419, that injunction precludes the filing of lawsuits -- that is, the assertion of independent claims (or counterclaims) -- or the obtaining of a judgment or other preference, but it does not prevent the assertion of set-offs in response to a lawsuit on behalf of the carrier. See, e.g., New York Title & Mortg. Co. by Van Schaick v. Irving Trust Co., 268 N.Y. 547, 549, 198 N.E. 397, 397-98 (1935); New York Title & Mortg. Co. v. Friedman, 153 Misc. 697, 700, 276 N.Y.S. 72, 77 (Sup. Ct., N.Y. Cty. 1934). See also N.Y. Insur. Law § 7427.

629

Plaintiff appears at least implicitly to recognize this distinction by arguing, at some length, that any obligation by Frontier to BDS for commissions is in the nature of an independent claim and not a set-off. (Pl's Reply Mem. at 10-17). New York law, however, does not support this assertion.

In support of plaintiff's argument, it notes -- correctly -- that a defendant's demand for payment will not constitute a set-off unless that asserted debt and the claim [*16] against which the defendant seeks a credit are in the nature of "mutual" debts. Id. at 11. See also N.Y. Insur. Law § 7427(a). Under New York law, to be mutual, the debts must derive from the same transaction or set of transactions, and the defendant's claimed credit must have been earned in the same capacity as it owes the debt that forms the basis for the plaintiff's claim. See, e.g., Beecher v. Peter A. Vogt Mfg. Co., 227 N.Y. 468, 473, 125 N.E. 831, 833 (1920). As we understand plaintiff's argument here, he asserts that defendant owes the premiums to Frontier in a different capacity from that in which it claims a credit for unpaid commissions. According to the Superintendent, BDS owes the premiums to Frontier as a trustee, whereas it is owed the commissions in its personal, or non-trustee, capacity. (Pl's Reply Mem. at 13-14).

The short answer to this argument is that, in its only decision that directly addresses the question, the New York Court of Appeals appears to have treated claims for withheld premiums and for unpaid commissions in a dispute between a carrier and a broker as reflecting a claim and a set-off. See Amusement Business Underwriters v. American Int'l Group, Inc., 66 N.Y.2d 878, 489 N.E.2d 729, 498 N.Y.S.2d 760 (1985). [*17] In that case an insurance broker initially sued a carrier for unpaid commissions, and the insurance company asserted a counterclaim for premiums that the broker had allegedly failed to remit to the carrier. Subsequently the carrier terminated a large number of policies placed by the broker, and as a result the broker filed a separate lawsuit for tortious interference and subsequently went out of business. Id. at 879, 498 N.Y.S.2d at 762.

During the litigation, the carrier failed to provide discovery responses, and the trial court therefore struck its answer to the broker's complaint and its counterclaims, leading to an inquest on damages on the broker's unpaid-premium claim and its tortious-interference claim, and to substantial awards on each claim. Id. at 879, 498 N.Y.S.2d at 762. On appeal, however, the Court of Appeals reversed the award for unpaid commissions, holding that "evidence of plaintiff's failure to remit $ 689,000 in premiums to defendants . . . should have been admitted in evidence as a proper setoff" to the claim for commissions. Id. at 880, 498 N.Y.S.2d at 762. In reaching this conclusion, the Court acknowledged [*18] that the claim for commissions and the demand for premiums arose from two separate contracts between the parties, but it observed that both arose "out of the same basic transactions put in issue by plaintiff's complaint." Id. at 880, 498 N.Y.S.2d at 762.

In this case it appears that the demand by BDS for commissions arises "out of the same basic transactions" as the plaintiff's claim for withheld premiums. At the least, plaintiff does not proffer evidence suggesting the contrary or otherwise distinguish the holding of the Court of Appeals on this point. Under the circumstances, and on the current record, we will not preclude BDS from demonstrating the amount of commissions owed it as a set-off against the amount of premiums that it may owe Frontier. n5

n5 We leave open to plaintiff the opportunity at the evidence-presentation stage of the case to proffer a basis for determining that the broker's demand for commissions is not a proper set-off.

CONCLUSION

For the reasons noted, we grant plaintiff's [*19] motion to stay the adjudication in this case of defendant's counterclaims. Consistent with plaintiff's representations, this determination is without prejudice to an application by BDS to lift the stay in the event that it is unable to obtain reasonably prompt consideration of its counterclaims as claims in the rehabilitation proceeding.

We further direct that defendant will not be precluded from presenting its case with respect to commissions allegedly owed it by Frontier as a set-off to any liability to Frontier for withheld premiums.

Dated: New York, New York

October 11, 2005

MICHAEL H. DOLINGER

UNITED STATES MAGISTRATE JUDGE

At IAS Part 7 of the Supreme Court of the State of New York, County of New York at the Courthouse, 111 Centre Street, New York, New York on the 15 day of June 2005.

PRESENT:

HON. FAVIOLA SOTO,

JUSTICE

In the Matter of

the Application of

HOWARD MILLS, Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of and dissolve

REALM NATIONAL INSURANCE COMPANY

Index No.: 401876/05

ORDER OF LIQUIDATION

FILED
JUN 15 2005
COUNTY CLERK'S OFFICE
NEW YORK

Petitioner, Howard Mills, Superintendent of Insurance of the State of New York (the "Superintendent"), having moved this court for an order to take possession of the property of and liquidate the business and affairs and dissolve the corporate charter of Realm National Insurance Company ("REALM");

NOW, upon reading and filing the petition of the Superintendent, duly verified on the 10th day of June, 2005, the exhibits annexed thereto; the emergency affidavit of Howard Mills, dated June 10, 2005; and it appearing to my satisfaction that:

1. REALM is a New York corporation, with its principal office in New York County;

2. REALM is insolvent;

631

3. REALM has consented to an order of liquidation being entered against it in the Supreme Court, County of New York;

4. REALM is amenable to the Insurance Law of the State of New York and particularly to Article 74 thereof;

5. REALM should be dissolved and its corporate charter annulled and forfeited.

6. It is impossible to reinsure in whole or in part the existing policy obligations of REALM pursuant to Section 7405 (c) of the Insurance Law;

7. REALM is in such condition that its further transaction of business would be hazardous to its policyholders, creditors or to the public;

8. It is in the best interest of all persons concerned that the Superintendent be directed to take possession of the property and liquidate the business and affairs and dissolve the corporate charter of REALM.

NOW, on motion of the Honorable Eliot Spitzer, Attorney General of the State of New York, it is hereby ORDERED as follows:

1. The petition is granted;

2. REALM is insolvent;

3. The Superintendent, and his successors in office as Superintendent, are appointed liquidator of REALM, authorized and directed to immediately take possession of its property, are vested with title to its property, contracts and rights of action and directed to liquidate its business and affairs in accordance with Article 74 of the Insurance Law. The Superintendent as Liquidator may deal with the property and business of REALM in its name or in the name of the Superintendent, as Liquidator;

4. In accordance with Insurance Law § 7432 (b), all claims against REALM must be presented to the Superintendent, as Liquidator, within four months of the date of entry of this order;

5. In accordance with Insurance Law § 7433 (b)(2), all persons who appear on REALM's books and records as policyholders or claimants as of the date of entry of this order shall be deemed to have duly filed proofs of claim prior to the last day set for filing claims;

6. All former policyholders of REALM whose policies expired within three (3) years of the date of entry of this order shall be deemed to have duly filed a proof of claim prior to the last day set for filing claims;

7. The Superintendent, as Liquidator, shall provide notice, by publication in the New York Times, National Edition and the Journal of Commerce once a week for two consecutive weeks commencing within three weeks of entry of this order, to all other creditors, claimants and interested persons to present claims within four months of the date of entry of this order;

8. The Superintendent, as Liquidator, shall provide notice by publication in one newspaper in the capital cities of each state in the United States wherein REALM is licensed to do business, once a week for two successive weeks within the period allowed for the presenting of claims, the newspaper to be selected by the Liquidator at his discretion;

9. In the event one or more Insurance Departments and/or Guaranty Funds or Associations of foreign states, that have adopted the Uniform Insurers Liquidation Act, in which REALM was licensed to do business, desire to give formal notice to policyholders and creditors in their respective State Insurance Departments or Guaranty Fund or Association, the Superintendent, as Liquidator, may permit the giving of such notice as he in his discretion may find desirable;

10. The notice prescribed herein is sufficient notice to all persons interested in REALM;

11. All outstanding insurance policies, bonds, and other insurance obligations, if any, issued and undertaken by REALM shall terminate and all liability thereunder shall cease and be fixed as of 12:01 a.m. on the thirtieth day after entry of this order or upon cancellation or procurement of replacement policies, bonds or insurance coverage, whichever is earlier;

12. In accordance with Insurance Law § 7405, all other contracts, leases, tax sharing agreements, employment contracts, and obligations of REALM, however described, shall terminate and all liability thereunder shall cease and be fixed as of the date of entry of this order unless ratified by the Superintendent, as Liquidator;

13. The Superintendent, as Liquidator, is relieved of the provisions set forth in Section 7405(c) of the Insurance Law to reinsure in whole or in part the policy obligations of REALM;

14. The Superintendent, as Liquidator, is authorized, permitted and allowed to sell, assign, or transfer any and all real or personal property, stocks, bonds or securities of REALM at market price or better, or if there is no market price, at the best price obtainable at private sale at such times and upon such terms and conditions, as in his discretion, he deems is in the best interest of the creditors of REALM, and he is further authorized to take such steps and to make and execute such agreements and other papers as may be necessary to effect and carry out such sales, transfers, and assignments;

15. REALM, its officers, directors, depositories, trustees, agents, servants, employees, attorneys, and all other persons, having any property or records belonging or relating to REALM, including, but not limited to insurance policies, loss, claim or legal files are directed to assign, transfer, set over and deliver to the Superintendent, as Liquidator, all such property or records;

16. Any persons, firms, corporations, or associations having any books, papers or records relating to the business of REALM shall preserve them and submit them to the Superintendent, as Liquidator, for examination and copying at all reasonable times;

17. The officers, directors, shareholders, trustees, agents, servants, employees, attorneys, and managers of REALM, and all other persons are permanently enjoined and restrained from the transaction of REALM's business, the waste or disposition of its property, interfering with the Superintendent, as Liquidator, in the possession, control and management of the property of REALM or in the discharge of his duties;

18. All persons are permanently enjoined and restrained from commencing or prosecuting any actions or proceedings against REALM, the Superintendent, as Liquidator of REALM, or the New York Liquidation Bureau, its employees, attorneys and agents with respect to claims against REALM;

19. All persons are permanently enjoined and restrained from obtaining preferences, judgments, attachments or other liens, or making any levy against REALM's assets or any part thereof;

20. All parties to lawsuits in this state and all other states and territories of the United States, are hereby enjoined and restrained from proceeding with, including but not limited to, any discovery, pre-trial conferences, trial, application for judgment or proceeding on judgments or settlements in such actions at law, suits in equity, special or other proceedings in which REALM is obligated to defend by virtue of its insurance contract and any and all actions being defended by a primary or other underlying insurer where such primary or underlying insurer has tendered or offered its full policy limits or where said policy limits have been exhausted by payment of the underlying insurer's aggregate and REALM is the next excess of umbrella layer of insurance for a period of 180 days from the date hereof;

21. Those persons who may have first-party or New York Comprehensive Automobile Insurance Reparations Act (No-Fault) policyholder loss claims against REALM coming within the purview of Article 76 of the Insurance Law are enjoined from presenting and filing such claims in this proceeding for 90 days from the date of entry of this order;

22. The corporate charter of REALM is relinquished, forfeited, surrendered and annulled, and REALM is dissolved;

23. The Superintendent of Insurance as Liquidator, may at any time make further application to this court for such further and different relief as he sees fit;

24. All further papers in this proceeding shall bear the caption:

"In the Matter of

the Liquidation of

REALM NATIONAL INSURANCE COMPANY"

25. The Superintendent, as Liquidator, shall serve a conformed copy of this order upon the county clerk and the clerk of the trial support office for amendment of the court and computer records.

ENTER

J.S.C.
HON. FAVIOLA SOTO

FILED
JUN 15 2005
COUNTY CLERK'S OFFICE
NEW YORK

1332

Sir:

Please take notice that the within is a true copy of
duly filed and entered in the office of the clerk of
the County, on
day of 20

Yours, etc.,
ELIOT SPITZER
Attorney for Attorney General,

Office and Post Office Address
120 Broadway, New York, N.Y. 10271

To

Esq.

Attorney for

Sir

Please take notice that the within
will be presented for settlement and signature
herein to the HON.
one of the judges of the within named Court, at
in the Borough of
City of New York, on the day of
200 , at A. M.

Date, N.Y.,

Yours, etc.,
ELIOT SPITZER
Attorney for Attorney General,

Office and Post Office Address
120 Broadway, New York, N.Y. 10271

To:

COUNTY CLERK'S OFFICE
NEW YORK
JUN 15 2005
FILED

In the Matter of

the Application of

HOWARD MILLS, Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of and dissolve

REALM NATIONAL INSURANCE COMPANY

ORDER OF LIQUIDATION

ELIOT SPITZER
Attorney General
Attorney for the Superintendent of Insurance

Office and Post Office Address
120 Broadway, New York, N.Y. 10271
Tel. (212) 416-8658

Personal service of a copy of
within.....
is admitted this.....day of
.....20

1331

STOCK PURCHASE AGREEMENT

TABLE OF CONTENTS

ARTICLE I - DEFINITIONS AND CONSTRUCTION 1

1.01 Definitions 1
1.02 Construction 8

ARTICLE II - PURCHASE AND SALE 8

2.01 Purchase and Sale 8
2.02 Purchase Price 8
2.03 First Closing 9
2.04 Actions at the First Closing 9
2.05 Conditions to the First Closing 10
2.06 Second Closing 11
2.07 Verification of Purchase Price 11
2.08 Deliveries at Second Closing 11
2.09 Excess Funds in the Escrow Property 13

ARTICLE III - REPRESENTATIONS AND WARRANTIES OF SELLER PARENT AND THE COMPANIES 13

3.01 Organization, Standing and Power 13
3.02 Certificates of Incorporation, Bylaws, etc. 14
3.03 Authorization 14
3.04 Title to Shares 14
3.05 Title to Assets 14
3.06 Leases 14
3.07 Contracts and Commitments 14
3.08 No Violation 15
3.09 Consents and Approvals; Licenses 15
3.10 Authorized Capital; Shares Outstanding 16
3.11 Investments 16
3.12 Personnel and Accounts 16
3.13 Financial Statements and Other Information 17
3.14 Liabilities 18
3.15 Absence of Certain Changes 19
3.16 Litigation 20
3.17 Compliance with Laws 20
3.18 Labor Matters 20
3.19 Intellectual Property 21
3.20 No Brokers 21
3.21 No Other Agreements to Sell 21
3.22 Employee Benefit Plans 21
3.23 Tax Matters 22
3.24 Severance Arrangements 24

638

3.25 Insurance 24
3.26 Disclosure 25

ARTICLE IV – REPRESENTATIONS AND WARRANTIES OF BUYER 25

4.01 Corporate Existence and Power 25
4.02 Authorization 25
4.03 No Conflict or Violation 25
4.04 Consents and Approvals 26
4.05 Litigation 26
4.06 Investment Representations 26
4.07 No Brokers 26
4.08 Reinsurance Submissions 27
4.09 Marketing Authority 27
4.10 Use of Realm's Published Rate 27
4.11 Jurisdictions 27
4.12 No Reported Claims 27
4.13 PEO Releases 27
4.14 Disclosure 27
4.15 AIM Financial Schedule 27
4.16 Atlantis 27
4.17 Glastonbury 27

ARTICLE V – COVENANTS AND AGREEMENTS 28

5.01 Mutual Covenants and Agreements 28
5.02 Covenants of Seller, Parent and the Companies 30
5.03 Covenants of Buyer 35

ARTICLE VI – TAX MATTERS 38

6.01 Pre-Closing Taxes 38
6.02 Post-Closing Taxes 38
6.03 Sales and Transfer Taxes 38
6.04 Cooperation and Exchange Information 38
6.05 Agreed Tax Treatment 38
6.06 Further Assistance 39
6.07 Tax Refunds 39

ARTICLE VII – CONDITIONS TO SECOND CLOSING 39

7.01 Conditions to Obligations of Buyer 39
7.02 Conditions to Obligations of Seller 40

ARTICLE VIII – ADDITIONAL AGREEMENTS 41

8.01 Cooperation of Seller 41
8.02 Failure of Buyer to Qualify 41
8.03 Sale of the Realm Shares 41
8.04 Pledge of Collateral 42
..... 46

ARTICLE IX -INDEMNIFICATION; ADDITIONAL REMEDIES; SURVIVAL 47

9.01 Indemnification 47
9.02 Notice and Defense of Claims 47
9.03 Limitations and Other Matters 49
9.04 Sole and Exclusive Remedy 50
9.05 Additional Remedies 50
9.06 Survival of Representations and Warranties 51

ARTICLE X – MISCELLANEOUS 51

10.01 Notices 51
10.02 Amendments and Waivers 53
10.03 Expenses 54
10.04 Invalidity 54
10.05 Titles 54
10.06 Successors and Assigns 54
10.07 Governing Law 54
10.08 Consent to Jurisdiction 54
10.09 WAIVER OF JURY 54
10.10 Counterparts; Effectiveness 55
10.11 Entire Agreement; Third Party Beneficiaries 55
10.12 Compliance with New York Insurance Law 55
10.13 Schedules; Supplements to the Schedules 55

ARTICLE XI – TERMINATION 56

11.01 Termination of Agreement 56
11.02 Survival 57
11.03 Certain Obligations upon Termination 57

EXHIBITS

Exhibit A -	AIM Program Summary
Exhibit B -	AIM Financial Schedule
Exhibit C -	General Agency Agreement
Exhibit D -	Form of PEO Release
Exhibit E -	Form of Buyer/Parent Release
Exhibit F -	Reinsurance Agreement
Exhibit G -	Form of Seller's Opinion of Counsel
Exhibit H -	Form of Parent's Opinion of Counsel
Exhibit I -	Form of Buyer's Opinion of Counsel

SCHEDULES

Schedule 3.01(a) - List of Jurisdictions Where the Companies are Qualified or Registered as Foreign Corporations

Schedule 3.05 - Permitted Liens

Schedule 3.06 - Leases

Schedule 3.07 – Material Contracts

Schedule 3.08 – Violations

Schedule 3.09 – Consents

Schedule 3.11(i) – Investments

Schedule 3.11(ii) – Investment Guidelines

Schedule 3.12 – Personnel and Accounts

Schedule 3.14 – Liabilities

Schedule 3.16 – Litigation

Schedule 3.17(a) – Notices from Governmental Authority

Schedule 3.17(b) – Orders

Schedule 3.19 – Intellectual Property

Schedule 3.22(a) – Parent Plans

Schedule 3.23(b) – Audit History

Schedule 3.23(b) – Consolidated Groups

Schedule 3.23(i) – Tax Sharing Liabilities

Schedule 3.23(j) – Tax Elections

Schedule 3.24 – Severance Arrangements

Schedule 3.25 – Insurance Policies

Schedule 4.03 – Buyer Violations

Schedule 4.04 – Consents

Schedule 4.11 – AIM Insurance Program Jurisdictions

Schedule 4.13 – PEOs

Schedule 5.01(g) – Required Regulatory Approvals

Schedule 5.02(k)(i) – Required License States

Schedule 5.02(k)(ii) – Required Filing States

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT ("Agreement") dated as of March 21, 2003 among ALPHASTAR INSURANCE GROUP LIMITED, a Bermuda corporation ("Parent"), STIRLING COOKE NORTH AMERICAN HOLDINGS LTD., a Delaware corporation ("Seller"), REALM NATIONAL INSURANCE COMPANY, a New York corporation ("Realm"), WORLD TRADE SERVICES, INC., a New York corporation ("WTS"), STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC., a New York corporation ("SCNY"), and AMERICAN INSURANCE MANAGERS, INC., a Georgia corporation ("Buyer").

RECITALS:

WHEREAS, Seller is the record and beneficial owner of (i) 100% of the issued and outstanding shares of capital stock (the "Realm Shares") of Realm, (ii) 100% of the issued and outstanding shares of capital stock (the "WTS Shares") of WTS, and (iii) 100% of the issued and outstanding shares of capital stock (the "SCNY Shares") of SCNY (together, the Realm Shares, the WTS Shares and the SCNY Shares shall be referred to as the "Shares").

WHEREAS, Seller desires to sell, and Buyer desires to purchase, the Shares upon the terms and subject to the conditions hereinafter set forth.

WHEREAS, the parties hereto agree and acknowledge that this Agreement does not permit the binding of coverage or issuance of Certificates of Insurance until the First Closing. The First Closing is subject to the satisfaction of various conditions as set forth in this Agreement. Parent and its Affiliates have not reviewed, and are not soliciting interest in the prospectus or other offering documents relating to the PEOs transactions with Buyer or its Affiliates.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE I
Definitions and Construction

1.01 Definitions. The following terms, as used herein, shall have the following meanings:

"Acquisition Proposal" has the meaning ascribed thereto in Section 5.02(q).

"Affiliate" means, with respect to any person or entity (whether or not incorporated), any other person or entity (whether or not incorporated) that directly or indirectly controls, is controlled by, or is under common control with, the first person or entity. For purposes of this definition, "control" (including, with correlative meaning, the terms "controlled by" and "under common control with") as used with respect to any person shall mean the ability or the power, directly or indirectly, to direct or cause the direction of the management and

policies of such persons, whether through the ownership of voting securities or by contract or otherwise.

"AIM Insurance Program" means the PEO worker's compensation insurance program with respect to which AIM shall act as the exclusive general agent subject to the Guidelines on behalf of Realm pursuant to the General Agency Agreement and for which Glastonbury and Atlantis shall provide capital and reinsurance as described in the AIM Program Summary attached hereto as Exhibit A and shall become effective at the First Closing.

"AIM Financial Schedule" means the schedule and projections of the performance of the AIM Insurance Program prepared by Buyer, attached hereto as Exhibit B.

"Alternative Auditor" has the meaning ascribed thereto in Section 2.07.

"Atlantis" means Atlantis Re (Bermuda) Company Ltd., a Bermuda segregated cell insurance company to be formed by Buyer prior to the First Closing for purposes of executing the Reinsurance Agreement with Realm and operating in accordance with the AIM Insurance Program; provided, however, that in the event Atlantis shall not have become licensed by Bermuda to underwrite insurance by the First Closing Date, a segregated account of Uberrimae Fidei Insurance Company Ltd., not otherwise conducting any business, shall enter into the Reinsurance Agreement with Realm and thereafter assign all of its rights and obligations thereunder to Atlantis upon the issuance of its Bermuda insurance license.

"Business" means the marketing, sale and provision of insurance products and all related services of Realm, WTS, SCNY, or all three, as the case may be, prior to the First Closing Date.

"Business Day" means any day other than a day which is a Saturday, Sunday or bank holiday in New York City.

"Buyer/Parent Release" means the release substantially in the form attached hereto as Exhibit E and executed and delivered to the Escrow Agent on even date herewith by Buyer and its Affiliates, Parent, Seller, Realm, WTS and SCNY and to be effective upon receipt of the PEO Releases, but no earlier than the First Closing.

"Code" means the Internal Revenue Code of 1986, as amended.

"Companies" means, collectively, Realm, WTS and SCNY (each a "Company").

"Consent" means a consent, approval, license, authorization, order, permit, waiver or other action or declaration of a Governmental Authority or other Person required by any Law, Contract or any other obligation binding upon any of the Companies as a result of or in connection with the Transactions.

"Contract" means any written or oral contract, agreement, instrument, arrangement, commitment, obligation, understanding, promise, undertaking, note, loan, lease, license, indenture, mortgage, or other document of legal significance to which any Person is a party or that is legally binding on any Person or its assets or properties.

"Credit Agreement" means collectively, the Loan Agreement, dated October 1, 2002, as amended, by and between Atlanta Insurance Marketing, Inc. and Parent, the Pledge Agreement, dated October 2, 2002, as amended, by and between Atlanta Insurance Marketing Inc. and Parent, and any other loan agreement, credit agreement, security agreement and pledge agreement by and between Parent and Buyer or any of Buyer's Affiliates that provide for the extension of credit to Parent or any of its Affiliates by Buyer or any of its Affiliates in accordance with the terms and conditions set forth therein.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Escrow Agent" means Deutsche Bank Trust Company Americas, a New York banking corporation.

"Escrow Agreement" means the escrow agreement, dated as of even date herewith, by and among Buyer, Seller, Parent and the Escrow Agent.

"Escrow Property" means (i) the Letter of Credit, (ii) the cash deposited by Buyer with the Escrow Agent pursuant to Sections 5.03(d) and 5.03(e), (iii) the General Agency Agreement, (iv) the Buyer/Parent Release, and (v) the stock certificates representing the Shares as permitted by applicable Law.

"Facilities" means the offices, operating facilities, all real property (whether leased or owned) and related facilities of the Companies.

"Final Balance Sheets" means the audited consolidated balance sheet of Realm and the unaudited balance sheets of WTS and SCNY as of the Final Balance Sheet Date determined in accordance with GAAP, together with the notes thereto and the related unqualified opinion of KPMG thereon delivered by Seller to Buyer.

"Final Balance Sheet Date" means December 31, 2002.

"Financial Statements" has the meaning ascribed thereto in Section 3.13(a).

"FIRPTA" means Foreign Investment in Real Property Tax Act of 1980, as it may be amended from time to time.

"First Closing Date" means the date of the First Closing as defined in Section 2.03 of this Agreement.

"GAAP" means generally accepted United States accounting principles and practices recognized as such by the American Institute of Certified Public Accountants acting through its Accounting Principles Board or by the Financial Accounting Standards Board or through other appropriate boards or committees thereof and which are consistently applied during the periods involved and the immediately preceding fiscal period so as to properly reflect the financial position, the result of operations and operating cash flow of the party, except that any accounting principle or practice required to be changed by the Accounting Principles Board

or Financial Accounting Standards Board (or other board or committee) in order to continue as generally accepted accounting principles or practice may be so changed.

"*General Agency Agreement*" means that certain General Agency Agreement to be dated of even date herewith and effective upon delivery to Buyer and Realm by the Escrow Agent at the First Closing Date and required to be executed by and between Realm and Buyer concurrently with the execution of this Agreement and deposited with the Escrow Agent as Escrow Property in counterparts substantially in the form attached hereto as Exhibit C, which agreement vests ultimate underwriting authority in Realm.

"*Glastonbury*" means The Glastonbury Company, LLC, a Delaware limited liability company.

"*Governmental Authority*" means any foreign, federal, state or local government, political subdivision or governmental or regulatory authority, agency, board, bureau, commission, instrumentality, court or quasi-governmental authority.

"*Guidelines*" means the underwriting guidelines mutually agreed to by Buyer and Seller attached as an exhibit to the General Agency Agreement.

"*Identified Shareholders*" has the meaning ascribed thereto in Section 11.01(b).

"*Indemnified Party*" has the meaning ascribed thereto in Section 9.02(a).

"*Indemnifying Party*" has the meaning ascribed thereto in Section 9.02(a).

"*Insurance Licenses*" or "*Insurance License*" have the meanings ascribed thereto in Section 5.02(k).

"*Intellectual Property*" means any intellectual property rights, including all trademarks, service marks, trade names, inventions, patents, trade secrets, copyrights, know-how, trade secrets, proprietary information, logos, URLs, Internet sites, domain names, applications therefor, registrations thereof and licenses or other rights in respect thereof used in connection with the Business.

"*Intercompany Receivables*" means any amounts payable by Seller or any Affiliate of Seller (other than one of the Companies) to any of the Companies.

"*Knowledge*" means, with respect to any party hereto, (a) the actual knowledge of the chief executive officer, president, treasurer, chief financial officer and chief legal officer of such party and (b) any fact or facts that are known or should reasonably have been known by the chief executive officer, president, treasurer, chief financial officer and chief legal officer of such party.

"*Law*" or "*Laws*" means any or all federal, state and local statutes, laws, codes, ordinances, judicial decisions, proclamations, regulations, published requirements, orders, judgments, decrees and rules of any Governmental Authority, in each case as amended and in effect from time to time.

"Leases" has the meaning ascribed thereto in Section 3.06.

"Letter of Credit or "Letters of Credit" means letters of credit in form and substance satisfactory to afford relief from capital requirements pursuant to New York insurance Laws and from a depository institution that is a member of the Federal Reserve System, obtained by Buyer for the benefit of Seller and deposited with the Escrow Agent including any Alternative Letters of Credit (as defined in the Escrow Agreement).

"Liability" or "Liabilities" means any direct or indirect liability, obligation, indebtedness, penalty, cost or expense, claim, deficiency or guaranty, whether absolute or contingent, accrued or unaccrued, liquidated or unliquidated, matured or unmatured, including, without limitation, any liability for Taxes.

"Lien" means, with respect to any property or asset, any mortgage, claim, option, lien, pledge, charge, easement, security interest, encumbrance, right-of-way, preemptive right, reservation, restriction, or other adverse right, interest, charge, or claim of any Person in respect of such property or asset, excluding any of the foregoing held by, or in respect of, Buyer or its Affiliates.

"Loss" means any and all losses, damages, diminution in value, Liabilities, costs and expenses (including, but not limited to, reasonable fees and disbursements of counsel), assessments, penalties, judgments, Liens and other obligations but excluding any consequential and punitive damages.

"Material Adverse Effect" means a material adverse effect or material adverse impact on (a) the business, properties, assets, financial condition or results of operations of any of the Companies, taken as a whole, or (b) the transactions contemplated by this Agreement and all agreements, exhibits and schedules contemplated by, or attached to, this Agreement, except for any such effect resulting from or arising in connection with (i) this Agreement, (ii) the Transactions, (iii) general economic or market conditions affecting the insurance industry, (iv) general declines in the U.S. capital markets, (v) any change in GAAP or Law, or interpretation thereof, as applied to the Companies or companies in the insurance industry, or (vi) actions by Buyer or its Affiliates prior to the date of this Agreement in connection with the Business.

"Material Contract" means a Contract for an amount payable pursuant thereto of at least $50,000 to or by or on behalf of any or all of the Companies.

"Order" means any award, decision, decree, injunction, judgment, order, ruling, subpoena, writ or verdict, entered, issued, made, or rendered by any court, administrative agency or any other Governmental Authority or by any arbitrator or mediator.

"Permitted Liens" means, with respect to any asset of a Company:

(a) Liens disclosed on Schedule 3.05;

(b) Liens disclosed in the Financial Statements or in the notes to the Financial Statements;

(c) Liens for Taxes, assessments and similar charges that are not yet due or are being contested in good faith by one of the Companies, Seller or Parent;

(d) Liens incurred in the ordinary course of business consistent with past practices;

(e) Liens that do not have a Material Adverse Effect on any of the Companies; or

(f) Liens held by Buyer or its Affiliates.

"Person" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any Governmental Authority.

"PEO" means professional employment organization.

"PEO Release" means the release substantially in the form attached hereto as Exhibit D.

"Pre-Closing Period" has the meaning ascribed thereto in Section 6.01(b).

"Pre-Closing Taxes" has the meaning ascribed thereto in Section 6.01(c).

"Post-Closing Tax Returns" has the meaning ascribed thereto in Section 6.02.

"Post-Closing Taxes" has the meaning ascribed thereto in Section 6.02.

"Promissory Note" means any promissory note issued pursuant to the Credit Agreement.

"Purchase Price" has the meaning ascribed thereto in Section 2.02.

"RBC Plan" means the risk-based capital plan submitted for approval (no later than the First Closing) to the New York Department of Insurance in order to allow Realm to underwrite the AIM Insurance Program, including any modifications or any other plan required or recommended by the New York Department of Insurance as a condition to the First Closing and reasonably satisfactory to Buyer.

"Realm Shares" has the meaning ascribed thereto in the Recitals.

"Reinsurance Agreement" means the reinsurance agreement in substantially the form attached hereto as Exhibit F.

"Reinsurers" means the companies providing reinsurance with respect to the AIM Insurance Program.

"Required Filing States" has the meaning ascribed thereto in Section 5.02(k).

"Required License States" has the meaning ascribed thereto in Section 5.02(k).

"Rights" means, with respect to any Person, securities or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, or any options, calls or commitments relating to, or any stock or equity appreciation right or other instrument the value of which is determined in whole or in part by reference to the market price or value of, shares of capital stock or other equity interests in such Person.

"SAP" means the statutory accounting practices applicable to Realm, and to insurance companies generally.

"Schedule" or "Schedules" means the schedules executed and delivered by Seller and attached hereto, which set forth the exceptions to the representations and warranties contained in Article III hereof and certain other information called for by this Agreement.

"SCNY Shares" has the meaning ascribed thereto in the Recitals.

"Second Closing Date" means the date of the Second Closing as defined in Section 2.06.

"Securities Act" has the meaning ascribed thereto in Section 4.06.

"Surplus Cash" means the difference between the Total Cash Inflows and Total Cash Outflows as such terms are used in the AIM Financial Schedule, which shall be based on actual premiums received by Buyer pursuant to the AIM Insurance Program rather than projected premiums for the applicable period.

"Surplus Notes" means the promissory notes, repayable only with the consent of the New York Department of Insurance, sold by Realm to Buyer or any of its Affiliates prior to the Second Closing Date for the purpose of maintaining Realm's statutory capital surplus.

"Tax" or "Taxes" means any tax imposed by a Governmental Authority, including net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, franchise, capital, paid-up capital, estimated, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, personal, premium, personal property, real property, environmental or windfall profit tax, customs duty, transfer, documentary or other tax, governmental fee or other like assessment or charge of any kind whatsoever, any information reporting or backup withholding obligation, liability or penalty and includes interest additions to tax and penalties with respect thereto imposed by any Governmental Authority responsible for the imposition of any such tax.

"Tax Returns" means all returns, reports, declarations, claims for refund, information returns or statements required to be filed with respect to Taxes.

"Transactions" means the transactions contemplated by this Agreement, the Escrow Agreement, the General Agency Agreement, the Reinsurance Agreement and the other agreements identified in this Agreement.

"Transfer Taxes" has the meaning ascribed thereto in Section 6.03.

"Treasury Regulations" means the United States Treasury Regulations promulgated pursuant to the Code.

"WTS Shares" has the meaning ascribed thereto in the Recitals.

1.02 Construction. The captions or headings in this Agreement are for convenience of reference only and in no way define, limit or describe the scope or intent of any provisions or Sections of this Agreement. All references in this Agreement to particular Articles or Sections are references to the Articles or Sections of this Agreement, unless some other references are clearly indicated. All accounting terms not specifically defined in this Agreement shall be construed in accordance with GAAP as in effect during such applicable periods. In this Agreement, unless the context otherwise requires, (i) words describing the singular number shall include the plural and vice versa, (ii) words denoting any gender shall include all genders, and (iii) the word "including" shall mean "including without limitation." In interpreting and enforcing this Agreement, each of the representations and warranties set forth in this Agreement shall be given independent effect and shall not be deemed superseded or modified by any other such representation or warranty.

ARTICLE II
Purchase and Sale

2.01 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, at the Second Closing, Buyer agrees to purchase from Seller, and Seller agrees to sell, transfer and deliver (a) to Buyer, if requisite insurance regulatory approval has been received from the New York Department of Insurance, or (b) subject to the provisions of Article VIII with respect to the continuation of control by Seller, to the Escrow Agent, if requisite insurance regulatory approval has not been received from the New York Department of Insurance, all of Seller's right, title and interest in and to the Shares, free and clear of any Liens; provided, however, that in the event requisite insurance regulatory approval is not obtained, Seller shall continue to exercise control over the Companies regardless of the delivery of the Shares effected pursuant to this Section 2.01.

2.02 Purchase Price. The purchase price for the Shares (the "Purchase Price") shall be the difference between (a) (x) if the total shareholders' equity of the Companies as stated on the Final Balance Sheets is equal to or greater than $11,760,755, then $12,000,000, (y) if the total shareholders' equity of the Companies as stated on the Final Balance Sheets is less than $11,760,755, but equal to or greater than $6,000,000, then the product obtained by multiplying (i) $12,000,000, by (ii) a fraction, the numerator of which is the total shareholders' equity as stated on the Final Balance Sheets and the denominator of which is $11,760,755, and (z) if the total shareholders' equity of the Companies is $6,000,000 or less, then the amount of total shareholders' equity of the Companies, and (b) the product obtained by multiplying (A) $250,000 by (B) the number of jurisdictions set forth in Schedule 5.02(k)(i) in which Realm does not have an Insurance License on the First Closing Date. For purposes of determining the Final Balance Sheets, any Intercompany Receivables of any of the Companies not paid by any of their

Affiliates as of the Second Closing Date shall not be deemed, and shall not be included in the, assets of the Companies.

2.03 First Closing. The first closing (the "First Closing") shall occur at the offices of Alston & Bird LLP, 90 Park Avenue, New York, New York, 10016, on the second Business Day following the satisfaction or waiver of all of the conditions set forth in Section 2.05 to effect the transactions described in Section 2.04 in accordance with the Escrow Agreement and this Agreement, unless otherwise provided herein. All proceedings to be taken and all documents to be executed and delivered by the parties or the Escrow Agent at either the First Closing or Second Closing, or as specified in Article VIII, shall be deemed to have been taken and executed simultaneously and no proceedings shall be deemed taken, nor documents executed and delivered, until all have been taken, executed and delivered.

2.04 Actions at the First Closing. At the First Closing:

(a) Buyer shall deposit with the Escrow Agent for the benefit of Seller a Letter of Credit in the amount of $3,000,000 payable to Seller, which shall constitute a source of partial payment of the Purchase Price at the Second Closing;

(b) Buyer shall remit to Realm all premiums with respect to the coverage being bound by Realm concurrently with the First Closing (which premiums shall not constitute a partial payment of the Purchase Price);

(c) Realm and Buyer shall each receive tender of delivery from the Escrow Agent (on behalf of the other party) an executed original of the General Agency Agreement and Seller shall receive a photocopy thereof from the Escrow Agent;

(d) Buyer and Parent shall each receive tender of delivery from the Escrow Agent (on behalf of the other party) an executed original of the Buyer/Parent Release;

(e) Buyer shall deliver to Parent executed original releases by the PEOs identified in Schedule 4.13 hereto and in the form attached hereto as Exhibit D;

(f) Seller, Realm and Buyer shall take all necessary actions to provide the PEOs listed in Schedule 4.13 with Certificates of Insurance and other reasonable evidence of insurance retroactive to no earlier than October 1, 2002 in accordance with Section 5.02(n) and applicable Law;

(g) Seller shall deposit with the Escrow Agent the stock certificate or certificates representing the WTS Shares and the SCNY Shares and, if permitted by New York insurance Laws at the First Closing, the stock certificate or certificates representing the Realm Shares; and

(h) Realm shall execute and deliver to Buyer, and Buyer shall execute and deliver to Realm, the Reinsurance Agreement; and

(i) Buyer shall deliver to Parent by wire transfer, funds in the amount of $1,500,000 which shall constitute a loan to Parent by Buyer pursuant to the Credit Agreement.

2.05 Conditions to the First Closing.

(a) Buyer and Seller shall have delivered to the Escrow Agent a joint written direction, substantially in the form of Exhibit A to the Escrow Agreement, instructing the Escrow Agent to take the actions required of the Escrow Agent set forth in Section 2.04.

(b) The obligation of Buyer to consummate the transactions set forth in Section 2.04 at the First Closing shall be subject to the satisfaction, on or before the First Closing Date hereunder, of the conditions set forth in Section 2.05(a) and the following conditions, all or any of which (with the exception of clause (i)) may be waived, in whole or in part, by Buyer: (i) the RBC Plan shall have been approved by the New York Department of Insurance and, if required by the New York Department of Insurance, implemented prior to the First Closing; (ii) Seller, Parent and the Companies shall have performed and complied, or caused the Companies to perform and comply, as the case may be, with all covenants and agreements required by this Agreement to be performed or complied with by Seller, Parent or any of the Companies, as the case may be, on or prior to the First Closing Date; and (iii) the representations and warranties of Seller, Parent and the Companies contained in this Agreement shall be true and correct on and as of the date of this Agreement and as of the First Closing Date with the same force and effect as though all such representations and warranties had been made on and as of the First Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct as of such date or period, and except where the failure to be true and correct (without regard to any materiality qualifiers therein) could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies.

(c) The obligation of Seller and Parent to consummate the transactions set forth in Section 2.04 at the First Closing shall be subject to the satisfaction, on or before the First Closing Date hereunder, of the conditions set forth in Section 2.05(a) and the following conditions, all or any of which may be waived, in whole or in part, by Seller or Parent: (i) Buyer shall have completed the formation of Atlantis (or made alternative arrangements reasonably acceptable to Seller for utilization of a substitute segregated cell reinsurance facility) and shall have effected the remaining transactions required under the AIM Insurance Program, including funding substantially as set forth in the AIM Financial Schedule as of the date of the First Closing; (ii) Buyer shall have fully complied with the covenants set forth in Section 5.03(c); (iii) Buyer shall have lent to Parent the sum of $500,000 in exchange for a promissory note substantially in the form of Exhibit A to the Credit Agreement as soon as practicable to Buyer after the date of this Agreement and in any event, no later than 15 Business Days after the date of this Agreement; (iv) Atlantis (or the substitute segregated cell reinsurance facility) shall not have any material Liabilities other than miscellaneous immaterial operating expenses and Liabilities under the Reinsurance Agreement; (v) Buyer shall deliver to Seller the affidavit required by Section 5.03(a); and (vi) the representations and warranties of Buyer contained in this Agreement shall be true and correct on and as of date of this Agreement and as of the First Closing Date with the same force and effect as though all such representations and warranties had been made on and as of the First Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct as of such date or period, and except where the failure to be true and correct (without regard to any

materiality qualifiers therein) would not impair the ability of Buyer to perform its obligations under this Agreement.

2.06 Second Closing. The purchase and sale of the Shares pursuant to this Agreement (the "Second Closing") shall occur, following the satisfaction or waiver of all of the conditions set forth in Article VII, upon the earlier of (i) receipt by Escrow Agent of (x) Exhibit C to the Escrow Agreement duly executed by Seller and a notary, and (y) Exhibit D to the Escrow Agreement duly executed by Buyer and a notary, and (ii) July 31, 2003 (such earlier date being the "Second Closing Date"). The Second Closing shall take place at the offices of Alston & Bird LLP, 90 Park Avenue, New York, New York 10016, at 10:00 a.m., or at such other time, date and place as the parties may agree. Notwithstanding the foregoing, whether or not the Second Closing occurs, Seller shall be entitled to receive, and Buyer shall be obligated to deliver to the Seller no later than the Second Closing Date or July 31, 2003, whichever is earlier, the Purchase Price through (A) release of the Letter of Credit and the applicable amount of cash held as Escrow Property, (B) Buyer's cancellation of the Promissory Note (including Buyer's return to Seller of all Security (as defined in the Credit Agreement) and (C) Buyer's payment in cash of any portion of the Purchase Price not otherwise paid by the release of the Escrow Property under the Escrow Agreement and the cancellation of the Promissory Note no later than July 31, 2003.

2.07 Verification of Purchase Price. In the event the Seller shall be unable for any reason to deliver to Buyer on or before April 1, 2003, the Final Balance Sheets, Buyer may elect to select, at Seller's expense, an alternative certified public accounting firm of its choice (the "Alternative Auditor") to examine the books and records of the Companies and determine, to the extent practical, its estimate of the Purchase Price based on GAAP, which estimate shall be final and binding on the parties. If Buyer elects to select an Alternative Auditor to determine its estimate of the Purchase Price, Seller shall, and shall cause the Companies, to cooperate with the Alternative Auditor in connection with such determination, including, without limitation, making available to the Alternative Auditor all of the books, records and other necessary documentation of the Companies.

2.08 Deliveries at Second Closing. On the Second Closing Date, Buyer and Seller shall make the following deliveries:

(a) Seller, Parent and the Companies, as the case may be, shall deliver to Buyer such certificates, documents and other evidence of compliance with their obligations hereunder, dated as of the Second Closing Date, as Buyer and its counsel may reasonably request in writing, including:

(i) Certified copies of resolutions adopted by Seller, Parent and each of the Companies approving, among other things (x) in the case of Seller and Parent, the execution of this Agreement, the consummation of the Transactions and the sale, transfer and delivery of the Shares to Buyer pursuant to the terms and conditions of this Agreement and (y) in the case of the Companies, the execution of this Agreement and the consummation of the Transactions;

(ii) Subject to Section 2.01 and Article VIII, stock certificates representing the Shares shall be released from the Escrow Property and delivered by the

Escrow Agent, constituting good delivery, duly endorsed in blank or accompanied by stock powers duly endorsed in blank in proper form for transfer, with any requisite stock transfer tax stamps affixed thereto or, pursuant to Section 2.01(b), if requisite insurance regulatory approval has not been received by Buyer from the New York Department of Insurance prior to the Second Closing, Seller shall deliver to the Escrow Agent a stock certificate or certificates representing the Realm Shares;

(iii) Duly executed officer's certificates of Seller, Parent and each of the Companies in a form reasonably satisfactory to Buyer and its counsel;

(iv) Certificates of good standing of each of the Companies, issued no more than 20 days prior to the Second Closing Date from the Secretaries of State of all states in which each Company is qualified to do business and bring-downs thereof, dated as of the Second Closing Date;

(v) Subject to Section 2.01 and Article VIII, the Companies' minute books (containing all of the records of meetings of the stockholders, boards of directors and any committees thereof), stock certificates and stock record books of the Companies;

(vi) Evidence of receipt of all Consents identified on Schedule 3.09;

(vii) True and correct copies of the organizational documents of each Company, certified by the Secretary of State of the State of New York in the case of each Company's certificate of incorporation and by each Company's Secretary in the case of each Company's bylaws;

(viii) A FIRPTA affidavit, duly executed and delivered by each Company attesting to the accuracy of the statements set forth in Section 3.23(q) and complying with Treasury Regulation Section 1.445-2(c)(3), to the foregoing effect;

(ix) An opinion from each of Seller and Parent's legal counsel covering the matters in Exhibits G and H attached hereto, respectively, and otherwise in form and substance reasonably satisfactory to Buyer and its counsel; and

(x) All other documents required by the terms of this Agreement to be delivered by Seller, Parent and the Companies to Buyer at the Second Closing.

(b) Buyer shall deliver to Seller:

(i) The Purchase Price through (w) the cancellation in full of all the Promissory Notes held by Buyer and its Affiliates (and providing evidence of such cancellation to Seller) and deducting any unpaid balance of principal and accrued and unpaid interest thereon from the Purchase Price, (x) delivery by Escrow Agent of the Letter of Credit payable to Seller, (y) returning all Security held by Buyer or its Affiliates to Seller, and (z) directing the Escrow Agent to deliver to Seller out of the Escrow Property the amount of cash deposited by Buyer into the Escrow Property pursuant to Section 5.03(d) hereof up to the remaining unpaid portion of the Purchase Price;

(ii) Evidence of cancellation of the Promissory Note held by Buyer; provided, however, if the Purchase Price is less than $3,500,000, then only to the extent any unpaid balance of principal and accrued and unpaid interest of such Promissory Note is applied by Buyer to satisfy its obligation to deliver the Purchase Price;

(iii) An opinion of counsel to Buyer covering the matters in Exhibit I attached hereto and otherwise in form and substance reasonably satisfactory to Seller and its outside counsel;

(iv) Duly executed officer's certificates of Buyer in a form reasonably satisfactory to Seller and its counsel;

(v) Certificates of good standing of Buyer, issued no more than 20 days prior to the Second Closing Date from the Secretaries of State of all states in which Buyer is qualified to do business and bring-downs thereof, dated as of the Second Closing Date; and

(vi) Return of all Security (as that term is defined under the Credit Agreement) held by Buyer pursuant to the Credit Agreement.

2.09 Excess Cash in the Escrow Property. Any cash held in the Escrow Property after distribution by the Escrow Agent to Seller to satisfy payment in full of the Purchase Price shall be the sole property of Buyer and shall be delivered to Buyer by the Escrow Agent in accordance with the Escrow Agreement following the Second Closing Date.

ARTICLE III
Representations and Warranties of Seller, Parent and the Companies

Seller, Parent, Realm, WTS and SCNY severally represent and warrant to Buyer as follows:

3.01 Organization, Standing and Power.

(a) Each of the Companies is a corporation, duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation as set forth in Schedule 3.01(a). Each of the Companies is duly qualified or licensed to do business as a foreign corporation and in good standing in each of the jurisdictions in which either the ownership or use of the properties owned or used by each of them, or the nature of the activities conducted by each of them requires such qualification, licensing or good standing except where the failure to be so qualified, licensed or in good standing could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies. Schedule 3.01(a) sets forth each jurisdiction in which each of the Companies is duly qualified or registered as a foreign corporation and in good standing.

(b) Each of the Companies has the corporate power and authority to carry on their respective business and to own, lease and operate all of their respective Facilities and assets now owned, leased or being operated by each of them.

3.02 Certificates of Incorporation, Bylaws, etc. Seller, Parent and the Companies have heretofore delivered or caused to be delivered to Buyer complete and correct copies of the certificate of incorporation, as amended, and bylaws, as amended, and copies of the minute books of each of the Companies, which are and will be current through the Second Closing Date, as certified by the Companies' secretaries.

3.03 Authorization. Seller, Parent and the Companies have the corporate power and authority to execute, deliver and perform their obligations under this Agreement and to consummate the Transactions. The execution and delivery of this Agreement and each of the documents and instruments required hereby, the consummation of the Transactions and the performance by Seller, Parent and the Companies of their obligations hereunder have been duly authorized by all necessary action on the part of Seller, Parent and each of the Companies, as the case may be. This Agreement and each of the documents and instruments required hereby have been, or will be, duly executed and delivered by Seller, Parent and the Companies, as applicable, and constitute, or upon the execution and delivery thereof will constitute, the legal, valid and binding obligations of Seller, Parent and the Companies enforceable against Seller, Parent and the Companies, as the case may be, in accordance with their terms.

3.04 Title to Shares. Seller is the record holder of, and owns the Shares free and clear of any Liens, which constitute all of the issued and outstanding capital stock of the Companies. Upon the acquisition of the Shares by Buyer at the Second Closing or when requisite insurance regulatory approval is received by Buyer from the New York Department of Insurance after the Second Closing, Buyer will acquire good, valid and marketable title to the Shares free and clear of any Liens.

3.05 Title to Assets. Each of the Companies has good and marketable title to, or valid leasehold interests in, all material assets and properties purported to be owned, operated or leased thereby, or used in the operation of their respective business, free and clear of all Liens, except for Permitted Liens.

3.06 Leases. Schedule 3.06 contains a list of all leases pursuant to which any Company leases any real property (the "Leases"), including Leases of the Facilities. None of the Companies owns any real property. Each Lease is valid and there is no material breach or default on the part of any of the Companies under any such Lease, except where the lack of such validity or the existence of a breach or default could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies; nor, to the Knowledge of Seller and the Companies, is any other party to any Lease in material breach or default thereof.

3.07 Contracts and Commitments. Schedule 3.07 lists all Material Contracts to which each of the Companies or any subsidiary is a party or by which each of the Companies or any subsidiary is bound. Except as set forth in Schedule 3.07, each Material Contract is a valid and binding agreement of the applicable Company, and is in full force and effect. Except as set forth

in Schedule 3.07, to the Knowledge of Seller and the Companies, none of the Companies is in breach of or default under any Material Contract other than breaches or defaults which have been cured or waived or which could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies.

3.08 No Violation. Except as set forth on Schedule 3.08, the execution and delivery by Seller, Parent and the Companies of this Agreement and each of the documents and instruments required hereby do not, and the consummation by Seller, Parent and the Companies of the Transactions and compliance with the terms hereof, will not:

(a) conflict with, or result in any material breach or violation of or material default or loss of any benefit under, any Consent, Order, concession, grant, franchise or Law, to which any of the Companies is a party or to which any of the Companies or any of its respective properties is subject;

(b) conflict with, or result in a material breach or violation of or material default or loss of any benefit under, or accelerate the performance required by, the terms of any Material Contract or Order to which any of the Companies is a party or subject to, or to which any of their properties is subject, or constitute a default or loss of any right thereunder or an event which, with or without the lapse of time or notice, may result in a default or loss of any right thereunder or the creation of any Lien upon any of the assets or properties of such Company; or

(c) result in the termination, suspension, revocation, impairment, forfeiture or non-renewal of any Consent, except any termination, suspension, revocation, impairment, forfeiture or non-renewal which could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies or materially impair the ability of Seller, Parent or the Companies to consummate the Transactions.

3.09 Consents and Approvals; Licenses. Schedule 3.09 sets forth all Consents, and governmental or regulatory licenses, a list of all States in which any of the Companies is licensed to conduct business, an identification of the lines of insurance which Realm is approved and authorized to write, and a list of all employees of the Companies who hold any licenses or sublicenses and the type of licenses and sublicenses such employees hold. No Consent or filing or registration with, any Governmental Authority, or any other Person or entity, is required to be made or obtained by any of the Companies or Seller or Parent in connection with their execution, delivery and performance of this Agreement or any agreement contemplated hereby and the consummation of the Transactions, except for such Consents as have been obtained by Realm, Seller or Parent prior to the First Closing and which are set forth on the Schedule 3.09, or Consents the lack of which could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies. Each of the Companies and its respective directors, officers and employees has obtained all Consents and have made all filings and registrations required for the operation of the Business or required by the nature of the Business to permit the operation thereof in the manner in which the Business is currently conducted in all States where it currently is conducted, except where the failure to have such Consents or to have made such filings or registrations could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on the operation of the Business.

All of the Companies' Consents that are set forth on Schedule 3.09 are valid, in good standing and are in full force and effect. The Business does not contravene any applicable federal, state, local insurance or other Laws, rules or regulations, except as should be reasonably known to Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing.

3.10 Authorized Capital; Shares Outstanding. The authorized capital stock of the Companies and the ownership thereof is as follows:

(a) Realm's authorized, issued and outstanding capital stock consists solely of 250,000 shares of common stock, par value $20 per share and, at the Second Closing not more than 250,000 shares of Realm Shares will be issued and outstanding;

(b) WTS's authorized, issued and outstanding capital stock consists solely of 200 shares of common stock, no par value, and at the Second Closing not more than 200 shares of WTS Shares will be issued and outstanding;

(c) SCNY's authorized, issued and outstanding capital stock consists solely of 1,000 shares of common stock, no par value, and at the Second Closing not more than 1,000 shares of SCNY Shares will be issued and outstanding; and

(d) Seller owns 100% of the Shares. The Shares have been duly authorized and are validly issued and outstanding, fully paid and non-assessable (subject to Section 630 of the New York Business Corporation Law), and subject to no preemptive rights (and were not issued in violation of any preemptive rights). None of the Companies has any Rights issued or outstanding with respect to any of its capital stock, and none of the Companies has made any commitment to authorize, issue or sell any of its capital stock or any Rights relating thereto.

3.11 Investments. Except as set forth on Schedule 3.11(i), as of December 31, 2002, none of the Companies owned beneficially, directly or indirectly, or had any commitment to purchase, any equity securities or similar interests of any Person, or any interest in an entity, partnership or joint venture of any kind. Since December 31, 2002, there have been no changes to the equity securities or similar interests of any Person owned, beneficially or otherwise, by the Companies or commitments to purchase equity securities or similar interests of any Person set forth on Schedule 3.11(i), except for changes made by the Companies' investment manager, Conning & Co., solely in accordance with the investment guidelines set forth in Schedule 3.11(ii).

3.12 Personnel and Accounts. Schedule 3.12 sets forth:

(a) a list of all banks in which the Companies have accounts or maintain safe deposit boxes and the names of all persons authorized to draw thereon and/or have access thereto;

(b) the names of all directors and officers of the Companies;

(c) the names of each employee whose rate of annual compensation from the Companies as of the First Closing Date equals or exceeds $50,000, together with a statement of

the full amount paid or payable to each such person in respect of the last fiscal year by each Affiliate of Seller, a summary of the basis on which each such person is compensated by each Affiliate of Seller (except for fixed, periodic compensation) and the portion of such person's compensation allocable to each Affiliate of Seller and each element of such basis; and

(d) the names of all Persons holding powers of attorney granted by any of the Companies and a summary statement of the terms of such powers.

3.13 Financial Statements and Other Information.

(a) Seller has delivered to Buyer copies of the Annual Statement of Realm (the "Annual Statement") and the related annual and interim financial statements of the Companies, including the auditors' report thereon of Arthur Andersen LLP for the year ended December 31, 2001, and copies of the Companies' unaudited consolidated balance sheets as of September 30, 2002, and the related unaudited consolidated statements of income and retained earnings for the quarterly periods for the calendar year 2002. The foregoing financial statements, together with the SAP and/or GAAP income statements for the Companies for the year ended December 31, 2002, and balance sheets for the Companies as of December 31, 2002, as shall be delivered pursuant to this Agreement are herein collectively referred to as the "Financial Statements."

(b) To the Knowledge of Seller, the Financial Statements have been or will be prepared from and in accordance with the books and records of the Companies. The Financial Statements have been prepared in accordance with GAAP and the Annual Statement has been prepared in accordance with SAP, each consistently applied throughout the periods covered thereby. The Financial Statements and the Annual Statement fairly present, or will fairly present, as the case may be, in all material respects as of their respective dates, the consolidated financial condition of the Companies and the consolidated results of operations, retained earnings and cash flows of the Companies. The Financial Statements for the period ended December 31, 2002 have been prepared by management in accordance with GAAP, and, wherever appropriate, SAP consistently applied throughout the periods covered thereby. Seller has read the Financial Statements and has discussed them with management of the Companies. The Financial Statements fairly present, in all material respects as of their respective dates, the financial condition, results of operations, retained earnings and cash flow of the Companies and have been prepared on the statutory or GAAP accounting basis, prescribed or permitted by the Superintendent of Insurance of the State of New York or the American Institute of Certified Public Accountants, as applicable, applied on a basis consistent with prior periods, subject, in the case of unaudited Financial Statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be material in amount or effect) and the absence of notes (that, if presented would not differ materially from those included in the audited Financial Statements).

(c) The total shareholders' equity of Realm as of September 30, 2002, as determined in accordance with SAP on a basis consistently applied, is $10,468,538.

(d) Since September 30, 2002, (i) there have been no events, changes or occurrences which have had, or could reasonably be expected to result in, individually or in the

aggregate, a Material Adverse Effect on any of the Companies except as set forth in the Financial Statements and as should be reasonably known to Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing, and (ii) Seller, Parent and the Companies have not taken any action or failed to take any action, which action or failure, if taken after the date of this Agreement, would represent or could reasonably be expected to result in a material breach or violation of any of the covenants and agreements of Seller and Parent in this Agreement.

(e) The reinsurance of Realm identified in the December 31, 2002 SAP Annual Statement of Realm entitles it to the reinsurance coverages and financial collateral described therein, and refers to reinsurance, financial security and related agreements in documents that are in full force (in accordance with their terms) and binding as of the date of this Agreement and the First Closing and Second Closings.

3.14 Liabilities.

(a) The Companies have no Liabilities, except Liabilities:

(i) adequately disclosed or reserved against and reflected in the Financial Statements or as should be reasonably known by Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing;

(ii) incurred in the ordinary course of business consistent with past practices since September 30, 2002 or as should be reasonably known by Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing;

(iii) incurred in connection with this Agreement or the Transactions; or

(iv) that are set forth on Schedule 3.14.

(b) Except as set forth on Schedule 3.14, since September 30, 2002, none of the Companies has:

(i) created or incurred any Liability (absolute or contingent), except unsecured current liabilities resulting from money borrowed and liabilities under contracts entered into in the ordinary course of business;

(ii) mortgaged, pledged, or subjected to any Lien any of its assets, tangible or intangible;

(iii) discharged or satisfied any Lien or paid any obligation or Liability (absolute or contingent) other than current liabilities shown on the Companies' Financial Statements (including current installments of long-term debt), and Taxes and current liabilities incurred since September 30, 2002 in the ordinary course of business;

(iv) suffered any losses (excluding any policy claims) or any other event or condition of any character adverse to its business, or waived any rights in excess of $50,000;

(v) made any capital expenditures or capital additions or betterments which in the aggregate amount exceeded $50,000;

(vi) sold or otherwise disposed of any of its assets, tangible or intangible, or cancelled any debts or claims except in the ordinary course of business;

(vii) declared or paid any dividends, or made any other distribution on or in respective of, or directly or indirectly purchased, retired, redeemed or otherwise acquired any shares of its capital stock, or made any commitments with respect thereto;

(viii) made or became a party to any Contract or commitment (other than an insurance or reinsurance contract commitment in the ordinary course of business) which in any one case involved an amount in excess of $50,000;

(ix) issued or sold any shares of its capital stock;

(x) paid or agreed to pay, conditionally or otherwise, any bonus, extra compensation, pension or severance pay to any of its present or former partners, stockholders, directors, officers, employees or any other Person, whether under any existing profit sharing, pension or other plan or otherwise, or increase the rate of compensation, including salaries, fees, commission rates, bonuses, profit sharing, incentive, pension, retirement or similar payments being paid at September 30, 2002, to any of its present or former partners, stockholders, directors, officers, employees or other Persons other than in the ordinary course of business or as otherwise permitted in writing by Buyer;

(xi) become bound by or entered into any Contract, commitment or transaction other than in the ordinary course of business, except for the entering into of this Agreement and the Transactions or as should be reasonably known by Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing; or

(xii) entered into any commutation, agreement or arrangement that materially altered or affected the insurance coverages, premiums and reinsurance coverages affecting Realm as described in the reinsurance and premium documents.

3.15 Absence of Certain Changes. Since September 30, 2002, the Companies, taken as a whole, have conducted the Business in the ordinary and usual course, consistent with past practice, and there has not been any event, occurrence, development or state of circumstances or facts other than matters arising solely by reason of the subject matter of this Agreement that has had or could reasonably be expected to constitute or result, individually or in the aggregate, in a Material Adverse Effect on the Companies or except as should be reasonably known by Buyer or

its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing.

3.16 Litigation. Except as set forth on Schedule 3.16, there is no action, suit, investigation, arbitration or proceeding (whether criminal or civil) pending or, to the Knowledge of Seller, Parent or the Companies, threatened against any of the Companies or the Business, by or before any Governmental Authority (excluding claims, actions, suits or proceedings involving policyholders in accordance with the terms of their policies, other than ECO/XPL and bad faith claims).

3.17 Compliance with Laws.

(a) To the belief of Seller, Parent or the Companies, each of the Companies is in compliance with all Laws applicable thereto or to the employees conducting the Business, except where failure to comply could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on any of the Companies. Except as set forth on Schedule 3.17(a), to the Knowledge of Seller, Parent, or the Companies, no Company has received, since December 31, 1999, any notification or communication from any Governmental Authority in writing:

(i) asserting that it or any of its directors, officers, shareholders, employees, agents, Affiliates or representatives is not in compliance with any Laws; or

(ii) threatening to revoke any Consent (nor, to the Knowledge of Seller or Parent do any grounds for such revocation exist).

(b) Except as set forth on Schedule 3.17(b), none of the Companies is subject to any cease-and-desist or other order issued by, or a party to any written agreement, consent agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, or subject to any written order or directive by, or a recipient of any supervisory letter from, or has adopted any resolutions at the request of any Governmental Authority or been advised since December 31, 1999 by any Governmental Authority that it is issuing or requesting any such order, agreement or other action that could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on the Companies.

(c) Realm has received, reported and maintained all items of income and expense and all assets and liabilities, including but not limited to all investments, premiums received, capital, surplus, reserves, admitted assets and non-admitted assets, in compliance with the statutory requirements on legal investments and SAP as have been in force in the jurisdictions in which Realm is engaged in the Business or otherwise required to comply with Laws.

3.18 Labor Matters. None of the Companies is a party to any labor agreement with any labor organization, group or association with respect to its employees. To the Knowledge of the Seller, Parent, or the Companies, none of the Companies has experienced any attempt by organized labor or its representatives to make it conform to demands of organized labor relating to its employees or to enter into a binding agreement with organized labor that would cover such Companies. To the Knowledge of the Seller, Parent or the Companies, there is no unfair labor

practice charge or complaint against any of the Companies pending before the National Labor Relations Board or any other Governmental Authority arising out of any of the Business, there is no labor strike or labor disturbance pending or threatened against any of the Companies nor is any grievance in writing currently being asserted, and none of the Companies has experienced a material work stoppage or other material labor difficulty.

3.19 Intellectual Property. Except as set forth in Schedule 3.19, the Companies either have all right, title and interest in, or a valid and binding license to use all Intellectual Property. Except as set forth in Schedule 3.19, there are no actions or proceedings pending or, to the Knowledge of Seller, Parent or the Companies threatened that challenge the rights of any of the Companies to use the Intellectual Property, and neither Seller, Parent nor any of the Companies has Knowledge of any Person infringing on the Intellectual Property. Except as set forth on Schedule 3.19, neither Seller nor Parent has Knowledge that any of the Companies is infringing on any rights of any Person under any patent, trademark, trade name, service mark or copyright.

3.20 No Brokers. Neither Seller, Parent nor any Affiliate of Seller or Parent (including, without limitation, any of the Companies) has entered into, or will enter into, any Contract with any Person which will result in the obligation of any of the Companies or Buyer to pay any finder's fee, brokerage commission or similar payment in connection with the Transactions.

3.21 No Other Agreements to Sell. Neither Seller nor Parent has any legal obligation, absolute or contingent, to any person or entity other than Buyer to sell any of the Shares, to effect any merger, consolidation or other reorganization of any of the Companies or to enter into any agreement with respect to any sale of capital stock of the Companies or merger, consolidation or other reorganization of any of the Companies. None of Seller, Parent or the Companies, has made a commitment, to sell or transfer any part of the assets of any of the Companies other than in the ordinary course of its business and except for the Transactions.

3.22 Employee Benefit Plans.

(a) Schedule 3.22(a) sets forth all bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance pay, unemployment benefits, death benefits, hospitalization, insurance or other similar plan or arrangement or understanding entered into, maintained or sponsored by Seller, Parent or any of their Affiliates (each such plan, arrangement or understanding as set forth on Schedule 3.22(a) referred to as a "Parent Plan" and, collectively, the "Parent Plans") providing benefits to any present or former employee, consultant or independent contractor of the Companies, or any beneficiary or dependent thereof, and, except as set forth in Schedule 3.22(a), none of the Companies sponsors, maintains or has entered into any such plan, arrangement or understanding (a "Company Plan") which, absent an overt act to terminate its existence, would continue as such after the transfer of the Shares to Buyer. None of the Companies is or has been party to a collective bargaining agreement. Except as set forth in Schedule 3.22(a), to the Knowledge of Seller the Parent Plans have been maintained in all material respects in accordance with their respective material terms and conditions and in accordance with all provisions of applicable law, including ERISA. All material contributions required to be made by any of the Companies to any Parent Plan by applicable law or regulation

or by any plan or document or other contractual undertaking, and all premiums due or payable with respect to the insurance policies funding any Parent Plan, for any period through the date hereof, have been timely made and paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the Financial Statements or disclosed on Schedule 3.22(a). Except as set forth on Schedule 3.22(a) or as reflected in the Financial Statements, none of the Companies has nor will have any obligation or liability arising for any periods ending on, prior to or after the First Closing Date in connection with any Parent Plan.

(b) None of the Companies nor any member of their "Controlled Group" (defined as any organization which is a member of a controlled group of organizations within the meaning of Code sections 414(b), (c), (m) or (o)) has any liability or contributes (or has at any time contributed or had an obligation to contribute) to any multi-employer plan (within the meaning of ERISA section 4001(a)(3)).

(c) No actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or to the Knowledge of Seller, Parent and the Companies threatened; and to the Knowledge of Seller, Parent and the Companies no facts or circumstances exist that could give rise to any such actions, suits or claims, that could reasonably be expected to result in any material liability being imposed on any of the Companies in connection with their participation in any Parent Plan prior to the First Closing Date.

(d) No plan exists that could result in the payment to any present or former employee of any of the Companies of any money or other property or accelerate or provide any other rights or benefits to any present or former employee of any of the Companies as a result of the Transactions, whether or not such payment would constitute a parachute payment within the meaning of Code section 280G, and no Parent Plan will incur any liability for severance or similar benefits solely as a result of the Transactions that has not been disclosed on Schedule 3.22(a) or reflected in the Financial Statements.

3.23 Tax Matters.

(a) Each Company has duly and timely filed all material Tax Returns required to be filed by it, including all material federal, state, local and foreign Tax Returns for tax periods ending on or prior to the Second Closing Date. All such Tax Returns were correct and complete in all material respects. No written claim has ever been made by any authority in a jurisdiction where any Company files a Tax Return that any Company is or may be subject to taxation or additional taxation by that jurisdiction. Each Company has paid in full all Taxes shown on a Tax Return before such payment became delinquent except for delinquent Taxes which are immaterial and, at the time they become delinquent, were unknown to Seller, Parent and the Companies.

(b) Audit History. With respect to all periods not barred by the statute of limitations, (i) no Company has executed any waiver or extension of any statute of limitations on the assessment or collection of any Tax or with respect to any liability arising therefrom, except as set forth in Schedule 3.23(b); (ii) the Tax Returns of each Company have never been audited by any taxing authority nor is any such audit, inquiry, investigation or examination in process, pending or, to any of the Companies' or the Seller's Knowledge, threatened (whether in writing

or orally, formally or informally) relating to any of the Companies' Tax Returns; (iii) no deficiencies exist or have been asserted (whether in writing or orally, formally or informally) or are expected to be asserted with respect to any Taxes of any of the Companies; (iv) none of the Companies nor the Seller has received notice (whether in writing or orally, formally or informally) nor does any of them expect to receive notice that any of the Companies has not filed a Tax Return or paid Taxes required to be filed or paid by it; (v) none of the Companies nor the Seller is a party to any action or proceeding for assessment or collection of Taxes, nor has any such event been asserted or, to either Companies' or Seller's Knowledge, threatened (whether in writing or orally, formally or informally) against any of the Companies or any of its assets; and (vi) there are no claims which have been or, to the Knowledge of Seller, may be asserted relating to any Tax Returns of the Seller or any Affiliate of Seller which if determined adversely would result in the assertion by any Governmental authority of any Tax deficiency against any Company.

(c) Section 6662. In particular, and without in any manner limiting the foregoing, none of the Companies' Tax Returns contains any position that is or would be subject to penalties under section 6662 of the Code (taking disclosure into account) or any corresponding provision of state, local, or foreign tax law.

(d) Section 168(f). No Company is or will be required to treat any of its assets as owned by another Person pursuant to the provisions of Section 168(f) (safe harbor leasing provisions) of the Code.

(e) Power of Attorney. No power of attorney has been granted by any of the Companies with respect to any matter relating to any Taxes or Tax Returns that is currently in force.

(f) Payment of Withheld Taxes on Behalf of Third Parties. Each Company has withheld and paid all material Taxes required to have been withheld with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(g) Encumbrances. There are no security interests on any of the Companies' assets that arose in connection with any failure (or alleged failure) to pay any Taxes. The Companies' assets are not subject to any lien in favor of the United States or any state or locality pursuant to any provision of law under which transferee liability might be imposed upon each of the Companies.

(h) Consolidated Group. Except as set forth in Schedule 3.23(h), no Company has ever been a member of an affiliated group, consolidated, combined or unitary group of corporations for tax purposes or any similar group defined under local, state or foreign Tax law.

(i) Tax Sharing or Allocation Agreements. Except as set forth in Schedule 3.23(i), no Company is a party to or bound by any tax indemnity, tax sharing, or tax allocation agreement, and has not assumed the liability of any other person under contract.

(j) Tax Elections. To the Knowledge of Parent, Seller or the Companies, all material elections with respect to Taxes of the Companies as of the date hereof are set forth in

Schedule 3.23(j). After the date hereof, no election with respect to Companies Taxes shall be made without the written consent of Buyer.

(k) Security for Tax Exempt Obligations. None of the assets of the Companies directly or indirectly secures any debt the interest on which is tax exempt under section 103(a) of the Code.

(l) Tax Exempt Use Property. None of the assets of the Companies is "tax-exempt use property" within the meaning of section 168(h) of the Code.

(m) Parachute Payment. No Company is a party to any contract that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code or any similar provision of foreign, state, or local law.

(n) Section 341(f) Consent. No Company has filed a consent pursuant to the collapsible corporation provisions of section 341(f) of the Code (or any corresponding provision of state, local, or foreign tax law), or agreed to have such section (or corresponding provision) apply to any disposition of any asset owned by it.

(o) International Boycott. No Company has participated in an international boycott as defined in Section 999 of the Code.

(p) Adjustments Under Section 481. No Company has agreed to, nor is required to make, any adjustment under section 481(a) of the Code by reason of a change in accounting method or otherwise.

(q) FIRPTA. No Company has been a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Seller will have each of the Companies execute and deliver to Buyer at or upon the First Closing a statement, complying with Treasury Regulation Section 1.1445-2(c)(3), to the foregoing effect.

3.24 Severance Arrangements. Except as disclosed on Schedule 3.24, none of the Companies has entered into or is obligated under any severance, employment, change of control or similar arrangement in respect of any present or former personnel that will result in any obligation (absolute or contingent) after the First Closing Date to make any payment to any present or former personnel following termination of employment or as a result of a change in control of any of the Companies.

3.25 Insurance. Except as set forth on Schedule 3.25, the Companies maintain insurance policies which are in amount and character, including with respect to the perils or hazards covered thereby, substantially similar to that carried by entities engaged in similar businesses, including directors and officers insurance, except where the failure to maintain such insurance would not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect.

3.26 Disclosure. No representation or warranty of Seller, Parent or the Companies, as the case may be, contained in this Agreement and the accompanying Schedules contain or will contain any untrue statement of a material fact or omit or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading.

ARTICLE IV
Representations and Warranties of Buyer

Buyer represents and warrants to Seller and Parent that:

4.01 Corporate Existence and Power. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia and has all powers and all material Consents required to carry on its business as now conducted.

4.02 Authorization. The execution, delivery and performance of this Agreement and each of the documents and instruments required hereby, the consummation of the Transactions and the performance by Buyer of its obligations hereunder are within Buyer's powers and have been duly authorized by all necessary action on the part of Buyer. This Agreement and each of the documents and instruments required hereby have been, or will be, duly executed and delivered by Buyer and constitute, or upon the execution and delivery thereof will constitute, the legal, valid and binding obligations of Buyer, enforceable against Buyer in accordance with their terms.

4.03 No Conflict or Violation. Except as set forth on Schedule 4.03, the execution and delivery of this Agreement and each of the documents and instruments required hereby of Buyer do not, and the consummation of the Transactions, and compliance with the terms hereof, will not:

(a) conflict with, or result in any material breach or violation of or material default or loss of any benefit under, any Consent, Order, concession, grant, franchise or Law, to which Buyer is a party or to which Buyer is subject which, in each case, would prevent Buyer from performing its obligations under this Agreement and consummating the Transactions;

(b) conflict with, or result in a material breach or violation of, or a material default or loss of any benefit under, or accelerate the performance required by, the terms of any Material Contract or Order to which Buyer is a party or to which any of its properties are subject, or constitute a default or loss of any right thereunder or an event which, with or without the lapse of time or notice, might result in a default or loss of any right thereunder or the creation of any Lien upon any of the assets or properties of Buyer which, in each case, would prevent Buyer from performing its obligations under this Agreement or consummating the transaction; or

(c) result in any termination, suspension, revocation, impairment, forfeiture or non-renewal of any Consent except for any such terminations, suspensions, revocations, impairments, forfeitures or non-renewals of any Consents which, in each case, would not prevent Buyer from performing its obligations under this Agreement or consummating the Transactions.

4.04 Consents and Approvals. Except as set forth on Schedule 4.04, no Consent or declaration, filing or registration with, any Governmental Authority, or any other Person is required to be made or obtained by Buyer in connection with the execution, delivery and performance of this Agreement and the consummation of the Transactions, except for such Consents as have been or will be obtained by Buyer prior to the Second Closing.

4.05 Litigation. Except with respect to litigation in which Buyer and Seller or their respective Affiliates are parties, there is no action, suit, investigation or proceeding pending against, or to the Knowledge of Buyer, threatened against, Buyer or any of its properties or assets or any director, officer of employee of Buyer (in his or her capacity as such) which in any manner challenges, questions the validity of or seeks to prevent, alter or materially delay the Transactions.

4.06 Investment Representations. Buyer is acquiring the Shares for its own account for investment and not with a view to the sale or distribution thereof or with any present intention of selling or distributing any thereof. Buyer represents and warrants that (i) it is an "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"), (ii) it has the requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of purchasing the Shares, (iii) it understands that a purchase of the Shares involves certain risks and it has taken full cognizance of and understands such risks, (iv) it is acquiring the Shares for its own account and not with a view to their distribution within the meaning of Section 2(a)(11) of the Securities Act in any manner that would be in violation of the Securities Act, (v) as of the First Closing Date, it has been given the opportunity to ask questions of, and receive answers from, each of Seller and the Companies concerning this Agreement, the other agreements and the Transactions and to obtain additional information necessary to verify the accuracy of information contained herein or such other information as it desired in order to consummate the Transactions contemplated by this Agreement, and (vi) in making its decision to enter into this Agreement, it has relied solely upon the representations, warranties, covenants, agreements and acknowledgements of Seller, Parent and the Companies in this Agreement. Buyer understands and acknowledges that the Shares are not registered under the Securities Act of 1933, as amended (the "Securities Act"), and will not be transferable, except:

(a) pursuant to an effective registration statement under the Securities Act;

(b) pursuant to Rule 144 or any successor rule under the Securities Act;

(c) pursuant to a no-action letter issued by the Securities and Exchange Commission to the effect that a proposed transfer of the Shares may be made without registration under the Securities Act; or

(d) upon an opinion of counsel knowledgeable in securities law matters to the effect that the proposed transfer is exempt from registration or qualification under the Securities Act and relevant state securities laws.

4.07 No Brokers. Neither Buyer nor any Affiliate of Buyer has entered into, or will enter into, any Contract with any Person which will result in the obligation of Seller, either of the

Companies, or Buyer to pay any finder's fee, brokerage commission or similar payment in connection with the Transactions.

4.08 Reinsurance Submissions. All submissions made to Reinsurers by Buyer and Reinsurers' responses to Realm as submitted by Buyer are accurate in all material respects.

4.09 Marketing Authority. Buyer, either by itself or through licensees duly licensed in the applicable states and approved by Seller in writing, such approval not to be unreasonably withheld or delayed, has been and shall be duly qualified to market any insurance bound pursuant to the General Agency Agreement.

4.10 Use of Realm's Published Rates. All insurance bound by Buyer purportedly on behalf of Realm prior to the execution of this Agreement has been at Realm's published rates or shall be adjusted to Realm's published rates before Realm is obligated to bind in accordance with Section 2.04(f) of this Agreement.

4.11 Jurisdictions. As of the execution of this Agreement, Buyer has purported to bind coverage on behalf of Realm only in those jurisdictions set forth on Schedule 4.11.

4.12 No Reported Claims. To Buyer's Knowledge or as indicated on all claims reports that Buyer shall request and receive from the third party administrator, Crawford & Company, within 3 days of the date of this Agreement and no later than 3 days prior to the First Closing Date, there have not been any claims in amounts that prevent the attachment and effectiveness of all reinsurance with respect to the AIM Insurance Program as determined to the satisfaction of the excess reinsurers of Realm.

4.13 PEO Releases. Releases relating to any claims by PEOs from the issuance of disputed certificates prior to the First Closing Date to be obtained from all of the PEOs set forth on Schedule 4.13 prior to the First Closing, collectively represent releases from all PEOs purportedly bound or whose clients were purportedly bound by AIM on behalf of Realm.

4.14 Disclosure. No representation or warranty of Buyer contained in this Agreement and the accompanying Schedules contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading.

4.15 AIM Financial Schedule. The projections in the AIM Financial Schedule (a) are in the good faith belief of Buyer reasonably achievable as of the date hereof and (b) have been prepared in good faith by Buyer.

4.16 Atlantis. As of the First Closing Date, Atlantis does not have any material Liabilities other than miscellaneous immaterial operating expenses and Liabilities under the Reinsurance Agreement.

4.17 Glastonbury. The offer and sale of securities of Glastonbury in connection with the AIM Insurance Program complies, or will comply, in all material respects with all applicable federal and state securities laws.

ARTICLE V
Covenants and Agreements

5.01 Mutual Covenants and Agreements.

(a) Reasonable Best Efforts, Further Assurances. Subject to the terms and conditions of this Agreement, the parties shall each use their respective best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable to consummate the Transactions. The parties hereto agree to execute and deliver promptly such other documents, certificates, agreements, instruments, indentures, mortgages and other writings (including any amendments or supplements thereto) as may be reasonably necessary or desirable in order to consummate the Transactions.

(b) Certain Filings. In addition to the requirements of Section 5.01(g) hereof, the parties hereto shall cooperate with one another in good faith:

(i) in determining whether any action by or in respect of, or filing with, any Governmental Authority is required, or any Consent is required in connection with the consummation of the Transactions;

(ii) in taking such actions or making any such filings, furnishing information required in connection therewith and seeking timely to obtain any such Consents; and

(iii) in connection with obtaining on or before the First Closing the Consents required from parties to any of the Companies' leases and other contracts, licenses, certificates and approvals described in the Schedules.

(c) Public Announcements. Immediately following the First Closing Date, the parties hereto shall cooperate to jointly issue a press release or similar public announcement that is mutually agreeable to all parties and that announces the execution of this Agreement and any other matters the parties mutually agree upon. Prior to issuing any press release or similar announcement to the public, the parties shall provide the other parties hereto with the form and substance of such press release or similar announcement to the public.

(d) Notifications. The parties hereto shall promptly notify each other of any material communications or other material contacts with any Governmental Authority pertaining to the Companies or Buyer or its Affiliates.

(e) Form A Hearing. Seller, Parent, the Companies and their Affiliates shall cooperate with Buyer in good faith in connection with any Form A hearing in the State of New York relating to the transfer of any of the Shares and shall confirm that certain PEO coverages were bound by Realm at the First Closing; provided, however, no party shall be required to disavow its position regarding any event that occurred prior to the execution of this Agreement.

(f) Issuance of Master Policies. If necessary, the parties shall cooperate in good faith to allow Realm to issue master insurance policies under the AIM Insurance Program promptly following the First Closing, which master insurance policies shall be replaced by

individual policies within 90 days of the date hereof; provided, however, that Realm shall not be required to underwrite any individual risk that is outside of the Guidelines.

(g) Cooperation in State Proceedings. The parties shall cooperate in good faith (i) to secure any required approval of the New York Department of Insurance (or similar regulatory agency) of every jurisdiction set forth on Schedule 5.01(g), (ii) in the event such approval is not obtained, to comply with whatever order is issued by the New York Department of Insurance or any jurisdiction set forth on Schedule 5.01(g), and (iii) to request a waiver of any restrictions placed on coverage placed by AIM purportedly on behalf of Realm in any such jurisdiction and shall confirm that PEO coverages were bound by Realm at the First Closing; provided, however, no party shall be required to disavow its position regarding any event that occurred prior to the execution of this Agreement.

(h) Schedules. No later than seven Business Days after the date of this Agreement, Seller, Parent and the Companies shall deliver to Buyer complete and accurate Schedules with copies of all material documents listed in such Schedules (as reasonably requested by Buyer), and the information reflected in such Schedules shall be satisfactory in all material respects to Buyer and Seller. No later than seven Business Days after the date of this Agreement, Buyer shall deliver to Seller complete and accurate Schedules with copies of all material documents listed in such Schedules (as reasonably requested by Seller), and the information reflected in such Schedules shall be satisfactory in all material respects to Seller and Buyer. Information reflected in Schedules provided by Buyer, Parent, Seller and the Companies shall pertain only to events, faults or circumstances that have occurred prior to or on the date of this Agreement. If Buyer, Seller, Parent and the Companies fail to deliver any Schedule required to be delivered pursuant to this Agreement within the period set forth in this Section 5.01(h), such Schedule shall be deemed to state "none."

(i) Each party agrees to give the other party notice as soon as practicable after any determination by it of any fact or occurrence relating to the other party which it has discovered through the course of its investigation and which represents in the case of Seller, Parent and Buyer, a material breach of any representation, warranty, covenant or agreement of the other party and, in the case of the Companies, which has had or could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on the Companies; provided, however, that the failure to give such notice shall not give rise to any Liability against the discovering party by any other party or otherwise affect the representations, warranties, covenants or agreements of any party set forth herein (or the rights and remedies of the discovering party in the event of a breach thereof) or any of the other terms and conditions of this Agreement.

(j) Each party hereto, and Atlanta Insurance Marketing, Inc., agrees that the terms of the Credit Agreement shall remain the same except as amended by this Agreement with respect to the timing and amount of loan payment.

5.02 Covenants of Seller, Parent and the Companies.

(a) Employee Relations and Benefits.

(i) No Termination of Employees. Prior to the Second Closing Date, except with the consent of Buyer, the Companies shall not, and neither Seller nor Parent shall take any action to cause the Companies to terminate the employment of any employees other than in the ordinary course of business; and

(ii) Employment Liabilities. Except as expressly set forth in this Section 5.02(a)(ii), the Companies shall cease to be participating employers under the Parent Plans, and employees of the Companies shall cease their active participation in the Parent Plans, no later than the date of the transfer of Shares to Buyer and coverage under the Parent Plans shall continue to be provided to employees of the Companies until such date as employees of the Companies cease their active participation in the Parent Plans under the same terms and conditions as provided under the Parent Plans immediately before the First Closing Date. Seller shall be responsible and liable for all Liabilities and obligations in connection with the employment (or termination of employment) of the employees of the Companies occurring prior to the First Closing Date; provided, however, Seller shall not be responsible and liable for any Liabilities and obligations in connection with the employment (or termination of employment) of the employees of the Companies occurring on or after the First Closing Date.

(b) Non-Solicitation of Employees. For a period of two years from the date of the transfer to Buyer of the Shares, none of Seller, Parent or their Affiliates shall directly or indirectly solicit for employment or employ, any employee of the Companies and, after the Second Closing Date, any employee of any Affiliates of the Companies; provided, however,

(i) that the foregoing restriction shall not apply to the solicitation or hiring of any employee who is not, at the time of solicitation, employed by the Companies or any of their Affiliates; and

(ii) that the foregoing restriction shall not preclude Seller, Parent or any of their Affiliates from employing any such employee who seeks employment with Seller or any of its Affiliates in response to any general advertisement.

(c) Non-Solicitation of Customers. For a period of two years from the date of the transfer to Buyer of the Shares, Seller and Parent shall not, and shall use their respective best efforts to ensure that their Affiliates do not, directly or indirectly, with respect to the Business to be conducted under the AIM Insurance Program:

(i) solicit PEO customers of, or vendors to, the Companies or any of their Affiliates who are PEO customers or vendors of the Companies on the Second Closing Date; or

(ii) take any action which could reasonably be expected to result in the withdrawal, from the AIM Insurance Program, of any of Seller's or its Affiliates' PEO customers or vendors with respect to the policies and programs arising in connection with

the AIM Insurance Program provided, however, that following the issuance of coverage by Realm, Realm may take commercially reasonable steps: (i) in respect of any such customer or vendor to address breaches or defaults in its obligations to Realm; (ii) to respond to material changes in the quality or nature of any risk for which coverage has been, or is sought to be, bound; and (iii) to respond to material developments in the regulatory environment, the financial condition of Realm or the general economic environment.

(d) No Rights Conferred on Employees. Nothing herein, expressed or implied, shall confer upon any employee or former employee of Seller, Parent, the Companies, or any of their Affiliates, any rights or remedies including, without limitation, any right to employment or continued employment for any specified period of any nature or kind whatsoever, under or by reason of this Agreement.

(e) Name. After the Second Closing Date, Seller and Parent shall not, and shall use their respective best efforts to cause its Affiliates not to, use commercially or operate any business under the name Realm or Realm National without the prior written consent of Buyer (except for the run-off of existing Subsidiaries).

(f) Insurance. Seller and Realm shall maintain until the Second Closing Date, the insurance described in Section 3.25 in the amounts, with the expiration dates and the deductibles in place as of the date of this Agreement.

(g) Conduct of Business. Prior to the earlier of the release of the Shares from the Escrow Property (either on or after the Second Closing Date) or the termination of this Agreement pursuant to the terms hereof, except as contemplated hereby, unless the prior written consent of Buyer is obtained, the Companies shall, and Seller and Parent will use their respective efforts to cause the Companies to, conduct the Business only in the ordinary course of business, specifically excluding any right to declare and pay dividends in respect of the Companies, and with current business plans and will use commercially reasonable efforts to preserve the business organization and value of the Companies and the Business and good relationships with their agents, brokers, customers, suppliers, employees and other Persons having dealings with Seller and the Companies with respect to the Business. Except as otherwise expressly provided in this Agreement, without the prior written consent of Buyer, prior to the earlier of the release of the Shares from the Escrow Property (either on or after the Second Closing Date) or termination of this Agreement, the Companies shall not, and Seller and Parent shall not and shall use their respective best efforts to cause the Companies not to:

(i) enter into, terminate or fail to renew any Material Contract, other than in the ordinary course of business and consistent with past practice, or modify in any material manner any Material Contract, except as may be required by Applicable Law;

(ii) acquire, dispose of, lease, assign or allow any Lien to arise with respect to any asset that is used or to be used in the Business, other than acquisitions, dispositions, leases, assignments or Liens in the ordinary course of the business and consistent with past practice;

(iii) make any capital expenditure by any of the Companies in excess of $25,000, enter into any new or increase any existing indebtedness of the Companies, have the Companies guarantee any indebtedness of any other Person or have the Companies make any extension of credit to any other Person;

(iv) make any material change to the financial, Tax, accounting, actuarial or reserving policies employed with respect to the Business, except as may be required by applicable Law, GAAP or SAP;

(v) enter into or terminate any reinsurance contract relating to the Business, other than, upon prior written notice to Buyer, (i) renewals or replacements of existing reinsurance contracts in the ordinary course of business and (ii) agreements and/or commutations which might be reached with current reinsurers regarding receivables that are over 90 days old;

(vi) redeem, repurchase or issue any shares of capital stock of any Company, or grant any Rights with respect to any shares of capital stock of any Company;

(vii) declare, set aside for payment, or make any payment of any dividend (whether in cash, securities or other property) or other distribution or payment in respect of the shares of capital stock of the Companies;

(viii) cause or permit any amendment, supplement, waiver or modification to or of any of the Companies' charter documents;

(ix) pay, discharge, compromise or satisfy any claims, Liabilities or obligations associated with the Business other than the payment, discharge, compromise or satisfaction of claims, Liabilities or obligations in the ordinary course of business and consistent with past practice;

(x) (a) increase the commissions or benefits of any agents, brokers, producers or other sales representatives for the Business, or (b) increase the salary, bonus and other benefits of any of the officers, directors and employees of the Companies beyond the amounts paid to such Persons as of June 30, 2002, except in each case (1) as may be required under the terms of the applicable contractual relationship with any such Person, or (2) in the ordinary course of business and consistent with past practice;

(xi) launch, market, issue or agree to issue any new policies, except (a) pursuant to the AIM Insurance Program and (b) for commercial package and dwelling fire business, not to exceed $4,000,000 in the aggregate for the fiscal year 2003; or

(xii) agree in writing or otherwise to take any of the actions described above in this Section 5.02(g).

(h) Notice of Material Adverse Effect. Prior to the Second Closing, Seller, Parent and the Companies shall notify Buyer as promptly as practicable of any event or transactions that could reasonably be expected to result, individually or in the aggregate, in a

Material Adverse Effect on any of the Companies; provided, however, receipt of such notification by Buyer shall not be deemed a waiver of the condition set forth in Section 7.01(d).

(i) Cooperation Regarding Licensure. Seller, Parent and the Companies shall use reasonable efforts to cooperate in any investigation or administrative or other proceeding in any jurisdiction in which licensure of Realm or any of its agents is required with respect to the AIM Insurance Program; provided that Seller, Parent and their Affiliates shall not be required to disavow any position taken with respect to the AIM Insurance Program prior to the execution of this Agreement.

(j) Reinsurance Order Confirmations. Seller and Realm shall use commercially reasonable efforts to obtain reinsurance reasonably acceptable to Buyer and Seller. Upon the execution of this Agreement, Seller and Realm shall immediately prepare and submit a firm order for the purchase of reinsurance essential to Realm's undertaking of the AIM Insurance Program, consistent with the terms presented by reinsurance brokers as of the date of this Agreement, modified by such additional terms and conditions as Seller and Realm may in good faith determine are prerequisites to acceptable reinsurance in accordance with standard industry practices and Seller and Realm shall provide to Buyer broker reinsurance order confirmations, executed on Realm letterhead, addressed to Reinsurers and in a form reasonably satisfactory to Buyer for immediate delivery to Reinsurers. Such additional terms and conditions may specifically include requiring a waiver of any letter of credit or other collateral required of Realm by any Reinsurer provided that such reinsurance is in compliance with the requirements of New York insurance Laws with respect to credit for reinsurance. The parties shall cooperate fully to secure binding reinsurance in accordance with the orders placed by Realm, including any acceptance of other commercially reasonable terms imposed by Reinsurers.

(k) Maintenance of Certificates of Authority and Certificates of Compliance. Realm shall, and Seller, Parent, SCNY and WTS shall use their respective best efforts to cause Realm to maintain Certificates of Authority to engage in the property and casualty insurance business with or without the authority to write workers compensation insurance (collectively the "Insurance Licenses" and each an "Insurance License") in all of the jurisdictions set forth on Schedule 5.02(k)(i) (the "Required License States"). Realm shall, and Seller, Parent, SCNY and WTS shall use their respective best efforts to cause Realm to, maintain the Insurance Licenses with current workers compensation filings in all of the jurisdictions set forth on Schedule 5.02(k)(ii) (the "Required Filing States"). Realm, Seller and Parent shall notify Buyer immediately of any oral or written communications from Governmental Authority's threatening an investigation, administrative action or revocation of any such Insurance License.

(l) Authorization of General Agency Agreement. Realm, Seller and Parent shall take all steps reasonably necessary to authorize Buyer's agents to perform the acts described in the General Agency Agreement.

(m) Compliance Employee. Immediately upon the execution of this Agreement, Realm shall, and Seller and Parent shall use their respective best efforts to cause Realm to, make available at the offices of Buyer in Atlanta, Georgia, on a full time basis or as otherwise mutually agreed to by Buyer and Seller until the earlier of the release of the Shares from the Escrow Property (either on or after the Second Closing Date) or termination of this

Agreement, or as otherwise reasonably requested by AIM during the time Seller shall have obligations to AIM as specified in Section 8.03, one employee with the appropriate experience and authority to conduct underwriting review and approval and oversee compliance with the Guidelines; provided, however, that the sole remedy for the failure of Realm to make such employee available on a continuous basis shall be the ability of Buyer to bind insurance coverage for risks within the Guidelines which remained unreviewed by such employee for five Business Days after a request for such insurance coverage is made; provided, further, that Realm and Buyer shall use commercially reasonable efforts to bind such insurance coverage as promptly as practicable.

(n) Issuance of Binders. After the First Closing, Realm shall, and Seller and Parent shall use their respective best efforts to cause Realm to, issue new binders on coverages proposed by AIM in accordance with the General Agency Agreement that meet the Guidelines, or are otherwise approved by Realm with effective dates no earlier than October 1, 2002.

(o) Realm to Provide Coverage. Realm shall, and Seller and Parent shall use their respective best efforts to cause Realm to, bind coverage previously purportedly bound by AIM on behalf of Realm that is outside the Guidelines so long as (i) the Reinsurers agree to bind such coverage and (ii) as certified by each insured in question, there have not been any losses incurred under the policies relating to such coverage as of the First Closing. Except as otherwise agreed in writing by the parties hereto, Realm reserves the right to void *ab initio* any such coverage that is outside the Guidelines and coverages purportedly bound on behalf of Realm in jurisdictions in which Realm is not authorized to write workers compensation coverage.

(p) Access. Between the date of this Agreement and the Second Closing Date, Seller, Parent and the Companies shall (i) afford Buyer and its representatives, including, without limitation, the Alternative Auditor, reasonable access to the Companies' personnel, premises, properties, Contracts, books and records, and other documents and data during normal business hours, (ii) make available to Buyer and its representatives copies of all such Contracts, books and records, and other existing documents and data of the Companies as Buyer may reasonably request, (iii) make available to Buyer and its representatives such additional financial, operating and other data and information of the Companies as Buyer may reasonably request and (iv) otherwise reasonably cooperate with the investigation by Buyer and its representatives of the Companies and shall authorize KPMG to permit Buyer and its representatives to examine all accounting records and working papers of the Companies and KPMG pertaining solely to the Financial Statements; provided, however, the Companies shall not be required to provide Buyer and its representatives access to or disclose information where such access or disclosure would violate the rights of its customers under applicable Law or contravene any Law. Each of Seller, Parent and the Companies shall, and shall direct their respective senior officers to, answer all questions reasonably posed by Buyer between the date of this Agreement and the First Closing Date, relating to this Agreement, the Transactions and the Companies. No investigation pursuant to this Section 5.02(p) shall affect or be deemed to modify any representation or warranty made by Seller and Parent.

(q) Acquisition Proposals. Seller, Parent and the Companies shall not, and shall use their respective best efforts to, cause each of their subsidiaries, including, the Companies, and each of their respective directors, officers, employees, agents, consultants,

advisors or other representatives of such Person not to, directly or indirectly, solicit, authorize or otherwise facilitate, any inquiries or the making of any proposals or offers from, discuss or negotiate with, provide any confidential information or data to, or consider the merits of any unsolicited inquiries, proposals or offers from, any Person (other than Buyer and its affiliates) relating to any transaction involving the sale of the Business or assets (other than in the ordinary course of business) of the Companies, or any of the Shares or other capital stock or Rights of the Company, or any merger, consolidation, business combination, or similar transaction involving the Company (any such inquiry, proposal or offer being an "Acquisition Proposal").

(r) Sponsorship of Buyer Insurance Agent. Upon the execution of this Agreement, Realm shall, and Seller and Parent shall use their respective best efforts to cause Realm to, promptly execute and deliver to Buyer all documentation reasonably provided to Realm related to the sponsorship by Realm of Bruce Holly, Buyer's designated insurance agent in Georgia, to acquire a license to sell insurance in Georgia on behalf of Realm.

(s) Stock Certificates of Realm. Seller shall, and Parent shall cause Seller to, deliver the stock certificate or certificates representing the Realm Shares duly endorsed in blank or accompanied by stock powers duly endorsed in blank in proper form for transfer, with any requisite stock transfer tax stamps affixed thereto to the Escrow Agent upon the earlier of (i) receipt by Buyer of appropriate insurance regulatory approval from the New York Department of Insurance or (ii) the Second Closing.

(t) Employees of the Companies. From the date of this Agreement until the date of the transfer of the Shares, none of Seller, Parent or their Affiliates shall directly or indirectly solicit for employment or employ, any employee of the Companies.

(u) RBC Plan. Realm shall, and Seller and Parent shall use commercially reasonable efforts to cause Realm to, submit the RBC Plan for approval by the New York Department of Insurance as soon as reasonably practicable. Realm shall, and Seller and Parent shall use their best efforts to cause Realm to, provide Buyer with draft and final versions of the RBC Plan prior to submitting the RBC Plan to the New York Department of Insurance and make changes to the RBC Plan based on comments provided by Buyer which are, in Realm's reasonable judgment, appropriate.

5.03 Covenants of Buyer.

(a) Issuance of Certificates. Buyer shall not issue, and shall use its (i) best efforts to prevent any Affiliates, and (ii) commercially reasonable efforts to prevent any PEO clients of Buyer from issuing, any Certificates of Insurance between the date of this Agreement and the First Closing Date without the prior written consent of Realm. Buyer shall deliver at the First Closing an affidavit certifying that no employee of Buyer or its Affiliates has executed or authorized the issuance of any Certificate of Insurance prior to the First Closing Date.

(b) North Carolina Alternative Cover. Buyer shall deliver promptly to Realm any documentation received by Buyer with respect to any necessary alternative cover (which AIM shall procure at its expense) in North Carolina or with respect to North Carolina regulatory approval.

(c) Surplus Notes and Other Payments. Between the execution of this Agreement and the Second Closing, Buyer shall (i) cause to be provided to Realm, on the 10th day following each, in advance and based on projected premiums, Surplus Notes in an amount sufficient to ensure that the ratio of additional gross written booked premiums to additional surplus is maintained at no more than 4:1 (and the non-binding "target" ratio of additional net written premiums to additional surplus is maintained at 1:1, unless reinsurance issues are resolved in such a way as to obviate any reasonable concern of Realm and Seller) which Buyer acknowledges is a condition of its exercise of rights under the General Agency Agreement, (ii) make timely payments of all reinsurance premiums related to the AIM Insurance Program on behalf of Realm in accordance with the time periods listed in the GAA and (iii) make payments of insurance premiums related to the AIM Insurance Program to Realm in accordance with the time periods listed in the GAA. Beginning on April 1, 2003, on the first Business Day of each month, Buyer shall determine whether the actual premiums written under the AIM Insurance Program have deviated materially, in the aggregate, from the projected monthly premium amounts for the immediately preceding month, upon which the projected surplus contributions were calculated. If so, Buyer shall adjust promptly the amount of the capital contribution for such month in order to ensure that the capital ratios referred to in Section 5.03(c)(i) above are maintained.

(d) Escrow Payments. No later than five Business Days after the end of each month, beginning on the fifth Business Day after the month of February, 2003, Buyer shall deposit into the Escrow Property an amount equal to the Surplus Cash for the preceding month; provided, however, Buyer (i) shall not be required to make any deposit into the Escrow Property until the Surplus Cash exceeds $3,000,000 plus working capital of $500,000, (ii) shall not be required to make any deposit into the Escrow Property if the Surplus Cash for the preceding month is less than $500,000, (iii) shall only make deposits into the Escrow Property in integrals of $500,000 and therefore the amount of Surplus Cash for a preceding month in excess of $500,000 shall be rounded down to the nearest integral of $500,000, and (iv) shall not be required to make any deposit into the Escrow Property once the balance of the Escrow Property, including the amount of the Letter of Credit for the benefit of Seller plus the balance of any outstanding principal and interest on the Promissory Note held by Buyer has reached $8,500,000 or, if finally determined, the Purchase Price.

(e) Escrow Property. Seller hereby agrees that Buyer, at it sole option, may at any time reduce the amount of the Letter of Credit for the benefit of Seller in the Escrow Property by depositing cash with the Escrow Agent in an amount equal to the amount to be reduced in the Letter of Credit and depositing with the Escrow Agent an alternative Letter of Credit in an amount that, together with the cash deposited by Buyer with the Escrow Agent pursuant to this Section 5.03(f), totals $3,000,000. Seller also hereby agrees that Buyer may reduce the amount of Escrow Property to an amount equal to 75% of the Purchase Price (plus any amount required to be deposited with the Escrow Agent pursuant to Section 5.03(d)) at any time after Seller provides Buyer with the Final Balance Sheet. Buyer may effect such reduction of the Escrow Property either by replacing the Letter of Credit for the benefit of Seller in the Escrow Property with an alternative Letter of Credit in a lesser amount, receipt of funds from the Escrow Property, or both.

(f) Defaults Under the Credit Agreement. Buyer and Atlanta Insurance Marketing, Inc. hereby agree that Buyer, Atlanta Insurance Marketing, Inc. and their respective Affiliates will not prior to the First Closing and, if the First Closing occurs, prior to the Second Closing, exercise any rights it may have under the Credit Agreement as a result of any defaults or potential defaults under the Credit Agreement by Parent that occurred or may have occurred prior to the date of this Agreement. Buyer, Atlanta Insurance Marketing, Inc., Seller and Parent hereby agree and acknowledge that the covenant and agreement in this Section 5.03(f) is in no manner a waiver by Buyer or its Affiliates of any of its rights under the Credit Agreement if the First Closing does not occur, for any defaults or potential defaults under the Credit Agreement by Parent that occurred or may have occurred prior to, on or after the date of this Agreement. Buyer and its Affiliates agree that regardless of any defaults under the Credit Agreement that may exist at the time of the Second Closing, Buyer shall pay the Purchase Price to Seller on the Second Closing Date, in accordance with Section 2.06 hereof; provided, however, payment of the Purchase Price shall not be deemed a waiver of any defaults under the Credit Agreement that may exist on or prior to the Second Closing Date.

(g) Prior to the end of business on July 31, 2002, regardless of whether Buyer has obtained requisite insurance regulatory approval from the New York Department of Insurance to own the Shares, Buyer shall deliver the Purchase Price to Seller by (i) canceling in full all Promissory Notes held by Buyer and its Affiliates (and providing evidence of such cancellation to Seller) and deducting any then unpaid balance of principal and accrued and unpaid interest thereon from the Purchase Price, (ii) returning all Security held by Buyer or its Affiliates to Seller, (iii) directing the Escrow Agent to deliver to Seller out of the Escrow Property any Letter of Credit payable to Seller and the amount of cash held as Escrow Property, if any, up to the remaining unpaid portion of the Purchase Price and (iv) if necessary, delivering to Seller an amount of cash, if any, up to the remaining unpaid portion of the Purchase Price. Notwithstanding the foregoing, if the Purchase Price is less than $3,500,000, Buyer shall cancel only such corresponding portion of any unpaid balance of principal and accrued and unpaid interest of the Promissory Notes as is required to satisfy its obligation to deliver the Purchase Price.

(h) Buyer agrees to request and receive all claims reports from the third party administrator, Crawford & Company, no earlier than 3 days prior to the First Closing Date.

(i) Buyer shall, and shall use its best efforts to cause each of its Affiliates to, cooperate fully with Seller, including providing any documentation and information that may be requested by a regulatory agency in its investigation or examination of Seller and/or its Affiliates in connection with writings of coverage made purportedly on behalf of Realm prior to the First Closing Date. Buyer shall, and shall use its best efforts to cause each of its Affiliates to, make its employees available upon reasonable notice to provide explanations of any documents or information provided hereunder.

ARTICLE VI
Tax Matters

6.01 Pre-Closing Taxes.

(a) All tax sharing agreements shall be terminated as of the First Closing Date and, after the First Closing Date, neither of the Companies, Buyer nor any Affiliate of Buyer shall be bound thereby or have any liability thereunder for any taxable year (whether the current year, a future year or a past year).

(b) Seller shall prepare and file all Tax Returns of the Companies for all taxable periods of the Companies ending on or prior to the transfer of the Shares by Seller. Seller shall prepare such Tax Returns in a manner consistent with past practice.

6.02 Post-Closing Taxes. Buyer shall timely prepare and file all Tax Returns required by law for all Taxes of the Companies for all taxable periods of the Companies ending after the transfer of the Shares to Buyer, including periods which include a taxable period beginning prior to the transfer of the Shares by Seller and ending after the transfer of the Shares by Seller.

6.03 Sales and Transfer Taxes. All sales and use taxes incurred in connection with this Agreement and the Transactions shall be borne by the party to whom such taxes are assessed under applicable law. All transfer taxes incurred in connection with this Agreement and the Transactions shall be borne equally by the parties.

6.04 Cooperation and Exchange of Information. Seller, Buyer and the Companies will provide each other with such cooperation and information as any of them reasonably may request of another in filing any Tax Return, amended Tax Return or claim for refund, determining a Tax liability or a right to a refund of Taxes or participating in or conducting any audit, litigation or other proceeding in respect of Taxes. Each such party shall make its employees available on a mutually convenient basis to provide explanations of any documents or information provided hereunder. Each such party will make available and retain all books and records with respect to Tax matters relating to any taxable period beginning on or before the First Closing Date, including without limitation all Tax Returns, schedules, work papers and all records or other documents relating to Tax matters of the Companies, audit reports received from any Tax authority relating to any Tax Return of each of the Companies and any closing agreements entered into by any of the Companies, until the expiration of the statute of limitations of the respective Tax periods (and, to the extent notified by Buyer, any extensions thereof) to which such Tax Returns and other documents relate. Any information obtained under this Section 6.04 shall be kept confidential, except as may be otherwise necessary in connection with the filing of Tax Returns, amended Tax Returns, claims for refund or in conducting an audit or other proceeding. In addition, Seller, Buyer and the Companies will give the other parties reasonable written notice prior to transferring, destroying or discarding any such books and records relating to the above Tax matters and, if the other party so reasonably requests, Seller and Companies, as the case may be, shall allow the other party to take possession of such books and records.

6.05 Agreed Tax Treatment. Any payments made to Seller, any of the Companies or Buyer pursuant to Section 6.07 shall constitute an adjustment of the Purchase Price for Tax

purposes and shall be treated as such by Buyer and Seller on their Tax Returns to the extent permitted by law.

6.06 Further Assistance. Buyer and Seller further agree, upon request, to use their commercially reasonable efforts to obtain any certificate or other document from any governmental authority or any other person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby). Buyer and Seller further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to section 6043 of the Code.

6.07 Tax Refunds. Any Income Tax refunds that are received by Buyer or the Companies that relate to Tax periods ending on or before the First Closing Date shall be for the account of Buyer.

ARTICLE VII
Conditions to Second Closing

7.01 Conditions to Obligations of Buyer. Other than Buyer's obligation as set forth in Section 2.08(b)(i), which obligation shall be satisfied by Buyer on the Second Closing Date regardless of the satisfaction of the conditions of this Section 7.01 (which satisfaction by Buyer of the obligation set forth in Section 2.08(b)(i) on the Second Closing Date shall not be deemed to waive in any manner Buyer's rights pursuant to Article IX), Buyer's obligations to consummate the Transactions at the Second Closing shall be subject to the satisfaction, on or before the Second Closing Date hereunder, of each of the following conditions, all or any of which may be waived, in whole or in part, by Buyer:

(a) Representations, Warranties and Covenants. The representations and warranties of Seller, Parent and the Companies contained in this Agreement shall be true and correct on and as of the date of this Agreement and as of the Second Closing Date with the same force and effect as though all such representations and warranties had been made on and as of the Second Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct as of such date or period, and except where the failure to be true and correct (without regard to any materiality qualifiers therein) could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies. Seller, Parent and the Companies shall have performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by Seller, Parent or any of the Companies, as the case may be, on or prior to the Second Closing Date.

(b) Approvals and Consents. Except for such Consents that have been denied or given with conditions, restrictions or limitations as a direct result of the implementation of the AIM Insurance Program or as a direct result of the conduct of Buyer and its Affiliates, the Consents listed on Schedule 3.09 shall have been received or deemed received in each case without any conditions, restrictions or limitations which in the aggregate reasonably could be expected to have, individually or in the aggregate, a Material Adverse Effect on the Companies

and; *provided, however,* that if Seller, Parent or the Companies cannot obtain a Consent listed on the Schedule 3.09 from a Person other than a Governmental Authority, it shall have the option to provide Buyer with substantially equivalent arrangements that are satisfactory to Buyer in its sole discretion with respect to the item for which such Consent could not be obtained, in which event the condition contained in this Section 7.01(b) with respect to such Consent shall be deemed satisfied. All applicable waiting periods under any federal, or state statute or regulation shall have expired or been terminated.

(c) Injunction and Litigation. There shall be in effect no injunction, writ, preliminary restraining order or other Order of any nature issued by any court of competent jurisdiction directing that the Transactions not be consummated as herein or therein provided as a result of actions taken by Seller, Parent or the Companies, other than actions taken by Seller, Parent or the Companies pursuant to this Agreement, the General Agency Agreement or any other agreements between any of the parties.

(d) Material Adverse Effect. Since the date hereof, there shall not have occurred any event or change and there does not exist any circumstance, in each case which has resulted in, or that could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect on any of the Companies, except for any event, change or circumstance that should be reasonably known to Buyer or its Affiliates as a result of actions by Buyer or its Affiliates prior to the date of this Agreement or in connection with the General Agency Agreement after the First Closing.

(e) Required Deliveries at Second Closing. Seller, Parent and the Companies shall have delivered to Buyer the items and documents called for by Section 2.08(a) before, on or as of the Second Closing Date and Seller shall have delivered Exhibit C to the Escrow Agreement, duly executed by Seller and a notary, to the Escrow Agent.

(f) Compliance with Agreements. Seller, Parent and the Companies shall have complied in all material respects with their respective obligations under this Agreement, the Escrow Agreement, the General Agency Agreement, the Reinsurance Agreement and all other agreements contemplated by this Agreement.

7.02 Conditions to Obligations of Seller. The obligations of Seller, Parent and the Companies to consummate the Transactions at the Second Closing shall be subject to the satisfaction, on or before the Second Closing Date hereunder, of each of the following conditions, all or any of which may be waived, in whole or in part, by Seller, Parent or the Companies:

(a) Representations, Warranties and Covenants. The representations and warranties of Buyer contained in this Agreement shall be true and correct on and as of date of this Agreement and as of the Second Closing Date with the same force and effect as though all such representations and warranties had been made on and as of the Second Closing Date, except that any such representations and warranties that are given as of a particular date and relate solely to a particular date or period shall be true and correct as of such date or period, and except where the failure to be true and correct (without regard to any materiality qualifiers therein) would not impair the ability of Buyer to perform its obligations under this Agreement. Buyer shall have

performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by Buyer on or prior to the Second Closing Date.

(b) Approvals and Consents. The Consents listed on Schedule 4.04 shall have been received or deemed received in each case without any conditions, restrictions or limitations which in the aggregate reasonably would be expected to have a Material Adverse Effect on Buyer's ability to consummate the Transactions; *provided, however,* that if Buyer cannot obtain a Consent listed on the Schedule 4.04 from a Person other than a Governmental Authority, it shall have the option to provide Seller with substantially equivalent arrangements that are satisfactory to Seller in its sole discretion with respect to the item for which such Consent could not be obtained, in which event the condition contained in this Section 7.02(b) with respect to such Consent shall be deemed satisfied. All applicable waiting periods under any federal or state statute or regulation shall have expired or been terminated.

(c) Required Deliveries at Second Closing. Buyer shall have delivered to Seller the items and documents called for by Sections 2.08(b) before, on or as of the Second Closing Date.

(d) Compliance with Agreements. Buyer and its Affiliates shall have complied in all material respects with their respective obligations under this Agreement, the General Agency Agreement, the Reinsurance Agreement and all other agreements contemplated by this Agreement.

ARTICLE VIII
Additional Agreements

8.01 Cooperation of Seller. Seller shall reasonably cooperate with Buyer's efforts to secure New York insurance regulatory approval of its purchase of Realm, provided that Seller shall not be required to disavow its position regarding events that occurred prior to the execution of this Agreement.

8.02 Failure of Buyer to Qualify. In the event Buyer (or Buyer's designee) shall fail to secure requisite insurance regulatory approval from the New York Department of Insurance on the Second Closing Date:

(a) Seller shall have authority to continue to exercise control over Realm and may direct the Escrow Agent with respect to all matters pertaining to the ownership or operation of Realm until (i) Buyer receives requisite insurance regulatory approval from the New York Department of Insurance and receives the Shares from the Escrow Agent pursuant to the Escrow Agreement or (ii) Buyer, Seller, Parent and the Companies satisfy their obligations pursuant to Section 8.03; and

(b) Buyer and Realm agree that, provided Seller has been paid 100% of the Purchase Price on the Second Closing Date, the General Agency Agreement shall remain in full force and effect until Buyer has secured approval from the New York Department of Insurance or

the Shares have been purchased by a third party; provided, however, Buyer can reasonably request such modifications to the General Agency Agreement as are necessary for Buyer to carry out the AIM Insurance Program and which are reasonably satisfactory to Realm. In addition, provided Seller has been paid 100% of the Purchase Price on the Second Closing Date, Realm agrees that prior to November 15, 2003, unless requested by the New York Department of Insurance, it shall not exercise its rights under Article III.B. of the General Agency Agreement to terminate such Agreement.

8.03 Sale of the Realm Shares.

(a) If Buyer fails to receive Form A approval from the New York Department of Insurance to own the Realm Shares on or prior to July 31, 2003, provided that Seller has received the Escrow Property that constitutes the Purchase Price on or prior to July 31, 2003, the parties hereto agree that the applicable provisions of this Agreement shall govern the relationship of the parties with respect to the transfer of the Realm Shares until the earlier of the approval of Buyer's ownership of the Realm Shares or the sale of the Realm Shares to a third party pursuant to the provisions of this Section 8.03.

(b) Beginning on August 1, 2003, and ending on November 15, 2003, Buyer shall have the right to continue to attempt to obtain Form A approval from the New York Department of Insurance to own the Realm Shares. If (A) Buyer receives Form A approval from the New York Department of Insurance to own the Realm Shares on or before November 15, 2003, and (B) Buyer has delivered 100% of the Purchase Price to Seller, or if a sale of the Realm Shares is consummated pursuant to this Agreement, Buyer shall direct the Escrow Agent to deliver the stock certificate or certificates representing the Realm Shares to Buyer or any third party purchaser of the Realm Shares, as applicable, promptly after the date such approval is received by Buyer or such sale is consummated, by delivering a written notice substantially in the form of Exhibit D to the Escrow Agreement, to the Escrow Agent. In addition, if the stock certificate or certificates representing any of the Realm Shares are not held by the Escrow Agent at the time Buyer receives Form A approval from the New York Department of Insurance or at the time a sale of the Realm Shares is consummated pursuant to this Section 8.03, Seller shall immediately deliver such stock certificate or certificates representing the Realm Shares (duly endorsed in blank or accompanied by stock powers duly endorsed in blank in proper form for transfer, with any requisite stock transfer tax stamps affixed thereto) to Buyer, or the Person purchasing the Realm Shares pursuant to this Section 8.03, as applicable.

(c) (i) Subject to the limitation set forth in Section 8.03(c)(iii) below, beginning on August 1, 2003, and ending on November 15, 2003, and at any time after May 15, 2004 (each such period being the "Buyer Period"), if the Realm Shares have not otherwise been transferred pursuant to this Agreement, Buyer (i) may solicit indications of interest from any Person to purchase the Realm Shares from Seller at a price and on terms and conditions that are satisfactory to Buyer; and (ii) shall have the right to reasonably request in writing, that Seller enter into negotiations with such Person and use its best efforts to enter into all necessary agreements, and take all necessary actions, to sell the Realm Shares to such Person.

(ii) Subject to the limitation set forth in Section 8.03(c)(iii) below, during the Buyer Period (if the Realm Shares have not otherwise been transferred pursuant to this

Section 8.03), Seller shall, upon written request from Buyer to consider a Person's offer to purchase the Realm Shares, enter into negotiations with such Person specified by Buyer under Section 3(a) and use its best efforts to enter into all necessary agreements and take all necessary actions to sell the Realm Shares to the Person set forth in the notice from Buyer and shall agree to any and all terms and conditions with respect to such sale of the Realm Shares that are commercially reasonable and materially similar to terms and conditions customary for similar transactions in the insurance industry. Beginning on November 16, 2003 and ending on May 15, 2004 (the "Seller Period"), if Buyer has not requested in writing that Seller sell the Realm Shares to any Person on or before November 15, 2003, Seller shall, as promptly as practicable, sell the Realm Shares to any Person at a price and on terms and conditions that are satisfactory to Seller in its sole discretion. If Buyer shall request in writing that Seller enter into negotiations with a Person on or prior to November 15, 2003, Seller shall use commercially reasonable efforts to enter into all necessary agreements and take all necessary actions to sell the Realm Shares to the Person set forth in the notice from Buyer. If a definitive agreement cannot be reached within 15 days, Seller shall have no further obligations with respect to such Person or to Buyer and the Seller Period shall commence. In such event, the Seller Period shall be automatically extended by 15 days and the subsequent Buyer Period shall commence on May 31, 2004 (instead of May 15, 2004) provided that Seller shall not have notified Buyer in writing of its desire to sell to a particular person pursuant to this Section 8.03(c)(ii). If Seller has so notified Buyer, Seller shall have 15 days (beyond May 31, 2004) to enter into a definitive agreement with such Person.

(iii) Notwithstanding anything in this Section 8.03 to the contrary, if Buyer has not paid Seller 100% of the Purchase Price, Seller shall have no obligations to Buyer including as set forth in Sections 8.03(c)(i) and (ii) hereunder, and shall be entitled to the amounts from the purchase price for the Realm Shares set forth in Section 8.03(e)(ii); provided, however, if Buyer pays Seller the entire amount of the Purchase Price during the Buyer Period, Seller shall be subject to Sections 8.03(c)(i) and (ii).

(iv) During the Buyer Period, Seller may solicit indications of interest from any Person to purchase the Realm Shares and shall provide Buyer with written notice of an offer by any Person to purchase the Realm Shares and include in such written notice the price and the material terms and conditions of such offer. Seller shall not enter into a Contract to sell, or otherwise commit to sell, the Realm Shares unless Buyer has within 15 Business Days of its receipt of Seller's written notice pursuant to this Section 8.03(c)(iv), either (i) requested in writing that Seller accept such offer, or (ii) failed to respond in writing to Seller's notice.

(v) During the Seller Period, Buyer may solicit indications of interest from any Person to purchase the Realm Shares but Seller shall not be required to comply with the provisions set forth in Sections 8.03(c)(i) and (ii) during such period and may sell the Realm Shares to any Person at a price and on terms and conditions that are satisfactory to Seller in its sole discretion.

(vi) Immediately prior to the consummation of the sale of the Realm Shares pursuant to the terms and conditions of this Section 8.03, (i) Buyer shall (x) direct the Escrow Agent in a written notice substantially in the form of Exhibit D to the Escrow Agreement to deliver at the Closing the stock certificate or certificates representing the Realm Shares to the Person purchasing the Realm Shares and (y) take all necessary action, including, without

limitation, the execution of all necessary agreements and instruments in order to terminate the Security Interest (as defined below), and (ii) if the stock certificate or certificates representing any of the Realm Shares are not held by the Escrow Agent at the time the sale of the Realm Shares is consummated pursuant to this Agreement, Seller shall deliver at the Closing such stock certificate or certificates representing the Realm Shares (duly endorsed in blank or accompanied by stock powers duly endorsed in blank in proper form for transfer, with any requisite stock transfer tax stamps affixed thereto) to the Person purchasing the Realm Shares pursuant to this Agreement.

(vii) Seller and Buyer agree that any agreements entered into by Seller to sell the Realm Shares shall have as a condition to the consummation of such sale that such Person receive Form A approval from the New York Department of Insurance and any other requisite insurance regulatory approvals.

(d) Seller shall have the right at all times to select counsel, which counsel shall be reasonably satisfactory to Buyer (taking into account any conflicts of interest presented by the joint representation of Seller and Buyer) to represent Seller and, to the extent necessary, Buyer, with respect to the transaction or transactions involving the sale of the Realm Shares to any Person. Buyer and Seller shall be responsible for payment of all fees, expenses, disbursements and other costs (collectively "Counsel Fees") of such counsel as follows: (i) Buyer shall pay 85% and Seller shall pay 15% of all Counsel Fees until such Counsel Fees reach an aggregate of $150,000; and (ii) Seller shall pay 100% of all Counsel Fees that exceed, in the aggregate, $150,000. If, in the reasonable judgment of the counsel selected pursuant to this Section 8.03(d), there are substantive issues which raise conflicts of interest between Buyer and Seller, Buyer and Seller may hire individual counsel to represent each of their respective interests in the transaction or transactions involving the sale of the Realm Shares to any Person at their own expense.

(e) (i) Subject to Section 8.03(e)(ii), Seller shall direct any Person purchasing the Realm Shares during the Buyer Period or the Seller Period, at the Closing of the sale of the Realm Shares during the Buyer Period or the Seller Period, to pay an amount equal to 85% of the purchase price of the Realm Shares to Buyer, and an amount equal to 15% of the purchase price of the Realm Shares to Seller, by wire transfer of immediately available funds to the accounts specified by Buyer and Seller, respectively. If the Person purchasing the Realm Shares does not pay the purchase price of the Realm Shares to Buyer and Seller in accordance with this Section 8.03(e), Buyer and Seller hereby agree that immediately after payment of the purchase price of the Realm Shares by such Person, Buyer and Seller shall make such payments to each other such that after such payments Buyer has received 85% of the purchase price delivered in respect of the Realm Shares and Seller has received 15% of the purchase price delivered in respect of the Realm Shares.

(ii) Notwithstanding the rights of Buyer set forth in Section 8.03(e)(i), if Buyer has not paid Seller 100% of the Purchase Price immediately prior to the sale of the Realm Shares pursuant to this Agreement, Seller shall be entitled to direct the Person purchasing the Realm Shares to pay to Seller and Buyer, by wire transfer of immediately available funds to the accounts specified by Seller and Buyer, respectively, the following amounts from the purchase price for the Realm Shares:

(A) to Seller, an amount equal to the sum of (x) the difference between (A) the Purchase Price and (B) the amount of the Purchase Price Buyer has paid to Seller at the time the sale of the Realm Shares pursuant to this Agreement is consummated, (y) the product obtained by multiplying (A) the amount calculated pursuant to Section 8.03(e)(ii)(A)(x), by (B) 10%, and (z) an amount equal to such portion of Counsel Fees payable by Buyer pursuant to Section 8.03(d);

(B) to Seller, an amount equal to 15% of the purchase price of the Realm Shares; and

(C) to Buyer, an amount equal to the difference between (x) the purchase price of the Realm Shares and (y) the sum of (A) the amount calculated pursuant to Section 8.03(e)(ii)(A), and (B) an amount equal to 15% of the purchase price of the Realm Shares.

Nothing in this Section 8.03(e)(ii) shall be construed to diminish Buyer's obligation to pay and Seller's right to receive 100% of the Purchase Price under the Stock Purchase Agreement.

8.04 Pledge of Collateral.

(a) As security for the Surplus Notes sold by Realm to Buyer, Seller hereby pledges, assigns, hypothecates, mortgages, transfers and delivers to Buyer all of its rights and interest in and to (i) the Realm Shares (the "Pledged Realm Shares") (together with appropriate undated stock powers duly executed in blank), and (ii) its rights under the Escrow Agreement ("Escrow Rights") and hereby grants Buyer, as collateral security for the Surplus Notes sold by Realm to Buyer, a continuing first priority security interest in the Pledged Realm Shares and Escrow Rights, together with all additions thereto, substitutions and replacements thereof (the "Security Interest").

(b) Seller shall defend the Security Interest against all claims and demands of all persons (other than Buyer and its Affiliates) at any time claiming the same or any interest therein.

(c) At any time and from time to time, upon the request of Buyer and at the expense of Seller, Seller will promptly execute and deliver any and all such further instruments and documents and will cause such opinions of counsel to be delivered and will take such further action as may be deemed necessary or desirable in the reasonable discretion of Buyer to obtain, maintain and perfect the Security Interest granted hereby, including, without limitation, the provision of all instruments and documents reasonably necessary to perfect the Security Interest granted hereby under Articles 8, 9 and all other applicable articles of the Uniform Commercial Code as in effect in New York (the "UCC"), and execute and deliver one or more proxies, powers of attorney, orders, notices, statements, agreements or other writings.

(d) Seller shall not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Pledged Realm Shares and the Escrow Rights, or create, incur or permit to exist any adverse claim or lien with respect to any of the Pledged Realm Shares and the Escrow Rights, or any interest therein, or any proceeds thereof, except for the security interest provided for by this Agreement.

(e) Seller will do, file, record, make, execute and deliver all such acts, deeds, things, notices and instruments as may be reasonably necessary or reasonably desirable to vest in and assure to Buyer a continuing first priority security interest in and to the Pledged Realm Shares and Escrow Rights and the enforcement of, and giving effect to, the rights, remedies and powers hereunder.

(f) Seller will not authorize, and will use its best efforts not to permit the authorization of, the issuance of any additional shares of capital stock of Realm, WTS or SCNY or any convertible securities, warrants or options giving the holder thereof any rights or interests with respect to any shares of capital stock of Realm, WTS or SCNY; nor will Seller redeem, or permit the redemption of, any part of the Security Interest, or sell or permit the sale or other transfer of any of the Pledged Realm Shares or the Escrow Rights.

(g) Seller shall take any action which Buyer may reasonably request in order for Buyer to obtain and enjoy the full rights and benefits of the Security Interest as granted to Buyer by this Agreement. Without limiting the generality of the foregoing, to the extent that any part of the Security Interest requires the consent or approval of any governmental authority, including, without limitation, consent or approval of the New York Department of Insurance, or any other person to any action or transaction contemplated by this Agreement, Seller shall, upon the reasonable request of Buyer and at Buyer's sole cost, use its commercially reasonable efforts to obtain and to assist Buyer in obtaining all such consents and approvals in writing and shall deliver copies thereof to Buyer as obtained.

(h) (i) If an Event of Default (as defined below) shall have occurred at any time during the term of this Agreement, subject to the receipt of all required regulatory approvals:

(A) Buyer shall, after giving written notice to Seller specifying the action to be taken, register any or all of the Pledged Realm Shares in the name of Buyer such that Buyer shall be the recordholder of the Pledged Realm Shares.

(B) Buyer may demand, sue for, collect or make any compromise or settlemsnt Buyer deems suitable in respect of the Pledged Realm Shares.

(C) Buyer shall have all of the rights and remedies with respect to the Pledged Realm Shares of a secured party under the UCC.

(ii) If an Event of Default shall have occurred at any time during the term of this Agreement, in addition to the rights of Buyer set forth in Section 8.04(h)(i) with respect to the Pledged Realm Shares:

(A) Buyer shall have all of the rights and remedies with respect to the Escrow Rights of a secured party under the UCC.

(B) Buyer may demand, sue for, collect or make any compromise or settlement Buyer deems suitable in respect of the Escrow Rights.

For purposes of this Section 8.04(h), "Event of Default" shall include:

(A) any proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, insolvency or similar law of any jurisdiction now or hereafter in effect is instituted by or against Parent, Seller, Realm, WTS or SCNY and, if instituted against Parent, Seller, Realm, WTS or SCNY, shall remain undismissed for a period of 45 days after the institution thereof;

(B) Parent, Seller, Realm, WTS or SCNY makes an assignment for the benefit of authorizing any of the foregoing;

(C) Realm, WTS or SCNY shall suspend, cease or threaten to suspend or cease its ordinary business operations or any substantial and material part thereof;

(D) all or any substantial and material part of the property of Parent, Seller, Realm, WTS or SCNY shall be condemned, seized or otherwise appropriated or control of such property shall be assumed by any custodian, receiver, trustee or other person or agency;

(E) Parent, Seller, Realm, WTS or SCNY shall have been prevented from exercising normal control over all or any substantial and material part of its property by any such custodian, receiver, trustee or other person or agency; or

(F) any distribution of cash or property in liquidation or otherwise by Parent or Seller to its respective shareholders prior to July 31, 2003.

Notwithstanding anything in this Section 8.04 to the contrary, the voting power of the Pledged Realm Shares shall at all times remain with Seller unless the requisite regulatory approval to transfer the Pledged Realm Shares to Buyer shall have been obtained.

ARTICLE IX
Indemnification; Additional Remedies; Survival

9.01 Indemnification.

(a) From and after the Second Closing Date, Seller shall hereby indemnify Buyer and its respective officers, directors, shareholders, employees, agents and Affiliates (collectively, the "Buyer Indemnified Parties") against, and agrees to hold each of them harmless from, any Loss incurred or suffered by any of them relating to or arising out of:

(i) any breach or inaccuracy of any representation or warranty by Seller, Parent or the Companies in this Agreement or in any agreement, instrument or certificate delivered in connection with this Agreement; provided that any claim by Buyer for indemnification under this paragraph (i) shall be made no later than a date during the period of survival thereof as specified in Section 9.06; or

(ii) any breach or violation of, or failure to fully perform any covenant, agreement, condition, undertaking, obligation or delivery requirement of Seller, Parent, or the Companies, as the case may be, pursuant to this Agreement, the Escrow Agreement or

any other agreement, instrument or certificate delivered in connection with this Agreement; provided that any claim for indemnification by Buyer under this paragraph (ii) for the breach of any covenant, agreement, undertaking or obligation of Seller, Parent, or the Companies, as the case may be, contained in this Agreement may be made no later than a date during the period of survival thereof as specified in Section 9.06.

(b) From and after the Second Closing Date (except in the case of Sections 9.01(b)(iii), 9.01(b)(iv) and 9.01(b)(v) below, in which case, from and after the First Closing), Buyer shall hereby indemnify Seller, Parent and the Companies, and their respective officers, directors, shareholders, employees, agents and Affiliates (collectively, the "Seller Indemnified Parties") against, and agrees to hold each of them harmless from any Loss incurred or suffered by any of them arising out of:

(i) any breach or inaccuracy of any representation or warranty by Buyer in this Agreement or in any agreement, instrument or certificate delivered in connection with this Agreement; provided that any claim by Seller for indemnification under this paragraph (i) shall be made no later than a date during the period of survival thereof as specified in Section 9.06;

(ii) any breach or violation of, or failure to fully perform any covenant, agreement, condition, undertaking, obligation or delivery requirement of Buyer pursuant to this Agreement, the Escrow Agreement or any other agreement, instrument or certificate delivered in connection with this Agreement; provided that any claim for indemnification by Seller under this paragraph (ii) for the breach of any covenant, agreements, undertaking or obligation of Buyer contained in this Agreement may be made no later than a date during the period of survival thereof as specified in Section 9.06;

(iii) if the First Closing occurs, for any Losses arising out of, or in connection with, any Certificate of Insurance issued by, or with the knowledge of, Buyer and its Affiliates in jurisdictions where the Companies are not authorized to issue Certificates of Insurance; provided that, for purposes of this Section 9.01(b)(iii), the parties hereto agree that "knowledge" shall not mean "Knowledge" as defined in Section 1.01;

(iv) if the First Closing occurs, from and after the First Closing Date, Buyer shall indemnify the Seller Indemnified Parties against, and agrees to hold each of them harmless from, any Loss incurred or suffered by any of them in connection with or arising out of any claims relating to, or in connection with, the issuance of Certificates of Insurance to PEOs and their clients by Buyer and/or its Affiliates (purportedly on behalf of Realm) prior to the First Closing; or

(v) from and after the First Closing Date, Buyer shall indemnify the Seller Indemnified Parties against, and agrees to hold each of them harmless from, any Loss incurred or suffered by any of them relating to or arising out of the issuance of certificates of insurance providing retroactive coverage dating back to October 1, 2002, but not including Losses that are incident to issuing such coverage on a non-retroactive

basis. Examples of Losses to be indemnified by Buyer pursuant to this Section 9.01(b)(v) may include, but shall not be limited to, fines assessed by individual states against the Seller Indemnified Parties for (A) late transmission of proof of coverage, (B) late transmission of policy and required data elements, (C) absence of proper claims notices and posters required by states to be sent to employers, (D) late claims reporting and (E) assessments of debit adjustments pursuant to the NCCI Data Quality Incentive Program. For purposes of this Section 9.01(b)(v) only, the term "Loss" shall include all fees relating to or arising out of issuing insurance coverage retroactively, regardless of whether such fee is considered "punitive."

(c) The amount of any indemnification to be paid by Seller under Section 9.01 shall be reduced by the amount of any reserve accrued in the Financial Statements relating to the subject matter of the claim.

(d) For all purposes of this Agreement, including, without limitation, this Article IX, other than solely in respect of satisfying the conditions set forth in (i) Section 7.01(a) hereof, each of the representations and warranties contained in (A) this Agreement and (B) the Schedules will be assessed without giving effect to any Permitted Supplement thereto, any reference to the "Schedules" being deemed to refer to such Schedules without giving effect to any Permitted Supplement.

9.02 Notice and Defense of Claims.

(a) Each party entitled to indemnification under this Article IX (the *"Indemnified Party"*) shall give notice to the party required to provide indemnification (the *"Indemnifying Party"*) promptly, but no later than 10 days, after such Indemnified Party receives written notice of any claim, event or matter as to which indemnity may be sought; provided, however, that the failure of the Indemnified Party to give notice as provided in this Section 9.02(a) shall not relieve any Indemnifying Party of its obligations under Section 9.01, except to the extent that such failure materially prejudices the rights of any such Indemnifying Party. In the event of any claim, action, suit, proceeding or demand asserted by any person who is not a party (or a successor to a party) to this Agreement (a *"Third-Party Claim"*) which is or gives rise to an indemnification claim, the Indemnifying Party may elect within 30 days to assume the defense of any such claim or any litigation resulting therefrom with counsel of the Indemnifying Party's choice, and the Indemnified Party may participate in such defense at the Indemnified Party's own expense, which shall include counsel of its choice; provided, however, that the Indemnified Party shall have the right to employ, at the Indemnifying Party's expense, counsel of its choice to represent the Indemnified Party if, in the reasonable judgment of the Indemnified Party's counsel, there exists an actual or potential conflict of interest between the Indemnified Party and the Indemnifying Party, or if the Indemnifying Party:

(i) elects not to defend, compromise or settle a Third-Party Claim, or

(ii) fails to notify the Indemnified Party within the required time period of its election as provided in this Section 9.02. The Indemnifying Party, in the defense of any such claim or litigation, shall not, except with the consent of the Indemnified Party, consent to entry of any judgment or entry into any settlement which

does not include as an unconditional term thereof the giving by the claimant or plaintiff to the Indemnified Party of a release from all Liabilities in respect of such claim or litigation. The Indemnified Party shall not settle or compromise any such claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld. The Indemnified Party shall furnish such information regarding itself or the claim in question as the Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(b) Seller, Parent and Buyer hereby consent to the nonexclusive jurisdiction of any court in which a Third-Party Claim is brought against any Indemnified Party for purposes of any claim that such Indemnified Party may have under this Agreement with respect to such Third-Party Claim or the matters alleged therein.

9.03 Limitations and Other Matters. No amounts of indemnity shall be payable as a result of any claim arising under Section 9.01(a)(i) or 9.01(b)(i) unless and until Buyer Indemnified Parties or Seller Indemnified Parties, respectively, have suffered, incurred, sustained or become subject to aggregate Losses thereunder in excess of $50,000 (the "Threshold") and then only to the extent that the cumulative aggregate amount of indemnification obligations as finally determined exceeds $50,000. The liability for Seller and Buyer for any Losses subject to indemnification pursuant to this Article IX shall be limited in the aggregate to $5,000,000 for each of Seller and Buyer.

9.04 Sole and Exclusive Remedy. The indemnification obligations of Seller, Parent and Buyer under this Article IX shall constitute the sole and exclusive remedies of Seller, Parent and Buyer, respectively, with respect to the matters described in Sections 9.01(a)(i) and (b)(i), except for remedies based on a claim for fraud, bad faith or willful misconduct. In addition to seeking indemnification pursuant to this Article IX, Seller and Buyer shall be entitled to seek remedies in equity with respect to the matters described in 9.01(a)(ii) and (b)(ii) and for any other breaches, failures to comply with, and violations of, any provisions of this Agreement.

9.05 Additional Remedies. Prior to the Second Closing, if Buyer fails to cure any breach of the covenants set forth in Sections 5.03(c) and 5.03(d), which have not been waived by Seller or Parent, within 30 days (but no later than the Second Closing Date) after the giving by Seller or Parent of written notice to Buyer of such breach, (i) any outstanding balance of principal and interest on the Promissory Note held by Buyer shall be deemed to be paid and the Promissory Note shall be deemed to be canceled and Buyer shall return the Promissory Note to Parent, (ii) Buyer shall direct the Escrow Agent to deliver to Seller the cash and Letters of Credit held by the Escrow Agent in the Escrow Property and (iii) Buyer and Seller shall comply with the provisions set forth in Section 8.03; provided, however, any outstanding balance of principal and interest on the Promissory Note that is deemed to be paid and canceled pursuant to this Section 9.05, and any other Escrow Property distributed to Seller, including, without limitation, cash and the Letter of Credit for the benefit of Seller, shall be credited against, and shall reduce and shall be deemed to be a partial or full payment of, the Purchase Price in accordance with the provisions of Section 2.08(b)(i).

9.06 Survival of Representations and Warranties. All representations and warranties contained in this Agreement shall survive the Second Closing and shall remain in full force and effect until the first anniversary of the date of this Agreement. Notwithstanding the foregoing, the representations, warranties and covenants contained in Sections 3.01, 3.02, 3.03, 3.04, 3.09, 3.10, 3.19, 3.22, 3.23, 4.01, 4.02, 4.04, 4.06(i) – (iv), 5.02(b), 5.03 and 6.01 shall survive the Second Closing until the expiration of all applicable statutes of limitation.

ARTICLE X
Miscellaneous

10.01 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission) and shall be given by registered or certified mail (postage prepaid, return receipt requested) or personally delivered to the address provided below or sent by facsimile transmission (with verification thereof by the sender) to the facsimile number provided below:

If to Buyer, to:

AMERICAN INSURANCE MANAGERS, INC.
3101 Towercreek Parkway
Suite 750
Atlanta, Georgia 30339
Attention: David Dennett-Smith
Facsimile No.: (770) 980-3295

And copies to:

ALSTON & BIRD LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309-3424
Attention: Joe T. Taylor, Esq.
Facsimile No.: (404) 881-4777

If to Seller, to:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.
125 Maiden Lane
New York, New York 10038
Attention: Stephen A. Crane
Facsimile No.: (212) 344-4622

And copies to:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.
125 Maiden Lane
New York, New York 10038
Attention: James Lawless
Facsimile No.: (212) 509-7405

If to Parent, to:

ALPHASTAR INSURANCE GROUP LIMITED
125 Maiden Lane
New York, New York 10038
Attention: Stephen A. Crane
Facsimile No.: (212) 344-4622

And copies to:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.
125 Maiden Lane
New York, New York 10038
Attention: James Lawless
Facsimile No.: (212) 509-7405

If to Realm, to:

REALM NATIONAL INSURANCE COMPANY
125 Maiden Lane
New York, New York 10038
Attention: Stephen A. Crane
Facsimile No.: (212) 344-4622

And copies to:

REALM NATIONAL INSURANCE COMPANY
125 Maiden Lane
New York, New York 10038
Attention: James Lawless
Facsimile No.: (212) 509-7405

If to WTS, to:

WORLD TRADE SERVICES, INC.
125 Maiden Lane
New York, New York 10038
Attention: Gregory Scarpa
Facsimile No.: (212) 269-6769

And copies to:

WORLD TRADE SERVICES, INC.
125 Maiden Lane
New York, New York 10038
Attention: James Lawless
Facsimile No: (212) 509-7405

If to SCNY, to:

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.
125 Maiden Lane
New York, New York 10038
Attention: Danny Green
Facsimile Number: (212) 269-6758

And in the case of Seller, Parent, Realm, WTS or SCNY with copies to:

STROOCK & STROOCK & LAVAN LLP
180 Maiden Lane
New York, New York 10038-4982
Attention: John Cashin, Esq.
Facsimile Number: (212) 806-6006

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. in the place of receipt and such day is a Business Day. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt.

10.02 Amendments and Waivers.

(a) Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof

preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(c) No waiver that may be given by a party will be applicable except in the specific instance for which it is given.

10.03 Expenses. Except as otherwise provided herein, whether or not the Transactions are consummated, all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

10.04 Invalidity. In the event that any one or more of the provisions contained in this Agreement, or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument.

10.05 Titles. The titles, captions or headings of the Articles and Sections herein are for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

10.06 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other parties hereto; provided, further, that Buyer may sell, transfer or assign, in whole or from time to time in part, to one or more of its Affiliates, the right to purchase all or a portion of the Shares, but no such sale, transfer or assignment shall relieve Buyer of its obligations hereunder. Any purported assignment in violation of this Section 10.06 shall be void.

10.07 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws.

10.08 Consent to Jurisdiction. Each of the parties irrevocably submits to the exclusive jurisdiction of the state and federal courts of competent jurisdiction in the City and County of New York, in the State of New York, and hereby irrevocably and unconditionally waive any objection which it may have at any time to the venue of any such action, suit or proceeding in such courts and further agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each party further waives personal service of any summons, complaint or other process and agrees that service thereof may be made by certified or registered mail directed to address of the party and to the attention of such representative of such party as set forth in Section 10.01. The parties agree that none of them will institute or seek to institute any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby (other than an action or proceeding seeking enforcement of a judgment) in any forum other than in such courts.

10.09 WAIVER OF JURY. THE PARTIES EACH HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY,

ANY MATTERS (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, THE TRANSACTIONS OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

10.10 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts (including by facsimile signature), each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

10.11 Entire Agreement; Third Party Beneficiaries. This Agreement and the other agreements between the parties contemplated hereby constitute the entire agreement between the parties with respect to the subject matters hereof and thereof and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matters of this Agreement and such other agreements. The Exhibits and Schedules hereto are an integral part hereof and are incorporated by reference herein for all purposes. No representation, inducement, promise, understanding, condition or warranty not set forth herein has been made or relied upon by either party hereto. Neither this Agreement nor any provision hereof shall confer upon any Person other than the parties hereto any rights or remedies hereunder.

10.12 Compliance with New York Insurance Law. The parties hereby agree that this Agreement is intended to comply with the Laws of the State of New York related to the insurance business and shall be interpreted to comply with the Laws of the State of New York related to the insurance business.

10.13 Schedules; Supplements to the Schedules.

(a) The disclosures in any Schedule (and in each case, any Permitted Supplement thereto) must relate, and notwithstanding anything to the contrary therein, shall be deemed to relate, only to the specific section (or subsection thereof, if applicable) of the Agreement to which they expressly relate and not to any other section or subsection of the Agreement.

(b) In the event of an inconsistency between the statements in the body of this Agreement and those in such Schedules or any Permitted Supplement to the Schedules, (other than an exception expressly set forth in the Schedules or any Permitted Supplement to the Schedules, with respect to a specifically identified section or subsection), the statements in the body of this Agreement will control.

(c) Without in any way modifying or limiting the provisions of Article IX, the Seller, Parent and the Companies may, on one occasion no later than ten (10) days prior to the Second Closing Date if it deems appropriate, supplement the Schedules in writing with additional information, but solely with information concerning events, faults or circumstances that occur on or after the date of this Agreement and prior to or on the Second Closing Date.

(d) For purposes of this Agreement, the term "Permitted Supplement" shall mean supplements to the Schedules permitted under Section 10.13(c).

ARTICLE XI
Termination.

11.01 Termination of Agreement. This Agreement may, by written notice, be terminated at any time prior to the Second Closing (except where otherwise provided):

(a) by mutual written consent of Buyer and Seller;

(b) by Seller if the RBC Plan has not been approved within 45 Business Days of the date of this Agreement by the New York Department of Insurance provided Seller has fully complied with its obligations set forth in Section 5.02(u).

(c) by Buyer if (i) the First Closing does not occur on or before the later of (A) 5 Business Days after the approval of the RBC Plan or (B) the 30th Business Day after the date of this Agreement or (ii) the total shareholders' equity as stated on the Final Balance Sheets is less than $6,000,000;

(d) by Seller if Buyer has not complied with its obligations under Section 2.05(c)(iii) within the time periods specified therein;

(e) (i) by Buyer (provided that Buyer is not then in breach of any representation or warranty contained in this Agreement which would result in its failure to satisfy the condition set forth in Section 7.02(a) of this Agreement or in a material breach of any covenant, agreement, understanding or obligation contained in this Agreement), if a material breach by Seller, Parent or the Companies of any representation or warranty contained in this Agreement which has not been waived or is capable of being cured and has not been cured within 15 days after the giving by Buyer of written notice to Seller of such breach;

(ii) by Seller (provided that Seller, Parent or any of the Companies is not then in breach of any representation or warranty contained in this Agreement which would result in its failure to satisfy the condition set forth in Section 7.01(a) of this Agreement or in a material breach of any covenant, agreement, understanding or obligation contained in this Agreement), if a material breach by Buyer of any representation or warranty contained in this Agreement which has not been waived or which is capable of being cured and has not been cured within 15 days after the giving by Seller of written notice to Buyer of such breach;

(f) (i) by Buyer (provided that Buyer is not then in breach of any representation or warranty contained in this Agreement which would result in its failure to satisfy the condition set forth in Section 7.02(a) of this Agreement or in material breach of any covenant, agreement, understanding or obligation contained in this Agreement) in the event of a material breach by Seller, Parent or any of the Companies of any covenant, agreement, understanding or obligation contained in this Agreement which has not been waived or which is capable of being cured and has not been cured within 15 days after the giving by Buyer of written notice of such breach to Seller and Parent; or

(ii) by Seller (provided that Seller, Parent or any of the Companies is not then in breach of any representation or warranty contained in this Agreement which would result in its failure to satisfy the condition set forth in Section 7.01(a) of this Agreement or in material breach of any covenant, agreement, understanding or obligation contained in this Agreement) in the event of a material breach by Buyer of any covenant, agreement, understanding or obligation contained in this Agreement which has not been waived or which is capable of being cured and has not been cured within 15 days after the giving by Seller of written notice of such breach to Buyer.

(g) after the First Closing, by Seller if 75% of the Purchase Price has not been paid on the Second Closing Date or July 31, 2003, whichever is earlier.

11.02 Survival. If this Agreement is terminated and the transactions contemplated hereby are not consummated as described above, this Agreement shall become null and void and of no further force and effect, except for the provisions of Section 5.02(c), which shall survive for the periods set forth therein, the provisions and the remedies contemplated by Article IX, including, without limitation, specific performance and injunction as contemplated therein, which shall survive indefinitely, and Article VIII which shall survive until the obligations of Seller, Parent, the Companies and Buyer pursuant to Section 8.03 have been fully performed.

11.03 Certain Obligations upon Termination. If this Agreement is terminated and the Transactions are not consummated as described above, Buyer shall, and shall cause each of its Affiliates to, promptly after such termination (a) deliver to Seller or at Seller's sole discretion destroy all information, records, forms, data, lists and other materials provided by Seller or any of its Affiliates with respect to the Business without retaining copies, and (b) withdraw all policy forms filed for approval pursuant to Section 4.04 and destroy all such forms and work papers relating to such forms. The preceding sentence shall not be deemed to preclude Buyer or any of its Affiliates from developing on its own any such information, records, data, lists, materials or forms or from using any such developed information, records, data, list, materials or forms.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Attest:

By:_____
Name:

ALPHASTAR INSURANCE GROUP LIMITED

By:_____
Name:
Title:

Attest:

By:_____
Name:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.

By:_____
Name:
Title:

Attest:

By:_____
Name:

REALM NATIONAL INSURANCE COMPANY

By:_____
Name:
Title:

Attest:

By:_____
Name:

WORLD TRADE SERVICES, INC.

By:_____
Name:
Title:

Attest:

By:_____
Name:

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.

By:_____
Name:
Title:

Attest:

By:_____
Name:

AMERICAN INSURANCE MANAGERS, INC.

By:_____
Name:
Title:

100

Attest:

By:_____
Name:

ATLANTA INSURANCE MARKETING, INC.
(solely with respect to Sections 5.01(j) and 5.03(f))

By:_____
Name:
Title:

Schedule 5.02(k)(i)

Required License States

Alabama
Arizona
Arkansas
Florida
Georgia
Illinois
Indiana
Iowa
Kentucky
Louisiana
Mississippi
Missouri
Nebraska
New Mexico
New York
North Carolina
North Dakota
Oklahoma
Pennsylvania
South Carolina
South Dakota
Tennessee
Texas
West Virginia

Schedule 5.02(k)(ii)

Required Filing States

Alabama
Arizona
Arkansas
Florida
Georgia
Illinois
Indiana
Iowa
Kentucky
Louisiana
Mississippi
Missouri
New Mexico
New York
Oklahoma
South Carolina
South Dakota
Tennessee
Texas

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Attest:

By:_____
Name:

ALPHASTAR INSURANCE GROUP LIMITED

By:_____
Name:
Title:

Attest:

By:_____
Name:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.

By:_____
Name:
Title:

Attest:

By:_____
Name:

REALM NATIONAL INSURANCE COMPANY

By:_____
Name:
Title:

Attest:

By:_____
Name:

WORLD TRADE SERVICES, INC.

By:_____
Name:
Title:

Attest:

By:_____
Name:

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.

By:_____
Name:
Title:

Attest:

By: [signature]
Name: BRIAN IMPERIALE

AMERICAN INSURANCE MANAGERS, INC.

By: [signature]
Name: DAVID DENNETT-SMITH
Title: PRESIDENT + CEO

704

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Attest:

By:
Name:

Attest:

By:
Name:

Attest:

By:
Name:

Attest:

By:
Name:

Attest:

By:
Name:

Attest:

By:
Name:

ALPHASTAR INSURANCE GROUP LIMITED

By:
Name: Stephen A. Crane
Title: Chairman, President & CEO

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.

By:
Name: Stephen A. Crane
Title: President & CEO

REALM NATIONAL INSURANCE COMPANY

By:
Name: Stephen A. Crane
Title: Chairman

WORLD TRADE SERVICES, INC.

By:
Name: Gregory Scarp
Title: President

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.

By:
Name: DAWN R. GREEN
Title: SECRETARY

AMERICAN INSURANCE MANAGERS, INC.

By:
Name:
Title:

705

Attest:

By: _____
Name: BRIAN IMPERIALE

ATLANTA INSURANCE MARKETING, INC.
(solely with respect to Sections 5.01(f) and 5.03(f))

By: _____
Name: DAVID DENNETT-SMITH
Title: PRESIDENT & CEO

No. 04-1119

OFFICIAL ORDER
of the
COMMISSIONER OF INSURANCE
of the
STATE OF TEXAS
AUSTIN, TEXAS

Date: NOV 22 2004

Subject Considered:

AMERICAN INSURANCE MANAGERS, INC.
c/o Stanley A. Coburn, Registered Agent
3975 Roswell Road, N.E.
Atlanta, Georgia 30342

DEFAULT ORDER
DISCIPLINARY ACTION
SOAH DOCKET NO. 454-04-6429.D

General remarks and official action taken:

On this date came on for consideration by the Commissioner of Insurance, the matter of whether disciplinary action should be taken against American Insurance Managers, Inc. (AIM), a managing general insurance agency (MGA) whose principal office is located in Atlanta, Georgia. The Texas Department of Insurance ("TDI") alleges that AIM is not licensed in Texas, but was engaged in the unauthorized business of insurance in Texas. It is further alleged that such conduct constitutes grounds for the imposition of sanctions as authorized by TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. §§ 101.001, 101.105, 101.201 and 101.153.

The Commissioner of Insurance has authority and jurisdiction pursuant to TEX. INS. CODE ANN. art. 21.07-3, TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. Ch. 101. The Commissioner of Insurance has authority to informally dispose of this case pursuant to the provisions of TEX. INS. CODE ANN. § 82.055, TEX. GOV'T CODE ANN. § 2001.056, and 28 TEX. ADMIN. CODE §§ 1.47, 1.88 and 1.89.

The Commissioner of Insurance, after review and due consideration, adopts the following findings of fact and conclusions of law:

234

FINDINGS OF FACT

1. AIM is a MGA whose principal office is located in Atlanta, Georgia. AIM is not licensed in Texas.

2. Realm National Insurance Company (REALM) is a New York based insurance carrier licensed in Texas.

3. In October 2002, AIM entered into a "non-binding letter of intent" to purchase REALM. However, the purchase agreement contemplated by the "non-binding letter of intent" was never finalized or executed.

4. Notwithstanding the absence of a final executed purchase agreement, AIM began to issue certificates of workers compensation insurance in at least 18 states, including Texas. The certificates of insurance named REALM as the responsible insurance carrier. However, REALM never expressly authorized AIM to act as its agent, and therefore the certificates issued by AIM constitute unauthorized insurance.

5. In connection with the contemplated purchase agreement REALM accepted a $1,500,000 loan from AIM.

6. After the purchase agreement fell apart, AIM attempted an involuntary acquisition of REALM.

7. At the same time, AIM issued unauthorized certificates of insurance to more than 234 Texas employers at 2,985 job sites.

8. AIM was not licensed as a Managing General Agent in Texas at the time it marketed this unauthorized insurance as required by TEX. INS. CODE ANN. art. 21.07-3.

9 AIM sold this unauthorized insurance through at least five "Professional Employment Organizations" ("PEO's") located in Texas. "Professional Employment Organization" is an industry term for a company that provides other businesses with administrative and staff leasing services, including the purchase of insurance.

10. Among these PEO's, Corporate Solutions, Inc. was the largest. Corporate Solutions, Inc issued unauthorized insurance certificates to 204 employers, covering 2,340 job sites. The remaining four PEO's are: Select (2 employers, 24 job sites), Corporate Resource Management (15 employers, 325 job sites), Spectrum (12 employers, 291 job sites), and Exceptional (1 employer, 5 job sites).

1235

11. In November 2002, REALM notified the TDI and AIM's customers that REALM had not issued (and would not honor) the insurance being marketed by AIM. Despite REALM's notice to AIM and its customers that the insurance was not authorized, AIM continued to accept premium payments from a number of PEO's and continued to tell some employers that workers compensation insurance was in place.

12. In addition, AIM was never authorized to act as an insurer in Texas. Nevertheless, AIM placed the premiums received from employers for these certificates into an escrow account, from which it paid claims. AIM also contracted with several third party administrators to administer these claims. Therefore, AIM has been acting as an unauthorized insurer, placing employers and their employees in financial jeopardy should this unauthorized insurance system collapse.

13. AIM has acted without proper authority with the result that hundreds of employers, and many more employees, are in danger of not having workers compensation coverage in place.

CONCLUSIONS OF LAW

1. The Commissioner of Insurance has jurisdiction over this matter pursuant to TEX. INS. CODE ANN. art. 21.07-3, TEX. INS. CODE ANN. § 82.002(b), TEX. INS. CODE ANN. § 84.021 and TEX. INS. CODE ANN. Ch. 101.

2. The Commissioner of Insurance has authority to informally dispose of this case pursuant to the provisions of TEX. INS. CODE ANN. § 82.055, TEX. GOV'T CODE ANN. § 2001.056, and 28 TEX. ADMIN. CODE §§ 1.47, 1.88 and 1.89.

3. TDI sent the Notice of Hearing in this matter to the last known address of American Insurance Managers, Inc. as reflected in TDI's computer records as evidenced by the attached affidavit. By such means, AIM was afforded proper and timely notice of the hearing, pursuant to 28 TEX. ADMIN. CODE §§ 1.28(c) and 1.88(c), 1 TEX. ADMIN. CODE § 155.55(b) and TEX. GOV'T CODE ANN., Ch. 2001.

4. AIM has operated an unauthorized insurance business in the State of Texas, in violation of TEX. INS. CODE ANN. § 101.102, which provides that a person, including an insurer, may not directly or indirectly do an act that constitutes the business of insurance under this chapter except as authorized by statute. The Commissioner of Insurance may issue a cease and desist order under TEX. INS. CODE ANN. § 101.153.

5. AIM engaged in the business of an insurance agency without a license in violation of TEX. INS. CODE ANN. arts. 21.07 § 1(a) and 21.14 § 2.

12360

6. AIM acted as a managing general agent on behalf of REALM without a license in violation of TEX. INS. CODE ANN. arts. 21.07 and 21.07-3, and TEX. INS. CODE ANN. § 101.102(a).

7. AIM sold insurance on behalf of REALM without holding an appointment in violation of TEX. INS. CODE ANN. arts. 21.07 § 1(a) and 21.14 § 2.

8. Based upon the Findings of Fact and Conclusions of Law stated above, a disposition by default is proper pursuant to 28 TEX. ADMIN. CODE §§ 1.88 and 1.89.

9. TDI's allegations in the Notice of Hearing are deemed admitted as true pursuant to 28 TEX. ADMIN. CODE § 1.89.

10. Based upon the Findings of Fact and Conclusions of Law stated above, the Commissioner of Insurance is warranted in (1) requiring AIM to cease and desist conducting the business of insurance in the State of Texas pursuant to TEX. INS. CODE ANN. § 101.153; (2) to pay all claims pursuant to TEX. INS. CODE ANN. § 101.201, and (3) requiring AIM to pay an administrative penalty up to and including $10,000 per violation pursuant to TEX. INS. CODE ANN. § 101.105, and/or $25,000 per violation pursuant to TEX. INS. CODE ANN. § 84.022.

IT IS THEREFORE ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. cease and desist conducting the business of insurance in the State of Texas.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay all claims arising out of the unauthorized insurance business set forth above.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay an administrative penalty of TWO MILLION DOLLARS AND NO CENTS ($2,000,000.00). The administrative penalty must be paid on or before two hundred ten (210) days from the date of this Order by cashier's check or money order made payable to "State of Texas" and transmitted to the Catherine Bell, Texas Department of Insurance, Enforcement Section, P.O. Box 149104, Mail Code 110-1A, Austin, Texas 78714-9104, or her successor.

The Commissioner of Insurance FURTHER ORDERS that American Insurance Managers, Inc. shall receive a dollar-for-dollar reduction in said administrative penalty, not to exceed ONE MILLION NINE HUNDRED THOUSAND DOLLARS AND NO CENTS ($1,900,000.00), for any restitution paid to any person that is or would have been entitled to benefits under an insurance policy issued by or through American Insurance Managers, Inc. Any payment of funds which are held in an escrow account

6. AIM acted as a managing general agent on behalf of REALM without a license in violation of TEX. INS. CODE ANN. arts. 21.07 and 21.07-3, and TEX. INS. CODE ANN. § 101.102(a).

7. AIM sold insurance on behalf of REALM without holding an appointment in violation of TEX. INS. CODE ANN. arts. 21.07 § 1(a) and 21.14 § 2.

8. Based upon the Findings of Fact and Conclusions of Law stated above, a disposition by default is proper pursuant to 28 TEX. ADMIN. CODE §§ 1.88 and 1.89.

9. TDI's allegations in the Notice of Hearing are deemed admitted as true pursuant to 28 TEX. ADMIN. CODE § 1.89.

10. Based upon the Findings of Fact and Conclusions of Law stated above, the Commissioner of Insurance is warranted in (1) requiring AIM to cease and desist conducting the business of insurance in the State of Texas pursuant to TEX. INS. CODE ANN. § 101.153; (2) to pay all claims pursuant to TEX. INS. CODE ANN. § 101.201, and (3) requiring AIM to pay an administrative penalty up to and including $10,000 per violation pursuant to TEX. INS. CODE ANN. § 101.105, and/or $25,000 per violation pursuant to TEX. INS. CODE ANN. § 84.022.

IT IS THEREFORE ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. cease and desist conducting the business of insurance in the State of Texas.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay all claims arising out of the unauthorized insurance business set forth above.

IT IS FURTHER ORDERED by the Commissioner of Insurance that American Insurance Managers, Inc. pay an administrative penalty of TWO MILLION DOLLARS AND NO CENTS ($2,000,00.00). The administrative penalty must be paid on or before two hundred ten (210) days from the date of this Order by cashier's check or money order made payable to "State of Texas" and transmitted to the Catherine Bell, Texas Department of Insurance, Enforcement Section, P.O. Box 149104, Mail Code 110-1A, Austin, Texas 78714-9104, or her successor.

The Commissioner of Insurance FURTHER ORDERS that American Insurance Managers, Inc. shall receive a dollar-for-dollar reduction in said administrative penalty, not to exceed ONE MILLION NINE HUNDRED THOUSAND DOLLARS AND NO CENTS ($1,900,000.00), for any restitution paid to any person that is or would have been entitled to benefits under an insurance policy issued by or through American Insurance Managers, Inc. Any payment of funds which are held in an escrow account

on the date this Order is entered shall not count toward the dollar-for-dollar reduction in the administrative penalty. All such payments must be made on or before three hundred and sixty five (365) days from the date of this Order, provided that American Insurance Managers, Inc. furnishes the Department with a copy of a canceled check, money order or cashier's check evidencing proof of restitution payment on or before three hundred and ninety five (395) days from the date of this Order. Such copies of cancelled checks, money orders or cashier's checks shall be mailed or delivered to Catherine Bell, Texas Department of Insurance, Enforcement Section, P.O. Box 149104, Mail Code 110-1A, Austin, Texas 78714-9104, or her successor.

JOSE MONTEMAYOR
COMMISSIONER OF INSURANCE

1239

04-1119
COMMISSIONER'S ORDER
American Insurance Managers, Inc.
Page 6 of 6

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

AFFIDAVIT

Before me the undersigned authority personally appeared Martha Redford, who, being by me duly sworn, deposed as follows:

"My name is Martha Redford. I am of sound mind, capable of making this affidavit, and personally acquainted with the facts herein stated.

I have reviewed the computer records of the Texas Department of Insurance ("Department") and have confirmed that the last mailing address provided to the Department by American Insurance Managers in writing was 3101 Towercreek Pkwy., #750, Atlanta, Georgia 30339. In addition, a review of the website of Georgia's Secretary of State reveals that the registered agent for American Insurance Manager's, Inc. is Stanley A. Coburn, whose address is 3975 Roswell Road, N.E., Atlanta, Georgia 30342.

I hereby attest that the file maintained by Enforcement also contains a Notice of Hearing dated August 26, 2004, filed with the State Office of Administrative Hearings. The Notice of hearing was addressed to American Insurance Mangers, Inc., by and through its President, David Dennett-Smith, at its last known address and mailed certified, with return receipt requested, on August 26, 2004. A copy of the certified mail log maintained by Enforcement is attached hereto as Exhibit A.

I further hereby attest that the file maintained by Enforcement also contains a First Amended Notice of Hearing dated September 28, 2004, filed with the State Office of Administrative Hearings. The First Amended Notice of Hearing was addressed to American Insurance Mangers, Inc., by and through its Registered Agent, Stanley A. Coburn, at its last known address, through the Texas Secretary of State, and mailed certified, with return receipt requested, on September 28, 2004. A copy of the certified mail log maintained by Enforcement is attached hereto as Exhibit B."

Further Affiant sayeth not.

Martha Redford
Affiant

BEFORE ME, Ginger Yocom, a notary public in and for the State of Texas, on this day personally appeared Martha Redford, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed. Given under my hand and seal of office on Nov. 18, 2004.

Ginger Yocom
Notary Public, State of Texas

GINGER YOCOM
Notary Public, State of Texas
My Commission Expires
DECEMBER 21, 2004

1409

1421

TEXAS DEPARTMENT OF INSURANCE
333 GUADALUPE
MAIL CODE 110
AUSTIN, TEXAS 78701-1998
Martha Redford

CERTIFIED MAIL

EXHIBIT A

DATE: August 26, 2004

TOTAL NUMBER OF PIECES RECEIVED AT POST OFFICE:_____ POSTMASTER, (RECEIVING EMPLOYEE):_____

NO.	ARTICLE NUMBER	NAME	ADDRESS	CITY	STATE	ZIP	POSTAGE	FEE	R.R. FEE	COMMENTS
1.	7000 1530 0001 3783 2477	Michael L Trent President American Trust Administrators, Inc,	PO Box 87	Shawnee Mission	KS	66201	.37	2.30	1.75	Richter
2.	7002 2030 0004 7992 9019	Rod M Solow	2800 Veterans Blvd Ste 203	Metarie	LA	70002	.83	2.30	1.75	Walt
3.	7002 2030 0003 6973 7786	Paul A Guerrero c/o Tina Torres Attorney at Law	454 Soledad Ste 200	San Antonio	TX	78205	.60	2.30	1.75	King
4.	7002 2030 0004 7989 5864	Mark Sloma President Realm National Ins. Co.	125 Maiden Lane 5th Floor	New York City	NY	10038	.60	2.30	1.75	Rigby
5.	7002 2030 0004 7989 5857	David Dennett Smith President American Ins Managers, Inc,	3101 Towercreek Pkwy #750	Atlanta	GA	30339	.60	2.30	1.75	Rigby

04-11119

USPS AUSTIN TX AUG 26 2004 DOMESTIC

1408

05/31/07 THU 14:04 FAX 512 475 2025 GC/GOV REL/CHIEF CLK 014

1410

05/31/07 THU 14:04 FAX 512 475 2025 GC/GOV REL/CHIEF CLK 015

TEXAS DEPARTMENT OF INSURANCE
333 GUADALUPE
MAIL CODE 110
AUSTIN, TEXAS 78701-1998
Martha Redford

CERTIFIED MAIL

EXHIBIT B

DATE: September 28, 2004

TOTAL NUMBER OF PIECES RECEIVED AT POST OFFICE:_____ POSTMASTER, (RECEIVING EMPLOYEE):_____

NO.	ARTICLE NUMBER	NAME	ADDRESS	CITY	STATE	ZIP	POSTAGE	FEE	R.R. FEE	COMMENTS
1.	7004 0550 0000 4338 5756	Ron Ray Ray Ins Agency	PO Box 691910	San Antonio	TX	78269-1910	.83	2.30	1.75	Rigby
2.	7002 2030 0004 7993 0008	Richard J Reynolds Thornton Summers Biechlin Dunham & Brown LC	Airport City – Ste 300 10100 Reunion Place	San Antonio	TX	78216-4186	.83	2.30	1.75	Gregory
3.	7002 2030 0004 7992 9996	Jeanne Bryant	PO Box 3089	Brentwood	TN	37024	.83	2.30	1.75	Gregory
4.	7002 2030 0004 7989 5925	Office of the Secretary of State Statutory Documents Section Citation Unit	PO Box 12079	Austin	TX	78711-2079	1.06	2.30	1.75	Rigby
5.	7002 2030 0003 6973 7847	Paul A. Guerrero c/o Tina Torres Attorney at Law	454 Soledad Ste 200	San Antonio	TX	78205	.83	2.30	1.75	Dwyer
6.	7002 2030 0004 7989 5918	Chris Taylor Raymond White Akin Gump Strauss Hauer & Feld LLP	300 W 6th St Ste 2100	Austin	TX	78701-2916	1.98	2.30	1.75	Rigby

04-11119

AUSTIN TX DOWNTOWN STA SEP 28 2004 USPS

1409

No. 04-0189

OFFICIAL ORDER
of the
COMMISSIONER OF INSURANCE
of the
STATE OF TEXAS
AUSTIN, TEXAS

NO LONGER IN EFFECT
Superseded by Order No. 05-0735
Released

Date: FEB 26 2004

Subject Considered:

REALM NATIONAL INSURANCE COMPANY
New York, New York

1.32 ORDER BY CONSENT TO CEASE THE WRITING OF
NEW AND RENEWAL BUSINESS IN TEXAS

General Remarks and official action taken:

On this day, came on for consideration by the Commissioner of Insurance, the business affairs and operations of REALM NATIONAL INSURANCE COMPANY, New York, New York (hereinafter referred to as "RESPONDENT"). RESPONDENT is a foreign property and casualty company domiciled in the State of New York. RESPONDENT holds a Certificate of Authority under the provisions of Chapter 982 of the Texas Insurance Code to conduct the business of insurance in the State of Texas.

JURISDICTION

The Commissioner of Insurance (hereinafter referred to as "the Commissioner") has jurisdiction over this matter pursuant to TEX. INS. CODE ANN. art. 1.32 and §§82.002 et seq., 36.104 and TEX. GOV'T CODE ANN. §§2001.052-2001.902.

WAIVER

RESPONDENT, as evidenced by the signature below of its duly authorized representative, acknowledges its procedural rights related to the issuance of this 1.32 Order by Consent, including but not limited to, issuance and service of notice of hearing, a public hearing, a proposal for decision, rehearing by the Commissioner, and judicial

1243

review of this administrative action. RESPONDENT expressly waives each and every one of the referenced procedural rights related to the issuance of this 1.32 Order by Consent as provided in TEX. INS. CODE ANN. art. 1.32 and §§82.002 et seq., and TEX. GOV'T CODE ANN. §§2001.051-2001.902 and acknowledges the jurisdiction of the Commissioner over RESPONDENT in this matter.

RESPONDENT, as evidenced by the signature below of its duly authorized representative, elects to informally settle this matter pursuant to TEX. INS. CODE ANN. §§36.104 and 82.002 et seq., TEX. GOV'T CODE ANN. §2001.056, and 28 TEX. ADMIN. CODE §1.47.

The Commissioner has determined that RESPONDENT is in hazardous financial condition as contemplated in TEX. INS. CODE ANN. art. 1.32. The Commissioner further notes that there is reason to believe that unauthorized business was written following a failed attempt at a change of control by an external entity.

IT IS THEREFORE ORDERED by the Commissioner, pursuant to TEX. INS. CODE ANN. §82.002 et seq. and art. 1.32 that:

1. RESPONDENT cease writing any new or renewal insurance business in Texas;
2. RESPONDENT cease assuming or reinsuring any insurance business in Texas;
3. RESPONDENT continue servicing existing business and give proper notice to Texas policyholders of the non-renewal of their existing policies as required by any applicable law and regulation;
4. RESPONDENT send written notice to all agents authorized to write business on behalf of RESPONDENT. Such notification shall inform them of the requirements set forth in enumerated paragraph No. 1 above. Respondent shall provide the Commissioner or the Commissioner's appointed representative with evidence of the mailing or transmission of the letters to the agents within ten (10) business days of the mailing or transmission of the letters;
5. RESPONDENT provide the Commissioner or the Commissioner's appointed representative, with any information, audits, and data requested by him, in the format specified by him;
6. RESPONDENT will not be released from terms and conditions of this Order until Company has submitted a business plan which the Commissioner or his designated representative has approved in writing; and
7. RESPONDENT will not be released from the terms and conditions of this Order until RESPONDENT can demonstrate compliance with such Order and demonstrates substantial compliance with Chapter 822.

IT IS FURTHER ORDERED that this 1.32 Order by Consent is binding on RESPONDENT, and its attorneys-in-fact, subscribers, officers, directors, employees, agents, affiliates, attorneys, and on those persons in active concert or participation with

1244

them or who receive actual or constructive notice of this 1.32 Order by Consent by personal service or otherwise.

Nothing herein shall constitute a limitation on the Commissioner to take other or further action pursuant to the Texas Insurance Code or the rules and regulations promulgated pursuant to the Texas Insurance Code.

JOSÉ MONTEMAYOR
COMMISSIONER OF INSURANCE

By: Betty Patterson
Betty Patterson, CPA, AFE
Senior Associate Commissioner
Financial Program
Delegation Order No. 94-0487

Reviewed by:

Mary Salluce
Staff Attorney
Legal & Compliance Division

1245

04-0189

COMMISSIONER'S ORDER
REALM NATIONAL INSURANCE COMPANY
PAGE 4 OF 5

Agreed and Consented to by Realm National Insurance Company on the 20 day of Feb, 2002.

By: _____

MARK S. SIENA, PRESIDENT
(Type Name & Title)

04-0189

COMMISSIONER'S ORDER
REALM NATIONAL INSURANCE COMPANY

STATE OF New York §
§
COUNTY OF New York §

BEFORE ME, the undersigned notary public, personally appeared MARK S. SIOMA, who being by me duly sworn, deposed as follows:

1. "My name is MARK S. SIOMA. I am of sound mind, capable of making this statement, and am personally acquainted with the acts herein stated.

2. I am PRESIDENT of Realm National Insurance Company, which holds a Certificate of Authority to conduct the business of insurance in the State of Texas. As PRESIDENT of Realm National Insurance Company, I am authorized to make this statement and I agree to and execute this 1.32 Order by Consent on behalf of Realm National Insurance Company.

3. Realm National Insurance Company agrees with and consents to the issuance and service of the foregoing 1.32 Order by Consent to be entered by the Texas Commissioner of Insurance."

(Signature)

SWORN TO AND SUBSCRIBED before me the undersigned authority, by MARK S. SIOMA of Realm National Insurance Company on this 20th day of February, 2007.

Signature of Notary Public

MINERVA GORDIAN
Printed Name of Notary Public

Notary Public In and For the State
New York

My Commission Expires: May 31 2006

MINERVA GORDIAN
Notary Public, State of New York
No: 01GO5870819
Qualified in Bronx County
Commission Expires May 31, 2008

1247

IN THE CIRCUIT COURT OF ST. FRANCOIS COUNTY, MISSOURI

STATE OF MISSOURI, ex rel. JEREMIAH W. (JAY) NIXON, Attorney General,	)	
Plaintiff,	)	Case No.: 04-CV-613245
v.	)	
QUICK LABOR, INC., et al.,	)	
Defendants/Crossclaim Plaintiffs,	)	
v.	)	
AMERICAN INSURANCE MANAGERS, INC., et al.,	)	
Defendants/Crossclaim Defendants.	)	

FILED

MAY 26 2008

SANDRA WELLS, CIRCUIT CLERK
ST. FRANCOIS COUNTY, MO

JUDGMENT AGAINST THE AIM DEFENDANTS

The Court, having heard the Motion of Defendants Quick Labor, Inc., Quick Labor National, Inc., Quick Labor Management, Inc., Career Management Services, Inc., National Career Management Services, Inc., Matthew E. Kearns, Jeffrey L. Kearns, George McNabb, and Teresa J. Bollinger, ("hereinafter the "Quick Labor Defendants") for Sanctions against American Insurance Managers, Inc., American Insurance Management Group. Inc , Atlanta Insurance Managers, Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale (hereinafter the "AIM Defendants"), and having fully considered the issue, hereby finds that sanctions should be imposed upon the AIM Defendants for failure to appear for their depositions and for failure to answer discovery propounded by the Quick Labor Defendants after previously having been ordered to do so by this Court.

1248

Accordingly, the Court hereby orders the following:

(a) that the answer filed by the AIM Defendants in response to the Cross-claims of the Quick Labor Defendants be stricken;

(b) that judgment be entered in favor of the Quick Labor Defendants and against the AIM Defendants in the amount of $4,738,757.24;

(c) that a judgment for punitive damages be entered in favor of the Quick Labor Defendants and against the AIM Defendants in the amount of $247,494.12;

(d) that said judgments are final and are hereby rendered against the AIM Defendants jointly and severally.

So Ordered: _____
Judge Kenneth Wayne Pratte

CC: All counsel and parties of record

IN THE CIRCUIT COURT OF ST. FRANCOIS COUNTY, MISSOURI

STATE OF MISSOURI, ex rel. JEREMIAH W. (JAY) NIXON, Attorney General Plaintiff, v. QUICK LABOR, INC., et al. Defendants.	)	Case No. 04CV613245

FILED
MAY 26 2006
SANDRA WELLS, CIRCUIT CLERK
ST. FRANCOIS COUNTY, MO

FINAL JUDGMENT IN FAVOR OF PLAINTIFF STATE OF MISSOURI AGAINST DEFENDANTS AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., ATLANTA INSURANCE MARKETING, INC. DAVID DENNETT-SMITH, BRUCE HOLLEY, AND BRIAN IMPERIALE

Now on this 26th day of May, 2006, after a hearing on Plaintiff's Motion For Sanctions Against The AIM Defendants (hereinafter "AIM Defendants" include American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing, Inc., Bruce Holley, David Dennett Smith and Brian Imperiale), and being fully advised in the premises, the Court issues the following findings of fact, conclusions of law and judgment.

FINDINGS OF FACT

The Court hereby finds the following facts pursuant to the pleadings, motions, affidavits, exhibits and documents filed in this case:

Procedural Facts

1. Plaintiff, State of Missouri, filed a Petition For Preliminary and Permanent

1250

Injunctions, Restitution, Civil Penalties and Other Court Orders on July 9, 2004.

2. The Petition alleged violations of the Missouri Merchandising Practices Act, Chapter 407 RSMo.[1]

3. Plaintiff also filed on July 9, 2004 a Motion For An Order Requiring Defendants to Post a Prejudgment Bond.

4. In support of the motion for a prejudgment bond, Plaintiff filed an Affidavit of Mark Sioma, an Affidavit of Licensure signed by Angel Toebben, and Affidavit of Licensure signed by Michael Duffeck, and an Affidavit of Ron Bockenkamp which included documentary exhibits 1-15.

5. On October 25, 2004, attorney Michael Dallmeyer entered his appearance on behalf of Defendants American Insurance Managers, Inc., American Insurance Management Group Inc., Atlanta Insurance Marketing, Inc., Bruce Holley and David Dennett-Smith.

6. On October 25, 2004, Plaintiff filed a Certificate of Service on Plaintiff's First Request For Production Of Documents to Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing, Inc., David Dennett-Smith and Bruce Holley.

7. On November 12, 2004, Plaintiff filed a Notice of Deposition to take the depositions of David Dennett-Smith and Bruce Holley on December 1 and 2,

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[1] All references unless otherwise noted are to RSMo 2000.

2004.

8. On December 8, 2004, Plaintiff filed a Supplemental Exhibit in Support of its Motion For An Order Requiring Defendants To Post A Prejudgment Bond.

9. On December 8, 2004, Plaintiff also filed a Motion To Compel Discovery and For Sanctions against Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing, Inc., David Dennett-Smith and Bruce Holley.

10. Filed with Plaintiff's Motion To Compel were certified copies of the transcript of the attempted depositions of David Dennett-Smith and Bruce Holley.

11. The transcripts demonstrate that Dennett-Smith and Holley failed to appear for their depositions on December 1, 2004.

12. On December 17, 2004, after a hearing held on Plaintiff's Motion to Compel Discovery and For Sanctions, this Court ordered the AIM Defendants to produce documents in response to Plaintiff's First Request For Production Of Documents within twenty days and ordered the AIM Defendants to make themselves available for a deposition at a reasonable time and location. The Order noted that Defendants failure to comply with this order will result in sanctions to be determined.

13. Also on December 17, 2004, attorney Michael Dallmeyer was granted leave to withdraw as counsel for Defendants American Insurance Managers, Inc.,

American Insurance Management Group, Inc., Atlanta Insurance Marketing, Inc., David Dennett-Smith and Bruce Holley.

14. On January 31, 2005, attorney Gene Brockland entered his appearance on behalf of the AIM Defendants.

15. On February 22, 2005, the AIM Defendants filed their Answer to Plaintiff's Petition.

16. On January 23, 2006, the Quick Labor Defendants (hereinafter including Quick Labor, Inc., Quick Labor National, Inc., Quick Labor Management, Inc., Career Management Services, Inc., National Career Management Services, Inc., Matthew E. Kearns, Jeffrey L. Kearns, Teresa Bollinger and George McNabb) filed a Notice to take the Depositions of Bruce Holley, David Dennett-Smith, and Brian Imperiale. All parties were advised that they might attend and participate.

17. A record was made of the failure of Holley, Dennett-Smith and Imperiale to appear at their scheduled depositions on January 31, 2006, February 1, 2006 and February 2, 2006.

18 On February 1, 2006, Plaintiff filed a Certificate of Service on Plaintiff's First Set Of Interrogatories Directed To the AIM Defendants

19. No response to Plaintiff's First Set of Interrogatories has been filed with this court.

1253

20. On February 14, 2006, Plaintiff filed a Motion For Sanctions Against The AIM Defendants based on the failure of Dennett-Smith, Holley and Imperiale to appear for their depositions.

21. On February 14, 2006, Plaintiff filed a Notice of Hearing on its Motion For Sanctions Against The AIM Defendants for May 26, 2006 at 3:00 p.m.

22. Plaintiff certified in the Motion For Sanctions and in the Notice of Hearing that a copy of those documents were sent via First Class Mail postage prepaid on February 9, 2006 to Gene J. Brockland and David C. LaPlante, counsel for the AIM Defendants.

23. On March 27, 2006, attorney Gene Brockland was granted leave to withdraw as counsel for the AIM Defendants.

24. On May 9, 2006, Plaintiff filed a Supplemental Motion For Sanctions Against The AIM Defendants based on their failure to respond to Plaintiff's First Set of Interrogatories.

25. On May 9, 2006, Plaintiff filed a Notice of Hearing on its Supplemental Motion For Sanctions Against The AIM Defendants for May 26, 2006 at 3:00 p.m.

26. Plaintiff certified in the Motion For Sanctions and in the Notice of Hearing that a copy of these documents was sent via First Class Mail postage prepaid on May 4, 2006 to each of the AIM Defendants.

27. Defendants American Insurance Managers, Inc., American Insurance

Management Group, Inc., Atlanta Insurance Marketing, Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale failed to appear at the hearing held on May 26, 2006 on Plaintiff's Motion For Sanctions and Supplemental Motion For Sanctions.

Other Facts

28. David Dennett-Smith was the Chief Executive Officer of the AIM companies and President of Atlanta Insurance Marketing, Inc.

29. Bruce Holley was the Vice President of the AIM companies for underwriting.

30. On December 26, 2002, Quick Labor entered into an escrow agreement with Atlanta Insurance Marketing to enter a program offered by Atlanta Insurance Marketing which was to provide access to workers compensation insurance coverage for Quick Labor's clients.

31. The escrow agreement was signed by David Dennett-Smith on behalf of Atlanta Insurance Marketing.

32. American Insurance Managers, Inc. and Bruce Holley faxed documents between January and July 2003 to Quick Labor purporting to bind workers compensation insurance coverage for at least 36 small business clients of Quick Labor.

33. The AIM defendants billed Quick Labor $1,087,034 and collected $999,943 from Quick Labor for purported workers compensation insurance coverage for Quick Labor clients from January 2003 to September 2003.

34. Quick Labor client companies paid Quick Labor for the purported insurance coverage during January to July 2003.

35. In August 2003, American Insurance Managers, Inc. and Bruce Holley represented in a letter to Quick Labor clients, including 3 clients not listed in paragraph 32, that AIM placed workers compensation coverage for those clients with Realm National Insurance Company.

36. American Insurance Managers, Inc. and Bruce Holley further represented to Quick Labor clients in the letter that workers compensation coverage was in force for those clients.

37. In November 2003, American Insurance Managers, Inc. and Bruce Holley represented in a letter to Quick Labor clients, including 10 clients not listed in paragraphs 32 or 35, that AIM had placed workers compensation insurance coverage effective from 1/1/03 to 1/1/04 for those clients with Realm National Insurance Company.

38. American Insurance Managers issued certificates of workers compensation insurance to Quick Labor clients listing Realm as the insurer affording coverage. These certificates were signed by Bruce Holley on behalf of AIM.

39. American Insurance Managers , Inc., and/or Atlanta Insurance Marketing, Inc. has issued, or caused to be issued, thousands of certificates of workers compensation insurance in 18 states, including Missouri, using the name of

Realm National Insurance Company without its permission or authority.

40. Realm did not authorize AIM to issue, or cause to be issued, insurance certificates in Realm's name.

41. Realm had no prior knowledge of, and never authorized any of the insurance certificates issued.

42. Realm has not received any insurance premium payments on these certificates.

43. One of the Professional Employer Organizations that AIM purported to issue workers compensation insurance coverage for, in Realm's name, was Quick Labor Inc. of Farmington, Missouri.

44. Realm has not issued any workers compensation insurance coverage to Quick Labor or its client companies.

45. Realm did not authorize AIM to issue insurance certificates or coverage to Quick Labor, Inc., or any of its client companies.

46. Realm does not acknowledge coverage for any workers compensation insurance claims associated with Quick Labor.

47. Realm has not accepted any premium payments from AIM or Quick Labor for workers compensation insurance coverage.

48. Realm has issued no workers compensation insurance policies or certificates to Quick Labor or any of its clients.

49. As of July 8, 2004, there was no record of a license or certificate of authority

issued from the Missouri Department of Insurance to American Insurance Managers, Inc., American Insurance Management Group, Inc., to Atlanta Insurance Marketing, Inc., or to AIM to operate as an insurance company in the State of Missouri.

50. As of July 8, 2004, there was record of a license or certificate of authority issued from the Missouri Department of Insurance to American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing Inc, or AIM to sell insurance in the State of Missouri or to issue insurance policies or certificates in the State of Missouri.

51. As of July 8, 2004, there was no record of a license to sell insurance in the State of Missouri issued by the Missouri Department of Insurance to Bruce Holley, David Dennett-Smith or Brian Imperiale.

52. As of July 8, 2004, there was no record of a license to issue insurance policies or certificates in the State of Missouri issued by the Missouri Department of Insurance to Bruce Holley, David Dennett-Smith or Brian Imperiale.

53. As of July 8, 2004, Atlanta Insurance Marketing, Inc. did not hold a producers license issued by the Missouri Department of Insurance, the license having been cancelled on July 24, 2001.

54. AIM and Bruce Holley represented that workers compensation insurance coverage was issued to at least 45 Quick Labor clients, when, in fact, there was

no coverage in place for these clients.

55. Atlanta Insurance Marketing accepted insurance premium payments from Quick Labor for workers compensation insurance coverage for at least 45 Quick Labor clients when no such coverage existed.

56. Assistant Attorney General Stewart Freilich personally worked at least 50 hours on the investigation and prosecution of this lawsuit.

57. The usual and customary billing rate for an attorney with Freilich's experience in Cole County, Missouri is $150.00 per hour.

58. Investigator Donald King personally worked at least 40 hours on the investigation of this lawsuit.

59. The standard and customary charge for such investigative time is $60.87 per investigative hour.

60. Investigator Ron Bockenkamp personally worked at least 160 hours on the investigation of this lawsuit.

61. The standard and customary charge for such investigative time is $60.87 per investigative hour.

CONCLUSIONS OF LAW

1. This Court has jurisdiction of this action pursuant to § 407.100.

2. Pursuant to section 407.100 venue of this action properly lies in St. Francois County.

1259

3. Section 407.020 of the Missouri Merchandising Practices Act provides in pertinent part:

> 1. The act, use or employment by any person of any deception, fraud false pretense, false promise, misrepresentation, unfair practice or the concealment, suppression or omission of any material fact in connection with the sale or advertisement of any merchandise in trade Or commerce. . . is declared to be an unlawful practice. . . . Any act, use Or employment declared unlawful by this subsection violates this subsection whether committed before, during or after the sale, advertisement or solicitation.

4. Section 407.010(4) defines merchandise as any objects, wares, goods, commodities, intangibles, real estate or services.

5. The workers compensation insurance coverage at issue in this lawsuit constitutes merchandise.

6. The purpose of Chapter 407 as a whole was set forth in *State ex rel. Danforth v. Independence Dodge, Inc.*, 494 S.W.2d 362, 368 (Mo. App., W.D. 1973). In that case the Court declared:

> The purpose of these statutes is to supplement the definition of common law fraud in an attempt to preserve fundamental honesty, fair play and right dealings in public transactions. In order to give broad scope to the statutory protection and to prevent ease of evasion because of overly meticulous definitions, many of these laws such as the Missouri statute do not attempt to define deceptive practices or fraud, but merely declare unfair or deceptive acts or practices unlawful . . . leaving it to the Court in each particular instance to declare whether fair dealing has been violated.

7. Further, the Court in *State ex rel. Webster v. Areaco Investment Company*, 613

S.W.2d 440, 445 (Mo. App. E.D. 1988) noted that Chapter 407 did not define deceptive practices and that therefore broad scope must be given to the meaning of the statute.

8. It is not necessary that the Attorney General, as plaintiff, prove the common law elements of fraud as it is the defendant's conduct, not a person's reliance on defendant's conduct that is determinative. *State ex rel. Webster v. Cornelius*, 729 S.W.2d 60, 64 (Mo. App. E.D. 1987).

9. By providing a statutory cause of action, the Merchandising Practices Act eliminates the need for the Attorney General to prove intent to defraud or reliance in order for the court to find that a defendant has engaged in an unlawful practice. *State ex rel. Nixon v. Beer Nuts Ltd.*, 29 S.W.3d 828 (Mo. App. E.D. 2000).

10. Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing, Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale have violated section 407.020 of the Missouri Merchandising Practices Act by:

    a. Misrepresenting to business clients of the Quick Labor Companies that they were covered by workers compensation insurance issued by Realm National Insurance Company, when, in fact, Realm did not issue any policies or certificates for such coverage.

b. Engaging in the unfair practice of receiving payment for workers compensation insurance coverage, when, in fact, such coverage was not provided.

c. Engaging in the unfair practice of issuing workers compensation insurance certificates to Quick Labor clients when none of the AIM Defendants was licensed to sell insurance in the State of Missouri.

11. Section 407.100 provides in pertinent part:

> 1. Whenever it appears to the attorney general that a person has engaged in, is engaging in or is about to engage in any method, act, use, practice or solicitation, or any combination thereof, declared to be Unlawful by this chapter, he may seek and obtain, in an action in a circuit court, an injunction prohibiting such person from continuing such methods, acts, uses, practices, or solicitation, or any combination thereof, or engaging therein, or doing anything in furtherance thereof.
>
> 6. The court may award to the state a civil penalty of not more than one thousand dollars per violation . . .

12. Section 407.130 provides:

> In any action brought under the provisions of section 407.100, the attorney General is entitled to recover as costs, in addition to normal court costs, the cost of the investigation and prosecution of any action to enforce the provisions of this chapter.

13. Irreparable harm and harm to the public is presumed for purposes of issuing an injunction under the Missouri Merchandising Practices Act once the court has found that defendant has engaged in unlawful practices under the act. *State ex rel. Nixon v. Beer Nuts, Ltd.*, 29 S.W.3d 828, 837-38 (Mo. App. E.D. 2000);

State *ex rel. Webster v. Milbourne*, 759 S.W.2d 862 (Mo. App. 1988).

14. Pursuant to Rules of Civil Procedure 61.01 (f) if a party or an officer, director or managing agent of a party fails to appear for his deposition , after being served with notice, the court may take any action authorized under Rule 61.01 (d) , paragraphs (1) (2) (3) and (4).

15. Pursuant to Rule 61.01 (d) (2) the court may order pleadings stricken and may render a judgment by default against the disobedient party.

16. Pursuant to Rule 61.01 (b) (1) if a party fails to answer interrogatories or file objections thereto within the time provided by law, the court may order pleadings stricken and may render a judgment by default against the disobedient party.

JUDGMENT

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED that pursuant to Rules of Civil Procedure 61.01 (b) (1), 61.01 (f), and 61.01 (d) (2), the Answer filed by Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale is hereby stricken.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that pursuant to Rules of Civil Procedure 61.01 (b) (1), 61.01 (f), and 61.01 (d) (2), a Judgment is entered in favor of Plaintiff and against Defendants American Insurance Managers, Inc., American Insurance

Management Group, Inc., Atlanta Insurance Marketing Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale and their officers, agents, servants, employees, sales persons, contractors, representatives, and other individuals acting on their behalf or at their direction who receive actual notice of this order are permanently enjoined and restrained from violating Section 407.020 and specifically from engaging in the following acts and practices:

A. Representing to any business, employer, employee, professional employer organization or to any person [as that term is defined by section 407.010 (5)] that the business, employer, employee, professional employer organization or person is covered by workers compensation insurance unless a policy has been issued by an insurance carrier authorized to insure such liability by the Missouri Department of Insurance.

B. Accepting payment from any business, employer, employee, professional employer organization or person [as that term is defined by section 407.010 (5)] to obtain workers compensation insurance and failing to obtain such insurance issued by an insurance carrier authorized to insure

such liability by the Missouri Department of Insurance.

C. Selling workers compensation insurance coverage in the State of Missouri to any business, employer, employee, professional organization or person [as that term is defined by section 407.010 (5)] unless they are licensed to sell insurance by the Missouri Department of Insurance.

D. Accepting payment from any business, employer, employee, professional employer organization or person [as that term is defined by section 407.010 (5)] to obtain workers compensation insurance unless they are licensed to sell insurance in the State of Missouri by the Missouri Department of Insurance.

E. Issuing insurance policies or certificates of insurance in the State of Missouri unless they are licensed to issue such policies or certificates by the Missouri Department of Insurance.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Defendants American Insurance Managers, Inc. and Bruce Holley are jointly and severally liable for and shall pay or cause payment to be made in the sum of $45,000.00 to the State of Missouri as a civil penalty

IT IS FURTHER ORDERED, ADJUDGED, AND DECREED that Defendants American Insurance Managers, Inc., Atlanta Insurance Marketing Inc., David Dennett-Smith, and Bruce Holley are jointly and severally liable for and shall pay or cause payment to be made

1265

in the sum of $19,674.00 to the State of Missouri to the credit of the Merchandising Practices Revolving Fund for the cost of the investigation and prosecution of this action..

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that this Judgment shall constitute a final judgment in this matter as to Defendants American Insurance Managers, Inc., American Insurance Management Group, Inc., Atlanta Insurance Marketing Inc., David Dennett-Smith, Bruce Holley and Brian Imperiale.

SO ORDERED

Kenneth W. Pratte
Circuit Judge

Date: 5/26/06

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 4/28/08

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS, *et al*

Plaintiffs,

– against –

DINALLO, *et al*,

Defendants.

Index No. 2007 Civ. 00762 (JRH)

STIPULATION AND ~~PROPOSED~~ ORDER

WHEREAS, Plaintiffs filed a motion dated October 15, 2007, seeking to amend their complaint and add new defendants as parties;

WHEREAS, on February 7, 2008, the Court granted Plaintiffs' motion and directed that Plaintiffs serve the Amended Complaint forthwith,

WHEREAS, on April 17, 2008, Plaintiffs wrote the Court to request that the status conference scheduled for April 18, 2008, be postponed to June 13, 2008, so that Plaintiffs may perfect service of process,

WHEREAS, on April 17, 2008, Plaintiffs informed counsel for the undersigned defendants that they had been informed by the Court's Deputy Clerk that the Court had granted Plaintiffs' request;

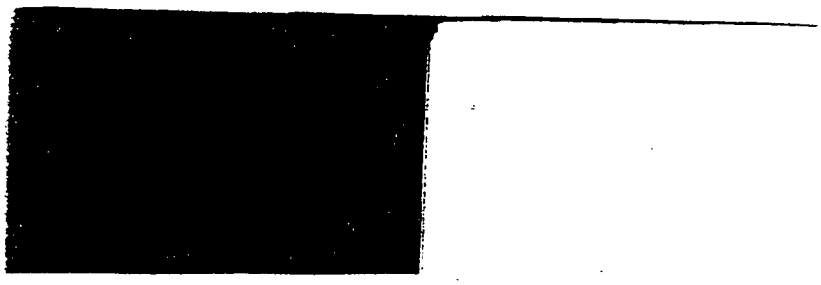
WHEREAS, under Federal Rule of Civil Procedure 12(a)(1)(A)(i) a defendant's time to move or answer runs from the time of service, and defendants' motions or answers in this case would be therefore due in this case on different dates and,

[redacted]

in the case of defendants who have already been properly served, due prior to June 13, 2008;

THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and between the undersigned, as follows:

1. Defendants that have been or are hereafter served are granted extensions of time to move or answer the Amended Complaint until a date to be fixed by the Court at the initial pretrial conference, or thereafter



2. Nothing contained herein shall be deemed a waiver of any party's defenses, including without limitation defenses based on insufficiency of process or insufficiency of service of process.

Dated: New York, New York
April 18, 2008

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP

By: Daniel Beller/ABE
Daniel J. Beller (DB-7312)
1285 Avenue of the Americas
New York, New York 10019-6064
dbeller@paulweiss.com
(212) 373-3000

Attorneys for Defendants Goldman, Sachs & Co., The Goldman Sachs Group, Inc., GS Capital Partners II, L.P., and Bridge Street Fund 1995, L.P.

LOWENDICK, CUZDEY, EHRMANN, WAGNER, STINE, SANSALONE & BOBE LLC

By: [signature]
Stanley A. Coburn (SAC-6318)
pro hac vice
3775 Mansell Rd.
Alpharetta, Georgia 30022
stan@LCE-LAW.com
(404) 325-2300

Attorneys for Plaintiffs

April 25, 2008

SO ORDERED:

[signature]
Hon. Richard J. Holwell

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 4/17/08

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE : ALPHASTAR INSURANCE,

Plaintiff,

-against-

AMERICAN INSURANCE MANAGERS,

Defendant.

---

07 Civ. 00762 (RJH)

ORDER

The pre-trial conference scheduled for April 18, 2008 is rescheduled to June 13, 2008, at 10:30 a.m., in the courtroom of the Honorable Richard J. Holwell, Courtroom 17B, 500 Pearl Street, New York, New York 10007.

Dated: New York, New York
April 17, 2008
SO ORDERED:

Richard J. Holwell
United States District Judge

12MD

FEB 28. 2008 3:34PM NO. 9124 P. 2

LOWENDICK, CUZDEY, EHRMANN, WAGNER, STINE, SANSALONE & BOBE, LLC

ATTORNEYS AT LAW

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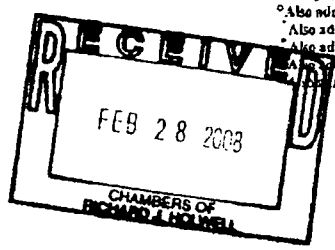
CALDER D. EHRMANN, III
S. GREGORY WAGNER
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THOMAS J. SANSALONE
GLENN B. BOBE
MICHAEL D. THORPE
FREDERICK J. CONKLIN, JR.*

of counsel:
H. DURANCE LOWENDICK
STEPHEN L. CUZDEY
STANLEY A. COBURN

NICHOLAS M. HOLLANDER°
ALISSA C. ATKINS
JEFFREY S. SNELL†
MICHAEL O'HAGAN
HEATHER D. FROY
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WILLIAM JACKSON NAGLICH
NICHOLAS BENZINE
JEFFREY D. REEDER
DAVID J. STUDDARD

°Also admitted in Maryland and D.C.
*Also admitted in Florida
†Also admitted in Tennessee
‡Also admitted in New York
Also admitted in Nevada

February 27, 2008



Via facsimile only (212-805-7948)
Hon. Richard J. Holwell
Judge, U.S. District Court
Southern District of New York
500 Pearl Street
New York, NY 10007

Re: *American Insurance Managers, Inc., et al. v. Dinallo, et al.*
Case No. 1:07-CV-00762-RJH

Dear Judge Holwell:

This firm represents the Plaintiffs in the above matter.

Pursuant to Simone Siex' conversation with Deputy Clerk William Donald, this letter will confirm that Plaintiffs respectfully request that the Status Conference currently scheduled for March 11, 2008, be rescheduled. Mr. Donald advised that April 18, 2008 at 10:30 a.m. is available. Defense counsel, William McSherry has been consulted and has no objection.

Should the court have any questions, please do not hesitate to contact the undersigned.

Conference adjourned to
4/18/08 at 10:30 a.m.
SO ORDERED

Very truly yours,

Stanley A. Coburn

SAC:ksp

cc: Simone R. Siex, Esq.
Mr. David Dennett-Smith
William McSherry, Esq. (fax 212-895-4201)

USDJ 3/11/08

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DATE FILED: 1/11/08

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE : ALPHASTAR INSURANCE,

Plaintiff,

-against-

AMERICAN INSURANCE MANAGERS,

Defendant.

---

07 Civ. 00762 (RJH)

ORDER

The pre-trial conference scheduled for February 01, 2008 is rescheduled to March 11, 2008, at 10:00 a.m., in the courtroom of the Honorable Richard J. Holwell, Courtroom 17B, 500 Pearl Street, New York, New York 10007.

Dated: New York, New York
January 10, 2008
SO ORDERED:

Richard J Holwell
United States District Judge

1272

4

Stanley A. Coburn (SAC-6318).
Admitted Pro Hac Vice
Lowendick, Cuzdey, Ehrmann, Wagner, Stein and Sansalone, LLC
P.O. Box 450169
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Phone: (404)325-2300
Fax: (404)325-7302
Georgia Bar No. 172100
Attorney for Plaintiffs

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 9/10/07

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

IN RE: ALPHASTAR INSURANCE GROUP LIMITED, ET AL.,

PLAINTIFFS

-against-

AMERICAN INSURANCE MANAGERS, INC. ET AL,

DEFENDENTS

2007 Civ. 00762 (RJH)

JOINT REPORT AND SCHEDULING ORDER

RECEIVED
AUG 31

Pursuant to this Court's Order of April 11, 2007, (as extended), the Court's Individual Practices and Fed.R.Civ.P. 26(f), the parties present to the Court the following Joint Report and Scheduling Order:

A. Description of the Case

i. Counsel of Record:

Plaintiff:
Stanley A. Coburn (SAC-6318).
Admitted Pro Hac Vice
Lowendick, Cuzdey, Ehrmann, Wagner, Stein and Sansalone, LLC
P.O. Box 450169
Atlanta, Georgia 31145-0169
Phone: (404)325-2300
Fax: (404)325-7302
Georgia Bar No. 172100

1273

Defendants:
William J. McSherry, Jr. (WJM-1194)
Crowell & Moring, LLP
153 East 53d Street
31st FLoor
New York, NY 10022

ii. Jurisdiction:

This Court has jurisdiction over the claims alleged herein pursuant to 28 U.S.C. §1332(a), given the diversity of citizenship between the parties and that the amount in controversy exceeds $75,000.00, exclusive of interest and costs. This court has jurisdiction to award the injunctive relief sought pursuant to Fed R. Civ. Pro. 65; and the declaratory relief sought pursuant to Fed R. Civ. Pro. 57 and 28 U.S.C. §§2201-2202.

iii. Claims asserted in Complaint and Counterclaims:

Count I: Declaratory Judgment that Realm Bound the Insurance Coverages

Count II: Fraud

Count III: Mandatory Injunction for Violation of NY General Business Law §349(h) and for Treble Damages

Count IV: Breach of Contract

iv. Major Legal and Factual issues:

a. Whether the individual defendants, as various officers and directors of Realm and AlphaStar, made false and misleading representations upon which Plaintiffs relied to their detriment

b. Whether the Plaintiff made false and misleading statements to Realm and AlphaStar, and whether the Plaintiff violated N.Y. Insurance Law by issuing certificates of insurance without approval of the N.Y. Insurance Department.

c. Whether Plaintiffs were, at all times relevant hereto, acting as agents of Realm, with actual and apparent authority to bind the insurance coverages authorized by Defendant Sioma.

d. Whether Realm is legally obligated to issue the certificates of insurance and policies of insurance as set out in the Complaint and responsible for payment of any claims arising thereunder.

v. **Relief Sought:** (a) Declaratory Judgment that Plaintiffs were at all times relevant hereto acting as agents of Realm, with actual and apparent authority to bind the insurance coverages authorized by Defendant Sioma and that Realm is legally obligated to issue the certificates of insurance and policies of insurance as set out in the Complaint and be responsible for payment of any claims arising thereunder; (b) compensatory damages; (c) punitive damages; (d) injunction requiring the inspection and preservation of Realm's books and records; (e) actual damages, trebled with costs, attorneys' fees and interest permitted by N.Y. General Business Law §349(h); (f) monetary damages for fees and commissions earned by AIM in Defendants' PEO program in excess of $2.6 million, claims paid on behalf of Defendants in excess of $3.21 million, all sums advanced as part of the loan agreement and promissory note in excess of $1.5 million; and (g) costs and disbursements, attorneys' fees and litigation expenses.

B. **Proposed Case Management Plan**

i. **Pending Motions:** None at this time.

ii. **Deadline for Joinder of Additional Parties:** October 15, 2007

iii. **Deadline for Amendments to Pleadings:** October 15, 2007

iv. **Schedule for Completion of Discovery:**

a. **Rule 26(a)(1) Disclosures:** October 1, 2007

b. **Fact Discovery:** February 1, 2008

c. **Rule 26(a)(2) Disclosures and Expert Discovery:**

Plaintiffs are ordered to disclose the identity of witnesses who will give expert testimony and provide Rule 26 reports, along with three (3) dates for depositions, to Defendants on or before February 15, 2008. Plaintiffs must make their experts available for depositions on or before March 15, 2008.

Defendants are ordered to disclose the identity of witnesses who will give expert testimony and Rule 26 reports along with three (3) dates for depositions, to Plaintiff on or before March 31, 2008. Defendants must make their experts available for depositions on or before May 1, 2008

v. **Dispositive Motions:** All dispositive motions and motions to exclude testimony under the Daubert standard shall be filed on or before May 15, 2008.

vi. **Final Pretrial Order:** shall be filed on or before June 30, 2008.

vii. **Trial Schedule:**

a. **Jury Trial** is requested.

b. **Length of Trial** is anticipated to last approximately 10 days.

c. **Case will be ready for trial** on or after August 4, 2008

C. **Consent to Proceed Before a Magistrate Judge:** The parties do not consent to proceed before a Magistrate Judge.

D. **Status of Settlement Discussions**

i. **Settlement Discussions** have occurred, without success.

ii. **Status of any Settlement Discussions:** At the Rule 26(f) Conference the parties determined that new settlement discussions were premature at this time. The parties will revisit this issue again upon completion of factual discovery.

iii. **Whether the Parties Request a Settlement Conference:** Not at this time. The parties will revisit this issue again upon completion of factual discovery.

Respectfully submitted,

This 20th day of August, 2007,

Stanley A. Coburn (SAC-6318)
Lowendick, Cuzdey, Ehrmann,
Wagner, Stein and Sansalone, LLC
P.O. Box 450169
Atlanta, Georgia 31145-0169
Phone: (404)325-2300
Fax: (404)325-7302
Attorney for Plaintiffs

William J. McSherry, Jr. w/express permission
(WJM-1194)
Crowell & Moring, LLP
153 East 53d Street 31st Floor
New York, NY 10022
Phone: (212)895-4207
Fax: (212) 895-4201
Attorney for Individual Defendants

A status conference shall be held on Feb. 1, 2008 at 10:00 a.m.

IT IS SO ORDERED, this 6 Day of Sept., 2007 in New York, New York.

Richard J. Holwell, Judge
United States District Court
Southern District of New York

213

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS, Inc., Plaintiff, -against- STEPHEN CRANE, et al, Defendant.	07 Civ. 00762 (RJH) **ORDER**

The pretrial conference scheduled for June 22, 2007 is rescheduled to September 06, 2007, at 10:00 a.m., in the courtroom of the Honorable Richard J. Holwell, Courtroom 17B, 500 Pearl Street, New York, New York 10007.

Dated: New York, New York
June 28, 2007
SO ORDERED:

Richard J. Holwell
United States District Judge

USDC SDNY
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DOC #:
DATE FILED: 7/11/07

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
----------x
IN RE: ALPHASTAR INSURANCE GROUP LIMITED, ET AL.,

Plaintiffs,

- against - **2007 Civ. 00762 (RJH)**

AMERICAN INSURANCE MANAGERS, INC. ET AL.,

Defendants.
----------x

Initial Scheduling Conference Notice and Order

This action has been assigned to Judge Richard J. Holwell for all purposes. It is hereby ORDERED as follows:

1. Counsel receiving this Order shall promptly mail or fax copies hereof to all other counsel of record or, in the case of parties for which no appearance has been made, to such parties. Counsel for all parties should note their appearance as counsel in this matter by letter immediately.
2. Counsel for all parties are directed to confer regarding an agreed scheduling order pursuant to Fed. R. Civ. P. 26(f). If counsel are able to agree on a schedule **and the agreed schedule calls for filing of the pretrial order not more than nine (9) months from the date of this order**, counsel shall sign and email a PDF of the proposed schedule to the Orders and Judgment Clerk within fourteen (14) days from the date hereof, following the scheduling order requirements attached hereto. Counsel should note, in submitting their consent scheduling order, that the otherwise scheduled conference should be adjourned.
3. If such a consent order is not filed within the time provided, an initial scheduling conference will be held in this matter on **April 26, 2007 at 10:30 a.m.** in Courtroom 17B at the U.S. Courthouse, 500 Pearl Street, New York, New York 10007. A proposed scheduling order, following the scheduling order requirements attached hereto, should be submitted to Chambers three days before the initial scheduling conference.
4. **Any requests for adjournments** must be made in writing and must be received in Chambers **not later than 48 hours** before the scheduled time. Alternative

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dates that are mutually agreeable to all parties must be suggested when requesting to reschedule the initial scheduling conference. Parties should consult the Individual Practices of Judge Holwell with respect to communications with Chambers and related matters.

5. This case has been designated an electronic case. The parties are advised that **all orders after this Initial Scheduling Conference Notice and Order will be issued via the Electronic Case Filing ("ECF") system and parties will not be sent copies by mail or facsimile.** It is the responsibility of counsel to become familiar with and follow ECF procedures. A subsequent Initial Scheduling Conference Notice and Order attaching Judge Holwell's Individual Practices will be issued via ECF. Judge Holwell's individual practices may also be found at http://www1.nysd.uscourts.gov/judge_info.php?id=87. Parties should direct questions regarding ECF to the ECF Help Desk at 212-805-0800.

SO ORDERED

Dated: New York, New York
April 5, 2007.

Richard J. Holwell
United States District Judge

Scheduling Order Requirements

1. Description of the Case
   a. Identify the attorneys of record for each party, including lead trial attorney;
   b. State the basis for federal jurisdiction;
   c. Briefly describe the claims asserted in the complaint and any counterclaims;
   d. State the major legal and factual issues in the case; and
   e. Describe the relief sought.

2. Proposed Case Management Plan
   a. Identify all pending motions;
   b. Propose a cutoff date for joinder of additional parties;
   c. Propose a cutoff date for amendments to pleadings;
   d. Propose a schedule for completion of discovery, including:
      i. A date for Rule 26(a)(1) disclosures, if not previously completed;
      ii. A fact discovery completion date;
      iii. A date for Rule 26(a)(2) disclosures; and
      iv. An expert discovery completion date, including dates for delivery of expert reports;
   e. Propose a date for filing dispositive motions;
   f. Propose a date for filing a final pretrial order; and
   g. Propose a trial schedule, indicating:
      i. Whether a jury trial is requested;
      ii. The probable length of trial; and
      iii. When the case will be ready for trial.

3. Consent to Proceed Before a Magistrate Judge: Indicate whether the parties consent unanimously to proceed before a Magistrate Judge.

4. Status of Settlement Discussions
   a. Indicate whether any settlement discussions have occurred;
   b. Describe the status of any settlement discussions; and
   c. Whether parties request a settlement conference.

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LOWENDICK, CUZDEY, EHRMANN, WAGNER, STINE & SANSALONE, LLC

ATTORNEYS AT LAW

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MICHAEL D. THORPE

of counsel
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STEPHEN L. CUZDEY
STANLEY A. COBURN

NICHOLAS M. HOLLANDER[c]
FREDERICK J. CONKLIN, JR.[c]
ALISSA C. ATKINS
JEFFREY S. SNELL[c]
MICHAEL O'HAGAN
HEATHER D. FROY[c]
JASON M. BURK[a]
WILLIAM JACKSON NAGLICH
NICHOLAS BENZINE
JEFFREY D. REEDER
DAVID J. STUDDARD

[c] Also admitted in Maryland and D.C.
[f] Also admitted in Florida
[t] Also admitted in Tennessee
[n] Also admitted in New York
[a] Also admitted in Nevada

RECEIVED
JAN 15 2008
CHAMBERS OF
HON. RICHARD J. HOLWELL

January 15, 2008

Hon. Richard J. Holwell
Judge, U.S. District Court
Southern District of New York
500 Pearl Street
New York, NY 10007

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 2/7/08

Re: American Insurance Managers, Inc., et al. v. Dinallo, et al.
Case No. 1:07-CV-00762-RJH

Dear Judge Holwell:

This firm represents the Plaintiffs in the above matter.

Pursuant to Simone Siex' conversation with Deputy Clerk William Donald, this letter will confirm that the court has rescheduled the Status Conference in this matter to March 11, 2008 at 10:00 a.m. In preparation for this Status Conference, please be advised that Plaintiffs filed, on October 15, 2007, a Motion to Add Additional Party Defendants and Amend Complaint along with a Proposed Order thereon. (Please find an additional copy of the aforementioned for the court's convenience). To date, no response or objection has been received by Plaintiff or filed by Defendants. The addition of the proposed party defendants will necessitate revision of the current Joint Request and Scheduling Order to accommodate discovery between all parties.

Should the court have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

Stanley A. Coburn

SAC:ksp
cc: Simone R. Siex, Esq.
Mr. David Dennett-Smith
William McSherry, Esq.

Plaintiffs' motion to add parties and amend the complaint is granted. Plaintiffs counsel shall serve added defendants forthwith and advise said parties of the status conference scheduled for March 11, 2008.
SO ORDERED
U.S.D.J. 1/30/08

1283

Stanley A. Coburn (SAC-6318).
Admitted Pro Hac Vice
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Phone: (404)325-2300
Fax: (404)325-7302
Georgia Bar No. 172100
Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., AND ATLANTA INSURANCE MARKETING, INC., PLAINTIFFS	
-against-	2007 Civ. 00762 (RJH)
ERIC R. DINALLO, Superintendent of Insurance of the State of New York, as Liquidator of REALM NATIONAL INSURANCE COMPANY, STEPHEN A. CRANE, JAMES LAWLESS, IV, MARK S. SIOMA, ANTHONY J. DEL TUFO, DANNY RAY GREEN, CHRISTINA BUI VU AND LEONARD QUICK, DEFENDENTS	

PLAINTIFFS' MOTION TO ADD ADDITIONAL PARTY DEFENDANTS AND AMEND COMPLAINT

COME NOW, Plaintiffs American Insurance Managers, Inc., American Insurance Management Group, Inc. and Atlanta Insurance Marketing, Inc. and, pursuant to Rules 15(a) and 21 of the Federal Rules of Civil Procedure, move for an Order permitting the addition of Arthur Andersen, LLP, Goldman, Sachs & Co., The Goldman Sachs Group, Inc., The Goldman Sachs Group, L.P., GS Capital

Partners II, L.P., GS Capital Partners II Offshore, L.P., Goldman Sachs & Co., Verwaltungs GMBH, Stone Street Fund 1995 L.P., Bridge Street Fund 1995, L.P., Reuben Jeffery III, Jean De Pourtales, Stephen A. Crane, Nicholas Mark Cooke, Patrick J. McDonough, David H. Elliott, Hadley C. Ford, George W. Jones, Peter S. Christie (hereinafter collectively referred to as "Proposed Defendants") as party Defendants in this action allowing Plaintiffs to file and serve an Amended Complaint, a copy of which is attached hereto as Exhibit "A". As grounds for this Motion, Plaintiffs show as follows:

1.

The claims alleged in Plaintiffs' complaint were originally asserted in this Court on May 4, 2004 in *American Insurance Managers, Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., v. Realm National Insurance Company, Stephen A. Crane, James Lawless, IV, Mark S. Sioma, Anthony J. DelTufo, Danny Ray Green, Christina Bui Vu, and Leonard Quick*, C.A.No. 04-CV-00306). The case was subsequently transferred to the Bankruptcy Court (*In re Alphastar Insurance Group Limited, et al.*, Case No. 03-17903) and the claims asserted in the original action were again asserted by AIM and related entities as counterclaims in the adversary action, *Alphastar Insurance Group Limited, Stirling Cooke North American Holdings, Inc., and Realm National Insurance Company v. American Insurance Managers, Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc. et al.*, C. A. No. 04-2792 ("the Counterclaims"). All claims were stayed by the bankruptcy.

2.

On April 11, 2007, this Court entered an order withdrawing the reference with respect to the Counterclaims, and directing Plaintiffs to file a complaint, which they did on May 22, 2007.

3.

In the intervening years since the original complaint, it has become apparent that Defendants herein did not act alone in defrauding Plaintiffs. Rather, as Plaintiffs' proposed Amended Complaint illustrates, the actions of the current Defendants were only part of a larger scheme by the proposed additional defendants to minimize and cover-up the true nature of AlphaStar's financial condition and to present the appearance of an on-going solvent concern when, in fact, AlphaStar and its subsidiaries, including Realm, were insolvent.

4.

By overstating the value of AlphaStar's assets and shareholders' equity and hiding AlphaStar's losses, the proposed defendants (Goldman Sachs Entities, Arthur Anderson, and the individual defendants) knowingly made misrepresentations of material facts that they knew to be false, knowing that AIM and other innocent third parties would rely on such misrepresentations of material facts, thereby defrauding AIM. By engaging in the misconduct briefly described above, and in greater detail in Plaintiffs' attached Amended Complaint, the proposed additional defendants knowingly defrauded AIM.

5.

Proposed additional defendants should be added as Defendants in this action along with current Defendants so that all parties will be before this Court and that Plaintiffs can obtain from all Defendants the relief to which Plaintiffs are entitled.

6.

Proposed additional defendants are subject to the jurisdiction of this Court, and with their addition as defendants, venue of this Court will remain proper.

7.

In support of this Motion, Plaintiffs submit their brief containing argument and citation of authorities.

WHEREFORE, Plaintiffs pray that their Motion be granted and that the Proposed Defendants be added as additional Defendants in this action and that Plaintiffs be allowed to file and serve their Amended Complaint, and that they have such other and further relief as is just and proper.

Dated: Atlanta, Georgia

October 15, 2007.

Respectfully submitted,

By: 

Stanley A. Coburn (SAC-6318)
Lowendick, Cuzdey, Ehrmann, Wagner, Stein
and Sansalone, LLC
P.O. Box 450169
Atlanta, Georgia 31145-0169
Phone: (404)325-2300
Fax: (404)325-7302
Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., AND ATLANTA INSURANCE MARKETING, INC.,	*	
PLAINTIFFS	*	2007 Civ. 00762 (RJH)
-against-	*	
ERIC R. DINALLO, Superintendent of Insurance of the State of New York, as Liquidator of REALM NATIONAL INSURANCE COMPANY, STEPHEN A. CRANE, JAMES LAWLESS, IV, MARK S. SIOMA, ANTHONY J. DEL TUFO, DANNY RAY GREEN, CHRISTINA BUI VU AND LEONARD QUICK,	*	
DEFENDENTS	*	

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Plaintiffs' Motion to Add Additional Party Defendants was sent by U.S. Mail, with sufficient postage affixed thereon, and addressed to the following counsel of record:

William McSherry, Esq.
Crowell & Moring, LLP
153 E. 53d Street
31st Floor
New York, New York, 10022
Counsel for all individually named Defendants

Dated this 15th day of October, 2007.

By: _____
Stanley A. Coburn

Stanley A. Coburn (SAC-6318).
Admitted Pro Hac Vice
Lowendick, Cuzdey, Ehrmann, Wagner, Stein and Sansalone, LLC
P.O. Box 450169
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Fax: (404)325-7302
Georgia Bar No. 172100

Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., AND ATLANTA INSURANCE MARKETING, INC.,	*	
PLAINTIFFS	*	2007 Civ. 00762 (RJH)
-against-	*	
ERIC R. DINALLO, Superintendent of Insurance of the State of New York, as Liquidator of REALM NATIONAL INSURANCE COMPANY, STEPHEN A. CRANE, JAMES LAWLESS, IV, MARK S. SIOMA, ANTHONY J. DEL TUFO, DANNY RAY GREEN, CHRISTINA BUI VU AND LEONARD QUICK,	*	
DEFENDENTS	*	

ORDER ON PLAINTIFFS' MOTION TO ADD ADDITIONAL PARTY DEFENDANTS AND AMEND COMPLAINT

The Motion of Plaintiffs American Insurance Managers, Inc., American Insurance Management Group, Inc. and Atlanta Insurance Marketing, Inc. to add Additional Party Defendants having been read and the Court having considered the full record, all submissions

and arguments of counsel, and having determined that the Proposed Defendants are subject to the jurisdiction of this Court and should be added as Defendants to resolve fully the issues in this action as fairly and expeditiously as possible, it is hereby

ORDERED AND ADJUDGED that Plaintiffs' Motion is granted and Arthur Andersen, LLP, Goldman, Sachs & Co., The Goldman Sachs Group, Inc., The Goldman Sachs Group, L.P., GS Capital Partners II, L.P., GS Capital Partners II Offshore, L.P., Goldman Sachs & Co., Verwaltungs GMBH, Stone Street Fund 1995 L.P., Bridge Street Fund 1995, L.P., Reuben Jeffery III, Jean De Pourtales, Stephen A. Crane, Nicholas Mark Cooke, Patrick J. McDonough, David H. Elliott, Hadley C. Ford, George W. Jones, Peter S. Christie are added as additional Defendants to this action, and the caption of this action shall be amended accordingly. Plaintiffs are granted leave to file, within fifteen (15) days from the date of the Order, the proposed Amended Complaint attached to their Motion and to serve said Amended Complaint and Summons thereon along with a copy of this Order upon said additional Defendants Arthur Andersen, LLP, Goldman, Sachs & Co., The Goldman Sachs Group, Inc., The Goldman Sachs Group, L.P., GS Capital Partners II, L.P., GS Capital Partners II Offshore, L.P., Goldman Sachs & Co., Verwaltungs GMBH, Stone Street Fund 1995 L.P., Bridge Street Fund 1995, L.P., Reuben Jeffery III, Jean De Pourtales, Stephen A. Crane, Nicholas Mark Cooke, Patrick J. McDonough, David H. Elliott, Hadley C. Ford, George W. Jones, Peter S. Christie as required by law. Said additional Defendants Arthur Andersen, LLP, Goldman, Sachs & Co., The Goldman Sachs Group, Inc., The Goldman Sachs Group, L.P., GS Capital Partners II, L.P., GS Capital Partners II Offshore, L.P., Goldman Sachs & Co., Verwaltungs GMBH, Stone Street Fund 1995 L.P., Bridge Street Fund 1995, L.P., Reuben Jeffery III, Jean De Pourtales, Stephen A. Crane,

Nicholas Mark Cooke, Patrick J. McDonough, David H. Elliott, Hadley C. Ford, George W. Jones, Peter S. Christie shall respond to said Amended Complaint within thirty (30) days after service.

DATED this ____ day of _____, 2007.

_____
Judge, Southern District of New York
U.S. District Court

Copies furnished:
All counsel of record

1460

Stanley A. Coburn (SAC-6318) *Admitted Pro Hac Vice*
Lowendick, Cuzdey, Ehrmann, Wagner, Stein and Sansalone, LLC
P.O. Box 450169
Atlanta, Georgia 31145-0169
Phone: (404)325-2300
Fax: (404)325-7302
Georgia Bar No. 172100
Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN INSURANCE MANAGERS INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC., AND ATLANTA INSURANCE MARKETING, INC.,	*	
PLAINTIFFS	*	2007 Civ. 00762 (RJH)
-against-	*	
ERIC R. DINALLO, Superintendent of Insurance of the State of New York, as Liquidator of REALM NATIONAL INSURANCE COMPANY, STEPHEN A. CRANE, JAMES LAWLESS IV, MARK S. SIOMA, ANTHONY J. DEL TUFO, DANNY RAY GREEN, CHRISTINA BUI VU AND LEONARD QUICK, ARTHUR ANDERSEN LLP, GOLDMAN SACHS & CO., THE GOLDMAN SACHS GROUP, INC., THE GOLDMAN SACHS GROUP, L.P., GS CAPITAL PARTNERS II, L.P., GS CAPITAL PARTNERS II OFFSHORE, L.P., GOLDMAN SACHS & CO. VERWALTUNGS GMBH, STONE STREET FUND 1995 L.P., BRIDGE STREET FUND 1995, L.P., REUBEN JEFFERY III, JEAN DE POURTALES, NICHOLAS MARK COOKE, PATRICK J. MCDONOUGH, DAVID H. ELLIOTT, HADLEY C. FORD, GEORGE W. JONES, PETER S. CHRISTIE,	*	AMENDED COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF
DEFENDANTS	*	

COME NOW Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., by and through their counsel, and for their Complaint against the above-named Defendants, allege upon knowledge as to their own acts, and otherwise upon information and belief, as follows:

I. THE PARTIES

At all times herein relevant, the parties were as follows:

1. Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc. and Atlanta Insurance Marketing, Inc., are each Georgia corporations. Plaintiffs are hereinafter collectively referred to as "AIM," "Buyer" or "Lender".

2. Defendant Realm National Insurance Company ("Realm") is a New York Corporation. Pursuant to Section 10.08 of that certain Stock Purchase Agreement executed among the parties (as hereinafter discussed), it has consented to the exclusive jurisdiction in the federal court of the City and County of New York. On June 15, 2005, after this suit was first filed, an order of liquidation was entered with respect to Realm, and the Superintendent of Insurance of the State of New York has been appointed as Liquidator of Realm.

3. Defendant Stephen A. Crane ("Crane") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

4. Defendant James Lawless IV, Esq. ("Lawless") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

5. Defendant Mark S. Sioma ("Sioma") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

6. Defendant Anthony J. Del Tufo ("Del Tufo") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

7. Defendant Danny Ray Green ("Green") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

8. Defendant Christina Bui Vu ("Vu") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

9. Defendant Leonard Quick ("Quick") is a resident of New York and may be served at 125 Maiden Lane, New York City, Manhattan County, New York.

10. Defendant Arthur Andersen LLP ("Andersen") is a firm formerly engaged in the business of providing audit and accounting services, and presently maintains its headquarters at 33 W. Monroe, Chicago, Illinois 60603.

11. Defendant Goldman Sachs & Co. ("Goldman Sachs") is a global investment banking, securities and investment management firm, which maintains its headquarters at 85 Broad Street, New York, New York 10004.

12 Upon information and belief, Defendant The Goldman Sachs Group, Inc. is the successor in interest to Defendant The Goldman Sachs Group, L.P., is an affiliate of Defendant Goldman Sachs, and maintains an office at 85 Broad Street, New York, New York 10004.

13 Upon information and belief, Defendant The Goldman Sachs Group, L.P. (together, with Defendant The Goldman Sachs Group, Inc., "Goldman Sachs Group") is the predecessor in interest to The Goldman Sachs Group, Inc., is an affiliate of Defendant

Goldman Sachs, and maintains an office at 85 Broad Street, New York, New York 10004.

14 Upon information and belief, Defendants GS Capital Partners II, L.P., GS Capital Partners II Offshore , L.P., Goldman Sachs & Co. Verwaltungs GmbH, Stone Street Fund 1995, L.P. and Bridge Street Fund 1995 L.P. (collectively, the "GS Funds") are affiliates of Defendants Goldman Sachs and Goldman Sachs Group, and maintain offices at 85 Broad Street, New York, New York 10004.

15 Upon information and belief, Defendant Reuben Jeffery III ("Jeffery") is an individual residing at 2208 Kalorama Rd. NW, Washington, DC 20008, who regularly conducts business at and is the Chairman of the Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581, and was a Managing Director at Goldman Sachs until 2001.

16 Upon information and belief, Defendant Jean de Pourtales ("de Pourtales") is an individual residing at Comeragh Road 103, London W14 9HS, United Kingdom, who regularly conducts business at and is a Managing Director of Goldman Sachs International (an affiliate of the Goldman Sachs Entities) at Peterborough Court, 133 Fleet Street, London, EC4A 2BB, United Kingdom.

17 Defendant Nicholas Mark Cooke ("Cooke") is an individual residing at Dolphin Terrace, 80 Harbour Road, Warick WK 06, Bermuda.

18 Upon information and belief, Defendant Patrick J. McDonough ("McDonough") is an individual residing at 3906 Lake Vista Ct., Encino, California 91316, who regularly conducts business at and is a partner in the law firm of Howrey LLP, 550 South Hope Street, Suite 1100, Los Angeles, California 90071.

19 Upon information and belief, Defendant George W. Jones ("Jones") is an individual residing at 29 Western Gardens, London, England, W5 3RS, United Kingdom.

20 Upon information and belief, Defendant David H. Elliott ("Elliott") is an individual residing at 80 Ridge Road, Waccabuc, New York 10597.

21 Upon information and belief, Defendant Hadley C. Ford ("Ford") is an individual residing at 2 Carousel Drive, Pine Plains, New York 12567 and 4550 NW 95th Avenue Road, Ocala, Florida 34482.

22 Upon information and belief, Defendant Peter S. Christie ("Christie") is an individual residing in New York, who regularly conducts business at Friemann Christie, 780 Third Avenue, New York, NY 10017-2024.

II. JURISDICTION AND VENUE

23 This Court has jurisdiction over the claims alleged herein pursuant to 28 U.S.C. §1332(a) given the diversity of citizenship between the parties and that the amount in controversy exceeds $75,000.00, exclusive of interest and costs. Further, this Court has jurisdiction over the parties because each of them has substantial contacts within the State of New York, or caused acts to occur in the State of New York which form the basis of this action, as described in greater detail herein. This court has jurisdiction to award the injunctive relief sought pursuant to Fed R. Civ. Pro. 65; and the declaratory relief sought pursuant to Fed R. Civ. Pro. 57 and 28 U.S.C. §§2201-2202.

24 Venue is based upon 28 U.S.C. §1391(a) and the parties' mutual agreement to submit to the exclusive jurisdiction of any Federal court located in New York City for the adjudication of certain matters as alleged in this Complaint.

III. NATURE OF THE CASE

25. This proceeding seeks, *inter alia*, (a) to recover damages in an amount to be determined at trial (but not less than $7 million) for fraud, aiding and abetting, and breach of contract; (b) to pierce the corporate veil; and (c) for declaratory judgment.

26. Upon information and belief, in or about 1999, Defendants Goldman Sachs & Co., Goldman Sachs Group and the GS Funds (Goldman Sachs & Co., Goldman Sachs Group and the GS Funds are collectively referred to as the "Goldman Sachs Entities"), Jeffery, de Pourtales and others learned that AlphaStar's businesses were rife with fraud, that AlphaStar's subsidiaries had made material misrepresentations to counterparties, that these counterparties would thus be entitled to rescind their contractual obligations, that most assets were impaired, that AlphaStar's businesses were no longer viable, that AlphaStar could not withstand the continuing onslaught of litigation claims, and that AlphaStar faced a probable loss of staggering proportions. The disclosure of these facts would have harmed the reputation of the Goldman Sachs Entities (and, as of the spring of 1999, jeopardized the then impending initial public offering of the stock of Goldman Sachs Group), and so the Goldman Sachs Entities, Reuben Jeffery III, Jean de Pourtales and others embarked on a scheme lasting until 2003 to conceal and cover-up these facts in breach of their duties to AlphaStar, as a result of which more than $80 million of AlphaStar's funds were squandered and Aim was defrauded.

The Goldman Sachs Entities, Reuben Jeffery III and Jean de Pourtales had an incentive to minimize and cover-up AlphaStar's true financial condition and the true nature of AlphaStar's exposure in connection with the Sphere Drake Case (as defined herein), and other litigation and insurance scandals in order to attempt to protect the reputation of

1297

Defendant Goldman Sachs & Co. as one of the world's premier investment banks, to avoid shareholder litigation in connection with the initial public offering of AlphaStar's ordinary shares and to preserve the value of the stock held by the Goldman Sachs Entities.

27. Defendant Arthur Andersen LLP ("Andersen") and other Defendants knew, or absent a reckless disregard for the truth should have known, the true set of facts, and aided and abetted others in perpetuating the corporate life of AlphaStar and defrauding AIM.

28 After discovering the fraud at AlphaStar, the Goldman Sachs Entities replaced most of the Board and senior management, and kept at least some of the new officers and directors in the dark. As a result, some of the Defendants (including the four independent directors identified herein), as well as certain non-Defendant officers of the Debtors, may have been unwitting accomplices.

29 In furtherance of their scheme, The Goldman Sachs Entities, Jeffery and de Pourtales, and others embarked on a scheme to defraud Plaintiffs by entering into agreements with Plaintiffs to sell them AlphaStar subsidiaries, Realm, Stirling Cooke New York Insurance Agency Services, Inc. ("Agency") and World Trade Services, Inc. ("WTS"), which Defendants knew, or absent a reckless disregard for the truth should have known, were impaired and insolvent.

30 In reliance upon various agreements and representations made to AIM by officers and directors of the Goldman Sachs Entities, AlphaStar, SCNAH (as hereinafter defined), and Realm, all of which are discussed with more particularity below, and in

1298

consideration for AIM making that certain loan to AlphaStar[3], AIM understood that it had been appointed as a general agent of Realm with authority to bind workers' compensation business on Realm's behalf, subject to Realm's acceptance of submissions from Professional Employer Organizations ("PEOs") procured by AIM which complied with mutually agreed upon underwriting guidelines. Acting in that capacity, and after acceptance of a number of submissions procured by AIM from PEOs by Sioma and Realm at a meeting held for that purpose at AIM's office on November 8, 2002, AIM issued or caused to be issued approximately $10,000,000.00 worth of workers' compensation ACORD certificates to over six hundred (600) companies in twenty-one (21) states. Despite Realm's acceptance and approval of the PEO submissions, Realm refused to issue the policies of insurance evidenced by the said ACORD certificates, subsequently claiming that AIM was not its agent, and that the ACORD certificates that AIM issued or caused to be issued were void ab initio.

31 Despite an express agreement and promise to do so made by SCNAH to AIM contained in that certain Loan Agreement, (See Paragraph 456), prior to executing the stock Purchase Agreement, Realm prepared, but never executed, a written agreement appointing AIM as its agent. Aim did execute said document. On numerous occasions, however, Sioma, Realm's president, in the presence of AIM's officers, represented to third parties, including Realm's own intermediary, that AIM was an agent of Realm and that Realm had bound over $10,000,000.00 of premium submitted to Realm by AIM. AIM expressly denies and disputes the claims made by Realm that AIM was not Realm's agent, and is seeking a declaratory judgment from this court on this issue.

[3] The proceeds of the loan made to AlphaStar by AIM are comprised of funds belonging to both AIM and the PEOs, and are to be credited towards the purchase price to be paid by AIM to SCNAH for Realm in accordance with the

32 Despite the fact that Sioma as President of Realm expressly bound the coverages as described in Paragraph Seventeen (17) above, Realm has repeatedly denied to customers of AIM and to insurance regulators throughout the country that the coverage which Sioma bound is in effect, has sent letters so stating, and has caused numerous investigations by state departments of insurance and workers' compensation into whether or not such coverage was indeed placed, including but not limited to the states of Alabama, South Carolina, North Carolina, Pennsylvania, Missouri, New Mexico, Georgia, Texas and Oklahoma. AIM has disputed the claims made by Realm that the coverage was not properly bound, and is seeking a declaratory judgment from this court on this issue.

33 Currently, lawsuits that arise from this dispute between the parties are pending in the states of Texas, Delaware and South Carolina. Additionally, on December 4, 2003, the Texas Department of Insurance contacted counsel for AIM and stated that "...we request that AIM, as a first step, voluntarily agree to begin terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004."

34 At the present time, as many as thirty thousand (30,000) lives are being impacted in at least twenty-one (21) states because of Realm's refusal to issue the workers' compensation insurance policies that are at the heart of the dispute between the parties. Until recently, Crawford and Co. ("Crawford"), a licensed third party administrator, was serving in the capacity as the claims adjuster in all twenty-one (21) states where the disputed certificates were issued with Realm's full knowledge. On October 9, 2003, Realm issued a cease and desist letter to Crawford, demanding that Crawford no longer adjust claims on Realm's behalf. Such action has terminated the

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provisions of the Loan Agreement. The Loan was due and payable on October 22, 2003 and is in default.

ability for claims of the putative insureds to be adjusted while the aforementioned dispute is ongoing. Because of Realm's precipitous and intemperate action in this regard, there is great urgency that the declaratory judgment be resolved quickly and the obligations of the parties be declared by this court as expeditiously as possible.

IV. FACTUAL BACKGROUND

A. History of AlphaStar's Business and Operations

35 Non-party AlphaStar Insurance Group Limited ("AlphaStar") is a Bermuda Corporation (f/k/a Stirling Cooke Brown Holdings Limited or SCBHL). AlphaStar is a holding company.

36 Upon information and belief, According to AlphaStar's Board minutes: until 2003, most meetings of the Board of Directors were held in Bermuda, although some meetings were held in London, Toronto or New York (at the offices of the Goldman Sachs Entities); beginning in May 2003, Board meetings were conducted solely in New York.

37 Until in or about early 2003, AlphaStar's principal place of business was Bermuda. All or virtually all of the misconduct identified herein occurred while AlphaStar's principal place of business was Bermuda.

38 Other than AlphaStar, all of its subsidiaries were incorporated in the United States.

39 Crane, Lawless and Del Tufo spent most of their time in AlphaStar's office at 125 Maiden Lane, New York, New York.

40 In and after December 1997, when AlphaStar effected a public offering for its ordinary shares (the "IPO"), the ordinary shares of AlphaStar were publicly traded on the NASDAQ market under the symbol "SCBHF."

41 In connection with the IPO, AlphaStar sold 1,375,000 shares, then representing approximately 14% of the equity in AlphaStar, and received net proceeds of approximately $26.8 million

42 In connection with the IPO, another 2,046,250 shares were sold by insiders, including the Goldman Sachs Entities, for aggregate consideration of approximately $45 million..

43 Upon information and belief, the pricing of the IPO implied a value for AlphaStar in excess of $190 million..

44 In the second quarter of 1998, AlphaStar's market capitalization was nearly $300 million.

45 On September 26, 2003, AlphaStar filed a Certification and Notice of Termination of Registration under Section 12(g) of the Securities Exchange Act of 1934 with the SEC, pursuant to which AlphaStar requested a termination of the registration of its ordinary shares.

46 According to AlphaStar's records and SEC filings, AlphaStar and its subsidiaries were engaged in the business of providing risk management services and products to small and mid-sized businesses seeking alternatives to traditional workers' compensation insurance, and arranging reinsurance for such products offered by AlphaStar and its subsidiaries as well as other insurance carriers active in the workers' compensation, occupational accident and health insurance markets.

47 According to AlphaStar's records and SEC filings, the business of AlphaStar and its subsidiaries (including non-Debtor subsidiaries not parties hereto) consisted of three main geographic business units: London, Bermuda and U.S. operations; and each geographic group consisted of a holding company wholly-owned by AlphaStar and operating entities owned by such holding company subsidiary.

48 According to AlphaStar's records and SEC filings, the London operations consisted of Stirling Cooke Brown Holdings (UK) Limited ("SCBH"), one of AlphaStar's wholly-owned non-Debtor subsidiaries, and the subsidiaries of SCBH (collectively, with SCBH, the "U.K. Subsidiaries"), which included Stirling Cooke Brown Insurance Brokers Limited ("SCBIB") and Stirling Cooke Brown Reinsurance Brokers Limited ("SCBRB"); on or about July 1, 2001, SCBRB was merged into SCBIB.

49 By 1999, the U.K. Subsidiaries had been adversely affected by the disruption caused by widespread reinsurance market disputes and legal proceedings, including those involving AlphaStar and its subsidiaries; as a result, AlphaStar reported that its brokerage segment, which was centered in London, generated revenues of $24.9 million in 1999, $11.2 million in 2000 and only $5.8 million in 2001.

50 By 1999, AlphaStar was winding down the U.K. Subsidiaries.

51 Since July 17, 2003, SCBIB has been in administration in the United Kingdom.

52 Upon information and belief, AlphaStar's Bermuda operations consisted of Realm Investments Limited, a Bermuda corporation that was one of AlphaStar's wholly-owned non-Debtor subsidiaries, and the subsidiaries of Realm Investments Limited (collectively, with Realm Investments Limited, the "Bermuda Subsidiaries"),

including CIRCL Holdings Limited ("CIRCL"), Raydon Underwriting Management Company Limited ("Raydon"), Realm Underwriting Management Company Limited ("Realm Underwriting") and JEH Re Underwriting Management (Bermuda) Limited ("JEH Re").

53 By 1999, all or most of the Bermuda Subsidiaries were in run-off.

54 Upon information and belief, AlphaStar's U.S. operations consisted of Stirling Cooke North American Holdings Ltd. ("SCNAH"), a Delaware corporation that is one of AlphaStar's wholly-owned subsidiaries, and the subsidiaries of SCNAH (collectively, with SCNAH, the "U.S. Subsidiaries"), including Realm National Insurance Company ("Realm"), an insurance company that maintained its principal place of business at 125 Maiden Lane, New York, New York.

55 At all times herein relevant, Alphastar was a Holding Company and either directly or indirectly owned or controlled SCNAH and Realm.

56 At all times herein relevant, AlphaStar was the registered owner of all 10,000 shares of common stock of SCNAH.

57 At all times herein relevant, SCNAH was a Delaware holding company that was the registered owner of all of the shares of Realm. (These shares have since been transferred to AIM. See Paragraph 611.)

58 On December 15, 2003, AlphaStar and all or most of AlphaStar's U.S. Subsidiaries filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. On June 2, 2005, the cases were converted from chapter 11 to chapter 7 of the Bankruptcy Code ("the Bankruptcy").[4]

[4] See In Re AlphaStar Insurance Group, Ltd., et. al, Debtors, United States Bankruptcy Court, Southern District of New York, Case Nos. 03-17903 (SMB) through 03-17916 (SMB) (Jointly Administered)

59 On June 15, 2005, an order of liquidation was entered with respect to Realm, and the Superintendent of Insurance of the State of New York was appointed Liquidator of Realm.

60 In short, all of AlphaStar's subsidiaries are defunct and insolvent, and, unbeknownst to third parties, including AIM, have been so for years.

61 Creditors have filed claims against AlphaStar in an amount in excess of $100 million (exclusive of claims filed against AlphaStar's subsidiaries).

B. Directors and Officers of AlphaStar and Realm

62 According to SEC filings, from prior to the time of the IPO until in or about October 1999, Cooke was the Chairman, President and Chief Executive Officer of AlphaStar. From October 1999 until April 2000, Cooke was the Chairman of AlphaStar. Thereafter, commencing as of April 2000 and continuing until on or about November 13, 2001, Cooke was a Director of AlphaStar.

63 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of October 26, 1999 and continuing until after the Bankruptcy was filed, Crane was a Director, the President and Chief Executive Officer ("CEO") of AlphaStar, President and CEO of SCNAH, and Chairman of Realm. Commencing as of April 2000 and continuing until after the Bankruptcy Petition Date, Crane was also the Chairman of the Board of Directors of AlphaStar. According to AlphaStar's SEC filings, during the periods relevant herein, Crane's base salary was $400,000 per annum.

64 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, from prior to the time of the IPO and continuing until at

least March 12, 2003, Jones was a Director of AlphaStar. According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, from prior to the time of the IPO and continuing until at least October 2001, Jones was the Chief Financial Officer of AlphaStar. According to AlphaStar's SEC filings, during the periods relevant herein, Jones's base salary was $275,000 per annum.

65 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, from prior to the time of the IPO and continuing until at least May 23, 2001, Jeffery was a Director of AlphaStar. At various times, Jeffery was also a member of the Audit, Compensation and Governance Committees of the Board of AlphaStar. Jeffery was also a Managing Director at Goldman Sachs until 2001.

66 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of March 4, 1999 and continuing until at least January 16, 2003, de Pourtales was a Director of AlphaStar. At various times, de Pourtales was also a member of the Audit, Compensation and Governance Committees of the Board of AlphaStar. De Pourtales was also a Managing Director of Goldman Sachs International.

67 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of May 26, 1999 and continuing until August 29, 2003, McDonough was a Director of AlphaStar. McDonough was also a member of the Audit and Compensation Committees of the Board of AlphaStar.

68 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of July 6, 1999 and continuing until after the Bankruptcy Petition Date, Quick was a Director and the Chief Operating Officer of

1300

AlphaStar and an officer of certain other Debtors. From July until November 1999, Quick served as interim Chief Executive Officer. Quick also served on the Executive Committee of the Board of AlphaStar. Quick was a Director of Realm. According to AlphaStar's SEC filings, in July 1999, Quick's base salary was increased from $200,000 to $325,000 per annum.

69 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of March 7, 2000 and continuing until August 29, 2003, Ford was a Director of AlphaStar.

70 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of May 2000 and continuing until sometime between August and November 2002, Christie was a Director of AlphaStar.

71 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of August 7, 2001 and continuing until August 29, 2003, Elliott was a Director of AlphaStar.

72 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing in or about October 2001 and continuing until shortly before the Bankruptcy Petition Date, Del Tufo was the acting Chief Financial Officer of AlphaStar. Del Tufo was Acting Chief Financial Officer of Realm.

73 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, commencing as of March 2000 and continuing until after the Bankruptcy Petition Date, Lawless was Senior Vice President, General Counsel and Corporate Secretary of AlphaStar, a Director and General Counsel of Realm, and General Counsel of SCNAH.

74 Upon information and belief, according to AlphaStar's Board minutes, from May 1999 until the January 16, 2001 Board meeting, AlphaStar's Board had Audit and Compensation Committees. According to AlphaStar's Board minutes, at the January 16, 2001 Board meeting, AlphaStar's Board created Executive and Governance Committees, and reconstituted the membership of the Audit and Compensation Committees, as follows: Audit Committee – McDonough (Chairman), Christie and Ford; Compensation Committee – de Pourtales (Chairman), Christie and Jeffery (who was then a Managing Director of Goldman Sachs); Executive Committee – Crane (Chairman), Jones and Quick; and Governance Committee – Ford (Chairman), Crane and Jeffery.

75 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, at various times relevant herein, Defendants Jeffery, de Pourtales, Crane, Cooke, Elliott, Ford, Jones, McDonough, Christie and Quick (collectively, the "Director Defendants") were Directors of AlphaStar.

76 At all times relevant herein, the Director Defendants, Del Tufo and Lawless (collectively, the "Individual Defendants") owed fiduciary duties to AlphaStar, *inter alia*, to act honestly and in good faith with a view to the best interests of AlphaStar; to exercise their powers for a proper purpose; to avoid putting themselves in a position where there was an actual or potential conflict between a personal interest and their duties to AlphaStar; to avoid appropriating, diverting or personally profiting from any corporate opportunities, even if acting honestly and for the good of AlphaStar; to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances; to cause to be kept proper books of account with respect to all sums of

money received and expended by AlphaStar; and to refrain from defrauding creditors of, and third parties doing business with, AlphStar.

77 The Individual Defendants breached their fiduciary duties to AlphaStar and, in doing so, defrauded AIM in the manner described herein.

78 At all times herein relevant, Sioma was President and a Director of Realm.

79 At all times herein relevant, Green was Secretary and a Director of Realm.

80 At all times herein relevant, Vu was Assistant Vice President, Treasurer and a Director of Realm.

81 At all times herein relevant, Crane, Lawless, Sioma, Del Tufo, Green, Vu and Quick (collectively referred to as the "Realm Defendants") owed fiduciary duties to Realm, *inter alia,* to act honestly and in good faith with a view to the best interests of Realm; to exercise their powers for a proper purpose; to avoid putting themselves in a position where there was an actual or potential conflict between a personal interest and their duties to Realm; to avoid appropriating, diverting or personally profiting from any corporate opportunities, even if acting honestly and for the good of Realm; to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances; to cause to be kept proper books of account with respect to all sums of money received and expended by Realm; and to refrain from defrauding creditors of, and third parties doing business with, Realm.

82 The Realm Defendants breached their duties to Realm and, in doing so, defrauded AIM in the manner described herein.

C. The Goldman Sachs Entities controlled AlphaStar and used such control for their own benefit, to the detriment of AIM

i. **The Goldman Sachs Entities' Relationships and Control of AlphaStar**

83 According to AlphaStar's SEC filings, in connection with the IPO, Goldman Sachs was the co-managing underwriter with respect to the ordinary shares of AlphaStar. The underwriters received aggregate underwriting discounts of $5.3 million.

84 After the IPO, Goldman Sachs acted as market-maker with respect to the ordinary shares of AlphaStar.

85 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes, from January 1996 until January 2003, executives of the Goldman Sachs Entities or their affiliates were Directors of AlphaStar, specifically Jeffery, Sanjay H. Patel and Michael Pruzan, all of whom were Managing Directors of Goldman Sachs, and de Pourtales, who was a Managing Director of Goldman Sachs International.

86 According to AlphaStar's SEC filings, prior to and at the time of the IPO, at least two of the six members of the Board of Directors of AlphaStar were Managing Directors of Goldman Sachs, specifically Jeffery and Sanjay H. Patel.

87 Thereafter, when Sanjay H. Patel resigned from the Board of AlphaStar, the Goldman Sachs Entities replaced him with Michael Pruzan, and when Mr. Pruzan resigned effective as of March 4, 1999, the Goldman Sachs Entities replaced him with de Pourtales.

88 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's board minutes, from at least the time of the IPO until at least May 23, 2001 when Jeffery resigned, at least two members of the Board of Directors of AlphaStar were Managing Directors of Goldman Sachs (or its affiliates).

89 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's board minutes, from May 23, 2001 until at least January 16, 2003 when de Pourtales resigned, at least one member of the Board of Directors of AlphaStar was a Managing Director of Goldman Sachs (or its affiliates).

90 At various times relevant herein, one or more Managing Directors of Goldman Sachs (or its affiliates) were members of the Audit, Compensation and Governance Committees of the Board of AlphaStar.

91 According to AlphaStar's SEC filings, from at least the time of the IPO and continuing thereafter, Goldman Sachs or certain of its affiliates maintained contractual relationships with AlphaStar and provided investment banking services to AlphaStar.

92 In or about March 1999, the Goldman Sachs Entities used their leverage to persuade AlphaStar to engage Goldman Sachs as financial advisor to assist AlphaStar in its analysis and consideration of various financial alternatives.

93 AlphaStar's Form 10-K for the year ending December 31, 2001 disclosed under Related Party Transactions that "Goldman, Sachs & Co. or certain of its affiliates maintained certain contractual relationships with the Company and provided investment banking services to the Company."

94 According to AlphaStar's records and SEC filings, Goldman Sachs provided financial advisory and investment banking services under one or more contracts (such contracts referred to herein collectively as the "Goldman Sachs Contracts") to AlphaStar from 1999 until at least 2002.

95 Upon information and belief, AlphaStar performed its obligations under the Goldman Sachs Contracts.

96 Goldman Sachs breached the Goldman Sachs Contracts by failing to disclose its conflicts of interest, and by providing advice to AlphaStar that was contrary to the interests of AlphaStar.

97 According to AlphaStar's SEC filings, Goldman Sachs also provided investment management services to Realm until December 31, 2000, pursuant to a Corporate Account Agreement dated December 24, 1996, and received fees and expenses of approximately $32,000 during 1999 and $35,000 during 2000.

98 According to AlphaStar's SEC filings, from at least January 1996 until at least on or about December 31, 2002 when their stock was redeemed, the Goldman Sachs Entities were stockholders of AlphaStar.

99 According to AlphaStar's SEC filings, from at least January 1996 until the time of the IPO, the Goldman Sachs Entities owned approximately 34% of the ordinary shares of AlphaStar.

100 According to AlphaStar's SEC filings, from at least the time of the IPO until at least on or about December 31, 2002 when their stock was redeemed, the Goldman Sachs Entities owned more than 20% of the ordinary shares of AlphaStar.

101 Commencing in February 1998 and continuing until sale of the shares in December 2002, the Goldman Sachs Entities routinely filed Forms 13G with the SEC reporting that Goldman Sachs and Goldman Sachs Group each had shared voting power and shared dispositive power over the more than 2 million ordinary shares of AlphaStar held ostensibly in the names of the GS Funds, and reporting that Goldman Sachs and

Goldman Sachs Group each had beneficial ownership over the ordinary shares of AlphaStar held ostensibly in the names of the GS Funds. Thus, from at least February 1998 and continuing at all times until December 31, 2002, Goldman Sachs and Goldman Sachs Group, as well as the GS Funds, were all stockholders of AlphaStar.

102 According to AlphaStar's SEC filings, from at least the time of the IPO until at least on or about December 31, 2002, the Goldman Sachs Entities collectively were the single largest shareholder of AlphaStar.

103 Upon information and belief, prior to the IPO, AlphaStar, the GS Funds, Cooke and others were parties to a shareholders agreement dated January 24, 1996 (the "Shareholders Agreement"), under which Goldman Sachs Group, the GS Funds and other affiliates of Goldman Sachs Group (including Goldman Sachs) collectively had the right to appoint two of the six members of AlphaStar's Board.

104 Upon information and belief, under the Shareholders Agreement, Goldman Sachs Group, the GS Funds and other affiliates of Goldman Sachs Group (including Goldman Sachs) collectively had a veto over AlphaStar's corporate governance issues through super-majority Board voting rights.

105 Prior to the IPO, the Goldman Sachs Entities used their rights under the Shareholders Agreement and their relationships with AlphaStar to exercise control over AlphaStar and its subsidiaries.

106 After the IPO, the Goldman Sachs Entities continued to use their position as the single largest shareholder of AlphaStar, the presence of their Managing Directors on the Board of AlphaStar and their other relationships with AlphaStar to exercise control over AlphaStar and its subsidiaries.

107 Upon information and belief, such control was manifested through, *inter alia*, decisions to engage counsel and auditors selected by the Goldman Sachs Entities, to elect Directors nominated by the Goldman Sachs Entities, to terminate and replace senior executives with persons selected by the Goldman Sachs Entities, and to implement policies orchestrated by the Goldman Sachs Entities.

108 Commencing in or about 1998 or 1999 and continuing until at least December 2002, the Goldman Sachs Entities managed AlphaStar's affairs.

109 Upon information and belief, according to AlphaStar's records, AlphaStar's Board meetings and management planning meetings were conducted at the headquarters of Goldman Sachs and Goldman Sachs Group in New York City.

110 Upon information and belief, according to AlphaStar's records, for at least several years before joining AlphaStar's Board in March 1999, de Pourtales (who was then a Managing Director of Goldman Sachs International, but who had no formal affiliation with AlphaStar) was intimately involved in AlphaStar's financial affairs, including the budgeting process and management compensation issues.

111 Upon information and belief, according to AlphaStar's records, during 1999 and 2000, executives of the Goldman Sachs Entities who were not members of AlphaStar's Board were routinely invited to and/or attended AlphaStar's Board meetings, including Douglas Caterfino, Joe Di Sabito, Jay Horgen and Stuart Katz.

112 Upon information and belief, employees of the Goldman Sachs Entities, including Douglas Caterfino, Jay Horgen and Norman Feit (an in-house attorney at Goldman Sachs and/or Goldman Sachs Group), were kept apprised of litigation and other

developments by AlphaStar's counsel, Fried Frank, and received communications from Fried Frank that were subject to AlphaStar's attorney-client privilege.

ii. **Adverse Publicity and Investigation**

113 As a result of events that occurred in 1998 and 1999, both publicly reported and internally discovered, the Goldman Sachs Entities, Jeffery, de Pourtales and others learned of misdeeds at AlphaStar that demonstrated that AlphaStar's businesses were rife with fraud, that AlphaStar's subsidiaries had made material misrepresentations to counterparties, that these counterparties would thus be entitled to rescind their contractual obligations, that most assets were impaired, that AlphaStar's businesses were no longer viable, that AlphaStar could not withstand the continuing onslaught of litigation claims, and that AlphaStar faced a probable loss of staggering proportions.

114 Upon information and belief, the Goldman Sachs Entities learned of such misdeeds in three phases as the result of three sets of related events: (1) the 1998 arbitrations; (2) the filing of the RICO Action (as hereinafter defined) followed soon thereafter by the resignation of AlphaStar's auditors; and (3) as a result of the Investigation (as hereinafter defined) and the simultaneous investigation undertaken by the Goldman Sachs Entities. As a result, the Goldman Sachs Entities tightened their control over AlphaStar and took steps to protect their own interests, to the detriment of AlphaStar.

115 By late 1998, there were at least a dozen arbitrations pending in London in which certain insurance companies (including Transamerica, Lincoln National, Manufacturer's Life and Crown Life) were attempting to avoid policies in the London personal accident excess of loss market ("LMX") based on non-disclosure and

misrepresentations by one or more of the U.K. Subsidiaries and other AlphaStar subsidiaries, alleging that these AlphaStar subsidiaries and others had fraudulently caused an abnormally tight spiral in the LMX market which led to excessive losses (collectively, the "London Arbitrations").

116 By at least as early as January 1999, the Goldman Sachs Entities were independently investigating these allegations, and AlphaStar's counsel, Fried Frank, kept the Goldman Sachs Entities updated of Fried Frank's own investigation.

117 On March 8, 1999, Goldman Sachs Group announced that it was planning an initial public offering with respect to its own stock, after having shelved its 1998 plans for an initial public offering due to market turmoil.

118 Three weeks later, on March 29, 1999, Odyssey Re (London) Limited ("Odyssey Re"), a reinsurer based in the United Kingdom, brought a RICO action against AlphaStar and others in the United States District Court for the Southern District of New York, 99 Civ. 2326 (LAK), alleging that AlphaStar, SCBIB, SCBRB, SCNAH, Raydon, JEH Re, Cooke, Nicholas Brown (who was then a Director of AlphaStar) and others had engaged in an international conspiracy to fraudulently induce Odyssey Re to reinsure drastically unprofitable workers' compensation policies in the LMX market (the "RICO Action").

119 Odyssey Re issued a press release in connection with the RICO Action, which embarrassed the Goldman Sachs Entities as a result of their close affiliation with AlphaStar. While the RICO Action generated more publicity than the London Arbitrations, the underlying allegations of fraud in the LMX market were similar.

120 As a result of the filing of the RICO Action, in early April 1999, while the initial public offering of the stock of Goldman Sachs Group was still pending, upon information and belief, the Goldman Sachs Entities took various steps to protect their interests including without limitation (a) escalating their own investigation of AlphaStar (the "Goldman Sachs Investigation"), (b) becoming intimately involved in "damage control" efforts and coordinating such efforts with Fried Frank and other professionals purportedly retained by AlphaStar, but who worked closely with the Goldman Sachs Entities, and (c) causing AlphaStar to engage Goldman Sachs as financial advisor.

121 In April 1999, the Goldman Sachs Entities caused AlphaStar to engage The Torrenzano Group, a strategic communication firm specializing in building and protecting corporate relationships. The Goldman Sachs Entities were intimately involved in the "damage control" efforts of Fried Frank and The Torrenzano Group that commenced soon after the filing of the RICO Action.

122 In April 1999, KPMG Peat Marwick resigned as auditors for AlphaStar. Upon information and belief, KPMG Peat Marwick's resignation was prompted by the allegations raised in the RICO Action.

123 Upon information and belief, the Goldman Sachs Entities used their leverage to persuade Andersen to replace KPMG Peat Marwick as auditors for AlphaStar.

124 Upon information and belief, the Goldman Sachs Entities wanted a "Big Five" auditor to replace KPMG Peat Marwick to maintain the appearance that AlphaStar was still viable, so that the Goldman Sachs Entities would not suffer damage to their reputation, especially in light of Goldman Sachs Group's then impending initial public offering.

125 Before the filing of the RICO Action, AlphaStar had utilized the law firm of Fried Frank in connection with the IPO and other matters.

126 After the filing of the RICO Action, AlphaStar utilized Fried Frank in connection with the RICO Action and other matters.

127 According to press reports and Fried Frank's website, Fried Frank has a close relationship with Goldman Sachs and has represented Goldman Sachs as a financial advisor in a number of multi-billion dollar M&A deals.

128 Fried Frank also represented the Goldman Sachs Entities in the AlphaStar bankruptcy case in responding to a subpoena issued by the Trustee pursuant to Bankruptcy Rule 2004.

129 Upon information and belief, AlphaStar engaged Fried Frank in connection with the RICO Action and other matters at the insistence of the Goldman Sachs Entities.

130 In or about April 1999, AlphaStar engaged Fried Frank to conduct due diligence concerning company practices including investigating the claims raised in the RICO Action (the "Investigation").

131 Upon information and belief, AlphaStar engaged Fried Frank to conduct the Investigation at the insistence of the Goldman Sachs Entities.

132 Initially, Fried Frank reported the results of the Investigation to Jeffery and other employees of the Goldman Sachs Entities.

133 Upon information and belief, at a Board meeting conducted on May 5, 1999, Jeffery, one of the two Goldman Sachs Managing Directors who was then on the Board, reported the formulation of an Audit Committee, which he would chair,

comprised of himself, de Pourtales and Warren Cabral (who subsequently resigned from the Board effective May 13, 1999), and reported the formulation of a Compensation Committee, consisting of the same members, but with de Pourtales as chairman.

134 After Warren Cabral had resigned, at a Board meeting conducted on May 26 and 27, 1999, Jeffery, one of the two Goldman Sachs Managing Directors who was then on the Board, introduced McDonough to the Board. At that Board meeting, McDonough was appointed to the Board, and also appointed to the Audit and Compensation Committees to replace Warren Cabral.

135 At the May 26 and 27, 1999 Board meeting, Fried Frank was directed to report directly to the Audit Committee with respect to all legal matters for which Fried Frank was responsible, which included the Investigation begun in April 1999.

136 At that time, the Audit Committee consisted of the two Goldman Sachs Managing Directors (Jeffery and de Pourtales) and McDonough, who had just been appointed to the Board and the Audit Committee at the insistence of the Goldman Sachs Entities. In fact, the principal persons involved in the selection of McDonough as a Director were an attorney at Fried Frank, Jeffery, de Pourtales, and the following executives of the Goldman Sachs Entities: Doug Caterfino, Joe Di Sabito and Jay Horgen.

137 In connection with the Investigation, Fried Frank retained an investigative agency and at least three sets of consultants, including an industry expert and Andersen.

138 The industry expert hired by Fried Frank admitted that he discussed his findings with Jeffery, but such industry expert had no idea that McDonough was on the

Audit Committee at the time, or even that McDonough had ever been a Director of AlphaStar, even though McDonough is personally known to the industry expert.

139 Upon information and belief, the head of the investigative agency engaged by Fried Frank in connection with the Investigation was not sure whether his firm and Fried Frank were representing Goldman Sachs, AlphaStar or both.

140 In or about June 1999, the Goldman Sachs Entities caused Fried Frank to investigate, in secret and without reporting to the Board, all members of the Board other than the two Goldman Sachs Managing Directors and McDonough, all senior executives of AlphaStar and other individuals implicated in the RICO Action.

141 Fried Frank regularly apprised the members of the Audit Committee and the Goldman Sachs Entities of the results of the Investigation.

142 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, *inter alia*, that Nicholas Brown, Cooke and other senior executives of AlphaStar and/or its subsidiaries had made misrepresentations to counterparties in connection with the placing of reinsurance contracts, that these counterparties would thus be entitled to rescind their contractual obligations, that AlphaStar's businesses were rife with fraud, that most assets were impaired, that AlphaStar's businesses were not viable, that AlphaStar could not withstand the continuing onslaught of litigation claims, and that AlphaStar faced a probable loss of staggering proportions.

143 As part of the Investigation, Fried Frank and/or the experts it hired also investigated, *inter alia*, AlphaStar's connections with certain persons who had criminal records and/or were alleged to have been involved in insurance frauds.

144 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, that (a) Brian Hynes was working for AlphaStar as its de facto Chief Operating Officer (but without the formal title). despite the knowledge of Cooke and other persons associated with AlphaStar that such employment violated Section 1033 of the Violent Crime Control and Law Enforcement Act (18 U.S.C. § 1033) because Mr. Hynes had pled guilty to two counts of insurance fraud in connection with Louisiana-based Anglo-American Insurance and was therefore barred for life from engaging in any business of insurance whose activities affect interstate commerce, and (b) Cooke had inexplicably given over $2 million in AlphaStar stock to Mr. Hynes shortly before the IPO.

145 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, that (a) Cooke had acted as a sponsor for Carlos I. Miro when Mr. Miro became a Lloyd's name, *i.e.*, an individual elected by the Lloyd's membership as a member of Lloyd's of London, (b) Mr. Miro had caused the failure of Anglo-American Insurance and contributed to the failure of Transit Casualty Company (which led to the collapse of 40 reinsurers), (c) Mr. Miro had pled guilty to 16 counts of fraud and was sentenced to nearly nine years in prison, (d) Mr. Miro testified before Congress that Cooke "knew

about the fraudulent nature of the business . . . but handled it anyway because it was very profitable for him," and (e) Mr. Miro had testified before Congress that "if we were cooking the books [at Anglo-American Insurance], I may have owned the restaurant, but he [Brian Hynes] was the head chef."

146 In fact, in rescinding its contractual obligations to CIRCL, John Hancock Life Insurance Company alleged that: "The CIRCL Programme devised by SCB [the Stirling Cooke Brown group] has striking similarities to the notorious frauds perpetrated in the late 1980s by Carlos Miro and his associates, which led to the collapse of Transit Casualty Company and Anglo-American Insurance Inc. . . . Carlos Miro has since pleaded guilty to fraud. He has given evidence to a US Congressional Committee, in which he identified Mark Cooke and Brian Hynes as accomplices in his fraudulent activities. At all material times, Mark Cooke was the directing mind of the SCB group and a director of CIRCL and CIRCL (Caymans). Significantly, it is he who devised and orchestrated the CIRCL Programme with assistance from Brian Hynes."

147 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, that Ghaith Pharaon, who has been described as a Saudi wheeler-dealer, and who was indicted as a front man in the BCCI scandal, had been a secret shareholder of AlphaStar until he was bought out by Cooke, and that Mr. Pharaon had appointed many of the Board members serving at the time of commencement of the RICO Action.

148 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen

and others knew, or absent a reckless disregard for the truth should have known, that Raydon and its Managing Director and President, Paul M. Murray (who was also a director of other AlphaStar subsidiaries), had managed North American Fidelity & Guarantee, which together with its affiliate Dai Ichi Kyoto, Kobe Re and other companies had defrauded insurance companies and policyholders of at least $150 million, and that Raydon had benefited from the tight spiral in the LMX market described below.

149 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, that Reginald Billyard, a Managing Director and President of JEH Re and another AlphaStar subsidiary, had been involved in the fraudulent activities giving rise to exposure in connection with the LMX spiral.

150 By 1999, as a result of the Investigation, the Goldman Sachs Investigation, press reports or otherwise, the Goldman Sachs Entities, Jeffery, de Pourtales, Andersen and others knew, or absent a reckless disregard for the truth should have known, that one of AlphaStar's indirect 50%-owned Cayman Islands subsidiaries, Alternative Risk Reinsurance Company Limited ("ARRCL"), was involved in the then already infamous Unicover scandal (perpetrated by Unicover Managers, Inc. and others), in which numerous insurance companies were defrauded of billions of dollars and some insurance companies ultimately went into liquidation, and that the other 50% of ARRCL was owned by the principals of Unicover. The Unicover scandal had characteristics similar to the LMX spiral, in that insurance companies were defrauded into underwriting gross loss

making business, losses were exacerbated as risk was ceded from one carrier to another, and carriers rescinded contracts when they uncovered the fraud.

151 Upon information and belief, Andersen acknowledged in an October 1999 report to AlphaStar's Audit Committee that Andersen was aware of a high risk of management and employee fraud at AlphaStar and its subsidiaries. Andersen's presentation to the Audit Committee identified specific high risks concerning *inter alia* illegal acts, management fraud, employee fraud, reputation, business interruption and owner relations.

152 Andersen also observed at that time that certain reinsurers suffered substantial losses and were alleging non-disclosure of material facts and misrepresentation by AlphaStar's subsidiaries, and that AlphaStar faced liquidity problems if it lost the resulting litigation and was forced to pay millions of dollars in damages and penalties.

153 Upon information and belief, Andersen's October 1999 report to the Audit Committee also acknowledged that a particular area of audit emphasis for it would be its review of the Company's methodology regarding reinsurance recoverable collectability and the adequacy of reserves, as well as Andersen's evaluation of loss reserves and reinsurance recoverables.

154 Upon information and belief, the Goldman Sachs Entities, Jeffery, de Pourtales and others also learned from the industry expert hired by Fried Frank about AlphaStar's indirect subsidiaries in the Cayman Islands, ARRCL and Uneon Re, including the fact that Cooke controlled the Cayman subsidiaries, and that no one else at AlphaStar understood what the Cayman Islands subsidiaries did. The Fried Frank expert

characterized the Cayman Islands as a jurisdiction which is notorious for its lack of regulatory oversight.

155 Upon information and belief, Jeffery had previously directed Cooke to divest the Cayman subsidiaries. In May 1999, Jeffery "went through the roof" when he learned that Cooke had not done so. Upon information and belief, Jeffery's reaction was precipitated by ARRCL's involvement in the Unicover fraud.

156 Furthermore, upon information and belief according to AlphaStar's records, in or about March 1999, Nicholas Brown made misrepresentations on behalf of the U.K. Subsidiaries to agents of Trustmark Insurance Company ("Trustmark") and Credit General that quota share reinsurance was in place to induce Trustmark and Credit General to underwrite insurance coverage, when Mr. Brown knew that no such reinsurance was in place.

157 By 1999 (and by 2000 in the case of Crane), the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick and others knew, or absent a reckless disregard for the truth should have known, that Nicholas Brown had made these misrepresentations to Trustmark and Credit General.

158 Upon information and belief, in order to extricate itself from its liabilities to Trustmark caused by the misrepresentations of Nicholas Brown, AlphaStar ultimately had to pay $5.5 million to Trustmark, return over $10 million in premiums to Trustmark and waive any right to brokerage commissions payable by Trustmark.

159 Upon information and belief, according to AlphaStar's records, by 1999, the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick and others knew,

or absent a reckless disregard for the truth should have known, that Nicholas Brown had over $100,000 of non-business expenses.

160 These non-business expenses were "repaid" by Nicholas Brown from the proceeds of a bonus awarded to him after he had been terminated.

161 By 1999, it was clear based on public information surrounding the Unicover and LMX reinsurance scandals and the pending litigation involving AlphaStar and its subsidiaries that AlphaStar faced a probable loss of staggering proportions.

162 By 1999 (and by 2000 in the case of Crane), the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick and others knew, or absent a reckless disregard for the truth should have known, that AlphaStar's businesses were rife with fraud, that AlphaStar's subsidiaries had made material misrepresentations to counterparties, that these counterparties would thus be entitled to rescind their contractual obligations, that most assets were impaired, that AlphaStar's businesses were no longer viable, that AlphaStar could not withstand the continuing onslaught of litigation claims, and that AlphaStar faced a probable loss of staggering proportions.

iii. **Reputational Concerns of Goldman Sachs and Goldman Sachs Group**

163 Upon information and belief, upon learning that AlphaStar's businesses were rife with fraud, the Goldman Sachs Entities, Jeffery and de Pourtales were concerned that Goldman Sachs and Goldman Sachs Group would suffer further damage to their reputation, and so Jeffery, de Pourtales and the Goldman Sachs Entities took control of AlphaStar to limit damage to the reputations of Goldman Sachs and Goldman Sachs Group.

164 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that Goldman Sachs was "very concerned" in 1999 that "the company they had taken public two years earlier had all of these bad if not criminal associations."

165 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that Jeffery and de Pourtales "had gotten significantly involved in the oversight of AlphaStar's management from approximately mid-1998 until [Crane] took control," and did so in part "to try to salvage Goldman Sachs's reputation."

166 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that "when Jeffery was interviewing me he said you know, this has been a tremendous black eye to Goldman Sachs."

167 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that: "It was worth a lot more to them [Goldman Sachs] than the value of their remaining stock to cut the stream of bad publicity."

168 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that: "I'm sure the people who were responsible for the initial investment and the IPO felt themselves under a lot of real heat from Goldman's management because of the bad publicity. I recall shortly after my arrival there was a stinging two pager in *Forbes* and I remember the title of it was called 'In Goldman We Trust' instead of 'In God We Trust.' And that was utterly embarrassing because this guy at *Forbes* just absolutely crucified us, but that was the last bit of bad publicity we got and they [Goldman Sachs] were happy once we got beyond that."

169 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that Goldman Sachs was "concerned and I guess that's the reason why I was hired, that

they [Goldman Sachs] would be associated with a company that had a bad reputation, and they were concerned about bad publicity."

170 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that: "And they [Goldman Sachs] had two seats on the Board and at that particular point in time, in the summer of 1999 when they first contacted me, they were more or less controlling the company in an unofficial way. Goldman Sachs had invested heavily in Stirling Cooke Brown when it was still a private company in 1995, had managed the company's initial public offering at the end of 1997 and within a year thereafter suffered substantial embarrassment when the company got involved in some very difficult and embarrassing to Goldman Sachs, difficult and embarrassing disputes, which brought into question the ethics and professionalism of the previous management of Stirling Cooke Brown. And essentially Goldman, which had unsuccessfully tried to sell Stirling Cooke Brown decided instead to try to recruit somebody to come in and clean up the company and frankly get Goldman's name out of the papers."

iv. **Goldman Sachs Entities Orchestrated a Management Shake-up**

171 Upon information and belief, in order to solidify and tighten their control, commencing in or about May 1999 and continuing until at least November 2001, the Goldman Sachs Entities orchestrated a complete shake-up of AlphaStar's Board and senior management, in each case maintaining the illusion that the respective individual had voluntarily resigned in order to maintain a semblance of normality at AlphaStar.

172 According to AlphaStar' SEC filings and, upon information and belief, Alphastar's Board minutes, Warren Cabral resigned from the Board effective May 13, 1999. Mr. Cabral had been Vice President and a Director of AlphaStar since it was

founded in December 1995, and had been a member of the Audit Committee. Mr. Cabral was also a partner in Appleby, Spurling and Kempe, a Bermuda law firm that had provided certain legal services to AlphaStar or its predecessor since 1992.

173 Upon information and belief, Mr. Cabral was forced to resign at the insistence of the Goldman Sachs Entities.

174 According to AlphaStar's Board minutes and SEC filings, from prior to the time of the IPO until in or about June 1999, Penelope Atteline Cooke, the wife of Defendant Cooke, was the Corporate Secretary of AlphaStar.

175 Upon information and belief, Penelope Atteline Cooke was forced to resign at the insistence of the Goldman Sachs Entities.

176 Upon information and belief, at a Board meeting conducted on June 15, 1999, Jeffery, one of the two Goldman Sachs Managing Directors who was then on the Board, proposed (and the Board agreed) that AlphaStar retain an executive search firm to identify a new Chief Executive Officer, and to identify one or two outside Directors.

177 On or about June 21, 1999, Fried Frank agreed to assume, as outside counsel, the general counsel function for AlphaStar.

178 Upon information and belief, Fried Frank assumed the general counsel function for AlphaStar at the insistence of the Goldman Sachs Entities.

179 Fried Frank continued representing AlphaStar in litigation and other matters until at least as late as March 2003, shortly after de Pourtales resigned as a Director.

180 In or about July 1999, Cooke stood down from his role as President and Chief Executive Officer of AlphaStar, and Quick became interim Chief Executive Officer of AlphaStar (until Crane was hired), and was elected to the Board.

181 Upon information and belief, these management changes were undertaken at the insistence of the Goldman Sachs Entities.

182 According to AlphaStar's SEC filings and, upon information and belief, AlphaStar's Board minutes from prior to the time of the IPO until in or about October 1999, Nicholas Brown was a Director of AlphaStar, a Managing Director of the U.K. Subsidiaries, and head of AlphaStar's London brokering operations.

183 According to AlphaStar's SEC filings, on October 5, 1999, Nicholas Brown resigned from his positions as Director of AlphaStar and Managing Director of the U.K. Subsidiaries.

184 Upon information and belief, Nicholas Brown was terminated at the insistence of the Goldman Sachs Entities and Jeffery, one of the two Goldman Sachs Managing Directors who was then on the Board, negotiated the terms of Mr. Brown's termination.

185 On November 8, 1999, Crane became President and Chief Executive Officer of AlphaStar, and Quick continued in his capacity as Chief Operating Officer and Director of AlphaStar.

186 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that he was "recruited indirectly by Goldman Sachs," and that when Crane first joined the Board, he dealt primarily with Jeffery and de Pourtales.

187 The Goldman Sachs Entities recruited Crane to become President and Chief Executive Officer of AlphaStar.

188 While initially Crane may have been kept in the dark by the Goldman Sachs Entities, by 2000 Crane knew, or absent a reckless disregard for the truth should have known, the true state of affairs at AlphaStar, and Crane assisted the Goldman Sachs Entities in covering-up such facts.

189 Thus, by November 1999, the Goldman Sachs Entities had caused AlphaStar to terminate most of its executives responsible for the fraud and misrepresentations, with the notable exceptions of Cooke, Jones and Quick. Upon information and belief, the Goldman Sachs Entities determined to ease Cooke out gradually (and did so over the next two years) in order to preserve some semblance of normality and continuity. The Goldman Sachs Entities kept Jones and Quick on board because they needed executives who had knowledge of the underlying businesses and finances. Upon information and belief, the Goldman Sachs Entities bought Quick's silence and cooperation by causing AlphaStar in 1999 to increase Quick's base salary from $200,000 to $325,000 per annum and award Quick a 1999 cash bonus in the amount of $150,000. Thereafter, all the Goldman Sachs Entities needed to do to complete the management shake-up was to find unwitting independent directors to create an appearance of healthy corporate governance.

190 Upon information and belief, at a Board meeting conducted on November 30, 1999, an ad hoc committee was formed to consider and interview candidates for three additional outside Directors (the "Ad Hoc Committee"). The Ad Hoc Committee consisted of the two Goldman Sachs Managing Directors who were then on the Board