THE STATE OF SOUTH CAROLINA
In the Court of Appeals

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SC 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 IV of V)

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(Jeffery and de Pourtales) and McDonough, who had been introduced to the Board by Goldman Sachs.

191 At a Board meeting conducted on February 1, 2000, de Pourtales, one of the two Goldman Sachs Managing Directors who was then on the Board, reported on his interview of Ford for the position of outside Director.

192 At a Board meeting conducted on March 7, 2000, Jeffery, one of the two Goldman Sachs Managing Directors who was then on the Board, moved that Ford be elected to the Board. At that Board meeting, Ford was appointed to the Board, and also appointed to the Audit and Compensation Committees.

193 In or about April 2000, Crane replaced Cooke as Chairman of AlphaStar.

194 Upon information and belief, this management change was undertaken at the insistence of the Goldman Sachs Entities.

195 In or about May 2000, Christie became a member of the Board.

196 Upon information and belief, Christie was added to the Board at the insistence of the Goldman Sachs Entities.

197 In or about August 2001, Elliott became a member of the Board.

198 Upon information and belief, Elliott was added to the Board at the insistence of the Goldman Sachs Entities.

199 Upon information and belief, the Goldman Sachs Entities, Jeffery and de Pourtales may have kept Ford, Christie and Elliott, and possibly McDonough, in the dark as to the true state of affairs at AlphaStar.

200 On or about November 13, 2001, Cooke resigned as a Director of AlphaStar.

201 Upon information and belief, Cooke was forced to resign at the insistence of the Goldman Sachs Entities.

v. **Goldman Sachs Entities Caused AlphaStar to Squander Millions of Dollars and to Defraud Innocent Third Parties, including AIM**

202 From at least 1999 until at least January 2003, the Goldman Sachs Entities had such influence over the Board of Directors of AlphaStar that the Goldman Sachs Entities exercised *de facto* control over the Board of Directors of AlphaStar.

203 From at least 1999 until at least January 2003, as a result of their control over the Board of Directors of AlphaStar, the Goldman Sachs Entities exercised control over the assets and affairs of AlphaStar and its subsidiaries.

204 Upon information and belief, in 2003, Norman Feit (an in-house attorney at Goldman Sachs and/or Goldman Sachs Group) characterized Jeffery's role at AlphaStar as "effectively running SC [Stirling Cooke] until they could get a new CEO."

205 As a result of the control exercised by the Goldman Sachs Entities, the Goldman Sachs Entities held a position of trust with respect to AlphaStar, and therefore owed fiduciary duties to AlphaStar.

206 The Goldman Sachs Entities abused their trust and breached their fiduciary duties in the manner described herein.

207 The Goldman Sachs Entities put preservation of their reputation above their duties to AlphaStar.

208 Upon information and belief, the Goldman Sachs Entities used AlphaStar's corporate form to perpetrate a fraud.

209 Upon information and belief, the Goldman Sachs Entities used AlphaStar's corporate structure as a means to avoid or conceal liability, and wasted

AlphaStar's corporate assets to do so, for the purpose of protecting the reputation and economic interests of the Goldman Sachs Entities.

210 Upon information and belief, the Goldman Sachs Entities used AlphaStar's corporate form to evade a contractual or other legal obligation.

211 Upon information and belief, the Goldman Sachs Entities used AlphaStar's corporate structure as a façade to insulate themselves from liability to AlphaStar's shareholders and creditors.

212 Upon information and belief. notwithstanding AlphaStar's insolvency, the Goldman Sachs Entities caused the business of AlphaStar to be carried on with the intent to deceive unknowing third parties and creditors, including AIM, of AlphaStar or for other fraudulent, dishonest or improper purposes.

213 Upon information and belief, the Goldman Sachs Entities exercised an inordinate amount of control over AlphaStar, creating an extreme unity of interest and ownership, such that the Goldman Sachs Entities and AlphaStar no longer had separate personalities.

214 Upon information and belief, the Goldman Sachs Entities used their control over AlphaStar to, *inter alia,* perpetrate a fraud against AIM.

215 Upon information and belief, the control exercised by the Goldman Sachs Entities over AlphaStar and fraud or injustice perpetrated by the Goldman Sachs Entities proximately caused harm to AIM.

216 As of December 31, 1999, AlphaStar's audited consolidated financial statements, as reported on Form 10-K filed with the SEC on March 30, 2000, reported

that AlphaStar had more than $50 million in cash and more than $30 million in marketable securities.

217 Over the next several years, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, certain of other Individual Defendants and Andersen, wasted at least $80 million of AlphaStar's funds (consisting of more than $50 million in cash and more than $30 million in marketable securities reported on Form 10-K filed with the SEC on March 30, 2000) by paying legal fees to defend conduct that they knew, or absent a reckless disregard for the truth should have known, was fraudulent, incurring exorbitant audit and consulting fees for an insolvent entity riddled with fraud, continuing to make investments in worthless and hopelessly insolvent subsidiaries, consummating settlements that benefited creditors of AlphaStar's hopelessly insolvent subsidiaries to the detriment of AlphaStar and its own creditors, paying excessive salaries, paying exorbitant Directors' fees, declaring dividends and redeeming stock; and incurred further liabilities, thereby deepening the insolvency of AlphaStar, as described in greater detail herein, all in an effort to maintain a façade that AlphaStar and its subsidiaries, including Realm, were viable and to cover-up the fact that AlphaStar was an insolvent enterprise riddled with fraud.

218 If the Goldman Sachs Entities had not put preservation of their reputation above their duty to AlphaStar, more than $80 million of AlphaStar's funds would not have been wasted on such fruitless activities, and AlphaStar would not have been able to perpetrate a fraud on AIM.

219 Commencing in 2000 and continuing through 2003, AlphaStar spent at least $15 million on legal fees, audit fees and consulting fees.

220 The expenditure of so much cash on legal fees, audit fees and consulting fees for an insolvent business riddled with fraud was a waste of corporate assets.

221 Such expenditure was orchestrated by the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual defendants.

222 Commencing in or about 2000 and continuing through at least 2002, AlphaStar spent at least $15 million paying off Trustmark and some of the other creditors of AlphaStar's hopelessly insolvent subsidiaries who had been defrauded by prior management.

223 The expenditure of so much cash on settlements with just a handful of defrauded creditors of AlphaStar's hopelessly insolvent subsidiaries was a waste of AlphaStar's corporate assets.

224 Such expenditure was orchestrated by the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless and others.

225 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that during 2000 and 2001 some Directors (including Crane and Ford) were concerned about paying dividends because AlphaStar had negative cash flow, but Jeffery and de Pourtales were in favor of continuing to pay dividends because "they were just concerned about the external appearances."

226 During 2000 and 2001, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual defendants caused a then insolvent AlphaStar to waste at least $2 million on dividends.

227 According to AlphaStar's SEC filings, (a) in July 1999, Quick's base salary was increased from $200,000 to $325,000 per annum (and continued at such increased level thereafter), and in 1999 Quick received a cash bonus in the amount of $150,000; (b) in November 1999, Crane was hired at a base salary of $400,000 per annum (which continued at such level thereafter), and in 1999 Crane received a cash bonus in the amount of $100,000; and (c) in 1999, Jones received a base salary of $275,000 (which continued at such level thereafter) and a cash bonus in the amount of $50,000.

228 According to AlphaStar's SEC filings, for salaries and benefits, AlphaStar spent $19,688,000 in 2000 and $17,782,000 in 2001.

229 The expenditure of so much cash on salaries and benefits for an insolvent business riddled with fraud was a waste of corporate assets.

230 Such expenditure was orchestrated by the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual defendants.

231 Upon information and belief, according to AlphaStar's Board minutes and Crane's testimony, Goldman Sachs and Donaldson, Lufkin & Jenrette both attempted to sell AlphaStar during 1999.

232 The Goldman Sachs Entities caused AlphaStar to engage Donaldson, Lufkin & Jenrette to sell AlphaStar and explore strategic alternatives.

233 Upon information and belief, the efforts of Goldman Sachs and Donaldson, Lufkin & Jenrette to sell AlphaStar were unsuccessful because prospective buyers were concerned over the fraudulent conduct described in the RICO Action and

AlphaStar's connections with convicted felons and other unsavory characters. As Crane testified at his May 11, 2006 Bankruptcy Rule 2004 examination: "They [Goldman Sachs] actually engaged another investment banker, Donaldson, Lufkin & Jenrette, DLJ, it was either in '98 or early '99 to try selling the company and DLJ tried unsuccessfully and reported back to Goldman or perhaps technically the Stirling Cooke Board that they couldn't find any buyers with strong enough stomachs who had the guts to step up and swing the bat."

234 By 1999, AlphaStar and its subsidiaries were subject to numerous allegations of fraud and misrepresentation, numerous counterparties had rescinded their contractual obligations to AlphaStar and its subsidiaries based on such misconduct, AlphaStar and its subsidiaries were finding it difficult to transact their remaining business, the Bermuda Subsidiaries were in run-off, the U.K. Subsidiaries were being wound down, most of AlphaStar's subsidiaries were insolvent, and AlphaStar's businesses were no longer viable.

235 At his May 11, 2006 Bankruptcy Rule 2004 examination, Crane testified that he was hired in part because of his capacity to work with a "turnaround" company.

236 As a result of their knowledge of AlphaStar's financial condition and AlphaStar's subsidiaries' complicity in defrauding counterparties, the results of the Investigation and the Goldman Sachs Investigation, and/or publicly reported events, by 1999 (and by 2000 in the case of Crane), the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick, certain of the other Individual Defendants and Andersen knew, or absent a reckless disregard for the truth should have known, that AlphaStar's businesses were rife with fraud, that AlphaStar's businesses were no longer viable, that

most assets were impaired, that AlphaStar could not withstand the continuing onslaught of litigation claims, and that AlphaStar faced a probable loss of staggering proportions.

D. Wrongful Redemption and Fraudulent Transfer to the Goldman Sachs Entities

237 On December 31, 2002, AlphaStar announced that it had repurchased all of the shares held by the Goldman Sachs Entities, amounting to 2,181,775 or 22.9% of its ordinary shares (the "Goldman Sachs Redemption").

238 Upon information and belief, on December 31, 2002, Crane advised the other Board members that he had hastily negotiated this transaction without their approval, and that the Goldman Sachs Entities had agreed to accept a note in lieu of cash.

239 Upon information and belief, at a Board meeting conducted on January 7, 2003, the Director Defendants unanimously (with de Pourtales, a Goldman Sachs Managing Director, abstaining) approved the redemption of the shares of stock held by the Goldman Sachs Entities.

240 Yet, such Board approval of the redemption of stock was made more than one year after the Board had suspended paying dividends.

241 Moreover, such Board approval of the redemption of stock was made approximately nine months after Crane's April 10, 2002 letter to shareholders, quoted above, in which Crane reported, *inter alia*, that AlphaStar would need more capital.

242 In fact, at least as early as the November 13, 2001 Board meeting, the Director Defendants recognized that AlphaStar required a "significant capital infusion."

243 On January 30, 2003, less than one month after AIM had been defrauded into loaning AlphaStar $1.5 million (as described in further detail hereinafter), AlphaStar wired $109,088.79 to Goldman Sachs Group to pay for the redemption of the stock held

by the Goldman Sachs Entities, and/or to satisfy the notes issued to the GS Funds in connection with the redemption announced on December 31, 2002 (the "Goldman Sachs Transfer").

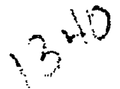
244 Upon information and belief, at the next Board meeting, conducted on March 11-12, 2003, after the Audit Committee discussed with KPMG the possibility of a going concern qualification in KPMG's opinion, the Director Defendants then serving unanimously agreed that management should proceed promptly to develop a comprehensive plan of liquidation.

245 At the times of the Goldman Sachs Redemption and the Goldman Sachs Transfer, AlphaStar did not have surplus.

246 AlphaStar and its subsidiaries were insolvent on the dates of the Goldman Sachs Redemption and the Goldman Sachs Transfer, or became insolvent as a result of the Goldman Sachs Redemption and the Goldman Sachs Transfer.

247 When the Director Defendants caused AlphaStar to effectuate the Goldman Sachs Redemption and the Goldman Sachs Transfer, the Director Defendants did not have reasonable grounds for believing that after such transactions (a) AlphaStar would be solvent and (b) the realizable value of the AlphaStar's assets would exceed the aggregate of its liabilities, issued share capital and share premium account.

248 At the time or as a result of the Goldman Sachs Redemption and the Goldman Sachs Transfer, AlphaStar was engaged in business or a transaction, or was about to engage in business or a transaction, for which any property remaining with the Debtors was an unreasonably small capital.



249 At the time or as a result of the Goldman Sachs Redemption and the Goldman Sachs Transfer, AlphaStar intended to incur, or believed that it would incur, debts that would be beyond its ability to pay as such debts matured.

250 The Goldman Sachs Transfer was made to or for the benefit of Goldman Sachs.

E. Andersen

251 Defendant Andersen was the independent auditor of AlphaStar and its subsidiaries at all times relevant herein and continuing up to approximately May 2002. Defendant Andersen was engaged by AlphaStar to audit the consolidated financial statements of AlphaStar and its subsidiaries. Andersen was aware that such audited financial statements would be included in filings with the SEC, including the annual Form 10-K filed by AlphaStar for public consumption.

252 In the course of its business, Anderson knew and intended that third parties, including AIM and others similarly situated, would rely upon the audited financial statements of AlphaStar and its subsidiaries which Anderson prepared.

F. Insolvency of AlphaStar and Realm

253 AlphaStar and its subsidiaries have been insolvent or in the zone of insolvency since at least 1999.

254 The Goldman Sachs Entities, the Individual Defendants and Andersen knew, or absent a reckless disregard for the truth should have known, that AlphaStar and its subsidiaries had been insolvent or in the zone of insolvency since at least 1999.

255 As a result of AlphaStar's false and misleading financial statements prepared by Andersen, AlphaStar and its subsidiaries were able to continue in business despite their insolvency, and to defraud innocent third parties, including AIM.

256 The Goldman Sachs Entities, the Individual Defendants and Andersen should have foreseen that prolonging the existence of AlphaStar and its subsidiaries would not result in the maximization of enterprise value, but would only lead to more funds being squandered, the insolvency of AlphaStar and its subsidiaries being deepened, and third parties, such as AIM, being defrauded.

257 As a result of the actions of the Goldman Sachs Entities, the Individual Defendants and Andersen, the life of AlphaStar and its subsidiaries was fraudulently prolonged beyond insolvency, thereby resulting in damage to AIM, which relied to its detriment on the financial statements of AlphaStar and its subsidiaries and the apparent viability of said companies.

G. Findings by U.K. Court of Massive Reinsurance Fraud

258 By opinion and order dated February 25, 2000, the complaint in the RICO Action was dismissed as to AlphaStar and its subsidiaries on the ground of *forum non conveniens*, and that the case should be brought in the United Kingdom, not the United States.

259 On February 29, 2000, Odyssey Re, which was then called Sphere Drake Insurance Ltd. & Odyssey Re (London) Ltd. ("Sphere Drake"), brought an action styled *Sphere Drake Insurance Ltd. & Odyssey Re (London) Ltd. v. Euro International Underwriting Ltd. & Others* (the "Sphere Drake Case") in Queens Bench Division (Commercial Court), London, the United Kingdom (the "U.K. Court"), generally alleging

fraud and conspiracy as between SCBIB, SCBRB, Nicholas Brown and Jeff Butler (an employee of the U.K. Subsidiaries), on the one hand, and Euro International Underwriting Ltd. and certain individuals, on the other hand.

260 According to the July 8, 2003 ruling of the U.K. Court: The Sphere Drake Case arose out of the part of the reinsurance market which, in the 1990s, traded in the losses generated by U.S. Workers' Compensation insurance and related products. Typically, a standard Workers' Compensation policy would be reinsured after business comprising section B of the Workers' Compensation Act had been carved out ("WC Carveout"). The participants were a small circle of brokers, agents and insurance companies which operated in that market, principally in London and Bermuda, though with some participation from the United States. The sums involved in this market were large (several billion U.S. dollars).

261 Sphere Drake challenged its obligations with respect to the writing of WC Carveout based on the conspiracy, fraud and dishonest breach of fiduciary duty of SCBIB and others.

262 The U.K. Court "appl[ied] the criminal standard because the allegations made by [Sphere Drake] were so serious and amounted to allegations of serious criminal conduct involving many millions of dollars."

263 In a 1,600-page decision dated July 8, 2003, which is available online at http://www.uniset.ca/lloydata/2003EWHC1636Comm.html, the U.K. Court authorized Sphere Drake to reject its claims under the reinsurance contracts as a result of the fraudulent conduct of SCBIB and others.

264 Early in the decision, the U.K. Court observed that: "If [Sphere Drake's] case was correct, then the dishonesty of SCB [SCBIB] and those involved with them in this particular part of the reinsurance market was, by reason of its sheer scale, the amounts of money involved and the corruption of standards it brought about, probably as grave as any in the long history of the insurance and reinsurance market."

265 After conducting a trial lasting about one year and analyzing the plethora of evidence, the U.K. Court in fact concluded that SCBIB and Euro International "acted with grave dishonesty; the events set out a chronicle of deception that induced insurers to become involved in a business in which they would never have been involved if the business had been properly explained to them."

266 The U.K. Court found that: "The market which traded in losses in this way was one in which no rational and honest person would participate (either by committing his capital or by writing a line on a reinsurance of the business) if he had understood the market and proper disclosure had been made: (i) The risks were enormous; for example, the business was opaque, losses of any size had to be anticipated; even a small participation of 5% of an account could expose the participant to huge losses. (ii) Losses were passed higher to successive tiers of reinsurance. (iii) Each time the losses were passed, the premium was diminished by the commission the brokers took and by the need to reinsure at a premium that enabled the reinsured to pay his retained losses. (iv) There were delays and severe cash flow implications. (v) There were risks of insurers avoiding or becoming insolvent and of the inability to renew the reinsurances once the reinsurers appreciated the losses. (vi) The market was obviously unsustainable."

267 The U.K. Court "accept[ed] that there are analogies to this market that can be drawn with pyramid schemes."

268 In short, the U.K. Court found that SCBIB and others had orchestrated a massive reinsurance fraud by deliberately accepting business known to produce losses in excess of the premium, pocketing the premiums and passing on the undisclosed risks to reinsurers (including Sphere Drake) for even less premium.

269 Even though Sphere Drake had only engaged in the market for 18 months, the U.K. Court estimated Sphere Drake's losses at $250 million.

270 The U.K. Administrators have advised that other reinsurers have similar claims against SCBIB, and that total fraud claims could exceed $750 million, making this one of the largest frauds in U.K. history.

271 Andersen, the Goldman Sachs Entities and the Individual Defendants were well aware of the Sphere Drake litigation and the U.K. Court's ruling.

H. AlphaStar's False and Misleading Financial Statements

272 During all times relevant herein, AlphaStar and its subsidiaries, including Realm, reported financial results on a consolidated basis.

273 As a result of their knowledge of AlphaStar's financial condition and AlphaStar's subsidiaries' complicity in defrauding counterparties, the results of the Investigation and the Goldman Sachs Investigation, and/or publicly reported events, the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick, Crane, Lawless, Del Tufo, certain of the other Individual Defendants and Andersen knew, or absent a reckless disregard for the truth should have known, that AlphaStar's financial statements were false and misleading in that they overstated revenues and shareholders' equity,

understated losses, and failed to properly reserve for litigation claims because losses from such litigation claims were then probable and capable of being reasonably estimated.

274 In order to perpetuate their scheme to cover-up AlphaStar's woes, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual Defendants caused false financial statements, which contained material misstatements, to be prepared and filed with the SEC, for public consumption.

275 At the time these false financial statements were filed with the SEC, the Goldman Sachs Entities, Jeffery and de Pourtales, Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual Defendants knew, or absent a reckless disregard for the truth should have known, that the financial information contained therein was false and misleading, but filed them anyway in order to deceive AlphaStar, its creditors, innocent third parties such as AIM and those members of AlphaStar's Board of Directors and Audit Committee who were unaware of any wrongdoing.

276 The U.K. Court determined that "the prospectus [issued by Goldman Sachs in connection with the IPO] was grossly misleading in not properly describing the true nature of the reinsurance business."

277 This finding was based on the fact that the prospectus "did not describe the fact that the reinsurance was placed on a basis that was gross loss making and that it was built on the risk that the reinsurance might not respond."

278 On March 30, 2001, AlphaStar filed its annual report on Form 10-K with the SEC for the year ending December 31, 2000 (the "2000 Form 10-K").

279 AlphaStar's financial statements for the year ending December 31, 2000 were presented to the Board and approved by the Director Defendants then serving as Directors.

280 Andersen audited AlphaStar's consolidated financial statements that were contained in the 2000 Form 10-K.

281 As of December 31, 2000, AlphaStar's audited consolidated financial statements, as reported in the 2000 Form 10-K, reported insurance and reinsurance balances receivable in the amount of $872,666,000.

282 According to AlphaStar's records and SEC filings, at least $800 million of the insurance and reinsurance balances receivable reported in the 2000 Form 10-K were attributable to the U.K. Subsidiaries.

283 The 2000 Form 10-K disclosed that: "It is the opinion of management that the claims described in Sphere Drake's action are without merit and the case is being and will be defended vigorously."

284 Such disclosure was inadequate, false and misleading, and known to be so at the time by the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual Defendants and Andersen.

285 Notwithstanding the negative fallout from the Sphere Drake Case and their own knowledge of AlphaStar's misconduct, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual Defendants caused AlphaStar to improperly set aside little or no reserves with respect to the Sphere Drake Case (or other litigation claims) in

AlphaStar's consolidated financial statements that were contained in the 2000 Form 10-K.

286 For the year ending December 31, 2000, AlphaStar's audited consolidated financial statements, as reported in the 2000 Form 10-K, reported net losses on operations in excess of $27 million on total revenues of just under $51 million.

287 If AlphaStar had properly reserved for the Sphere Drake Case and other litigation claims, AlphaStar's net losses would have been significantly higher.

288 AlphaStar's audited financial statements for the year ending December 31, 2000, as reported in the 2000 Form 10-K, reported positive shareholders' equity in the amount of $56,879,000 as of December 31, 2000.

289 If AlphaStar had properly reserved for the Sphere Drake Case and other litigation claims, rather than having shareholders' equity in excess of $56 million, AlphaStar's balance sheet would have reflected a significant shareholders' deficit.

290 As of December 31, 2000, AlphaStar's assets were impaired and AlphaStar and its subsidiaries were insolvent.

291 At the time the 2000 Form 10-K was filed, the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick, Crane, Lawless, Del Tufo, certain of the other Individual Defendants and Andersen knew, or absent a reckless disregard for the truth should have known, that the financial information contained therein was false and misleading. Nevertheless, the Goldman Sachs Entities and certain of the Individual Defendants caused the 2000 Form 10-K to be filed to perpetuate their scheme to cover-up AlphaStar's woes.

292 On April 3, 2002, AlphaStar filed its amended annual report on Form 10-K with the SEC for the year ending December 31, 2001 (the "2001 Form 10-K").

293 AlphaStar's financial statements for the year ending December 31, 2001 were presented to the Board and approved by the Director Defendants then serving as Directors.

294 Defendant Andersen audited AlphaStar's consolidated financial statements that were contained in the 2001 Form 10-K.

295 As of December 31, 2001, AlphaStar's audited consolidated financial statements, as reported in the 2001 Form 10-K, reported insurance and reinsurance balances receivable in the amount of $1,040,649,000.

296 According to AlphaStar's records and SEC filings, at least $900 million of the insurance and reinsurance balances receivable reported in the 2001 Form 10-K were attributable to the U.K. Subsidiaries.

297 The 2001 Form 10-K disclosed that: "It is the opinion of management that the claims described in Sphere Drake's action are without merit and the case is being and will be defended vigorously."

298 Such disclosure was inadequate, false and misleading, and known to be so at the time by the Goldman Sachs Entities, de Pourtales, Crane, Lawless, Del Tufo and certain of the other Individual Defendants and Andersen.

299 Notwithstanding the negative fallout from the Sphere Drake Case and their own knowledge of AlphaStar's misconduct, the Goldman Sachs Entities, de Pourtales, Crane, Lawless, Del Tufo and certain of the other Individual Defendants caused AlphaStar to improperly set aside little or no reserves with respect to the Sphere Drake

Case (or other litigation claims) in AlphaStar's consolidated financial statements that were contained in the 2001 Form 10-K.

300 For the year ending December 31, 2001, AlphaStar's audited consolidated financial statements, as reported in the 2001 Form 10-K, reported net losses on operations in excess of $21 million on total revenues of just over $50 million.

301 If AlphaStar had properly reserved for the Sphere Drake Case and other litigation claims, AlphaStar's net losses would have been significantly higher.

302 AlphaStar's audited financial statements for the year ending December 31, 2001, as reported in the 2001 Form 10-K, reported positive shareholders' equity in the amount of $35,505,000 as of December 31, 2001.

303 If AlphaStar had properly reserved for the Sphere Drake Case and other litigation claims, rather than having shareholders' equity in excess of $35 million, AlphaStar's balance sheet would have reflected a significant shareholders' deficit.

304 As of December 31, 2001, AlphaStar's assets were impaired and AlphaStar and its subsidiaries were insolvent.

305 At the time the 2001 Form 10-K was filed, the Goldman Sachs Entities, de Pourtales, Crane, Lawless, Del Tufo, certain of the other Individual Defendants and Andersen knew, or absent a reckless disregard for the truth should have known, that the financial information contained therein was false and misleading. Nevertheless, the Goldman Sachs Entities and certain of the Individual Defendants caused the 2001 Form 10-K to be filed to perpetuate their scheme to cover-up AlphaStar's woes.

306 As late as November 14, 2002, AlphaStar filed a Quarterly Report on Form 10-Q with the SEC for the period ending September 30, 2002 in which AlphaStar

reported, on a consolidated basis, assets in the amount of $1,097,084,000 and shareholders' equity in the amount of $13,760,000 as of September 30, 2002.

307 As of September 30, 2002, AlphaStar's assets were impaired and AlphaStar and its subsidiaries were insolvent.

308 As late as July 18, 2003, *i.e.*, after the adverse ruling in the Sphere Drake Case and the appointment of the U.K. Administrators, AlphaStar filed a Current Report on Form 8-K with the SEC in which AlphaStar reported that: "A recent balance sheet of the company [SCBIB] disclosed insurance broking assets and liabilities in excess of $900 million."

309 As of July 18, 2003, AlphaStar's assets were impaired and AlphaStar and its subsidiaries were insolvent.

310 As a result of the fraud perpetrated by SCBIB and others, counterparties of the U.K. Subsidiaries have been able to rescind their contractual obligations to the U.K. Subsidiaries.

311 As a result of the fraud perpetrated by SCBIB and other subsidiaries of AlphaStar, counterparties of Realm and certain of the Bermuda Subsidiaries also rescinded their contractual obligations.

312 As a result of the fraud perpetrated by SCBIB and other subsidiaries of AlphaStar, the vast majority of the insurance and reinsurance balances receivable reported in the 2000 Form 10-K and the 2001 Form 10-K are uncollectible.

313 According to the most recent report of the U.K. Administrators, total receipts for the period July 17, 2003 to March 31, 2006 were approximately £11.7 million, which is approximately $18.5 million using the conversion rate specified in such

report, far less than the approximately $900 million in assets attributed to the U.K. Subsidiaries in the 2001 Form 10-K and the 8-K filed on July 18, 2003.

314 AlphaStar's audited consolidated financial statements for the years ending December 31, 2000 and 2001, as reported on Form 10-K and filed with the SEC, significantly overstated the value of the principal assets reflected therein, thereby representing a false and misleading picture of the financial condition of AlphaStar and its subsidiaries.

315 AlphaStar's unaudited quarterly consolidated financial statements, as reported on Form 10-Q and filed with the SEC during 2000, 2001 and 2002, significantly overstated the value of the principal assets reflected therein, thereby representing a false and misleading picture of the financial condition of AlphaStar and its subsidiaries.

316 In its April 20, 2001 proxy statement, AlphaStar's Board asked shareholders to approve a resolution authorizing a change in the name of AlphaStar, which was then Stirling Cooke Brown Holdings Limited, to Atlantic Star Insurance Group Limited. Subsequently, and due to the unavailability of names, the name was changed to AlphaStar Insurance Group Limited in 2002.

317 Upon information and belief, such proposal was put before shareholders in April 2001 because of the negative publicity resulting from the Sphere Drake Case, and the fact that the name Stirling Cooke Brown Holdings Limited was too similar to the names of the U.K. Subsidiaries.

318 Long before the July 8, 2003 ruling in the Sphere Drake Case, the issues at stake therein and the negative publicity resulting therefrom and other insurance frauds

and scandals hindered AlphaStar and its subsidiaries in the collection of outstanding receivables.

319 Long before the July 8, 2003 ruling in the Sphere Drake Case, the defense costs relating to the Sphere Drake Case and related litigation diminished AlphaStar's financial resources.

320 Long before the July 8, 2003 ruling in the Sphere Drake Case, the Goldman Sachs Entities, Andersen and certain of the Individual Defendants knew, or absent a reckless disregard for the truth should have known, that AlphaStar's consolidated financial statements for the years ending December 31, 2000 and December 31, 2001, and quarterly reports filed on Form 10-Q during 2000, 2001 and 2002, significantly overstated the value of the principal assets reflected therein and the amount of shareholders' equity, and significantly understated losses, thereby representing a false and misleading picture of the financial condition of AlphaStar and its subsidiaries.

321 In fact, according to AlphaStar's 10-K for the year ended December 31, 1998: During 1998 certain reinsurers and reinsureds filed a total of seven writs in the English courts (which are the equivalent of a complaint in U.S. jurisdictions) against AlphaStar or certain of its subsidiaries to toll the statute of limitations. Some of these writs were issued pending the outcome of related arbitrations. The reinsurers alleged that they sustained losses due to a spiral in the LMX market which was not disclosed to them by the ceding insurers or their reinsurance brokers. As a consequence, these reinsurers asserted that they were no longer obliged to honor their reinsurance agreements and ceased paying claims. The primary factual allegation by the reinsurers was that, although they believed they reinsured the subject risks only at high excess levels, the LMX spiral

caused their high excess positions to not equate with their expectation of remoteness from the incidence of risk. As to AlphaStar and its subsidiaries, the reinsurers and reinsureds alleged in their writs that AlphaStar or its subsidiaries were negligent, misrepresented, or failed to disclose the potential effect of the spiral on the reinsurers' exposure to risk.

322 At least as early as May 1998, Stockholm Re, Trans Occidental and Duncanson & Holt had accused Raydon of misrepresentations in connection with the LMX market, and many counterparties had sought to avoid policies with Raydon and other subsidiaries of AlphaStar.

323 Upon information and belief, at least as early as the Board meeting conducted on May 26 and 27, 1999, Quick reported to the Board that "the adverse publicity of the Odyssey Re lawsuit, as well as soft market conditions within the industry, are exerting pressure on revenues and earnings of U.S. operations."

324 At least as early as January 2000, in connection with an arbitration proceeding between SCBRB and Syndicate 103, the arbitration tribunal found that SCBRB had made material misrepresentations to Transamerica in connection with the LMX market.

325 Upon information and belief, at least as early as September 2000, Christie expressed concern over "whether it was legitimate to regard the exposure to the PA [personal accident] spiral issues as being a modest (US$2 to 3 million) amount per year rather than a liability in the $100 million, or more, area."

326 Upon information and belief, at the August 7, 2001 Board meeting, Crane observed that AlphaStar's "aggregate legal expenses remained a continuing and significant adverse factor in the Company's consolidated results."

327 In his April 10, 2002 letter to shareholders that accompanied AlphaStar's annual report for the year ending December 31, 2001, Crane reported "a second consecutive year of sizeable losses;" that AlphaStar "continued to be besieged and burdened by the past;" that AlphaStar "incurred considerable expense for legal representation in 2001 with respect to two major legal actions [the Sphere Drake Case and other litigation resulting from past torts];" that AlphaStar had incurred "well over $4 million of legal and related costs pertaining to the two disputes;" that "The cost to [AlphaStar], in terms of money, time, and management distraction, has been enormous. In fact, dispute-related delays in reinsurance recoveries were a major causative factor in the recent A.M. Best downgrade [of Realm];" and that "The costs of dealing with the past [*i.e.*, the Sphere Drake Case and other litigation resulting from past torts] have diminished our financial resources, and we will need more capital to implement fully some of the initiatives identified in our long-term strategic plan."

328 Therefore, the Goldman Sachs Entities, Andersen and certain of the Individual Defendants knew, or absent a reckless disregard for the truth should have known, that AlphaStar's consolidated financial statements for the years ending December 31, 2000 and December 31, 2001 significantly overstated the value of the principal assets reflected therein and the amount of shareholders' equity, and significantly understated losses, thereby representing a false and misleading picture of the financial condition of AlphaStar and its subsidiaries

329 Therefore, the Goldman Sachs Entities, Andersen and certain of the Individual Defendants knew, or absent a reckless disregard for the truth should have known, that AlphaStar's consolidated quarterly financial statements filed on Form 10-Q

during 2000, 2001 and 2002 significantly overstated the value of the principal assets reflected therein and the amount of shareholders' equity, and significantly understated losses, thereby representing a false and misleading picture of the financial condition of AlphaStar and its subsidiaries.

I. Andersen's Services and Financial Statements, Prepared for AlphaStar and Intended for Public Consumption, failed to meet Generally Accepted Auditing Standards

i. Andersen's Professional and Contractual Duties and Responsibilities.

330 Andersen had a contractual duty and a professional responsibility to AlphaStar under Generally Accepted Auditing Standards ("GAAS") to audit, detect, and disclose to the AlphaStar Audit Committee, the independent directors and others that AlphaStar's financial statements contained misstatements and that its financial results were not presented in accordance with GAAP.

a. Andersen's Obligations Pursuant to GAAS.

331 The professional responsibilities of an auditor, including Andersen, are set forth, among other places, in GAAS, which codifies certain professional standards applicable to accountants in auditing financial statements.

332 The Auditing Standards Board of the American Institute of Certified Public Accountants promulgated GAAS, and certified public accountants auditing financial statements are required to comply with GAAS in the performance of audits of financial statements.

333 These standards are required to be followed for every audit, including the audits of AlphaStar performed by Andersen. GAAS includes additional requirements

with which certified public accountants are required to comply in reviewing quarterly financial information.

334 There are ten auditing standards. They are categorized as general standards, standards of field work and standards of reporting.

335 The three general GAAS standards require auditors (i) have, among other things, "adequate technical training and proficiency"; (ii) maintain an "independent" state of mind in "all matters relating to the assignment"; and (iii) exercise "[d]ue professional care ... in the performance of the audit and the preparation of the report."

336 The three standards of field work require, among other things, that audit work "be adequately planned"; that "the nature, timing, and extent of tests to be performed" be determined based on a "sufficient understanding of internal control"; and that "[s]ufficient competent evidential matter be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit."

337 In the four standards of reporting, GAAS requires, among other things, that an auditor's final product - the audit report - state whether the financial statements are presented in accordance with GAAP; "identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period;" must contain informative disclosures that are "reasonably adequate;" and contain a statement of opinion by the auditor regarding the fair presentation of the financial statements in accordance with generally accepted accounting principles or explain why no opinion can be expressed.

338 In addition to these basic auditing standards, GAAS includes many other standards affecting all aspects of the professional services rendered by auditors.

339 In keeping with the duty to exercise independent judgment, AICPA Professional Standards Codification, AU § 333(a) provides that an auditor must not take client representations at face value and expressly warns that client representations cannot "substitute for the auditing procedures necessary to afford a reasonable basis for" the auditor's "opinion on the financial statements." Similarly, Codification, AU § 342 holds the auditor responsible for evaluating the reasonableness of accounting estimates made by management.

340 Importantly, GAAS requires the auditor to be aware of the possibility of intentional wrongdoing by management. Indeed, an auditor has "a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud" (see Codification, AU § 110), and to assess the risk of fraudulent financial reporting and accounting irregularities and to respond appropriately. See Codification, AU §316.

341 GAAS also requires an auditor to exercise "professional skepticism" in conducting an audit, to plan for the possibility of fraud, to report potential wrongdoing to appropriate levels of authority, and to avoid the unsubstantiated reliance upon client representations with respect to important audit issues.

342 The importance of "professional skepticism" is a theme emphasized throughout GAAS, and the phrase is defined in Codification, AU § 230 as: "an attitude that includes a questioning method and critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to

diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence."

343 Codification, AU § 230 makes it clear that "professional skepticism should be exercised throughout the audit process," and that "the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest."

344 Upon detection, GAAS imposes an affirmative obligation on the auditor to bring illegal and improper conduct, as well as so-called "reportable conditions." to the attention of the audit committee.

345 The purpose of an audit committee, includes, but is not limited to, providing oversight of the financial reporting process, the business risk process and adequacy of internal controls, relationships with external and internal auditors, and financial compliance issues.

346 Audit committees, including the AlphaStar Audit Committee, necessarily work closely with the outside auditors, on whom they depend heavily to provide them with the meaningful information that will allow them to perform their oversight function. Indeed, to enable audit committees to work effectively, the auditing literature requires certain communications between external auditors and audit committee members. Codification AU § 380, lists nine matters to be communicated, including significant accounting policies and significant audit adjustments, disagreements with management, and auditors' awareness of management consultation with other accountants.

347 GAAS requires that an outside auditor discuss with the audit committee the outside auditor's judgments about the quality, and not just the acceptability, of a

company's accounting principles. In all, the requirements for auditor communications with audit committees are intended to foster a candid dialogue with external auditors in order to increase the likelihood that all audit committee members will be informed of matters required to be discussed.

348 For example, Codification, AU § 325 requires auditors to communicate to the audit committee of the board of directors regarding (i) significant deficiencies in internal controls; and (ii) the method to be used to account for significant unusual transactions, matters involving particularly sensitive accounting estimates, and/or significant audit adjustments.

349 Likewise, Codification, AU § 317.17 mandates that the "auditor should assure himself that the audit committee, or others with equivalent authority and responsibility, is adequately informed with respect to illegal acts that come to the auditor's attention."

350 Even where the auditor has not identified fraud, GAAS requires that auditors inform the Audit Committee about the methods used to account for significant transactions and significant accounting policies and their application.

351 Andersen was obligated to fulfill and comply with the requirements of GAAS when it was engaged as AlphaStar's independent auditor and, upon information and belief, Andersen informed AlphaStar that its audits in 2000 and 2001 would be conducted in accordance with GAAS.

b. Andersen's Obligations Pursuant to Its Engagement Letters and Representations to the Audit Committee.

352 Upon information and belief, for each of Andersen's audits of AlphaStar in the relevant time period, Andersen provided an engagement letter stating that its audits will be conducted in accordance with generally accepted auditing standards.

353 Upon information and belief, in its engagement letters, Andersen agreed and promised that it would:

- Conduct the audits in accordance with GAAS;
- Examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assess the accounting principles used and significant estimates made by management;
- Evaluate the overall financial statement presentation;
- Obtain reasonable assurance that the financial statements are free of material misstatement;
- Bring to the Company's attention immaterial misstatements and any fraudulent or illegal acts of which it becomes aware during the audit;
- Obtain an understanding of internal controls sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed;
- Be responsible for ensuring the audit committee is aware of any such deficiencies that come to its attention;
- Meet with the audit committee to discuss the quality of the Company's financial reporting, and such reporting will include:

- Significant accounting policies;
- Accounting estimates, judgments and uncertainties;
- Accounting adjustments; and
- Unusual transactions.

354 Upon information and belief, Andersen also made various representations to AlphaStar in its reports to and communications with the AlphaStar Audit Committee defining the scope and approach for its audits.

355 Upon information and belief, in 1999, Andersen reported to the Audit Committee that it had identified a number of audit areas to which it would give "Specific Emphasis" (emphasis in original). Among those areas singled out for special treatment by Andersen were the following:

- Litigation – Odyssey Re and LMX Spiral;
- Insurance Balances Receivable and Payable; and
- Reinsurance Recoverables – Realm National and CIRCL.

356 Andersen repeated these areas of specific audit emphasis in reports to the Audit Committee made throughout its process of auditing the 2000 and 2001 financial results.

357 Andersen further reported to the Audit Committee during the performance of its 2000 and 2001 audits that it would undertake an analytical review of various "high risk" audit areas for AlphaStar. The high risk audit areas continuously identified by Andersen included:

- Litigation Reserves;
- Insurance Balances Receivable and Payable;

- Reinsurance Recoverables;
- Loss Reserves (Realm National, CIRCL, Clarendon Loss Corridor); and
- Bad Debt Reserves.

358 Upon information and belief, in 2000 and 2001 audit reports to the Audit Committee identifying the scope of Andersen's review, Andersen actually recognized – but repeatedly failed to satisfy – its obligation to affirmatively assess and critically analyze the collectability of reinsurance recoverables and the adequacy of year-end reserves.

c. Andersen's Heightened Obligations as a Result of The Known Red Flags Attendant to The AlphaStar Audit.

359 The duties and responsibilities described above are constant, but, depending upon the level of risk associated with a particular audit, the planning, testing and procedures employed by the auditor should be even more rigorous as the perceived level of risk increases. Here, given the nature of AlphaStar's business, as well as other known risk factors, Andersen's professional obligations were heightened. Upon information and belief:

a. Andersen itself acknowledged the risky nature of the AlphaStar audit at the onset of the engagement when it met with the AlphaStar Audit Committee and assessed the risks of various aspects of the AlphaStar business model. In particular, Andersen identified "high risks" for a number of categories under the heading "INTEGRITY RISKS".

b. The Integrity Risks identified by Andersen prior to undertaking its 2000 and 2001 audits included Andersen's assessment of a high

risk of: (i) Employee Fraud; (ii) Illegal Acts; (iii) Management Fraud; and (iv) Reputation.

c. Andersen further identified, prior to undertaking its audits, that AlphaStar's business had recently been under "intense public scrutiny due to alleged known underpricing by certain insurers and reinsurers" and that AlphaStar and its subsidiaries and affiliates were defendants in several legal proceedings where substantial liability was alleged and the validity of AlphaStar's reinsurance receivables was challenged.

d. At the time, Andersen observed that the litigation had caused uneasiness within the company and that the lawsuits had a potentially adverse effect on AlphaStar and its affiliates' results and reputations.

e. Andersen further noted in October 1999 that the pending litigation against AlphaStar, its subsidiaries and affiliates included allegations that some of the Company's subsidiaries were instrumental in the creation and development of the reinsurance spiral that resulted in substantial losses to certain reinsurers. Andersen further acknowledged that if AlphaStar lost the Sphere Drake case a "substantial financial loss" would result.

360 By 1999, the scandals and the ongoing litigation surrounding the workers compensation reinsurance market with which AlphaStar and its subsidiaries were heavily involved were well known and well publicized. The public reporting by various analysts estimated industry losses would approach $2 billion, and noted the involvement of AlphaStar and its subsidiaries and affiliates in the market and their presence in the litigation.

361 At the time, analysts also publicly reported that (i) certain reinsurers were not paying losses but rather filing suit to rescind their reinsurance contracts, and (ii) certain reinsurers, including John Hancock, a company with whom an AlphaStar subsidiary had placed substantial business, were expected to attempt to rescind their obligations.

362 Public reports on the workers compensation reinsurance crisis further explained that a number of insurers and reinsurers were taking financial statement charges to reverse gains previously recognized or accruing losses on business previously written.

363 Because of the specific known risks attendant to the AlphaStar audit, Andersen had an obligation, among other obligations, to increase its vigilance during its audit of the Company, to follow up on any red flags, to focus particular scrutiny on those risk areas, and, in general, to tailor the scope of its audit to the heightened risk it identified, including the risks associated with employee or management fraud, adverse litigation and the corresponding litigation reserves, reinsurance recoverables and insurance balances receivable and payable.

364 Given these risks, Andersen should have planned and performed its audits accordingly and should have displayed the appropriate professional skepticism in performing its audits. As set forth in Codification, AU § 317.27:

> a. "Some examples demonstrating the application of professional skepticism in response to the auditor's assessment of the risk of material misstatement due to fraud include (a) increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions, and (b) increased recognition of the need to corroborate management explanations or representations concerning material matters - such as further analytical procedures, examination of documentation, or discussion with others within or outside the entity."

b. "The knowledge, skill, and ability of personnel assigned significant engagement responsibilities should be commensurate with the auditor's assessment of the level of risk of the engagement."

c. "The auditor may decide to consider further management's selection and application of significant accounting policies. ... In this respect, the auditor may have a greater concern about whether the accounting principles selected and policies adopted are being applied in an inappropriate manner to create a material misstatement of the financial statements."

d. "When a risk of material misstatement due to fraud relates to risk factors that have control implications, the auditor's ability to assess control risk below the maximum may be reduced. However, this does not eliminate the need for the auditor to obtain an understanding of the components of the entity's internal control sufficient to plan the audit. In fact, such an understanding may be of particular importance in further understanding and considering any controls (or lack thereof) the entity has in place to address the identified fraud risk factors. However, this consideration would need to include an added sensitivity to management's ability to override such controls.

365 As a result of the public standards and obligations applicable to Andersen's work, and the custom and usage of audit professionals, third parties such as AIM reasonably relied on Andersen to properly plan and conduct its work in accordance with what is required for a high risk audit and to detect and to disclose to the Board, including to the Audit Committee and to the independent members of the Board, any accounting inaccuracies or inadequacies identified, including those described in this Amended Complaint.

366 From October 1999 through May 2002, Andersen performed AlphaStar's audits for each of the years 1999, 2000 and 2001, and in each year certified AlphaStar's financial results through clean, unqualified audit opinions.

367 At all times herein relevant, given Andersen's reputation as a "Big Five" accounting and audit firm, its known professional and contractual duties to comply with GAAS in the performance of its audits, and to investigate the financial results of its audits

in compliance with GAAP, AIM relied on Andersen for the reasonable assurance that AlphaStar's financial statements were free of material misstatement and fairly presented the Company's financial results.

ii. Andersen's Breaches of its Professional and Contractual Duties.

368 Notwithstanding the acknowledged high risk nature of the AlphaStar audits, Andersen did not comply with the GAAS standards identified above; did not fulfill the commitments it had made to AlphaStar in its engagement letters and its reports to the Audit Committee; and breached both its professional standards of care and its contractual obligations to AlphaStar.

369 Had Andersen complied with GAAS, Andersen would have identified the deficiencies in AlphaStar's financial statements and results, would not have given its clean and unqualified opinions of AlphaStar's financial statements, and AIM would not have been defrauded into believing AlphaStar and its subsidiaries were solvent going concerns, and would not have been defrauded into doing business with AlphaStar and into loaning it money.

a. Andersen Failed to Comply With GAAS and Prepared Fraudulent Financial Statements

370 In its 2000 and 2001 audits of AlphaStar, Andersen failed to comply with the fundamental duties of an auditor by failing to exercise its independent judgment; failing to exhibit the professional skepticism required of an auditor under GAAS; and by allowing its client's representations and unsubstantiated accounting estimates to substitute for proper auditing procedures.

371 Andersen failed to obtain sufficient competent evidential matter and failed to critically analyze and investigate AlphaStar's financial results, thus causing Andersen to render an opinion on AlphaStar's financial statements without having developed a reasonable basis for its opinions.

372 Andersen's conduct breached the GAAS general standards, the GAAS standards of field work and the GAAS standards of reporting inasmuch as Andersen failed to properly plan its audits, utilize adequate technical training and proficiency, exercise due professional care, and identify those circumstances in which the principles of GAAP were not properly applied by its client, AlphaStar.

373 In addition, notwithstanding its prior acknowledgement of the high risks in the industry and the particular, identified risks at AlphaStar that it described as "Integrity Risks," Andersen failed to plan or perform its audits in accordance with those heightened risks, failed to apply the appropriate professional skepticism and increased vigilance, and failed to appropriately assess the risk of fraudulent financial reporting and accounting irregularities as more fully set forth in Codifications, AU §§ 110, 316, and 317.27.

374 Andersen also failed to ensure that AlphaStar's financial statements were presented in accordance with GAAP, including SFAS No. 60, Accounting and Reporting by Insurance Enterprises.

375 To this end, Andersen violated the general standards of GAAS identified herein by failing to ensure AlphaStar's financial statements conformed with GAAP, and in particular SFAS No. 60.

376 Andersen failed to comply with GAAS and failed to ensure that AlphaStar's financial statements were prepared in accordance with GAAP consistent with

FASB Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies.

377 For example, SFAS No. 5 states in paragraph 8:

> An estimated loss from a loss contingency ... shall be accrued by a charge to income if both of the following conditions are met:
>
> a. Information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
>
> b. the amount of loss can be reasonably estimated.

378 In March 2001 and March 2002, when Andersen opined on AlphaStar's 2000 and 2001 financial statements, it was clear based on public information surrounding the Unicover and LMX reinsurance scandals and the specific allegations asserted in the pending litigation involving AlphaStar and its subsidiaries that AlphaStar faced a probable loss of staggering proportions.

379 Andersen's failure to recognize this loss and the impairment of AlphaStar's assets, and Andersen's knowing or reckless refusal to acknowledge and report the effects of the loss on AlphaStar's financial statements, was a breach of its duties under GAAS.

Sphere Drake Litigation

380 AlphaStar improperly set aside little or no reserves for the Sphere Drake litigation.

381 Moreover, in AlphaStar's 2000 and 2001 consolidated financial statements, the description and disclosure pertaining to the Sphere Drake litigation simply

and inadequately stated that "the claims described in Sphere Drake's action are without merit and the case is being and will be defended vigorously."

382 Because AlphaStar had improperly and inadequately reserved for the Sphere Drake litigation, AlphaStar's financial statements materially understated its net losses and liabilities and materially overstated its shareholders' equity.

383 Had Andersen complied with GAAS and the commitments contained in its engagement letters, Andersen would not have opined that the financial statements were fairly presented and would not have concurred with the propriety of the reserves for the litigation and the incomplete and inaccurate disclosure.

Insurance and Reinsurance Balances Receivable

384 AlphaStar's 2000 and 2001 financial statements reported insurance and reinsurance balances receivable of over $870 million and $1 billion respectively.

385 In those years, the balances receivable from AlphaStar's U.K. operations were over $800 million and $900 million respectively and thus were clouded by not only the Sphere Drake action but also the additional litigations and arbitrations surrounding the Unicover and LMX reinsurance scandals that had been the subject of public scrutiny for several years.

386 Because the financial statements materially overstated the insurance and reinsurance balances receivable, the Company's net losses were materially underreported and its shareholders' equity was materially overstated.

387 Andersen's failure to comply with GAAS and its breach of its commitments to AlphaStar caused AlphaStar to issue materially inaccurate financial statements and failed to apprise the public, AIM and the innocent decision-makers on

AlphaStar's Board of Directors and Audit Committee of the true financial condition of the Company.

388 Moreover, AIM has not had the opportunity to review the workpapers and internal manuals of Andersen relating to its audits of AlphaStar and therefore cannot provide a complete list of Andersen's GAAS violations. Had AIM had such an opportunity, additional instances of Andersen's malfeasance likely would be apparent.

b. Andersen's False Representations.

389 Andersen issued clean, unqualified audit opinions for the consolidated financial statements of AlphaStar and its subsidiaries for the years ending December 31, 2000 and 2001.

390 In its 2000 audit opinion, Andersen represented:

> We conducted our audits in accordance with auditing standards generally accepted in the United States.... In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stirling Cooke Brown Holdings Limited and subsidiaries as of December 31, 1999 and 2000 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

391 Andersen's 2000 audit opinion was false, and at the time it was made, the Unicover and LMX reinsurance scandals in which AlphaStar and its subsidiaries were embroiled were well known and well publicized.

392 Andersen knew, or absent its reckless disregard for the truth should have known, that the representations contained in its 2000 audit opinion were false.

393 Similarly, in its 2001 audit opinion, Andersen opined:

> We conducted our audits in accordance with auditing standards generally accepted in the United States.... In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stirling Cooke Brown Holdings Limited and subsidiaries

> as of December 31, 2000 and 2001 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

394 Andersen's 2001 audit opinions were also false. Andersen knew them to be false, or absent reckless disregard should have known them to be false, when made.

395 As previously alleged, Andersen knew, or at the very least should have known absent its own reckless disregard of the truth, at the time it issued its clean, unqualified 2000 and 2001 audit opinions that the representations made therein were false.

396 Moreover, Andersen was aware at the time it rendered its opinions that AlphaStar's consolidated financial statements did not fairly present in all material respects the financial position of AlphaStar in conformity with GAAP.

397 To the contrary, as Andersen was well aware, AlphaStar's financial statements materially understated the liabilities of the Company, materially overstated the assets of the Company, and materially under-reserved for contingencies including litigation risk and unrecoverable reinsurance receivables.

398 Upon information and belief, Andersen also made knowingly false representations to the Audit Committee in connection with its reporting to the Audit Committee on the status, process and results of its 2000 and 2001 audits. These misrepresentations include the statement, made in March 2001 and again in March 2002 that AlphaStar's "Financial statements, including disclosures, are clear and complete."

399 In fact, given the public information and outcry pertaining to the LMX insurance spiral and the litigation spawned by that and other reinsurance scandals effecting the Company at the time, Andersen knew, or absent its reckless disregard of the

facts should have known, that the Company's financial statements and disclosures were not complete or accurate.

400 Notwithstanding this knowledge, Andersen falsely represented to AlphaStar, AlphaStar's Board of Directors, the members of the Audit Committee, AIM and the public that AlphaStar's financial statements were complete, complied with GAAP, and fairly presented in all material respects the financial position of the Company.

401 Andersen failed to timely disclose AlphaStar's true financial condition, including the fact that AlphaStar was insolvent, and that Andersen should have included a going concern explanation in its opinions on AlphaStar's financial statements.

402 By failing to disclose this material information, Andersen helped cause AlphaStar to continue in business, thereby further allowing the Goldman Sachs Entities and the Individual Defendants to waste assets, incur additional debt, and to defraud AIM.

403 Andersen failed to identify and disclose, on a timely basis, critical information regarding the overstated value of AlphaStar's assets and the understatement of its liabilities.

404 Had Andersen identified and disclosed the true condition of AlphaStar's financial condition to the innocent decision-makers on AlphaStar's Board of Directors and its Audit Committee, these individuals would have had the information necessary to discern that AlphaStar was insolvent and at risk of deepening insolvency.

405 In addition to its failure to disclose true and accurate information, Andersen knowingly, or with a reckless disregard for the truth, or negligently made false

representations in connection with its audits of the financial statements relating to AlphaStar and its subsidiaries.

406 At the time Andersen made these false representations it knew them to be false or should have known the representations to be false absent a reckless disregard for the truth.

407 Upon information and belief, Andersen falsely represented to AlphaStar that the consolidated financial statements in each fiscal year 2000 and 2001 presented AlphaStar's financial position, result of operations, changes in stockholders' equity, and cash flows in conformity with GAAP, and that Andersen had in fact examined AlphaStar's financial statements in accordance with GAAS.

408 Andersen made these false representations concerning material facts, expecting and realizing that AlphaStar and the innocent decision-makers on AlphaStar's Board of Directors and Audit Committee would rely and act upon the representations and omissions.

409 The innocent decision-makers on AlphaStar's Board of Directors and Audit Committee reasonably relied upon Andersen's false representations and its omissions in paying Andersen's audit fees for the defective audits, in incurring additional indebtedness, in failing to take corrective action, and in failing to redress corporate mismanagement and waste.

410 As a direct and foreseeable result of Andersen's breaches of duty and its false representations, the corporate existence of AlphaStar and its subsidiaries was artificially maintained and prolonged.

411 At the time it issued its false audit opinions for the years ending December 31, 2000 and 2001, Andersen, by virtue of its audit of the books and records of the Company and its subsidiaries, had actual knowledge of ongoing wrongful conduct of the Goldman Sachs Entities and certain of the Individual Defendants in squandering the assets of AlphaStar.

412 Andersen knew, or absent a reckless disregard for the truth should have known, at the time that AlphaStar's financial statements significantly overstated the value of the principal assets reflected therein and the amount of shareholders' equity, significantly understated losses, and that a fair representation of AlphaStar's financial condition would reveal the Company's insolvency.

413 Andersen knew, or absent a reckless disregard for the truth should have known, at the time that the Goldman Sachs Entities and certain Individual Defendants breached their fiduciary duties by, *inter alia*, covering-up the fact that AlphaStar's businesses were riddled with fraud and promoting policies designed to maintain an appearance of normality, but which constituted a waste of corporate assets.

414 Notwithstanding Andersen's knowledge of the ongoing dissipation of assets perpetrated by the Goldman Sachs Entities and certain Individual Defendants in breach of their fiduciary duties, Andersen issued audit opinions for the years 2000 and 2001 that represented a false and misleading picture of the financial condition of AlphaStar and its subsidiaries. Andersen thereby knowingly aided and abetted the Goldman Sachs Entities and certain Individual Defendants and through its misconduct allowed those entities to squander the Company's assets, and to defraud AIM.

415 As a result, Andersen enriched itself in the amount of approximately $1.5 million. Moreover, the corporate existence of each of AlphaStar's Subsidiaries was artificially maintained and sustained; certain corporate insiders were able to squander, dissipate and mismanage the assets of AlphaStar and its subsidiaries; defendants were able to defraud AIM; and AlphaStar and its subsidiaries incurred millions of dollars of debt they could not repay, including $1.5 million to AIM.

iii. Harm To AIM Caused By Andersen's Wrongful Conduct

416 If Andersen had not acted fraudulently and had conducted its audits with the requisite professional skepticism and critical analysis, the true financial condition of AlphaStar and its subsidiaries would have been revealed to (a) the innocent decision-makers on AlphaStar's Board of Directors and Audit Committee and the loss of millions of dollars would have been avoided; and to (b) the innocent third parties, including AIM.

417 At all relevant times, the AlphaStar Board of Directors included one or more independent Directors.

418 At all relevant times, AlphaStar's Board of Directors had an Audit Committee that included membership of one or more independent Directors.

419 Upon information and belief, during this time the Board of Directors and the Audit Committee had at least one member who was innocent of any wrongdoing perpetrated by the Goldman Sachs Entities and the Individual Defendants and unaware of AlphaStar's insolvency and the Company's true financial condition.

420 Upon information and belief, AlphaStar's insolvency and the Company's true financial condition was concealed from the innocent decision-makers on the Board of Directors and the Audit Committee and from innocent third parties, including AIM..

421 Andersen's negligent performance of its audit obligations and its fraudulent or negligent misrepresentations were critical to the ability of the Goldman Sachs Entities and the Individual Defendants to conceal the Company's true financial condition from the innocent decision-makers, AIM and the general public at the time the 2000 and 2001 audits were performed and completed, and thereafter.

422 Andersen's knowingly false statements, or its statements made with a reckless disregard for the truth, misrepresented the Company's true financial condition and enabled AlphaStar's insolvency to be concealed from the innocent decision-makers and third parties, such as AIM, at the time the 2000 and 2001 audits were performed and completed and thereafter.

423 Had Andersen competently conduct its audits in accordance with GAAS, the true financial condition of AlphaStar would have been revealed long before it ultimately came to light, and the wrongful use of AlphaStar funds would have been minimized or avoided, and innocent third parties, such as AIM, would have been put on notice of the company's true condition and thereby avoided financial involvement to their detriment .

424 Upon information and belief, absent Andersen's wrongful conduct, the innocent decision-makers on AlphaStar's Board of Directors and Audit Committee could and would have put an end to the wrongful use of Company funds and ensured accurate financial reporting and competent auditing of the Company's financial statements.

425 Upon information and belief, had Andersen appropriately informed the innocent decision-makers on the Audit Committee of the inaccurate financial reporting, they could and would have taken the necessary steps to stop the Company's insolvency

from deepening further through the wasteful spending of the Company's remaining assets, and to prevent innocent parties, such as AIM from being defrauded.

426 Instead, throughout this period, Andersen consistently assured the innocent decision-makers that the Company was solvent and the financial statements were prepared and reported in accordance with GAAP.

427 Andersen's failure to perform competently the audits for which it was paid, and its negligent and fraudulent representations to AlphaStar and its innocent decision-makers caused AlphaStar and innocent third parties, including AIM, to suffer extensive harm, including, but not limited to the over $7 million invested by AIM and loaned to AlphaStar in reliance upon the fraudulent financial statements.

428 Had Andersen complied with GAAS, Andersen would have identified the deficiencies in AlphaStar's financial statements and results, would not have given its clean and unqualified opinions of AlphaStar's financial statements, and AIM would not have been defrauded into believing AlphaStar and its subsidiaries were solvent going concerns, and would not have been defrauded into doing business with AlphaStar and into loaning it money.

J. **AlphaStar's Investments in U.K. Subsidiaries**

429 According to AlphaStar's records, prior to filing for Bankruptcy on December 15, 2003, AlphaStar made a series of investments in the U.K. Subsidiaries in the aggregate amount of at least $14.5 million (the "U.K. Investments").

430 By no later than 1998, SCBIB and SCBRB were subject to numerous accusations of fraud and misrepresentation, and counterparties were rescinding reinsurance contracts.

431 Starting in or about 1999, and as a result of the claims raised in the RICO Action, AlphaStar began winding down the business of its U.K. Subsidiaries.

432 The U.K. Subsidiaries were hopelessly insolvent when the U.K. Investments were made.

433 By 1999 (and by 2000 in the case of Crane), the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick and certain of the Individual Defendants knew, or absent a reckless disregard for the truth should have known, that the U.K. Subsidiaries were hopelessly insolvent and that any further investments in the U.K. Subsidiaries would be squandered.

434 In November 2002, certain of the U.K. Subsidiaries and Bermuda Subsidiaries had to pay $500,000 to Syndicate 718 at Lloyd's to settle disputes predicated on allegations that these AlphaStar subsidiaries had defrauded Syndicate 718 at Lloyd's with respect to transactions in the LMX market.

435 According to AlphaStar's records, AlphaStar's cash, in the form of the U.K. Investments, was used to fund the defendants' $500,000 payment under the settlement (of which $46,607 was contributed by Penelope and Mark Cooke on their own behalf and on behalf of Nicholas Brown).

436 According to AlphaStar's records, the U.K. Investments constitute inter-company loans that AlphaStar made to one or more of the U.K. Subsidiaries.

437 Included in the U.K. Investments are three loans aggregating $5.5 million that AlphaStar made to SCBIB (the "SCBIB Loans") in 2001 and 2002, after commencement of the Sphere Drake Case.

438 SCBIB was hopelessly insolvent at the time the SCBIB Loans were made.

439 As a result of the actions of the Goldman Sachs Entities, Jeffery, de Pourtales, Crane, certain of the other Individual Defendants and Andersen, the funds constituting the U.K. Investments were squandered.

440 Notwithstanding the foregoing, between 2000 and 2002, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick, Crane, Lawless, Del Tufo and certain of the other Individual Defendants continued to cause AlphaStar to provide financial assistance to the hopelessly insolvent U.K. Subsidiaries, and the Director Defendants continued to vote at Board meetings to provide additional capital to the hopelessly insolvent U.K. Subsidiaries, thereby wasting AlphaStar's assets.

K. <u>AlphaStar's Investments in Realm</u>

441 According to AlphaStar's records, prior to filing for Bankruptcy, AlphaStar made a series of investments in Realm in the aggregate amount of at least $25 million (the "Realm Investments").

442 Long before the Sphere Drake decision, Realm was subject to numerous accusations of fraud and misrepresentation, and counterparties were rescinding reinsurance contracts.

443 Long before the Sphere Drake decision, counterparties suspended payments to Realm.

444 By 1999 (and by 2000 in the case of Crane), the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick and certain of the Individual Defendants knew, or absent a reckless disregard for the truth should have known, that Realm was hopelessly insolvent and that any further investments in Realm would be squandered.

445 Prior to AlphaStar filing for Bankruptcy, Realm suffered massive losses.

446 Prior to AlphaStar filing for Bankfuptcy, the value of Realm's assets, including without limitation accounts receivable and deferred tax assets, was overstated and should have been written down or written off.

447 Realm's true financial condition was intentionally disguised in the audited consolidated financial statements for the years ending December 31, 2000 and 2001.

448 Realm's true financial condition was intentionally disguised in the unaudited consolidated financial statements filed in 2000, 2001 and 2002.

449 In or about March 2003, AlphaStar asked KPMG to audit the financial statements of Realm on a stand-alone basis in connection with the planned sale of Realm, WTS and Agency to AIM (as hereinafter defined).

450 Upon information and belief, KPMG was unable to complete its audit of Realm's financial statements because Realm's books and records were inadequate and management could not provide sufficient documentation for premiums receivable.

451 Upon information and belief, in 2003, KPMG became skeptical that Realm's premium account balance had been audited by Andersen and was accurate.

452 Realm has been in liquidation since June 15, 2005.

453 As a result of the actions of the Goldman Sachs Entities, Jeffery, de Pourtales, Cooke, Jones, Quick, Crane, Lawless, Del Tufo, certain of the other Individual Defendants and Andersen, the funds constituting the Realm Investments were squandered.

454 Notwithstanding the foregoing, between 2000 and 2002, the Goldman Sachs Entities, Jeffery and de Pourtales, with the assistance of Cooke, Jones, Quick,

Crane, Lawless, Del Tufo and certain of the other Individual Defendants, continued to cause AlphaStar to provide financial assistance to the hopelessly insolvent Realm, and the Director Defendants continued to vote at Board meetings to provide additional capital to the hopelessly insolvent Realm, thereby wasting AlphaStar's assets.

L. AlphaStar's Planned Sale of Realm to AIM

455 On or about October 2, 2002, AIM and SCNAH executed a Letter of Intent ("the Letter of Intent") (Exhibit "A"[5]), proposing that AIM or its affiliated assignee purchase from SCNAH all of the outstanding shares of common stock of Realm and WTS for $12,000,000.00. The Letter of Intent provided that AIM and SCNAH would enter into a loan agreement pursuant to which, *inter alia*, AIM would loan to AlphaStar an amount up to $3,500,000.00, with loan balances to be credited against the purchase price of the share purchase transaction, and that Realm would appoint AIM as its agent to sell insurance on Realm's behalf.

456 Also on or about October 2, 2002, AIM and AlphaStar entered into a pledge agreement ("the Pledge Agreement") (Exhibit "B") and a loan agreement (the "Loan Agreement") (Exhibit "C"). The Pledge Agreement and the Loan Agreement both recite that the parties entered into the Letter of Intent, despite the fact that the Letter of Intent, described in Paragraph Twenty-Three (23) herein, was executed by SCNAH, of which AlphaStar owned 100% of the common stock.

457 Pursuant to the provisions of the Loan Agreement, AIM agreed to loan AlphaStar the sum of $3,500,000.00. AlphaStar executed a Promissory Note (Exhibit "D") evidencing the loan.

[5] All exhibits referenced herein were filed with AIM's original complaint and are adopted herein by reference as if attached hereto.

458 Under the Pledge Agreement, AlphaStar pledged to AIM all of its 10,000 shares of common stock in SCNAH ("the Pledged Stock"), which constitute all of the issued and outstanding shares of SCNAH common stock, for the purpose of securing the repayment of the loan and any interest and other obligations under the Loan Agreement and the Note.

459 AIM made the first tranche of the loans to AlphaStar by transferring to it $200,000.00 on October 22, 2002 and $300,000.00 on October 23, 2002. On or about November 14, 2002, AIM made the second tranche available to AlphaStar, in the amount of $1,000,000.00.

460 Under Section 2.1(c) of the Loan Agreement, AIM was not required to fund any further amount under the loan facility until a definitive stock purchase and sale agreement was reached by the parties.

461 AlphaStar, Realm, WTS, Stirling Cooke New York Insurance Agency Services, Inc. ("Agency"), SCNAH and American Insurance Managers Inc. executed that certain Stock Purchase Agreement dated March 23, 2003 (Exhibit "E").

462 Pursuant to the provisions of the Stock Purchase Agreement, SCNAH agreed to sell three (3) of its subsidiaries to American Insurance Managers Inc., being Realm, WTS and Agency.

463 Pursuant to Section 6.2 of the Loan Agreement, AlphaStar agreed to make its books and records available to AIM for inspection upon reasonable notice:

> 6.2 Books, Records and Inspections. The Borrower will permit officers and designated representatives of the Lender to visit and inspect the books of record and account of the AlphaStar at such times and intervals and to such extent as the Lender [AIM] may reasonably request upon advance notice.

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464 AIM retained the audit firm of Israeloff, Trattner & Co. to inspect the books of record and account of AlphaStar and its subsidiaries. On November 12, 2002, Brian W. Imperiale ("Imperiale"), AIM's chief financial officer, contacted Sioma at Realm and forwarded a request that AIM be permitted to inspect the books of record and account.

465 One week later, Sioma responded to Imperiale and asked when the auditors would arrive. Imperiale replied that the first due diligence meeting was scheduled for the first week of December 2002. After AIM arrived at the New York office of Realm, Lawson and Crane locked AIM's representatives out of the office.

466 Thus the due diligence meeting never occurred. Lawless, general counsel for AlphaStar, SCNAH and Realm, canceled the meeting and the entire due diligence process, stating that it was "...out of the question."

467 The Loan Agreement reads in pertinent part as follows:

> "SCNAH Restricted Subsidiaries" shall mean, collectively, Stirling Cooke New York Insurance Agency Services Inc., a New York corporation; Stirling Cooke North American Reinsurance Intermediaries Inc., a New York corporation; Realm National Insurance Company, a New York insurance company; and World Trade Services, Inc., a New York corporation.

468 By letter dated December 11, 2002, Howard A. Becker, counsel to AIM, demanded that AIM be permitted to inspect the books of record and account of AlphaStar and of any SCNAH "Restricted Subsidiary," including Realm, as defined in the Loan Agreement.

469 AIM has continually been denied the opportunity to inspect the books and record of account of AlphaStar and of Realm, a Restricted Subsidiary, in breach of Section 6.2 of the Loan Agreement.

i. **Misrepresentations Concerning Realm's Authority To Do Business And Compliance With State Regulations**

470 Section 5.12 of the Loan Agreement states:

> Compliance with Statutes, etc. Each of the Borrower [AlphaStar], SCNAH and the SCNAH Restricted Subsidiaries [which include Realm, among others] is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property....

471 On October 15, 2002, before AIM made any of the loan facilities available, Crane furnished to AIM a compliance certificate (the "Compliance Certificate") (Exhibit "F") affirming that AlphaStar was in compliance with each and every condition contained in the Loan Agreement.

472 Contained in Realm's quarterly filings with the New York State Department of Insurance ("NYSDOI") and its audited financial statement for the years 2000 and 2001, upon which AIM relied in making the loan facilities available to AlphaStar, Realm represented that it was licensed to sell policies of insurance in twenty-four (24) states. Two (2) of those states were North Carolina and Georgia.

473 In fact, Realm was prohibited from issuing new policies in North Carolina and had been so prohibited since July 2002. At no time prior to entering into the Loan Agreement did AlphaStar disclose to AIM that Realm had lost its ability to write new business in North Carolina.

474 On or about December 24, 2002, after AIM entered into the Loan Agreement and made the first two tranches of loans to AlphaStar, AIM first learned that Realm was not authorized to write new business in Georgia, and that the prohibition

against writing new business in Georgia had occurred prior to the execution of the Loan Agreement.

475 At no time did AlphaStar disclose to AIM that Realm had lost its ability to write new business in Georgia.

476 The Compliance Certificate described in Paragraph Thirty-Eight (38) herein was a willful and fraudulent misrepresentation, intended to deceive and mislead AIM, and upon which AIM reasonably relied to its detriment.

477 As a New York insurance company, Realm is subject to the rules and regulations of the NYSDOI. Realm failed to file audited financial statements with the NYSDOI on May 31, 2003 and, as a result, was not incompliance with the NYSDOI's rules and regulations.

ii. Misrepresentations Concerning the Financial Statements and Compliance with Statutes

478 Section 5.12 of the Loan Agreement provides as follows:

> 5.12 Compliance with Statutes, etc. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls).

479 On June 27, 2003 AIM's counsel wrote to SCNAH's counsel, Lawless, as follows: "Additionally, now that Realm has failed to file the audited financial statements as required by law with the New York Insurance Dept., representation 5.12 of the loan agreement is now no longer true and correct. Demand is made that you bring that representation back into compliance immediately by filing the audit." Lawless responded, "Your demand is noted." As previously stated, Realm's statutorily mandated

audit remains unfiled with the NYSDOI. Accordingly, the representation contained in Section 5.12 regarding compliance by SCNAH Restricted Subsidiaries, including Realm, "[w]ith all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies," remains a continuing breach of the Loan Agreement.

480 Section 5.5 of the Loan Agreement provides as follows:

> 5.5 Financial Statements. The audited balance sheet and income statement of the Borrower as of December 31, 2001, (collectively the "2001 Financial Statements"), fairly presents the financial position of the Borrower as at the date thereof, and the results of its operations for the year then ended, and has been prepared in accordance with generally accepted accounting principles, consistently applied, and in a manner substantially consistent with prior financial statement of the Borrower. The unaudited balance sheet and income statement of the Borrower as at June 30, 2002, and for the six months then ended (collectively, the "June 30, 2002 Financial Statements") fairly present the financial position of the Borrower as at the date thereof and the results of operations for the six months then ended and have been prepared in accordance with generally accepted accounting principles consistently applied and in a manner substantially consistent with the 2001 Financial Statements, except for differences resulting from normally occurring accruals or adjustments, or as noted in the June 30, 2002 Financial Statements or the notes thereto. Except as contemplated by or permitted under this Agreement, there are not adjustments that would be required on review of the June 30, 2002 Financial Statements that would, individually or in the aggregate, have a material negative effect upon the Borrower's reported financial condition.

481 The June 30, 2002 Financial Statements, as defined in the Loan Agreement, were materially false and misleading and materially overstated the assets of AlphaStar and its Restricted Subsidiary, Realm.

482 On or about December 27, 2002, Realm, SCNAH and AlphaStar filed a 31-page Complaint captioned *Realm National Insurance Co., et al., v. American Insurance Managers, Inc., et al.*, C.A. No. 02 CV 10278 (RMB) in the United States District Court of the Southern District of New York, against AIM and two affiliates of

AIM (the "New York Action"). Plaintiffs in the New York Action sought a temporary restraining order, injunctive and declaratory relief, damages and imposition of a constructive trust, allegedly "to stop a recently-discovered fraud on the general public, multiple state regulatory agencies and the plaintiffs in this action"[6] that would expose Realm to "incalculable claims, loss of business, and damage to its reputation and good will, as well as regulatory scrutiny and potential disenfranchisement...."[7]

483 The Court in the New York Action denied the Plaintiffs' motion for a temporary restraining order.

484 AIM and the other defendants in the New York Action noticed the deposition of KPMG, AlphaStar's auditor, for September 12, 2003 and issued a subpoena to KPMG, in an attempt to discover information concerning Realm's finances. On August 14, 2003, the NYSDOI had indicated that it would consider taking regulatory action against Realm within thirty (30) days if such statements were not filed. If such action is taken, it will have a material adverse effect on the business of Realm. The deposition was scheduled by AIM without opposition from AlphaStar, despite the fact that a Rule 26(f) discovery scheduling order had not yet been filed in the case.

485 On September 11, 2003, counsel for KPMG moved to quash the subpoena. A United States Magistrate scheduled a telephone conference call for September 16, 2003 to consider KPMG's Motion To Quash. Approximately fifteen (15) minutes before the scheduled call, AlphaStar's attorney called AIM's attorney to advise that AlphaStar had dismissed the New York Action.

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[6] N Y Action ¶1
[7] N Y Action ¶4

486 Upon information and belief, Plaintiffs dismissed the New York Action in order to prevent inquiry of its auditors, KPMG, which inquiry would reveal the false and misleading nature of the June 30, 2002 Financial Statements, as defined in the Loan Agreement.

487 Two filings with the Securities and Exchange Commission confirm the likely existence of accounting irregularities.

488 On November 3, 2003, AlphaStar filed a Form 8-K[8] (the "November 3 Form 8-K"), wherein the company disclosed the resignations of all of the independent directors. The November 3 Form 8-K states in relevant part:

> Messrs. David H. Elliott, Hadley C. Ford and Patrick J. McDonough, tendered their resignations from the Board of Directors of the Company, effective August 29, 2003. Messrs. Elliott, Ford and McDonough *comprised all of the independent directors of the Company,* and *all of the members of the Audit Committee* of the Board of Directors.... Neither Mr. Elliott, Mr. Ford, or Mr. McDonough resigned because of any disagreement with the Company on any matter. (emphasis added).

489 KPMG, AlphaStar's independent auditor, also resigned.

490 The November 3 Form 8-K further states in relevant part:

> On September 16, 2003, KPMG LLP ("KPMG"), the independent auditors for AlphaStar Insurance Group Limited (the "Company"), notified the Company that the auditor-client relationship between KPMG and the Company had ceased.
>
> During April 2003, and pending the finalization of the Company's 2002 Form 10-K filing, KPMG advised the Company of the need to expand the scope of its audit, due to the absence of transactional-level data deemed necessary by KPMG to conclude on the fair presentation as of year-end 2002 of the agents' balances receivable account (the "2002 Agents' Account") at a significant subsidiary of the Company. KPMG expanded the scope of its audit work accordingly and the Company thereafter undertook and extensive effort to supplement the information made available to KPMG regarding the 2002 Agents' Account ("Supplemental Work").
>
> On August 5, 2003, KPMG first informed the Company, in a presentation to the Audit Committee of the Company's Board of Directors, that information received as a result of the Supplemental Work caused KPMG to determine that

[8] The November 3, 2003 Form 8-K is attached as Exhibit "G."

further investigation was necessary and that such investigation may (i) materially impact the fairness or reliability of either a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent financial statements covered by an audit report on those financial statements. Specifically, KPMG stated that the extent of the additional work necessary to enable KPMG to opine in respect of the 2002 Agents' Account had caused it to require a re-audit of the balances reflected in the accounting records of Realm for the Agents' Account for the fiscal year ended December 31, 2001 (the "2001 Agents' Account"), and possibly all December 31, 2001 balance sheet accounts for the Company and its subsidiaries, which accounts had been audited and certified by Arthur Andersen. KPMG thereafter requested that the Company undertake additional work in respect of the year-end 2001 Agents' Account.

* * *

The Company subsequently engaged a new auditor, Johnson Lambert & Co.

491 On November 14, 2003, KPMG submitted a letter to the Securities and Exchange Commission identifying numerous exceptions that KPMG had with respect to AlphaStar's characterization of KPMG's findings and its reasons for terminating its relationship with AlphaStar (the "November 14 Letter"), which letter is attached as Exhibit "H." The November 14 Letter states in pertinent part:

> We do not agree with the Company's statement in Paragraph (d) (1) that "KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements, irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report)".
>
> Prior to our resignation KPMG had communicated to the Company that KPMG's report would include a reference to substantial doubt concerning the ability of the Company to continue as a going concern.

Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed before KPMG could perform whatever other audit procedures were deemed necessary to complete the audit of the December 31, 2002 financial statements:

(1) Completion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts;
(2) Completion of audit procedures related to the adverse litigation decision, as referred to in Paragraph (d)(1); and
(3) Resolution of the accounting and disclosure for the operations of certain subsidiaries, the sales of which were pending but had not been completed, and the completion of the related audit procedures.

492 The November 3, 2003, Form 8-K and the November 14, 2003, Letter provide further support for the concerns voiced by AIM's auditors that there appear to be material accounting irregularities related to AlphaStar and its subsidiaries, particularly Realm.

493 As part of its initial due diligence, AIM sought information regarding litigation that ultimately resulted in an adverse judgment rendered against a subsidiary of AlphaStar in the United Kingdom. In an email responding to the request for information, Crane stated:

----Original Message----

From: Stephen_Crane.BDACOS@bdacos.bm
[mailto:Stephen_Crane.BDACOS@bdacos.bm]
Sent: Tuesday, November 19, 2002 11:35 AM
To: dds@aimmanagement.com
Subject: Alston & Bird Due Diligence

Dear David:

Attorneys from A&B have asked Jim Lawless for materials relating to the Stock Purchase Agreement Drake case in London. I wanted to bring this to your attention because of the cost and time implications of letting them get down into that bottomless pit. I believe we had convinced you and WEMED that the properties you are buying are not significantly exposed to that litigation, and WEMED was not pursuing it in their due diligence. Inasmuch as the case is likely to be decided long before it has

any material adverse affect on RNIC or WTS. In my opinion, there is not need for them to get an education (and probably an irrelevant one) at substantial expense to you.
Regards,
Stephen

494 On July 8, 2003, the High Court in London issued an Order[9] in excess of 1500 pages regarding the litigation referenced in the preceding paragraph.

In the High court ruling, Mr. Justice Thomas stated that defendants Euro International Underwriting Ltd. and Stirling Cooke "[a]cted with grave dishonesty" when broking and underwriting US Workers' Compensation business. Mr. Justice Thomas further ruled that the defendants had engaged in a...

> "chronicle of deception that induced insurers to become involved in a business in which they would never have been involved if the business had been properly explained to them" and "there was thereafter an attempt to lock them into that business."

Justice Thomas was particularly scathing in his view of Nicholas Brown, who founded Stirling Cooke with Mark Cooke.

> "Mr. Brown was the driving force in the dishonest enterprise which I have described in this judgment," stated Justice Thomas. "He was motivated by ambition to make SCB a full-service insurance company and by greed in earning large sums of money through brokerage of the business provided...The business transacted by Stirling Cooke has already caused losses of approximately $250 million." "The overall sums at issue in the action are large; on some programmes the losses are in excess of $10m with one programme sustaining a loss of over $71m (a loss ratio of 7,300%); the total losses sustained thus far are in the order of $250m." "There are a considerable number of related actions and arbitrations here, in Bermuda and in the United States; the total sums at issue that have been lost in this reinsurance market are very much larger ..."

The claimants in the United Kingdom action were Sphere Drake Insurance Ltd. (formerly Sphere Drake Insurance PKC) and Odyssey Rè (London) Ltd. The defendants were Euro International Underwriting Ltd., John Hubert Whitcombe, Christopher

Reginald, Colin Henton, Stirling Cooke Brown Reinsurance Brokers Ltd, Stirling Cooke Brown Insurance Brokers Ltd, Nicholas Brown and Jeffrey Ronald Butler.

* * *

"It has been estimated that the losses will run into the billions."

iii. **Execution and Breach of the Stock Purchase Agreement**

495 As previously stated, AlphaStar, WTS, Agency SCNAH, Realm and AIM executed the Stock Purchase Agreement on March 23, 2003.

a. **SCNAH's Refusal to Comply With Provisions Establishing the Purchase Price**

496 Section 2.02 of the Stock Purchase Agreement provides that the Purchase Price is to be based upon Final Balance Sheets, defined on page 3 of the Stock Purchase Agreement as follows:

> "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.

497 SCNAH, the Seller under the Stock Purchase Agreement, failed to deliver Final Balance Sheets to Buyer on or before April 1, 2003. SCNAH requested and was granted a one day extension of that deadline. SCNAH failed to deliver Final Balance Sheets on or before April 2, 2003 and has never delivered such Final Balance Sheets. As a result, Section 2.07 of the Stock Purchase Agreement gave Buyer the right to select an alternative CPA firm of its choice and to estimate the Purchase Price, "which estimate shall be final and binding on the parties."

498 Section 2.07 also states:

[9] See Spere Drake Insurance Ltd. V. Euro International Underwriting, [2003] All ER (D) 160 (Jul).

> If Buyer elects to select an Alternative Auditor to determine its estimate of the Purchase Price, [SCHAH] 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.

499 Buyer selected Israeloff, Trattner & Co. ("Israeloff") as an alternative CPA firm pursuant to Section 2.07, which determined a Purchase Price of $1,500,000.00.

500 On or about June 1, 2003, pursuant to Section 2.07, and based upon the estimate of Israeloff, Buyer advised SCNAH that the Purchase Price was $1,500,000.00. A copy of the Israeloff letter setting forth its estimate is attached as Exhibit "I."

501 On June 12, 2003, Buyer's counsel sent an email to Lawless, demanding to know if Seller intended to sell the Realm shares at the price set by Israeloff. On June 17, 2003, SCHAH, through Lawless, advised Buyer that it did not acknowledge Buyer's right to close at the price determined by Israeloff. Buyer reiterated its demand on July 1, 2003, and Seller responded that the demand be retracted, which request Buyer refused.

502 By refusing to acknowledge AIM's right to purchase Realm for the binding purchase price set by the alternative auditor in accordance with Section 2.07, the Seller, SCNAH, anticipatorily breached the Stock Purchase Agreement.

b. <u>SCNAH's Refusal to Proceed to First Closing Pursuant to Stock Purchase Agreement</u>

503 By letter dated July 1, 2003, Buyer notified SCNAH that it was prepared to proceed to First Closing under the Stock Purchase Agreement and that the closing occur between July 8, 2003 and July 11, 2003.

504 SCNAH failed to respond to the letter and refused to proceed to First Closing as required by the Stock Purchase Agreement. Seller's willful failure to close constituted a further breach of the Stock Purchase Agreement by SCNAH.

c. SCNAH's Breach of Section 2.04(f) of the Stock Purchase Agreement

505 Section 2.04(f) of the Stock Purchase Agreement states that at the First Closing:

> [SCNAH], 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.

506 At a meeting held at its offices on the morning of August 13, 2003, SCNAH advised Buyer that it had met with representatives of the NYSDOI. SCNAH represented that because its subsidiary Realm had failed to deliver the December 31, 2002 statutory audited financial statement to the NYSDOI as required under the New York Insurance Law, Realm had been directed by the NYSDOI not to deliver the Certificates of Insurance required by Section 2.04(f) until such time as Realm had filed an audited financial statement with the NYSDOI. Accordingly, SCNAH breached Section 2.04(f) of the Stock Purchase Agreement. Additionally, said breach has rendered a First Closing under the Stock Purchase Agreement impossible.

iv. Realm's Direction to AIM to Non-Renew Certain Policies

507 On March 25, 2003, Realm appointed Bruce S. Holley ("Holley"), AIM's VP of Underwriting, Realm's agent in Georgia. A copy of Holley's insurance license evidencing his appointment as an agent of Realm is attached as Exhibit "J."

508 Pursuant to Section 5.02(m) of the Stock Purchase Agreement, Realm was contractually obligated to maintain an underwriter at AIM's office:

> (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 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 seven Business Days after a request for such insurance coverage is made.

The individuals who fulfilled this role for Realm were Sioma and Roni Zinnert ("Zinnert"), Realm's Vice President of Underwriting.

509 On May 16, 2003, Zinnert sent the following email communication to Holley regarding customers of Xcelcrate, one of the PEOs whose coverage Realm disputes:

> From: Roni Zinnert.BDACOS@bdacos.bm
> Sent: Friday, May 16, 2003 2:57 PM
> To: bholley@aimmanagement.com
> Cc: Mark Sioma.BDACOS@bdacos.bm
> Subject: Cancellations
>
> Bruce,
>
> In reviewing the Xcelerate file, I noticed that several of them (20 or more) had letters from the PEO notifying you that the client had been terminated as a client of the PEO. They use the phrase "please see that their coverage is terminated"
>
> You need to communicate in writing to all of the PEOs the laws regarding cancellation of these client policies. And, AIM needs to develop internal procedures to ensure that these clients are handled appropriately.
>
> We must follow the statutes for each state as respects cancellation.
>
> **Our policy is issued to each individual client. Their contract with RNIC [Realm] cannot be "cancelled" by the PEO. AIM must continue to service each policyholder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes. (emphasis supplied)**

510 Despite Realm's claims to the contrary, Zinnert's statement constitutes an admission by an executive officer of Realm that it has policies of insurance not with the PEOs but with the PEO's clients whose "contract with RNIC (Realm) cannot be cancelled by the PEO", and further, that "AIM must continue to service each policy holder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes." Such communication from Zinnert constituted the instruction of a principal to its licensed agent regarding a matter within regarding a matter within the scope of the agent's engagement. The agent was under a fiduciary duty to comply with the lawful instruction from its principal.

511 Other than certain PEO clients who have a rating of nine (9) and ten (10) as defined by the mutually agreed-upon underwriting guidelines, AIM was never instructed by Realm to non-renew the vast majority of the PEO clients who received ACORD certificates.

512 Each state has a statutory scheme for the non-renewal of policies of insurance, a fact well known to Realm. In many states, failure to serve a notice of non-renewal in accordance with the state's statutory insurance scheme is tantamount to renewal of the policy of insurance by operation of law. Should this court determine that the policies of insurance were properly issued in the first instance, Realm's failure to non-renew the policies as by law provided would have the effect of renewing those policies for an additional term by operation of law.

M. Summary of Misconduct, Fraud and Damages

513 The Goldman Sachs Entities and certain of the Individual Defendants (depending on their tenure and knowledge) fraudulently presented false financial

statements, mismanaged the affairs of AlphaStar, squandered corporate assets on, *inter alia*, legal fees to defend conduct that they knew, or absent a reckless disregard for the truth should have known, was fraudulent, exorbitant audit and consulting fees for an insolvent entity riddled with fraud, worthless investments in hopelessly insolvent subsidiaries, consummating settlements that benefited creditors of AlphaStar's hopelessly insolvent subsidiaries to the detriment of AlphaStar and its own creditors, excessive salaries, exorbitant Directors' fees, dividends and the SCBIB Loans, and making the Goldman Sachs Redemption and Goldman Sachs Transfer; all the while incurring further liabilities, thereby deepening the insolvency of AlphaStar, as described in greater detail herein, all in an effort to maintain a façade that AlphaStar was viable and cover-up the fact that AlphaStar was an insolvent enterprise riddled with fraud.

514 The Goldman Sachs Entities, Jeffery and de Pourtales had an incentive to minimize and cover-up the true nature of AlphaStar's exposure in connection with the Sphere Drake Case and other litigation in order to attempt to protect the reputation of Goldman Sachs as one of the world's premier investment bankers, and the reputation of Goldman Sachs Group in light of its 1999 initial public offering and subsequent existence as a public company.

515 Upon information and belief, by overstating the value of AlphaStar's assets and shareholders' equity and hiding AlphaStar's losses, the Goldman Sachs Entities, Jeffery and de Pourtales were able to enrich themselves by, *inter alia*, preserving the reputation of Goldman Sachs and Goldman Sachs Group.

516 At various times during 1998, AlphaStar had a market capitalization in excess of $250 million.

517 The Goldman Sachs Entities held more than 20% of the ordinary shares of AlphaStar, which position was worth more than $50 million at various times during 1998.

518 The Individual Defendants also had significant shareholdings in AlphaStar.

519 After the commencement of the RICO Action in 1999 and the Sphere Drake Case in 2000, the price of AlphaStar's ordinary shares, and thus the value of the holdings of the Goldman Sachs Entities and the Individual Defendants, dropped precipitously.

520 Thus, the Goldman Sachs Entities and the Individual Defendants had an incentive to minimize and cover-up the true nature of AlphaStar's exposure in connection with the Sphere Drake Case and other conduct described herein.

521 In addition, as the co-managing underwriter with respect to the ordinary shares of AlphaStar with potential exposure to shareholders, Goldman Sachs had an incentive to minimize and cover-up the true nature of AlphaStar's exposure in connection with the Sphere Drake Case and other conduct described herein in order to attempt to avoid shareholder litigation and loss of reputation.

522 By overstating the value of AlphaStar's assets and shareholders' equity and hiding AlphaStar's losses, the Goldman Sachs Entities were able to enrich themselves by, *inter alia*, continuing to receive dividends, having their AlphaStar stock redeemed and receiving the Goldman Sachs Transfer.

523 By overstating the value of AlphaStar's assets and shareholders' equity and hiding AlphaStar's losses, the Individual Defendants were able to enrich themselves

by, *inter alia*, continuing to receive dividends, excessive compensation and other benefits from AlphaStar.

524 By overstating the value of AlphaStar's assets and shareholders' equity and hiding AlphaStar's losses, the Goldman Sachs Entities, Jeffery, de Pourtales and certain of the other Individual Defendants knowingly made misrepresentations of material facts that they knew to be false, knowing that AlphaStar, AlphaStar's innocent decision-makers, AlphaStar's creditors, AIM, the investing public and others would rely on such misrepresentations of material facts, thereby defrauding, AIM, and others.

525 By engaging in the misconduct described herein, the Goldman Sachs Entities, Jeffery, de Pourtales and certain of the other Individual Defendants knowingly defrauded the AlphaStar, AIM and others.

526 By overstating the value of AlphaStar's and its subsidiaries' assets and shareholders' equity and hiding AlphaStar's losses, Andersen was able to enrich itself by, *inter alia*, receiving audit fees.

527 Upon information and belief, Andersen had actual knowledge that the Goldman Sachs Entities and the Individual Defendants breached their duties to AlphaStar, and Andersen aided and abetted the Goldman Sachs Entities and the Individual Defendants in breaching their duties to AlphaStar by, *inter alia*, knowingly inducing or participating in the misconduct described herein, including defrauding AIM.

528 Pleading in the alternative, and notwithstanding any other allegations contained herein, the Goldman Sachs Entities had actual knowledge that certain of the Individual Defendants breached their duties to AlphaStar, and the Goldman Sachs Entities aided and abetted certain of the Individual Defendants in breaching their duties to

AlphaStar by, *inter alia*, knowingly inducing or participating in the misconduct described herein.

529 The Goldman Sachs Entities, by virtue of their relationships with AlphaStar and its subsidiaries, had actual knowledge of ongoing wrongful conduct of certain of the Individual Defendants in squandering the assets of AlphaStar and its subsidiaries.

530 Notwithstanding the Goldman Sachs Entities' knowledge of the ongoing dissipation of assets perpetrated by certain of the Individual Defendants in breach of their fiduciary duties, the Goldman Sachs Entities participated in such misconduct by, *inter alia*, covering-up the fact that AlphaStar's businesses were riddled with fraud and promoting policies designed to maintain an appearance of normality, but which constituted a waste of corporate assets. The Goldman Sachs Entities thereby knowingly participated in the breach of fiduciary duties by certain of the Individual Defendants and the Goldman Sachs Entities through their misconduct allowed those Individual Defendants to squander the assets of AlphaStar and its subsidiaries and to defraud AIM.

531 In connection with the misconduct described herein, the Individual Defendants were purporting to act for the benefit of AlphaStar and its subsidiaries, but instead were really committing misconduct for their own benefit.

532 The misconduct of the Individual Defendants was outside the scope of their employment.

533 Upon information and belief, the Individual Defendants totally abandoned the interests of AlphaStar and its subsidiaries, acted adversely to the interests of the said companies, and acted solely to advance their own personal interests.

1570

534 The schemes of the Individual Defendants did not inure to any extent to the benefit of the AlphaStar and its subsidiaries, but instead such schemes harmed said companies by depriving them of millions of dollars in cash (without any corresponding benefit, fair consideration or reasonably equivalent value) and needlessly and wastefully increasing their liabilities.

535 On November 3, 2003, AlphaStar filed a Current Report on Form 8-K with the SEC and disclosed for the first time that Elliott, Ford and McDonough had tendered their resignations from the Board of Directors of AlphaStar effective August 29, 2003, *i.e.*, the month following the issuance of the U.K. Court's decision.

536 Such Current Report on Form 8-K also disclosed that, at the time of their resignations, Messrs. Elliott, Ford and McDonough comprised all of the independent Directors and all of the members of the Audit Committee of the Board of Directors of AlphaStar.

537 The only other independent Director who served after 1999 was Christie, who as early as September 2000 had expressed concern over the adequacy of the reserves taken by AlphaStar in connection with litigation relating to the LMX market.

538 Upon information and belief, one or more of Messrs. Christie, Elliott, Ford and McDonough, as well as certain non-Defendant officers of AlphaStar, may have been without knowledge of the misconduct described herein during certain periods relevant herein.

539 Upon information and belief, pleading in the alternative, and notwithstanding any other allegations contained herein, at all relevant times, at least one

decision-maker in a management role was innocent of the misconduct described herein and could have prevented such misconduct.

540 . The Realm Defendants knew that the financial statements prepared by Andersen for the years 2000 and 2001 for AlphaStar and Realm were false and misleading and did not accurately reflect the true financial condition of Realm at the time the said financial statements were prepared or at the time that AIM relied upon them in entering into the aforementioned transactions with AlphaStar.

541 The Realm Defendants made further representations to AIM in the Stock Purchase Agreement regarding Realm's financial condition, upon which AIM relied.

542 The Realm Defendants' representations were false and were made knowingly, recklessly, fraudulently, maliciously, and with the intent to deceive AIM, which was deceived thereby.

543 The Realm Defendants authorized AIM to act as Realm's agent and authorized the issuance of the certificates of insurance.

544 AIM, acting in reliance upon the Realm Defendants' representations, issued or caused to be issued the ACORD certificates naming Realm as the "insurer".

545 In connection with the misconduct described herein, the Realm Defendants were purporting to act for the benefit of Realm, but instead were really committing misconduct for their own benefit.

546 The misconduct of the Realm Defendants was outside the scope of their employment.

547 Upon information and belief, the Realm Defendants totally abandoned the interests of Realm, acted adversely to the interests of the said companies, and acted solely to advance their own personal interests.

548 The schemes of the Realm Defendants did not inure to any extent to the benefit of the Realm, but instead such schemes harmed said companies by depriving them of millions of dollars in cash (without any corresponding benefit, fair consideration or reasonably equivalent value) and needlessly and wastefully increasing their liabilities.

549 The foregoing misconduct proximately caused AIM to suffer damages. The amount of damages suffered by AIM to be determined at trial.

550 Upon information and belief, the damages suffered by AIM were a foreseeable consequence of the misconduct described herein.

551 But for the misconduct of all Defendants, AIM would not have suffered such damages

V. PLAINTIFFS' CLAIMS

COUNT I: ACTION FOR DECLARATORY JUDGMENT THAT REALM BOUND THE INSURANCE COVERAGES IT IS NOW SEEKING TO AVOID

552 AIM restates and realleges Paragraphs 1 through 551 as though each said paragraph was stated herein in its entirety.

553 As stated previously, AIM, AlphaStar and SCNAH entered into various agreements whereby it was agreed that AIM would provide a credit facility to AlphaStar in exchange for being appointed an agent of Realm, and Realm would agree to provide worker's compensation insurance coverage to PEOs submitted to Realm for approval in accordance with Realm's underwriting guidelines.

554 On September 17, 2002, Crane sent AIM's CEO, David Dennett-Smith ("Dennett-Smith"), an email stating:

> ***We are in agreement with all the major terms and conditions you have proposed regarding your proposed purchase of RNIC and WTS. We have studied your business plan and believe it is sound and likely to gain the approval of New York State Department of Insurance ("DOI"). We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at reasonable cost.***
>
> What remains as an outstanding matter for us is to receive from you some evidence of AIM's financial wherewithal and commitment to complete the transaction, without which we cannot afford to proceed through a long and burdensome due diligence and regulatory approval process. ***While we understand the nature and the mechanics of the plan via which you will secure financial commitments form subscribing PEOs,*** it will not provide us with the desired assurance soon enough. [emphasis supplied]

555 AIM's business plan encompassed the acquisition of Realm. During the period pending completion of the acquisition, Realm was to appoint AIM its agent, AIM was to market its workers' compensation program to PEOs, and AIM would bind the coverage only after Realm's underwriters approved the PEO submissions in accordance with underwriting guidelines that had been mutually agreed upon by the parties.

556 Because of the unique nature of the AIM workers' compensation program, prior to the time the risk could be assessed by reinsurers to establish the percentage of the gross premium to be charged for payment of reinsurance for the excess layers of protection the reinsurers were to provide, an initial book of business had to be written so the reinsurers could engineer the amount of exposure so that an appropriate rate on line could be established. It was for this reason that the "book" AIM presented to Sioma had to be accepted or rejected at the November 8 meeting, or there would have been no reason for a subsequent presentation by Realm to reinsurers at the meeting in Bermuda on November 22, 2002.

557 Preliminary slips for reinsurance coverage were provided by AIM to Realm/AlphaStar/SCNAH in late August 2002. These were the slips upon which Crane based his statement, "We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at a reasonable cost." See Paragraph Eighty-One (81), *supra.*

558 The parties initially agreed that AIM would be a managing general agent. Managing general agents have substantially more authority to act on behalf of an insurance company than a general agent. Because of this extraordinary amount of authority, managing general agents are regulated by the NYSDOI.[10]

559 Thereafter, the parties agreed that AIM would be a general agent, as opposed to a managing general agent. Other than requiring licensure akin to estate agents and brokers, general agents do not require regulatory approval under the New York Insurance Law, a fact well known to Realm and Sioma.[11]

560 It is customary and usual in the insurance industry that agents will begin to act as representatives for insurance companies well before any type of written agreement is actually executed between the parties, with the understanding that the paperwork memorializing the relationship will be executed in due course.

561 On August 29, 2002, there was a meeting at Realm's office in New York. The following persons were in attendance:

Name	Representing
Steven Crane	Realm

[10] First Amendment To Part 33 of Title 11 of the Official Compilation of Codes, Rules and Regulations (Regulation No. 120), as promulgated by the Superintendent of the New York State Insurance Department. "Managing General Agents." A copy of the said Statute is attached hereto as Exhibit "K."
[11] Section 33.4(a)(2)(i),First Amendment To Regulation 120, *infra*

Mark Sioma	Realm
Anthony Del Tufo	Realm
Steven Gross	Gross Collins[12]
Steve Kent	WEMED[13]
Joseph Zaffarese	Midland Intermediaries
David Dennett-Smith	AIM
Steven Landin	AIM

562 The purpose of the August 29, 2002 meeting was to discuss the nature of the relationship between the parties, the reinsurance wordings and forms, and the reinsurance proposals provided by Realm's intermediaries. The proposed reinsurance placement slips as well as a draft captive worker's compensation reinsurance agreement had previously been forwarded to Realm on August 27, 2002 by Midland Intermediaries Inc. ("Midlands"). After discussion, the parties mutually agreed that Midlands would proceed to seek reinsurance for AIM's worker's compensation program written through PEOs, with PEOs being endorsed as an additional named employer once a sufficient book of business had been written to enable the book to be quoted.

563 AIM had previously provided a "boiler plate" managing general agency agreement for consideration by Realm. Crane advised Dennett-Smith that he preferred a general agency agreement to a managing general agency agreement. Crane's stated objection was his desire to circumvent the burdensome regulatory requirements that are concomitant with managing general agency agreements under New York law. Dennett-Smith agreed, and Sioma was instructed by Crane to revise the managing general agency

[12] The accounting firm of HLB Gross Collins P.C., Certified Public Accountants
[13] The law firm of Wilson, Elser, Moskowitz, Edelman & Dicker LLP

agreement form provided by AIM in order to be sure that it complied with New York State insurance regulations.

564 Despite being instructed by Crane to do so at the August 29 meeting, Sioma failed to revise the managing general agency agreement form immediately. Sioma waited until November 2002, at which time he asked AIM to provide him the managing agency agreement in electronic form so that he could use it as a starting point for his edits.

565 At the August 29 meeting, the parties also mutually agreed that AIM would have the authority to bind coverage, subject to Realm's ability to underwrite and approve the submissions, and that Realm would have the ability to review, approve and adopt AIM's proposed underwriting guidelines. Additionally, Sioma was made responsible to assure that all reinsurance that was placed was done so in accordance with New York statutory guidelines.

566 Having established a working agenda to proceed with the transaction, the August 29 meeting adjourned, it being the mutual goal of the parties to commence the steps necessary to put business on the books to comply with Max Re's requirements of a minimum of $50,000,000.00 in premium to attach effective October 1. Max Re is a reinsurance company that had been introduced to the transaction by Realm's intermediary, Midland's Intermediaries Inc, whose president is Joseph Zaffarese ("Zaffarese"). Max Re had expressed an interest in providing reinsurance for the program, but required that a $50,000,000.00 book first be written in order for it to be rated for premium purposes. Max Re had agreed that in the event it agreed to provide the slips, cover would attach as a October 1, 2002.

567 Prior to the August 29, 2002, meeting and in contemplation thereof, Steven Kent Esq., of WEMED, AIM's counsel at the time, had a telephone conversation with Crane and Lawless. Following the conversation, Kent prepared a "Memorandum of Conversation." The final Paragraph on page 2 reads, in pertinent part:

> The final issue we discussed are the MGA deal points which were discussed during the 8/12 meeting. Mr. Crane wants the MGA deal points to be consistent with what was described by DDS at the 8/13 meeting at Realm's offices on Maiden Lane. Steven does not believe that AIM should be 'given the pen' for its placements with Realm'. **AIM can have binding authority** but AIM should agree to follow Realm's underwriting agreements [sic] guidelines **and all placements should be subject to the approval of Realm's underwriters.** (emphasis supplied) I suggested to Mr. Crane that he directly contact David to discuss this issue.

A copy of the said Memorandum is attached hereto and incorporated herein as Exhibit "L."

568 Thereafter, with the full knowledge and consent of the Defendants, AIM proceeded to introduce its workers' compensation program to various PEOs located in the states where Realm was licensed to transact business. By November 8, 2002, AIM had qualified eight (8) PEOs by reviewing submissions presented in accordance with guidelines mutually agreed upon by the parties with a combined total annual premium of approximately $10,000,000.00. Sioma appeared at AIM's office on November 8, 2002 to review the submissions in accordance with the agreement between the parties to determine if the submission complied with the underwriting guidelines, among other reasons.

569 At the meeting, Sioma met with Holley, AIM's Vice President of underwriting and reviewed the PEO submissions. After having reviewed the information he deemed pertinent with regard to each of the PEO clients, Sioma agreed that the book

of business Holley presented to him on AIM's behalf and authorized Holley to cause the issuance of the certificates evidencing the coverage.

570 In reliance upon Sioma's confirmation that the coverage was bound, and with Realm's full knowledge and consent, AIM caused ACORD certificates to be issued to the clients of the PEOs stating that workers' compensation coverage had been issued to them by Realm as the insurer.

571 Additionally, at the November 8 meeting, Sioma also met with representatives of Crawford & Company ("Crawford"), a well-respected third party administrator that provides a number of services to the insurance industry throughout the country. While no written agreement was executed, AIM retained Crawford to provide it with services to adjust claims that were incurred by insureds under the program. Crawford continued to provide this service with Realm's full knowledge and acquiescence through October 2003, when Crawford received a letter directing it to cease and desist from providing these services on Realm's behalf. Despite assertions contained in the letter to the contrary, Realm was fully aware that Crawford was providing these services to PEO clients of AIM. In an email from Zinnert to Holley on May 23, 2003, Zinnert writes in pertinent part:

From: Roni_Zinnert.BDACOS@bdacos.bm
Sent: Thursday, May 22, 2003 5:01PM
To: bholley@aimmanagement.com; bimperiale@aimmanagement.com
Cc: Mark_Sioma.BDACOS@bdacos.bm; Dan_Green.BDACOS@bdacos.bm

Bruce, Thanks for forwarding the updated loss info. I have a couple of observations. The first list below is the loss listing for clients who have hazard code 9 and/or 10 in their schedules. I know that Ricky was working on getting "no loss" letters from the other clients who have hazard 9 and /or 10.

The second listing is the claims for clients whom I cannot identify from the PEO spreadsheets that we have. Can you please review this list and let me know the name of the clients to match up with the rating info, so that I can determine if any 9s or 10s are part of those clients. If the clients are "new" to the PEO, I will need to see a revised spreadsheet that includes the class codes for those clients and the effective date of coverage.

And, thanks for the clarification regarding the September claims. Sounds like Crawford is handling appropriately and will close them. (emphasis supplied)

572 Having bound the initial portion of the portfolio of business, a meeting was held in Hamilton, Bermuda on November 13, 2002 with Max Re. The meeting was organized by Zaffarese, President of Midland, Realm's intermediary. The meeting was attended by Zaffarese, Sioma, Dennett-Smith and Bill Yit ("Yit"), Senior Vice President, FCAS of Max Re. Yit was particularly interested in, among other things, the nature of the relationship between AIM and Realm. In Zaffarese's presence, Sioma indicated to Yit that AIM was acting in the capacity of an agent of Realm.[14]

573 Thereafter, a second meeting was held in Hamilton, Bermuda on November 22, 2002. The meeting was attended by Sioma, Francis J. Carter ("Carter"), Dennett-Smith, Yit, Robert Conney, David Brining, Keith Hynes, Holley, Simon Everett and Reese Bowen. It was held at the offices of Max Re, a reinsurance company. Carter, president of Uberrimae Fidei Insurance Company Ltd. generated a set of meeting notes for his files, a copy of which are attached to his affidavit, filed in the New York Action. In his affidavit, Carter stated,

[t]he notes accurately reflect the substance of what occurred at the meeting. Additionally, it should be understood that the reinsurers were particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to the reinsurers that AIM was acting in the capacity as an agent

[14] Zaffarese Affidavit, NY Action (attached as Exhibit "M")

of Realm with the ability to bind business on Realm's behalf, and that $10,000,000 of premium had been bound.[15]

574 Additionally, Holley, who also attended the November 22, 2002 meeting, reviewed Mr. Carter's notes and filed an affidavit in the New York Action. In his affidavit, Holley stated that Carter's notes accurately reflect what transpired at the meeting. "Sioma confirmed to the reinsurers [Max Re] that AIM was an agent of Realm with authority to bind business on Realm's behalf and that the agreement would remain in place both prior to and subsequent to AIM's purchase of Realm."[16]

575 On November 20, 2002, Sioma, without notification to AIM and prior to the meeting that occurred in Hamilton, Bermuda on November 22, 2202, wrote a letter to the Florida Department of Insurance essentially acknowledging that negotiations between AIM and Realm were ongoing, but unequivocally stating that AIM was not an agent of Realm and had no authority to bind business on its behalf. Despite having written the letter, Sioma appeared at the meeting on November 22 and affirmed to reinsurers that AIM was Realm's agent and that a book of business of $10,000,000.00 had been written and bound.

576 Thereafter, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote to a letter to insurance commissioners in every state in which Realm is licensed to transact business, stating that AIM was not an agent of Realm and the certificates had been issued without authority and were void *ab initio*. A sample letter is attached as Exhibit "P."

577 Additionally, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote a letter to each of AIM's PEO clients, stating that AIM was not an agent of

[15] Carter Affidavit, ¶4, NY Action (attached as Exhibit "N")

Realm, and that the certificates had been issued without authority and were void *ab initio*. A copy of a sample letter to the PEO clients is attached hereto as Exhibit "Q."

578 At all times relevant hereto, AIM was acting as an agent of Realm, with actual and apparent authority. The issuance of the ACORD certificates were within the scope of AIM's authority as an agent of Realm and, furthermore, were issued with Realm's full knowledge and consent. The issuance of the certificates was proper, was approved by Sioma in his capacity as president of Realm at the meeting held in Atlanta on November 9, 2002 and was ratified by him in discussion with third parties at the meetings held in Bermuda on November 13, 2002 and November 22, 2002. Sioma's conduct and statements, made in his capacity as President of Realm, confirmed AIM's position as an agent of Realm and obligated Realm to issue policies of insurance to customers of the PEOs in accordance with the ACORD certificates AIM caused to be issued in its capacity as Realm's agent.

579 In the alternative, assuming *arguendo* that AIM was not an agent of Realm when it caused the ACORD certificate to be issued, which AIM specifically denies, each state in which an ACORD certificate was issued has a statutory scheme for the cancellation of wrongfully issued insurance policies. Realm failed to cancel the policies in accordance with the statutory schemes. By failing to comply with the statutory mandate of each state, the statement contained in Realm's letter to the putative insureds, that the ACORD certificates were void *ab initio*, was ineffective as a matter of law to effect a cancellation of the allegedly wrongfully issued certificates. Accordingly, the certificates remain in full force and effect in accordance with their terms because Realm failed to effect a proper cancellation of the certificates. As such, Realm remains

[16] Holley Affidavit, ¶11 (attached hereto as Exhibit "O")

obligated to issue policies of insurance to the insureds appearing on the ACORD certificates, and is "on the risk" for said certificates.

580 Currently, there are investigations ongoing in the states on Missouri, Oklahoma, Texas, Alabama, Florida, South Carolina, New Mexico, Pennsylvania and New York regarding this matter. Additionally, AIM has been sued in Texas by (4) customers of one of the PEOs. The plaintiffs in the Texas suit claim that they purchased workers' compensation coverage, but that none was provided.[17] On December 4, 2003, The Texas Department of Insurance demanded that AIM "...voluntarily agree to begin terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004," and further demanded that AIM respond to the Texas Insurance Department's demand within ten (10) days.

581 An actual case or controversy has developed between the parties in which AIM claims to have acted with both actual and apparent authority from Realm to issue or cause the issuance of ACORD certificates naming Realm as the "insurer".

582 Realm has maintained that it never authorized AIM to act as its agent, and did not authorize the issuance of the certificates of insurance.[18]

583 The claim and controversy directly affects the legal rights of the Plaintiffs, as well as those to whom the ACORD certificates were issued.

584 The failure of Realm to honor its obligations not only to Plaintiffs in this action, but to those to whom the ACORD certificates were issued, is affecting people, businesses and insurance departments throughout the country.

[17] *D & A Steel Erectors, Inc. et al. v. Corporate Solutions Inc., et al.*, District Court, Hidalgo County, Texas 92nd District Court, Judicial District of Texas, File No. C-2764-03-A

[18] Realm appointed Holley, AIM's VP of Underwriting, its agent in Georgia; his appointment as an agent of Realm is still active as of the date hereof.

585 An expedited resolution of this matter is necessary in order to halt Defendants' continued fraud on Plaintiffs as well as consumers of insurance in New York and other jurisdictions.

586 By reason of the foregoing, Plaintiffs are entitled to a declaratory judgment that AIM was an authorized agent of Realm, that AIM could and did lawfully issue or cause the issuance of certificates with Realm's full knowledge and consent, or that in the alternative, Realm's failure to cancel the certificates in accordance with each state's statutory scheme obligated Realm to fulfill the contractual obligations evidenced by the said insurance certificates, but that in either event, Realm is obligated to issue the policies and pay the claims arising thereunder.

COUNT II: FRAUD AS TO DEFENDANTS REALM, CRANE, LAWLESS, SIOMA, DEL TUFO, GREEN, VU AND QUICK

587 AIM restates and realleges Paragraphs 1through 586 as though each said paragraph was stated herein in its entirety.

588 The Realm Defendants and each of them made certain representations to AIM in the Stock Purchase Agreement, regarding Realm's financial condition, and the accuracy of the financial statements which had been delivered by Defendants to AIM prior to AIM's execution of the Stock Purchase Agreement, to wit:

> 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 quarterly periods for the calendar year 2002. The foregoing financial statements, together with the SAP and/or GAAP income statement 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 Statements 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 as flow of the Companies and have been prepared on the statutory of 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 connections with General Agency Agreement 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.

3.14 Liabilities.

(a) The Companies have no Liabilities, except Liabilities:

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637 Further, the Goldman Sachs Entities made false and material misrepresentations and omissions to AIM in its written audit opinions (as referenced above).

638 The Goldman Sachs Entities, Jeffrey, de Pourtales and certain of the other Individual Defendants made such representations knowing when made that they were false or with reckless disregard as to the truth of the representations, and knowing and intending that innocent third parties, including AIM, would rely on the representations.

639 AIM reasonably relied on the false representations of the Goldman Sachs Entities, Jeffrey, de Pourtales and certain of the other Individual Defendants and was, as a result, misled as to the true financial condition of AlphaStar and its subsidiaries, including Realm.

640 As a direct and proximate result of such fraudulent statements and misconduct, AIM sustained damages in an amount to be determined at trial, but not less than $7 million.

641 Accordingly, AIM is entitled to a judgment against the Goldman Sachs Entities, Jeffrey, de Pourtales and certain other Individual Defendants in an amount to be determined at trial, but not less than $7 million, plus interest.

COUNT EIGHT: VEIL PIERCING
(Against the Goldman Sachs Entities)

642 AIM restates and realleges Paragraphs 1 through 641 as though each said paragraph was stated herein in its entirety.

643 Upon information and belief, the Goldman Sachs Entities used AlphaStar's corporate form to perpetrate a fraud or as a means to avoid or conceal liability.

644 Accordingly, AIM is entitled to judgment against the Goldman Sachs Entities piercing the corporate veil of AlphaStar to reach the assets of Goldman Sachs Entities, and making such assets available to satisfy any and all liabilities of AlphaStar.

COUNT NINE: AIDING AND ABETTING
(Against Goldman Sachs Entities)

645 AIM restates and realleges Paragraphs 1 through 644 as though each said paragraph was stated herein in its entirety.

646 In the alternative, the Goldman Sachs Entities aided and abetted the Individual Defendants in defrauding AIM by, *inter alia*, knowingly inducing or participating in the misconduct described herein.

647 At the time the Goldman Sachs Entities provided its services, it was aware of its role as part of an overall illegal or tortious activity.

648 Moreover, the Goldman Sachs Entities were aware of its substantial assistance in defrauding innocent parties who were intended to, and did, rely upon the Goldman Sachs Entities' services and representations.

649 As a direct and proximate result thereof, AIM sustained damages in an amount to be determined at trial, but not less than $7 million.

650 Accordingly, AIM is entitled to a judgment against the Goldman Sachs Entities in an amount to be determined at trial, but not less than $7 million, plus interest.

VI. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs respectfully request that this court grant them the following relief:

a) That a declaratory judgment be issued that declares 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 Sioma as set out above, and that Defendant Realm is legally obligated to issue the certificates of insurance and policies of insurance and policies of insurance as set out herein and be responsible for payment of any claims arising thereunder;

b) That Plaintiffs be awarded compensatory damages in an amount to be determined at trial, exclusive of interest and costs, but in any event, in an amount in excess of $75,000.00, resulting from Defendants' breach of contract;

c) That Plaintiffs be awarded punitive damages as a result of Defendants' malicious, willful, wanton, fraudulent and deceitful conduct directed at Plaintiffs and the public generally as set out in Count Two;

d) That Plaintiffs be granted an injunction requiring both the inspection of and preservation and securing of Realm's books and records;

e) As to Plaintiff's fraud claim as set out in Count Three, that Plaintiffs be awarded actual damages in an amount to be determined, trebled, together with costs, attorneys' fees and interest permitted by N.Y. General Business Law §349;

f) That AIM recover from Defendants for fees and commissions earned by AIM in Defendants' PEO program, said sum currently being in excess of $2,600,000.00;

g) That AIM recover from Defendants for claims paid on behalf of Defendants as part of Defendants' PEO program, said sum currently being in excess of $3,210,000.00, as well as advanced claims handling expenses, the exact amount which will be added by amendment;

h) That AIM recover from Defendants all sums advanced as part of the aforementioned Loan Agreement and related promissory note, which figure is currently in excess of $1,500,000.00, as well as attorney's fees and costs of litigation associated with the collection of same;

i) On the Fifth and Sixth Claims for Relief, against Andersen in an amount to be determined at trial, plus interest;

j) On the Seventh Claim for Relief, against the Goldman Sachs Entities and the individual Defendants, jointly and severally, in an amount to be determined at trial, but not less than $80 million, plus interest;

k) On the Eighth Claim for Relief, against the Goldman Sachs Entities piercing the corporate veil of AlphaStar to reach the assets of Goldman Sachs Entities, and making such assets available to satisfy any and all liabilities of AlphaStar;

l) In the alternative, on the Ninth Claim for Relief, against the Goldman Sachs Entities in an amount to be determined at trial, but not less than $80 million, plus interest.

m) That Plaintiffs be awarded the costs and disbursements of this action, including attorneys' fees and litigation expenses; and

n) That the Honorable Court grant such other and further relief as it deems proper in the premises.

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
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Phone: (404)325-2300
Fax: (404)325-7302
Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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

PLAINTIFFS

2007 Civ. 00762 (RJH)

-against-

*

AMERICAN INSURANCE MANAGERS, INC. ET AL.,

DEFENDENTS *

AFFIDAVIT OF SERVICE

Stanley A. Coburn, being duly sworn, deposes and says. deponent is not a party to the action, is over 18 years of age and resides in Georgia.

On May 18, 2007, deponent served the Proposed Amended Complaint in the above styled action on the following Service List by first class mail.

Stanley A. Coburn

Sworn to before me this
18th day of May, 2007

Notary Public

SERVICE LIST

William McSherry, Esq.
Crowell & Moring, LLP
153 E. 53d Street
31st Floor
New York, New York, 10022
Counsel for all individually named Defendants

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Stanley A. Coburn (SAC-6318).
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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	*	

BRIEF IN SUPPORT OF 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 to their Motion as Exhibit "A". As grounds for this Motion, Plaintiffs show the Court as follows:

STATEMENT OF FACTS

This claims alleged in Plaintiffs' complaint were originally asserted in this Court on May 4, 2004 (*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.

On April 11, 2007, this Court entered an order withdrawing the reference with respect to the Counterclaims and directing that Plaintiffs file a complaint, which they did on May 22, 2007. 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.

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 Plaintiff's proposed amended complaint, the proposed additional defendants knowingly defrauded AIM. 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.

CITATION OF AUTHORITY

Fed.R.Civ.P. Rule 21 provides, in pertinent part:

> Parties may be dropped or added by order of the court on motion of any party or of its own initiative at any stage of the action and on such terms as are just.

The determination to substitute or join a party is within the discretion of the trial court. Nations Credit Home Equity Servs. v. Anderson, 16 A.D.3d 563, 564; 792 N.Y.S.2d 510, (N.Y.A.D. 2005). See also N.Y. State Inspection, Sec. and Law Enforcement Employees, Dist. Council 82, AFSCME, AFL-CIO v. State, 106 Misc.2d 654, 658; 434 N.Y.S.2d 872 (N.Y. Sup. Ct. 1980) (the court has wide latitude in the addition or deletion of parties) This permission to amend pleadings should be "freely given." C-Kitchens Assocs., Inc. v. Travelers Ins. Cos. 15 A.D.3d 905, 906, 789 N.Y.S.2d 567, 568 (N.Y.A.D. 2005). Any alleged lateness is not a barrier to the amendment. Edenwald Contr. Co. v. City of New York, 60 N.Y.2d 957, 959; 471 N.Y.S.2d 55 (1983).

The addition of Proposed Defendants as party defendants in the instant case should be permitted for the following reasons: (1) Plaintiffs' claims against Proposed Defendants fall within the statute of limitations for fraud; (2) the claims that Plaintiffs seek to maintain against Proposed Defendants arise out of the same occurrence which is the basis of the original lawsuit; (3) Plaintiffs would be entitled to maintain separate causes of action against Proposed Defendants; (4) the interests of judicial economy are served by adding Proposed Defendants as party defendants to this action, rather than requiring that two separate actions be maintained and tried; (5) the new parties will not be prejudiced by the bringing of the action; and (6) a Pre-Trial Order has not been entered.

WHEREFORE, Plaintiffs respectfully request that this Court grant Plaintiffs leave to amend by filing the attached proposed Amended Complaint adding Proposed Defendants as party Defendants.

Dated Atlanta, Georgia

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October 15, 2007.

Respectfully submitted,

By: [signature]

Stanley A. Coburn (SAC-6318)
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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' Brief in Support of Motion to Add Additional Party Defendants and Amend Complaint 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: [signature]
Stanley A. Coburn

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Stanley A. Coburn (SAC-6318).
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Attorney for Plaintiffs

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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

PLAINTIFFS

2007 Civ. 00762 (RJH)

-against- *

AMERICAN INSURANCE MANAGERS, INC. ET AL.,

DEFENDENTS *

COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF

COME NOW Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., by and through their counsel, and file this their Complaint against named Defendants and each named Defendant individually, and respectfully show the Court as follows:

PRELIMINARY STATEMENT

This complaint was originally filed in this Court on May 4, 2004 (*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). Service was had on all Defendants on January 16, 2004. The case was subsequently transferred to the Bankruptcy Court (*In re*

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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").

Pursuant to this Court's Order of April 11, 2007, withdrawing the reference with respect to the Counterclaims, and directing that Plaintiffs file a complaint, Plaintiff's refile their claims previously asserted in the above actions. The revisions to the original claims are updates necessitated by the passage of time.

It will be necessary to realign the parties and restyle the case (as set forth below) to properly reflect the parties and claims. Plaintiffs will work with counsel for Defendants to accomplish this by consent and present an order to the Court.

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,	*	COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF

DEFENDENTS

COME NOW Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., by and through their counsel, and file this their Complaint against named Defendants and each named Defendant individually, and respectfully show the Court 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, it has consented to the exclusive jurisdiction in the federal court of the City and County of New York. Since this suit was first filed, Realm has been put into liquidation and the Superintendent of Insurance of the State of New York has been appointed as Liquidator of Realm.

3. Non-party AlphaStar Insurance Group Limited ("AlphaStar") is a Bermuda Corporation. AlphaStar is a holding company.

16. 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 137 infra.)

17. In reliance upon various agreements and representations made to AIM by officers and directors of AlphaStar, SCNAH, and Realm, all of which are discussed with more particularly below, and in consideration for AIM making that certain loan to AlphaStar[2], 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 has 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.

18. Despite an express agreement and promise to do so made by SCNAH to AIM contained in that certain Loan Agreement, [See Paragraph Twenty-Four (24) infra], 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.

19. 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.

20. 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

[2] 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 provisions of the Loan Agreement. The Loan was due and payable on October 22, 2003 and is in default.

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terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004."

21. 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 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.

22. AIM is also seeking injunctive relief in the Court of Chancery in Delaware against AlphaStar and SCNAH for defaults under the Loan Agreement and Pledge Agreement, styled *Atlanta Insurance Marketing, Inc. v AlphaStar Insurance Group Ltd. And Stirling Cooke North American Holdings, Ltd.*, Case No. 20544-NC. The Case has been stayed as a result of the N Y Bankruptcy Action referenced above.

IV. FACTUAL BACKGROUND

23. On or about October 2, 2002, AIM and SCNAH executed a Letter of Intent ("the Letter of Intent") (Exhibit "A" hereto), proposing that AIM or its affiliated assignee purchase from SCNAH all of the outstanding shares of common stock of Realm and World Trade Service Inc. ("WTS") for $12,000,000.00. The Letter of Intent provided that AIM and SCNAH would enter into a loan agreement pursuant to which, *inter alia,* AIM would loan to AlphaStar an amount up to $3,500,000.00, with loan balances to be credited against the purchase price of the share purchase transaction, and that Realm would appoint AIM its agent to sell insurance on Realm's behalf.

24. Also on or about October 2, 2002, AIM and AlphaStar entered into pledge agreement ("the Pledge Agreement") (Exhibit "B" hereto) and a loan agreement (the "Loan Agreement") (Exhibit "C" hereto). The Pledge Agreement and the Loan Agreement both recite that the parties entered into the Letter of Intent, despite the fact that the Letter of Intent, described in Paragraph Twenty-Three (23) herein, was executed by SCNAH, of which AlphaStar owned 100% of the common stock.

25. Pursuant to the provisions of the Loan Agreement, AIM agreed to loan AlphaStar the sum of $3,500,000.00. AlphaStar executed a Promissory Note (Exhibit "D" hereto) evidencing the loan.

26. Under the Pledge Agreement, AlphaStar pledged to AIM all of its 10,000 shares of common stock in SCNAH ("the Pledged Stock"), which constitute all of the issued and outstanding shares of SCNAH common stock, for the purpose

of securing the repayment of the loan and any interest and other obligations under the Loan Agreement and the Note.

27. AIM made the first tranche of the loans to AlphaStar by transferring to it $200,000.00 on October 22, 2002 and $300,000.00 on October 23, 2002. On or about November 14, 2002, AIM made the second tranche available to AlphaStar, in the amount of $1,000,000.00.

28. Under Section 2.1(c) of the Loan Agreement, AIM was not required to fund any further amount under the loan facility until a definitive stock purchase and sale agreement was reached by the parties.

29. AlphaStar, Realm, WTS,[3] Stirling Cooke New York Insurance Agency Services, Inc. ("Agency"), SCNAH and American Insurance Managers Inc. executed that certain Stock Purchase Agreement dated March 23, 2003 (Exhibit "E" hereto).

30. Pursuant to the provisions of the Stock Purchase Agreement, SCNAH agreed to sell three (3) of its subsidiaries to American Insurance Managers Inc., being Realm, WTS and Agency.

31. Pursuant to Section 6.2 of the Loan Agreement, AlphaStar agreed to make its books and records available to AIM for inspection upon reasonable notice:

> 6.2 Books, Records and Inspections. The Borrower will permit officers and designated representatives of the Lender to visit and inspect the books of record and account of the AlphaStar at such times and intervals and to such extent as the Lender [AIM] may reasonably request upon advance notice.

[3] Non-party World Trade Services, Inc. is a subsidiary of SCNAH, and is a signatory to the Stock Purchase Agreement.

32. AIM retained the audit firm of Israeloff, Trattner & Co. to inspect the books of record and account of AlphaStar and its subsidiaries. On November 12, 2002, Brian W. Imperiale ("Imperiale"), AIM's chief financial officer, contacted Sioma at Realm and forwarded a request that AIM be permitted to inspect the books of record and account.

33. One week later, Sioma responded to Imperiale and asked when the auditors would arrive. Imperiale replied that the first due diligence meeting was scheduled for the first week of December 2002. After AIM arrived at the New York office of Realm, Lawson and Crane locked AIM's representatives out of the office.

34. Thus the due diligence meeting never occurred. Lawless, general counsel for AlphaStar, SCNAH and Realm, canceled the meeting and the entire due diligence process, stating that it was "...out of the question."

35. The Loan Agreement reads in pertinent part as follows:

> "SCNAH Restricted Subsidiaries" shall mean, collectively, Stirling Cooke New York Insurance Agency Services Inc., a New York corporation; Stirling Cooke North American Reinsurance Intermediaries Inc., a New York corporation; Realm National Insurance Company, a New York insurance company; and World Trade Services, Inc., a New York corporation.

By letter dated December 11, 2002, Howard A. Becker, counsel to AIM, demanded that AIM be permitted to inspect the books of record and account of AlphaStar and of any SCNAH "Restricted Subsidiary," including Realm, as defined in the Loan Agreement.

36. AIM has continually been denied the opportunity to inspect the books and record of account of AlphaStar and of Realm, a Restricted Subsidiary, in breach of Section 6.2 of the Loan Agreement.

A. **Misrepresentations Concerning Realm's Authority To <u>Do Business And Compliance With State Regulations</u>.**

37. Section 5.12 of the Loan Agreement states:

> 5.12 <u>Compliance with Statutes, etc.</u> Each of the Borrower [AlphaStar], SCNAH and the SCNAH Restricted Subsidiaries [which include Realm, among others] is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property....

38. On October 15, 2002, before AIM made any of the loan facilities available, Crane furnished to AIM a compliance certificate (the "Compliance Certificate") (Exhibit "F" hereto) affirming that AlphaStar was in compliance with each and every condition contained in the Loan Agreement.

39. Contained in Realm's quarterly filings with the New York State Department of Insurance ("NYSDOI") and its audited financial statement for the years 2000 and 2001, upon which AIM relied in making the loan facilities available to AlphaStar, Realm represented that it was licensed to sell policies of insurance in twenty-four (24) states. Two (2) of those states were North Carolina and Georgia.

40. In fact, Realm was prohibited from issuing new policies in North Carolina and had been so prohibited since July 2002. At not time prior to entering into the Loan Agreement did AlphaStar disclose to AIM that Realm had lost its ability to write new business in North Carolina.

41. On or about December 24, 2002, after AIM entered into the Loan Agreement and made the first two tranches of loans to AlphaStar, AIM first learned that Realm was not authorized to write new business in Georgia, and that the

prohibition against writing new business in Georgia had occurred prior to the execution of the Loan Agreement.

42. At no time did AlphaStar disclose to AIM that Realm had lost its ability to write new business in Georgia.

43. The Compliance Certificate described in Paragraph Thirty-Eight (38) herein was a willful and fraudulent misrepresentation, intended to deceive and mislead AIM, and upon which AIM reasonably relied to its detriment.

44. As a New York insurance company, Realm is subject to the rules and regulations of the NYSDOI Realm failed to file audited financial statements with the NYSDOI on May 31, 2003 and, as a result, is not incompliance with the NYSDOI's rules and regulations.

B. Misrepresentations Concerning the Financial Statements and Compliance with Statutes

45. Section 5.12 of the Loan Agreement provides as follows:

> 5.12 Compliance with Statutes, etc. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls).

On June 27, 2003 AIM's counsel wrote to SCNAH's counsel, Lawless, as follows: "Additionally, now that Realm has failed to file the audited financial statements as required by law with the New York Insurance Dept., representation 5.12 of the loan agreement is now no longer true and correct. Demand is made that you bring that representation back into compliance immediately by filing the audit." Lawless responded, "Your demand is noted."

As previously stated, Realm's statutorily mandated audit remains unfilled with the NYSDOI. Accordingly, the representation contained in Section 5.12 regarding compliance by SCNAH Restricted Subsidiaries, including Realm "[w]ith all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies," remains a continuing breach of the Loan Agreement.

46. Section 5.5 of the Loan Agreement provides as follows:

> 5.5 Financial Statements. The audited balance sheet and income statement of the Borrower as of December 31, 2001, (collectively the "2001 Financial Statements"), fairly presents the financial position of the Borrower as at the date thereof, and the results of its operations for the year then ended, and has been prepared in accordance with generally accepted accounting principles, consistently applied, and in a manner substantially consistent with prior financial statement of the Borrower. The unaudited balance sheet and income statement of the Borrower as at June 30, 2002, and for the six months then ended (collectively, the "June 30, 2002 Financial Statements") fairly present the financial position of the Borrower as at the date thereof and the results of operations for the six months then ended and have been prepared in accordance with generally accepted accounting principles consistently applied and in a manner substantially consistent with the 2001 Financial Statements, except for differences resulting from normally occurring accruals or adjustments, or as noted in the June 30, 2002 Financial Statements or the notes thereto. Except as contemplated by or permitted under this Agreement, there are not adjustments that would be required on review of the June 30, 2002 Financial Statements that would, individually or in the aggregate, have a material negative effect upon the Borrower's reported financial condition.

47. The June 30, 2002 Financial Statements, as defined in the Loan Agreement, were materially false and misleading and materially overstated the assets of AlphaStar and its Restricted Subsidiary, Realm.

48. On or about December 27, 2002, Realm, SCNAH and AlphaStar filed a 31-page Complaint captioned *Realm National Insurance Co., et al., v. American Insurance Managers, Inc., et al.*, C.A. No. 02 CV 10278 (RMB) in the

United States District Court of the Southern District of New York, against AIM and two affiliates of AIM (the "New York Action"). Plaintiffs in the New York Action sought a temporary restraining order, injunctive and declaratory relief, damages and imposition of a constructive trust, allegedly "to stop a recently-discovered fraud on the general public, multiple state regulatory agencies and the plaintiffs in this action"[4] that would expose Realm to "incalculable claims, loss of business, and damage to its reputation and good will, as well as regulatory scrutiny and potential disenfranchisement...."[5]

49. The Court in the New York Action denied the Plaintiffs' motion for a temporary restraining order.

50. AIM and the other defendants in the New York Action noticed the deposition of KPMG, AlphaStar's auditors, for September 12, 2003 and issued a subpoena to KPMG, in an attempt to discover information concerning Realm's finances. ON August 14, 2003, the NYSDOI had indicated that it would consider taking regulatory action against Realm within thirty (30) days if such statements were not filed. If such action is taken, it will have a material adverse effect on the business of Realm. The deposition was scheduled by AIM without opposition from AlphaStar, despite the fact that a Rule 26(f) discovery scheduling order had not yet been filed in the case.

51. ON September 11, 2003, counsel for KPMG moved to quash the subpoena. A United States Magistrate scheduled a telephone conference call for September 16, 2003 to consider KPMG's Motion To Quash. Approximately fifteen

[4] N Y Action ¶1.
[5] N Y Action ¶4

(15) minutes before the scheduled call, AlphaStar's attorney called AIM's attorney to advise that AlphaStar had dismissed the New York Action.

52. Upon information and belief, Plaintiffs dismissed the New York Action in order to prevent inquiry of its auditors, KPMG, which inquiry would reveal the false and misleading nature of the June 30, 2002 Financial Statements, as defined in the Loan Agreement.

53. Two recent filings with the Securities and Exchange Commission confirm the likely existence of accounting irregularities.

54. On November 3, 2003, AlphaStar filed a Form 8-K[6] (the "November 3 Form 8-K"), wherein the company disclosed the resignations of all of the independent directors. The November 3 Form 8-K states in relevant part:

> Messrs. David H. Elliott, Hadley C. Ford and Patrick J. McDonough, tendered their resignations from the Board of Directors of the Company, effective August 29, 2003. Messrs. Elliott, Ford and McDonough *comprised all of the independent directors of the Company,* and *all of the members of the Audit Committee* of the Board of Directors.... Neither Mr. Elliott, Mr. Ford, or Mr. McDonough resigned because of any disagreement with the Company on any matter. (emphasis added).

55. KPMG, AlphaStar's independent auditor, also resigned.

56. The November 3 Form 8-K further states in relevant part:

> On September 16, 2003, KPMG LLP ("KPMG"), the independent auditors for AlphaStar Insurance Group Limited (the "Company"), notified the Company that the auditor-client relationship between KPMG and the Company had ceased.
>
> During April 2003, and pending the finalization of the Company's 2002 Form 10-K filing, KPMG advised the Company of the need to expand the scope of its audit, due to the absence of transactional-level data deemed necessary by KPMG to conclude on the fair presentation as of year-end 2002 of the agents' balances receivable account (the "2002 Agents' Account") at a significant subsidiary of the Company. KPMG expanded the scope of its audit work accordingly and the Company thereafter undertook and extensive

[6] The November 3, 2003 Form 8-K is attached hereto as Exhibit "G."

effort to supplement the information, made available to KPMG regarding the 2002 Agents' Account ("Supplemental Work").

On August 5, 2003, KPMG first informed the Company, in a presentation to the Audit Committee of the Company's Board of Directors, that information received as a result of the Supplemental Work caused KPMG to determine that further investigation was necessary and that such investigation may (i) materially impact the fairness or reliability of either a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent financial statements covered by an audit report on those financial statements. Specifically, KPMG stated that the extent of the additional work necessary to enable KPMG to opine in respect of the 2002 Agents' Account had caused it to require a re-audit of the balances reflected in the accounting records of Realm for the Agents' Account for the fiscal year ended December 31, 2001 (the "2001 Agents' Account"), and possibly all December 31, 2001 balance sheet accounts for the Company and its subsidiaries, which accounts had been audited and certified by Arthur Andersen. KPMG thereafter requested that the Company undertake additional work in respect of the year-end 2001 Agents' Account.

* * *

The Company subsequently engaged a new auditor, Johnson Lambert & Co.

57. On November 14, 2003, KPMG submitted a letter to the Securities and Exchange Commission identifying numerous exceptions that KPMG had with respect to AlphaStar's characterization of KPMG's findings and its reasons for terminating its relationship with AlphaStar (the "November 14 Letter"), which letter is attached hereto as Exhibit "H." The November 14 Letter states in pertinent part:

We do not agree with the Company's statement in Paragraph (d) (1) that "KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's

satisfaction, would prevent it from rendering an unqualified audit report on those financial statements, irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report)".

Prior to our resignation KPMG had communicated to the Company that KPMG's report would include a reference to substantial doubt concerning the ability of the Company to continue as a going concern.

Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed before KPMG could perform whatever other audit procedures were deemed necessary to complete the audit of the December 31, 2002 financial statements:

(1) Completion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts;
(2) Completion of audit procedures related to the adverse litigation decision, as referred to in Paragraph (d)(1); and
(3) Resolution of the accounting and disclosure for the operations of certain subsidiaries, the sales of which were pending but had not been completed, and the completion of the related audit procedures.

58. The November 3 Form 8-K and the November 14 Letter provide further support for the concerns voiced by AIM's auditors that there appear to be material accounting irregularities related to AlphaStar and its subsidiaries, particularly Realm.

59. As part of its initial due diligence, AIM sought information regarding litigation that ultimately resulted in an adverse judgment rendered against a subsidiary of AlphaStar in the United Kingdom. In an email responding to the request for information, Crane stated:

----Original Message----

From: Stephen_Crane.BDACOS@bdacos.bm
[mailto:Stephen_Crane.BDACOS@bdacos.bm]
Sent: Tuesday, November 19, 2002 11:35 AM
To: dds@aimmanagement.com
Subject: Alston & Bird Due Diligence

Dear David:

Attorneys from A&B have asked Jim Lawless for materials relating to the Stock Purchase Agreement Drake case in London. I wanted to bring this to your attention because of the cost and time implications of letting them get down into that bottomless pit. I believe we had convinced you and WEMED that the properties you are buying are not significantly exposed to that litigation, and WEMED was not pursuing it in their due diligence. Inasmuch as the case is likely to be decided long before it has any material adverse affect on RNIC or WTS. In my opinion, there is not need for them to get an education (and probably an irrelevant one) at substantial expense to you.

Regards,
Stephen

60. On July 8, 2003, the High Court in London issued and Order[7] in excess of 1500 pages regarding the litigation referenced in the preceding paragraph.

In the High court ruling, Mr. Justice Thomas stated that defendants Euro International Underwriting Ltd. and Stirling Cooke "[a]cted with grave dishonesty" when broking and underwriting US Workers' Compensation business. Mr. Justice Thomas further ruled that the defendants had engaged in a...

> "chronicle of deception that induced insurers to become involved in a business in which they would never have been involved if the business had been properly explained to them" and "there was thereafter an attempt to lock them into that business."

Justice Thomas was particularly scathing in his view of Nicholas Brown, who founded Stirling Cooke with Mark Cooke.

> "Mr. Brown was the driving force in the dishonest enterprise which I have described in this judgment," stated Justice Thomas. "He was motivated by ambition to make SCB a full-service insurance company and by greed in

[7] See Spere Drake Insurance Ltd. V. Euro International Underwriting, [2003] All ER (D) 160 (Jul).

earning large sums of money through brokerage of the business provided...The business transacted by Stirling Cooke has already caused losses of approximately $250 million." "The overall sums at issue in the action are large; on some programmes the losses are in excess of $10m with one programme sustaining a loss of over $71m (a loss ratio of 7,300%); the total losses sustained thus far are in the order of $250m." "There are a considerable number of related actions and arbitrations here, in Bermuda and in the United States; the total sums at issue that have been lost in this reinsurance market are very much larger ..."

The claimants in the United Kingdom action were Sphere Drake Insurance Ltd. (formerly Sphere Drake Insurance PKC) and Odyssey Re (London) Ltd. The defendants were Euro International Underwriting Ltd., John Hubert Whitcombe, Christopher Reginald, Colin Henton, Stirling Cooke Brown Reinsurance Brokers Ltd, Stirling Cooke Brown Insurance Brokers Ltd, Nicholas Brown and Jeffrey Ronald Butler.

* * *

"It has been estimated that the losses will run into the billions."

C. Execution and Breach of the Stock Purchase Agreement

61. As previously stated, the parties, including Realm, executed the Stock Purchase Agreement on March 23, 2003.

(1) SCNAH's Refusal to Comply With Provisions Establishing the Purchase Price

62. Section 2.02 of the Stock Purchase Agreement provides that the Purchase Price is to be based upon Final Balance Sheets, defined on page 3 of the Stock Purchase Agreement as follows:

"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.

63. SCNAH, the Seller under the Stock Purchase Agreement, failed to deliver Final Balance Sheets to Buyer on or before April 1, 2003. SCNAH requested and was granted a one day extension of that deadline. SCNAH failed to deliver Final Balance Sheets on or before April 2, 2003 and has never delivered such Final Balance Sheets. As a result, Section 2.07 of the Stock Purchase Agreement gave Buyer the right to select an alternative CPA firm of its choice and to estimate the Purchase Price, "which estimate shall be final and binding on the parties."

64. Section 2.07 also states:

> If Buyer elects to select an Alternative Auditor to determine its estimate of the Purchase Price, [SCHAH] 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.

65. Buyer selected Israeloff, Trattner & Co. ("Israeloff") as an alternative CPA firm pursuant to Section 2.07, which determined a Purchase Price of $1,500,000.00.

66. On or about June 1, 2003, pursuant to Section 2.07, and based upon the estimate of Israeloff, Buyer advised SCNAH that the Purchase Price was $1,500,000.00. A copy of the Israeloff letter setting forth its estimate is attached hereto as Exhibit "I."

67. On June 12, 2003, Buyer's counsel sent an email to Lawless, demanding to know if Seller intended to sell the Realm shares at the price set by Israeloff. On June 17, 2003, SCHAH, through Lawless, advised Buyer that it did not

acknowledge Buyer's right to close at the price determined by Israeloff. Buyer reiterated its demand on July 1, 2003, and Seller responded that the demand be retracted, which request Buyer refused.

68. By refusing to acknowledge AIM's right to purchase Realm for the binding purchase price set by the alternative auditor in accordance with Section 2.07, the Seller, SCNAH, anticipatorily breached the Stock Purchase Agreement.

(2) SCNAH's Refusal to Proceed to First Closing Pursuant to Stock Purchase Agreement

69. By letter dated July 1, 2003, Buyer notified SCNAH that it was prepared to proceed to First Closing under the Stock Purchase Agreement and that the closing occur between July 8, 2003 and July 11, 2003.

70. SCNAH failed to respond to the letter and refused to proceed to First Closing as required by the Stock Purchase Agreement. Seller's willful failure to close constituted a further breach of the Stock Purchase Agreement by SCNAH.

(3) SCNAH's Breach of Section 2.04(f) of the Stock Purchase Agreement

71. Section 2.04(f) of the Stock Purchase Agreement states that at the First Closing:

> (f) [SCNAH], 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.

72. At a meeting held at its offices on the morning of August 13, 2003, SCNAH advised Buyer that it had met with representatives of the NYSDOI. SCNAH represented that because its subsidiary Realm had failed to deliver the December 31, 2002 statutory audited financial statement to the NYSDOI as required

under the New York Insurance Law, Realm had been directed by the NYSDOI not to deliver the Certificates of Insurance required by Section 2.04(f) until such time as Realm had filed and audited financial statement with the NYSDOI. Accordingly, SCNAH breached Section 2.04(f) of the Stock Purchase Agreement. Additionally, said breach has rendered a First Closing under the Stock Purchase Agreement impossible.

D. Realm's Direction to AIM to Non-Renew Certain Policies

73. On March 25, 2003, Realm appointed Bruce S. Holley ("Holley"), AIM's VP of Underwriting, Realm's agent in Georgia. That appointment remains active as of the date of this Complaint. A copy of Holley's insurance license evidencing his appointment as an agent of Realm is attached hereto as Exhibit "J."

74. Pursuant to Section 5.02(m) of the Stock Purchase Agreement, Realm was contractually obligated to maintain an underwriter at AIM's office:

> (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 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 seven Business Days after a request for such insurance coverage is made.

The individuals who fulfilled this role for Realm were Sioma and Roni Zinnert ("Zinnert"), Realm's Vice President of Underwriting.

75. On May 16, 2003, Zinnert sent the following email communication to Holley regarding customers of Xcelerate, one of the PEOs whose coverage Realm disputes:

From:	Roni Zinnert.BDACOS@bdacos.bm
Sent:	Friday, May 16, 2003 2:57 PM
To:	bholley@aimmanagement.com
Cc:	Mark Sioma.BDACOS@bdacos.bm
Subject:	Cancellations

Bruce,

In reviewing the Xcelerate file, I noticed that several of them (20 or more) had letters from the PEO notifying you that the client had been terminated as a client of the PEO. They use the phrase "please see that their coverage is terminated"

You need to communicate in writing to all of the PEOs the laws regarding cancellation of these client policies. And, AIM needs to develop internal procedures to ensure that these clients are handled appropriately.

We must follow the statutes for each state as respects cancellation.

Our policy is issued to each individual client. Their contract with RNIC [Realm] cannot be "cancelled" by the PEO. AIM must continue to service each policyholder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes. (emphasis supplied)

76. Despite Realm's claims to the contrary, Zinnert's statement constitute an admission by an executive officer of Realm that it has policies of insurance not with the PEOs but with the PEO's clients whose "contract with RNIC (Realm) cannot be cancelled by the PEO", and further, that "AIM must continue to service each policy holder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes." Such communication from Zinnert

constituted the instruction of a principal to its licensed agent regarding a matter within regarding a matter within the scope of the agent's engagement. The agent was under a fiduciary duty to comply with the lawful instruction from its principal.

77. Other than certain PEO clients who have a rating of nine (9) and ten (10) as defined by the mutually agreed-upon underwriting guidelines, AIM was never instructed by Realm to non-renew the vast majority of the PEO clients who received ACORD certificates.

78. Each state has a statutory scheme for the non-renewal of policies of insurance, a fact well known to Realm. In many states, failure to serve a notice of non-renewal in accordance with the state's statutory insurance scheme is tantamount to renewal of the policy of insurance by operation of law. Should this court determine that the policies of insurance were properly issued in the first instance, Realm's failure to non-renew the policies as by law provided would have the effect of renewing those policies for an additional term by operation of law.

V. PLAINTIFFS' CLAIMS

COUNT I: ACTION FOR DECLARATORY JUDGMENT THAT REALM BOUND THE INSURANCE COVERAGES IT IS NOW SEEKING TO AVOID

79. AIM restates and realleges Paragraphs One (1) through Seventy-eight (78) as though each said paragraph was stated herein in its entirety.

80. As stated previously, AIM, AlphaStar and SCNAH entered into various agreements whereby it was agreed that AIM would provide a credit facility to AlphaStar in exchange for being appointed an agent of Realm, and Realm would

agree to provide worker's compensation insurance coverage to PEOs submitted to Realm for approval in accordance with Realm's underwriting guidelines.

81. On September 17, 2002, Crane sent AIM's CEO, David Dennett-Smith ("Dennett-Smith"), an email stating:

> ***We are in agreement with all the major terms and conditions you have proposed regarding your proposed purchase of RNIC and WTS. We have studied your business plan and believe it is sound and likely to gain the approval of New York State Department of Insurance ("DOI"). We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at reasonable cost.***
>
> What remains as an outstanding matter for us is to receive from you some evidence of AIM's financial wherewithal and commitment to complete the transaction, without which we cannot afford to proceed through a long and burdensome due diligence and regulatory approval process. ***While we understand the nature and the mechanics of the plan via which you will secure financial commitments form subscribing PEOs,*** it will not provide us with the desired assurance soon enough. [emphasis supplied]

82. AIM's business plan encompassed the acquisition of Realm. During the period pending completion of the acquisition, Realm was to appoint AIM its agent, AIM was to market its workers' compensation program to PEOs, and AIM would bind the coverage only after Realm's underwriters approved the PEO submissions in accordance with underwriting guidelines that had been mutually agreed upon by the parties.

83. Because of the unique nature of the AIM workers' compensation program, prior to the time the risk could be assessed by reinsurers to establish the percentage of the gross premium to be charged for payment of reinsurance for the excess layers of protection the reinsurers were to provide, an initial book of business had to be written so the reinsurers could engineer the amount of exposure so that an

appropriate rate on line could be established. It was for this reason that the "book" AIM presented to Sioma had to be accepted or rejected at the November 8 meeting, or there would have been no reason for a subsequent presentation by Realm to reinsurers at the meeting in Bermuda on November 22, 2002.

84. Preliminary slips for reinsurance coverage were provided by AIM to Realm/AlphaStar/SCNAH in late August 2002. These were the slips upon which Crane based his statement, "We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at a reasonable cost." See Paragraph Eighty-One (81), *supra.*

85. The parties initially agreed that AIM would be a managing general agent. Managing general agents have substantially more authority to act on behalf of an insurance company than a general agent. Because of this extraordinary amount of authority, managing general agents are regulated by the NYSDOI.[8]

86. Thereafter, the parties agreed that AIM would be a general agent, as opposed to a managing general agent. Other than requiring licensure akin to estate agents and brokers, general agents do not require regulatory approval under the New York Insurance Law, a fact well known to Realm and Sioma.[9]

87. It is customary and usual in the insurance industry that agents will begin to act as representatives for insurance companies well before any type of written agreement is actually executed between the parties, with the understanding that the paperwork memorializing the relationship will be executed in due course.

[8] First Amendment To Part 33 of Title 11 of the Official Compilation of Codes, Rules and Regulations (Regulation No. 120), as promulgated by the Superintendent of the New York State Insurance Department, "Managing General Agents." A copy of the said Statute is attached hereto as Exhibit "K."
[9] Section 33.4(a)(2)(i),First Amendment To Regulation 120, *infra*

88. On August 29, 2002, there was a meeting at Realm's office in New York. The following persons were in attendance:

Name	Representing
Steven Crane	Realm
Mark Sioma	Realm
Anthony Del Tufo	Realm
Steven Gross	Gross Collins[10]
Steve Kent	WEMED[11]
Joseph Zaffarese	Midland Intermediaries
David Dennett-Smith	AIM
Steven Landin	AIM

The purpose of the August 29, 2002 meeting was to discuss the nature of the relationship between the parties, the reinsurance wordings and forms, and the reinsurance proposals provided by Realm's intermediaries. The proposed reinsurance placement slips as well as a draft captive worker's compensation reinsurance agreement had previously been forwarded to Realm on August 27, 2002 by Midland Intermediaries Inc. ("Midlands"). After discussion, the parties mutually agreed that Midlands would proceed to seek reinsurance for AIM's worker's compensation program written through PEOs, with PEOs being endorsed as an additional named employer once a sufficient book of business had been written to enable the book to be quoted.

[10] The accounting firm of HLB Gross Collins P.C., Certified Public Accountants
[11] The law firm of Wilson, Elser, Moskowitz, Edelman & Dicker LLP

89. AIM had previously provided a "boiler plate" managing general agency agreement for consideration by Realm. Crane advised Dennett-Smith that he preferred a general agency agreement to a managing general agency agreement. Crane's stated objection was his desire to circumvent the burdensome regulatory requirements that are concomitant with managing general agency agreements under New York law. Dennett-Smith agreed, and Sioma was instructed by Crane to revise the managing general agency agreement form provided by AIM in order to be sure that it complied with New York State insurance regulations.

90. Despite being instructed by Crane to do so at the August 29 meeting, Sioma failed to revise the managing general agency agreement form immediately. Sioma waited until November 2002, at which time he asked AIM to provide him the managing agency agreement in electronic form so that he could use it as a starting point for his edits.

91. At the August 29 meeting, the parties also mutually agreed that AIM would have the authority to bind coverage, subject to Realm's ability to underwrite and approve the submissions, and that Realm would have the ability to review, approve and adopt AIM's proposed underwriting guidelines. Additionally, Sioma was made responsible to assure that all reinsurance that was placed was done so in accordance with New York statutory guidelines.

92. Having established a working agenda to proceed with the transaction, the August 29 meeting adjourned, it being the mutual goal of the parties to commence the steps necessary to put business on the books to comply with Max Re's requirements of a minimum of $50,000,000.00 in premium to attach effective

October 1. Max Re is a reinsurance company that had been introduced to the transaction by Realm's intermediary, Midland's Intermediaries Inc, whose president is Joseph Zaffarese ("Zaffarese"). Max Re had expressed an interest in providing reinsurance for the program, but required that a $50,000,000.00 book first be written in order for it to be rated for premium purposes. Max Re had agreed that in the event it agreed to provide the slips, cover would attach as a October 1, 2002.

93. Prior to the August 29, 2002, meeting and in contemplation thereof, Steven Kent Esq., of WEMED, AIM's counsel at the time, had a telephone conversation with Crane and Lawless. Following the conversation, Kent prepared a "Memorandum of Conversation." The final Paragraph on page 2 reads, in pertinent part:

> The final issue we discussed are the MGA deal points which were discussed during the 8/12 meeting. Mr. Crane wants the MGA deal points to be consistent with what was described by DDS at the 8/13 meeting at Realm's offices on Maiden Lane. Steven does not believe that AIM should be 'given the pen' for its placements with Realm'. **AIM can have binding authority** but AIM should agree to follow Realm's underwriting agreements [sic] guidelines **and all placements should be subject to the approval of Realm's underwriters.** (emphasis supplied) I suggested to Mr. Crane that he directly contact David to discuss this issue.

A copy of the said Memorandum is attached hereto and incorporated herein as Exhibit "L."

94. Thereafter, with the full knowledge and consent of the Defendants, AIM proceeded to introduce its workers' compensation program to various PEOs located in the states where Realm was licensed to transact business. By November 8, 2002, AIM had qualified eight (8) PEOs by reviewing submissions presented in accordance with guidelines mutually agreed upon by the parties with

a combined total annual premium of approximately $10,000,000.00. Sioma appeared at AIM's office on November 8, 2002 to review the submissions in accordance with the agreement between the parties to determine if the submission complied with the underwriting guidelines, among other reasons.

95. At the meeting, Sioma met with Holley, AIM's Vice President of underwriting and reviewed the PEO submissions. After having reviewed the information he deemed pertinent with regard to each of the PEO clients, Sioma agreed that the book of business Holley presented to him on AIM's behalf and authorized Holley to cause the issuance of the certificates evidencing the coverage.

96. In reliance upon Sioma's confirmation that the coverage was bound, and with Realm's full knowledge and consent, AIM caused ACORD certificates to be issued to the clients of the PEOs stating that workers' compensation coverage had been issued to them by Realm as the insurer.

97. Additionally, at the November 8 meeting, Sioma also met with representatives of Crawford & Company ("Crawford"), a well-respected third party administrator that provides a number of services to the insurance industry throughout the country. While no written agreement was executed, AIM retained Crawford to provide it with services to adjust claims that were incurred by insureds under the program. Crawford continued to provide this service with Realm's full knowledge and acquiescence through October 2003, when Crawford received a letter directing it to cease and desist from providing these services on Realm's behalf. Despite assertions contained in the letter to the contrary, Realm

was fully aware that Crawford was providing these services to PEO clients of AIM. In an email from Zinnert to Holley on May 23, 2003, Zinnert writes in pertinent part:

From: Roni_Zinnert.BDACOS@bdacos.bm
Sent: Thursday, May 22, 2003 5:01PM
To: bholley@aimmanagement.com; bimperiale@aimmanagement.com
Cc: Mark_Sioma.BDACOS@bdacos.bm; Dan_Green.BDACOS@bdacos.bm

Bruce, Thanks for forwarding the updated loss info. I have a couple of observations. The first list below is the loss listing for clients who have hazard code 9 and/or 10 in their schedules. I know that Ricky was working on getting "no loss" letters from the other clients who have hazard 9 and /or 10.

The second listing is the claims for clients whom I cannot identify from the PEO spreadsheets that we have. Can you please review this list and let me know the name of the clients to match up with the rating info, so that I can determine if any 9s or 10s are part of those clients. If the clients are "new" to the PEO, I will need to see a revised spreadsheet that includes the class codes for those clients and the effective date of coverage.

And, thanks for the clarification regarding the September claims. Sounds like Crawford is handling appropriately and will close them. (emphasis supplied)

98. Having bound the initial portion of the portfolio of business, a meeting was held in Hamilton, Bermuda on November 13, 2002 with Max Re. The meeting was organized by Zaffarese, President of Midland, Realm's intermediary. The meeting was attended by Zaffarese, Sioma, Dennett-Smith and Bill Yit ("Yit"), Senior Vice President, FCAS of Max Re. Yit was particularly interested in, among other things, the nature of the relationship between AIM and Realm. In Zaffarese's presence, Sioma indicated to Yit that AIM was acting in the capacity of an agent of Realm.[12]

[12] Zaffarese Affidavit, NY Action (attached hereto as Exhibit "M")

99. Thereafter, a second meeting was held in Hamilton, Bermuda on November 22, 2002. The meeting was attended by Sioma, Francis J. Carter ("Carter"), Dennett-Smith, Yit, Robert Conney, David Brining, Keith Hynes, Holley, Simon Everett and Reese Bowen. It was held at the offices of Max Re, a reinsurance company. Carter, president of Uberrimae Fidei Insurance Company Ltd. Generated a set of meeting notes for his files, a copy of which are attached to his affidavit, filed in the New York Action. In his affidavit, Carter stated,

> "[t]he notes accurately reflect the substance of what occurred at the meeting. Additionally, it should be understood that the reinsurers were particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to the reinsurers that AIM was acting in the capacity as an agent of Realm with the ability to bind business on Realm's behalf, and that $10,000,000 of premium had been bound."[13]

100. Additionally, Holley, who also attended the November 22, 2002 meeting, reviewed Mr. Carter's notes and filed an affidavit in the New York Action. In his affidavit, Holley stated that Carter's notes accurately reflect what transpired at the meeting. "Sioma confirmed to the reinsurers [Max Re] that AIM was an agent of Realm with authority to bind business on Realm's behalf and that the agreement would remain in place both prior to and subsequent to AIM's purchase of Realm."[14]

101. On November 20, 2002, Sioma, without notification to AIM and prior to the meeting that occurred in Hamilton, Bermuda on November 22, 2202, wrote a letter to the Florida Department of Insurance essentially acknowledging that negotiations between AIM and Realm were ongoing, but unequivocally

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[13] Carter Affidavit, ¶4, NY Action (attached hereto as Exhibit "N")
[14] Holley Affidavit, ¶11 (attached hereto as Exhibit "O")

stating that AIM was not an agent of Realm and had no authority to bind business on its behalf. Despite having written the letter, Sioma appeared at the meeting on November 22 and affirmed to reinsurers that AIM was Realm's agent and that a book of business of $10,000,000.00 had been written and bound.

102. Thereafter, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote to a letter to insurance commissioners in every state in which Realm is licensed to transact business, stating that AIM was not an agent of Realm and the certificates had been issued without authority and were void *ab initio.* A sample letter is attached hereto as Exhibit "P."

103. Additionally, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote a letter to each of AIM's PEO clients, stating that AIM was not an agent of Realm, and that the certificates that had been issued without authority and were void *ab initio.* A copy of a sample letter to the PEO clients is attached hereto as Exhibit "Q."

104. At all times relevant hereto, AIM was acting as an agent of Realm, with actual and apparent authority. The issuance of the ACORD certificates were within the scope of AIM's authority as an agent of Realm and, furthermore, were issued with Realm's full knowledge and consent. The issuance of the certificates was proper, was approved by Sioma in his capacity as president of Realm at the meting held in Atlanta on November 9, 2002 and was ratified by him in discussion with third parties at the meetings held in Bermuda on November 13, 2002 and November 22, 2002. Sioma's conduct and statements, made in his capacity as President of Realm, confirmed AIM's position as an agent of Realm

and obligated Realm to issue policies of insurance to customers of the PEOs in accordance with the ACORD certificates AIM caused to be issued in its capacity as Realm's agent.

105. In the alternative, assuming *arguendo* that AIM was not an agent of Realm when it caused the ACORD certificate to be issued, which AIM specifically denies, each state in which an ACORD certificate was issued has a statutory scheme for the cancellation of wrongfully issued insurance policies. Realm failed to cancel the policies in accordance with the statutory schemes. By failing to comply with the statutory mandate of each state, the statement contained in Realm's letter to the putative insureds, that the ACORD certificates were void *ab initio*, was ineffective as a matter of law to effect a cancellation of the allegedly wrongfully issued certificates. Accordingly, the certificates remain in full force and effect in accordance with their terms because Realm failed to effect a proper cancellation of the certificates. As such, Realm remains obligated to issue policies of insurance to the insureds appearing on the ACORD certificates, and is "on the risk" for said certificates.

106. Currently, there are investigations ongoing in the states on Missouri, Oklahoma, Texas, Alabama, Florida, South Carolina, New Mexico, Pennsylvania and New York regarding this matter. Additionally, AIM has been sued in Texas by (4) customers of one of the PEOs. The plaintiffs in the Texas suit claim that they purchased workers' compensation coverage, but that none was provided.[15] On December 4, 2003, The Texas Department of Insurance

[15] *D & A Steel Erectors, Inc. et al. v. Corporate Solutions Inc., et al.*, District Court, Hidalgo County, Texas 92nd District Court, Judicial District of Texas, File No. C-2764-03-A

demanded that AIM "...voluntarily agree to begin terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004," and further demanded that AIM respond to the Texas Insurance Department's demand within ten (10) days.

107. An actual case or controversy has developed between the parties in which AIM claims to have acted with both actual and apparent authority from Realm to issue or cause the issuance of ACORD certificates naming Realm as the "insurer".

108. Realm has maintained that it never authorized AIM to act as its agent, and did not authorize the issuance of the certificates of insurance.[16]

109. The claim and controversy directly affects the legal rights of the Plaintiffs, as well as those to whom the ACORD certificates were issued.

110. The failure of Realm to honor its obligations not only to Plaintiffs in this action, but to those to whom the ACORD certificates were issued, is affecting people, businesses and insurance departments throughout the country.

111. An expedited resolution of this matter is necessary in order to halt Defendants' continued fraud on Plaintiffs as well as consumers of insurance in New York and other jurisdictions.

112. By reason of the foregoing, Plaintiffs are entitled to a declaratory judgment that AIM was an authorized agent of Realm, that AIM could and did lawfully issue or cause the issuance of certificates with Realm's full knowledge and consent, or that in the alternative, Realm's failure to cancel the certificates in

[16] Realm appointed Holley, AIM's VP of Underwriting, its agent in Georgia; his appointment as an agent of Realm is still active as of the date hereof.

accordance with each state's statutory scheme obligated Realm to fulfill the contractual obligations evidenced by the said insurance certificates, but that in either event, Realm is obligated to issue the policies and pay the claims arising thereunder.

COUNT II – FRAUD AS TO DEFENDANTS REALM, CRANE, LAWLESS, SIOMA, DEL TUFO, GREEN, VU AND QUICK

113. AIM restates and realleges Paragraphs One (1) through One Hundred Twelve (112) as though each said paragraph was stated herein in its entirety.

114. The defendants and each of them made certain representations to AIM in the Stock Purchase Agreement, regarding Realm's financial condition, and the accuracy of the financial statements which had been delivered by Defendants to AIM prior to AIM's execution of the Stock Purchase Agreement, to wit:

> 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 quarterly periods for the calendar year 2002. The foregoing financial statements, together with the SAP and/or GAAP income statement 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

Statements 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 as flow of the Companies and have been prepared on the statutory of 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 connections with General Agency Agreement 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.

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 . . . .

> 3.17 (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 jurisdiction in which Realm is engaged in the Business or otherwise required to comply with Laws.

115. These representations, when taken in the aggregate, were designed to and did lull AIM into believing that Realm had adequate capital and surplus to meet the statutory requirements necessary for it to maintain all of its licenses in full force and effect in each state in which it did business. However, since the Stock Purchase Agreement was executed, Realm has filed an audited financial statement with the NYSDOI for the period ending September 30, 2003, showing that its capital and surplus has deteriorated to $3,789,125.00, well below the statutory minimum of $5,000,000.00 required by the state of New York.

116. At the time Defendants made the representations set for the above, Defendants knew that Realm's capital and surplus were insufficient to meet the statutory requirement of the NYSDOI as well as most if not all of the states in which it is licensed to write insurance.[17] Defendants made these representations knowingly, recklessly, fraudulently, and maliciously, with the intent to deceive AIM who was deceived thereby.

117. Because of this knowledge, Defendants knew that Realm could not allow an audit to be completed by KPMG and delivered either to NYSDOI or AIM, because the audit would fairly present a true and accurate report of Realm's capital and surplus, which AIM believes is between $1,000,000.00 and

[17] *See supra* Paragraphs Fifty-Six (56) and Fifty-Seven (57) discussing the accounting irregularities addressed in the Form 8-K and the November 14 letter filed by AlphaStar and KPMG with the SEC, respectively.

$1,500,000.00. Defendants and each of them participated in a scheme designed from the outset to convince AIM to loan AlphaStar the sum of $1.5 Million Dollars, never believing that AIM's business plan would succeed in delivering the funds on the timetable required by the Defendants and non parties AlphaStar and SCNAH. When AIM timely delivered the funds, Defendants undertook every conceivable measure to frustrate a closing of the sale of Realm to AIM, it being their intent to defraud AIM out of the $1.5 Million in loan proceeds without providing the bargained for insurance coverage to AIM's PEO clients.

118. In furtherance of this scheme, Defendants engaged in a continuing pattern of fraud and deceit by misrepresenting to AIM as well as the court the status of the audit being conducted by KPMG with the intent to lull AIM into refraining from taking any action against Defendants by foreclosing its security interest in the collateral that it held under the Loan Agreement and the Pledge Agreement, namely the SCNAH shares. This was accomplished by a combination of acts taken and representations made by the Defendants, and each of them, the sole purpose of which was to lull AIM into believing that the Sellers intended to close the sale of the Realm shares to AIM in accordance with the provisions of the Stock Purchase Agreement. In truth and in fact, however, the Defendants and each of them conspired together to make it appear as if they were going to cause SCNAH to sell Realm to AIM, when in fact they never had any intention of closing the sale. Their deceptive actions included, but are not limited to the following examples, to-wit: continuing negotiations with AIM's transaction counsel, but at all time advancing frivolous and time consuming

positions and objections designed to delay and ultimately frustrate a closing; refusing access to Realm's books and records despite contractual obligations to provide access thereunto; refusing to provide any reasonable explanation for the delay in providing the Final Balance Sheets; refusing to close when demand to close was made; refusing to acknowledge AIM's right to close at the price set by the alternative auditor, despite its contractual obligation to do so; stating to the NYSDOI that no contract for the acquisition of the Realm shares had been executed, when one had in fact been executed on March 23, 2003; refusing to provide a written consent to KPMG to provide access to KPMG's work papers, even though it had agreed to do so in the Stock Purchase Agreement; misrepresenting to KPMG's assistant general counsel the contents of a conference call wherein the Honorable Richard M. Berman authorized his name to be used in an attempt to glean from KPMG the status of the preparation of the Final Balance Sheets; and additionally, misrepresenting the status of the audit to the same judge at a status conference held before the court on August 13, 2003 at 1:00 p.m., wherein representatives of Realm, namely Crane and Lawless, represented that the KPMG audit was ongoing and that no apparent issues existed other than clarification and delivery of additional information to the auditor. when in fact, on August 5, 2003, a week before, these same individuals had met with KPMG and had been advised by KPMG of its concerns with the audits of Realm prepared by Arthur Andersen for the years 2001 regarding the agents balances, among other things, all of which are set for the in KPMG's response to the SEC to the 8-K filed by AlphaStar in November, 2003, as set forth Exhibit H.

119. The individual named Defendants caused non-party AlphaStar to file consolidated financial statements for the years 2000 and 2001 with the Securities and Exchange Commission (the "SEC") in accordance with the reporting requirements contained in the Securities and Exchange Act of 1934 (the "Act"). These statements, to the extent they contained incorrect financial information based upon Realm's incorrect agents' balances, violated Rule 10-b-(5) and Rule 17-(a) of the Act, and were a fraud upon AIM and the investing public at large.

120. At the time the loan was made in October 2002, the individually named Defendants knew that AIM was relying on the representations made by non-party AlphaStar that Realm was licensed to write business in each state in which Realm represented that it was licensed to do business when, in fact, Realm was not licensed to write new business in either North Carolina or Georgia at the time the parties entered into the transaction.

121. The named Defendants knew that the financial statements prepared by Arthur Andersen for the years 2000 and 2001 for Realm provided to AIM (prior to the time the loan was made to AlphaStar) were false and misleading and did not accurately reflect the true financial condition of Realm at the time the said financial statements were delivered to AIM.

122. Richard Caporaso ("Caporaso"), the KPMG audit partner charged with responsibility for the audit of Realm, was previously employed by Arthur Andersen as Realm's audit partner for the years 2000 and 2001. While employed by Arthur Andersen, Caporaso was the audit partner for Realm and non-party

AlphaStar for 2000 and 2001. After leaving Arthur Andersen, Caporaso moved to KPMG and brought the AlphaStar accounts with him.

123. Defendants and each of them knew that AIM would rely on the false and misleading financial statements provided to AIM in deciding to enter into the loan transaction, and again, when AIM decided to execute the Stock Purchase Agreement, which AIM did, to its detriment.

124. The individually named Defendants caused non-party AlphaStar, SCNAH and Defendant Realm to make the representations contained in Paragraph 3.17 (c) of the Stock Purchase Agreement to the Buyer:

> 3.17 (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.

The said individually named Defendants and Realm knew that the representation contained in Paragraph 3.17(c) of the Stock Purchase Agreement was untrue at the time it was made. The individual named Defendants and Realm knowingly made said representation with the intent to deceive Buyer. The representation was made by Defendants and each of them knowing that Buyer would rely thereon. Buyer relied upon said fraudulent representations, and has suffered damage as the result of its reliance, which reliance was justified, in an amount as yet unknown, but which is well in excess of $75,000.00, exclusive of interest and costs.

125. The conduct of the Defendants and each of them was knowing, willful and malicious, was actively pursued by Defendants and each of them with the specific intent to harm Plaintiffs and constitutes fraud.

126. By reason of Defendants' fraudulent conduct, Defendants and each of them are jointly and severally liable to Plaintiffs for exemplary and punitive damages in such amount as the trier of fact may determine shall be sufficient to deter such wrongful similar conduct by these Defendants in the future.

127. By reason of Defendants' fraudulent conduct and each of them, Plaintiffs are entitled to recover form Defendants and each of them all costs of this litigation, including without limitation, attorneys' fees, litigation expenses and court costs.

COUNT THREE: AGAINST REALM FOR MANDATORY INJUNCTION FOR VIOLATION OF NY GENERAL BUSINESS LAW § 349(h) AND FOR TREBLE DAMAGES

128. AIM restates and realleges Paragraphs One (1) through One Hundred Twenty-Seven (127) as though each said paragraph was stated herein in its entirety.

129. Realm breached the Stock Purchase Agreement by refusing to permit AIM to inspect its books and records and misrepresenting its financial statements by materially overstating the assets of Realm.

130. In mid-2003, AIM's auditors expressed concerns over the veracity of Realm's account receivables, because AlphaStar refused to provide financial documents to establish the collectibilty of those receivables, and acknowledged

the possibility that AlphaStar may be dissipating the assets of Realm by funneling the assets through SCNAH, or another AlphaStar indirect subsidiary.

131. In August and September 2003, AlphaStar's independent directors, who also comprised the Audit Committee, and its independent auditor, KPMG, resigned. *See* Exhibits "G" & "H."

132. On November 14, 2003, KPMG submitted a letter to the Securities Exchange Commission clarifying certain statements made by AlphaStar in the November 3 Form 8-K filing. IN that letter, KPMG expressly stated that it did *not* agree with AlphaStar's statements that:

> "no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements...." *See* Exhibit "H."

133. KPMG also identified the account receivables as an area of concern.

> "Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed . . . [c]ompletion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts . . . ." (*Id).*

134. As of the filing of the original complaint against the individually named officers and Realm on January 12, 2004, Realm had not filed audited financial statement with the NYSDOI for 2002 or 2003. Realm subsequently filed an audited financial statement for 2002, but not for 2003.

135. On December 15, 2003, AlphaStar filed for bankruptcy protection under Chapter 11, which was later converted to Chapter 7. AIM was the only secured creditor of record.

136. Despite not having approval of the Chapter 7 Trustee, the individual defendants voluntarily consented to Realm being put into liquidation. On June 15, 2005, an Order of Liquidation was entered appointing the Superintendent of Insurance of the State of New York as Liquidator of Realm.

137. On August 31, 2006, the United States Bankruptcy Court approved the Stipulation of AlphaStar and AIM which resolved their disputes by, *inter alia*, the Chapter 7 Trustee's Quitclaim Bill of Sale transfer of SCNAH's stock in Realm to AIM.

138. AIM is entitled to an accounting requiring that the books and records of Realm be made available for a forensic accounting and inspection to determine the existence and nature of any accounting irregularities with the audited financial statements and statutory statements filed with the NYSDOI.

139. Defendants' improper and fraudulent acts and business practices described herein were willful and knowing acts of deception which misled both AIM and the insurance consuming public in a material way in violation of New York General Business Law §349(h)

140 Plaintiffs have no adequate remedy at law, and due to the Defendants' refusal to provide the audits set out above, are entitled to the relief set out in Paragraph 138 above, plus costs, attorneys' fees, litigation expenses and such other remedies as by equity is authorized.

141. Furthermore, as a result of Defendants' aforementioned fraud and clear violations of N.Y General Business Law §349(h), Plaintiffs are entitled to recover from Defendants and each of them Plaintiff AIM's actual damages, treble damages, attorneys' fees, litigations costs and expenses.

COUNT FOUR: BREACH OF CONTRACT

142. AIM restates and realleges Paragraphs 1 through 141 as though each said paragraph was stated herein in its entirety.

143. AIM shows that a contractual arrangement existed between AIM and Defendants, whereby AIM was entitled to earn certain fees and commissions as general agents for Defendants for certain PEO business which AIM procured and which business was bound by Defendants, for which business Defendants now wrongly try to deny coverage.

144. Defendants have breached the terms and conditions of this contractual arrangement and owe AIM certain earned fees and commissions which are currently in a sum in excess of $2,600,000.00.

145. Furthermore, AIM shows that a contractual arrangement existed between AIM and Defendants, whereby Defendants requested that AIM handle the initial claims arising under the PEO probram and the business bound and approved by Defendants while negotiations for the anticipated purchase and sale agreement were completed with the express understanding that AIM would be promptly reimbursed by Defendants for all claims they paid on behalf of Defendants, as well as for claims handling expenses advanced by AIM.

146. In detrimental reliance upon such contractual arrangement, and the promises and inducements made by Defendants, AIM handled and paid certain claims arising from Defendants' PEO program and paid certain third party vendors for incurred claims handling expenses.

147. Notwithstanding demand for reimbursement made by AIM to Defendants, Defendants have breached the terms of this claims payment agreement and have refused and continue to refuse to reimburse AIM for such claims paid, now owing AIM a sum which currently exceeds $3,210,000.00, plus an additional sum for third party vendors' claims handling expenses.

148. Moreover, Defendants owe AIM for moneys advanced by AIM to Defendants pursuant to the aforementioned Loan Agreement and Promissory Note. N0thwithstanding repeated demands by AIM to Defendants for repayment, Defendants have wrongfully refused to pay AIM the advances sums of $1,500,000.00; and Defendants owe AIM $1,500,000.00 as well as accrued interest, attorneys fees, etc.

VI. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs respectfully request that this court grant them the following relief:

a) That a declaratory judgment be issued that declares 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 Sioma as set out above, and that Defendant Realm is legally obligated to issue the certificates of

insurance and policies of insurance and policies of insurance as set out herein and be responsible for payment of any claims arising thereunder;

b) That Plaintiffs be awarded compensatory damages in an amount to be determined at trial, exclusive of interest and costs, but in any event, in an amount in excess of $75,000.00, resulting from Defendants' breach of contract;

c) That Plaintiffs be awarded punitive damages as a result of Defendants' malicious, willful, wanton, fraudulent and deceitful conduct directed at Plaintiffs and the public generally as set out in Count Two;

d) That Plaintiffs be granted an injunction requiring both the inspection of and preservation and securing of Realm's books and records;

e) As to Plaintiff's fraud claim as set out in Count Three, that Plaintiffs be awarded actual damages in an amount to be determined, trebled, together with costs, attorneys' fees and interest permitted by N.Y. General Business Law §349;

f) That AIM recover from Defendants for fees and commissions earned by AIM in Defendants' PEO program, said sum currently being in excess of $2,600,000.00;

g) That AIM recover form Defendants for claims paid on behalf of Defendants as part of Defendants' PEO program, said sum currently being in excess of $3,210,000.00, as well as advanced claims handling expenses, the exact amount which will be added by amendment;

h) That AIM recover from Defendants all sums advanced as part of the aforementioned Loan Agreement and related promissory note, which figure is

currently in excess of $1,500,000.00, as well as attorney's fees and costs of litigation associated with the collection of same;

i) That Plaintiffs be awarded the costs and disbursements of this action, including attorneys' fees and litigation expenses; and

j) That the Honorable Court grant such other and further relief as it deems proper in the premises.

Dated: Atlanta, Georgia

May 18, 2007

Respectfully submitted,

LOWENDICK, CUZDEY, EHRMANN,
WAGNER, STINE & SANSALONE, LLC

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

IN RE: ALPHASTAR INSURANCE GROUP LIMITED, ET AL.,	
PLAINTIFFS	2007 Civ. 00762 (RJH)
-against-	
AMERICAN INSURANCE MANAGERS, INC. ET AL.,	COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF
DEFENDENTS	

AFFIDAVIT OF SERVICE

Stanley A. Coburn, being duly sworn, deposes and says: deponent is not a party to the action, is over 18 years of age and resides in Georgia.

On May 18, 2007, deponent served the Complaint in the above styled action on the following Service List by first class mail.

Stanley A. Coburn

Sworn to before me this
18th day of May, 2007

Sandra L. Buchanan
Notary Public, Gwinnett County, Georgia
My Commission Expires March 19, 2010

Notary Public

SERVICE LIST

William McSherry, Esq.
Crowell & Moring, LLP
153 E. 53d Street
31st Floor
New York, New York, 10022
Counsel for all individually named
Defendants

Eric R. Dinallo
Superintendent of Insurance, State of New York
New York Department of Insurance

1646

Insurance Dept.
One Commerce Plaza
Albany, NY 12257
Liquidator of Realm National Insurance Company

1448

1647

xhibit A

rance Escrow." "Reinsurance Escrow" shall mean an amount representing one-half of f Realm's reinsurance recoverables on loss and loss adjustment expense payments at June

EXHIBIT A

1479

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

1480

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 1/10/08

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

1481

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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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Attorney for Plaintiffs

USDC SDNY
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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

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

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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.

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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.
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

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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AMERICAN INSURANCE MANAGERS, Inc., : 07 Civ. 00762 (RJH)

Plaintiff, :

-against- : **ORDER**

STEPHEN CRANE, et al, :

Defendant. :

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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
DOCUMENT
ELECTRONICALLY FILED
DOC #:
DATE FILED: 7/11/07

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.
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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

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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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Stanley A. Coburn (SAC-6318).
Admitted Pro Hac Vice
Lowendick, Cuzdey, Ehrmann, Wagner, Stein and Sansalone, LLC
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Georgia Bar No. 172100
Attorney for Plaintiffs

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)

COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF

COME NOW Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., by and through their counsel, and file this their Complaint against named Defendants and each named Defendant individually, and respectfully show the Court as follows:

PRELIMINARY STATEMENT

This complaint was originally filed in this Court on May 4, 2004 (*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). Service was had on all Defendants on January 16, 2004. 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").

Pursuant to this Court's Order of April 11, 2007, withdrawing the reference with respect to the Counterclaims, and directing that Plaintiffs file a complaint, Plaintiff's refile their claims previously asserted in the above actions. The revisions to the original claims are updates necessitated by the passage of time.

It will be necessary to realign the parties and restyle the case (as set forth below) to properly reflect the parties and claims. Plaintiffs will work with counsel for Defendants to accomplish this by consent and present an order to the Court.

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,	*	COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND FOR OTHER RELIEF

DEFENDENTS

COME NOW Plaintiffs American Insurance Managers Inc., American Insurance Management Group, Inc., and Atlanta Insurance Marketing, Inc., by and through their counsel, and file this their Complaint against named Defendants and each named Defendant individually, and respectfully show the Court 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, it has consented to the exclusive jurisdiction in the federal court of the City and County of New York. Since this suit was first filed, Realm has been put into liquidation and the Superintendent of Insurance of the State of New York has been appointed as Liquidator of Realm.

3. Non-party AlphaStar Insurance Group Limited ("AlphaStar") is a Bermuda Corporation. AlphaStar is a holding company.

16. 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 137 infra.)

17. In reliance upon various agreements and representations made to AIM by officers and directors of AlphaStar, SCNAH, and Realm, all of which are discussed with more particularly below, and in consideration for AIM making that certain loan to AlphaStar[2], 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 has 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.

18. Despite an express agreement and promise to do so made by SCNAH to AIM contained in that certain Loan Agreement, [See Paragraph Twenty-Four (24) infra], 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.

19. 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.

20. 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

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[2] 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 provisions of the Loan Agreement. The Loan was due and payable on October 22, 2003 and is in default.

terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004."

21. 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 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.

22. AIM is also seeking injunctive relief in the Court of Chancery in Delaware against AlphaStar and SCNAH for defaults under the Loan Agreement and Pledge Agreement, styled *Atlanta Insurance Marketing, Inc. v AlphaStar Insurance Group Ltd. And Stirling Cooke North American Holdings, Ltd.*, Case No. 20544-NC. The Case has been stayed as a result of the N Y Bankruptcy Action referenced above.

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IV. FACTUAL BACKGROUND

23. On or about October 2, 2002, AIM and SCNAH executed a Letter of Intent ("the Letter of Intent") (Exhibit "A" hereto), proposing that AIM or its affiliated assignee purchase from SCNAH all of the outstanding shares of common stock of Realm and World Trade Service Inc. ("WTS") for $12,000,000.00. The Letter of Intent provided that AIM and SCNAH would enter into a loan agreement pursuant to which, *inter alia,* AIM would loan to AlphaStar an amount up to $3,500,000.00, with loan balances to be credited against the purchase price of the share purchase transaction, and that Realm would appoint AIM its agent to sell insurance on Realm's behalf.

24. Also on or about October 2, 2002, AIM and AlphaStar entered into pledge agreement ("the Pledge Agreement") (Exhibit "B" hereto) and a loan agreement (the "Loan Agreement") (Exhibit "C" hereto). The Pledge Agreement and the Loan Agreement both recite that the parties entered into the Letter of Intent, despite the fact that the Letter of Intent, described in Paragraph Twenty-Three (23) herein, was executed by SCNAH, of which AlphaStar owned 100% of the common stock.

25. Pursuant to the provisions of the Loan Agreement, AIM agreed to loan AlphaStar the sum of $3,500,000.00. AlphaStar executed a Promissory Note (Exhibit "D" hereto) evidencing the loan.

26. Under the Pledge Agreement, AlphaStar pledged to AIM all of its 10,000 shares of common stock in SCNAH ("the Pledged Stock"), which constitute all of the issued and outstanding shares of SCNAH common stock, for the purpose

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of securing the repayment of the loan and any interest and other obligations under the Loan Agreement and the Note.

27. AIM made the first tranche of the loans to AlphaStar by transferring to it $200,000.00 on October 22, 2002 and $300,000.00 on October 23, 2002. On or about November 14, 2002, AIM made the second tranche available to AlphaStar, in the amount of $1,000,000.00.

28. Under Section 2.1(c) of the Loan Agreement, AIM was not required to fund any further amount under the loan facility until a definitive stock purchase and sale agreement was reached by the parties.

29. AlphaStar, Realm, WTS,[3] Stirling Cooke New York Insurance Agency Services, Inc. ("Agency"), SCNAH and American Insurance Managers Inc. executed that certain Stock Purchase Agreement dated March 23, 2003 (Exhibit "E" hereto).

30. Pursuant to the provisions of the Stock Purchase Agreement, SCNAH agreed to sell three (3) of its subsidiaries to American Insurance Managers Inc., being Realm, WTS and Agency.

31. Pursuant to Section 6.2 of the Loan Agreement, AlphaStar agreed to make its books and records available to AIM for inspection upon reasonable notice:

> 6.2 Books, Records and Inspections. The Borrower will permit officers and designated representatives of the Lender to visit and inspect the books of record and account of the AlphaStar at such times and intervals and to such extent as the Lender [AIM] may reasonably request upon advance notice.

[3] Non-party World Trade Services, Inc. is a subsidiary of SCNAH, and is a signatory to the Stock Purchase Agreement.

32. AIM retained the audit firm of Israeloff, Trattner & Co. to inspect the books of record and account of AlphaStar and its subsidiaries. On November 12, 2002, Brian W. Imperiale ("Imperiale"), AIM's chief financial officer, contacted Sioma at Realm and forwarded a request that AIM be permitted to inspect the books of record and account.

33. One week later, Sioma responded to Imperiale and asked when the auditors would arrive. Imperiale replied that the first due diligence meeting was scheduled for the first week of December 2002. After AIM arrived at the New York office of Realm, Lawson and Crane locked AIM's representatives out of the office.

34. Thus the due diligence meeting never occurred. Lawless, general counsel for AlphaStar, SCNAH and Realm, canceled the meeting and the entire due diligence process, stating that it was "...out of the question."

35. The Loan Agreement reads in pertinent part as follows:

> "SCNAH Restricted Subsidiaries" shall mean, collectively, Stirling Cooke New York Insurance Agency Services Inc., a New York corporation; Stirling Cooke North American Reinsurance Intermediaries Inc., a New York corporation; Realm National Insurance Company, a New York insurance company; and World Trade Services, Inc., a New York corporation.

By letter dated December 11, 2002, Howard A. Becker, counsel to AIM, demanded that AIM be permitted to inspect the books of record and account of AlphaStar and of any SCNAH "Restricted Subsidiary," including Realm, as defined in the Loan Agreement.

36. AIM has continually been denied the opportunity to inspect the books and record of account of AlphaStar and of Realm, a Restricted Subsidiary, in breach of Section 6.2 of the Loan Agreement.

A. **Misrepresentations Concerning Realm's Authority To Do Business And Compliance With State Regulations**

37. Section 5.12 of the Loan Agreement states:

> 5.12 Compliance with Statutes, etc. Each of the Borrower [AlphaStar], SCNAH and the SCNAH Restricted Subsidiaries [which include Realm, among others] is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property....

38. On October 15, 2002, before AIM made any of the loan facilities available, Crane furnished to AIM a compliance certificate (the "Compliance Certificate") (Exhibit "F" hereto) affirming that AlphaStar was in compliance with each and every condition contained in the Loan Agreement.

39. Contained in Realm's quarterly filings with the New York State Department of Insurance ("NYSDOI") and its audited financial statement for the years 2000 and 2001, upon which AIM relied in making the loan facilities available to AlphaStar, Realm represented that it was licensed to sell policies of insurance in twenty-four (24) states. Two (2) of those states were North Carolina and Georgia.

40. In fact, Realm was prohibited from issuing new policies in North Carolina and had been so prohibited since July 2002. At not time prior to entering into the Loan Agreement did AlphaStar disclose to AIM that Realm had lost its ability to write new business in North Carolina.

41. On or about December 24, 2002, after AIM entered into the Loan Agreement and made the first two tranches of loans to AlphaStar, AIM first learned that Realm was not authorized to write new business in Georgia, and that the

prohibition against writing new business in Georgia had occurred prior to the execution of the Loan Agreement.

42. At no time did AlphaStar disclose to AIM that Realm had lost its ability to write new business in Georgia.

43. The Compliance Certificate described in Paragraph Thirty-Eight (38) herein was a willful and fraudulent misrepresentation, intended to deceive and mislead AIM, and upon which AIM reasonably relied to its detriment.

44. As a New York insurance company, Realm is subject to the rules and regulations of the NYSDOI Realm failed to file audited financial statements with the NYSDOI on May 31, 2003 and, as a result, is not incompliance with the NYSDOI's rules and regulations.

B. Misrepresentations Concerning the Financial Statements and Compliance with Statutes

45. Section 5.12 of the Loan Agreement provides as follows:

> 5.12 Compliance with Statutes, etc. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls).

On June 27, 2003 AIM's counsel wrote to SCNAH's counsel, Lawless, as follows: "Additionally, now that Realm has failed to file the audited financial statements as required by law with the New York Insurance Dept., representation 5.12 of the loan agreement is now no longer true and correct. Demand is made that you bring that representation back into compliance immediately by filing the audit." Lawless responded, "Your demand is noted."

As previously stated, Realm's statutorily mandated audit remains unfilled with the NYSDOI. Accordingly, the representation contained in Section 5.12 regarding compliance by SCNAH Restricted Subsidiaries, including Realm "[w]ith all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies," remains a continuing breach of the Loan Agreement.

46. Section 5.5 of the Loan Agreement provides as follows:

> 5.5 Financial Statements. The audited balance sheet and income statement of the Borrower as of December 31, 2001, (collectively the "2001 Financial Statements"), fairly presents the financial position of the Borrower as at the date thereof, and the results of its operations for the year then ended, and has been prepared in accordance with generally accepted accounting principles, consistently applied, and in a manner substantially consistent with prior financial statement of the Borrower. The unaudited balance sheet and income statement of the Borrower as at June 30, 2002, and for the six months then ended (collectively, the "June 30, 2002 Financial Statements") fairly present the financial position of the Borrower as at the date thereof and the results of operations for the six months then ended and have been prepared in accordance with generally accepted accounting principles consistently applied and in a manner substantially consistent with the 2001 Financial Statements, except for differences resulting from normally occurring accruals or adjustments, or as noted in the June 30, 2002 Financial Statements or the notes thereto. Except as contemplated by or permitted under this Agreement, there are not adjustments that would be required on review of the June 30, 2002 Financial Statements that would, individually or in the aggregate, have a material negative effect upon the Borrower's reported financial condition.

47. The June 30, 2002 Financial Statements, as defined in the Loan Agreement, were materially false and misleading and materially overstated the assets of AlphaStar and its Restricted Subsidiary, Realm.

48. On or about December 27, 2002, Realm, SCNAH and AlphaStar filed a 31-page Complaint captioned *Realm National Insurance Co., et al., v. American Insurance Managers, Inc., et al.*, C.A. No. 02 CV 10278 (RMB) in the

United States District Court of the Southern District of New York, against AIM and two affiliates of AIM (the "New York Action"). Plaintiffs in the New York Action sought a temporary restraining order, injunctive and declaratory relief, damages and imposition of a constructive trust, allegedly "to stop a recently-discovered fraud on the general public, multiple state regulatory agencies and the plaintiffs in this action"[4] that would expose Realm to "incalculable claims, loss of business, and damage to its reputation and good will, as well as regulatory scrutiny and potential disenfranchisement...."[5]

49. The Court in the New York Action denied the Plaintiffs' motion for a temporary restraining order.

50. AIM and the other defendants in the New York Action noticed the deposition of KPMG, AlphaStar's auditors, for September 12, 2003 and issued a subpoena to KPMG, in an attempt to discover information concerning Realm's finances. ON August 14, 2003, the NYSDOI had indicated that it would consider taking regulatory action against Realm within thirty (30) days if such statements were not filed. If such action is taken, it will have a material adverse effect on the business of Realm. The deposition was scheduled by AIM without opposition from AlphaStar, despite the fact that a Rule 26(f) discovery scheduling order had not yet been filed in the case.

51. ON September 11, 2003, counsel for KPMG moved to quash the subpoena. A United States Magistrate scheduled a telephone conference call for September 16, 2003 to consider KPMG's Motion To Quash. Approximately fifteen

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[4] N Y Action ¶1
[5] N Y Action ¶4

(15) minutes before the scheduled call, AlphaStar's attorney called AIM's attorney to advise that AlphaStar had dismissed the New York Action.

52. Upon information and belief, Plaintiffs dismissed the New York Action in order to prevent inquiry of its auditors, KPMG, which inquiry would reveal the false and misleading nature of the June 30, 2002 Financial Statements, as defined in the Loan Agreement.

53. Two recent filings with the Securities and Exchange Commission confirm the likely existence of accounting irregularities.

54. On November 3, 2003, AlphaStar filed a Form 8-K[6] (the "November 3 Form 8-K"), wherein the company disclosed the resignations of all of the independent directors. The November 3 Form 8-K states in relevant part:

> Messrs. David H. Elliott, Hadley C. Ford and Patrick J. McDonough, tendered their resignations from the Board of Directors of the Company, effective August 29, 2003. Messrs. Elliott, Ford and McDonough *comprised all of the independent directors of the Company,* and *all of the members of the Audit Committee* of the Board of Directors.... Neither Mr. Elliott, Mr. Ford, or Mr. McDonough resigned because of any disagreement with the Company on any matter. (emphasis added).

55. KPMG, AlphaStar's independent auditor, also resigned.

56. The November 3 Form 8-K further states in relevant part:

> On September 16, 2003, KPMG LLP ("KPMG"), the independent auditors for AlphaStar Insurance Group Limited (the "Company"), notified the Company that the auditor-client relationship between KPMG and the Company had ceased.
>
> During April 2003, and pending the finalization of the Company's 2002 Form 10-K filing, KPMG advised the Company of the need to expand the scope of its audit, due to the absence of transactional-level data deemed necessary by KPMG to conclude on the fair presentation as of year-end 2002 of the agents' balances receivable account (the "2002 Agents' Account") at a significant subsidiary of the Company. KPMG expanded the scope of its audit work accordingly and the Company thereafter undertook and extensive

[6] The November 3, 2003 Form 8-K is attached hereto as Exhibit "G."

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effort to supplement the information, made available to KPMG regarding the 2002 Agents' Account ("Supplemental Work").

On August 5, 2003, KPMG first informed the Company, in a presentation to the Audit Committee of the Company's Board of Directors, that information received as a result of the Supplemental Work caused KPMG to determine that further investigation was necessary and that such investigation may (i) materially impact the fairness or reliability of either a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent financial statements covered by an audit report on those financial statements. Specifically, KPMG stated that the extent of the additional work necessary to enable KPMG to opine in respect of the 2002 Agents' Account had caused it to require a re-audit of the balances reflected in the accounting records of Realm for the Agents' Account for the fiscal year ended December 31, 2001 (the "2001 Agents' Account"), and possibly all December 31, 2001 balance sheet accounts for the Company and its subsidiaries, which accounts had been audited and certified by Arthur Andersen. KPMG thereafter requested that the Company undertake additional work in respect of the year-end 2001 Agents' Account.

* * *

The Company subsequently engaged a new auditor, Johnson Lambert & Co.

57. On November 14, 2003, KPMG submitted a letter to the Securities and Exchange Commission identifying numerous exceptions that KPMG had with respect to AlphaStar's characterization of KPMG's findings and its reasons for terminating its relationship with AlphaStar (the "November 14 Letter"), which letter is attached hereto as Exhibit "H." The November 14 Letter states in pertinent part:

> We do not agree with the Company's statement in Paragraph (d) (1) that "KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's

satisfaction, would prevent it from rendering an unqualified audit report on those financial statements, irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report)".

Prior to our resignation KPMG had communicated to the Company that KPMG's report would include a reference to substantial doubt concerning the ability of the Company to continue as a going concern.

Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed before KPMG could perform whatever other audit procedures were deemed necessary to complete the audit of the December 31, 2002 financial statements:

(1) Completion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts;
(2) Completion of audit procedures related to the adverse litigation decision, as referred to in Paragraph (d)(1); and
(3) Resolution of the accounting and disclosure for the operations of certain subsidiaries, the sales of which were pending but had not been completed, and the completion of the related audit procedures.

58. The November 3 Form 8-K and the November 14 Letter provide further support for the concerns voiced by AIM's auditors that there appear to be material accounting irregularities related to AlphaStar and its subsidiaries, particularly Realm.

59. As part of its initial due diligence, AIM sought information regarding litigation that ultimately resulted in an adverse judgment rendered against a subsidiary of AlphaStar in the United Kingdom. In an email responding to the request for information, Crane stated:

----Original Message----

From: Stephen_Crane.BDACOS@bdacos.bm
[mailto:Stephen_Crane.BDACOS@bdacos.bm]
Sent: Tuesday, November 19, 2002 11:35 AM
To: dds@aimmanagement.com
Subject: Alston & Bird Due Diligence

Dear David:

Attorneys from A&B have asked Jim Lawless for materials relating to the Stock Purchase Agreement Drake case in London. I wanted to bring this to your attention because of the cost and time implications of letting them get down into that bottomless pit. I believe we had convinced you and WEMED that the properties you are buying are not significantly exposed to that litigation, and WEMED was not pursuing it in their due diligence. Inasmuch as the case is likely to be decided long before it has any material adverse affect on RNIC or WTS. In my opinion, there is not need for them to get an education (and probably an irrelevant one) at substantial expense to you.

Regards,

Stephen

60. On July 8, 2003, the High Court in London issued and Order[7] in excess of 1500 pages regarding the litigation referenced in the preceding paragraph.

In the High court ruling, Mr. Justice Thomas stated that defendants Euro International Underwriting Ltd. and Stirling Cooke "[a]cted with grave dishonesty" when broking and underwriting US Workers' Compensation business. Mr. Justice Thomas further ruled that the defendants had engaged in a...

> "chronicle of deception that induced insurers to become involved in a business in which they would never have been involved if the business had been properly explained to them" and "there was thereafter an attempt to lock them into that business."

Justice Thomas was particularly scathing in his view of Nicholas Brown, who founded Stirling Cooke with Mark Cooke.

> "Mr. Brown was the driving force in the dishonest enterprise which I have described in this judgment," stated Justice Thomas. "He was motivated by ambition to make SCB a full-service insurance company and by greed in

[7] See Spere Drake Insurance Ltd. V. Euro International Underwriting, [2003] All ER (D) 160 (Jul).

earning large sums of money through brokerage of the business provided...The business transacted by Stirling Cooke has already caused losses of approximately $250 million." "The overall sums at issue in the action are large; on some programmes the losses are in excess of $10m with one programme sustaining a loss of over $71m (a loss ratio of 7,300%); the total losses sustained thus far are in the order of $250m." "There are a considerable number of related actions and arbitrations here, in Bermuda and in the United States; the total sums at issue that have been lost in this reinsurance market are very much larger ..."

The claimants in the United Kingdom action were Sphere Drake Insurance Ltd. (formerly Sphere Drake Insurance PKC) and Odyssey Re (London) Ltd. The defendants were Euro International Underwriting Ltd., John Hubert Whitcombe, Christopher Reginald, Colin Henton, Stirling Cooke Brown Reinsurance Brokers Ltd, Stirling Cooke Brown Insurance Brokers Ltd, Nicholas Brown and Jeffrey Ronald Butler.

* * *

"It has been estimated that the losses will run into the billions."

C. **Execution and Breach of the Stock Purchase Agreement**

61. As previously stated, the parties, including Realm, executed the Stock Purchase Agreement on March 23, 2003.

(1) **SCNAH's Refusal to Comply With Provisions Establishing the Purchase Price**

62. Section 2.02 of the Stock Purchase Agreement provides that the Purchase Price is to be based upon Final Balance Sheets, defined on page 3 of the Stock Purchase Agreement as follows:

"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.

63. SCNAH, the Seller under the Stock Purchase Agreement, failed to deliver Final Balance Sheets to Buyer on or before April 1, 2003. SCNAH requested and was granted a one day extension of that deadline. SCNAH failed to deliver Final Balance Sheets on or before April 2, 2003 and has never delivered such Final Balance Sheets. As a result, Section 2.07 of the Stock Purchase Agreement gave Buyer the right to select an alternative CPA firm of its choice and to estimate the Purchase Price, "which estimate shall be final and binding on the parties."

64. Section 2.07 also states:

> If Buyer elects to select an Alternative Auditor to determine its estimate of the Purchase Price, [SCHAH] 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.

65. Buyer selected Israeloff, Trattner & Co. ("Israeloff") as an alternative CPA firm pursuant to Section 2.07, which determined a Purchase Price of $1,500,000.00.

66. On or about June 1, 2003, pursuant to Section 2.07, and based upon the estimate of Israeloff, Buyer advised SCNAH that the Purchase Price was $1,500,000.00. A copy of the Israeloff letter setting forth its estimate is attached hereto as Exhibit "I."

67. On June 12, 2003, Buyer's counsel sent an email to Lawless, demanding to know if Seller intended to sell the Realm shares at the price set by Israeloff. On June 17, 2003, SCHAH, through Lawless, advised Buyer that it did not

acknowledge Buyer's right to close at the price determined by Israeloff. Buyer reiterated its demand on July 1, 2003, and Seller responded that the demand be retracted, which request Buyer refused.

68. By refusing to acknowledge AIM's right to purchase Realm for the binding purchase price set by the alternative auditor in accordance with Section 2.07, the Seller, SCNAH, anticipatorily breached the Stock Purchase Agreement.

(2) **SCNAH's Refusal to Proceed to First Closing Pursuant to Stock Purchase Agreement**

69. By letter dated July 1, 2003, Buyer notified SCNAH that it was prepared to proceed to First Closing under the Stock Purchase Agreement and that the closing occur between July 8, 2003 and July 11, 2003.

70. SCNAH failed to respond to the letter and refused to proceed to First Closing as required by the Stock Purchase Agreement. Seller's willful failure to close constituted a further breach of the Stock Purchase Agreement by SCNAH.

(3) **SCNAH's Breach of Section 2.04(f) of the Stock Purchase Agreement**

71. Section 2.04(f) of the Stock Purchase Agreement states that at the First Closing:

> (f) [SCNAH], 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.

72. At a meeting held at its offices on the morning of August 13, 2003, SCNAH advised Buyer that it had met with representatives of the NYSDOI. SCNAH represented that because its subsidiary Realm had failed to deliver the December 31, 2002 statutory audited financial statement to the NYSDOI as required

under the New York Insurance Law, Realm had been directed by the NYSDOI not to deliver the Certificates of Insurance required by Section 2.04(f) until such time as Realm had filed and audited financial statement with the NYSDOI. Accordingly, SCNAH breached Section 2.04(f) of the Stock Purchase Agreement. Additionally, said breach has rendered a First Closing under the Stock Purchase Agreement impossible.

D. **Realm's Direction to AIM to Non-Renew Certain Policies**

73. On March 25, 2003, Realm appointed Bruce S. Holley ("Holley"), AIM's VP of Underwriting, Realm's agent in Georgia. That appointment remains active as of the date of this Complaint. A copy of Holley's insurance license evidencing his appointment as an agent of Realm is attached hereto as Exhibit "J."

74. Pursuant to Section 5.02(m) of the Stock Purchase Agreement, Realm was contractually obligated to maintain an underwriter at AIM's office:

> (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 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 seven Business Days after a request for such insurance coverage is made.

The individuals who fulfilled this role for Realm were Sioma and Roni Zinnert ("Zinnert"), Realm's Vice President of Underwriting.

75. On May 16, 2003, Zinnert sent the following email communication to Holley regarding customers of Xcelerate, one of the PEOs whose coverage Realm disputes:

From:	Roni Zinnert.BDACOS@bdacos.bm
Sent:	Friday, May 16, 2003 2:57 PM
To:	bholley@aimmanagement.com
Cc:	Mark Sioma.BDACOS@bdacos.bm
Subject:	Cancellations

Bruce,

In reviewing the Xcelerate file, I noticed that several of them (20 or more) had letters from the PEO notifying you that the client had been terminated as a client of the PEO. They use the phrase "please see that their coverage is terminated"

You need to communicate in writing to all of the PEOs the laws regarding cancellation of these client policies. And, AIM needs to develop internal procedures to ensure that these clients are handled appropriately.

We must follow the statutes for each state as respects cancellation.

Our policy is issued to each individual client.. Their contract with RNIC [Realm] cannot be "cancelled" by the PEO. AIM must continue to service each policyholder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes. (emphasis supplied)

76. Despite Realm's claims to the contrary, Zinnert's statement constitute an admission by an executive officer of Realm that it has policies of insurance not with the PEOs but with the PEO's clients whose "contract with RNIC (Realm) cannot be cancelled by the PEO", and further, that "AIM must continue to service each policy holder until such time as notice of cancellation or non-renewal is sent in compliance with state statutes." Such communication from Zinnert

constituted the instruction of a principal to its licensed agent regarding a matter within regarding a matter within the scope of the agent's engagement. The agent was under a fiduciary duty to comply with the lawful instruction from its principal.

77. Other than certain PEO clients who have a rating of nine (9) and ten (10) as defined by the mutually agreed-upon underwriting guidelines, AIM was never instructed by Realm to non-renew the vast majority of the PEO clients who received ACORD certificates.

78. Each state has a statutory scheme for the non-renewal of policies of insurance, a fact well known to Realm. In many states, failure to serve a notice of non-renewal in accordance with the state's statutory insurance scheme is tantamount to renewal of the policy of insurance by operation of law. Should this court determine that the policies of insurance were properly issued in the first instance, Realm's failure to non-renew the policies as by law provided would have the effect of renewing those policies for an additional term by operation of law.

V. PLAINTIFFS' CLAIMS

COUNT I: ACTION FOR DECLARATORY JUDGMENT THAT REALM BOUND THE INSURANCE COVERAGES IT IS NOW SEEKING TO AVOID

79. AIM restates and realleges Paragraphs One (1) through Seventy-eight (78) as though each said paragraph was stated herein in its entirety.

80. As stated previously, AIM, AlphaStar and SCNAH entered into various agreements whereby it was agreed that AIM would provide a credit facility to AlphaStar in exchange for being appointed an agent of Realm, and Realm would

agree to provide worker's compensation insurance coverage to PEOs submitted to Realm for approval in accordance with Realm's underwriting guidelines.

81. On September 17, 2002, Crane sent AIM's CEO, David Dennett-Smith ("Dennett-Smith"), an email stating:

> ***We are in agreement with all the major terms and conditions you have proposed regarding your proposed purchase of RNIC and WTS. We have studied your business plan and believe it is sound and likely to gain the approval of New York State Department of Insurance ("DOI"). We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at reasonable cost.***
>
> What remains as an outstanding matter for us is to receive from you some evidence of AIM's financial wherewithal and commitment to complete the transaction, without which we cannot afford to proceed through a long and burdensome due diligence and regulatory approval process. ***While we understand the nature and the mechanics of the plan via which you will secure financial commitments form subscribing PEOs,*** it will not provide us with the desired assurance soon enough. [emphasis supplied]

82. AIM's business plan encompassed the acquisition of Realm. During the period pending completion of the acquisition, Realm was to appoint AIM its agent, AIM was to market its workers' compensation program to PEOs, and AIM would bind the coverage only after Realm's underwriters approved the PEO submissions in accordance with underwriting guidelines that had been mutually agreed upon by the parties.

83. Because of the unique nature of the AIM workers' compensation program, prior to the time the risk could be assessed by reinsurers to establish the percentage of the gross premium to be charged for payment of reinsurance for the excess layers of protection the reinsurers were to provide, an initial book of business had to be written so the reinsurers could engineer the amount of exposure so that an

appropriate rate on line could be established. It was for this reason that the "book" AIM presented to Sioma had to be accepted or rejected at the November 8 meeting, or there would have been no reason for a subsequent presentation by Realm to reinsurers at the meeting in Bermuda on November 22, 2002.

84. Preliminary slips for reinsurance coverage were provided by AIM to Realm/AlphaStar/SCNAH in late August 2002. These were the slips upon which Crane based his statement, "We are also impressed with the progress you have made in arranging secure reinsurance in a well designed program that should provide ample protection for RNIC at a reasonable cost." See Paragraph Eighty-One (81), *supra*.

85. The parties initially agreed that AIM would be a managing general agent. Managing general agents have substantially more authority to act on behalf of an insurance company than a general agent. Because of this extraordinary amount of authority, managing general agents are regulated by the NYSDOI.[8]

86. Thereafter, the parties agreed that AIM would be a general agent, as opposed to a managing general agent. Other than requiring licensure akin to estate agents and brokers, general agents do not require regulatory approval under the New York Insurance Law, a fact well known to Realm and Sioma.[9]

87. It is customary and usual in the insurance industry that agents will begin to act as representatives for insurance companies well before any type of written agreement is actually executed between the parties, with the understanding that the paperwork memorializing the relationship will be executed in due course.

[8] First Amendment To Part 33 of Title 11 of the Official Compilation of Codes, Rules and Regulations (Regulation No. 120), as promulgated by the Superintendent of the New York State Insurance Department, "Managing General Agents." A copy of the said Statute is attached hereto as Exhibit "K."
[9] Section 33.4(a)(2)(i),First Amendment To Regulation 120, *infra*

88. On August 29, 2002, there was a meeting at Realm's office in New York. The following persons were in attendance:

Name	Representing
Steven Crane	Realm
Mark Sioma	Realm
Anthony Del Tufo	Realm
Steven Gross	Gross Collins[10]
Steve Kent	WEMED[11]
Joseph Zaffarese	Midland Intermediaries
David Dennett-Smith	AIM
Steven Landin	AIM

The purpose of the August 29, 2002 meeting was to discuss the nature of the relationship between the parties, the reinsurance wordings and forms, and the reinsurance proposals provided by Realm's intermediaries. The proposed reinsurance placement slips as well as a draft captive worker's compensation reinsurance agreement had previously been forwarded to Realm on August 27, 2002 by Midland Intermediaries Inc. ("Midlands"). After discussion, the parties mutually agreed that Midlands would proceed to seek reinsurance for AIM's worker's compensation program written through PEOs, with PEOs being endorsed as an additional named employer once a sufficient book of business had been written to enable the book to be quoted.

[10] The accounting firm of HLB Gross Collins P.C., Certified Public Accountants
[11] The law firm of Wilson, Elser, Moskowitz, Edelman & Dicker LLP

89. AIM had previously provided a "boiler plate" managing general agency agreement for consideration by Realm. Crane advised Dennett-Smith that he preferred a general agency agreement to a managing general agency agreement. Crane's stated objection was his desire to circumvent the burdensome regulatory requirements that are concomitant with managing general agency agreements under New York law. Dennett-Smith agreed, and Sioma was instructed by Crane to revise the managing general agency agreement form provided by AIM in order to be sure that it complied with New York State insurance regulations.

90. Despite being instructed by Crane to do so at the August 29 meeting, Sioma failed to revise the managing general agency agreement form immediately. Sioma waited until November 2002, at which time he asked AIM to provide him the managing agency agreement in electronic form so that he could use it as a starting point for his edits.

91. At the August 29 meeting, the parties also mutually agreed that AIM would have the authority to bind coverage, subject to Realm's ability to underwrite and approve the submissions, and that Realm would have the ability to review, approve and adopt AIM's proposed underwriting guidelines. Additionally, Sioma was made responsible to assure that all reinsurance that was placed was done so in accordance with New York statutory guidelines.

92. Having established a working agenda to proceed with the transaction, the August 29 meeting adjourned, it being the mutual goal of the parties to commence the steps necessary to put business on the books to comply with Max Re's requirements of a minimum of $50,000,000.00 in premium to attach effective

October 1. Max Re is a reinsurance company that had been introduced to the transaction by Realm's intermediary, Midland's Intermediaries Inc, whose president is Joseph Zaffarese ("Zaffarese"). Max Re had expressed an interest in providing reinsurance for the program, but required that a $50,000,000.00 book first be written in order for it to be rated for premium purposes. Max Re had agreed that in the event it agreed to provide the slips, cover would attach as a October 1, 2002.

93. Prior to the August 29, 2002, meeting and in contemplation thereof, Steven Kent Esq., of WEMED, AIM's counsel at the time, had a telephone conversation with Crane and Lawless. Following the conversation, Kent prepared a "Memorandum of Conversation." The final Paragraph on page 2 reads, in pertinent part:

> The final issue we discussed are the MGA deal points which were discussed during the 8/12 meeting. Mr. Crane wants the MGA deal points to be consistent with what was described by DDS at the 8/13 meeting at Realm's offices on Maiden Lane. Steven does not believe that AIM should be 'given the pen' for its placements with Realm'. **AIM can have binding authority** but AIM should agree to follow Realm's underwriting agreements [sic] guidelines **and all placements should be subject to the approval of Realm's underwriters.** (emphasis supplied) I suggested to Mr. Crane that he directly contact David to discuss this issue.

A copy of the said Memorandum is attached hereto and incorporated herein as Exhibit "L."

94. Thereafter, with the full knowledge and consent of the Defendants, AIM proceeded to introduce its workers' compensation program to various PEOs located in the states where Realm was licensed to transact business. By November 8, 2002, AIM had qualified eight (8) PEOs by reviewing submissions presented in accordance with guidelines mutually agreed upon by the parties with

a combined total annual premium of approximately $10,000,000.00. Sioma appeared at AIM's office on November 8, 2002 to review the submissions in accordance with the agreement between the parties to determine if the submission complied with the underwriting guidelines, among other reasons.

95. At the meeting, Sioma met with Holley, AIM's Vice President of underwriting and reviewed the PEO submissions. After having reviewed the information he deemed pertinent with regard to each of the PEO clients, Sioma agreed that the book of business Holley presented to him on AIM's behalf and authorized Holley to cause the issuance of the certificates evidencing the coverage.

96. In reliance upon Sioma's confirmation that the coverage was bound, and with Realm's full knowledge and consent, AIM caused ACORD certificates to be issued to the clients of the PEOs stating that workers' compensation coverage had been issued to them by Realm as the insurer.

97. Additionally, at the November 8 meeting, Sioma also met with representatives of Crawford & Company ("Crawford"), a well-respected third party administrator that provides a number of services to the insurance industry throughout the country. While no written agreement was executed, AIM retained Crawford to provide it with services to adjust claims that were incurred by insureds under the program. Crawford continued to provide this service with Realm's full knowledge and acquiescence through October 2003, when Crawford received a letter directing it to cease and desist from providing these services on Realm's behalf. Despite assertions contained in the letter to the contrary, Realm

was fully aware that Crawford was providing these services to PEO clients of AIM. In an email from Zinnert to Holley on May 23, 2003, Zinnert writes in pertinent part:

From: Roni Zinnert.BDACOS@bdacos.bm
Sent: Thursday, May 22, 2003 5:01PM
To: bholley@aimmanagement.com; bimperiale@aimmanagement.com
Cc: Mark Sioma.BDACOS@bdacos.bm; Dan Green.BDACOS@bdacos.bm

Bruce, Thanks for forwarding the updated loss info. I have a couple of observations. The first list below is the loss listing for clients who have hazard code 9 and/or 10 in their schedules. I know that Ricky was working on getting "no loss" letters from the other clients who have hazard 9 and /or 10.

The second listing is the claims for clients whom I cannot identify from the PEO spreadsheets that we have. Can you please review this list and let me know the name of the clients to match up with the rating info, so that I can determine if any 9s or 10s are part of those clients. If the clients are "new" to the PEO, I will need to see a revised spreadsheet that includes the class codes for those clients and the effective date of coverage.

And, thanks for the clarification regarding the September claims. Sounds like Crawford is handling appropriately and will close them. (emphasis supplied)

98. Having bound the initial portion of the portfolio of business, a meeting was held in Hamilton, Bermuda on November 13, 2002 with Max Re. The meeting was organized by Zaffarese, President of Midland, Realm's intermediary. The meeting was attended by Zaffarese, Sioma, Dennett-Smith and Bill Yit ("Yit"), Senior Vice President, FCAS of Max Re. Yit was particularly interested in, among other things, the nature of the relationship between AIM and Realm. In Zaffarese's presence, Sioma indicated to Yit that AIM was acting in the capacity of an agent of Realm.[12]

[12] Zaffarese Affidavit, NY Action (attached hereto as Exhibit "M")

99. Thereafter, a second meeting was held in Hamilton, Bermuda on November 22, 2002. The meeting was attended by Sioma, Francis J. Carter ("Carter"), Dennett-Smith, Yit, Robert Conney, David Brining, Keith Hynes, Holley, Simon Everett and Reese Bowen. It was held at the offices of Max Re, a reinsurance company. Carter, president of Uberrimae Fidei Insurance Company Ltd. Generated a set of meeting notes for his files, a copy of which are attached to his affidavit, filed in the New York Action. In his affidavit, Carter stated,

> "[t]he notes accurately reflect the substance of what occurred at the meeting. Additionally, it should be understood that the reinsurers were particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to the reinsurers that AIM was acting in the capacity as an agent of Realm with the ability to bind business on Realm's behalf, and that $10,000,000 of premium had been bound."[13]

100. Additionally, Holley, who also attended the November 22, 2002 meeting, reviewed Mr. Carter's notes and filed an affidavit in the New York Action. In his affidavit, Holley stated that Carter's notes accurately reflect what transpired at the meeting. "Sioma confirmed to the reinsurers [Max Re] that AIM was an agent of Realm with authority to bind business on Realm's behalf and that the agreement would remain in place both prior to and subsequent to AIM's purchase of Realm."[14]

101. On November 20, 2002, Sioma, without notification to AIM and prior to the meeting that occurred in Hamilton, Bermuda on November 22, 2202, wrote a letter to the Florida Department of Insurance essentially acknowledging that negotiations between AIM and Realm were ongoing, but unequivocally

[13] Carter Affidavit, ¶4, NY Action (attached hereto as Exhibit "N")
[14] Holley Affidavit, ¶11 (attached hereto as Exhibit "O")

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stating that AIM was not an agent of Realm and had no authority to bind business on its behalf. Despite having written the letter, Sioma appeared at the meeting on November 22 and affirmed to reinsurers that AIM was Realm's agent and that a book of business of $10,000,000.00 had been written and bound.

102. Thereafter, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote to a letter to insurance commissioners in every state in which Realm is licensed to transact business, stating that AIM was not an agent of Realm and the certificates had been issued without authority and were void *ab initio.* A sample letter is attached hereto as Exhibit "P."

103. Additionally, at the direction of Crane and Lawless, Sioma, as President of Realm, wrote a letter to each of AIM's PEO clients, stating that AIM was not an agent of Realm, and that the certificates that had been issued without authority and were void *ab initio.* A copy of a sample letter to the PEO clients is attached hereto as Exhibit "Q."

104. At all times relevant hereto, AIM was acting as an agent of Realm, with actual and apparent authority. The issuance of the ACORD certificates were within the scope of AIM's authority as an agent of Realm and, furthermore, were issued with Realm's full knowledge and consent. The issuance of the certificates was proper, was approved by Sioma in his capacity as president of Realm at the meting held in Atlanta on November 9, 2002 and was ratified by him in discussion with third parties at the meetings held in Bermuda on November 13, 2002 and November 22, 2002. Sioma's conduct and statements, made in his capacity as President of Realm, confirmed AIM's position as an agent of Realm

and obligated Realm to issue policies of insurance to customers of the PEOs in accordance with the ACORD certificates AIM caused to be issued in its capacity as Realm's agent.

105. In the alternative, assuming *arguendo* that AIM was not an agent of Realm when it caused the ACORD certificate to be issued, which AIM specifically denies, each state in which an ACORD certificate was issued has a statutory scheme for the cancellation of wrongfully issued insurance policies. Realm failed to cancel the policies in accordance with the statutory schemes. By failing to comply with the statutory mandate of each state, the statement contained in Realm's letter to the putative insureds, that the ACORD certificates were void *ab initio*, was ineffective as a matter of law to effect a cancellation of the allegedly wrongfully issued certificates. Accordingly, the certificates remain in full force and effect in accordance with their terms because Realm failed to effect a proper cancellation of the certificates. As such, Realm remains obligated to issue policies of insurance to the insureds appearing on the ACORD certificates, and is "on the risk" for said certificates.

106. Currently, there are investigations ongoing in the states on Missouri, Oklahoma, Texas, Alabama, Florida, South Carolina, New Mexico, Pennsylvania and New York regarding this matter. Additionally, AIM has been sued in Texas by (4) customers of one of the PEOs. The plaintiffs in the Texas suit claim that they purchased workers' compensation coverage, but that none was provided.[15] On December 4, 2003, The Texas Department of Insurance

[15] *D & A Steel Erectors, Inc. et al. v. Corporate Solutions Inc., et al.*, District Court, Hidalgo County, Texas 92nd District Court, Judicial District of Texas, File No. C-2764-03-A

demanded that AIM "...voluntarily agree to begin terminating all existing Texas PEO business, and that everyone will be terminated by March 1, 2004," and further demanded that AIM respond to the Texas Insurance Department's demand within ten (10) days.

107. An actual case or controversy has developed between the parties in which AIM claims to have acted with both actual and apparent authority from Realm to issue or cause the issuance of ACORD certificates naming Realm as the "insurer".

108. Realm has maintained that it never authorized AIM to act as its agent, and did not authorize the issuance of the certificates of insurance.[16]

109. The claim and controversy directly affects the legal rights of the Plaintiffs, as well as those to whom the ACORD certificates were issued.

110. The failure of Realm to honor its obligations not only to Plaintiffs in this action, but to those to whom the ACORD certificates were issued, is affecting people, businesses and insurance departments throughout the country.

111. An expedited resolution of this matter is necessary in order to halt Defendants' continued fraud on Plaintiffs as well as consumers of insurance in New York and other jurisdictions.

112. By reason of the foregoing, Plaintiffs are entitled to a declaratory judgment that AIM was an authorized agent of Realm, that AIM could and did lawfully issue or cause the issuance of certificates with Realm's full knowledge and consent, or that in the alternative, Realm's failure to cancel the certificates in

[16] Realm appointed Holley, AIM's VP of Underwriting, its agent in Georgia; his appointment as an agent of Realm is still active as of the date hereof

accordance with each state's statutory scheme obligated Realm to fulfill the contractual obligations evidenced by the said insurance certificates, but that in either event, Realm is obligated to issue the policies and pay the claims arising thereunder.

COUNT II - FRAUD AS TO DEFENDANTS REALM, CRANE, LAWLESS, SIOMA, DEL TUFO, GREEN, VU AND QUICK

113. AIM restates and realleges Paragraphs One (1) through One Hundred Twelve (112) as though each said paragraph was stated herein in its entirety.

114. The defendants and each of them made certain representations to AIM in the Stock Purchase Agreement, regarding Realm's financial condition, and the accuracy of the financial statements which had been delivered by Defendants to AIM prior to AIM's execution of the Stock Purchase Agreement, to wit:

> 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 quarterly periods for the calendar year 2002. The foregoing financial statements, together with the SAP and/or GAAP income statement 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

Statements 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 as flow of the Companies and have been prepared on the statutory of 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 connections with General Agency Agreement 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.

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 . . . .

> 3.17 (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 jurisdiction in which Realm is engaged in the Business or otherwise required to comply with Laws.

115. These representations, when taken in the aggregate, were designed to and did lull AIM into believing that Realm had adequate capital and surplus to meet the statutory requirements necessary for it to maintain all of its licenses in full force and effect in each state in which it did business. However, since the Stock Purchase Agreement was executed, Realm has filed an audited financial statement with the NYSDOI for the period ending September 30, 2003, showing that its capital and surplus has deteriorated to $3,789,125.00, well below the statutory minimum of $5,000,000.00 required by the state of New York.

116. At the time Defendants made the representations set for the above, Defendants knew that Realm's capital and surplus were insufficient to meet the statutory requirement of the NYSDOI as well as most if not all of the states in which it is licensed to write insurance.[17] Defendants made these representations knowingly, recklessly, fraudulently, and maliciously, with the intent to deceive AIM who was deceived thereby.

117. Because of this knowledge, Defendants knew that Realm could not allow an audit to be completed by KPMG and delivered either to NYSDOI or AIM, because the audit would fairly present a true and accurate report of Realm's. capital and surplus, which AIM believes is between $1,000,000.00 and

[17] *See supra* Paragraphs Fifty-Six (56) and Fifty-Seven (57) discussing the accounting irregularities addressed in the Form 8-K and the November 14 letter filed by AlphaStar and KPMG with the SEC, respectively.

$1,500,000.00. Defendants and each of them participated in a scheme designed from the outset to convince AIM to loan AlphaStar the sum of $1.5 Million Dollars, never believing that AIM's business plan would succeed in delivering the funds on the timetable required by the Defendants and non parties AlphaStar and SCNAH. When AIM timely delivered the funds, Defendants undertook every conceivable measure to frustrate a closing of the sale of Realm to AIM, it being their intent to defraud AIM out of the $1.5 Million in loan proceeds without providing the bargained for insurance coverage to AIM's PEO clients.

118. In furtherance of this scheme, Defendants engaged in a continuing pattern of fraud and deceit by misrepresenting to AIM as well as the court the status of the audit being conducted by KPMG with the intent to lull AIM into refraining from taking any action against Defendants by foreclosing its security interest in the collateral that it held under the Loan Agreement and the Pledge Agreement, namely the SCNAH shares. This was accomplished by a combination of acts taken and representations made by the Defendants, and each of them, the sole purpose of which was to lull AIM into believing that the Sellers intended to close the sale of the Realm shares to AIM in accordance with the provisions of the Stock Purchase Agreement. In truth and in fact, however, the Defendants and each of them conspired together to make it appear as if they were going to cause SCNAH to sell Realm to AIM, when in fact they never had any intention of closing the sale. Their deceptive actions included, but are not limited to the following examples, to-wit: continuing negotiations with AIM's transaction counsel, but at all time advancing frivolous and time consuming

positions and objections designed to delay and ultimately frustrate a closing; refusing access to Realm's books and records despite contractual obligations to provide access thereunto; refusing to provide any reasonable explanation for the delay in providing the Final Balance Sheets; refusing to close when demand to close was made; refusing to acknowledge AIM's right to close at the price set by the alternative auditor, despite its contractual obligation to do so; stating to the NYSDOI that no contract for the acquisition of the Realm shares had been executed, when one had in fact been executed on March 23, 2003; refusing to provide a written consent to KPMG to provide access to KPMG's work papers, even though it had agreed to do so in the Stock Purchase Agreement; misrepresenting to KPMG's assistant general counsel the contents of a conference call wherein the Honorable Richard M. Berman authorized his name to be used in an attempt to glean from KPMG the status of the preparation of the Final Balance Sheets; and additionally, misrepresenting the status of the audit to the same judge at a status conference held before the court on August 13, 2003 at 1:00 p.m., wherein representatives of Realm, namely Crane and Lawless, represented that the KPMG audit was ongoing and that no apparent issues existed other than clarification and delivery of additional information to the auditor, when in fact, on August 5, 2003, a week before, these same individuals had met with KPMG and had been advised by KPMG of its concerns with the audits of Realm prepared by Arthur Andersen for the years 2001 regarding the agents balances, among other things, all of which are set for the in KPMG's response to the SEC to the 8-K filed by AlphaStar in November, 2003, as set forth Exhibit H.

119. The individual named Defendants caused non-party AlphaStar to file consolidated financial statements for the years 2000 and 2001 with the Securities and Exchange Commission (the "SEC") in accordance with the reporting requirements contained in the Securities and Exchange Act of 1934 (the "Act"). These statements, to the extent they contained incorrect financial information based upon Realm's incorrect agents' balances, violated Rule 10-b-(5) and Rule 17-(a) of the Act, and were a fraud upon AIM and the investing public at large.

120. At the time the loan was made in October 2002, the individually named Defendants knew that AIM was relying on the representations made by non-party AlphaStar that Realm was licensed to write business in each state in which Realm represented that it was licensed to do business when, in fact, Realm was not licensed to write new business in either North Carolina or Georgia at the time the parties entered into the transaction.

121. The named Defendants knew that the financial statements prepared by Arthur Andersen for the years 2000 and 2001 for Realm provided to AIM (prior to the time the loan was made to AlphaStar) were false and misleading and did not accurately reflect the true financial condition of Realm at the time the said financial statements were delivered to AIM.

122. Richard Caporaso ("Caporaso"), the KPMG audit partner charged with responsibility for the audit of Realm, was previously employed by Arthur Andersen as Realm's audit partner for the years 2000 and 2001. While employed by Arthur Andersen, Caporaso was the audit partner for Realm and non-party

AlphaStar for 2000 and 2001. After leaving Arthur Andersen, Caporaso moved to KPMG and brought the AlphaStar accounts with him.

123. Defendants and each of them knew that AIM would rely on the false and misleading financial statements provided to AIM in deciding to enter into the loan transaction, and again, when AIM decided to execute the Stock Purchase Agreement, which AIM did, to its detriment.

124. The individually named Defendants caused non-party AlphaStar, SCNAH and Defendant Realm to make the representations contained in Paragraph 3.17 (c) of the Stock Purchase Agreement to the Buyer:

> 3.17 (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.

The said individually named Defendants and Realm knew that the representation contained in Paragraph 3.17(c) of the Stock Purchase Agreement was untrue at the time it was made. The individual named Defendants and Realm knowingly made said representation with the intent to deceive Buyer. The representation was made by Defendants and each of them knowing that Buyer would rely thereon. Buyer relied upon said fraudulent representations, and has suffered damage as the result of its reliance, which reliance was justified, in an amount as yet unknown, but which is well in excess of $75,000.00, exclusive of interest and costs.

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125. The conduct of the Defendants and each of them was knowing, willful and malicious, was actively pursued by Defendants and each of them with the specific intent to harm Plaintiffs and constitutes fraud.

126. By reason of Defendants' fraudulent conduct, Defendants and each of them are jointly and severally liable to Plaintiffs for exemplary and punitive damages in such amount as the trier of fact may determine shall be sufficient to deter such wrongful similar conduct by these Defendants in the future.

127. By reason of Defendants' fraudulent conduct and each of them, Plaintiffs are entitled to recover fonn Defendants and each of them all costs of this litigation, including without limitation, attorneys' fees, litigation expenses and court costs.

COUNT THREE: AGAINST REALM FOR MANDATORY INJUNCTION FOR VIOLATION OF NY GENERAL BUSINESS LAW § 349(h) AND FOR TREBLE DAMAGES

128. AIM restates and realleges Paragraphs One (1) through One Hundred Twenty-Seven (127) as though each said paragraph was stated herein in its entirety.

129. Realm breached the Stock Purchase Agreement by refusing to permit AIM to inspect its books and records and misrepresenting its financial statements by materially overstating the assets of Realm.

130. In mid-2003, AIM's auditors expressed concerns over the veracity of Realm's account receivables, because AlphaStar refused to provide financial documents to establish the collectibilty of those receivables, and acknowledged

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the possibility that AlphaStar may be dissipating the assets of Realm by funneling the assets through SCNAH, or another AlphaStar indirect subsidiary.

131. In August and September 2003, AlphaStar's independent directors, who also comprised the Audit Committee, and its independent auditor, KPMG, resigned. *See* Exhibits "G" & "H."

132. On November 14, 2003, KPMG submitted a letter to the Securities Exchange Commission clarifying certain statements made by AlphaStar in the November 3 Form 8-K filing. IN that letter, KPMG expressly stated that it did *not* agree with AlphaStar's statements that:

> "no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements...." *See* Exhibit "H."

133. KPMG also identified the account receivables as an area of concern.

> "Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed . . . [c]ompletion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts . . . ." *(Id).*

134. As of the filing of the original complaint against the individually named officers and Realm on January 12, 2004, Realm had not filed audited financial statement with the NYSDOI for 2002 or 2003. Realm subsequently filed an audited financial statement for 2002, but not for 2003.

135. On December 15, 2003, AlphaStar filed for bankruptcy protection under Chapter 11, which was later converted to Chapter 7. AIM was the only secured creditor of record.

136. Despite not having approval of the Chapter 7 Trustee, the individual defendants voluntarily consented to Realm being put into liquidation. On June 15, 2005, an Order of Liquidation was entered appointing the Superintendent of Insurance of the State of New York as Liquidator of Realm.

137. On August 31, 2006, the United States Bankruptcy Court approved the Stipulation of AlphaStar and AIM which resolved their disputes by, *inter alia*, the Chapter 7 Trustee's Quitclaim Bill of Sale transfer of SCNAH's stock in Realm to AIM.

138. AIM is entitled to an accounting requiring that the books and records of Realm be made available for a forensic accounting and inspection to determine the existence and nature of any accounting irregularities with the audited financial statements and statutory statements filed with the NYSDOI.

139. Defendants' improper and fraudulent acts and business practices described herein were willful and knowing acts of deception which misled both AIM and the insurance consuming public in a material way in violation of New York General Business Law §349(h)

140 Plaintiffs have no adequate remedy at law, and due to the Defendants' refusal to provide the audits set out above, are entitled to the relief set out in Paragraph 138 above, plus costs, attorneys' fees, litigation expenses and such other remedies as by equity is authorized.

141. Furthermore, as a result of Defendants' aforementioned fraud and clear violations of N.Y General Business Law §349(h), Plaintiffs are entitled to recover from Defendants and each of them Plaintiff AIM's actual damages, treble damages, attorneys' fees, litigations costs and expenses.

COUNT FOUR: BREACH OF CONTRACT

142. AIM restates and realleges Paragraphs 1 through 141 as though each said paragraph was stated herein in its entirety.

143. AIM shows that a contractual arrangement existed between AIM and Defendants, whereby AIM was entitled to earn certain fees and commissions as general agents for Defendants for certain PEO business which AIM procured and which business was bound by Defendants, for which business Defendants now wrongly try to deny coverage.

144. Defendants have breached the terms and conditions of this contractual arrangement and owe AIM certain earned fees and commissions which are currently in a sum in excess of $2,600,000.00.

145. Furthermore, AIM shows that a contractual arrangement existed between AIM and Defendants, whereby Defendants requested that AIM handle the initial claims arising under the PEO probram and the business bound and approved by Defendants while negotiations for the anticipated purchase and sale agreement were completed with the express understanding that AIM would be promptly reimbursed by Defendants for all claims they paid on behalf of Defendants, as well as for claims handling expenses advanced by AIM.

146. In detrimental reliance upon such contractual arrangement, and the promises and inducements made by Defendants, AIM handled and paid certain claims arising from Defendants' PEO program and paid certain third party vendors for incurred claims handling expenses.

147. Notwithstanding demand for reimbursement made by AIM to Defendants, Defendants have breached the terms of this claims payment agreement and have refused and continue to refuse to reimburse AIM for such claims paid, now owing AIM a sum which currently exceeds $3,210,000.00, plus an additional sum for third party vendors' claims handling expenses.

148. Moreover, Defendants owe AIM for moneys advanced by AIM to Defendants pursuant to the aforementioned Loan Agreement and Promissory Note. N0thwithstanding repeated demands by AIM to Defendants for repayment, Defendants have wrongfully refused to pay AIM the advances sums of $1,500,000.00; and Defendants owe AIM $1,500,000.00 as well as accrued interest, attorneys fees, etc.

VI. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs respectfully request that this court grant them the following relief:

a) That a declaratory judgment be issued that declares 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 Sioma as set out above, and that Defendant Realm is legally obligated to issue the certificates of

insurance and policies of insurance and policies of insurance as set out herein and be responsible for payment of any claims arising thereunder;

b) That Plaintiffs be awarded compensatory damages in an amount to be determined at trial, exclusive of interest and costs, but in any event, in an amount in excess of $75,000.00, resulting from Defendants' breach of contract;

c) That Plaintiffs be awarded punitive damages as a result of Defendants' malicious, willful, wanton, fraudulent and deceitful conduct directed at Plaintiffs and the public generally as set out in Count Two;

d) That Plaintiffs be granted an injunction requiring both the inspection of and preservation and securing of Realm's books and records;

e) As to Plaintiff's fraud claim as set out in Count Three, that Plaintiffs be awarded actual damages in an amount to be determined, trebled, together with costs, attorneys' fees and interest permitted by N.Y. General Business Law §349;

f) That AIM recover from Defendants for fees and commissions earned by AIM in Defendants' PEO program, said sum currently being in excess of $2,600,000.00;

g) That AIM recover form Defendants for claims paid on behalf of Defendants as part of Defendants' PEO program, said sum currently being in excess of $3,210,000.00, as well as advanced claims handling expenses, the exact amount which will be added by amendment;

h) That AIM recover from Defendants all sums advanced as part of the aforementioned Loan Agreement and related promissory note, which figure is

currently in excess of $1,500,000.00, as well as attorney's fees and costs of litigation associated with the collection of same;

i) That Plaintiffs be awarded the costs and disbursements of this action, including attorneys' fees and litigation expenses; and

j) That the Honorable Court grant such other and further relief as it deems proper in the premises.

Dated: Atlanta, Georgia

May 18, 2007

Respectfully submitted,

LOWENDICK, CUZDEY, EHRMANN,
WAGNER, STINE & SANSALONE, LLC

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

IN RE: ALPHASTAR INSURANCE GROUP LIMITED, ET AL., *	
PLAINTIFFS	2007 Civ. 00762 (RJH)
-against- *	
AMERICAN INSURANCE MANAGERS, INC. ET AL.,	COMPLAINT FOR DECLARATORY JUDGEMENT MONETARY DAMAGES AND
DEFENDENTS - *	FOR OTHER RELIEF

AFFIDAVIT OF SERVICE

Stanley A. Coburn, being duly sworn, deposes and says: deponent is not a party to the action, is over 18 years of age and resides in Georgia.

On May 18, 2007, deponent served the Complaint in the above styled action on the following Service List by first class mail.

Stanley A. Coburn

Sworn to before me this
18th day of May, 2007

Sandra L Buchanan
Notary Public, Gwinnett County, Georgia
My Commission Expires March 19, 2010

Notary Public

SERVICE LIST

William McSherry, Esq.
Crowell & Moring, LLP
153 E. 53d Street
31st Floor
New York, New York, 10022
Counsel for all individually named Defendants

Eric R. Dinallo
Superintendent of Insurance, State of New York
New York Department of Insurance

Insurance Dept.
One Commerce Plaza
Albany, NY 12257
Liquidator of Realm National Insurance Company

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xhibit A

rance Escrow." "Reinsurance Escrow" shall mean an amount representing one-half of f Realm's reinsurance recoverables on loss and loss adjustment expense payments at June

EXHIBIT A

1542

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: (i) AIM will provide AlphaStar Insurance Group Limited with a loan in an amount up to $9,500,000 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

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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.

<u>Cooperation</u>

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

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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.

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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 Realm.

Very truly yours,

ATLANTA INSURANCE MARKETING INC.

By: David Bennett-Smith

ACCEPTED:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD

By: ______________________

STEPHEN A. CRANE
PRESIDENT + CEO

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Exhibit B

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PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated October 2, 2002, by and between ALPHASTAR INSURANCE GROUP LIMITED, a Bermuda corporation (the "Pledgor"), and ATLANTA INSURANCE MARKETING INC., a Georgia corporation (the "Pledgee").

WITNESSETH

WHEREAS, the Pledgor is the owner of ten thousand (10,000) shares, par value $1,000.00 per share (the "Shares"), of the common stock of Stirling Cooke North American Holdings Ltd., a Delaware corporation ("SCNAH"), which Shares constitute all of the issued and outstanding shares of SCNAH's capital stock;

WHEREAS, the Pledgor and the Pledgee have entered into a Letter of Intent, dated October 2, 2002, which, subject to the terms and conditions thereof, reflects the intent of the parties to enter into a stock purchase agreement (the "Stock Purchase Agreement"), whereby the Pledgor desires to sell and the Pledgee desires to purchase the Shares, upon the terms and subject to the conditions set forth therein (the "Share Purchase");

WHEREAS, pursuant to a loan agreement (the "Loan Agreement") and a note (the "Note") of even date herewith, the Pledgee has agreed to provide a loan facility to the Pledgor; and

WHEREAS, for the purpose of securing the repayment of the loan facility and any interest and other obligations thereon under the Loan Agreement, the Note and any other instruments, documents and agreements executed and delivered in connection therewith (the "Loan Documents"), the Pledgee has requested, and the Pledgor is pledging to the Pledgee, pursuant to the terms of this Agreement, all of the Shares;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Pledgor hereby agrees as follows:

1. Defined Terms. As used herein, the following terms shall have the following meanings:

"Agreement" shall mean this Pledge Agreement, as the same may from time to time be amended or supplemented.

"Pledged Stock" shall mean the Shares together with the certificates therefor, and any additional shares, certificates or other property received pursuant to Section 3 of this Agreement.

"Security Interest" shall have the meaning provided in Section 2(a) of this Agreement.

"UCC" shall have the meaning provided in Section 5(c) of this Agreement.

Capitalized terms used by not defined herein shall have the same meaning as ascribed to such terms in the Loan Agreement.

2. Pledge.

(a) As security for the full payment and performance of the obligations under the Loan Documents, the Pledgor hereby pledges, assigns, hypothecates, mortgages, transfers and delivers to the Pledgee all of its rights and interest in and to the Pledged Stock (together with appropriate undated stock powers duly executed in blank) and hereby grants to the Pledgee, as collateral security for the payment and performance when due of all the obligations under the Loan Documents, a continuing first priority security interest in the Pledged Stock, together with all additions thereto, substitutions and replacements thereof (the "Security Interest").

(b) The Pledgor herewith deposits with the Pledgee, and the Pledgee acknowledges receipt of, certificates representing the Pledged Stock. The Pledgee hereby accepts delivery of the Pledged Stock and shall hold the Pledged Stock pursuant to this Agreement. The certificates representing the Pledged Stock are accompanied by undated stock powers endorsed in blank for transfer.

3. Stock Dividends, Distributions, etc. Subject to Section 5 hereof, if, while this Agreement is in effect, the Pledgor shall become entitled to receive any shares of stock (including, without limitation, a distribution in connection with any reclassification, increase or reduction of capital or in connection with any reorganization), or any option or right to acquire shares of stock, in substitution of, or in exchange for, any shares of Pledged Stock, or shall receive any stock dividend with respect to any shares of Pledged Stock, the Pledgor agrees to pledge the same as additional collateral security for the obligations under the Loan Documents, such shares shall become part of the Pledged Stock, the Pledgor shall deposit with the Pledgee the certificates representing such share (together with appropriate undated stock powers duly executed in blank), and the Pledgee shall hold such additional shares of Pledged Stock pursuant to this Agreement. Any sums paid upon or in respect of the Pledged Stock upon the recapitalization, reorganization, liquidation or dissolution of the issuer thereof shall be paid over to the Pledgee, as additional collateral security for the payment of the obligations under the Loan Documents.

4. Representations and Warranties. The Pledgor hereby represents and warrants that:

(a) Except for the security interest granted to the Pledgee pursuant to this Agreement, the Pledgor is the sole owner of the Pledged Stock, having good and valid title thereto, free and clear of any and all liens, claims, encumbrances, security interests, attachments, charges, rights or equitable rights of any other persons.

(b) All books, records and documents relating to the Security Interest are genuine, true and correct and in all respects what they purport to be.

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(c) The security interest granted to the Pledgee pursuant to this Agreement constitutes and creates a valid and continuing and first, prior and perfected lien on and first security interest in the Security Interest in favor of the Pledgee.

(d) The Pledged Stock delivered to the Pledgee pursuant to this Agreement constitutes all of the issued and outstanding shares of capital stock of SCNAH, all of which shares are fully paid and are non-assessable. No other shares of the capital stock of SCNAH are issued and outstanding. There are no options, warrants, convertible securities or other securities exchangeable, convertible or issuable into any of the Pledged Stock or that give the holder thereof any rights, directly or indirectly, to any of the Pledged Stock.

5. <u>Covenants and Agreements</u>. The Pledgor hereby agrees that, so long as the Loan Agreement has not been terminated:

(a) The Pledgor shall defend the Security Interest against all claims and demands of all Persons (other than the Pledgee) at any time claiming the same or any interest therein.

(b) The Pledgor shall furnish to the Pledgee such information concerning the Security Interest as the Pledgee may from time to time reasonably request, and will allow the Pledgee to inspect and copy, or will furnish the Pledgee with copies of, all records reasonably requested by the Pledgee.

(c) At any time and from time to time, upon the request of the Pledgee and at the expense of the Pledgor, the Pledgor 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 the Pledgee 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 Article 8 of 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) The Pledgor shall not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Pledged Stock, or create, incur or permit to exist any adverse claim or Lien with respect to any of the Pledged Stock, or any interest therein, or any proceeds thereof, except for the security interest provided for by this Agreement.

(e) With respect to the Security Interest, the Pledgee shall not be under any duty to present, send or file any claim or notices, perform any services, exercise any rights of collection, enforcement, conversion or exchange, vote, pay for any insurance, pay any taxes or other charges, make any demand, make any inquiry as to the nature or sufficiency of any payment received by them or take any action of any kind in connection with the management thereof, and the Pledgee's only duty with respect thereto shall be to

use reasonable care in the custody and preservation of the Security Interest while the Security Interest is in its actual possession, which shall not include any steps necessary to preserve rights against prior or third parties.

(f) The Pledgor will do, file, record, make, execute and deliver all such acts, deeds, things, notices and instruments as may be reasonably necessary or desirable to vest in and assure to the Pledgee a continuing first priority security interest in and to the collateral and the enforcement of, and giving effect to, the rights, remedies and powers hereunder.

(g) In the event that all or any part of the securities constituting the Security Interest are lost, destroyed or wrongfully taken while such securities are in the possession of the Pledgee, the Pledgor agrees that it will cause the issuance of new securities in place of the lost, destroyed or wrongfully taken securities upon request therefor by the Pledgee without the necessity of the provision by the Pledgee of any indemnity bond or other security, other than the Pledgee's agreement of indemnity therefor.

(h) The Pledgor 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 SCNAH or any convertible securities, warrants or options giving the holder thereof any rights or interests with respect to any shares of capital stock of SCNAH; nor will the Pledgor 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 Stock.

(i) The Pledgor will not declare, or permit the declaration of, any dividends on or make any distribution in respect of the Pledged Stock, or purchase, redeem or acquire for value any shares of the Pledged Stock.

(j) The Pledgor shall take any action which the Pledgee may reasonably request in order for the Pledgee to obtain and enjoy the full rights and benefits granted to it by this Agreement and the Loan 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 Insurance Department, or any other person to any action or transaction contemplated by this Agreement, the Pledgor shall, upon the reasonable request of the Pledgee, use its commercially reasonable efforts to obtain and to assist the Pledgee in obtaining all such consents and approvals in writing and shall deliver copies thereof to the Pledgee as obtained.

6. Voting Rights. Unless and until an Event of Default shall have occurred and be continuing, the Pledgor shall retain the right to vote the Pledged Stock and to give consents, waivers and ratifications in respect of the Pledged Stock. Subject to the receipt of all required regulatory approvals, once an Event of Default shall have occurred and so long as it is continuing, the Pledgee shall have the right to vote the Pledged Stock and to give consents, waivers and ratification in respect of the Pledged Stock.

7. Events of Default. The occurrence of an Event of Default under the Loan Agreement shall constitute an Event of Default hereunder.

8. Rights and Remedies Upon an Event of Default. If an Event of Default shall have occurred and be continuing, subject to the receipt of all required regulatory approvals:

(a) The Pledgee shall, after giving written notice to the Pledgor specifying the action to be taken, register any or all shares of the Pledged Stock held by the Pledgee in the name of the Pledgee.

(b) The Pledgee may demand, sue for, collect or make any compromise or settlement the Pledgee deems suitable in respect of the Pledged Stock held by it hereunder.

(c) The Pledgee shall have all of the rights and remedies with respect to the Pledged Stock of a secured party under the UCC.

(d) The Pledgee shall, upon 15 days prior written notice to the Pledgor of the time and place, with respect to the Pledged Stock, sell, lease, assign or otherwise dispose of all or any of such Pledged Stock, at such place or places as the Pledgee deems best, and for cash or on credit for future delivery (without thereby assuming any credit risk), at public or private sale, without demand of performance or notice of intention to effect any such disposition or of time or place thereof (except such notice as is required hereunder or by applicable statute and cannot be waived) and the Pledgee or anyone else may be the purchaser, lessee, assignee or recipient of any or all of the Pledged Stock so disposed of at public sale (or, to the extent permitted by law, at any private sale), and thereafter hold the same absolutely, free from any claim or right of whatsoever kind, including any equity of redemption, of the Pledgor, any such demand, notice or right and equity being hereby expressly waived and released. The net proceeds of any sale of Pledged Stock pursuant to this Section 8 shall be applied first to the repayment of the outstanding principal and accrued interest under the Loan Agreement and any reasonable costs and expenses of Pledgee (including attorney's fees) incurred by Pledgee in enforcing its rights under this Agreement and only after so applying such net proceeds and after such payment need the Pledgee account for the surplus, if any, to the Pledgor or his successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

9. Private Sale and Compliance with Law.

(a) The Pledgee shall incur no liability as a result of the sale of the Pledged Stock, or any part thereof, at any private sale conducted in a commercially reasonable manner. The Pledgor hereby waives any claim against the Pledgee arising by reason of the fact that the price at which the Pledged Stock may have been sold at such a private sale conducted in a commercially reasonable manner was less than the price which might have been obtained at a public sale or was less than the aggregate amount of

the Purchase Price, even if the Pledgee accepts the first offer received and does not offer the Pledged Stock to more than one offeree.

(b) The Pledgor agrees that in any sale of any of the Pledged Stock whenever an Event of Default shall have occurred and be continuing, the Pledgee is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including, without limitation, compliance with such procedures as may restrict the number of prospective bidders and purchasers or require that such prospective bidders and purchasers be persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Pledged Stock), or in order to obtain any required approval of the sale or of the purchaser by any governmental regulatory authority or official, and the Pledgor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Pledgee be liable or accountable to the Pledgor for any discount allowed by the reason of the fact that such Pledged Stock is sold in compliance with any such limitation or restriction.

10. Retention of Collateral. Notwithstanding any provision of this Agreement to the contrary and subject to the receipt of all required regulatory approvals, the Pledgee may in its discretion retain all or a portion of the Security Interest in satisfaction of any or all due and payable obligations under the Loan Documents. The portion of the Security Interest that may in its discretion be retained by the Pledgee in satisfaction of such obligations shall be that portion having a fair market value or cash value, as applicable, equal to the amount of such obligations at the time such public or private sale would have been held. Such fair market value or cash value, as applicable, shall be determined jointly by the Pledgor and the Pledgee, and the parties hereby agree to cooperate in such determination. In the event that the parties are unable to agree on such fair market value or cash value, as applicable, it shall be determined by a recognized actuarial or accounting firm jointly selected by the Pledgor and the Pledgee. All expenses of such determination, including without limitation the fees and expenses of such actuarial or accounting firm, shall be borne by the Pledgor.

11. Further Assurances. The Pledgor agrees that at any time and from time to time upon the written request of the Pledgee, it will execute and deliver such further documents and do such further acts and things as the Pledgee may reasonably request in order to effect the purposes of this Agreement.

12. No Waiver; Cumulative Remedies. The Pledgee shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, and then only to the extent therein set forth. A waiver by the Pledgee of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Pledgee would otherwise have on any future occasion. No failure to exercise nor any delay in exercising on the part of the Pledgee of any right, power or privilege hereunder, shall operate as a waiver thereof by the Pledgee; nor shall any single or partial exercise of any right, power

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or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

13. Notices. All communications, notices, instructions or demands given under this Agreement shall be in writing and shall be deemed to have been duly given when delivered to, or on the third business day after the same is mailed by prepaid registered or certified mail addressed to, or when sent by facsimile to, the party for whom intended, as follows, or to such other address as may be furnished by such party by notice in the manner provided herein:

To the Pledgor:

Stirling Cooke Brown Holdings Limited
Victoria Hall, 3rd Floor
11 Victoria Street
Hamilton HM11, Bermuda

Facsimile: (212) 509-7405
Attention: Mr. Stephen A. Crane

To the Pledgee:

Atlanta Insurance Marketing Inc.
3101 Towercreek Parkway, Suite 750
Atlanta, Georgia 30339

Facsimile: (770) 980-3290
Attention: Mr. David Dennett-Smith

14. Waivers, Amendments. None of the terms or provisions of this Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by the Pledgor and the Pledgee.

15. Indemnification. Without limitation of any provision of the Loan Agreement, Pledgor hereby covenants and agrees to pay, indemnify, and hold the Pledgee harmless from and against any and all other out-of-pocket liabilities, costs, expenses or disbursements of any kind or nature whatsoever arising in connection with any claim or litigation by any Person resulting from the execution, delivery, enforcement, performance and administration of this Agreement, provided, however, that the Pledgor shall have no obligation hereunder with respect to indemnified liabilities directly or primarily arising from, the willful misconduct or gross negligence of the Pledgee. The provisions in this Section 15 shall survive repayment of the loan facility under the Loan Documents and termination of this Agreement.

16. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the Pledgor and the Pledgee. The benefits of this Agreement may not be assigned or transferred by the Pledgee without the prior written consent of the Pledgor. The rights and obligations of the Pledgor may not be assigned or transferred by the Pledgor without the prior written consent of the Pledgee.

17. Governing Law; Severability; Submission to Jurisdiction.

(a) THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND FULLY TO BE PERFORMED THEREIN BY RESIDENTS THEREOF. The provisions of this Agreement are severable and if any clause or provisions shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Agreement in any jurisdiction.

(b) THE PLEDGOR HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT LOCATED IN NEW YORK CITY OR ANY FEDERAL COURT LOCATED IN NEW YORK CITY FOR THE ADJUDICATION OF ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT AND CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED OR CERTIFIED MAIL TO ITS ADDRESS SET FORTH IN SECTION 13 HEREOF OUT OF ANY SUCH COURT. NOTHING CONTAINED IN THE FOREGOING SHALL AFFECT THE RIGHT OF THE PLEDGEE TO SERVE LEGAL PROCESS IN ANY OTHER MANNER OR TO BRING ANY PROCEEDING HEREUNDER OR UNDER THE NOTE IN ANY JURISDICTION WHERE THE BORROWER MAY BE AMENABLE TO SUIT. THE BORROWER HEREBY WAIVES ANY CLAIM THAT ANY NEW YORK STATE COURT LOCATED IN NEW YORK CITY OR ANY FEDERAL COURT LOCATED IN NEW YORK CITY IS AN INCONVENIENT FORUM.

18. Termination.

(a) This Agreement shall terminate upon the payment in full of the obligations under the Loan Documents.

(b) This Agreement shall terminate solely to the extent of the interest of SCNAH in the capital stock of AlphaStar Insurance Services Inc. and North American Risk Inc. in the manner provided for in Article Four of the Loan Agreement.

(c) Upon termination of this Agreement, the Pledgee shall deliver to the Pledgor the Pledged Stock and all instruments evidencing the Pledged Stock and necessary to transfer such Pledged Stock, and the Pledgee will execute and deliver to the Pledgor all such further agreements and instruments as the Pledgor shall reasonably request in order to terminate the security interest in the Pledged Stock and this Agreement.

(d) Notwithstanding the foregoing, and subject to Section 18(a) above, if this Agreement is terminated upon the payment in full of the obligations under the

Loan Documents out of the proceeds of the Purchase Price, as set forth in the Loan Agreement, the Pledgee shall retain the Pledged Stock.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered on the day and year first above written.

ALPHASTAR INSURANCE GROUP LIMITED

By: [signature]
Name: STEPHEN A. CRANE
Title: CHAIRMAN, PRESIDENT & CEO

ATLANTA INSURANCE MARKETING INC.

By: [signature]
Name:
Title:

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Exhibit C

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LOAN AGREEMENT

LOAN AGREEMENT, dated as of October 1, 2002, ATLANTA INSURANCE MARKETING, INC., a Georgia corporation (the "Lender"), and ALPHASTAR INSURANCE GROUP LIMITED, a Bermuda corporation (the "Borrower").

WHEREAS, the Borrower is the owner of ten thousand (10,000) shares, par value $1,000.00 per share (the "Shares"), of the common stock of Stirling Cooke North American Holdings Ltd., a Delaware corporation ("SCNAH"), which Shares constitute all of the issued and outstanding shares of SCNAH's capital stock;

WHEREAS, the Lender and the Borrower have entered into a Letter of Intent, dated October 2, 2002, which, subject to the terms and conditions thereof, reflects the intent of the parties to enter into a stock purchase agreement (the "Stock Purchase Agreement"), whereby the Borrower will agree to sell and the Lender will agree to purchase all of the issued and outstanding shares of Realm National Insurance Company and World Trade Services, Inc. (each wholly owned subsidiaries of SCNAH), upon the terms and subject to the conditions set forth therein (the "Share Purchase"); and

WHEREAS, the Borrower has requested the Lender, and the Lender has agreed to extend to the Borrower a loan facility, pursuant to the terms and subject to the conditions of this Agreement;

NOW THEREFORE, the parties hereto are willing to enter into this Agreement on the terms and subject to the conditions herein set forth. Accordingly, the Borrower and the Lender agree as follows:

Article 1. Definitions.

As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" shall mean, with respect to any specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such specified Person. As used herein, the term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Loan Agreement, as modified, supplemented or amended from time to time.

"Business Day" shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized to close.

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"Closing Date" shall mean the date of the execution and delivery of this Agreement.

"Collateral" shall mean the collateral provided for in the Security Agreement.

"Default" shall mean any event, act or condition which, with notice or lapse of time, or both, would constitute an Event of Default.

"Facility Amount" shall mean $3,500,000.

"Final Tranche Loan" shall mean a loan in the amount of one million ($1,000,000) dollars, or such lesser amount as may be requested by Borrower.

"First Tranche Loan" shall mean a loan in the amount of five hundred thousand ($500,000) dollars.

"Indebtedness" shall mean, with respect to any Person, as of the date of any determination thereof, but without duplication:

(a) all indebtedness and other obligations of such Person for borrowed money;

(b) all obligations of such Person under leases which are or should be treated as capital leases under generally accepted accounting principles;

(c) all shares of capital stock of such Person (or warrants therefor) that are redeemable in whole or in part at the election of the holder thereof for cash or any other property (other than for other shares of capital stock of such Person);

(d) all guarantees of such Person in respect of indebtedness and other obligations of the type described herein; and

(e) all indebtedness and other obligations (whether described in the foregoing provisions of this definition or otherwise) of others secured by any Lien on any property owned or otherwise held by such Person, whether or not such Person has assumed or become liable for the payment thereof (but in the case of any such Indebtedness for which there is no recourse to such Person, only an amount equal to the lesser of the aggregate principal amount of such Indebtedness and the fair market value of the Property owned or otherwise held by such Person securing such Indebtedness shall be considered "Indebtedness" hereunder);

provided however, that leases that are treated as operating leases under generally accepted accounting principles shall not be considered "Indebtedness" hereunder.

"Interest Period" shall mean, with respect to each Loan, the period commencing on the date of such Loan and ending on the Maturity Date.

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"<u>Lien</u>" shall mean, with respect to any asset, revenue or other property, any mortgage, lien, pledge, charge, security interest, attachment, right of set off or other encumbrance of any kind (whether consensual or arising by operation of law) in respect of such asset, revenue or property, the filing of any financing statement or any similar document in any jurisdiction with respect thereto (except for precautionary filings in connection with operating leases of personal property), or any other type of preferential arrangement that has the practical effect of any of the foregoing, and any agreement to grant any of the foregoing. For the purposes of this Agreement, a Person shall be deemed to own subject to a Lien any asset, revenue or other property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset, revenue or other property, and any receivable or other account that has been sold with full or partial recourse

"<u>Loan</u>" shall mean any of the First Tranche Loan, Second Tranche Loan, Third Tranche Loan or Final Tranche Loan, and "Loans" shall mean, collectively, each Loan or any combination thereof.

"<u>Loan Documents</u>" shall mean this Agreement, the Note, the Security Agreement and all other instruments, documents and agreements executed and delivered in connection herewith or therewith or pursuant hereto or thereto.

"<u>Maturity Date</u>" shall mean the day which is one year after the date of disbursement of the First Tranche Loan, provided that if such a day is not a Business Day, then the next succeeding Business Day.

"<u>Note</u>" shall mean the promissory note of the Borrower, dated as of even date herewith, in the form attached hereto as Exhibit A.

"<u>Payment Office</u>" shall mean the office of the Lender located at 3101 Towercreek Parkway, Suite 750, Atlanta, Georgia 30339, or such other place as the Lender may hereafter designate in writing as such to the Borrower.

"<u>Person</u>" shall mean an individual, a corporation, a partnership, a limited liability company, a limited liability partnership, an association, a trust or any other entity or organization, including, without limitation, a government or political subdivision or an agency or instrumentality thereof.

"<u>Post-Initial Rate</u>" shall mean, during the relevant period, a rate per annum equal to fifteen percent (15%).

"<u>SCNAH Restricted Subsidiaries</u>" shall mean, collectively, Stirling Cooke New York Insurance Agency Services Inc., a New York corporation; Stirling Cooke North American Reinsurance Intermediaries Inc., a New York corporation; Realm National Insurance Company, a New York insurance company; and World Trade Services, Inc., a New York corporation.

"<u>Second Tranche Loan</u>" shall mean a loan in the amount of one million ($1,000,000) dollars.

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"Security Agreement" shall mean the Pledge Agreement, dated as of even date herewith, between the Lender and the Borrower.

"Subsidiary" shall mean, with respect to any Person, any corporation, limited liability company, general partnership, limited partnership, or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions (whether or not any other class of securities has or might have voting power by reason of the happening of a contingency) are at the time directly or indirectly owned by such Person.

"Third Tranche Loan" shall mean a loan in the amount of one million ($1,000,000) dollars.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the relevant jurisdiction.

Article 2. **Amount and Terms of the Loans.**

2.1. Loan Facility. Lender agrees, subject to the terms and conditions of this Agreement:

(a) to make the First Tranche Loan available to the Borrower no later than October 15, 2002, but only upon the prior execution of a letter of intent regarding the Share Purchase;

(b) to make the Second Tranche Loan available to the Borrower no later than November 15, 2002;

(c) to make the Third Tranche Loan available to the Borrower no later than December 15, 2002 but only upon the prior execution of a definitive Stock Purchase Agreement between the parties acceptable to the Lender; and

(d) to make the Final Tranche Loan available to the Borrower no later than January 15, 2003, it being further understood that Borrower may choose in its sole discretion to take down less than the entire amount of the Final Tranche Loan.

2.2. Funding of Loans. Not later than 12:00 p.m. on the date of the borrowing of a Loan the Lender shall make the proceeds of such Loan available by wire transfer to the account of the Borrower in accordance with the Borrower's instructions set forth in the Notice of Borrowing.

2.3. Note; Evidence of Debt. The Loans made by the Lender to the Borrower hereunder shall be evidenced by a single Note payable to the order of the Lender in an amount equal to the Facility Amount. The Lender may, and is hereby authorised by the Borrower to, record on the schedule forming a part of the Note the date, amount, interest rate and maturity of each Loan made by it; provided that the failure of the Lender to make any such recordation shall not be a waiver to the obligations of the Borrower hereunder or under the Note.

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2.4. Maturity of Loans. Except as provided otherwise herein, each and every Loan shall mature, and the principal amount and interest applicable thereto, shall be due and payable on the Maturity Date.

(b) Notwithstanding the foregoing and any other provision of this Agreement or the Note to the contrary, in the event that Lender does not make any or all of the Second Tranche Loan, Third Tranche Loan or Final Tranche Loan within three (3) Business Days of the dates specified herein, the amount of the First Tranche Loan, together with all accrued and unpaid interest thereon, shall be forfeited by the Lender to the Borrower, and the Loan for purposes of this Agreement shall thereafter consist only of those amounts, if any, that shall have been advanced under the Second Tranche Loan, Third Tranche Loan or Final Tranche Loan.

(c) At any time upon the payment of the entire amount of principal and accrued interest then outstanding under this Agreement, all collateral pledged to secure the Loan shall be released by Lender and returned to Borrower provided that any such prepayment shall not affect any obligation of the Borrower with respect to the Share Purchase

2.5. Interest.

(a) The Borrower agrees to pay interest on the outstanding principal amount of each Loan, for the Interest Period applicable thereto, at a rate per annum equal to: (x) five (5%) percent per annum for the period commencing on the date of such Loan and ending 240 days after the disbursement of the First Tranche Loan (the "Initial Rate Period"); and (y) fifteen (15%) percent per annum after the expiration of the Initial Rate Period. Such interest shall be payable (i) on the date on which such Loan shall become due (whether at stated maturity, by acceleration or otherwise), and (ii) on the date on which such Loan shall be paid in full.

(b) If any principal of or interest on any Loan or any other amount payable under this Agreement or under the Note shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise), the Borrower agrees to pay interest on the principal amount in default, for each day from and including the date payment thereof was due to but excluding the date of actual payment in full, at a rate per annum equal to fifteen percent.

(c) Any other provision of this Agreement or the Note to the contrary notwithstanding, in no event shall the Lender be entitled to take, charge, collect or receive interest under this Agreement or the Note in excess of the maximum rate of interest permitted under applicable law.

2.6. Computations. Interest shall be computed on the basis of a year of 360 days and the actual number of days elapsed.

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2.7. Time and Method of Payments. All payments of principal, interest and other amounts payable by the Borrower hereunder shall be made in immediately available funds, to the Lender at its Payment Office no later than 12:00 p.m., New York City time, on the date on which such payment shall become due. If any payment of principal or interest becomes due on a day that is not a Business Day, such payment shall be made on the immediately succeeding Business Day unless such immediately succeeding Business Day falls in another calendar month, in which case such payment shall be made on the immediately preceding Business Day.

2.8. Prepayment. The Borrower shall have the right, at any time or from time to time to prepay, in whole or in part, the outstanding principal amount of the Loans, without any penalty; provided, that the Borrower shall give the Lender a notice of each such prepayment no later than 1:00 p. m. New York City Time one (1) Business Day prior to the date of such prepayment.

Article 3. **Conditions to Borrowing.**

3.1. Closing Date. The obligation of the Lender to make the Loans hereunder is subject to the satisfaction of the following conditions:

3.2. Conditions Precedent to First Tranche Loan.

(a) The Lender shall have received from the Borrower this Agreement, the Note and a Security Agreement, duly and validly executed in form and substance satisfactory to the Lender.

(b) The Lender shall have received from the Borrower a letter of intent regarding the Share Purchase, duly and validly executed in form and substance acceptable to the Lender.

(c) The Lender shall have received from the Borrower a certificate, dated the Closing Date, signed by the President or any Vice President of the Borrower, and by the Secretary or any Assistant Secretary of the Borrower, in the form of Exhibit B attached hereto with appropriate insertions.

(d) The Lender shall have received from the Borrower all stock certificates and undated stock powers duly executed in blank related thereto with respect to the Shares pledged under the Security Agreement, which Shares shall, as of the Closing Date, consist of one hundred percent (100%) of the issued and outstanding shares of capital stock of SCNAH.

3.3. Conditions Precedent to the Second Tranche Loan.

(a) The Lender shall have received from the Borrower acknowledgment copies of Financing Statements (Form UCC-1) duly filed under the UCC of each jurisdiction as may be necessary or, in the opinion of the Lender, desirable to perfect the security interests purported to be created by the Security Agreement;

(b) The Lender shall have received from the Borrower certified copies of Requests for Information or Copies (Form UCC-11), or equivalent reports, listing the Financing Statements referred to in clause (ii) above and all other effective financing statements that name the Borrower as debtor and that are filed in the jurisdictions referred to in said clause (ii), together with copies of such other financing statements (none of which shall cover the Collateral except to the extent evidencing Liens (if any) permitted by the Security Agreement);

(c) The Lender shall have received from the Borrower evidence of the completion of all other recordings and filings of, or with respect to, the Security Agreement as may be necessary or, in the opinion of the Lender, desirable to perfect the Liens and security interests created by the Security Agreement; and

(d) The Lender shall have received from the Borrower evidence that all other actions necessary or, in the opinion of the Lender, desirable to perfect and protect the Liens and security interests created by the Security Agreement have been taken.

(e) The Lender shall have received from the Borrower's outside counsel legal opinion(s) dated as of the Closing Date, in form and substance satisfactory to the Lender.

(f) Conditions Precedent to All Loans. The obligation of the Lender to make any Loan hereunder is subject to the prior receipt by the Lender of a certificate (the "Compliance Certificate"), in form and substance satisfactory to the Lender, certifying that the Borrower is in compliance with each and every condition to such Loan.

~~Article I.~~ Article 4. **Release of Florida Subsidiaries From Collateral Pledge**

4.1 Notwithstanding any other provision of this Agreement, the Note or the Pledge Agreement to the contrary, Borrower shall be entitled, subject to paragraph 4.2. below, to pursue, negotiate and to consummate with potentially interested third parties a transaction providing for a sale of certain the Borrower's subsidiaries, AlphaStar Insurance Services Inc. and North American Risk Inc. (the "Florida Subsidiaries").

4.2 Upon the prepayment of one million ($1,000,000) dollars of the Loan amounts then outstanding (or of such lesser amount then outstanding, which prepayment may be made either in advance or concurrently with a sale of the Florida Subsidiaries), Lender agrees to cooperate with Borrower in all reasonable respects to release from the Security Agreement executed in connection herewith the capital stock of the Florida Subsidiaries, and to take such other and further action as Borrower may

reasonably request to ensure that good and marketable title to the shares of the Florida Subsidiaries can be conveyed to a purchaser thereof.

Article 5. **Representations and Warranties.**

As a material inducement to the Lender to enter into the loan transactions evidenced by this Agreement, the Borrower unconditionally represents and warrants to the Lender as follows:

5.1. Corporate Status. The Borrower is duly organized, validly existing and in good standing under the laws of Bermuda, and has full power to own its property and assets and to transact the business in which it is engaged and presently proposes to engage and is duly qualified and in good standing as a foreign corporation in all jurisdictions where failure to so qualify would have a material adverse effect on its business, assets or condition, financial or otherwise.

5.2. Corporate Status of SCNAH. (a) SCNAH is duly organized, validly existing and in good standing under the laws of the state of Delaware, and has full power to own its property and assets and to transact the business in which it is engaged and presently proposes to engage and is duly qualified and in good standing as a foreign corporation in all jurisdictions where failure to so qualify would have a material adverse effect on its business, assets or condition, financial or otherwise.

(b) At the Closing, the authorized capital stock of SCNAH consists of ten thousand (10,000) shares, par value $1,000.00 per share, of common stock, ______ shares of which are issued and outstanding and all of which are fully paid and are non-assessable. No other shares of capital stock of SCNAH are issued and outstanding. There are no options, warrants, convertible securities or other securities exchangeable, convertible or issuable into any other shares of the Shares or any other shares of capital stock of SCNAH or that give the holder thereof any rights, directly or indirectly, to any of the Shares or any other capital stock of SCNAH. SCNAH is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any of its shares.

(c) All of the Shares are owned beneficially and of record by the Borrower, free and clear of any Lien. Upon the pledge of the Shares pursuant to the terms of this Agreement, the Lender will have, good and marketable title to the Shares, free and clear of all security interests, liens, encumbrances, or other restrictions or claims, subject only to restrictions as to marketability imposed by securities laws.

5.3. Corporate Power and Authority. The Borrower has the corporate power to execute, deliver and perform the terms and provisions of the Loan Documents and has taken all necessary corporate action to authorize the execution, delivery and performance by it of each of such Loan Documents. Each of the Loan Documents has been duly authorized, executed and delivered and constitutes the valid and legally binding obligation of the Borrower, enforceable in

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accordance with its terms. Copies of the Borrower's articles of incorporation and byelaws have been furnished to the Lender and such copies reflect all amendments made thereto at any time prior to the date of this Agreement and such copies are correct and complete.

5.4. No Violation. Neither the execution, delivery or performance by the Borrower of the Loan Documents, nor compliance by it with the terms and provisions thereof will: (i) contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or governmental instrumentality or agency presently in effect having applicability to the Borrower; (ii) conflict or be inconsistent with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to the Security Agreement) upon any of the property or assets of the Borrower, pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement, loan agreement or any other agreement, contract or instrument to which the Borrower is a party or by which it or any of its property or assets is bound or to which it may be subject, or (iii) violate any provision of the Certificate of Incorporation or Bye-Laws of the Borrower.

5.5. Financial Statements. The audited balance sheet and income statement of the Borrower as of December 31, 2001, (collectively the "2001 Financial Statements"), fairly presents the financial position of the Borrower as at the date thereof, and the results of its operations for the year then ended, and has been prepared in accordance with generally accepted accounting principles, consistently applied, and in a manner substantially consistent with prior financial statements of the Borrower. The unaudited, balance sheet and income statement of the Borrower as at June 30, 2002, and for the six months then ended (collectively, the "June 30, 2002 Financial Statements") fairly present the financial position of the Borrower as at the date thereof and the results of operations for the six months then ended and have been prepared in accordance with generally accepted accounting principles consistently applied and in a manner substantially consistent with the 2001 Financial Statements, except for differences resulting from normally occurring accruals or adjustments, or as noted in the June 30, 2002 Financial Statements or the notes thereto. Except as contemplated by or permitted under this Agreement, there are no adjustments that would be required on review of the June 30, 2002 Financial Statements that would, individually or in the aggregate, have a material negative effect upon the Borrower's reported financial condition.

5.6. No Undisclosed Liabilities. Except for liabilities and obligations incurred in the ordinary course of business since June 30, 2002 ("Statement Date"), neither the Borrower nor any of the property of the Borrower is subject to any material liability or obligation that in accordance with Generally Accepted Accounting Principles was required to be included or adequately reserved against in the June 30, 2002 Financial Statements or described in the notes thereto and was not so included, reserved against, or described.

5.7. Title and Related Matters. The Borrower has good and marketable title to all of its property, real and personal, and other assets included in the 2001 Financial Statements (except properties and assets sold or otherwise disposed of subsequent to the Statement Date in the ordinary course of business or as contemplated in this Agreement), free and clear of all security interests, mortgages, liens, pledges, charges, claims, or encumbrances of any kind or character, except (i) statutory liens for property taxes not yet delinquent or payable subsequent to the date

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of this Agreement and statutory or common law liens securing the payment or performance of any obligation of the Borrower, the payment or performance of which is not delinquent, or that is payable without interest or penalty subsequent to the date on which this representation is given, or the validity of which is being contested in good faith by the Borrower; (ii) the rights of customers of the Borrower with respect to inventory under orders or contracts entered into by the Borrower in the ordinary course of business; (iii) claims, easements, liens, and other encumbrances of record pursuant to filings under real property recording statutes; and (iv) as described in the June 30, 2002 Financial Statements or the notes thereto.

5.8. Litigation. Other than (i) the ongoing litigation in London between Sphere Drake and certain affiliates of the Borrower Matter, (ii) certain disputes relating to the recoverability of reinsurance balances due to Realm National Insurance Company, and (iii) as disclosed in the June 30, 2002 Form 10-Q and related documents, there are no actions, suits or proceedings pending or, to the best knowledge of the Borrower, threatened against or affecting the Borrower before any court, arbitrator, governmental or administrative body or agency that, if adversely decided, could materially and adversely affect the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower.

5.9. Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except as have been obtained or made prior to the Closing Date), or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of any Credit Document or (ii) the legality, validity, binding effect or enforceability of any Credit Document, except for the approval of the Department for the enforceability of the Lender's rights under the Security Agreement, as more fully set forth therein.

5.10. Use of Proceeds; Margin Regulations. The proceeds of the Loans will be used by the Borrower for working capital purposes. The Borrower shall use the proceeds of the Loans solely in compliance with all applicable legal and regulatory requirements, including, without limitation, Regulations T, U or X, the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the regulations thereunder.

5.11. Tax Returns and Payments. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries has filed all tax returns required to be filed by it and has paid all income taxes and all other taxes and assessments payable by it which have become due, other than those contested in good faith and for which adequate reserves have been established. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries has paid, or has established adequate reserves (in the good faith judgment of the management of each of the Borrower, SCNAH or the SCNAH Restricted Subsidiaries, as the case may be) for the payment of, all federal and state income taxes applicable for all prior fiscal years and for the current fiscal year to the date hereof.

5.12. Compliance with Statutes, etc. Each of the Borrower, SCNAH and the SCNAH Restricted Subsidiaries is in compliance in all material respects with all applicable statutes, regulations and orders of, and all applicable material restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its

property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls).

5.13. No Brokers or Finders. There are no claims or potential claims against the Lender for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of the Borrower or the Borrower.

5.14. Security Interest. The obligations of the Borrower to the Lender hereunder and under the Note are secured by a valid Lien on the Collateral.

Article 6. **Affirmative Covenants.**

The Borrower agrees that so long as any amount payable hereunder or under the Note remains unpaid:

6.1. Information. The Borrower will deliver to the Lender:

(a) Promptly, and in any event within three (3) Business Days after an officer of the Borrower obtains knowledge thereof, notice of the occurrence of any event which constitutes a Default or Event of Default hereunder.

(b) Promptly, and in any event within three (3) Business Days after an officer of the Borrower obtains knowledge thereof, notice of the filing or commencement of any material action, suit or proceeding against or affecting the Borrower before a court, arbitrator or governmental or administrative body or agency.

6.2. Books, Records and Inspections. The Borrower will permit officers and designated representatives of the Lender to visit and inspect the books of record and account of the Borrower at such times and intervals and to such extent as the Lender may reasonably request upon advance notice.

6.3. Conduct of Business. The Borrower will conduct its business in the ordinary course of business consistent with past practice, and to use commercially reasonable efforts to (i) preserve intact its present business organization, (ii) preserve the rights, franchises, goodwill and relations of those with whom business relationships exist, (iii) keep available the services of its present directors, officers, employees and producers, (iv) defend and protect its assets from infringement or usurpation, (v) perform all of its obligations under all contracts relating to or affecting its assets or its business, (vi) maintain its books, accounts and records in the usual manner consistent with past practice, (vii) comply in all material respects with all applicable laws, and (viii) preserve and maintain in full force and effect all governmental licenses and permits.

6.4. Further Assurance. The Borrower will take, or cause to be taken, all such further actions and execute, or cause to be executed, all such further documents and instruments as the

Lender may at any time reasonably request or reasonably determine to be necessary or advisable to further carry out and consummate the transactions contemplated by this Agreement.

Article 7. Negative Covenants.

The Borrower covenants that from the date of this Agreement until the Note is paid in full and all other obligations of the Borrower hereunder have been discharged in full:

7.1. Consolidation, Merger, Sale of Assets etc. The Borrower will not wind up, liquidate or dissolve or enter into any transaction of merger or consolidation, or convey, sell, lease or otherwise dispose of all or any part of its property or assets, including any capital stock of the Borrower or the SCNAH Restricted Subsidiaries (in one or a series of related transactions), except that (i) the Borrower or any of the SCNAH Restricted Subsidiaries may make sales of assets in the ordinary course of business and (ii) the Borrower or any of the SCNAH Restricted Subsidiaries may, in the ordinary course of business, sell equipment that is uneconomic or obsolete.

7.2. New Business. The Borrower will not engage (directly or indirectly and will use its best efforts not to allow any of the Restricted Subsidiaries 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 unless the Borrower provides prior written notice thereof to the Lender.

7.3. Indebtedness. The Borrower will not, and will use its best efforts not to allow any of the SCNAH Restricted Subsidiaries to, create, incur, assume or otherwise become liable in respect of any Indebtedness other than an Indebtedness which may be incurred by any of the Borrower, SCNAH or the SCNAH Restricted Subsidiaries for working capital purposes, provided, that (i) the principal amount of such Indebtedness shall not exceed $2,500,000, (ii) such Indebtedness shall be expressly subordinated to the obligations of the Borrower under this Agreement; and (iii) the terms and conditions of such Indebtedness, and the form and substance of the credit documents evidencing such Indebtedness shall be reasonably satisfactory to the Lender. To the extent that such subordinated lender shall require the assistance of the Lender to perfect its security interest, the Lender shall not unreasonably withhold its assistance.

7.4. Dividends; Share Issuance.

(a) The Borrower will use its best efforts to prevent any SCNAH Restricted Subsidiary from, (i) declaring any dividends on or make any distribution in respect of any shares of capital stock of the Borrower or such Subsidiary, as the case may be; or (ii) purchasing, redeeming or acquiring for value, any shares of capital stock of the Borrower or such Subsidiary, as the case may be; or (iii) making any deposit for any of the foregoing.

(b) The Borrower 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 SCNAH or any convertible securities, warrants or options giving the holder thereof any rights or interests with respect to any shares of capital stock of SCNAH; nor will the Borrower redeem, or permit the redemption of, any part of the Shares, or sell or permit the sale or other transfer of any of the Shares.

7.5. Transactions with Affiliates. The Borrower will not, and will use its best efforts not to permit any of the SCNAH Restricted Subsidiaries to, enter into or be a party to any arrangement, contract or transaction with any Affiliate (other than a non-SCNAH Restricted Subsidiary) of the Borrower, except upon terms no less favorable to the Borrower or such Subsidiary (as determined on an individual, non-consolidated basis for the Borrower and on a consolidated basis for the Borrower and its Subsidiaries) than would obtain a comparable arm's-length transaction with a Person not an Affiliate of the Borrower.

7.6. Liens. The Borrower will not, and will not permit any of the SCNAH Restricted Subsidiaries to, create, assume, incur or suffer to exist any Lien on any property or assets now owned or hereafter acquired by it, except:

(a) Liens created pursuant to the Security Agreement;

(b) Liens created for securing the subordinated Indebtedness as it may be incurred by the Borrower pursuant to Section7.3 hereof;

(c) easements, rights-of-way, minor defects or irregularities in title and other similar encumbrances on real property having no material effect on the use or value of such real property or on the conduct of the business of the Borrower or any of its Subsidiaries;

(d) unexercised Liens for taxes not delinquent or being contested in good faith by appropriate proceedings and for which reserves adequate under generally accepted accounting principles are being maintained;

(e) Liens arising in the ordinary course of business (and not securing Indebtedness) which are being contested by the Borrower or its applicable Subsidiary, as the case may be, in good faith by appropriate action and in connection with which adequate reserves are being maintained and so long as execution of such Liens has been stayed;

(f) deposits to secure workers' compensation, unemployment insurance and other similar items to the extent required by applicable law and not securing Indebtedness; and

(g) immaterial Liens.

Article 8. Events of Default.

If any one or more of the following events (each, an "Event of Default") shall occur and be continuing, the Loans and the Note (together with accrued interest thereon) shall immediately become due and payable upon written notice to that effect given to the Borrower by the Lender, without diligence, presentment, demand, notice of protest or other notice of any kind, all of which are hereby expressly waived by the Borrower.

(a) The Borrower fails to pay when due any principal of any Loan, or fails to pay within two (2) Business Days after the due date thereof any interest on any Loan, or any other amount payable hereunder or under the Note;

(b) The Borrower fails to observe or perform any other term, condition or covenant of this Agreement, any other Credit Document or the Stock Purchase Agreement, if executed at that time, which failure shall remain unremedied for a period of ten (10) Business Days after notice thereof shall have been given by the Borrower ~~to~~ or the Lender to the Borrower ~~pursuant to paragraph 4.1 hereof;~~

(c) The Borrower shall (i) default in any payment of any Indebtedness in excess of $50,000 (other than the Note) beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created or (ii) default in the observance or performance of any agreement or condition relating to any Indebtedness in excess of $50,000 (other than the Note) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause any such Indebtedness to become due prior to its stated maturity; or any Indebtedness of the Borrower in excess of $50,000shall be declared to be due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof;

(d) The Borrower shall be dissolved or wound up, or 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 the Borrower and, if instituted against the Borrower, shall remain undismissed for a period of 30 days after the institution thereof; or the Borrower makes an assignment for the benefit of creditors; or any corporate action is taken by the Borrower for the purpose of authorizing any of the foregoing; or the Borrower shall suspend or cease or threaten to suspend or cease its ordinary business operations or any substantial part thereof; or all or any substantial part of the property of the Borrower 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; or the Borrower shall have been prevented from exercising normal control over all or any substantial part of its property by any such custodian, receiver, trustee or other person or agency;

(e) One or more judgments, decrees or orders for the payment of money in excess of $50,000in the aggregate shall be rendered against the Borrower, or any attachment, levy or execution against any of its properties for such amount (including for such judgments, decrees or orders) shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 30 days or more; or

Article 9. **Miscellaneous.**

(a) No modification or waiver of or with respect to any provision of any Credit Document or consent to any departure by the Borrower from any of the terms or conditions thereof shall in any event be effective unless it shall be in writing and signed by the Lender, and then such modification, waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Borrower in any case shall, of itself, entitle it to any other or further notice or demand in similar or other circumstances.

(b) Each and every right granted to the Lender hereunder or under any other document delivered hereunder or in connection herewith, or allowed it by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of the Lender or the holder of the Note to exercise, and no delay in exercising, any right shall operate as a waiver thereof, nor shall any single or partial exercise of any right preclude any other or future exercise thereof or the exercise of any other right.

(c) This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns, except that the Borrower may not assign its rights or obligations hereunder without the prior written consent of the Lender.

(d) The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

Article 10. **Notices.**

All notices, approvals, waivers, consents, demands, requests, declarations and other communications pursuant to this Agreement shall be in writing, either by letter delivered by hand or sent by certified mail, return receipt requested, or by telecopy, addressed as follows:

(i) To Borrower:

AlphaStar Insurance Group Limited
Victoria Hall, 3rd Floor
11 Victoria Street
Hamilton HM11, Bermuda

Facsimile: (212) 509-7405
Attention: Mr. Stephen A. Crane

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With a concurrent copy to: AlphaStar Insurance Group Limited
125 Maiden Lane, 5th Floor
New York, New York 10038

Facsimile: (212) 509-7405
Attention: Mr. James Lawless IV

(ii) To Lender: Atlanta Insurance Marketing, Inc.
3101 Towercreek Parkway, Suite 750
Atlanta, Georgia 30339

Facsimile: (770) 980-3290
Attention: Mr. David Dennett-Smith

With a concurrent copy to: Wilson, Elser, Moskowitz, Edelman & Dicker LLP
150 East 42nd Street
New York, NY 10017-5639

Facsimile: (212) 490-3038
Attention: Steven Kent, Esq.

Any notice, request or communication hereunder shall be deemed to have been given when delivered by hand or three days after the date deposited in the mails, postage prepaid, or in the case of telecopy notice, when sent, addressed as aforesaid and confirmation thereof is received. Any party may change the person to whom or the address or telecopier number to which notices are to be given hereunder, but any such notice shall be effective only when actually received by the party to which it is addressed.

Article 11. Governing Law; Severability; Submission to Jurisdiction.

(a) **THIS AGREEMENT AND THE NOTE AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND FULLY TO BE PERFORMED THEREIN BY RESIDENTS THEREOF.** The provisions of this Agreement are severable and if any clause or provisions shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision in this Agreement in any jurisdiction.

(b) **THE PARTIES HEREBY IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE COURT LOCATED IN NEW YORK CITY OR ANY FEDERAL**

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COURT LOCATED IN NEW YORK CITY FOR THE ADJUDICATION OF ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT AND CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED OR CERTIFIED MAIL TO ITS ADDRESS SET FORTH IN ARTICLE 9 HEREOF OUT OF ANY SUCH COURT. NOTHING CONTAINED IN THE FOREGOING SHALL AFFECT THE RIGHT OF THE LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER OR TO BRING ANY PROCEEDING HEREUNDER OR UNDER THE NOTE IN ANY JURISDICTION WHERE THE BORROWER OR LENDER MAY BE AMENABLE TO SUIT. THE PARTIES HEREBY WAIVE ANY CLAIM THAT ANY NEW YORK STATE COURT LOCATED IN NEW YORK CITY OR ANY FEDERAL COURT LOCATED IN NEW YORK CITY IS AN INCONVENIENT FORUM.

Article 12. **Payment of Expenses, etc.**

The Borrower agrees to pay (a) all reasonable costs and expenses of the Lender (including, without limitation, reasonable attorneys' fees and expenses) in connection with the investigation of any actual or alleged Default, the enforcement of this Agreement, the Note or any other Credit Document, and the protection or preservation of the rights of the Lender against the Borrower or any of their respective assets, (b) all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Credit Document or any other document referred to therein and (c) all transfer, stamp, documentary and other similar taxes, assessments or charges (including, without limitation, penalties and interest) (collectively, "Other Taxes") levied by any governmental or revenue authority, domestic or foreign, in respect of this Agreement, the Note, any other Credit Document or any other document referred to herein or therein or contemplated hereby or thereby to the extent that such Other Taxes are incurred (i) in connection with the protection, preservation or enforcement of the rights or benefits of the Lender under this Agreement, the Note or other Loan Documents, or (ii) as a result of the presence of the Borrower in the jurisdiction levying such Other Taxes.

Article 13. **Indemnification.**

The Borrower hereby agrees to indemnify the Lender and its directors, officers, stockholders, employees, attorneys, affiliates and agents and their respective successors and assigns (collectively, "Indemnitee") from, and hold each of them harmless against, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever (collectively, "Losses") incurred by them arising out of or by reason of: (a) any investigation or litigation or other proceeding (including any threatened investigation or litigation or other proceeding) relating to or arising out of this Agreement or any other Loan Documents, or from any actual or proposed use by the Borrower or any Subsidiary of the proceeds of any of the Loans or from an actual or alleged breach of this Agreement or any other Loan Documents; (b) the breach of any representation or warranty or covenant contained in this Agreement or in any other Loan Documents or in any certificate or other document delivered in connection herewith or therewith; (c) the failure by the Borrower to comply with any term, condition or covenant set forth in this Agreement or in any other Loan

Documents; (d) the exercise by the Lender of any rights or remedies hereunder or under any other Loan Documents; or (e) any claim that the making and performance by the Borrower of this Agreement or any other Loan Documents, the borrowing of Loans hereunder or any of the other transactions contemplated hereby or by any other Loan Documents violate or result in a breach of or default under any other agreement or instrument to which or by which the Borrower, any of its Subsidiaries now or hereafter may be a party or bound; provided, that such indemnity shall not, as to any Indemnitee, be available to the extent that such Losses or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

Article 14. **Complete Agreement.**

THIS WRITTEN AGREEMENT IS THE COMPLETE EXPRESSION OF THE LOAN AGREEMENT BETWEEN THE PARTIES. THIS WRITTEN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR ORAL LOAN AGREEMENT OR OF ANY CONTEMPORANEOUS ORAL LOAN AGREEMENT BETWEEN THE PARTIES. ANY AND ALL SUCH PRIOR OR CONTEMPORANEOUS ORAL LOAN AGREEMENTS ARE EXPRESSLY SUPERSEDED BY THIS WRITTEN AGREEMENT. THE PARTIES TO THIS AGREEMENT HEREBY ACKNOWLEDGE AND AFFIRM THAT NO UNWRITTEN ORAL LOAN AGREEMENT BETWEEN THE PARTIES EXISTS.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

ALPHASTAR INSURANCE GROUP LIMITED

By: [signature]
Name: STEPHEN A. CRANE
Title: CHAIRMAN, PRESIDENT, & CEO

ATLANTA INSURANCE MARKETING, INC.

By: [signature]
Name:
Title: C.E.O.

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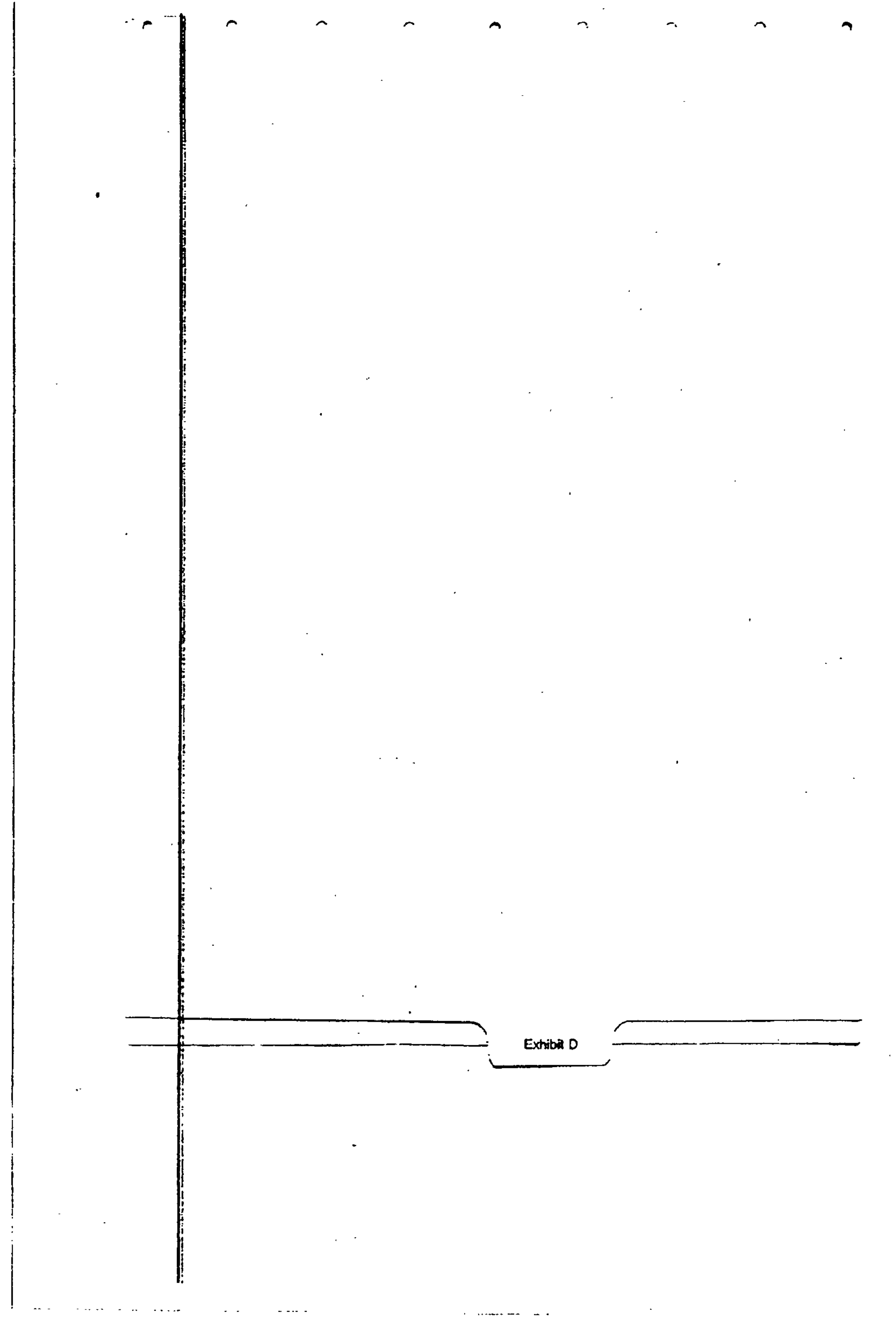

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Exhibit E

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EXECUTION COPY

STOCK PURCHASE AGREEMENT

BY AND AMONG

ALPHASTAR INSURANCE GROUP LIMITED

REALM NATIONAL INSURANCE COMPANY

WORLD TRADE SERVICES, INC.

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.

AND

AMERICAN INSURANCE MANAGERS, INC.

Dated as of March 21, 2003

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STOCK PURCHASE AGREEMENT

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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

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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,

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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.

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"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.

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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.

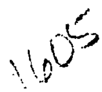
(c) Realm has received, reported and maintained all items of income and expense and all assets and liabilities, including but not limited to all investments, premiums received, capital, surplus, reserves, admitted assets and non-admitted assets, in compliance with the statutory requirements on legal 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 or 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:

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(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) and 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

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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.

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(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

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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.

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(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

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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

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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

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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.

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(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

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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

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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

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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

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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

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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 settlement 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(b), "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

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(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 <u>Notice and Defense of Claims</u>.

(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

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(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

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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:	ALPHASTAR INSURANCE GROUP LIMITED
By:	By:
Name:	Name: Stephen A. Crane
	Title: Chairman, President & CEO
Attest:	STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.
By:	By:
Name:	Name: Stephen A. Crane
	Title: President & CEO
Attest:	REALM NATIONAL INSURANCE COMPANY
By:	By:
Name:	Name: Stephen A. Crane
	Title: Chairman
Attest:	WORLD TRADE SERVICES, INC.
By:	By:
Name:	Name: Gregory Scarpa
	Title: President
Attest:	STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.
By:	By:
Name:	Name: Dawn R. Green
	Title: Secretary
Attest:	AMERICAN INSURANCE MANAGERS, INC.
By:	By:
Name:	Name:
	Title:

1643

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Attest:	ALPHASTAR INSURANCE GROUP LIMITED
By:__________ Name:	By:__________ Name: Title:
Attest:	STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.
By:__________ Name:	By:__________ Name: Title:
Attest:	REALM NATIONAL INSURANCE COMPANY
By:__________ Name:	By:__________ Name: Title:
Attest:	WORLD TRADE SERVICES, INC.
By:__________ Name:	By:__________ Name: Title:
Attest:	STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.
By:__________ Name:	By:__________ Name: Title:
Attest:	AMERICAN INSURANCE MANAGERS, INC.
By: [signature] Name: BRIAN IMPERIALE	By: [signature] Name: DAVID DENNETT-SMITH Title: PRESIDENT + CEO

1813

Attest:

By: [signature]
Name: BRIAN IMPERIALE

ATLANTA INSURANCE MARKETING, INC.
(solely with respect to Sections 5.01(j) and 5.03(f))

By: [signature]
Name: DAVID BENNETT-SMITH
Title: PRESIDENT + CEO

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1645

1814

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

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16416

Attest:

By: [signature]
Name: BRIAN IMPERIALE

ATLANTA INSURANCE MARKETING, INC.
(solely with respect to Sections 5.01(l) and 5.03(f))

By: [signature]
Name: DAVID BENNETT-SMITH
Title: PRESIDENT + CEO

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1647

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: Stephen A. Crane

Title: Chairman, President & CEO

Attest:

By: ____________________

Name:

STIRLING COOKE NORTH AMERICAN HOLDINGS LTD.

By: ____________________

Name: Stephen A. Crane

Title: President & CEO

Attest:

By: ____________________

Name:

REALM NATIONAL INSURANCE COMPANY

By: ____________________

Name: Stephen A. Crane

Title: Chairman

Attest:

By: ____________________

Name:

WORLD TRADE SERVICES, INC.

By: ____________________

Name: Gregory Scarpa

Title: President

Attest:

By: ____________________

Name:

STIRLING COOKE NEW YORK INSURANCE AGENCY SERVICES, INC.

By: ____________________

Name: DAWN R. GREEN

Title: SECRETARY

Attest:

By: ____________________

Name:

AMERICAN INSURANCE MANAGERS, INC.

By: ____________________

Name:

Title:

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Schedule 3.01(a)

List of Jurisdictions Where the Companies are Qualified or Registered as Foreign Corporations

The jurisdiction of incorporation for each of Realm National Insurance Company ("Realm"), World Trade Services, Inc. ("WTS") and Stirling Cooke New York Insurance Agency Services, Inc. ("SCNY") is the State of New York.

Realm possesses current Certificates of Authority to engage in the property and casualty insurance business in each of the states set out in schedule 5.02(k)(I).

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Schedule 3.05

Permitted Liens

None

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Schedule 3.06

Leases

Realm - Lease Agreement, dated September 3, 1992, between RREEF USA Fund-III and Lloyd's New York Insurance Company, expiring September 2, 2003: as amended by that certain amendment dated December 15, 1992, and that certain Second Amendment to Lease, dated September 3, 2000. Current fixed base rent of approximately $16,803.67 per month, plus variable rent, as set forth therein.

WTS - WTS shares space with, and pays an allocated portion of the rent of, Realm shown above, based on the respective number of employees using the space. This obligation is not formally documented. WTS has historically relied on an Expense Allocation Agreement among Realm, Stirling Cooke Brown North American Holdings, Inc. ("Seller") and Stirling Cooke Brown North American Reinsurance Intermediaries, Inc., dated November 17, 1996 (to which WTS is not a signatory) as the source of this obligation, and it has been the consistent practice of the parties. The WTS share of fixed base rent during fiscal 2002 averaged approximately $7,150.00 per month.

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Schedule 3.07

Material Contracts

Realm -

- Services Agreement between Realm National and Insurity Solutions, Inc., dated February 1, 2001 - database and statistical reporting services - approximate annual contractual obligation $240,000 ($12,000 per month).
- Data Processing Service Contract between Realm National and Vantage Data Corp., dated July 1, 1989 - New York policy issuance & claims systems – approximate annual obligation $36,000 ($3,000 per month.)
- Madison Consulting is retained to provide fee-based services in connection with state filings and actuarial pricing services. Approximate cost in fiscal 2002 was $46,000.
- Claims Service Contract between Realm National and Cunningham Lindsay Claims Management, Inc., dated November 14, 1998 and most recently renewed effective April 2, 2001- fee-based compensation for Claims Management and TPA services for workers compensation business – approximate annual contractual obligation $200,000.
- Asset Management Agreement between Realm National and Conning Asset Management Company, dated as of September 1, 2000 – investment advisory services - approximate annual contractual obligation $75,000
- 2003 Affiliation Agreement between Realm and NCCI, dated January 1, 2003 - annual fee and fee-based compensation for workers compensation rates rules, forms and statistical reporting - estimated annual contractual obligation $250,000
- Standard form contract with ISO, as reflected on March 21, 2003 "Report 12" (services status report) - annual fee and fee-based compensation for property / general liability rates, rules, forms and statistical reporting - estimated annual contractual obligation $200,000
- Standard form contract between Realm National and New York Compensation Insurance Rating Board - annual fee and fee-based compensation for workers compensation rates rules, forms and statistical reporting - estimated annual contractual obligation $50,000.
- Expense Allocation Agreement between Realm and Stirling Cooke Group Services, Inc. (now North American Risk, Inc.), dated November 5, 1997, providing for the allocation to Realm of all costs associated with services provided to Realm by parents and affiliates, including payroll services, human relations department overhead, internal audit, E&O/D&O insurance and other corporate services and overhead. (Certain of these amounts are billed through to, and collected from, WTS.)
- Realm is billed directly by vendors of the Parent Plan Medical and Dental coverages specified in Schedule 3.22(a) for its allocated portion of those coverages and for its allocated share of outside audit services provided by KPMG.
- In-force contracts of insurance entered into in the normal course of Realm's business that could result in liability in excess of $50,000.

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- Contracts of insurance which may be found to exist as a result of certificates of insurance issued by Buyer, its affiliates or customers prior to the First Closing pursuant to this Agreement, and which could result in liability in excess of $50,000.
- Termination Agreement between Realm and Mark S. Sioma, dated as of June 19, 2000.

WTS –

- WTS is billed by North American Risk for certain corporate expenses, such as its allocated share of E&O/D&O insurance, audit fees and other corporate services and overhead items. This obligation is not formally documented.
- Pursuant to the Expense Allocation Agreement between WTS and Realm, dated November 17, 1996 (see schedule 3.06, above), WTS pays its allocated share of LTD/STD, AD&D, Life Insurance, Dental benefits, and various corporate services and overhead items, to Realm.
- Termination Agreement between Realm and Greg Scarpa, dated as of March 28, 2001.

SCNY - None

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Schedule 3.08

Violations

Realm -

- The transfer of the stock of Realm would constitute a "change in control" under the Executive Termination Agreement between Realm and Mark S. Sioma, dated as of June 19, 2000, entitling him, as provided therein, to a payment equal to twelve (12) months base salary at the rate then in effect.
- Appointment of AIM as an Agent and the implementation of the AIM Insurance Program may result in one or more of the states in which Realm possesses a certificate of authority taking action adverse to Realm.
- Buyer's failure to comply with the terms and conditions of the agreements referred to in Section 3.08 of this Agreement could result in one or more of the states in which Realm operates taking action adverse to Realm.

WTS –

- The transfer of the stock of Realm would constitute a "change in control" under the Executive Termination Agreement between Realm and Greg Scarpa, dated as of March 28, 2001, entitling him, as provided therein, to a payment equal to twelve (12) months base salary at the rate then in effect.

SCNY - None

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Schedule 3.09

Consents

Realm -

- Certificates of Authority
  - All 24 States listed below
- Approval of Commercial Lines filings – See summary of state filings.
  1. Alabama – Approved for work comp, property, general liability & auto.
  2. Arizona – Approved for work comp, property, general liability & auto.
  3. Arkansas– Approved for work comp, property, general liability & auto.
  4. Florida – Approved for work comp, property, general liability & auto.
  5. Georgia – Approved for work comp, property, general liability & auto. Note that Realm is not authorized for auto electronic reporting under new state law, and would have to be so authorized before issuing such coverage
  6. Illinois– Approved for work comp, property, general liability & auto.
  7. Indiana– Approved for work comp, property, general liability & auto.
  8. Iowa– Approved for work comp, property, general liability & auto.
  9. Kentucky– Approved for work comp, property, general liability & auto.
  10. Louisiana– Approved for work comp, property, general liability & auto.
  11. Mississippi– Approved for work comp, property, general liability & auto.
  12. Missouri– Approved for work comp, property, general liability & auto.
  13. Nebraska – No rate, rules or forms approved.
  14. New Mexico – Approved for work comp, property, general liability & auto.
  15. New York – Approved for work comp, property, general liability & auto. Realm is not authorized for automobile coverage electronic reporting under updated laws, and would have to be so authorized before issuing such coverage.
  16. North Carolina – No rates, rules or forms approved.
  17. North Dakota – Approved for property, general liability & auto. No rates rules or forms approved for workers compensation.
  18. Oklahoma – Approved for work comp, property, general liability & auto.
  19. Pennsylvania – Approved for property, general liability & auto. No rates, rules or forms approved for workers compensation.
  20. South Carolina – Approved for work comp, property, general liability & auto.
  21. South Dakota – Approved for work comp, property, general liability & auto.
  22. Tennessee – Approved for work comp, property, general liability & auto.
  23. Texas – Approved for work comp, property, general liability & auto.
  24. West Virginia - No rates, rules or forms approved.
- Surplus Lines eligibility in Kansas, Montana and Oregon
- Foreign Corporation – California only
- New York State Notary License – Held by Minerva Gordian (a Realm employee)
- Realm FEIN # 13-362-5361

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- Realm is obligated under N.Y. Insurance Law to submit the General Agency Agreement to the N.Y. DOI.
- Although not formally required to do so, Realm has submitted a Risk-Based Capital Recovery Plan to the N.Y. DOI for review and comment. Realm may be required to submit this plan for the approval of regulators in other jurisdictions in which Realm transacts Business.

WTS

- New York Agency License No. PC-746100 -- in the name of Patricia Cobey (WTS employee)
- New York Broker License No. BR-746100 -- in the name of Patricia Cobey
- WTS FEIN # 13-35-33231

SCNY

- SCNY FEIN # 13-394-0333

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Schedule 3.11(f)

Investments

See Realm 2002 annual statutory statement, schedules 15, D and DA for a list of the equity securities held by Realm at year-end 2002.

Since December 31, 2002, Realm management has implemented a plan to recognize capital gains by selling a number of bonds at a premium. Substantially all of the proceeds of such sales have been retained by Realm as surplus.

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Schedule 3.11(ii)

Investment Guidelines

See attached.

WDC99/109733v16

Investment Guidelines

General Investment Policy

1. All investments shall conform to the statutory regulations of the State of New York Insurance Department and all other applicable statutes and regulations.

2. The Finance Committee of the Board of Directors will be responsible on a continuing basis for the establishment and review of portfolio guidelines; the Finance Committee will reaffirm the guidelines (with any revisions) at least once a year. The Committee may delegate to committees, officers, employees, or agents the authority to act, subject to final approval of the Finance Committee, regarding investment of the assets of Realm National Insurance Company.

Investment Objectives

3.11(a)

The primary objectives of Realm National Insurance Company's investment portfolio are:

1. To preserve and grow capital and surplus, in order to improve the Company's competitive position and allow for expansion of insurance operations.

2. To ensure sufficient cashflow and liquidity to fund expected liability payments and otherwise support the Company's underwriting strategy.

3. Subject to achieving the first two objectives, pursue favorable risk adjusted, after-tax total return, in order to enhance the Company's competitive position and economic value.

Investment Guidelines

Permissible Assets

Asset categories permitted in these guidelines may be more narrow than allowed by statutory regulation.

The following categories of assets are permissible investments for Realm National Insurance Company's portfolio.

3.1(ii)

Cash and Equivalents

- Commercial Paper Rated either A-1 by Moody's Investor Services (Moody's) and/or P-1 by Standard & Poors (S&P).
- Pooled short-term money market funds; NAIC 1- or 2-rated pools with assets that mature in 397 days or less.
- Time Deposit
- Certificates of Deposit
- Bank Repurchase Agreements
- Bankers Acceptance

Fixed Income

- Securities of the U.S. Treasury and U.S. Agencies.
- Obligations of U.S. states and their subdivisions including; general obligations, insured, special revenue and pre-refunded obligations.
- Preferred stock of U.S. and Canadian corporations that qualify for amortized cost accounting.
- Dollar denominated notes and bonds of U.S. and Canadian corporations.
- AAA-rated mortgage-backed securities.
- AAA-rated asset-backed securities.

CONNING

Investment Guidelines

Common Stocks

Common stock of corporations listed on a U.S. exchange

Asset Classes that are not permitted include:

- mortgage loans (except MBS issued by an agency of the U.S. government or U.S. corporation)
- mortgage derivatives such as; inverse floaters, interest only strips and principal only strips
- direct real estate investments
- options and futures contracts other than the writing of covered call options
- all non-U.S. dollar denominated securities
- any security that would not be in compliance with the regulations of the State of New York.

All securities purchased will be publicly registered.

Securities Lending is prohibited.

Credit Quality

- At least 90% of the fixed income portfolio must be invested in securities rated at least A3 by Moody's and A- by S&P. The credit rating of the fixed income portfolio shall average at least A1/A+ at all times.
- At acquisition, fixed income assets must be rated at least Baa3 by Moody's or BBB- by S&P.
- If a security is rated by both Moody's and S&P, the higher of the two ratings may be used for these calculations.
- If a security subsequently is rated below Baa3 Moody's or BBB- by S&P, the security may continue to be held in the portfolio if the investment manager is of the opinion that the creditworthiness will improve; otherwise, the security shall be sold as soon as is practicable.

CONNING

Investment Guidelines

Diversification and Asset Allocation

Investments in the portfolio shall be diversified in order to avoid concentrations of risk. There are no maximum limits on the proportion of the portfolio which may be invested in direct or escrowed obligations of the U.S. government or its agencies. Mortgage-backed securities issued and guaranteed by the Government National Mortgage Association (GNMA) and project notes or pools issued and guaranteed by the Federal Housing Administration (FHA) shall be considered obligations of the U.S. government. Additionally, there will be no limits on the proportion of the portfolio invested in mortgage securities issued and guaranteed by the Federal National Mortgage Associations (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), except as limited by excluded derivative forms.

The investment manager will have responsibility for asset allocation decisions within the investment portfolio, subject to the limits set forth in these guidelines. The following constraints identify the asset allocation parameters within which the investment manager can pursue portfolio objectives:

3.1(ii)

Market Sector	Percentage of Investment Portfolio Minimum	Maximum
Governments/Agencies	0%	No limit
Corporate Bonds	0%	60%
Mortgage Backed Securities	0%	50%
Asset-Backed Securities	0%	30%
Tax-exempt securities (municipal bonds and preferred stock that qualify for amortized cost accounting.)	0%	Not to exceed 125% of the target allocation
Obligations Canada or Canadian Corporations	0%	10%
Common Stocks	0%	10%

Investment Guidelines

The target allocation to tax-exempt securities will primarily be based upon the tax position of the company and the optimum mix of tax-exempt securities as determined by the management of the company. Management will notify the investment managers at least annually of the target percentage of tax-exempt securities. The allocation to tax-exempt securities shall not exceed a 25% variation from the target allocation percentage.

The maximum percentage of the portfolio that may be invested in the securities of any one private issuer is 5% of the portfolio market value. Commercial paper investments will be included in this restriction. U.S. Government and U.S. Agency obligations, and GNMA, FNMA, and FHLMC mortgage-backed securities will be exempt from this limitation.

No more than 20% of the portfolio market value may be held in obligations of U.S. corporations in any one industry.

The maximum percentage of the portfolio that may be invested in the securities of any one state or municipal government issuer is 15% of the portfolio market value, except as may be required for regulatory deposit purposes.

No more than 20% of the portfolio market value may be held in any one municipal revenue bond sector. Individual sectors include, but are not limited to, water & sewer, electric, airport, hospital, housing, toll, education, sales tax, industrial, and pollution control revenue bonds.

At the time of purchase of common equity in a specific issuer, the aggregate equity exposure to that issuer, including the value of the new purchase, will not exceed 5% of the market value of the common equity portfolio.

Interest Rate Risk Management

Conning Asset Management will work with Realm National management to determine an appropriate target duration of the fixed income portfolio. The investment manager will work with management to complete an asset-liability analysis on an annual basis that will provide the detail to support a target duration and calculate a surplus duration based on liability and asset duration levels. The allowed duration range for the portfolio may be adjusted from time-to-time by Realm National management to take account of changes in liability duration, surplus levels, and tolerance for GAAP or STAT surplus volatility.

3.//(ii)

Investment Guidelines

As of 9/30/00, the neutral position for the portfolio duration is 3.5, with an allowed range for the market value weighted average modified duration of 2.75 to 4.25. The investment manager may adjust the modified duration of the portfolio depending on the expectations of interest rate movements and on views of relative value along the yield curve.

Capital Gains and Losses

Any capital gains and losses in excess of the amount established, at the beginning of each quarter, by the CFO or their designee, will require approval prior to sale.

Investment Performance and Benchmarks

In line with investment objectives, the Company will review the investment manager's success in meeting after-tax income targets, adhering to stated gains/loss budgets, maintaining required levels of liquidity, and complying with other investment guidelines.

In addition, the investment manager's performance will be reviewed using time weighted total return relative to benchmark market indexes as described below.

Returns are gross of fees.

Returns are pre-tax, but income from municipal bonds and preferred stock will be grossed up to a taxable equivalent basis (for the portfolio and for the benchmark indexes).

Returns will be calculated quarterly by the accounting manager (Conning Asset Management Company) and reported in the following format: (i) quarterly and year-to-date for the current year, (ii) annually for prior years, and (iii) cumulative since inception.

CONNING

3.11(D)

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Investment Guidelines

To better evaluate manager performance as targets for taxable/tax exempt income change, performance of taxable and tax advantaged assets will be tracked separately, as well as on a consolidated basis. Returns will be calculated for asset classes (as described below) and compared to benchmarks appropriate to that asset class; returns will also be calculated for the manager's consolidated portfolio and compared to an aggregated index (as described below). Benchmarks have been chosen to be consistent with the investment guidelines. It is intended that investment managers should be able to match or exceed returns on the benchmark indexes over time, without taking risks that are inconsistent with these guidelines.

Asset Class	Benchmark
Cash and Equivalents	20% Salomon 1 month T-Bill
Taxable Fixed Income	80% Lehman Intermediate Aggregate

3.11(ii)

CONNING

Schedule 3.12

Personnel and Accounts

(a)

Realm

See attached

WTS

Fiduciary Accounts

- Fiduciary Acct #61450961 (Citibank, N.A.) – Signatories: Mr. Greg Scarpa, Ms. Cathy Macri
- Checking Acct # 4058322 (Citibank, N.A.) – Signatories: Mr. Scarpa, Ms. Macri
- Checking Acct # 2687926 (Citibank, N.A.) – Signatories: Mr. Scarpa, Ms. Macri

Operating Accounts

- Checking Acct # 4058349(Citibank, N.A.) – Signatories: Mr. Scarpa, Ms. Macri
- Payroll Acct # 4087609 (Citibank, N.A.) – Signatories: Mr. Scarpa, Ms. Macri

SCNY – None

(b)

RNIC Directors and Officers

Name	Status	Title / Affiliation
Stephen A. Crane	Director, Executive Officer	Chairman, AlphaStar Insurance Group Limited ("ASIG"); Chairman, Realm
Anthony Del Tufo	Director, Executive Officer	Acting CFO – ASIG & Realm
Thomas Dick	Director, Executive Officer	AVP of Claims, Realm
John A Dore	Non-Executive Director	American Country Insurance
Hadley C. Ford	Non-Executive Director	Consultant
Danny R. Green	Director, Executive Officer	VP - Claims, Realm
James Lawless IV	Director, Executive Officer	SVP & General Counsel, ASIG
Leonard Quick	Director, Executive Officer	COO, ASIG
Mark S. Sloma	Director, Executive	President & CEO, Realm

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	Officer	
Christina B. Vu	Director, Executive Officer	AVP of Finance, Realm
Ronata L Zinnert	Director, Executive Officer	VP of Underwriting, Realm

WTS Directors and Officers

Name	Status	Title / Affiliation
Gregory Scarpa	Director, Executive Officer	President, WTS
Patricia Cobey	Executive Officer	VP of Underwriting, WTS
Cathy Macri	Director, Executive Officer	VP of Operations, WTS
Leonard Quick	Director, Executive Officer	COO, WTS; COO, ASIG

SCNY Directors and Officers

Name	Status	Title / Affiliation
Danny Green	Officer	Secretary, SCNY

SCNY's directors have either left the company or retired, and have not been replaced.

(c)

RNIC

Name	F/Y 2002 Salary, per W-2, Box 5	Title
Mark S. Sioma	$ 257,449.920	President & CEO
Ronata L. Zinnert	$ 134,898.00	VP – Underwriting
Thomas Dick	$ 70,179.68	AVP – WC Claims
Cheryl Green	$ 70,075.44	Manager, Accounts Rec.
Minerva Gordian	$ 64,346.72	Staff Accountant
Danny R. Green	$ 97,331.93	VP – Claims
Ruel Medina	$ 19,250.00 (part year - annual rate at y/e is $66,000)	Staff Accountant
Viro Ramnarce	$ 64,826.72	Senior Accountant

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Jesse Sosa	$ 41,413.84 (part year - annual rate at y/e is $78,500)	Senior Accountant
Christina B. Vu	$ 83,728.72	AVP – Finance

Each of these employees is compensated solely by Realm at a fixed rate for services performed. Mr. Sioma is a party to the Executive Termination Agreement referred to in Schedule 3.08. Mr. Green and Ms. Gordian are each parties to employment contracts entitling them to six month's notice of termination.

WTS

Name	F/Y 2002 Salary, per W-2, Box 5	Title
Gregory Scarpa	$ 150,495.12	President, WTS
Patricia Cobey	$ 60,185.00	VP of Underwriting, WTS
Cathy Mauri	$ 67,837.01	VP of Operations, WTS

Each of these employees is compensated solely by WTS at a fixed rate for services performed. WTS personnel are eligible for a bonus, pursuant to an agreement that has not been formally documented, calculated at 12% of WTS' pre-tax profit based on its audited annual results at year-end 2002. Mr. Scarpa is a party to the Executive Termination Agreement referred to in Schedule 3.08.

SCNY – None

(d)

Realm - None
WTS - None
SCNY – None

WDC01/109732v16

11668

REALM NATIONAL INSURANCE COMPANY
BANK ACCOUNT DETAILS CLAIMS @ MARCH 31, 2003

DATE	BANK	ACCOUNT #	SIGNATORIES	PURPOSE
8/24/98	UNION BANK & TRUST	13322369	DANNY GREEN CHARLES CALDWELL DENNIS OTTIS MARK DAVIS	MIDLANDS MGMT FOR REALM AUTO CLAIMS
5/2/97	UNION BANK & TRUST	3518158	DANNY GREEN CHARLES CALDWELL DENNIS OTTIS MARK DAVIS	MIDLANDS MGMT FOR WC CLAIMS ACCOUNT
9/6/01	FIRST UNION NATIONAL	2000008352512	DANNY GREEN MARK SIOMA RONATA ZINNERT MICHAEL SHEEHAN	REALM NATIONAL INS CO CBP CLAIMS
9/6/01	FIRST UNION NATIONAL	2000008352486	DANNY GREEN MARK SIOMA RONATA ZINNERT MICHAEL SHEEHAN	REALM NATIONAL INS CO BOCA CLAIMS ACCT
9/6/01	FIRST UNION NATIONAL	2000008352499	DANNY GREEN MARK SIOMA RONATA ZINNERT MICHAEL SHEEHAN	SCIS FOR REALM WC CLAIMS SARASOTA CLAIMS
9/8/01	FIRST UNION NATIONAL	2000008352525	DANNY GREEN MARK SIOMA RONATA ZINNERT MICHAEL SHEEHAN	SCIS FOR SARASOTA ASRS WC CLAIMS
5/10/01	CHASE BANK OF TX	08800218184	DANNY GREEN MICHAEL SHEEHAN	NAR FOR REALM WC CLAIMS
1/1/00	BANK ONE	1574005527	ROGER BLACK RAY YONKUM ROBERT MINK JUDY COSENZA DANNY GREEN	REALM NATIONAL INS CO STATE CLAIMS ADJUSTORS B&S TN MS FL CLAIMS
3/1/00	SUNTRUST BANK	000880124904	ROGER BLACK RAY YONKUM DANNY GREEN CARLA EDWARDS FRED MARTIN STEVE MINK JUDY COSENZA	REALM NATIONAL INS CO STATE CLAIMS ADJUSTORS B&S GEORGIA CLAIMS
	CITIBANK DELAWARE	031100209		CUNNINGHAM LINDSEY ON BEHALF OF REALM NATIONAL

3,12(9)

	Realm National Insurance Co Custodian Listing as of 03-31-03 (include active custodian & Statutory Deposits)	
STATE	**BANK**	**ACCOUNT NO.**
ARIZONA	BNY WESTER TRUST COMPANY 700 South Flower Street, Suite 500 Los Angeles, CA 90017 Attn: Ms Dania Samai 213-630-6438	301433
ARKANSAS	BANK OF AMERICA, N.A. 200 W Capitol Ave, 6th Fl Little Rock, AR 72201 Attn: Brenda Nichols 501-378-1913	74-01-101-0161604
FLORIDA	WACHOVIA BANK, N.A. 1525 West W.T. Harris Blvd. Charlotte, NC 28288-1511 Attn: Glenda Webb 904-489-3790	4056887881
GEORGIA	WACHOVIA BANK NA Trust Accounting – NC 31042 P.O. Box 3099 Winston-Salem, NC 27150 Attn: Randy Thompson 336-770-6405	61 584955500
LOUISIANA	HIBERNIA NATIONAL BANK-LOUISIANA Investment Division P.O. Box 61540 New Orleans, LA 70161 Attn: Cindy Adams 504-533-2152	36638
MISSOURI	CENTRAL BANK P.O. Box 779 Jefferson City, Missouri 65102 Attn: 573-634-1234	01-2532-6

3,12(a)

STATE	BANK	ACCOUNT NO.
NEW MEXICO	WELLS FARGO BANK, NEW MEXICO Trust and Asset Management MAC Q2420-020 241 Washington Avenue Santa Fe, New Mexico 87501 Attn: Annette Martinez 505-984-0442	897
NEW YORK	CITICORP TRUST BANK, FSD 99 Wood Avenue South 3rd Floor Iselin, NJ 08830 Attn: Donna Wittek 732-516-2087	101005857432
NORTH CAROLINA	WACHOVIA BANK NA Institutional Trust & Retirement SVCS 301 North Church Street Winston-Salem, NC 27101 Attn: NC Custody Service Ctr NC31013 336-770-6504	58 078630200
OKLAHOMA	BANK ONE OKLAHOMA 100 North Broadway Oklahoma City, OK 73102 Attn: Gwen Lee 405-231-7146	0880053015214
SOUTH CAROLINA	BANK OF AMERICA N.A. 200 N College Street NC1-004-03-06 3rd Floor Charlotte, NC 28255 Attn: Beth Fuentes 800-933-9662	4-0044-8
U.S. DEPARTMENT OF LABOR	FEDERAL RESERVE BANK OF PA 10 Independence Mall Philadelphia, PA 19106 Attn: Shaila Alexander 215-574-6206	CY27

3/12(a)

3

STATE	BANK	ACCOUNT NO.
LOC	CHASE INVESTMENT SERVICES CORP 55 Water Street, 18th Floor New York, NY 10041 Attn: John McManus 212-834-4515	CIK-001406
REGULAR CUSTODIAN:	CHASE MANHATTAN BANK PERSONAL ASSET MANAGEMENT SVCS 20 South Clinton Ave Seneca, 4th Floor Rochester, NY 14604 Attn: Naima DeLain 877-850-7222	622000280

H/finance/2001/banking/custbanklist

3,12(a)

Schedule 3.14

Liabilities

Realm

- Realm commuted certain reinsurance balances over 90 days old with Trustmark in December 2002.
- Realm commuted certain reinsurance balances over 90 days old with American Re in December 2002.
- As reflected on Realm's 2002 Statutory Statement, Realm has incurred losses aggregating approximately $800,000 since September 30, 2002 arising from the writing off of agent's balances deemed uncollectible by Realm.
- Since September 30, 2002, Realm has entered into the following contracts, each of which involve an amount in excess of $50,000:
  - 2003 Affiliation Agreement between Realm and NCCI, dated January 1, 2003, referred to in Schedule 3.07.
  - Standard form contract with ISO, as reflected on March 21, 2003 "Report 12", referred to in Schedule 3.07.
- Contingent liability arising from the failure to issue, or defective issuance of, notices of cancellation in respect of workers compensation policies.

WTS

- Contingent liability arising from the failure to issue, or defective issuance of, notices of cancellation in respect of workers compensation policies.

SCNY - None

WDC03/189732v16

Schedule 3.16

Litigation

Realm -

- Potential Counterclaim, threatened but as yet unfiled, in the litigation pending between AIM and Realm National and its affiliates, captioned Realm National Insurance Company, et al. v. American Insurance Managers, Inc. et al., Civil Action No. 02CV10278(RMB) (S.D.N.Y.)
- Complaint in intervention by Corporate Solutions, Inc. in the foregoing action, alleging liability arising out of Realm's conduct in connection with the issuance of certificates of insurance prior to the First Closing under this Agreement and seeking declaration that coverage is in place.
- Complaint filed by Equity Concepts, Inc. in Equity Concepts, Inc. v. Realm National Insurance Company, et al., Circuit Ct., 4th Judicial District, Duval Cty. Florida, Case No 02-02-08503-CA, Div. CV-A., seeking declaration that certain coverage is in place due to conduct of Realm and certain of its affiliates in connection with the issuance of disputed certificates of insurance prior to the First Closing under this Agreement.
- Realm is a defendant in a case filed by Edwards & Son, Inc. in the Circuit Court of Barbour County, Alabama as Civil Action No. CV-02-51, alleging Realm's a failure to supervise a retail agent. Realm has answered the Complaint, stating that Dillon was not an agent for Realm. Realm believes it has strong factual and legal defenses to the claim. Plaintiffs have alleged out-of-pocket damages in an amount of less than $50,000 and unspecified punitive damages. Discovery in the case is continuing.
- Realm is a defendant in a case filed by Theodore Gillard and S & T Transports in Washington County, Alabama, as Case No. CV-02-164C. The Complaint alleges, inter alia, the failure to supervise a retail agent. Realm believes that it has strong legal and factual defenses to the Complaint. Discovery is ongoing. The Complaint does not allege a specific amount for compensatory damages, and alleges a claim for punitive damages.
- Complaint filed by Sphere Drake/Odyssey Re, captioned Sphere Drake Insurance Limited v. Realm National Insurance Company, C.A. No. 01-CV-2851 (AKH) (S.D.N.Y.), seeking a declaration that certain reinsurance contracts as to which Realm has demanded arbitration are void and therefore not subject to arbitration.
- Realm has demanded arbitration against Lincoln National Life Insurance Company and Lincoln National Health & Casualty Insurance Company respecting balances due over 90 days. This arbitration has been held in abeyance by the parties pending the outcome of ongoing settlement/commutation discussions.

WTS -- None

SCNY - None

WDC01/109732v16

1074

1843

Schedule 3.17(a)

Notices from Governmental Authority

Realm –

On or about April 11, 2002, Realm received a notice from the U.S. Department of Labor indicating that Realm was no longer qualified to write USL&H coverage. in response to this inquiry, Realm voluntarily undertook to surrender its authorization to write such coverage, and no further action has been taken by either party.

On or about May 15, 2002, Realm was notified by the North Carolina DOI of certain concerns regarding Realm's financial condition, and the N.C. DOI requested additional information in this regard. In response to this inquiry, Realm voluntarily undertook to refrain from writing any new business in North Carolina, and no further action has been taken by either party.

On or about February 13, 2003, Realm was informed that it was no longer approved for surplus lines in the State of Ohio. Realm has acknowledged this notification, and no further action has been taken by either party.

Realm understands that various regulatory agencies, including those in Alabama, Texas and Oklahoma are investigating the issuance of disputed certificates of workers compensation insurance naming Realm as the insurer. While no overt threat of revocation of any license or authority has been made by such regulatory agencies, it is within the regulatory powers of such agencies to take such action based upon the results of such investigations.

WTS - None
SCNY - None

WDC01/109733v16

Schedule 3.17(b)

Orders

Realm –

- On or about April 11, 2002, Realm received a notice from the U.S. Department of Labor indicating that Realm was no longer qualified to write USL&H coverage. In response to this inquiry, Realm voluntarily undertook to surrender its authorization to write such coverage, and no further action has been taken by either party.
- On or about May 15, 2002, Realm was notified by the North Carolina DOI of certain concerns regarding Realm's financial condition, and requesting additional information. In response to this inquiry, Realm voluntarily undertook to refrain from writing any new business in North Carolina, and no further action has been taken by either party.
- On or about February 13, 2003, Realm was informed that it was no longer approved for surplus lines in the State of Ohio. Realm has acknowledged this notification, and no further action has been taken by either party.

WTS – None
SCNY - None

WDC01/109732v16

Schedule 3.19

Intellectual Property

Realm –

Realm's internet address ("RealmNational.com") is currently registered in the name of a former employee of an affiliate of Realm. The registration is in the process of being transferred to Realm.

WTS – None
SCNY - None

WDC01/109733v16

Schedule 3.22(a)

Parent Plans

Realm, WTS and SCNY:

- Section 125 "Flex One" program through AFLAC (unreimbursed medical and dependent day care) – annual program commencing 1/1/03
- Medical Coverage – "HMO Choice Plan" though United Healthcare (PPO & HMO Plans - PPO only in New York) - annual program commencing 1/1/03
- Dental Coverage through GE Group Life Assurance Company – Account Number 025-3846-04 – Group Policy 25-0000 - annual program commencing 1/1/03
- Life Insurance & Accidental Death and Dismemberment though GE Group Life Assurance Company – Account Number 025-3846-08 – Group Policy 25-0000 (two policies: (a) Directors, Officers and Controller and (b) Employees) - annual program commencing 1/1/03.
- Long-Term Disability Coverage through GE Group Life Assurance Company – Account Number 025-3846-08 – Group Policy 25-0000 (two policies: (a) Directors, Officers and Controller and (b) Employees) – annual program commencing 1/1/03.
- Short-Term Disability Coverage through GE Group Life Assurance Company – Account Number 025-3846-08 – Group Policy 25-0000 – annual program commencing 1/1/03
- - 401(k) Program - provided through the North American Risk, Inc 401(k) Plan & Trust. (The 401(k) Plan is currently in the process of being terminated)
- Vision Care plan through Lens Express.
- Grants of (i) Options to purchase Ordinary Shares of the stock of AlphaStar Insurance Group Limited; (ii) Restricted Stock or (iii) Share Appreciation Rights may be made to employees of the Companies pursuant to the 1997 Equity Incentive Compensation Plan. Such grants, which are made by the Compensation Committee of the ASIG Board of Directors, are discretionary
- See attached for summary of corporate policies regarding Severance Pay, Vacation, Holidays, Sick Leave, Bereavement Leave, Family and Medical Leave, Military Leave and Jury Duty.

Each of the Parent Plans listed above would require notice to be given in advance to the provider of the Plan and, in certain instances, to the beneficiaries thereof.

WTS – WTS personnel are eligible for a bonus, pursuant to an agreement that has not been formally documented, calculated at 12% of WTS' pre-tax profit based on its audited annual results at year-end 2002.

WDC01/109733v16

4.4 SEVERANCE PAY

The company provides severance pay to eligible employees whose employment is terminated for reasons that are not prejudicial to the company, as determined by the company in its sole discretion. If the company decides to provide severance pay it will be provided to the following eligible employee classifications:

- Regular full-time employees

Specifically excluded under this provision are employees who:

- Were hired as temporary employees for a specified period of time
- Who voluntarily resign
- Were offered but refused to accept another suitable position with the organization
- Were provided the opportunity to be retained for any length of time by a successor employer
- Who are discharged due to job performance or for violation of rules or regulations as stated elsewhere in this handbook

3,22(k)

3.1 VACATION

If you are a salaried employee, you are eligible for paid vacation time based on your years of service with the company as shown below. Your years of service for vacation purposes is the number of whole years of employment you will complete at anytime during the calendar year through December 31st.

YEARS OF SERVICE	VACATION
Less than 5 years	10 days
5 - 10 years	15 days
After 10 years	20 days

- Department heads must give prior approval to all vacations (30 days notice requested for anything over three days)
- Except in emergencies, vacations may not be taken unless sufficient time has been accrued
- Vacations may be taken in units of half day increments
- Employees will be paid for accrued vacation time only upon termination of employment
- The company will keep records of all vacation time earned and taken. In the event of a dispute, the company's decision is final
- Vacation is accrued on the first of a given month for that calendar month at 0.83 days per month for less than five years service
- At the anniversary date of five years employment, vacation will be accrued at 1.25 days per month from the 5th to the 10th year of employment.

3,22(b)

3.2 HOLIDAYS

The company will grant paid holiday time-off to all employees on the holidays listed below:

New Year's Day (January 1)
Memorial Day (last Monday in May)
Independence Day (July 4)
Labor Day (first Monday in September)
Thanksgiving (fourth Thursday in November)
Day after Thanksgiving
Christmas Day (December 25)
Day after Christmas (December 26)

When a holiday occurs over a weekend period the following will apply:

- If the holiday falls on a Saturday the previous Friday will be granted as the holiday
- If the holiday falls on a Sunday then the following Monday will be granted as the holiday.

In addition to the recognized holidays listed above, eligible employees will receive four (4) floating holidays in each year. To be eligible, employees must have completed 90 calendar days of service in an eligible employment classification. These days are granted to new employees on a prorated basis accrued at one day per quarter. Floating holidays may be taken in a minimum of half day increments. All floating holidays must be taken with the approval of the Department Head.

3,22 (k)

3.3 SICK LEAVE BENEFITS

Reasonable periods of paid sick leave are provided to regular full-time employees to a maximum of six (6) days per calendar year in order to prevent loss of earnings that may be caused by accident or illness. Exceptions may be granted by the president at his discretion.

Employees who are unable to report to work due to illness or injury should notify their direct supervisor before the scheduled start of their workday if possible. The direct supervisor must also be contacted on each additional day of absence.

Sick leave benefits will be calculated based on the employee's base pay rate at the time of absence and will not include any special forms of compensation, such as incentives, commissions, bonuses, or shift differentials.

Payment for unused sick leave will not be paid to employees while they are employed or upon termination of employment.

A doctor's certificate may be requested by the employee's supervisor after an absence of two (2) days.

For new employees who commence employment during the calendar year, sick leave will be accrued at a half day per month for the remainder of the year following completion of the 90 day probationary period.

3,22(a)

1682

3.4 BEREAVEMENT LEAVE

The company allows paid time off for an employee to attend a funeral when there is a death in the employee's immediate family, as explained below.

Eligibility:

Immediate Family:

- Spouse
- Mother/Stepmother/Mother-in-law
- Father/Stepfather/Father-in-law
- Daughter/Stepdaughter/Daughter-in-law
- Son/Stepson/Son-in-law
- Brother/Brother-in-law
- Sister/Sister-in-law
- Grandparent

Policy:

In the case of death in the immediate family, the company will grant full-time employees up to three days paid time off. Exceptions are subject to the discretion of employee's supervisor.

In the case of death of a relative outside the immediate family or a close friend or other non-relative, the company may grant time off for an employee to attend the funeral. This time off may be charged to vacation or may be taken as leave without pay.

An employee requesting bereavement leave must obtain approval for the time off from his or her immediate supervisor.

3.22(a)

3.5 FAMILY AND MEDICAL LEAVE (Federal FLMA)

Employees have rights to family and medical leave under the Federal Family and Medical Leave Act of 1993. The Company provides family and medical leave in accordance with this law.

1. Eligibility for Family and Medical Leave

   Employees who have worked at the Company for at least 12 months and who have worked at least 1,250 hours during the previous 12 months are eligible for federal family and medical leave.

2. Types of Family and Medical Leave Available.

   Family and medical leave is available to employees for the following reasons:

   Family Leave

   - For the birth and care of a son or daughter
   - For the placement of a son or daughter with the employee for adoption or foster care

   Medical Leave

   - To care for the spouse, son, daughter, or parent of the employee if such spouse, son, daughter, or parent has a serious health condition
   - Because of the employee's serious health condition that renders the employee unable to perform the essential functions of his or her job.

3. How and When to Request Leave

   If you need family or medical leave, you must provide the Company notice of the need for leave. To request leave, you should fill out an Application for Leave of Absence form, which is available from Human Resources. When the need for the leave is foreseeable (such as for leave following the birth of a child), you should provide at least 30 days advance notice. When the need for leave is not foreseeable, you must give notice as soon as possible. Your notice, when possible, should be in writing, and it should provide the Company with enough information to determine whether the leave qualifies as family or medical leave. Failure to provide proper notice may result in delay or denial of leave.

4. Medical Certification Requirement

   If your leave is due to a serious health condition, you will be required to furnish Medical Certification from a health care provider. Medical Certification forms are available from Human Resources. Failure to provide the required certification may result in the delay, denial, or cancellation of leave. If the certification shows that your absence does not qualify under the FMLA, the FMLA designation will be revoked retroactive to the first day of your leave. The Company may require re-certification during your leave.

5. Amount of Leave Available

   An employee may take up to 12 weeks of family or medical leave in a year.

3.22(2)

6. How the Amount of Leave Is Calculated

   The Company will count federal family and medical leave on a "rolling 12-month basis." This means that the 12 month period is measured backwards from the date an employee uses any family or medical leave. Each time an employee takes federal family or medical leave, the remaining leave entitlement would be any balance of the 12 week annual entitlement that had not been used during the immediately preceding 12 months.

7. During family and medical leave, your group health insurance will be maintained under the same conditions as if you were working. The Company will continue your Life, AD&D, STD & LTD during your leave *[at no cost to you]*. If you are on paid leave, your payment will be deducted from your paycheck. If employee premium payments are more than 30 days late, insurance coverage may be terminated. You may be required to reimburse the Company for any premium payments you missed that the Company pays on your behalf.

8. When you return from family or medical leave, you will be entitled to reinstatement to your job or an equivalent job with the same pay, benefits, and terms and conditions of employment. However, this right to reinstatement will not apply if your leave continues after your state and federal family and medical leave is exhausted.

9. Family and medical leave is generally unpaid leave. When you take family and medical leave, however, you may substitute certain types of accrued paid leave, such as vacation. Under these circumstances both the paid and unpaid leave count as family and medical leave. Family and medical leave will run concurrently with worker's compensation or disability leaves.

10. If you are taking medical leave due to your own serious health condition, you must provide a return to work release from your health care provider before you return to work. The return to work statement should be submitted to the Human Resources Department.

11. While you are on leave, the Company may require you to periodically confirm your status and your intention to return to work. Any employee who decides while on leave that he or she will not be returning to work at the end of the leave should immediately inform the Company.

12. If the Company determines that an employee has obtained leave or continued to take leave under the state or federal family and medical leave laws based on fraudulent, dishonest or misleading conduct of any kind, the employee will be subject to immediate termination.

3.22(a)

3.6 MILITARY LEAVE

The Company recognizes its obligations under state and federal law to allow an employee to have a leave of absence to satisfy military obligations he or she may have. Such employee's reinstatement rights will be governed by the state and federal laws applicable to the type of military leave taken.

3.2z(a)

3.7 JURY DUTY

Full-time employees who are summoned for jury duty will be paid the difference between their normal rate of pay and the jury duty pay for a period of up to two weeks. Employees must provide the firm with a copy of the payment records from the court in order to be compensated. Should you have to serve more than two weeks on duty, you may take unpaid time off.

Make arrangements with your manager as soon as you receive your summons. In fairness to the company, you are expected to return to your job if you are excused from jury duty during your regular working hours.

3,22(a)

Schedule 3.23(b)

Audit History

Realm - None
WTS - None
SCNY - None

Schedule 3.23(h)

Consolidated Groups

In its 1994 federal consolidated income tax return, the parent of the U.S. subgroup, Stirling Cooke North American Holdings Ltd. (SCNAH), made an election to include members of its affiliated group in a consolidated U.S. income tax return. Realm National Insurance Company became a consolidated subsidiary of SCNAH during 1996.

Realm filed an intercompany tax sharing agreement with the New York State Insurance Department in December 2001. The tax sharing agreement provides that Realm's allocation of federal tax refunds from consolidated net operating loss carrybacks shall be not less than the amount of tax refunds that Realm would have obtained if Realm had filed tax returns on a separate company basis. Realm's current tax benefit on a statutory basis of accounting takes into account the full amount of federal tax refunds that Realm would have obtained had it filed its tax returns separately from SCNAH and subsidiaries.

In 2000, World Trade Services elected to file a New York State combined return that includes Stirling Cooke New York Insurance Agency Services, Inc. and Stirling Cooke Brown North American Reinsurance Intermediaries, Inc.

WBC01/107732v16

Schedule 3.23(i)

Tax Sharing Liabilities

Realm National Insurance Company filed an intercompany tax sharing agreement with the New York State Insurance Department in December 2001. The tax sharing agreement provides that Realm's allocation of federal tax refunds from consolidated net operating loss carrybacks shall be not less than the amount of tax refunds that Realm would have obtained if Realm had filed tax returns on a separate company basis. Realm's 2000 current tax benefit on a statutory basis of accounting takes into account the full amount of federal tax refunds that Realm would have obtained had it filed its tax returns separately from SCNAH and subsidiaries.

Schedule 3.23(j)

Tax Elections

In its 1995 federal consolidated income tax return, SCNAH and subsidiaries made an election to conform allocations of federal income tax expense against the earnings and profits of the U.S. subsidiaries in conformity with regulation sections 1.1502-32 and 1.1502-33(d). This election applies to entities that became consolidated subsidiaries of SCNAH even after 1995. Realm became a consolidated subsidiary of SCNAH during 1996.

In its 1997 separate company tax return that was included in the SCNAH consolidated federal tax return, Realm made an election under section 846(e) to discount its unpaid loss reserves on the basis of its experience. However, this election applied only with respect the special property line of business. Starting in 2000, when SCNAH and subsidiaries generated more net operating losses than could be fully utilized by carryback to prior years, Realm stopped calculating experience-based loss reserves discount factors for the special property reserves and simply used the factors published by the IRS. By 12/31/2001, the special property loss reserves were $718,000. The difference in discounting under experience-based factors vs. IRS factors was determined to be insignificant.

In its 1999 federal consolidated income tax return, SCNAH and subsidiaries made an election under regulation section 1.1502-21(b)(3)(ii)(B) to waive the pre-8/18/98 carryback period for the consolidated net operating losses attributable to World Trade Services.

In federal consolidated income tax returns for 1999, 2000, and 2001, SCNAH and subsidiaries carried back net operating losses to prior years to the full extent possible, exhausting carryback room to 1996.

In 2000, World Trade Services elected to file a New York State combined return that includes Stirling Cooke New York Insurance Agency Services, Inc. and Stirling Cooke Brown North American Reinsurance Intermediaries, Inc.

Schedule 3.24

Severance Arrangements

Realm -

Mr. Sioma is a party to an Executive Termination Agreement, dated June 19, 2000, entitling him to one year's base compensation upon a "covered termination" following a "change of control," which would include the transfer of the stock of Realm contemplated under this Agreement. Mr. Green and Ms. Gordian are employed pursuant to contracts entitling them to six month's notice of termination, or compensation in lieu thereof.

WTS -

Mr. Scarpa is a party to an Executive Termination Agreement, dated March 28, 2001, entitling him to one year's base compensation upon a "covered termination" following a "change of control," which would include the transfer of the stock of WTS contemplated under this Agreement.

SCNY – None

WDC01/109733v16

Schedule 3.25

Insurance

None

1862

Schedule 4.03

Buyer Violations

None

WDCDI/109732v11

1863

Schedule 4.07

Broker Fees and Commissions

None

WDC01/109732v21

1695

Schedule 4.11

AIM Insurance Program Jurisdictions

ALABAMA
ARIZONA
ARKANSAS
FLORIDA
GEORGIA
ILLINOIS
INDIANA
MISSISSIPPI
MISSOURI
NEW YORK
NORTH CAROLINA
OKLAHOMA
PENNSYLVANIA
SOUTH CAROLINA
TENNESSEE
TEXAS

WDC01/113991v1

Schedule 4.13

PEOs

Corporate Solutions, Inc.
Select Services, Inc.
Quality HR, Inc.
Corporate Resource Management, Inc.
Emcore, Inc.
Xcelerate, Inc.
Meritas Group, Inc.
Galactic, Inc.

WDC01/113992v1

1866

Schedule 5.01(g)

Required Regulatory Approvals

None

WDC01/109732v21

Schedule 5.02(k)(I)

Required License States

1. Alabama
2. Arizona
3. Arkansas
4. Florida
5. Georgia
6. Illinois
7. Indiana
8. Iowa
9. Kentucky
10. Louisiana
11. Mississippi
12. Missouri
13. Nebraska
14. New Mexico
15. New York
16. North Carolina
17. North Dakota
18. Oklahoma
19. Pennsylvania
20. South Carolina
21. South Dakota
22. Tennessee
23. Texas
24. West Virginia

WDC81/189732v14

Schedule 5.02(k)(ii)

Required Filing States

1. Alabama
2. Arizona
3. Arkansas
4. Florida
5. Georgia
6. Illinois
7. Indiana
8. Iowa
9. Kentucky
10. Louisiana
11. Mississippi
12. Missouri
13. New Mexico
14. New York
15. Oklahoma
16. South Carolina
17. South Dakota
18. Tennessee
19. Texas

WDC99/109733v16

100

1869

EXHIBIT G

1701

1870

Israeloff, Trattner & Co. P.C.
CERTIFIED PUBLIC ACCOUNTANTS · FINANCIAL CONSULTANTS
1225 Franklin Avenue, Garden City, NY 11530 (516) 240-3300 Fax (516) 240-3310 www.israeloff.com

Other Offices
New York, New York
Hauppauge, New York

May 30, 2003

Mr. David Dennett-Smith, CEO
American Insurance Management Group, Inc.
3101 Tower Creek Pkwy
Suite 750
Atlanta, GA 30339

Dear Mr. David:

At your request I am submitting the attached schedule which represents our best effort estimate of the adjusted GAAP basis book value of Realm National Insurance Company ("Realm"), Stirling Cooke New York Insurance Agency Services, Inc. ("SCNY") and World Trade Services, Inc. ("WTS") as of December 31, 2002. Our estimate is based on our preliminary work, including a very limited review of the books and records of Realm, SCNY, and WTS that were made available to us, and certain assertions made to us by American Insurance Management Group, Inc. (AIM). Our ability to reasonably estimate the GAAP basis book value of Realm, SCNY and WTS (the Companies) was further limited by the absence of access to the audit work papers of Realm's auditors, KPMG, and any audited financial statements, GAAP or Statutory, that were scheduled to be issued by KPMG.

As indicated in the attached, we have estimated, to the extent practical, a Purchase Price of $1,500,000. It should be noted that our work to date does not constitute an audit, a review, a compilation or any other engagement in accordance with AICPA Standards because, among other things, the engagement for which they were retained is substantially incomplete. This Purchase Price estimate is limited to AIM's internal use.

Please contact me at your convenience to discuss the calculation or other matters pertaining to your negotiations to purchase the Companies.

Sincerely,

Richard A. Mills

Richard A. Mills, CPA
Officer

"B"

ALLIOTT GROUP

1702

Unaudited GAAP Equity 12-31-02	$9,179,000	**
40% deduction Lincoln National Reinsurance Recoverables at 12-31-02 $1,303,000	(521,000)	(A)
40% deduction Phoenix Home Life Reinsurance Recoverables at 12-31-02 $1,686,000	(674,000)	(A)
50% deduction Sun Life Reinsurance Recoverables at 12-31-02 $2,171,000	(1,085,000)	(B)
90% deduction Sphere Drake Reinsurance Recoverables at 12-31-02 $1,061,000	(955,000)	(C)
90% deduction Odyssey Re Reinsurance Recoverables at 12-31-02 $148,000	(133,000)	(C)
75% reduction Amounts due from World Trade 12-31-02 $4,588,000	(3,441,000)	(D)
3-31-03 increased provision for Agents Balance over 90 days (12-31-02 $1,493,000 3-31-03 $2,057,000)	(564,000)	(E)
12-31-02 provision for premiums booked deferred and not collected	(308,000)	(F)
attributable to rounding	2,000	
Estimated Purchase Price	$ 1,500,000	

** As provided to Israeloff, Trattner & Co., by AIM
(A) Significant balances in dispute separately lead to discount of current balances due
(B) Carrier believed to be in bankruptcy or receivership
(C) On going litigation likelihood of settlement of this balance questionable
(D) World Trade has outstanding receivables from third parties which is in question
(E) March 31, 2003 information provided by Stephen Crane
(F) Annual statement 2002 page 2 line 10.2 col 2

1703

ORIGINAL

AlphaStar Insurance Group Limited

Compliance Certificate

I, the undersigned, President of AlphaStar Insurance Group Limited, a corporation organized and existing under the laws of Bermuda (the "Borrower"), DO HEREBY CERTIFY that:

1. This Certificate is furnished pursuant to Section 3.3(f) of the Loan Agreement, dated as of October 3, 2002 (the "Loan Agreement"), between the Borrower and Atlanta Insurance Marketing, Inc., a Georgia corporation. Unless otherwise defined herein, capitalized terms used in this Certificate have the meanings assigned to those terms in the Loan Agreement.

2. I hereby certify that, as of the date hereof, the Borrower is in compliance with each and every condition contained in the Loan Agreement.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of October, 2002.

ALPHASTAR INSURANCE GROUP LIMITED

By: ______________________________
Name: Stephen A. Crane
Title: Chairman, President & Chief Executive Officer

I, the undersigned, Secretary of the Borrower, DO HEREBY CERTIFY that Stephen A. Crane is the duly elected and qualified President of the Borrower and that the signature above is his genuine signature.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of October, 2002.

ALPHASTAR INSURANCE GROUP LIMITED

By: ______________________________
Name: James Lawless, IV
Title: Secretary

1705

EXHIBIT B

AlphaStar Insurance Group Limited

Officer's Certificate

I, the undersigned, President of AlphaStar Insurance Group Limited, a corporation organized and existing under the laws of Bermuda (the "Borrower"), DO HEREBY CERTIFY that:

1. This Certificate is furnished pursuant to Section 3.2(c) of the Loan Agreement, dated as of October 3, 2002 (the "Loan Agreement"), between the Borrower and Atlanta Insurance Marketing, Inc., a Georgia corporation. Unless otherwise defined herein, capitalized terms used in this Certificate have the meanings assigned to those terms in the Loan Agreement.

2. Except as noted below, the persons named below have been duly elected and qualified as and at all times since, March 1, 2000 (to and including the date hereof) have been officers of the Borrower, holding the respective offices below set opposite their names, and the signatures below set opposite their names are their genuine signatures

Name	Office	Signature
Stephen A. Crane	Chairman, President & Chief Executive Officer	[signature]
Len Quick	Chief Operating Officer	[signature]
Anthony J. Del Tufo	Acting Chief Financial Officer[1]	[signature]
James Lawless, IV	Senior Vice President, General Counsel & Secretary	[signature]

3. Attached hereto as Attachment A is a copy certified by the Secretary of the Company of the Certificate of Incorporation of the Borrower as filed on December 12, 1995, together with all amendments thereto adopted through the date hereof.

4. Attached hereto as Attachment B is a true and correct copy of the Bye Laws of the Borrower as in effect on October 3, 2002, together with all amendments thereto adopted through the date hereof.

[1] Mr. Del Tufo is an independent consultant to the Company who has served as its Acting Chief Financial Officer since October 1, 2001.

1706

1875

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of October, 2002.

ALPHASTAR INSURANCE GROUP LIMITED

By: ______________________

Name: Stephen A. Crane

Title: Chairman, President & Chief Executive Officer

I, the undersigned, Secretary of the Borrower, DO HEREBY CERTIFY that Stephen A. Crane is the duly elected and qualified President of the Borrower and that the signature above is his genuine signature.

IN WITNESS WHEREOF, I have hereunto set my hand this 15 day of October, 2002.

ALPHASTAR INSURANCE GROUP LIMITED

By: ______________________

Name: James Lawless, IV

Title: Secretary

1707

1876

AlphaStar Insurance Group Limited

Certification

I, the undersigned, Secretary of AlphaStar Insurance Group Limited, a corporation organized and existing under the laws of Bermuda (the "Borrower"), DO HEREBY CERTIFY that the attached documents comprise true and correct copies of the Certificate of Incorporation of the Borrower as filed on December 12, 1995, together with all amendments thereto adopted through the date hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of October, 2002.

ALPHASTAR INSURANCE GROUP LIMITED

By: [signature]
Name: James Lawless, IV
Title: Secretary

1708

FORM NO. 6 Registration No. EC21425

BERMUDA

CERTIFICATE OF INCORPORATION

I hereby in accordance with the provisions of section 14 of the Companies Act 1981, of Bermuda issue this Certificate of Incorporation and do certify that on the 12th day of December 1995

STIRLING COOKE BROWN HOLDINGS LIMITED

was registered by me in the Register maintained by me under the provisions of the said section and that the status of the said company is that of an exempted company.

Given under my hand this 12th day of December 1995

for REGISTRAR OF COMPANIES

The original of this document was sent to warren cabral at appleby, spurling + kempe per James Lawless. 14/5/2001.

1709

Form No. 5

BERMUDA
THE COMPANIES ACT 1981
CERTIFICATE OF DEPOSIT OF
MEMORANDUM OF ASSOCIATION
AND CONSENT GRANTED BY THE MINISTER

THIS IS TO CERTIFY that a Memorandum of Association of

STIRLING COOKE BROWN HOLDINGS LIMITED

and the consent granted by the Minister under section 6(1) of the Act was delivered to the Office of the Registrar of Companies on the 12th day of December, 1995 in accordance with the provisions of section 14(2) of the Act.

IN WITNESS WHEREOF I have hereto set my hand this 12th day of December, 1995

for **REGISTRAR OF COMPANIES**

Minimum Capital of the Company: US$12,000.00

Authorised Capital of the Company: US$12,000.00

1710

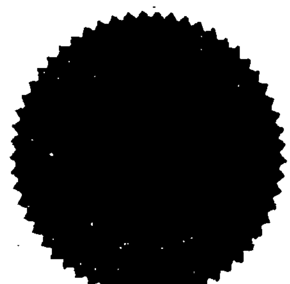
FORM NO. 3a

Registration No.21425

BERMUDA

CERTIFICATE OF INCORPORATION ON CHANGE OF NAME

I HEREBY CERTIFY that in accordance with section 10 of ***the Companies Act 1981*** **STIRLING COOKE BROWN HOLDINGS LIMITED** by resolution and with the approval of the Registrar of Companies has changed its name and was registered as **AlphaStar Insurance Group Limited, on the 10th day of September, 2002.**



Given under my hand and the Seal of the REGISTRAR OF COMPANIES this 12th day of September, 2002

for Acting Registrar of Companies

1711

<DOCUMENT>
<TYPE>8-K
<SEQUENCE>1
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<DESCRIPTION>FORM 8-K
<TEXT>

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: November 3, 2003
DATE OF EARLIEST EVENT REPORTED: August 29, 2003

ALPHASTAR INSURANCE GROUP LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	000-23427	NOT APPLICABLE
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

THE MECHANICS BUILDING, THIRD FLOOR
12 CHURCH STREET
HAMILTON, HM 11, BERMUDA
(Address of principal executive offices)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (441) 295-7556

<PAGE>

On September 26, 2003, AlphaStar Insurance Group Limited filed a Certification and Notice of Termination of Registration under Section 12(g) of the Securities Exchange Act of 1934 (the "'34 Act") on Form 15 ("Form 15") with the Securities and Exchange Commission, pursuant to which it requested a termination of the registration of its Ordinary Shares. Notwithstanding the filing of the Form 15, one effect of which is to curtail the Company's future obligations to make disclosures pursuant to the '34 Act, the Company has determined to file this report on Form 8-K in a good faith attempt to ensure compliance with any such disclosure obligations that may have predated the filing of the Form 15. The filing of this report on Form 8-K is not intended to have any effect inconsistent with the Company's prior filing of the Form 15.

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANTS

On September 16, 2003, KPMG LLP ("KPMG"), the independent auditors for AlphaStar Insurance Group Limited (the "Company"), notified the Company that the auditor-client relationship between KPMG and the Company had ceased. KPMG's action was not recommended or approved by the Company's Board of Directors, Audit Committee, or any other Committee thereof.

KPMG was retained as the Company's auditor at the Company's Annual General Meeting on May 23, 2002, to replace Arthur Andersen. KPMG had reviewed the Company's interim quarterly financial statements as contained in the Company's Quarterly Reports on Form 10-Q for the periods ending June 30, 2002 and September 30, 2002 prior to their respective filing dates, but had not issued an opinion on the Company's financial statements.

Arthur Andersen's reports on the Company's financial statements for each of the past two fiscal years ended December 31, 2000 and 2001, respectively, did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the Company's fiscal years ending December 31, 2000 and 2001, there were no disagreements between the Company and Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Arthur Andersen, would have caused Arthur Andersen to make a reference to the subject matter of the disagreement in connection with Arthur Andersen's report.

From May 23, 2002 through the end of the Company's fiscal year ending December 31, 2002, there were no disagreements between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of KPMG, would have caused KPMG to make a reference to the subject matter of the disagreement in connection with KPMG's report.

From May 23, 2002 through September 16, 2003, the date of KPMG's resignation:

(a) KPMG did not advise the Company that the internal controls necessary for the Company to develop reliable financial statements do not exist, although KPMG indicated that such a conclusion was possible for the open audit area discussed in item (c)(1), below;

(b) KPMG did not advise the Company that information has come to KPMG's attention that has led it to no longer be able to rely on management's representations, or that has made it unwilling to be associated with the financial statements prepared by management;

(c) (1) During April 2003, and pending the finalization of the Company's 2002 Form 10-K filing, KPMG advised the Company of the need to expand the scope of its audit, due to the absence of transactional-level data deemed necessary by KPMG to conclude on the fair presentation as of year-end 2002 of the agents' balances receivable account (the "2002 Agents' Account") at a significant subsidiary of the Company. KPMG expanded the scope of its audit work accordingly and the Company thereafter undertook an extensive effort to supplement the information made available to KPMG regarding the 2002 Agents' Account ("Supplemental Work").

On August 5, 2003, KPMG first informed the Company, in a presentation to the Audit Committee of the Company's Board of Directors, that information received as a result of the Supplemental Work caused KPMG to determine that further investigation was necessary and that such investigation may (i) materially impact the fairness or reliability of either a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal periods subsequent to the date of the most recent financial statements covered by an audit report and may prevent it from rendering an unqualified audit report on those financial statements. Specifically, KPMG stated that the extent of the additional work necessary to enable KPMG to opine in respect of the 2002 Agents' Account had caused it to require a re-audit of the balances reflected in the accounting records of Realm for the Agents' Account for the fiscal year ended December 31, 2001 (the "2001 Agents' Account"), and possibly all December 31, 2001 balance sheet accounts for the Company and its subsidiaries, which accounts had been audited and certified by Arthur Andersen. KPMG thereafter requested that the Company undertake additional work in respect of the year-end 2001 Agents' Account; and

(2) The Company had not completed such additional work as of the date of KPMG's resignation on September 16, 2003.

KPMG has not informed the Company that information has come to its attention that if further investigated may cause it to be unwilling to rely on management's representations or be associated with the registrant's financial statements.

The Audit Committee of the Company's Board of Directors, as well as the Board in its entirety, discussed the foregoing subject matter with KPMG. The Company has authorized KPMG to respond fully to the inquiries of any successor accountant concerning the foregoing subject matter;

(d) (1) KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements; irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report), and (2) KPMG did not advise the Company that due to KPMG's resignation, or for any other reason, accounting issues have not been resolved to KPMG's satisfaction prior to its resignation.

The Company has provided KPMG with a copy of this report and has requested KPMG to furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the

statements made herein.

The Company has not retained a new independent accountant as of the date of filing of this Form 8-K.

Item 5. OTHER EVENTS.

RESIGNATION OF INDEPENDENT DIRECTORS

Messrs. David H. Elliott, Hadley C. Ford and Patrick J. McDonough, tendered their resignations from the Board of Directors of the Company, effective August 29, 2003. Messrs. Elliott, Ford and McDonough comprised all of the independent directors of the Company, and all of the members of the Audit Committee of the Board of Directors. Mr. McDonough was the Chairman of the Audit Committee. Mr. Elliott was the Chairman of the Compensation Committee of the Board. Mr. Ford was a member of the Compensation Committee of the Board and also served as Chairman of its Governance Committee. Neither Mr. Elliott, Mr. Ford, or McDonough resigned because of any disagreement with the Company on any matter.

<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: November 3, 2003

ALPHASTAR INSURANCE GROUP LIMITED

By: /s/ Stephen A. Crane

Stephen A. Crane
Chairman, President &
Chief Executive Officer

</TEXT>
</DOCUMENT>

1716

ALPHASTAR INSURANCE GROUP LTD
8-K/A filed on 11/17/2003

Printer Friendly Format

Outline

View Header

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: November 17, 2003
DATE OF EARLIEST EVENT REPORTED: September 16, 2003

ALPHASTAR INSURANCE GROUP LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	000-23427	NOT APPLICABLE
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

THE MECHANICS BUILDING, THIRD FLOOR
12 CHURCH STREET
HAMILTON, HM 11, BERMUDA
(Address of principal executive offices)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (441) 295-7556

<PAGE>

On September 26, 2003, AlphaStar Insurance Group Limited (the "Company") filed a Certification and Notice of Termination of Registration under Section 12(g) of the Securities Exchange Act of 1934 (the "'34 Act") on Form 15 ("Form 15") with the Securities and Exchange Commission, pursuant to which it requested a termination of the registration of its Ordinary Shares. Notwithstanding the filing of the Form 15, one effect of which is to curtail the Company's future obligations to make disclosures pursuant to the '34 Act, the Company has determined to file this report on Form 8-K/A in a good faith attempt to ensure compliance with any such disclosure obligations that may have predated the filing of the Form 15. The filing of this report on Form 8-K/A is not intended to have any effect inconsistent with the Company's prior filing of the Form 15.

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANTS

On November 3, 2003, the Company filed a Current Report on Form 8-K

(the "Original Filing") to announce that the auditor-client relationship between the Company and KPMG LLP ("KPMG"), the Company's former accountants, has ceased. The Original Filing is incorporated herein by reference.

This amendment to the Original Filing is being filed to include a letter by KPMG, dated November 14, 2003, relating to its concurrence or disagreement with the statements set forth in Item 4 of the Original Filing. A copy of the letter is attached hereto as Exhibit 16.1.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

16.1. Letter from KPMG LLP, dated November 14, 2003

<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: November 17, 2003

ALPHASTAR INSURANCE GROUP LIMITED

By /s/ Stephen A. Crane

Stephen A. Crane
Chairman, President &
Chief Executive Officer

[LOGO - KPMG]

757 Third Avenue
New York, NY 10017

Telephone 212 758 9700
Fax 212 872 3002

November 14, 2003

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen:

We were previously engaged as principal accountants to audit the consolidated financial statements of AlphaStar Insurance Group Limited as of and for the year ended December 31, 2002. On September 16, 2003 we resigned. We have read AlphaStar Insurance Group Limited's statements included under Item 4 of its Form 8-K dated November 3, 2003, and we agree with such statements, except as follows:

1. We are not in a position to agree or disagree with AlphaStar Insurance Group Limited's statements (i) that the change was not recommended or approved by the Company's Board of Directors, Audit Committee or any other Committee thereof, (ii) that discuss Arthur Andersen in the third paragraph or that discuss Arthur Andersen's audit and certification of the December 31, 2001 balance sheet accounts for the Company and its subsidiaries, and (iii) that the Company has not retained a new independent accountant as of the date of filing the Form 8-K.

2. We do not agree with the Company's statement in paragraph (d) (1) that "KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the

possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements, irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report)".

Additionally, with respect to the Company's reference in paragraph (d) (1) to deferred taxes, KPMG had advised the Company that in KPMG's view the Company did not support the recoverability of the deferred tax asset at December 31, 2002.

Prior to our resignation KPMG had communicated to the Company that KPMG's report would include a reference to substantial doubt concerning the ability of the Company to continue as a going concern.

Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed before KPMG could perform whatever other audit procedures were deemed necessary to complete the audit of the December 31, 2002 financial statements:

1. Completion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts,

2. Completion of audit procedures related to the adverse litigation decision, as referred to in paragraph (d)(1), and

3. Resolution of the accounting and disclosure for the operations of certain subsidiaries, the sales of which were pending but had not been completed, and the completion of the related audit procedures.

Very truly yours,

/s/ KPMG LLP

Powered by:

1888

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Israeloff, Trattner & Co. P.C.

Other Offices
New York, New York
Hauppauge, New York

CERTIFIED PUBLIC ACCOUNTANTS · FINANCIAL CONSULTANTS

1225 Franklin Avenue, Garden City, NY 11530 (516) 240-3300 Fax (516) 240-3310 www.israeloff.com

May 30, 2003

Mr. David Dennett-Smith, CEO
American Insurance Management Group, Inc.
3101 Tower Creek Pkwy
Suite 750
Atlanta, GA 30339

Dear Mr. David:

At your request I am submitting the attached schedule which represents our best effort estimate of the adjusted GAAP basis book value of Realm National Insurance Company ("Realm"), Stirling Cooke New York Insurance Agency Services, Inc. ("SCNY") and World Trade Services, Inc. ("WTS") as of December 31, 2002. Our estimate is based on our preliminary work, including a very limited review of the books and records of Realm, SCNY, and WTS that were made available to us, and certain assertions made to us by American Insurance Management Group, Inc. (AIM). Our ability to reasonably estimate the GAAP basis book value of Realm, SCNY and WTS (the Companies) was further limited by the absence of access to the audit work papers of Realm's auditors, KPMG, and any audited financial statements, GAAP or Statutory, that were scheduled to be issued by KPMG.

As indicated in the attached, we have estimated, to the extent practical, a Purchase Price of $1,500,000. It should be noted that our work to date does not constitute an audit, a review, a compilation or any other engagement in accordance with AICPA Standards because, among other things, the engagement for which they were retained is substantially incomplete. This Purchase Price estimate is limited to AIM's internal use.

Please contact me at your convenience to discuss the calculation or other matters pertaining to your negotiations to purchase the Companies.

Sincerely,

Richard A. Mills

Richard A. Mills, CPA
Officer

ALLINIAL GROUP
A Nationwide Network of Independent Firms

Unaudited GAAP Equity 12-31-02	$9,179,000	**
40% deduction Lincoln National Reinsurance Recoverables at 12-31-02 $1,303,000	(521,000)	(A)
40% deduction Phoenix Home Life Reinsurance Recoverables at 12-31-02 $1,686,000	(674,000)	(A)
50% deduction Sun Life Reinsurance Recoverables at 12-31-02 $2,171,000	(1,085,000)	(B)
90% deduction Sphere Drake Reinsurance Recoverables at 12-31-02 $1,061,000	(955,000)	(C)
90% deduction Odyssey Re Reinsurance Recoverables at 12-31-02 $148,000	(133,000)	(C)
75% reduction Amounts due from World Trade 12-31-02 $4,588,000	(3,441,000)	(D)
3-31-03 increased provision for Agents Balance over 90 days (12-31-02 $1,493,000 3-31-03 $2,057,000)	(564,000)	(E)
12-31-02 provision for premiums booked deferred and not collected	(308,000)	(F)
attributable to rounding	2,000	
Estimated Purchase Price	$1,500,000	

** As provided to Israeloff, Trattner & Co., by AIM
(A) Significant balances in dispute separately lead to discount of current balances due
(B) Carrier believed to be in bankruptcy or receivership
(C) On going litigation likelihood of settlement of this balance questionable
(D) World Trade has outstanding receivables from third parties which is in question
(E) March 31, 2003 Information provided by Stephen Crane
(F) Annual statement 2002 page 2 line 10.2 col 2

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1891

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HOME | CONSUMERS | [illegible] | INDUSTRY | FIRE MARSHAL | ABOUT US | SEARCH

Welcome. You are in the Agents Status (internal link) | (external link) | (in Adobe Acrobat)

Please be aware that the information provided is updated weekly and may have a lag time of up 15 days. Continuing education credits may experience longer delays in being reported.

If you believe the information posted is incorrect, please contact Promissor at 1-888-204-6204 between the hours of 8AM and 6PM Monday through Friday

All items in red are linked to more information. Just click on them or mouse-over them.

View Company Appointments
View Agency Affiliation
View Continuing Education
View License Authorities

Agent Information

LICENSE		NAME	
AGR385439		BRUCE E HOLLEY	
FIRST ADDRESS LINE: P.O.BOX 1207		SECOND ADDRESS LINE	
CITY, STATE AND ZIP: KENNESAW , GA 30144-			
PRIMARY CODE: A SECONDARY CODE:	FIRST ISSUE DATE: 02/12/1988	ISSUE DATE: 01/01/2004	EXPIRATION DATE: 12/31/2004
STATUS: ACTIVE			

Company Appointments

Listing of current and past Certificate of Authority appointments that authorize the licensee to transact business for the company. Company Appointments are renewed annually in June.

company	rel.	appt.	Issued date	Cancel date
ALPHA PROPERTY & CASUALTY INS CO	CA	TS	03/29/2001	12/31/2001
AMERICAN AMBASSADOR CASUALTY CO	CA	TS	05/01/1995	12/31/2001
AMERICAN FAMILY HOME INS CO	CA	TS	12/05/1991	12/31/2001
ASSURANCEAMERICA INSURANCE COMPANY	CA	A	04/01/2003	
CANAL INSURANCE COMPANY	CA	T	03/22/1988	10/03/1989
CATAWBA INSURANCE COMPANY	CA	T	04/20/1999	08/09/2000
CHARTER INDEMNITY COMPANY	CA	TS	03/01/2001	12/31/2001
CLARENDON NATIONAL INS CO	CA	T	11/14/1995	02/19/1997
CNL/INSURANCE AMERICA INC	CA	TS	10/04/1995	12/31/2001
COVENTRY INSURANCE COMPANY	CA	TS	12/19/1994	12/31/2001
DAIRYLAND INSURANCE COMPANY	CA	TS	04/05/1990	12/31/2001

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DAIRYLAND INSURANCE COMPANY	CA	A	06/19/2002	
DEERBROOK INSURANCE COMPANY	CA	TS	12/02/1998	12/31/2001
EVEREST SECURITY INSURANCE CO	CA	T	02/12/1988	10/04/1989
FARMINGTON CASUALTY COMPANY	CA	TS	03/24/1999	12/31/2001
FOREMOST INSURANCE COMPANY	CA	TS	03/04/1999	12/31/2001
FOREMOST INSURANCE COMPANY	CA	A	06/20/2002	
FOREMOST SIGNATURE INS CO	CA	TS	03/04/1999	12/31/2001
FOREMOST SIGNATURE INS CO	CA	T	06/20/2002	09/03/2003
GATEWAY INSURANCE CO	CA	TS	09/04/2001	12/31/2001
GENERALI - U S BRANCH	CA	TS	09/18/1997	12/31/2001
GEORGIA CASUALTY & SURETY CO	CA	T	10/22/1996	09/01/2000
GEORGIA GENERAL INSURANCE CO	CA	T	03/13/1995	12/31/1996
GEORGIA MUTUAL INSURANCE CO	CA	TS	05/12/1999	12/31/2001
GRAMERCY INSURANCE COMPANY	CA	A	11/25/2003	
INTEGON GENERAL INSURANCE CORP	CA	TS	08/21/1992	12/31/2001
INTEGON GENERAL INSURANCE CORP	CA	A	02/10/2003	
INTEGON INDEMNITY CORPORATION	CA	TS	08/21/1992	12/31/2001
INTEGON INDEMNITY CORPORATION	CA	A	02/10/2003	
INTEGON NATIONAL INSURANCE CO	CA	A	02/10/2003	
INTEGON SPECIALTY INS COMPANY	CA	TS	07/15/1996	12/31/2001
INTEGON SPECIALTY INS COMPANY	CA	A	02/10/2003	
MARYLAND CASUALTY COMPANY	CA	TS	08/10/1998	12/31/2001
MENDOTA INSURANCE COMPANY	CA	TS	03/02/2001	12/31/2001
NATL SECURITY FIRE & CASUALTY CO	CA	T	04/24/1996	08/01/1999
NATL SECURITY FIRE & CASUALTY CO	CA	T	04/18/1990	07/22/1994
NEW SOUTH INSURANCE COMPANY	CA	TS	07/16/1996	12/31/2001
NEW SOUTH INSURANCE COMPANY	CA	A	02/10/2003	
NOVA CASUALTY COMPANY	CA	TS	05/27/1997	12/31/2001
OMNI INDEMNITY COMPANY	CA	TS	08/06/1998	12/31/2001
OMNI INDEMNITY COMPANY	CA	A	10/09/2002	
OMNI INSURANCE COMPANY	CA	T	03/25/1993	12/31/1996
OMNI INSURANCE COMPANY	CA	TS	04/23/2001	12/31/2001
OMNI INSURANCE COMPANY	CA	A	10/09/2002	
PATRIOT GENERAL INS CO	CA	TS	03/18/1993	12/31/2001
PATRIOT GENERAL INS CO	CA	A	06/03/2002	
PERMANENT GENERAL ASSUR CORP	CA	TI	06/29/1995	09/30/1994
PERMANENT GENERAL ASSURANCE CORP	CA	T	06/29/1995	10/02/2001
PROGRESSIVE AMERICAN INS CO	CA	TS	12/30/1999	12/31/2001
PROGRESSIVE AMERICAN INS CO	CA	A	03/07/2003	
PROGRESSIVE BAYSIDE INS CO	CA	TS	10/06/1998	12/31/2001
PROGRESSIVE BAYSIDE INS CO	CA	A	03/07/2003	
PROGRESSIVE CASUALTY INS CO	CA	TS	05/25/1995	12/31/2001
PROGRESSIVE CLASSIC INS CO	CA	TS	10/25/1999	12/31/2001
PROGRESSIVE CLASSIC INS CO	CA	A	03/07/2003	
PROGRESSIVE HOME INSURANCE COMPANY	CA	T	12/05/1997	03/05/2001
PROGRESSIVE MAX INSURANCE CO	CA	TS	10/06/1998	12/31/2001
PROGRESSIVE NORTHWESTERN INS CO	CA	TS	02/07/1994	12/31/2001
PROGRESSIVE NORTHWESTERN INS CO	CA	A	03/07/2003	

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PROGRESSIVE PREFERRED INS CO	CA	TS	04/23/1993	12/31/2001
PROGRESSIVE PREFERRED INS CO	CA	A	03/07/2003	
R L I INSURANCE COMPANY	CA	TS	05/13/1996	12/31/2001
REALM NATIONAL INSURANCE CO	CA	A	03/25/2003	
RELIANCE NATIONAL INDEMNITY CO	CA	T	05/27/1997	01/13/1999
RELIANCE NATIONAL INSURANCE CO	CA	T	05/29/1998	01/13/1999
SOUTH CAROLINA INS CO	CA	T	05/01/1998	08/09/2000
SOUTHERN INSURANCE COMPANY	CA	T	03/25/1988	03/30/1989
SOUTHERN UNITED FIRE INS CO	CA	T	05/09/1996	12/31/1999
SPECIALTY RISK INSURANCE COMPANY	CA	T	06/22/1998	06/07/2000
STONINGTON INSURANCE COMPANY	CA	T	11/13/1995	12/31/1995
STONINGTON INSURANCE COMPANY	CA	TS	06/29/2000	12/31/2001
TRUMBULL INSURANCE CO	CA	A	10/09/2002	
UNITED PACIFIC INSURANCE CO	CA	T	05/27/1997	01/13/1999
UNIVERSAL INSURANCE COMPANY	CA	T	09/01/1995	12/31/1997
UNIVERSAL INSURANCE COMPANY	CA	TX	05/13/1991	12/31/1993
UNIVERSAL UNDERWRITERS INS CO	CA	TS	07/05/1995	12/31/2001
UNIVERSAL UNDERWRITERS INS CO	CA	TS	04/19/1988	04/18/1990
VANLINER INSURANCE COMPANY	CA	T	11/28/1994	12/31/1996
VICTORIA FIRE & CASUALTY INS CO	CA	TS	10/09/1997	12/31/2001
VICTORIA FIRE & CASUALTY INS CO	CA	A	06/20/2002	
VICTORIA SELECT INS CO	CA	TS	10/09/1997	12/31/2001
VICTORIA SELECT INS CO	CA	A	06/20/2002	
WESTERN SURETY COMPANY	CA	TS	04/18/1990	12/31/2001
WESTERN SURETY COMPANY	CA	A	06/29/2002	
WESTERN UNITED INSURANCE COMPANY	CA	TI	11/28/1994	07/01/1996
WINDSOR INSURANCE COMPANY	CA	T	12/19/1994	11/03/2000

Agency Affiliation

Listing of current and past Agency Affiliations

company	rel.	appl.	Issued date	Cancel date
ACCENT INSURANCE AGENCY INC	AEMP	A	01/08/1998	
ACCENT INSURANCE AGENCY INC	AOWN	A	01/08/1998	
ALLEGIANCE INSURANCE AGENCY	AOWN	T	02/12/1998	08/09/2001
AMERICAN INSURANCE MANAGERS INC.	AOWN	A	01/07/2003	

Continuing Education

Listing of Continuing Education credits completed by the licensee.

completion	description	content code	credits
12/31/2002	NOBLE/UNDERWRITER	PC	15
12/31/2002	GEORGIA ETHICS	E	3
04/15/2002	GEORGIA ETHICS	E	3
04/15/2002	BUSINESS INSURANCE	LAS	15

10/31/2000	GEORGIA ETHICS	E	3
10/31/2000	CLAIM INVESTIGATION GUIDE	PC	10
11/30/1999	NOBLE/P&C LIABILITY	PC	18
11/30/1999	GEORGIA ETHICS	E	3
10/20/1999	PROGRESSIVE 4.0 REVIEW	PC	1
01/15/1999	NOBLE/P&C PROPERTY	PC	18
01/15/1999	GEORGIA ETHICS	E	3

License Authorities

Listing of all lines of insurance a licensee may transact.

Issued	code	description	status	origin	expiration	cancelled
n/a	C	Casualty	A	E		
n/a	P	Property	A	E		
n/a	S	Surety	Q	E		02/04/2003

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NEW YORK STATE
INSURANCE DEPARTMENT

FIRST AMENDMENT TO REGULATION NO. 120
(11 NYCRR 33)

MANAGING GENERAL AGENTS

I, GREGORY V. SERIO, Superintendent of Insurance, pursuant to the authority granted by sections 201, 301, 308, 2101, 2102 and 2103 of the Insurance Law of the State of New York, do hereby promulgate the following First Amendment to Part 33 of Title 11 of the Official Compilation of Codes, Rules and Regulations (Regulation No. 120), to take effect upon filing with the Secretary of State.

(NEW MATTER IS UNDERSCORED. MATTER IN BRACKETS IS DELETED)

Part 33 is hereby amended to read as follows:

§ 33.0 Preamble.

Some insurance companies have entered into contracts with individuals or organizations, commonly referred to as managing general agents or managers, to manage all or part of their insurance business. This may represent a shifting of an insurance company's responsibilities to a person, firm, association or corporation outside of its organization. This Part is promulgated because the Insurance Department is concerned that such delegation of authority has been subject to abuses detrimental to both insurance companies and insureds.

§ 33.1 Applicability.

This Part shall apply to all [licensed] insurers that enter into contracts with managing general agents as defined in section 33.2(c) of this Part[, acting in such capacity on or after the effective date (December 18, 1985) of this Part]. <u>Sections 33.3(c), 33.5 and 33.6 of this Part are effective January 1, 2002.</u>

§ 33.2 Definitions.

As used in this Part, the following terms shall have the following meanings:

(a) *Insurer* means an authorized insurer as defined in section 107(a)(10) of the Insurance Law, and, for purposes of this Part, shall also include every group, association or other organization of insurance companies that engages in joint underwriting or joint reinsurance in accordance with section 2317(a) of the Insurance Law.

(b) *Domestic insurer* shall have the same meaning as set forth in Insurance Law, section 107(a)(19), and shall also include every group, association or other organization of insurance companies that engages in joint underwriting or joint reinsurance if such group, association or other organization has its principal office in this State.

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(c) *Managing general agent* (MGA) means any person, firm, association or corporation [who or which] that:

(1) manages all or part of the insurance business of an insurer (including the management of a separate division, department or underwriting office) [and];

(2) acts as an insurance agent as defined in section 2101(a) of the Insurance Law for such insurer, whether known as a managing general agent, manager, or other similar term, or acts as an insurance broker as defined in section 2101(c) of the Insurance Law; and

(3) with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and accepts or rejects risks on behalf of the insurer (underwrites) an amount of gross direct written premium equal to or more than five percent of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together with one or more of the following activities related to the business produced:

(i) Adjusts or pays claims in excess of $25,000, or

(ii) Negotiates reinsurance on behalf of the insurer.

§ 33.3 Requirements.

(a) No insurer shall appoint or continue to use the services of [any managing general agent] an MGA to act for it in this State, either directly or indirectly through subagents of the [managing general agent] MGA, unless the [managing general agent] MGA has an insurance agent's license issued by this State to represent said insurer for the appropriate kinds of insurance.

(b) (1) [An insurer that currently has managing general agents acting for it in this State, either directly or indirectly through subagents of the managing general agent, shall complete and file Form 1 (see subdivision [c] of this section), with this department, within 30 days of the effective date (December 18, 1985) of this Part.

(2) A domestic insurer that currently has managing general agents acting for it in any state or foreign country, shall complete and file Form 1, herein, with this department, within 30 days of the effective date (December 18, 1985) of this Part.

(3)] An insurer that appoints [a managing general agent] an MGA to act for it in this State, either directly or through subagents of the [managing general agent] MGA, shall complete and file [Form 1, herein,] the form required by subdivision (c) of this section with this department within 30 days of the appointment. An amended form shall be filed within 30 days after any change including termination of appointment.

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[(4)] (2) A domestic insurer that appoints [a managing general agent] an MGA to act for it in any state or foreign country, shall complete and file [Form 1, herein,] the form required by subdivision (c) of this section with this department, within 30 days of the appointment. An amended form shall be filed within 30 days after any change, including termination of appointment.

(c) [Form 1 is repealed in its entirety.] A filing required by subdivision (b) of this section, relative to the appointment of an MGA, shall be in a form prescribed by the superintendent.

§ 33.4 Exemptions.

(a) The provisions of this Part shall not apply to:

(1) [a person whose acts as an insurance agent for an insurer are purely incidental to his/her duties as a salaried employee of such insurer;

(2) a person who is an agent of an insurer, provided such agent does not have authority to:

(i) underwrite and either appoint sub-agents or accept sub-produced business; or
(ii) cede or assume reinsurance on behalf of the insurer;

(3)] a person who is a member of the same holding company system (as defined in section 1501(a)(6) of the Insurance Law) as the insurer;

[(4)] (2) a person acting as a U.S. manager of a licensed U.S. branch of an alien insurer (as defined in section 107(44) of the Insurance Law); and

[(5) an underwriting manager designated by underwriting members of the New York Insurance Exchange, Inc., provided that:

(i) such designation shall have been filed with the New York Insurance Exchange, Inc. in its register of approved underwriting managers;

(ii) the New York Insurance Exchange, Inc. adopts rules to accomplish the intent and purposes of this Part; and

(iii) this exemption shall not apply to any cessions or retrocessions handled by such underwriting manager of the New York Insurance Exchange, Inc. outside of the New York Insurance Exchange, Inc.]

(3) the attorney-in-fact authorized by and acting for the subscribers of a reciprocal insurer or inter-insurance exchange under powers of attorney.

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(b) Nothing contained in this [section] Part shall exempt any [such] person from any requirement to be licensed as an insurance agent, reinsurance intermediary or otherwise under the Insurance Law or from being subject to examination by the Insurance Department.

(c) No person shall be a manager in this State within the meaning of Insurance Law Section 2101(g)(1) unless that person is an MGA and licensed as an insurance agent.

§ 33.5 Required contract provisions.

No person, firm, association or corporation acting in the capacity of an MGA in this State shall place business with an insurer; no insurer shall utilize an MGA in this State; and no domestic insurer shall utilize an MGA outside of this State; unless there is in force a written contract between the parties that sets forth the responsibilities of each party. Where both parties share responsibility for a particular function, the contract shall specify the division of such responsibilities. The contract shall contain the following minimum provisions:

(a) The insurer may terminate the contract for cause upon written notice to the MGA. The insurer may suspend the underwriting authority of the MGA during the pendency of any dispute regarding the cause for termination;

(b) The MGA will render accounts to the insurer detailing all transactions and remit all funds due under the contract to the insurer on not less than a monthly basis;

(c) All funds collected for the account of an insurer will be held by the MGA in a fiduciary capacity in accordance with Section 20.3 of this Title (Regulation 29). This account shall be used for all payments on behalf of the insurer. The MGA may retain no more than three months of estimated claims payments and estimated allocated loss adjustment expense payments;

(d) Separate records of business written by the MGA will be maintained. The insurer shall have access and right to copy all accounts and records related to its business in a form usable by the insurer and the superintendent shall have access to all books, bank accounts and records of the MGA in a form usable to the superintendent. Such records shall be retained according to Part 243 of this Title (Regulation 152);

(e) The contract may not be assigned in whole or part by the MGA;

(f) The MGA will follow appropriate insurer underwriting guidelines, including:

(1) the maximum annual premium volume;

(2) the basis of the rates to be charged;

(3) the types of risks which may be written;

(4) maximum limits of liability;

(5) applicable exclusions;

(6) territorial limitations;

(7) policy cancellation provisions; and

(8) the maximum policy period;

(g) The insurer shall have the right to cancel or non-renew any policy of insurance, subject to applicable laws and regulations concerning cancellation and non-renewal of insurance policies;

(h) If the contract permits the MGA to settle claims on behalf of the insurer:

(1) All claims must be reported to the insurer in a timely manner;

(2) A copy of the claim file must be sent to the insurer at its request or as soon as it becomes known that the amount of the claim, before application of any reinsurance:

(i) has the potential to exceed one percent of the insurer's surplus to policyholders, as reported in its last filed annual statement, or exceeds the limit set by the company, whichever is less;

(ii) involves a coverage dispute;

(iii) may exceed the MGA's claims settlement authority;

(iv) is open for more than six months; or

(v) is closed by payment of one percent of the insurer's surplus to policyholders, as reported in its last filed annual statement, or an amount set by the company, whichever is less;

(3) All claim files will be the joint property of the insurer and MGA. However, upon an order of liquidation of the insurer, such files shall become the sole property of the insurer or its estate and the MGA shall have reasonable access to and the right to copy the files on a timely basis; and

(4) Any settlement authority granted to the MGA may be terminated for cause upon the insurer's written notice to the MGA or upon the termination

of the contract. The insurer may suspend the settlement authority during the pendency of any dispute regarding the cause for termination;

(i) Where electronic claims files exist, the contract must address the timely transmission of the data;

(j) If the contract provides for a sharing of interim profits by the MGA, and the MGA has the authority to determine the amount of the interim profits by establishing loss reserves or controlling claim payments, or in any other manner, interim profits will not be paid to the MGA until one year after they are earned for property insurance business and five years after they are earned on casualty insurance business, and not until the profits have been verified pursuant to Section 33.6 of this Part;

(k) The MGA shall not:

(1) bind reinsurance or retrocessions on behalf of the insurer, except that the MGA may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines, including, for both reinsurance assumed and ceded, a list of reinsurers with which such automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules;

(2) commit the insurer to participate in insurance or reinsurance syndicates;

(3) appoint any producer without assuring that the producer is lawfully licensed to transact the kinds of insurance for which the producer is appointed;

(4) without prior approval of the insurer, pay or commit the insurer to pay a claim over a specified amount, net of reinsurance, which shall not exceed one percent of the insurer's policyholder's surplus as of December 31st of the last completed calendar year;

(5) collect any payment from a reinsurer or commit the insurer to any claim settlement with a reinsurer without prior approval of the insurer. If prior approval is given, a report must be promptly forwarded to the insurer;
(6) Permit its subproducer to serve on the insurer's board of directors;

(7) Jointly employ an individual who is employed with the insurer; or

(8) Appoint a sub-MGA.

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§ 33.6 Duties of insurers.

(a) The insurer shall have on file an independent financial audit, in a form acceptable to the superintendent, of each MGA with which the insurer has done business.

(b) If an MGA establishes loss reserves, the insurer shall annually obtain the opinion of an actuary who is a member in good standing of the American Academy of Actuaries, attesting to the adequacy of loss reserves established for losses incurred and outstanding on business produced by the MGA. This opinion shall be in addition to any other required loss reserve certification.

(c) The insurer shall at least semi-annually conduct an on-site review of the underwriting and claims processing operations of the MGA.

(d) Binding authority for all reinsurance contracts or participation in insurance or reinsurance syndicates shall rest with an officer of the insurer, who shall not be affiliated with the MGA, except that the MGA may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines, including, for both reinsurance assumed and ceded, a list of reinsurers with which such automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules;

(e) An insurer shall not appoint to its board of directors an officer, director, employee, subproducer or controlling shareholder of its MGAs. This subsection shall not apply to relationships governed by Article 15, 16, or 17 of the Insurance Law, or, if applicable, Subpart 80-2 of this Title (Regulation 52).

I, Gregory V. Serio, Superintendent of Insurance of the State of New York, do hereby certify that the foregoing is the First Amendment to 11 NYCRR 33 (Regulation 120), promulgated by me on May 28, 2002, pursuant to the authority granted by sections 201, 301, 308, 2101, 2102 and 2103 of the Insurance Law, to take effect upon filing with the Secretary of State. This regulation was previously promulgated on an emergency basis on June 7, 2001, September 5, 2001, and November 2, 2001, with some different provisions, and on December 27, 2001, and February 26, 2002 with materially the same provisions, and on May 28, 2002 and August 22, 2002, with materially the same provisions.

Pursuant to § 202(6) of the State Administrative Procedure Act, these amendments are being promulgated as an emergency measure. A statement of the specific reasons for the finding of the need for emergency action is attached.

Gregory V. Serio
Superintendent of Insurance

November 21, 2002

Dec-30-02 11:15am From- T-514 P 048 F-802

STATEMENT OF REASONS FOR EMERGENCY MEASURE
FOR
11 NYCRR 33 (REGULATION 120)

The original version of Regulation 120, promulgated in 1985, required insurers to notify the Superintendent when utilizing the services of managing general agents. However, the regulation did not impose or require any specific safeguards or standards governing the relationship between the insurer and the managing general agent.

The National Association of Insurance Commissioners (NAIC) has developed a model regulation, which builds upon the original New York Regulation 120 and requires a contract between the insurer and its managing general agent and thereby establishes safeguards to govern the relationships between insurers and managing general agents. The model regulation has been adopted by many of the other states.

In several recent situations, it became clear to the Superintendent that insurers often entered into managing general agent relationships without establishing appropriate guidelines and requirements. Insurers have, in these cases, failed to properly supervise their managing general agents, with resulting abuses that have caused irrevocable harm to policyholders. Premiums collected have been inadequate to support the risk and underwriting guidelines have either not been followed or have been non-existant.

Ensuring the financial stability of insurers is one of the most important functions of the Superintendent, for the protection of the insurer's stockholders, insureds, third-party claimants and for the people of the State of New York. Because of many of these abuses involving managing general agents, and the failure of insurers to properly supervise them, it has become readily apparent to the Superintendent that there is an immediate need to establish minimum rules to govern the relationships between insurers and their managing general agents. The adoption of this amendment implements the NAIC model.

Consequently, it is critical for this regulation to be adopted as promptly as possible. For the reasons stated above, this rule must be promulgated on an emergency basis for the furtherance of the general welfare.

Gregory V. Serio
Superintendent of Insurance

November 21, 2002

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WILSON, ELSER, MOSKOWITZ, EDELMAN & DICKER LLP

NEW YORK

LEGAL MEMORANDUM

To: File

From: Steven Kent

Date: August 16, 2002

Subject: AIM

File No.: 01004.00062

AUGUST 15 PHONE CONVERSATION WITH STEPHEN CRANE AND JIM LAWLESS

I was contacted by these gentlemen at about 5:00 p.m. They had some questions about the letter of intent.

We discussed the third paragraph in the section entitled "Purchase of Stock". This deals with the "set aside" of $1,680,000. Mr. Crane explained that the four slow paying reinsurers are Trustmark, Phoenix, Sun and Lincoln. He agreed that the meeting of 8/12 discussed a $4.1 million paid loss recoverable as at March 31 from these four reinsurers. Mr. Crane further stated that this number had grown, he is not exactly how, to $5.6 million as at June 30.

As discussed during the 8/12 meeting, the Schedule F penalty of 20% has been established. This is consistent with his view that at least 80% of the paid loss recoverable will eventually be obtained from the reinsurers. The proposal at the 8/12 meeting was that if there was a short fall below the 80% anticipated recovery, David would share this loss on a 50-50 basis with Realm's shareholder.

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Mr. Crane and Mr. Lawless may attempt to re-word the paragraph so it better reflects the agreement. I told them that the last sentence of the paragraph was added to take into account any paid loss recoverable that is both not collectible and not disclosed, and that this would be reflected in the reps and warranties of the definitive agreements in any event.

On a separate issue, Steve Crane explained that there should be no promissory note so that he can convince Realm's board of directors that "this is an all cash deal". He suggested that a cash deposit be escrowed, and that it be interest bearing. The interest would "follow the principal" once the principal is paid out to either the shareholder or to the new owner or is split between them.

The final issue we discussed are the MGA "deal points" which were discussed during the 8/12 meeting. Mr. Crane wants the MGA deal points to be consistent with what was described by DDS at the 8/13 meeting at Realm's offices on Maiden Lane. Steve Crane does not believe AIM should be "given the pen" for its placements in to Realm. AIM can have "binding authority", but AIM should agree to follow Realm's underwriting guidelines, and all placements should be subject to the approval of Realm's underwriters. I suggested to Mr. Crane that he directly contact David to discuss this issue.

SK/ac

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY,
STIRLING COOKE NORTH AMERICAN
HOLDINGS, LTD., and ALPHASTAR INSURANCE
GROUP LIMITED,

Plaintiffs

-against-

Civil Action 02-CV-10278 (RMB)

AMERICAN INSURANCE MANAGERS INC.,
AMERICAN INSURANCE MANAGEMENT GROUP
INC.; and ATLANTA INSURANCE MARKETING INC.

Defendants

HAMILTON, BERMUDA

AFFIDAVIT

Personally appeared before me the undersigned officer duly authorized to administer oaths JOSEPH A. ZAFFARESE, who upon being sworn does depose and say as follows:

1.

My name is JOSEPH A. ZAFFARESE,. I make this affidavit of my own personal knowledge and for all legal purposes. I am over the age of 18 years, and suffer from no legal disabilities.

2.

At all times relevant hereto, I have served in the capacity of President of Midland Intermediaries Inc. In the insurance industry, intermediaries broker buying reinsurance on behalf of insurance companies.

3.

In that capacity, I helped facilitate a meeting on behalf of Realm National Insurance Company with Max Re, a company that writes reinsurance, which occurred in Hamilton, Bermuda on November 14, 2002. I also attended the meeting. Also in attendance were David

Dennett-Smith, President of AIM, Mark s. Sioma, President of Realm, and Bill Yit, Senior Vice President, FCAS, of Max Re, a company which writes reinsurance on behalf of insurance companies such as Realm.

4.

It should be understood that Mr. Yit was particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to Mr. Yit that AIM was acting in the capacity as an agent of Realm.

//FURTHER AFFIANT SAYETH NOT\\

JOSEPH A. ZAFFARESE

Sworn to and subscribed before me this 8th day of January, 2003.

NOTARY PUBLIC

Notarial Seal
Cindy M. Cardinalli, Notary Public
City of Easton, Northampton County
My Commission Expires Apr. 23, 2005
Member, Pennsylvania Association of Notaries

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY,
STIRLING COOKE NORTH AMERICAN
HOLDINGS, LTD., and ALPHASTAR INSURANCE
GROUP LIMITED,
Plaintiffs

-against- Civil Action 02-CV-10278 (RMB)

AMERICAN INSURANCE MANAGERS INC.,
AMERICAN INSURANCE MANAGEMENT GROUP
INC.; and ATLANTA INSURANCE MARKETING INC.
Defendants

HAMILTON, BERMUDA

AFFIDAVIT

Personally appeared before me the undersigned officer duly authorized to administer oaths **FRANCIS J. CARTER**, who upon being sworn does depose and say as follows:

1.

My name is. FRANCIS J. CARTER. I make this affidavit of my own personal knowledge and for all legal purposes. I am over the age of 18 years, and suffer from no legal disabilities. This affidavit only concerns the Realm National Insurance Company and AIM Presentation to Max Re held on November 22 2002 in Hamilton Bermuda.

2.

I am the President of Uberrimae Fidei Insurance Company Ltd.; a Bermuda segregated account insurance company providing reinsurance capacity for alternative risk reinsurance programs.

3.

In that capacity, I attended the Realm National Insurance Company & AIM presentation to Max Re, a company that writes reinsurance. The presentation occurred in Hamilton, Bermuda

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on November 22, 2002. Max Re had been considering underwriting the excess of loss reinsurance program for the Realm National Insurance Company – AIM WCA Program.

4.

My meeting notes are attached hereto and incorporated herein as Exhibit A together with the Presentation Agenda prepared by Reese Bowen of Midlands Intermediaries Inc. and incorporated herein as Exhibit B. The notes accurately reflect the substance of what occurred at the meeting. Additionally, it should be understood that the reinsurers were particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to the reinsurers that AIM was acting in the capacity as an agent of Realm with the ability to bind business on Realm's behalf.

//FURTHER AFFIANT SAYETH NOT\\

FRANCIS J. CARTER

Sworn to and subscribed before me
this 8th day of January, 2003.

NOTARY PUBLIC

NARINDER K. HARGUN

Notary Public
Commissioner for Oaths

Hamilton, Bermuda

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EXHIBIT A.

Uberrimae Fidei Insurance Company Ltd.

Memo	November 22nd 2002	CONFIDENTIAL
To	File	
Copies to:	David Dennett- Smith, Simon Everett.	
Re:	Notes on Meeting with Max Re concerning the AIM / Realm National PEO Program and Reinsurance Arrangements.	
From:	Francis. J. Carter UFICmemo22.doc	

In attendance from Max Re Bob Conney, Dave Brining, Bill Yit, Keith Hynes Realm National Mark Sloma, AIM David Dennett Smith, Steve Landin, Bruce Holley IMG Simon Everett, Francis Carter, Midlands Reese Bowen. Location MaxRe boardroom.

1. David DS presentation on the entire program for the benefit of Bob Cooney and Dave Brining and introduced the various parties. Bill Yit had previously met Mark at an earlier meeting.

2. Topics included the acquisition of Realm National including the various attorneys involved in the acquisition, the incorporation of Glastonbury the insurance holding company, Atlantis Re the Bermuda Reinsurance Company.

3. The definitive purchase agreement was to be completed by early December and the form A filing (Lord Bissell Brook) shortly thereafter.

4. The importance of the Adelphi computer system in controlling the entire process and the interface with Realm National underwriters. The system is used by Wal-Mart for their payroll and employee benefits. The system will be able to track payroll of the PEO clients and provide 60-day audits on line and issue watermarked policy, which cannot be copied. Mark mentioned that the system would have a joint license (Realm National & AIM) with the installation of a T1 line between Realm's and AIM. The costs of the system is circa $2,500,000 would be split between Realm and AIM plus hardware costs.

5. Premium written to date from the inception October 1 was close to $10 million and a further $40 million was attaching by January 1 2003.

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Postal Address PO Box HM 1661, Hamilton HMHX, Bermuda

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Uberrimae Fidei Insurance Company Ltd.

6. The premium written to date was under a MGA agreement between AIM & Realm National and this agreement would remain in force before and after the acquisition of Realm.

7. Mark mentioned that Realm National staff was supervising the Claims and that Crawford & Co had been appointed the TPA.

8. David drew a chart of the various parties involved in the transaction and the cash flow.

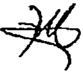
9. MaxRe are writing the reinsurance layers $5 million xs $5 million, $4 million xs $1 million and $500,000 xs $500,000. The primary excess would be retained by Realm if the first layer quote was unrealistic.

10. In the interim Uberrimae Fidei (UFIC) would be providing the segregated account facility for the 90% quota share reinsurance of Realm National prior to the incorporation of Atlantis Re. The quota share would then be portfolio transferred from UFIC to Atlantis. Mark has the reinsurance agreement in his possession.

11. David DS covered the security investigation department and the screening process.

12. Bruce and Steve covered the underwriting process, safety and loss control continuous audit, and the class codes – AM Bests Hazard Groups

13. See Reese Bowen Agenda as an additional aide memoir.



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(the "Original Filing") to announce that the auditor-client relationship between the Company and KPMG LLP ("KPMG"), the Company's former accountants, has ceased. The Original Filing is incorporated herein by reference.

This amendment to the Original Filing is being filed to include a letter by KPMG, dated November 14, 2003, relating to its concurrence or disagreement with the statements set forth in Item 4 of the Original Filing. A copy of the letter is attached hereto as Exhibit 16.1.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

16.1. Letter from KPMG LLP, dated November 14, 2003

<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: November 17, 2003

ALPHASTAR INSURANCE GROUP LIMITED

By /s/ Stephen A. Crane

Stephen A. Crane
Chairman, President &
Chief Executive Officer

[LOGO - KPMG]

757 Third Avenue
New York, NY 10017

Telephone 212 758 9700
Fax 212 872 3001

November 14, 2003

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen:

We were previously engaged as principal accountants to audit the consolidated financial statements of AlphStar Insurance Group Limited as of and for the year ended December 31, 2002. On September 16, 2003 we resigned. We have read AlphaStar Insurance Group Limited's statements included under Item 4 of its Form 8-K dated November 3, 2003, and we agree with such statements, except as follows:

1. We are not in a position to agree or disagree with AlphaStar Insurance Group Limited's statements (i) that the change was not recommended or approved by the Company's Board of Directors, Audit Committee or any other Committee thereof, (ii) that discuss Arthur Andersen in the third paragraph or that discuss Arthur Andersen's audit and certification of the December 31, 2001 balance sheet accounts for the Company and its subsidiaries, and (iii) that the Company has not retained a new independent accountant as of the date of filing the Form 8-K.

2. We do not agree with the Company's statement in paragraph (d) (1) that "KPMG had advised the Company that, subject to the resolution of the matters discussed in (c)(1), above, the

possible effect of such resolution on the ability of a significant subsidiary of the Company to recognize part or all of a deferred tax asset and the completion of audit procedures related to the adverse litigation decision received on July 8, 2003 (and disclosed in a press release dated July 8, 2003), no information has come to KPMG's attention that it has concluded materially impacts the fairness or reliability of either (i) a previously issued audit report or the underlying financial statements, or (ii) the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that, unless resolved to the accountant's satisfaction, would prevent it from rendering an unqualified audit report on those financial statements, irrespective of reference to substantial doubt concerning the ability of the Company to continue as a going concern, which KPMG indicated prior to its resignation would be included in its report)".

Additionally, with respect to the Company's reference in paragraph (d) (1) to deferred taxes, KPMG had advised the Company that in KPMG's view the Company did not support the recoverability of the deferred tax asset at December 31, 2002.

Prior to our resignation KPMG had communicated to the Company that KPMG's report would include a reference to substantial doubt concerning the ability of the Company to continue as a going concern.

Prior to our resignation KPMG had communicated to the Company the following as items that needed to be addressed before KPMG could perform whatever other audit procedures were deemed necessary to complete the audit of the December 31, 2002 financial statements:

1. Completion of agents' balances receivable account audit work, including re-audit of the December 31, 2001 balances and possibly re-audit of all December 31, 2001 balance sheet accounts,

2. Completion of audit procedures related to the adverse litigation decision, as referred to in paragraph (d)(1), and

3. Resolution of the accounting and disclosure for the operations of certain subsidiaries, the sales of which were pending but had not been completed, and the completion of the related audit procedures.

Very truly yours,

/s/ KPMG LLP

Powered by:

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Israeloff, Trattner & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS - FINANCIAL CONSULTANTS

1225 Franklin Avenue, Garden City, NY 11530 (516) 240-3300 Fax (516) 240-3310 www.israeloff.com

Other Offices
New York, New York
Hauppauge, New York

May 30, 2003

Mr. David Dennett-Smith, CEO
American Insurance Management Group, Inc.
3101 Tower Creek Pkwy
Suite 750
Atlanta, GA 30339

Dear Mr. David:

At your request I am submitting the attached schedule which represents our best effort estimate of the adjusted GAAP basis book value of Realm National Insurance Company ("Realm"), Stirling Cooke New York Insurance Agency Services, Inc. ("SCNY") and World Trade Services, Inc. ("WTS") as of December 31, 2002. Our estimate is based on our preliminary work, including a very limited review of the books and records of Realm, SCNY, and WTS that were made available to us, and certain assertions made to us by American Insurance Management Group, Inc. (AIM). Our ability to reasonably estimate the GAAP basis book value of Realm, SCNY and WTS (the Companies) was further limited by the absence of access to the audit work papers of Realm's auditors, KPMG, and any audited financial statements, GAAP or Statutory, that were scheduled to be issued by KPMG.

As indicated in the attached, we have estimated, to the extent practical, a Purchase Price of $1,500,000. It should be noted that our work to date does not constitute an audit, a review, a compilation or any other engagement in accordance with AICPA Standards because, among other things, the engagement for which they were retained is substantially incomplete. This Purchase Price estimate is limited to AIM's internal use.

Please contact me at your convenience to discuss the calculation or other matters pertaining to your negotiations to purchase the Companies.

Sincerely,

Richard A. Mills

Richard A. Mills, CPA
Officer

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Unaudited GAAP Equity 12-31-02	$9,179,000	**
40% deduction Lincoln National Reinsurance Recoverables at 12-31-02 $1,303,000	(521,000)	(A)
40% deduction Phoenix Home Life Reinsurance Recoverables at 12-31-02 $1,686,000	(674,000)	(A)
50% deduction Sun Life Reinsurance Recoverables at 12-31-02 $2,171,000	(1,085,000)	(B)
90% deduction Sphere Drake Reinsurance Recoverables at 12-31-02 $1,061,000	(955,000)	(C)
90% deduction Odyssey Re Reinsurance Recoverables at 12-31-02 $148,000	(133,000)	(C)
75% reduction Amounts due from World Trade 12-31-02 $4,588,000	(3,441,000)	(D)
3-31-03 increased provision for Agents Balance over 90 days (12-31-02 $1,493,000 3-31-03 $2,057,000)	(564,000)	(E)
12-31-02 provision for premiums booked deferred and not collected	(308,000)	(F)
attributable to rounding	2,000	
Estimated Purchase Price	$1,500,000	

** As provided to Israeloff, Trattner & Co., by AIM
(A) Significant balances in dispute separately lead to discount of current balances due
(B) Carrier believed to be in bankruptcy or receivership
(C) On going litigation likelihood of settlement of this balance questionable
(D) World Trade has outstanding receivables from third parties which is in question
(E) March 31, 2003 information provided by Stephen Crane
(F) Annual statement 2002 page 2 line 10.2 col 2

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Welcome. You are in the Agents Status :(internal link) | (external link) | (in Adobe Acrobat)

Please be aware that the information provided is updated weekly and may have a lag time of up 15 days. Continuing education credits may experience longer delays in being reported.

If you believe the information posted is incorrect, please contact Promissor at 1-888-204-6204 between the hours of 8AM and 6PM Monday through Friday.

All items in red are linked to more information. Just click on them or mouse-over them.

View Company Appointments
View Agency Affiliation
View Continuing Education
View License Authorities

Agent Information

LICENSE		NAME	
AGR385439		BRUCE E HOLLEY	
FIRST ADDRESS LINE P.O.BOX 1207		SECOND ADDRESS LINE	
CITY, STATE AND ZIP KENNESAW , GA 30144-			
PRIMARY CODE: A SECONDARY CODE:	FIRST ISSUE DATE 02/12/1988	ISSUE DATE 01/01/2004	EXPIRATION DATE 12/31/2004
STATUS: ACTIVE			

Company Appointments

Listing of current and past Certificate of Authority appointments that authorize the licensee to transact business for the company. Company Appointments are renewed annually in June.

company	rel.	appt.	Issued date	Cancel date
ALPHA PROPERTY & CASUALTY INS CO	CA	TS	03/29/2001	12/31/2001
AMERICAN AMBASSADOR CASUALTY CO	CA	TS	05/01/1995	12/31/2001
AMERICAN FAMILY HOME INS CO	CA	TS	12/05/1991	12/31/2001
ASSURANCEAMERICA INSURANCE COMPANY	CA	A	04/01/2003	
CANAL INSURANCE COMPANY	CA	T	03/22/1988	10/03/1989
CATAWBA INSURANCE COMPANY	CA	T	04/20/1999	08/09/2000
CHARTER INDEMNITY COMPANY	CA	TS	03/01/2001	12/31/2001
CLARENDON NATIONAL INS CO	CA	T	11/14/1995	02/19/1997
CNL/INSURANCE AMERICA INC	CA	TS	10/04/1995	12/31/2001
COVENTRY INSURANCE COMPANY	CA	TS	12/19/1994	12/31/2001
DAIRYLAND INSURANCE COMPANY	CA	TS	04/05/1990	12/31/2001

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DAIRYLAND INSURANCE COMPANY	CA	A	06/19/2002	
DEERBROOK INSURANCE COMPANY	CA	TS	12/02/1998	12/31/2001
EVEREST SECURITY INSURANCE CO	CA	T	02/12/1988	10/04/1989
FARMINGTON CASUALTY COMPANY	CA	TS	03/24/1999	12/31/2001
FOREMOST INSURANCE COMPANY	CA	TS	03/04/1999	12/31/2001
FOREMOST INSURANCE COMPANY	CA	A	06/20/2002	
FOREMOST SIGNATURE INS CO	CA	TS	03/04/1999	12/31/2001
FOREMOST SIGNATURE INS CO	CA	T	06/20/2002	09/03/2003
GATEWAY INSURANCE CO	CA	TS	09/04/2001	12/31/2001
GENERALI - U S BRANCH	CA	TS	09/18/1997	12/31/2001
GEORGIA CASUALTY & SURETY CO	CA	T	10/22/1996	09/01/2000
GEORGIA GENERAL INSURANCE CO	CA	T	03/13/1995	12/31/1996
GEORGIA MUTUAL INSURANCE CO	CA	TS	05/12/1999	12/31/2001
GRAMERCY INSURANCE COMPANY	CA	A	11/25/2003	
INTEGON GENERAL INSURANCE CORP	CA	TS	08/21/1992	12/31/2001
INTEGON GENERAL INSURANCE CORP	CA	A	02/10/2003	
INTEGON INDEMNITY CORPORATION	CA	TS	08/21/1992	12/31/2001
INTEGON INDEMNITY CORPORATION	CA	A	02/10/2003	
INTEGON NATIONAL INSURANCE CO	CA	A	02/10/2003	
INTEGON SPECIALTY INS COMPANY	CA	TS	07/15/1996	12/31/2001
INTEGON SPECIALTY INS COMPANY	CA	A	02/10/2003	
MARYLAND CASUALTY COMPANY	CA	TS	08/10/1998	12/31/2001
MENDOTA INSURANCE COMPANY	CA	TS	03/02/2001	12/31/2001
NATL SECURITY FIRE & CASUALTY CO	CA	T	04/24/1996	08/01/1999
NATL SECURITY FIRE & CASUALTY CO	CA	T	04/18/1990	07/22/1994
NEW SOUTH INSURANCE COMPANY	CA	TS	07/16/1996	12/31/2001
NEW SOUTH INSURANCE COMPANY	CA	A	02/10/2003	
NOVA CASUALTY COMPANY	CA	TS	05/27/1997	12/31/2001
OMNI INDEMNITY COMPANY	CA	TS	08/06/1998	12/31/2001
OMNI INDEMNITY COMPANY	CA	A	10/09/2002	
OMNI INSURANCE COMPANY	CA	T	03/25/1993	12/31/1996
OMNI INSURANCE COMPANY	CA	TS	04/23/2001	12/31/2001
OMNI INSURANCE COMPANY	CA	A	10/09/2002	
PATRIOT GENERAL INS CO	CA	TS	03/18/1993	12/31/2001
PATRIOT GENERAL INS CO	CA	A	06/03/2002	
PERMANENT GENERAL ASSUR CORP	CA	TI	06/29/1995	09/30/1994
PERMANENT GENERAL ASSURANCE CORP	CA	T	06/29/1995	10/02/2001
PROGRESSIVE AMERICAN INS CO	CA	TS	12/30/1999	12/31/2001
PROGRESSIVE AMERICAN INS CO	CA	A	03/07/2003	
PROGRESSIVE BAYSIDE INS CO	CA	TS	10/06/1998	12/31/2001
PROGRESSIVE BAYSIDE INS CO	CA	A	03/07/2003	
PROGRESSIVE CASUALTY INS CO	CA	TS	05/25/1995	12/31/2001
PROGRESSIVE CLASSIC INS CO	CA	TS	10/25/1999	12/31/2001
PROGRESSIVE CLASSIC INS CO	CA	A	03/07/2003	
PROGRESSIVE HOME INSURANCE COMPANY	CA	T	12/05/1997	03/05/2001
PROGRESSIVE MAX INSURANCE CO	CA	TS	10/06/1998	12/31/2001
PROGRESSIVE NORTHWESTERN INS CO	CA	TS	02/07/1994	12/31/2001
PROGRESSIVE NORTHWESTERN INS CO	CA	A	03/07/2003	

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PROGRESSIVE PREFERRED INS CO	CA	TS	04/23/1993	12/31/2001
PROGRESSIVE PREFERRED INS CO	CA	A	03/07/2003	
R L I INSURANCE COMPANY	CA	TS	05/13/1996	12/31/2001
REALM NATIONAL INSURANCE CO	CA	A	03/25/2003	
RELIANCE NATIONAL INDEMNITY CO	CA	T	05/27/1997	01/13/1999
RELIANCE NATIONAL INSURANCE CO	CA	T	05/29/1998	01/13/1999
SOUTH CAROLINA INS CO	CA	T	05/01/1998	08/09/2000
SOUTHERN INSURANCE COMPANY	CA	T	03/25/1988	03/30/1989
SOUTHERN UNITED FIRE INS CO	CA	T	05/09/1996	12/31/1999
SPECIALTY RISK INSURANCE COMPANY	CA	T	06/22/1998	06/07/2000
STONINGTON INSURANCE COMPANY	CA	T	11/13/1995	12/31/1995
STONINGTON INSURANCE COMPANY	CA	TS	06/29/2000	12/31/2001
TRUMBULL INSURANCE CO	CA	A	10/09/2002	
UNITED PACIFIC INSURANCE CO	CA	T	05/27/1997	01/13/1999
UNIVERSAL INSURANCE COMPANY	CA	T	09/01/1995	12/31/1997
UNIVERSAL INSURANCE COMPANY	CA	TX	05/13/1991	12/31/1993
UNIVERSAL UNDERWRITERS INS CO	CA	TS	07/05/1995	12/31/2001
UNIVERSAL UNDERWRITERS INS CO	CA	TS	04/19/1988	04/18/1990
VANLINER INSURANCE COMPANY	CA	T	11/28/1994	12/31/1996
VICTORIA FIRE & CASUALTY INS CO	CA	TS	10/09/1997	12/31/2001
VICTORIA FIRE & CASUALTY INS CO	CA	A	06/20/2002	
VICTORIA SELECT INS CO	CA	TS	10/09/1997	12/31/2001
VICTORIA SELECT INS CO	CA	A	06/20/2002	
WESTERN SURETY COMPANY	CA	TS	04/18/1990	12/31/2001
WESTERN SURETY COMPANY	CA	A	06/29/2002	
WESTERN UNITED INSURANCE COMPANY	CA	TI	11/28/1994	07/01/1996
WINDSOR INSURANCE COMPANY	CA	T	12/19/1994	11/03/2000

Agency Affiliation

Listing of current and past Agency Affiliations

company	rel.	appl.	Issued date	Cancel date
ACCENT INSURANCE AGENCY INC	AEMP	A	01/08/1998	
ACCENT INSURANCE AGENCY INC	AOWN	A	01/08/1998	
ALLEGIANCE INSURANCE AGENCY	AOWN	T	02/12/1998	08/09/2001
AMERICAN INSURANCE MANAGERS INC.	AOWN	A	01/07/2003	

Continuing Education

Listing of Continuing Education credits completed by the licensee.

completion	description	content code	credits
12/31/2002	NOBLE/UNDERWRITER	PC	15
12/31/2002	GEORGIA ETHICS	E	3
04/15/2002	GEORGIA ETHICS	E	3
04/15/2002	BUSINESS INSURANCE	LAS	15

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10/31/2000	GEORGIA ETHICS	E	3
10/31/2000	CLAIM INVESTIGATION GUIDE	PC	10
11/30/1999	NOBLE/P&C LIABILITY	PC	18
11/30/1999	GEORGIA ETHICS	E	3
10/20/1999	PROGRESSIVE 4.0 REVIEW	PC	1
01/15/1999	NOBLE/P&C PROPERTY	PC	18
01/15/1999	GEORGIA ETHICS	E	3

License Authorities

Listing of all lines of insurance a licensee may transact.

issued	code	description	status	origin	expiration	cancelled
n/a	C	Casualty	A	E		
n/a	P	Property	A	E		
n/a	S	Surety	Q	E		02/04/2003

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NEW YORK STATE
INSURANCE DEPARTMENT

FIRST AMENDMENT TO REGULATION NO. 120
(11 NYCRR 33)

MANAGING GENERAL AGENTS

I, GREGORY V. SERIO, Superintendent of Insurance, pursuant to the authority granted by sections 201, 301, 308, 2101, 2102 and 2103 of the Insurance Law of the State of New York, do hereby promulgate the following First Amendment to Part 33 of Title 11 of the Official Compilation of Codes, Rules and Regulations (Regulation No. 120), to take effect upon filing with the Secretary of State.

(NEW MATTER IS UNDERSCORED. MATTER IN BRACKETS IS DELETED)

Part 33 is hereby amended to read as follows:

§ 33.0 Preamble.

Some insurance companies have entered into contracts with individuals or organizations, commonly referred to as managing general agents or managers, to manage all or part of their insurance business. This may represent a shifting of an insurance company's responsibilities to a person, firm, association or corporation outside of its organization. This Part is promulgated because the Insurance Department is concerned that such delegation of authority has been subject to abuses detrimental to both insurance companies and insureds.

§ 33.1 Applicability.

This Part shall apply to all [licensed] insurers that enter into contracts with managing general agents as defined in section 33.2(c) of this Part[, acting in such capacity on or after the effective date (December 18, 1985) of this Part]. Sections 33.3(c), 33.5 and 33.6 of this Part are effective January 1, 2002.

§ 33.2 Definitions.

As used in this Part, the following terms shall have the following meanings:

(a) *Insurer* means an authorized insurer as defined in section 107(a)(10) of the Insurance Law, and, for purposes of this Part, shall also include every group, association or other organization of insurance companies that engages in joint underwriting or joint reinsurance in accordance with section 2317(a) of the Insurance Law.

(b) *Domestic Insurer* shall have the same meaning as set forth in Insurance Law, section 107(a)(19), and shall also include every group, association or other organization of insurance companies that engages in joint underwriting or joint reinsurance if such group, association or other organization has its principal office in this State.

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(c) *Managing general agent* (MGA) means any person, firm, association or corporation [who or which] that:

(1) manages all or part of the insurance business of an insurer (including the management of a separate division, department or underwriting office) [and];

(2) acts as an insurance agent as defined in section 2101(a) of the Insurance Law for such insurer, whether known as a managing general agent, manager, or other similar term, or acts as an insurance broker as defined in section 2101(c) of the Insurance Law; and

(3) with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and accepts or rejects risks on behalf of the insurer (underwrites) an amount of gross direct written premium equal to or more than five percent of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together with one or more of the following activities related to the business produced:

(i) Adjusts or pays claims in excess of $25,000, or

(ii) Negotiates reinsurance on behalf of the insurer.

§ 33.3 Requirements.

(a) No insurer shall appoint or continue to use the services of [any managing general agent] an MGA to act for it in this State, either directly or indirectly through subagents of the [managing general agent] MGA, unless the [managing general agent] MGA has an insurance agent's license issued by this State to represent said insurer for the appropriate kinds of insurance.

(b) (1) [An insurer that currently has managing general agents acting for it in this State, either directly or indirectly through subagents of the managing general agent, shall complete and file Form 1 (see subdivision (c) of this section), with this department, within 30 days of the effective date (December 18, 1985) of this Part.

(2) A domestic insurer that currently has managing general agents acting for it in any state or foreign country, shall complete and file Form 1, herein, with this department, within 30 days of the effective date (December 18, 1985) of this Part.

(3)] An insurer that appoints [a managing general agent] an MGA to act for it in this State, either directly or through subagents of the [managing general agent] MGA, shall complete and file [Form 1, herein,] the form required by subdivision (c) of this section with this department within 30 days of the appointment. An amended form shall be filed within 30 days after any change including termination of appointment.

[(4)] (2) A domestic insurer that appoints [a managing general agent] an MGA to act for it in any state or foreign country, shall complete and file [Form 1, herein,] the form required by subdivision (c) of this section with this department, within 30 days of the appointment. An amended form shall be filed within 30 days after any change, including termination of appointment.

(c) [Form 1 is repealed in its entirety.] A filing required by subdivision (b) of this section, relative to the appointment of an MGA, shall be in a form prescribed by the superintendent.

§ 33.4 Exemptions.

(a) The provisions of this Part shall not apply to:

(1) [a person whose acts as an insurance agent for an insurer are purely incidental to his/her duties as a salaried employee of such insurer;

(2) a person who is an agent of an insurer, provided such agent does not have authority to:

(i) underwrite and either appoint sub-agents or accept sub-produced business; or
(ii) cede or assume reinsurance on behalf of the insurer;

(3)] a person who is a member of the same holding company system (as defined in section 1501(a)(6) of the Insurance Law) as the insurer;

[(4)] (2) a person acting as a U.S. manager of a licensed U.S. branch of an alien insurer (as defined in section 107(44) of the Insurance Law); and

[(5) an underwriting manager designated by underwriting members of the New York Insurance Exchange, Inc., provided that:

(i) such designation shall have been filed with the New York Insurance Exchange, Inc. in its register of approved underwriting managers;

(ii) the New York Insurance Exchange, Inc. adopts rules to accomplish the intent and purposes of this Part; and

(iii) this exemption shall not apply to any cessions or retrocessions handled by such underwriting manager of the New York Insurance Exchange, Inc. outside of the New York Insurance Exchange, Inc.]

(3) the attorney-in-fact authorized by and acting for the subscribers of a reciprocal insurer or inter-insurance exchange under powers of attorney.

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(b) Nothing contained in this [section] Part shall exempt any [such] person from any requirement to be licensed as an insurance agent, reinsurance intermediary or otherwise under the Insurance Law or from being subject to examination by the Insurance Department.

(c) No person shall be a manager in this State within the meaning of Insurance Law Section 2101(g)(1) unless that person is an MGA and licensed as an insurance agent.

§ 33.5 Required contract provisions.

No person, firm, association or corporation acting in the capacity of an MGA in this State shall place business with an insurer; no insurer shall utilize an MGA in this State; and no domestic insurer shall utilize an MGA outside of this State; unless there is in force a written contract between the parties that sets forth the responsibilities of each party. Where both parties share responsibility for a particular function, the contract shall specify the division of such responsibilities. The contract shall contain the following minimum provisions:

(a) The insurer may terminate the contract for cause upon written notice to the MGA. The insurer may suspend the underwriting authority of the MGA during the pendency of any dispute regarding the cause for termination;

(b) The MGA will render accounts to the insurer detailing all transactions and remit all funds due under the contract to the insurer on not less than a monthly basis;

(c) All funds collected for the account of an insurer will be held by the MGA in a fiduciary capacity in accordance with Section 20.3 of this Title (Regulation 29). This account shall be used for all payments on behalf of the insurer. The MGA may retain no more than three months of estimated claims payments and estimated allocated loss adjustment expense payments;

(d) Separate records of business written by the MGA will be maintained. The insurer shall have access and right to copy all accounts and records related to its business in a form usable by the insurer and the superintendent shall have access to all books, bank accounts and records of the MGA in a form usable to the superintendent. Such records shall be retained according to Part 243 of this Title (Regulation 152);

(e) The contract may not be assigned in whole or part by the MGA;

(f) The MGA will follow appropriate insurer underwriting guidelines, including:

(1) the maximum annual premium volume;

(2) the basis of the rates to be charged;

(3) the types of risks which may be written;

(4) maximum limits of liability;

(5) applicable exclusions;

(6) territorial limitations;

(7) policy cancellation provisions; and

(8) the maximum policy period;

(g) The insurer shall have the right to cancel or non-renew any policy of insurance, subject to applicable laws and regulations concerning cancellation and non-renewal of insurance policies;

(h) If the contract permits the MGA to settle claims on behalf of the insurer;

(1) All claims must be reported to the insurer in a timely manner;

(2) A copy of the claim file must be sent to the insurer at its request or as soon as it becomes known that the amount of the claim, before application of any reinsurance:

(i) has the potential to exceed one percent of the insurer's surplus to policyholders, as reported in its last filed annual statement, or exceeds the limit set by the company; whichever is less;

(ii) involves a coverage dispute;

(iii) may exceed the MGA's claims settlement authority;

(iv) is open for more than six months; or

(v) is closed by payment of one percent of the insurer's surplus to policyholders, as reported in its last filed annual statement, or an amount set by the company, whichever is less;

(3) All claim files will be the joint property of the insurer and MGA. However, upon an order of liquidation of the insurer, such files shall become the sole property of the insurer or its estate and the MGA shall have reasonable access to and the right to copy the files on a timely basis; and

(4) Any settlement authority granted to the MGA may be terminated for cause upon the insurer's written notice to the MGA or upon the termination

of the contract. The insurer may suspend the settlement authority during the pendency of any dispute regarding the cause for termination;

(i) Where electronic claims files exist, the contract must address the timely transmission of the data;

(j) If the contract provides for a sharing of interim profits by the MGA, and the MGA has the authority to determine the amount of the interim profits by establishing loss reserves or controlling claim payments, or in any other manner, interim profits will not be paid to the MGA until one year after they are earned for property insurance business and five years after they are earned on casualty insurance business, and not until the profits have been verified pursuant to Section 33.6 of this Part;

(k) The MGA shall not:

(1) bind reinsurance or retrocessions on behalf of the insurer, except that the MGA may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines, including, for both reinsurance assumed and ceded, a list of reinsurers with which such automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules;

(2) commit the insurer to participate in insurance or reinsurance syndicates;

(3) appoint any producer without assuring that the producer is lawfully licensed to transact the kinds of insurance for which the producer is appointed;

(4) without prior approval of the insurer, pay or commit the insurer to pay a claim over a specified amount, net of reinsurance, which shall not exceed one percent of the insurer's policyholder's surplus as of December 31st of the last completed calendar year;

(5) collect any payment from a reinsurer or commit the insurer to any claim settlement with a reinsurer without prior approval of the insurer. If prior approval is given, a report must be promptly forwarded to the insurer;
(6) Permit its subproducer to serve on the insurer's board of directors;

(7) Jointly employ an individual who is employed with the insurer; or

(8) Appoint a sub-MGA.

§ 33.6 Duties of insurers.

(a) The insurer shall have on file an independent financial audit, in a form acceptable to the superintendent, of each MGA with which the insurer has done business.

(b) If an MGA establishes loss reserves, the insurer shall annually obtain the opinion of an actuary who is a member in good standing of the American Academy of Actuaries, attesting to the adequacy of loss reserves established for losses incurred and outstanding on business produced by the MGA. This opinion shall be in addition to any other required loss reserve certification.

(c) The insurer shall at least semi-annually conduct an on-site review of the underwriting and claims processing operations of the MGA.

(d) Binding authority for all reinsurance contracts or participation in insurance or reinsurance syndicates shall rest with an officer of the insurer, who shall not be affiliated with the MGA, except that the MGA may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines, including, for both reinsurance assumed and ceded, a list of reinsurers with which such automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules;

(e) An insurer shall not appoint to its board of directors an officer, director, employee, subproducer or controlling shareholder of its MGAs. This subsection shall not apply to relationships governed by Article 15, 16, or 17 of the Insurance Law, or, if applicable, Subpart 80-2 of this Title (Regulation 52).

I, Gregory V. Serio, Superintendent of Insurance of the State of New York, do hereby certify that the foregoing is the First Amendment to 11 NYCRR 33 (Regulation 120), promulgated by me on May 28, 2002, pursuant to the authority granted by sections 201, 301, 308, 2101, 2102 and 2103 of the Insurance Law, to take effect upon filing with the Secretary of State. This regulation was previously promulgated on an emergency basis on June 7, 2001, September 5, 2001, and November 2, 2001, with some different provisions, and on December 27, 2001, and February 26, 2002 with materially the same provisions, and on May 28, 2002 and August 22, 2002, with materially the same provisions.

Pursuant to § 202(6) of the State Administrative Procedure Act, these amendments are being promulgated as an emergency measure. A statement of the specific reasons for the finding of the need for emergency action is attached.

Gregory V. Serio
Superintendent of Insurance

November 21, 2002

STATEMENT OF REASONS FOR EMERGENCY MEASURE
FOR
11 NYCRR 33 (REGULATION 120)

The original version of Regulation 120, promulgated in 1985, required insurers to notify the Superintendent when utilizing the services of managing general agents. However, the regulation did not impose or require any specific safeguards or standards governing the relationship between the insurer and the managing general agent.

The National Association of Insurance Commissioners (NAIC) has developed a model regulation, which builds upon the original New York Regulation 120 and requires a contract between the insurer and its managing general agent and thereby establishes safeguards to govern the relationships between insurers and managing general agents. The model regulation has been adopted by many of the other states.

In several recent situations, it became clear to the Superintendent that insurers often entered into managing general agent relationships without establishing appropriate guidelines and requirements. Insurers have, in these cases, failed to properly supervise their managing general agents, with resulting abuses that have caused irrevocable harm to policyholders. Premiums collected have been inadequate to support the risk and underwriting guidelines have either not been followed or have been non-existent.

Ensuring the financial stability of insurers is one of the most important functions of the Superintendent, for the protection of the insurer's stockholders, insureds, third-party claimants and for the people of the State of New York. Because of many of these abuses involving managing general agents, and the failure of insurers to properly supervise them, it has become readily apparent to the Superintendent that there is an immediate need to establish minimum rules to govern the relationships between insurers and their managing general agents. The adoption of this amendment implements the NAIC model.

Consequently, it is critical for this regulation to be adopted as promptly as possible. For the reasons stated above, this rule must be promulgated on an emergency basis for the furtherance of the general welfare.

Gregory V. Serio
Superintendent of Insurance

November 21, 2002

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WILSON, ELSER, MOSKOWITZ, EDELMAN & DICKER LLP

NEW YORK

LEGAL MEMORANDUM

To: File

From: Steven Kent

Date: August 16, 2002

Subject: AIM

File No.: 01004.00062

AUGUST 15 PHONE CONVERSATION WITH STEPHEN CRANE AND JIM LAWLESS

I was contacted by these gentlemen at about 5:00 p.m. They had some questions about the letter of intent.

We discussed the third paragraph in the section entitled "Purchase of Stock". This deals with the "set aside" of $1,680,000. Mr. Crane explained that the four slow paying reinsurers are Trustmark, Phoenix, Sun and Lincoln. He agreed that the meeting of 8/12 discussed a $4.1 million paid loss recoverable as at March 31 from these four reinsurers. Mr. Crane further stated that this number had grown, he is not exactly how, to $5.6 million as at June 30.

As discussed during the 8/12 meeting, the Schedule F penalty of 20% has been established. This is consistent with his view that at least 80% of the paid loss recoverable will eventually be obtained from the reinsurers. The proposal at the 8/12 meeting was that if there was a short fall below the 80% anticipated recovery, David would share this loss on a 50-50 basis with Realm's shareholder.

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Mr. Crane and Mr. Lawless may attempt to re-word the paragraph so it better reflects the agreement. I told them that the last sentence of the paragraph was added to take into account any paid loss recoverable that is both not collectible and not disclosed, and that this would be reflected in the reps and warranties of the definitive agreements in any event.

On a separate issue, Steve Crane explained that there should be no promissory note so that he can convince Realm's board of directors that "this is an all cash deal". He suggested that a cash deposit be escrowed, and that it be interest bearing. The interest would "follow the principal" once the principal is paid out to either the shareholder or to the new owner or is split between them.

The final issue we discussed are the MGA "deal points" which were discussed during the 8/12 meeting. Mr. Crane wants the MGA deal points to be consistent with what was described by DDS at the 8/13 meeting at Realm's offices on Maiden Lane. Steve Crane does not believe AIM should be "given the pen" for its placements in to Realm. AIM can have "binding authority", but AIM should agree to follow Realm's underwriting guidelines, and all placements should be subject to the approval of Realm's underwriters. I suggested to Mr. Crane that he directly contact David to discuss this issue.

SK/ac

1190161.1

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY, STIRLING COOKE NORTH AMERICAN HOLDINGS, LTD., and ALPHASTAR INSURANCE GROUP LIMITED,

Plaintiffs

-against-

Civil Action 02-CV-10278 (RMB)

AMERICAN INSURANCE MANAGERS INC., AMERICAN INSURANCE MANAGEMENT GROUP INC.; and ATLANTA INSURANCE MARKETING INC.

Defendants

HAMILTON, BERMUDA

AFFIDAVIT

Personally appeared before me the undersigned officer duly authorized to administer oaths JOSEPH A. ZAFFARESE, who upon being sworn does depose and say as follows:

1.

My name is. JOSEPH A. ZAFFARESE,. I make this affidavit of my own personal knowledge and for all legal purposes. I am over the age of 18 years, and suffer from no legal disabilities.

2.

At all times relevant hereto, I have served in the capacity of President of Midland Intermediaries Inc. In the insurance industry, intermediaries broker buying reinsurance on behalf of insurance companies.

3.

In that capacity, I helped facilitate a meeting on behalf of Realm National Insurance Company with Max Re, a company that writes reinsurance, which occurred in Hamilton, Bermuda on November 14, 2002. I also attended the meeting. Also in attendance were David

Dennett-Smith, President of AIM, Mark s. Sioma, President of Realm, and Bill Yit, Senior Vice President, FCAS, of Max Re, a company which writes reinsurance on behalf of insurance companies such as Realm.

4.

It should be understood that Mr. Yit was particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to Mr. Yit that AIM was acting in the capacity as an agent of Realm.

//FURTHER AFFIANT SAYETH NOT\\

JOSEPH A. ZAFFARESE

Sworn to and subscribed before me this 8th day of January, 2003.

Cindy M. Cardinelli
NOTARY PUBLIC

Notarial Seal
Cindy M. Cardinelli, Notary Public
City of Easton, Northampton County
My Commission Expires Apr. 23, 2005
Member, Pennsylvania Association of Notaries

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY,
STIRLING COOKE NORTH AMERICAN
HOLDINGS, LTD., and ALPHASTAR INSURANCE
GROUP LIMITED,

Plaintiffs

-against-

Civil Action 02-CV-10278 (RMB)

AMERICAN INSURANCE MANAGERS INC.,
AMERICAN INSURANCE MANAGEMENT GROUP
INC.; and ATLANTA INSURANCE MARKETING INC.

Defendants

HAMILTON, BERMUDA

AFFIDAVIT

Personally appeared before me the undersigned officer duly authorized to administer oaths FRANCIS J. CARTER, who upon being sworn does depose and say as follows:

1.

My name is. FRANCIS J. CARTER. I make this affidavit of my own personal knowledge and for all legal purposes. I am over the age of 18 years, and suffer from no legal disabilities. This affidavit only concerns the Realm National Insurance Company and AIM Presentation to Max Re held on November 22 2002 in Hamilton Bermuda.

2.

I am the President of Uberrimae Fidei Insurance Company Ltd.; a Bermuda segregated account insurance company providing reinsurance capacity for alternative risk reinsurance programs.

3.

In that capacity, I attended the Realm National Insurance Company & AIM presentation to Max Re, a company that writes reinsurance. The presentation occurred in Hamilton, Bermuda

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on November 22, 2002. Max Re had been considering underwriting the excess of loss reinsurance program for the Realm National Insurance Company – AIM WCA Program.

4.

My meeting notes are attached hereto and incorporated herein as Exhibit A together with the Presentation Agenda prepared by Reese Bowen of Midlands Intermediaries Inc. and incorporated herein as Exhibit B. The notes accurately reflect the substance of what occurred at the meeting. Additionally, it should be understood that the reinsurers were particularly interested, among other things, in the nature of the relationship between Mr. Sioma's company and Mr. Dennett-Smith's company. In my presence, Mr. Sioma indicated to the reinsurers that AIM was acting in the capacity as an agent of Realm with the ability to bind business on Realm's behalf.

//FURTHER AFFIANT SAYETH NOT\\

FRANCIS J. CARTER

Sworn to and subscribed before me
this 8th day of January, 2003.

NOTARY PUBLIC

NARINDER K. HARGUN
Notary Public
Commissioner for Oaths
Hamilton, Bermuda

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EXHIBIT A.

IMG
INTERNATIONAL

Uberrimae Fidei Insurance Company Ltd.

Memo November 22nd 2002 CONFIDENTIAL
To File
Copies to: David Dennett- Smith, Simon Everett.
Re: Notes on Meeting with Max Re concerning the AIM / Realm National PEO Program and Reinsurance Arrangements.
From: Francis. J. Carter UFICmemo22.doc

In attendance from Max Re Bob Conney, Dave Brining, Bill Ylt, Keith Hynes Realm National Mark Sioma, AIM David Dennett Smith, Steve Landin, Bruce Holley IMG Simon Everett, Francis Carter, Midlands Reese Bowen. Location MaxRe boardroom.

1. David DS presentation on the entire program for the benefit of Bob Cooney and Dave Brining and introduced the various parties. Bill Ylt had previously met Mark at an earlier meeting.
2. Topics included the acquisition of Realm National including the various attorneys involved in the acquisition, the incorporation of Glastonbury the insurance holding company, Atlantis Re the Bermuda Reinsurance Company.
3. The definitive purchase agreement was to be completed by early December and the form A filing (Lord Bissell Brook) shortly thereafter.
4. The Importance of the Adelphi computer system in controlling the entire process and the interface with Realm National underwriters. The system is used by Wal-Mart for their payroll and employee benefits. The system will be able to track payroll of the PEO clients and provide 60-day audits on line and issue watermarked policy, which cannot be copied. Mark mentioned that the system would have a joint license (Realm National & AIM) with the installation of a T1 line between Realm's and AIM. The costs of the system is circa $2,500,000 would be split between Realm and AIM plus hardware costs.
5. Premium written to date from the inception October 1 was close to $10 million and a further $40 million was attaching by January 1 2003.

The Zurich Centre, North - First Floor. 90 Pitts Bay Road, Pembroke HM08 Bermuda
Tel: (441) 295 3342 Fax: (441) 295 4065 Email FCarter@img.bm
Postal Address PO Box HM 1861, Hamilton HMHX, Bermuda

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Uberrimae Fidei Insurance Company Ltd.

6. The premium written to date was under a MGA agreement between AIM & Realm National and this agreement would remain in force before and after the acquisition of Realm.

7. Mark mentioned that Realm National staff was supervising the Claims and that Crawford & Co had been appointed the TPA.

8. David drew a chart of the various parties involved in the transaction and the cash flow.

9. MaxRe are writing the reinsurance layers $5 million xs $5 million, $4 million xs $1 million and $500,000 xs $500,000. The primary excess would be retained by Realm if the first layer quote was unrealistic.

10. In the interim Uberrimae Fidei (UFIC) would be providing the segregated account facility for the 90% quota share reinsurance of Realm National prior to the incorporation of Atlantis Re. The quota share would then be portfolio transferred from UFIC to Atlantis. Mark has the reinsurance agreement in his possession.

11. David DS covered the security investigation department and the screening process.

12. Bruce and Steve covered the underwriting process, safety and loss control continuous audit, and the class codes – AM Bests Hazard Groups

13. See Reese Bowen Agenda as an additional aide memoir.

The Zurich Centre, North - First Floor, 90 Pitts Bay Road, Pembroke HM08 Bermuda
Tel: (441) 295 3342 Fax: (441) 295 4065 Email FCarter@img.bm
Postal Address PO Box HM 1881, Hamilton HMHX, Bermuda

PCH

EXHIBIT 8

Realm National Insurance Company & AIM Presentation

November 22, 2002 – Friday

2 Hours, 15 Minutes

IMG International, Zurich Centre North, Hamilton, BDA

Meeting called by: Bill Yit

Attendees:

Max Re: Bill Yit, Senior Vice President; David Brining, Executive Vice President; Robert Cooney, President

Realm National Insurance Company, Mark Sioma

AIM: David Dennert-Smith, President; Bruce Holley, Steve Landis

Ubertimes Fidei Insurance Company, Francis Carter, President

IMG: Simon Everett, Chairman

Agenda

Item	Presenter	Time
❖ *Introduction*	David Dennett-Smith	20 - Minuets
➤ Financial Architecture and Capital Structure		
➤ Qualified accredited investor		
➤ PEO "Skin on the Fence"		
➤ Resulting effect on exposure within the client		
➤ Breakdown of escrow, collateral and adjustment agreements		
❖ *Overview of business relationship between Realm National Insurance Co. and AIM*		
❖ *Development of business relationships i.e. General Counsel, Bermuda facility management, information technology, claims*, actuarial		
❖ *Realm National Insurance Co*	➤ Mark Sioma	20 - Minuets
➤ Underwriting Management		
➤ Claims management of large cases		
➤ Claims auditing function		
➤ Accounting and Statutory function		
• Report to DOI's		
• Unit Stats – Madison Consulting		
• Filings – Madison Consulting		

JCH

Topic	Presenter	Time
Security Investigation Department ➤ Due Diligence to include credit reports, verification of banking records, criminal background checks ➤ Fully integrated with underwriting	David Dennett-Smith	10 - Minutes
AIM – Underwriting ➤ New clients are underwritten prior to coverage bound ➤ Class Codes, A.M. Bests Hazard Group ➤ Safety and Loss Control ➤ Continuous Audit capability	Bruce Holley	20 - Minutes
AIM/Realm National Ins. – Claims ➤ Crawford & Co. • Reserve and settlement authority • Will utilize AIM information system • Provide medical case management PPO • Fraud investigation	Steve Landin	20 - Minutes
AIM Information System ➤ Adelphi Policy Administration ➤ Web enabled ➤ Accessible by PEO for continuous audit function ➤ Freedom Accounting System ➤ Crystal Report Module	David Dennett-Smith/Reese Bowen	20 - Minutes
Conclusion	David Dennett-Smith	15 - Minutes

Additional Information

NKH

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IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

REALM NATIONAL INSURANCE COMPANY, STIRLING COOKE NORTH AMERICAN HOLDINGS, LTD. and ALPHASTAR INSURANCE GROUP LIMITED,

Plaintiffs,

v.

AMERICAN INSURANCE MANAGERS, INC., AMERICAN INSURANCE MANAGEMENT GROUP, INC. and ATLANTA INSURANCE MARKETING INC.,

Defendants.

CIVIL ACTION FILE

NO. 02-CV-10278 (RMB)

AFFIDAVIT OF BRUCE E. HOLLEY

PERSONALLY APPEARED before me, the undersigned officer duly authorized to administer oaths, BRUCE E. HOLLEY who, upon being sworn, does depose and say as follows:

1.

My name is Bruce E. Holley. I make this Affidavit of my own personal knowledge and for all legal purposes. I am over the age of eighteen (18), and suffer from no legal disabilities.

2.

At all times relevant hereto I have been an Vice President of Underwriting of American Insurance Managers Inc. (hereinafter referred to as "AIM").

3.

I have been continuously licensed since 1988 by the Georgia Department of Insurance to sell property, casualty and surety insurance. I am currently in good standing with the said Georgia Department of Insurance. Workers' Compensation insurance falls within the property and casualty

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designation. It was my understanding that from October 2, 2002 through December 4, 2002, AIM was a general agent for Realm National Insurance Company, Inc. (hereinafter referred to as "Realm") On or about September 16, 2002 I prepared and executed a Form GID 122a and sent it to Realm. This is the required form that is to be filed with the State of Georgia Department of Insurance authorizing me as an agent to sell insurance on behalf of Realm. No specific type of notification is sent by the Georgia Department of Insurance upon its receipt back from the insurance company. Therefore, in compliance with Realm's implied duty of good faith and fair dealing, and to comply with its obligations as contained in the letter of intent to seek regulatory approval for Realm to "use its best efforts" to assure that AIM would be authorized to sell insurance on behalf of Realm, I assumed that in the ordinary course of business Realm would complete its portion of Form GID 122a which I had forward to them and return it to the Georgia Department of Insurance. It was not until a meeting, which was held at the Georgia Department of Insurance on December 24, 2002, that it was brought to my attention by Mr. Steve Mander of the Georgia Department of Insurance that no such form had yet been filed with the Department by Realm.

4.

On November 8, 2002, a meeting was held in the offices of AIM. Present at that meeting were representatives of Crawford & Company, a third-party administrator; Mark Sioma, President of Realm; officers of AIM, including Steve Landin, Brian Imperiale and Tom Ross. Mr. Sioma, on behalf of Realm, agreed with AIM officers to engage the services of Crawford & Company to serve as the Third-Party Administrator to administer claims that would be incurred as a result of running the insurance program which we had embarked upon with Realm's knowledge and consent.

5.

After the meeting with Crawford & Company I met with Mr. Sioma in my office for a period

of approximately one (1) hour. During this meeting a discussion occurred regarding a wide range of issues, including but not limited to: who the current clients of AIM were; the states in which they resided; the class codes and hazard groups of insurance which had been written; the basic rating within each said group; the manner in which reporting to Realm would occur; the information Realm would need in order to set up a reporting system; how many policies had been issued; and, the claims history of each insured to make certain that the policies, which had already been written, had been done in accordance with the Underwriting Manual. This includes submissions by state, by client, payroll and payroll class, and loss ratio. Additionally, the initial draft of the Underwriting Manual was reviewed to make certain that Mr. Sioma clearly understood the underwriting guidelines, and that they were in accordance with guidelines for the program. Thereafter, a copy of the Underwriting Manual was provided to Mr. Sioma for him to take back with him to New York to his office. Additionally, discussions of the Adelphi computer system and its performance occurred. We specifically discussed uploading Realm's rates and rules, premiums, the system's ability to generate certificates, claims information and other data. Additionally, Realm has the ability to access the information over a T-1 line that we jointly agreed to install and share the cost. It was further agreed that Realm would have the ability to view claims reports from their location so that there would be an ability for all of the information to be held in one location and be able to access that information on a 24-hour, 7-days a week basis inasmuch as Realm did not have a computer system in its office capable of handling the matters set forth above. A sample copy of the underwriting data reviewed and approved by Mr. Sioma is attached hereto and incorporated herein as Exhibit "_".

6.

After having reviewed all of the information which I provided to him with regard to each of the clients, Mr. Sioma agreed that the existing book business was acceptable to Realm, that the

underwriting had been done in accordance with the guidelines contained in the Underwriting Manual, and that the coverage was appropriately bound in accordance with those guidelines.

7.

Because the type of program we devised had never been written before, it was agreed by Realm, AIM and Max Re that we needed to write approximately $50,000,000 in business so that Max Re would have an opportunity to run a model to determine how much premium to charge. Max Re further agreed that the reinsurance coverage could and would be effective from October 1, 2002, the starting date of the program. It was understood by all parties that until such time as the necessary book of business had been written, because of the AIM WCA business plan, there would be no way to determine an appropriate premium rate without an actual demographic spread.

8.

On December 24, 2002, AIM was required to appear before the Georgia Department of Insurance. I accompanied Mr. Dennett-Smith and Mr. Howard Becker, our attorney, to the meeting. As mentioned previously, this was the first time I became aware that Realm had not filed the GID 122a form referenced above. Mr. Becker engaged in a long discussion with Mr. Mander regarding the facts as we thought them to be regarding the transaction. Mr. Mander demanded to see any documents which we had in our possession which we believed supported our position, and many of the documents which I understand are being presented to the court in the instant matter were provided by Mr. Becker to Mr. Mander. It was during this meeting that Mr. Mander advised us that Realm was prohibited from writing business in Georgia. This was the first time that anyone from AIM became aware of this fact. Mr. Becker then showed Mr. Mander Realm's quarterly submission to the New York Department of Insurance. I recall Mr. Becker asking Mr. Mander if the prohibition against writing in Georgia should have been disclosed on either the June30, 2002 statement or the

September 30, 2002 statement, and Mr. Mander replied that in his opinion it should have been. Mr. Becker then went through the loan transaction documents with Mr. Mander. Ultimately, Mr. Mander decided the coverage that had been written in Georgia was bound, despite the fact that no agency agreement had been signed, that Realm had not returned the Form 122A, and that Realm was prohibited from writing new business in Georgia. Mr. Mander went on to tell us that it was not his job to determine whether we had an agency relationship with Realm. He told us that would be for a court to determine. He went on to state that he had called Realm and demanded that they appear on the Friday following Christmas. We also made him aware of the fact that the law firm of Alston & Bird was trying to negotiate a settlement of the dispute on our behalf.

9.

I am aware that we tried to call Mr. Taylor of Alston & Bird to tell him that the Georgia Department of Insurance was more than anxious to talk to Realm and wanted the matter settled by that following Friday. Mr. Taylor reportedly spoke with Mr. Crane on Friday morning. Mr. Crane advised him that because of a severe winter storm, no one had heard from Mr. Sioma. I called Mr. Mander to make him aware that we had tried to communicate his message to Realm, and was surprised to hear from Mr. Mander that he had already spoken to Mr. Sioma on several occasions that morning. I found it strange that Mr. Crane was telling our acquisition counsel Mr. Taylor that Mr. Crane could not locate Mr. Sioma to discuss an issue regarding reinsurance, but Mr. Sioma, whom I am told lives 5 blocks from Mr. Crane had already had several conversations with Mr. Mander in Georgia that same morning.

10.

I have had an opportunity to review the statements contained in the affidavit of Mr. Sioma regarding matters occurring on or about November 19, 2002 appearing in paragraphs 12 through 16

thereof. The issue described therein dealt specifically with a Texas PEO that had allowed a Florida PEO known as Equity Concepts to "piggyback". In the insurance industry, one PEO piggybacks on another PEO when it misrepresents itself as a customer of the fronting PEO, as opposed to a PEO seeking to procure worker's compensation coverage for its own customer base. Equity Concepts Inc. we determined is in the temporary personnel business, and would not have qualified to be in our program, as we only accommodate PEOs that employ permanent employees in our program. Additionally, in these paragraphs Mr. Sioma states that this was the first time that Realm became aware that AIM was issuing certificates showing Realm as the insurer. This simply is not the case as my prior statements contained herein reveal. Mr. Sioma was in my office and agreed to the coverages that we had bound. Any statement made by him to the contrary is simply untrue. Additionally, I was at the meeting held with Max Re in Bermuda on November 22, 2002. Mr. Sioma stated to the reinsurers that we had bound business of $10,000,000; that we had another $49,000,000 worth or submissions in house; that he had reviewed and approved the coverages that AIM had bound; and that AIM was an agent of Realm with authority to bind coverage on behalf of Realm.

11.

Additionally, I was present in the room when Mr. Sioma conversation with Stephen Crane on the morning of November 22, 2002 while we were in Bermuda regarding whether or not he should appear at the meeting with the reinsurers to be held that day. From what I could ascertain from listening to one side of the conversation, there has apparently been a dispute between Mr. Crane and Mr. Dennett-Smith over some feature of the deal for the acquisition. Mr. Dennett-Smith was on the phone and he and Mr. Crane spoke for approximately 5 minutes. Not once did I hear either Mr. Sioma or Mr. Dennett-Smith respond in any way to anything that remotely sounded like it pertained to the Texas PEO certificates or the Equity Concept issue. The conversation dealt primarily with deal

issues. When Mr. Dennett-Smith handed the phone back to Mr. Sioma, Mr. Sioma commented to Mr. Crane that the best way to resolve the issue was to pursue completion of transaction as quickly as possible, and it was decided after he made that statement to Mr. Crane that Mr. Sioma would appear at the meeting with Max Re that day. I have had an opportunity to review the meeting notes of Francis J. Carter who also attended the meeting, and they are true and correct and accurately reflect what occurred at the meeting. The reinsurers were especially interested in the relationship between AIM and Realm. Mr. Sioma confirmed to the reinsurers in my presence that AIM was an agent of Realm with authority to bind business on Realm's behalf and that the agreement would remain in place both prior to and subsequent to AIM's purchase of Realm.

//FURTHER AFFIANT SAYETH NOT//

BRUCE E. HOLLEY

Sworn to and subscribed before me
this 9th day of January, 2003.

Christine M. Samios
NOTARY PUBLIC

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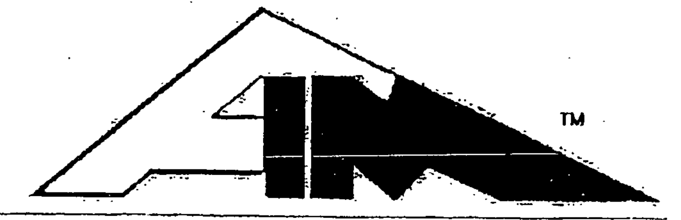

UNDERWRITING GUIDELINES

AND

CLIENT SELECTION PROCESS

- INSURANCE SOLUTIONS -

AMERICAN INSURANCE MANAGERS, INC.
3101 TOWERCREEK PARKWAY
SUITE 750
ATLANTA, GEORGIA 30339
PHONE: 800.888.2464 OR 770.980.0591 • FAX: 770.980.3290
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INTRODUCTION

American Insurance Managers, Inc. ("AIM") provides management services to insurance providers, employers, PEOs and associations. These services include underwriting, actuarial analysis, oversight of sales and marketing processes, preparation of policies, certificates of coverage, premium collection, administration, accounting, claims adjudication, medical management, and internet-based interactive functions. In the past, PEOs and associations have had poor track records due, in most all cases, to a lack of control. Underwriting has been careless, medical management has been passive, and growth has been poorly, if at all, controlled.

The market segment represents a potential of premium totaling billions of dollars annually. AIM is confident that with the correct application of stringent underwriting, strict limitation in the sales/marketing processes, early identification of potential problem, and the aggressive preventative management of any identified potential shock loss cases or complex medical problems will allow the establishment of a profitable, and sustainable program. The target penetration is not the total market available, but rather a reasonable percentage of that market, which meets or exceeds AIM's stringent requirements. It is estimated that this will comprise no more than 15% of the overall available market. The targeted premium for the first year is in excess of US$50,000,000. At first glance, this level of premium may appear aggressive, but AIM expects to turn away far more premium than that number. It is AIM's objective to establish a profitable long-term program for PEO's and affinity group Workers' Compensation.

To achieve the aforementioned goals, AIM will strictly adhere to approved classification codes per Addendum C and to the following criteria:

1) All Hazard Rating Index levels 9 and 10 will be excluded, except where there is a an identified class code (which is attached) that we deemed acceptable, and that code is only a very small portion of the overall book of business, and it can be

completely engineered prior to binding. Very close attention will be paid to the past loss reports and loss control.

2) Levels 5-8 will only be considered after thorough review of claims history, confirmation of an experience modification of less than 1.10 (exclusive of already incurred isolated, non-repeating shock-loss cases), completion of safety analysis and investigation, and full analysis of the location of the covered employees relative to the strength of AIM's network of claim service contracts.
3) No delegation of underwriting authority will be granted. AIM personnel will make all underwriting decisions, with the assistance of the underwriters at the Insurance Company. All binders will be mutually agreed upon between AIM personnel and the Insurance Company. AIM actuaries will oversee the rating guidelines and their application.
4) No PEO or association will be allowed to grant coverage to additional organizations or employers under any circumstances. All potential new business must be submitted to AIM for underwriting. Including the approval or denial of coverage, which will be agreed upon with the Insurance Company.
5) All applicants must submit no less than three years of claims history. Claims history will be electronically screened by AIM for potential "problem" employees utilizing a combination of AIM's proprietary database and public information, claims levels and/or frequency.
6) Applications will contain specific language requiring full disclosure and full cooperation with all aspects of the program (premium submission, group and individual adherence to the program requirements). Language will be included which will allow AIM to discontinue coverage for non-payment of premium upon legal notice for that State. It will require that the employer find new coverage or return to the state compensation fund for that individual state, cancellation shall also be allowed for the group or any individual within the group that does not comply with the management requirements of the program, or that any proof of fraudulent behavior or less than full disclosure is discovered.

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7) Aggressive education and management of any employers identified as potentially "non-compliant problems" during the underwriting process will be performed. This will include gathering of additional information, direct case manager interaction and provision of educational and corrective action plan materials.
8) Marketing of the program and acceptance for participation will be geographically limited to approximately 20 states or less. States that have historically adverse PEO histories will not be included. California employers (and employees of companies domiciled in states other than California who reside and work in California) will not be offered participation. Targeted areas include the Southeast, Upper Midwest, South Central, Mid Atlantic and Southwestern states with the heaviest concentrations of PEO business. AIM will only write business in states that the Insurance Company is licensed.

It is AIM's belief that the strict and unceasing application of the underwriting and management procedures detailed herein will lead to a profitable Workers' Compensation program for PEOs'. Premiums will be more than adequate – in fact, the vast majority of PEOs (which continue to grow in popularity in the United States) have little choice in the area of Workers' Compensation programs due to the paucity of available programs and the aforementioned history of poor control and management.

AIM utilizes highly skilled and experienced personnel to accomplish its management objectives; we have state-of-the-art software systems to assure that all the information that is necessary to assure comprehensive management of all potential sources of risk exposure is available. AIM recognizes that successful Workers' Compensation programs for PEOs and associations require a somewhat greater expenditure of effort, but also is quite certain that in today's market climate, increased returns are definitely within reach, making the diligence worthwhile.

UNDERWRITING GUIDELINES
AND
CLIENT SELECTION PROCESS

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CLIENT SELECTION PROCESS

Certain procedures are required for adding new clients to AIM's workers' compensation program.

All potential new clients must be pre-qualified based on the following standards set by AIM. The following is a summary of the pre-approval process:

- During the initial presentation, the PEO sales representative interviews the prospect, observes the work site and determines if management will be agreeable to the PEO philosophy.
- The sales representative collects data required as listed on the Proposal Data Sheet. This shall include SUTA Rate, Workers' Compensation Declaration Page, 3-year loss runs, OSHA 200 logs and NCCI classification rates including payroll and the number of employees.
- A Proposal Data Sheet must be filled out for every potential client. See example attached.

- The sales representative then forwards the Proposal Data Sheet, Workers' Compensation Declaration Page, loss runs, SUTA statement, OSHA 200 logs, the pricing sheet, a description of business and any other relevant information to AIM underwriting for review.

- Once received by AIM underwriting, the pertinent data will be reviewed and with the assistance of the Insurance Company, a final determination will be made on acceptance or declination will me made. If the potential client meets the criteria, a policy will be issued & billing will be added to the PEO's Account.

WORKERS' COMPENSATION OVERVIEW

- Risk Assessments must be performed on all prospected accounts and the risk assessment must be done prior to Acceptance in the Program. The risk assessments will be forwarded to AIM with all other related underwriting information. Risk levels are determined by using the Hazard Rating Index. That is attached.

- To determine the risk level AIM will use the Best's Hazard Rating Index. The risk will be rated out as 1-4 low, 5-8 mediums, 9-10 high/prohibited. Risks 1-4 (Low) are target class codes to write. 5-8 (medium) may be accepted after stringent underwriting. 9-10 (high) is not allowed to be prospected by PEO. Any risk that exceeds a, experience MOD of 1.1 is not allowed to be prospected by the PEO's.

- Any risk rated 1-8 and less than a 1.1 experience mod, can be prospected by the PEO, but must be approved by AIM and the Insurance Company before becoming a client of the PEO. If any information is missing or not able to be obtained by the PEO for prospective clients, we will deny that client. A full submission will consist of a completed Proposal Data Sheet, Acord 130, loss runs, OSHA 200 logs, completed risk assessment and certificate request form.

- PEO client files will be audited on a quarterly basis by AIM to determine compliance with AIM's Underwriting Guidelines. Any clients found that do not comply with AIM's Underwriting Guidelines will be cancelled or non-renewed.

Workers' Compensation risks fall into three categories:

- LOW – Experience Mod under a 1.0 %; workers' comp. premiums below $10,000; three-year loss runs and falls into the "Best" underwriting guidelines as a low risk 1-4. This class will comprise the target list.
- MEDIUM – Experience Mod less than a 1.1%, workers' comp. premiums about $10,000; and falls in the hazard-rating index as a medium risk 5-8. Must have a minimum of three-year loss runs.
- HIGH/PROHIBITED – Rated as a 9-10 on hazard rating index, or exceeds a 1.1 experience mod. Not allowed to be prospected by PEO.

CLIENT REVIEW PROGRAM

A client review program has been put in place for all AIM clients to follow. This will insure that the PEO's clients stay profitable. This program consists of a review of the client's loss ratios, claim frequencies, safety claims, and NCCI classification. A threshold level will be determined which will initiate any action that should to be taken on the client. This can include but is not limited to a safety inspection, loss control audit, and/or classification audit of the client facility. If recommendations are made to the client, they should be documented and a deadline set for a response on the corrective action needed. If corrective action is not implemented, or the client is not receptive to recommendations in the set timeframe, the client rates may be raised or they could be terminated for underwriting reasons or the client review program will be done on a monthly basis.

Loss Ratio – AIM will set the loss ratio threshold at 50% for any client. If this is exceeded, a loss control representative will visit the client. A recommendation letter will be sent to the client with a time limit for corrective action to take place. Loss ratios will be determined by dividing total incurred by earned premium to date.

As an example, if the incurred is $50,000 and earned premium total is $80,000, then a 63% loss ratio results. As this client exceeds the target threshold, a loss control audit would be required. AIM will create and utilize a profitability spreadsheet based on the items below. AIM will set up a spreadsheet for all clients that have incurred claims to calculate profit or loss. The spreadsheet is updated daily and premium calculated on a monthly basis as calculated by a profitability analysis of clients, which will also be used to trigger loss control surveys.

COMPANY	INJURED	DATE	INCURRED	BILL/PREM.	COST/PREM.	PREM./PROF.	PROF./LOSS	LOSS RATE
XYZ								
	Tom Jones	1/3/00	23,000					
	Mike Smith	1/5/00	1,200					
	Total		24,200	40,000	25,000	15,000		

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Claims Frequency – Please note the methodology used in the calculation of claims frequency.

Frequency rates are calculated as follows:

1. # Of injuries x 200,000 /employee hours worked = Frequency rate
2. The 200,000 hours in the formula represents 100 employees working 40 hours per week, 50 weeks per year. Hours worked should not be based on non-timework (i.e. vacation, sick leave or holidays).
3. XYZ Company has 10 employees that worked 40 hours a week for 4 weeks = 1,600 hours
4. They had 1 injury that month.
5. (1 x 200,000)/1,600 = 125% frequency rate
6. 2nd month they had 0 injuries
7. (1 x 200,000/3,200 = 62.5% frequency rate

Any client having a claim frequency of greater than 30% in one month will have reached a threshold, which triggers further investigation. The report will be on an "accrual" basis (i.e. man-hours will be added as each month passes). If a greater than 30% claims frequency is noted, a control survey of the client will be performed on-site to assess the reason for increased losses. A detailed review will be done and a corrective action plan will be sent to the client with a time limit.

(Safety Issues) – All high to medium risk clients as defined by "Best's Underwriting Guidelines" will be inspected by a loss control representative on a monthly basis to insure that they are making all necessary efforts to minimize loss exposure. All inspections will be documented and recommendation letters will be forwarded to client detailing the corrective actions required. A deadline will be set for each recommendation and failure to comply could result in cancellation. Low risk clients will be visited on an annual basis unless required due to frequency rate. Any shock loss or severe injury will trigger an immediate loss control survey.

(Claim Reporting Issues) – Any accident reported by a client greater than 48 hours after an injury occurs, will require a visit by a loss control representative to determine reasons for late reporting. To ensure proper reporting procedures will be followed, a recommendation letter will be sent to client and a response will be required within a specified time period. Failure to comply with the recommendation letter in the approved time could result in cancellation.

(NCCI Classification Issues) – All clients visited on a monthly or annual basis will be audited by the loss prevention consultant for proper NCCI classification. Randomly selecting a number of employees on-site and observing their job functions will accomplish this goal. Comparison of their job functions to the classifications they were assigned when they were hired as an employee will be performed. AIM will also check to assure that the company as a whole was assigned to the proper classification on the first visit to the client. This may be done when a risk assessment is required prior to proposal. If client is not required to have a risk assessment at proposal, due to low risk classification, an audit will be done within 30 days of the company becoming a client. If the classification is wrong, the proper codes will be assigned and client notified of new rates and classification.

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RISK ASSESSMENT FORMS

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Risk Assessment Evaluation Forms

Name of Company:	
Address:	
Date of Survey:	Telephone No.:
Contacts:	
Surveyed By:	

EVALUATION	BASIS OF EVALUATION
_____ Acceptable	
_____ Unacceptable	

TYPE OF BUSINESS:	DESCRIPTION OF PRODUCT/SERVICE
TIME IN BUSINESS:	

MANAGEMENT:

Years experience managing this company?
Years experience in this type of industry?
Describe past management activities that demonstrate commitment to a safety program:
Evaluation of management receptivity to your recommendations:

EMPLOYEES:

Number of Employees:	Full-time:	Part-time:

LOCATION/DEPARTMENT	# OF EMP.	DEPARTMENT	# OF EMP.

Number 65 years old or over:		Duties of this age group:
Percent of turnover:		Positions with high turnover:
Any seasonal fluctuation:		If yes, what positions?

CONFIDENTIAL UNDERWRITING SURVEY REPORT (Continued)

HIRING AND SCREENING PRACTICES:

	YES	NO		YES	NO
Emp. application?			Medical history questionnaire?		
Pre-placement physical exam?			Drug screening?		

TRAINING AND SUPERVISION OF EMPLOYEES:

	YES	NO	COMMENTS
Written work procedures?			
Performance evaluations			
Positive behavior reinforcement			
Disciplinary policy			

SAFETY PROGRAM:

	YES	NO	COMMENTS
Safety Director/Committee			
Facility inspections			
Job safety analysis			
Accident investigations			
Safety rules			
Hazard Communication Program			
Lockout/Tagout procedure?			
Forklift/vehicle oper. Train?			
Hearing Conservation Prog.?			
Lifting and handling pract?			

PERSONAL PROTECTIVE EQUIPMENT:

	YES	NO	COMMENTS
Hard hats?			
Safety glasses/goggles, face shields, etc.?			
Gloves?			
Safety shores/boots?			
Hearing protection?			
Seat belt policy?			
Respirators/dust masks?			

MACHINERY AND EQUIPMENT:

	YES	NO	COMMENTS
Proper guarding of machinery & equipment?			
Preventative maintenance program?			
Machinery & equipment in good condition?			
Forklift trucks adequate and maintained?			
Cranes & hoists well maintained?			
Hand & power tools maintained?			

CHEMICAL HAZARDS:

	YES	NO	COMMENTS
Proper storage practices of flammable/combustible liquids?			
Adequate ventilation and gume removal systems provided?			
Proper protection for handling chemicals?			

CUMULATIVE TRAUMA DISORDERS:

RISKS:	LOW	MODERATE	HIGH
Explain source of disorders and any ergonomic controls:			

OTHER EXPOSURES:

HAZARD	COMMENTS
Height Exposure	
Aircraft	
Watercraft	
Use of sub-contractors	

THREE-YEAR LOSS ANALYSIS:

YEAR	# OF CLAIMS	COST	MAJOR LOSSES-TYPES

Explain any accident trends:

VEHICLE OPERATIONS:

NO.	TYPE	NO.	TYPE
No. Drivers:		Radius of Operations:	

Explain any accident trends:

Safety activities:

General comments:

RECOMMENDATION SUMMARY:

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HAZARD RATING INDEX

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HAZARD RATING INDEX

Hazard is averages across all WC codes within an NCCI class code

1-4 LOW TARGET
5-8 MEDIUM
9-10 HIGH/PROHIBITED

N.C.C.I Class Code	A.M. Best Hazard	Description
0005	6	Farm – Nursery Employees & D
0008	9	Farm – Vegetable & D
0016	8	Farm – Orchard & D
0034	8	Farm – Egg Producer & D
0035	8	Farm – Vegetable Growing – Hydroponics' & D
0036	8	Farm – Dairy & D
0037	9	Farm – Field Crops & D
0042	6	Landscape Gardening & D
0050	10	Farm Machinery Operation & D
0059	10	For Reporting Disease Experience in Connection with Abrasive or Sand Blasting (n/a in NJ, NY, TX)
0065	10	Reporting Disease Experience in Connection with Incidental Foundries – steel (not NY, NJ, TX)
0066	10	Reporting Disease Experience in Connection with Incidental Foundries – non ferrous metals (not NY, NJ, TX)
0067	10	For Reporting Disease Experience in Connection with Incidental Foundries – Iron
0079	8	Farm: Berry & D
0083	9	Farm: Cattle Raising NOC & D
0088	10	Aircraft Operations for Reporting Passenger Seat Surcharge and Crash Losses to Employees Other than
0106	8	Tree Pruning & D
0113	6	Farm: Fish Hatchery & D
0169	8	Farm: Goat Raising & D
0170	8	Farm: Animal Raising & D
0251	6	Irrigation Works Operation & D
0301	7	Turpentine Farm and Drivers
0400	7	Cotton Compressing & D
0401	9	Cotton Gin Operation & Local Managers, D
0544	4	Special PA code
0790	10	Trucking – hauling explosives

0908	6	Domestic Workers – Inside – Occasional
0909	6	Private Res- Occ. Out servants
0912	6	Domestic Workers – Outside – Including Private Chauffeurs
0913	6	Domestic Workers – Inside
0917	6	Domestic Service Contractor
1016	N/A	Black Lung Additional Coverage – not incidental to coal mining
1164	9	Mining NOC – Underground & D
1165	9	Mining NOC – Surface & D
1218	9	Phosphate Mining & D
1320	8	Gas Lease Operator – Natural All Operations & D
1322	10	Oil or Gas Well – Cleaning Old Well & D
1429	9	Magnesium Metal Mfg. – NOC - & drivers
1430	10	Lead Mfg. & D
1438	10	Calcium Carbide Mfg. & D
1452	9	Ore Milling & D
1463	9	Asphalt Works & D
1470	8	Coke Mfg. & D
1472	8	Alcohol Mfg. – Wood & D
1604	9	Quarry – dimension stone – incl. DC&H
1624	9	Quarry NOC & D
1642	9	Lime Mfg.
1654	9	Quarry – Cement Rock & D
1655	9	Lime Mfg. – Quarry – Surface & D
1699	6	Rock Wool Mfg.
1701	8	Cement Mfg.
1710	8	Stone Crushing & D
1741	9	Flint Grinding & D
1745	8	Soapstone Mfg.
1747	9	Clay Milling & D
1748	10	Abrasive Wheel Mfg. & D
1803	10	Stone Cutting NOC & D
1852	10	Asbestos Goods Mfg.
1853	7	Mica Goods Mfg
1860	10	Abrasive Paper Preparation
1924	7	Cable Mfg – Not Iron or Steel
1925	10	Die Casting Mfg
2001	5	Cracker Mfg
2002	5	Macaroni Mfg
2003	5	Bakery & D, Route Supervisors
2014	8	Grain Milling
2016	5	Breakfast Food Mfg
2021	6	Molasses Refining, Blending or Mfg
2030	7	Beet Sugar Mfg
2039	5	Ice Cream Mfg & D
2041	5	Confection Mfg

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2063	6	creameries and dairies
2065	5	Condensed Milk Mfg
2070	6	Dairy or Creamery & Route Supervisors, D
2081	9	Butchering
2089	8	Packing House – All Operations
2095	7	Meat Products Mfg. NOC
2101	6	Fish Curing
2105	6	Fruit Packing
2110	5	Pickle Mfg
2111	7	Cannery NOC
2112	5	Fruit Preserving
2114	7	Clam Digging
2121	5	Brewery & D
2130	7	Alcohol Mfg – Grain – All Operations
2131	7	Spirituous Liquor Bottling
2143	7	Fruit Juice Mfg
2150	5	Ice Mfg
2156	5	Bottling – Not Carbonated Liquids & Route Supervisors, D
2157	5	Beverage Mfg – NOC & Route Supervisors, D
2163	5	Bottling
2172	5	Cigarette Mfg
2174	6	Tobacco Warehousing
2177	7	Cigar Mfg
2211	8	Cotton Batting Mfg
2220	7	Linen Cloth Mfg
2260	8	Wool Combing or Scouring (n/a in CA, MI and NJ)
2286	8	Wool Spinning or Weaving
2388	5	Embroidery Mfg
2402	8	Carpet Mfg NOC
2413	6	Textile Finishing
2416	4	Thread Dyeing or Finishing
2417	6	Cloth Printing
2501	6	Cloth Mfg
2503	5	Dressmaking – Custom
2532	6	Millinery Mfg.
2534	5	Feather Mfg
2560	5	Umbrella Mfg. (n/a in CA, MI)
2570	6	Box Spring Mfg
2576	6	Awning Mfg – Shop
2578	6	Bag Mfg – Cloth
2585	6	Carpet Cleaning & D
2586	6	Cleaning & Route Supervisors, D
2587	6	Toilet Supply Co & Route Supervisors, D
2589	6	Dry Cleaning Store – Retail - & Route Supervisors, D
2600	9	Fur Mfg

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2623	8	Hatters' Fur Mfg
2651	7	Shoe Finding Mfg
2660	7	Boot Mfg NOC
2670	6	Glove Mfg – Leather or Textile
2683	6	Luggage Mfg
2688	6	Pocketbook Mfg
2702	10	Logging or Lumbering & D
2705	10	Logging or Lumbering – pulpwood only - & driver
2710	10	Sawmill
2714	6	Veneer Mfg
2719	10	Logging or Lumbering – mechanized harvested exclusively - & drivers
2731	10	Planning or Molding Mill
2735	6	Furniture Stock Mfg
2741	7	Last Block Mfg
2747	8	Barrel Assembly
2759	8	Box or Box Shook Mfg
2763	8	Trunk Mfg
2766	8	Box Mfg – Cigar – Wood
2790	6	Last Mfg
2791	5	Unknown
2802	7	Carpentry – Shop only - & D
2806	7	door, sash, window mfg
2812	6	Cabinet Works – with Power Machinery
2816	6	Cabinet Works – with Power Machinery
2835	5	Brush or Broom Assembly
2836	5	Brush or Broom Mfg NOC
2841	5	Brush or Broom Handle Mfg
2881	5	Cabinet Works – No Power Woodworking Machinery
2883	6	Furniture Mfg – Wood – NOC
2913	6	Rattan Products Mfg
2915	8	Plywood Mfg – Including Veneer Mfg
2916	7	Plywood Mfg- No Veneer Mfg
2923	6	Musical Instrument Mfg – Wood- NOC
2942	5	Penholder Mfg
2960	8	Pole Yard & D
3004	10	Iron or Steel – Mfg- Steel Making- Electric Furnace or Crucible - & D
3017	10	Iron or Steel – Mfg- Rolling Mill doubling
3018	10	Iron or Steel – Mfg- Rolling Mill NOC & D
3022	8	Pipe Mfg NOC & D
3027	10	Rolling Mill NOC & D
3028	8	Pipe or Tube Mfg – Iron or Steel Works- Shop Structural - & D
3030	8	Iron or Steel–Fabrication–Iron or Steel Works–Shop Structural - & D
3040	7	Iron or Steel–Fabrication-Iron Works-Shop-Decorative & Foundries,
3041	7	Iron or Steel – Fabrication – Iron Works – Shop- Decorative & Foundries, D

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3042	8	Elevator Mfg
3060	7	Door, Door Frame or Sash Mfg
3064	6	Sign Mfg – Metal
3066	7	Door Mfg - Wood- Metal Covered
3076	6	Furniture Mfg – Metal
3079	8	building mfg – portable
3081	10	Foundry – Ferrous - NOC
3082	10	Foundry
3085	10	Foundry – Nonferrous
3091	7	Enameled Ironware Mfg
3093	8	Pipe Mfg. – cast iron (n/a in CA, MI)
3099	7	Tool mfg NOC
3110	7	Chain Mfg – Forged
3111	8	Blacksmith
3113	6	Tool Mfg – Not Drop or Machine Forged – NOC
3114	7	Tool Mfg – Drop or Machine Forged – NOC – Machining Tools or Die Making
3117	7	File Mfg
3118	6	Saw Mfg
3119	4	Pen Point Mfg
3122	6	Cutlery Mfg NOC
3126	7	Tool Mfg
3131	6	Button Mfg – Metal
3132	6	Spike Mfg
3145	6	Automatic Screw Machine Products Mfg
3146	7	Hardware Mfg NOC
3152	5	Nail mfg
3169	6	Stove Mfg
3175	6	Heater Mfg
3179	6	Electrical Apparatus Mfg NOC
3180	6	Electrical Light Fixtures Mfg
3186	6	lamp shade mfg
3188	7	Plumbers Supplies Mfg NOC
3220	6	Can Mfg
3223	6	Auto Lamp Mfg
3224	7	Agate Ware Mfg
3227	7	Aluminum Ware Mfg
3240	7	Cable Mfg – Iron or Steel
3241	7	Wire Drawing – Iron or Steel
3255	7	Wire Cloth Mfg
3257	7	Wire Goods Mfg NOC
3270	5	Nail Mfg
3300	6	Bed Spring Mfg
3303	7	Spring Mfg
3307	8	Heat – Treating

3315	7	Brass Goods Mfg
3316	7	Cartridge Case or Shell Case Mfg. – metal (n/a in CA)
3334	7	Tinfoil Mfg
3336	10	Castings Mfg – Metal- Lost Wax Process
3365	7	Welding NOC & D
3372	7	Detinning
3373	8	Galvanizing
3383	4	Gold Leaf Mfg
3385	5	Clock Mfg
3400	7	Metal Gods Mfg NOC
3507	6	Safe Mfg or Repairing
3515	6	Textile Machinery Mfg
3516	6	Loom Harness Mfg
3548	6	Arms Mfg NOC
3559	6	Confection Machine Mfg
3565	6	Typewriter Mfg
3574	10	Explosives or Ammunition Mfg – Cartridge Mfg or Assembly
3581	7	Carburetor Mfg
3612	7	Engine Mfg NOC
3620	9	Boilermaking
3629	5	Precision Machine Parts
3632	6	Machine Shop NOC
3634	6	Valve Mfg
3635	7	Gear Mfg or Grinding
3638	5	Ball Bearing Mfg
3642	10	Battery Mfg – Dry
3643	6	Electric Power Equipment Mfg
3647	10	Battery Mfg – Storage
3648	7	Automotive Lighting, Ignition or Starting Apparatus Mfg NOC
3681	5	Telephone Apparatus Mfg
3685	4	Instrument Mfg NOC
3719	10	Oil Still Erection or Repair
3724	9	Gas or Oil Burner Installation NOC & D
3726	10	Boiler Installation of Repair
3803	7	Automobile Wheeled Mfg
3807	7	Automobile Radiator Mfg
3808	8	Wagon Mfg or Assembly
3821	9	Automobile Dismantling & D
3822	8	Automobile, Bus, Truck or Trailer Body Mfg – Die Pressed Steel
3823	7	Automobile Body Mfg.- riveted, arc or acetylene welded (n/a in CA)
3824	8	Automobile, Bus, Truck or Trailer Body Mfg – NOC
3826	7	Aircraft Engine Mfg
3827	7	Automobile Engine Mfg
3830	7	Airplane Mfg
3851	7	Motorcycle Mfg or Assembly

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3865	6	Bicycle Mfg or Assembly
3881	9	Car Mfg – Railroad - & D
4000	7	Gravel Digging & D
4021	8	Brick Mfg NOC & D
4024	8	Brick Mfg – Fire or Enameled - & D
4034	6	Coffin and Casket Mfg and Installation – Concrete *D
4036	6	Plasterboard Mfg & D
4038	6	Dress Form Mfg
4053	7	Terra Cotta Mfg
4061	7	Pottery Mfg – Earthenware – Hand Molded or Cast
4062	7	Pottery Mfg – Porcelain Ware – Press Forming
4101	8	Glass Mfg – Polished Plate & D
4111	8	Glassware Mfg – No Automatic Blowing Machines
4112	8	Incandescent Lamp Mfg
4113	8	Glass Mfg – Cut
4114	8	Glassware Mfg NOC
4130	.5	Glass Merchant
4131	8	Mirror Mfg
4133	8	Cathedral Window Mfg
4150	5	Computer Chip Mfg
4206	9	Pulp Mfg – Ground Wood
4207	9	Pulp Mfg – Chemical
4239	8	Particleboard Mfg
4240	6	Box Mfg – Set – Up Paper
4243	6	Box Mfg – Folding Paper – NOC
4244	8	Corrugated Container Mfg
4250	7	Paper Coating
4251	5	Loose – Leaf Ledger Mfg
4263	6	Fiber Goods Mfg
4273	6	Bag Mfg – Paper
4279	5	Wallpaper Mfg
4282	6	Dress Pattern Mfg
4283	7	Building Paper Preparation
4299	5	Printing
4301	5	Wallpaper Mfg
4304	5	Newspaper Publishing
4307	5	Bookbinding
4308	5	Linotype Composition
4313	5	newspaper publishing
4350	5	Electrotyping
4351	2	Photoengraving
4352	4	Engraving
4360	7	Motion Picture – Development of Negatives and all Subsequent Operations
4361	4	Photographer – All Employees & Clerical, Salespersons, D

4362	4	Motion Picture – Film Exchange & Clerical
4400	8	Rubber Reclaiming
4410	7	Rubber Goods Mfg NOC
*4417	7	Boot Mfg- Rubber
4420	8	Rubber Tire Mfg
4431	5	Phonograph Record
4432	5	Fountain Pen Mfg
4439	8	Lacquer Mfg
4452	6	Plastic or Paper Bag Mfg
4459	9	Pyroxylin Mfg
4470	7	Cable Mfg – Insulated Electrical
4478	6	Plastic goods mfg
4479	6	Button Mfg NOC
4484	6	Plastic Mfg – Laminated Molded Products NOC
4493	8	Fabric Coating NOC
4511	4	Analytical Chemist
4536	10	Acid Mfg
4557	5	Wax Mfg
4558	8	Painting Mfg
4561	8	Varnish Mfg – Oleo resinous
4568	7	Borax Producing or Reining & D
4581	10	Phosphate Works & D
4583	10	Fertilizer Mfg & D
4586	10	Ammonium Nitrate Mfg (n/a in NJ)
4611	8	Drug Preparation
4635	8	Acetylene Gas Mfg & D
4653	7	Glue Mfg & D
4665	9	Rendering Works NOC & D
4670	7	Cottonseed Oil Mfg – Mechanical & D
4683	8	Lard Refining
4686	7	Oil Mfg – Vegetable – Solvent Extraction Process
4692	2	Dental Laboratory
4693	5	Surgical Goods Mfg NOC
4703	6	Corn Products Mfg
4710	7	Candle Mfg
4717	7	Butter Substitute Mfg
4720	8	Soap Mfg
4740	10	Gasoline Recovery & D
4741	10	Asphalt Distilling or Refining & D
4750	8	Synthetic Rubber Mfg
4751	8	Synthetic Rubber Mfg
4800	10	Chemical and Dyestuff Rating Plan
4801	10	Chemical and Dyestuff Rating Plan
4802	10	Chemical and Dyestuff Rating Plan
4803	10	Chemical and Dyestuff Rating Plan

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4804	10	Synthetic Rubber Intermediate Mfg
4805	10	Chemical and Dyestuff Rating Plan
4806	10	Chemical and Dyestuff Rating Plan
4808	10	Chemical and Dyestuff Rating Plan
4809	10	Chemical and Dyestuff Rating Plan
4810	10	Chemical and Dyestuff Rating Plan
4811	10	Ammonium Nitrate Mfg
4812	10	Ammonia Mfg
4813	10	Chemical and Dyestuff Rating Plan
4814	10	Chemical and Dyestuff Rating Plan
4815	10	Acid Mfg
4816	10	Chemical and Dyestuff Rating Plan
4817	10	Chemical and Dyestuff Rating Plan
4818	10	Chemical and Dyestuff Rating Plan
4819	10	Chemical and Dyestuff Rating Plan
4820	10	Chemical and Dyestuff Rating Plan
4821	10	Chemical and Dyestuff Rating Plan
4822	10	Chemical and Dyestuff Rating Plan
4823	10	Chemical and Dyestuff Rating Plan
4825	7	Licorice Extract Mfg
4826	10	Chemical Mfg
4828	10	Chemical Blending/Mixing
4829	10	Chemical Mfg NOC
4860	10	Chemical and Dyestuff Rating Plan
4861	10	Chemical and Dyestuff Rating Plan
4862	10	Chemical and Dyestuff Rating Plan
4863	10	Chemical and Dyestuff Rating Plan
4864	10	Chemical and Dyestuff Rating Plan
4865	10	Chemical and Dyestuff Rating Plan
4866	10	Chemical and dyestuff Rating Plan
4867	10	Chemical and Dyestuff Rating Plan
4868	10	Chemical and Dyestuff Rating Plan
4869	10	Chemical and Dyestuff Rating Plan
4870	10	Chemical and Dyestuff Rating Plan
4871	10	Chemical and Dyestuff Rating Plan
4872	10	Chemical and Dyestuff Rating Plan
4873	10	Chemical and Dyestuff Rating Plan
4874	10	Chemical and Dyestuff Rating Plan
4875	10	Chemical and Dyestuff Rating Plan
4876	10	Chemical and Dyestuff Rating Plan
4877	10	Chemical and Dyestuff Rating Plan
4878	10	Chemical and Dyestuff Rating Plan
4879	10	Chemical and Dyestuff Rating Plan
4880	10	Chemical and Dyestuff Rating Plan
4881	10	Chemical and Dyestuff Rating Plan

4882	10	Chemical and Dyestuff Rating Plan
4883	10	Chemical and Dyestuff Rating Plan
4902	6	Sporting Goods Mfg NOC
4923	6	Recording Tape or Disk Mfg
5020	7	Ceiling Installation – Suspended Acoustical Grid Type
5022	7	Masonry NOC
5037	10	Painting – Metal Bridges & D
5040	10	Iron or Steel – Erection – Bridges
5057	10	Iron or Steel – Erection – NOC
5059	10	Iron or Steel – Frame Structures Not over 2 Stories
5069	10	Iron or Steel – Erection – Construction of Dwellings Not over 2 Stories
5102	7	Door Erection
5140	6	Electrical Wiring
5146	6	Fixtures Installation – NOC
5160	8	Elevator Erection / Repair
5183	8	Plumbing Contractor
5188	9	Automatic sprinkler install & D
5190	6	Electrical wiring w/in bldgs & D
5191	4	Office Machine Install / service / repair
5192	5	Vending Machines – Installation, Service or Repair & Salespersons, D
5200	8	Cement Work
5213	8	Concrete Construction NOC
5215	8	Concrete Work – Construction of Residence
5221	7	Paving or Repaving - & D
5222	10	Concrete Construction Bridges or Culverts
5223	7	Swimming Pool Construction - & D
5348	6	Stone Setting
5402	6	Greenhouse Erection – All Operations
5403	8	Carpentry NOC
5437	5	Carpentry – Installation Cabinet Work Interior Trim
5443	6	Lathing & D
5445	6	Sheetrock Installation & D
5462	5	Glazier – Away from Shop & D
5463	6	Plastering NOC
5472	10	Asbestos Contractor – Pipe and Boiler Work Exclusively & D
5473	10	Asbestos Contractor NOC & D
5474	7	Painting or Paper Hanging NOC & D
5479	10	Insulation Work NOC & D
5480	6	Plastering NOC & D
5491	6	Paperhanging & D
5506	7	Airport Construction & D – Paving
5507	7	Street or Road Construction – Subsurface Work & D
5508	7	Street or Road Construction – Rock Excavation & D
5509	6	Street Maintence

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5521	6	Mosaic Work
5536	8	Air-Conditioning Systems – Nonportable: Ductwork – shop and Outside & D
5538	8	Sheet Metal Work – NOC & D
5545	10	Roofing NOC
5547	10	Roofing – Built – Up Roofing
5551	10	Roofing – All Kinds & D
5606	5	Contractor – Executive Supervisor or Construction Superintendent
5610	8	Cleaner – Debris Removal
5645	7	Carpentry – Detached Dwellings
5651	8	Carpentry – Dwellings – 3 stories or less
5701	10	Wrecking Building or Structures – not marine- includes salespersons or clerical
5703	8	Building Raising or Moving & D
5705	8	Salvage Operation – No Wrecking
5951	8	Antitoxin Mfg & D
5961	8	Serum Mfg & D
6003	10	Construction Elevator or Hod Hoist Installation, Repair or removal & D Piers or Wharfs
6005	8	Breakwater Construction – All Operations & D
6017	8	Dam or Lock Construction – Concrete Work – All Operations
6018	8	Dam or Lock Construction – Earthmoving – All Operations & D
6045	10	Levee construction – All operations & D
6204	10	Drilling NOC & D
6206	10	Oil or Gas Well – Acid zing – All Employees & D
6213	10	Oil or Gas Well – Specialty Tool Operation NOC – by Contractor – All Employees & D
6214	10	Oil or Gas Well: Perforating of Casings – All Employees & D
6216	9	Gas Lease Work – NOC- Natural – By contractors & D
6217	8	Grading of Land NOC & D
6219	8	Excavation NOC & D
6229	7	Irrigation System Construction & D
6233	9	Oil or Gas Pipeline Construction & D
6235	10	Drilling Oil Wells & D
6236	10	Oil or Gas Well – Installation of Casting & D
6237	7	Oil or Gas Well – Instrument Logging or Survey Work & D
6251	9	Tunneling – Not Pneumatic – All Operations
6252	9	Caisson Work – All Operations
6260	10	Tunneling – Pneumatic – Al Operations
6306	9	Sewer Construction – All Operations & D
6319	9	Gas Main Construction & D
6325	6	Conduit Construction – for cable or wires - & D
6400	6	Fence Erection – Metal
6504	5	Food Sundries Mfg NOC
6525	9	Cofferdam Work – Not Pneumatic – All Operations to Completion

6801	10	Boat Building – Wood – NOC & D – U.S. Act
6811	10	Boat Building – Wood – NOC – State Act Only
6824	10	Boat Building – or repair & drivers
6826	7	Marina & D – U.S. Act
6827	10	Marine Railway Operation & D – U.S. Act
6834	10	Boat Building or Repair & D
6836	7	Marina & D – State Act Only
6838	10	Boat Bldg or Repair – fiberglass only
6843	10	Shipbuilding – Iron or Steel- NOC & D – State Act
6845	10	Shipbuilding – Naval & D
6854	10	Shipbuilding – Iron or Steel – NOC & D – State Act only
6872	10	Ship Repair or Conversion – All Operations & D – U.S. Act
6874	10	Painting – Ship Hulls- U.S. Act
6882	10	Ship Repair Conversion – All Operations & D – State Act only
6884	10	Painting Ship Hull – State Act only
7024	10	Vessels – NOC- Program II – State Act
7038	10	Boat Livery – Boats under 15 Tons- Coverage Admiralty Law: Program I
7039	10	Fishing Vessels NOC – Coverage under admiralty Law: Program 1
7046	10	Vessels: Barges, scows, canal boats or lighters – not self – propelled
7050	10	Boat Livery – Boats under 15 Tons- Coverage under Admiralty Law: program I
7051	10	Fishing Vessels NOC – Coverage under Admiralty Law: Program II USL&W Act Benefits
7089	10	Vessels – Yachts private
7090	10	Boat Livery- Boats under 15 Tons – Coverage under Admiralty Law: Program II – State Act Benefits
7091	10	Fishing Vessels NOC – Coverage under admiralty: Program II – State Act Benefits
7098	10	Vessels – Barges, scows, canal boats or lighters – not self-propelled
7099	10	Vessels – not self – propelled – Program II
7133	10	Railroad Operation- NOC – All Employees & D
7134	10	Railroad Operation: All employees include drivers Program II State Act only
7196	10	truckmen – hauling liquid in tank trucks
7197	6	trucking packages / parcels
7198	6	Parcel delivery
7201	8	Livery or Boarding Stable
7204	8	Greyhound Breeding / training / racing
7205	8	Drivers and helpers, NOC
7219	10	Trucking – NOC – All Employees & D
7222	10	Trucking – Oil Field Equipment – All Employees & D
7228	10	Trucking – local only
7229	10	Trucking – long distance
7230	6	Trucking – Parcel Delivery – All Employees & D

7231	6	Trucking – Mail, Parcel, or Package Delivery – All Employees & D
7232	6	Trucking – Mail, Parcel, or Package Delivery – under contract with the U.S Postal Service All Employees
7309	10	Stevedoring NOC
7313	10	Coal Dock Operation & Stevedoring
7317	10	Stevedoring – by hand or hand Trucks Exclusively
7323	10	Stevedoring – Explosive Materials
7327	10	Stevedoring – Containerized Freight & D
7350	10	Freight Handling – Explosives or Ammunition – under contract – U.S. Act
7359	7	railroad ops
7360	9	Freight Handling – Explosives or Ammunition – under contract – State Act only
7370	9	Ambulance Service Companies – All other Employees & D
7380	8	Drivers NOC
7382	7	Bus Company – All other Employees & D
7383	7	College or School – bus drivers
7390	8	Ale Dealer – Wholesaler & D
7394	10	Diving – Marine – Coverage under Admiralty Law: program I
7395	10	Diving – Marine – Coverage under Admiralty Law: Program II- State Act Benefits
7396	7	Automobile Bus Ops & D
7398	10	Diving – Marine- Coverage under Admiralty Law: Program II – USL&HW Act Benefits
7403	10	Aircraft Ops – commuter flights, except flight crew
7405	10	Air Carrier – Scheduled or Supplemental
7409	10	Aerial Application: Flying Crew
7418	10	Aircraft Patrol, photography
7420	10	Aircraft or Helicopter Operation – Forest Fire Fighting
7421	10	Aircraft: Transportation of Personnel
7422	10	Aircraft: Flight Testing by Manufacturer
7423	9	Airport or Heliport Operation – All Employees & D
7425	10	Aircraft: Helicopters NOC
7428	10	aircraft ops – nonflight crew
7431	10	Air carrier – Commuter
7502	7	Gas Company – Natural – Local Distribution & D
7515	7	Oil or Gas Pipeline Operation & D
7520	7	Waterworks Operation & D
7538	10	Electric Power line Construction & D
7539	9	Electric Power Co NOC – All Employees & D
7540	9	Electric Cooperative – REA- All Employees & D
7580	6	Sewage Disposal Plant Operation & D
7590	9	Garbage Works
7600	7	Telephone or Telegraph Co – All other Employees & D
7601	9	Fire Alarm Line Construction & D

7605	6	Burglar Alarm Installation or Repair & D
7606	7	cable tv
7610	5	Radio, Broadcasting station -- All Employees & Clerical, D
7611	6	Telephone or Cable TV line install – undergrd & D
7612	6	Telephone or Cable TV Line install – overhead & D
7613	6	Telephone or Cable TV Line install – overhead & D
7704	10	Firefighters & D
7720	10	Detective or Patrol Agency & D
7721	10	detective/patrol agencies
7723	10	detective/patrol agencies
7855	10	Railroad Construction: Laying Tracks or Maintenance by Contractor & D
8001	4	Store: Florist & D
8002	6	Truck Rental: All other Employees & Counter Personnel, D
8006	3	Grocery Dealer – Retail & D
8008	3	Store: Dry Goods – Retail
8010	4	Automotive Replacement Parts Distributors – Wholesale
8013	2	Optical Stores
8015	5	Quick Printing – Copy or Duplicating Service – All Employees & Clerical Salespersons, D
8017	4	Store: Retail NOC
8018	4	Store: Wholesale NOC
8019	5	print shops
8021	6	Store: Fish, Meat, or Poultry Dealer – Wholesale
8031	5	Cold Storage Locker – Frozen Foods
8032	3	Store: Dry Goods – Wholesale
8033	3	Store: Meat, Grocery, and provision (Combined) – Retail – NOC
8039	3	Store: Department – Retail
8043	3	Store: Retail – NOC
8044	5	Store: Furniture & D
8045	4	Store: Drug Retail
8046	5	Store: Automobile Accessories – retail – NOC & D
8047	4	Store: Drug – Wholesale
8050	3	Store: Automobile Accessories – Retail – NOC & D
8058	6	Building Material Dealer – Store Employees
8061	3	Store: Grocery – Convenience Retail
8072	3	Store – book, record, CD, software, video – retail
8102	5	Beat Sorting or Handling
8103	6	Cotton Storage
8105	4	Store – Hide Dealer
8106	9	Iron Merchant & D
8107	6	Contractors' Machinery Dealer & D
8111	5	Plumbers' Supplies Dealer & D
8116	7	Farm Machinery Dealer – All Operations & D
8203	5	Ice Harvesting & D

8204	9	Oil & Gas Well – Supplies or Equipment Dealer – Used - & Local Managers, D
8209	5	Vegetable Packing & D
8215	7	Grain Dealers & Local Managers, D
8227	8	Concrete Forms – Reconditioning and Leasing
8233	6	Coal Merchant & Local managers, D
8235	5	Sash Dealer & D
8263	6	Junk Dealer & D
8264	8	Bottle Dealer – Used & D
8265	10	Iron Scrap Dealer & D
8273	8	Horse farm – horse breeding involving stallions
8274	8	Horse farm – horse breeding not involving stallions
8279	8	Breeding Farm & D
8288	10	Feedlots – Cattle - & Salespersons, D
8291	6	Storage Warehouse – Cold
8292	6	Warehousing NOC
8293	7	Furniture Moving & D
8304	7	Grain Elevator Operation & Local Managers, D
8324	7	auto glass stations
8350	8	Oiling of Roads & D – Delivery and Spreading of Oil on Roads by Oil Distributors
8353	8	Gas dealer- liquefied petroleum gas dealers
8380	7	Automobile Sales or Service Agency & Parts Dept. Employees & D
8381	6	Gasoline Station – Self – Service
8385	7	Bus Cos – Garage Employees
8386	7	Auto Services Station & D
8387	7	auto service station
8391	7	auto repair shop
8392	6	Automobile Parking Lot & D
8393	7	Automobile Body Repair
8394	7	Automobile, Bus / Livery, not taxicabs
8397	7	auto repair shop
8500	10	Metal Scrap Dealer & Delivery
8601	5	Engineer – Consulting
8606	8	Geophysical Exploration Seismic – All Employees & D
8709	10	Inspectors of Merchandise on Vessels or Docks – U.S. Act only
8710	6	Field Bonded Warehousing – All Employees & Clerical
8719	10	Inspectors of Merchandise on Vessels or Docks – U.S. Act only
8720	8	Boiler Inspection
8721	3	Real Estate Appraisal Company – Outside Employees
8726	10	Steamship Line or agency – Port Employees – Superintendents, Captains, Engineers, etc.
8740	6	Apt / condo Ops property mgmt supervisors
8742	2	Salespersons – Outside
8745	2	New Agent – Not Retail Dealer - & Salespersons, D

8748	2	Automobile Salespersons
8753	3	Store – Grocery / Tea / Coffee Retail
8755	4	Labor Union – All Employees
8800	2	Addressing company & clerical
8803	2	Computer System Designer or Programmer: Traveling
8805	3	Clerical Office Employees NOC – Coverage under the Federal Employers' Liability Act (FELA) Program II
8807	3	newspaper publishing
8808	2	banks
8809	2	executive officers NOC
8810	2	Clerical Office Employees NOC
8813	2	Printing ops
8814	2	Clerical Office Employees – Coverage under the Federal Employers' Liability Act (FELA) Program I
8815	2	Clerical Office Employees - Coverage under the Federal Employers' Liability Act (FELA) Program II – US
8817	2	temp marketing service
8820	2	Attorney – All Employees & clerical, Messengers, D
8824	10	Retirement Living Centers – Health Care Employees
8825	10	Retirement Living Centers – Food Service Employees
8826	10	Retirement Living Centers – All other Employees & Salespersons, D
8827	10	Homemaker Service
8829	10	Nursing Home – All Employees
8831	3	Hospital – Veterinary & D
8832	2	Physicians & Clerical
8833	10	Asylum / Sanitarium
8834	2	physicians
8835	10	Baby – Sitting Service
8837	2	Charitable Organizations – Al Operations
8841	10	Nursing home, professional emps
8859	1	computer pgmng
8861	1	Charitable or Welfare Organization - Professional Employees & Clerical
8868	2	Schools: Professional Employees & Clerical
8871	2	Clerical office telecommuter emps
8901	2	Telephone & Telegraph Company: Office Employees & Clerical
9009	5	building ops
9011	5	apt/condo complex operations
9012	6	Apt property mgrs
9014	7	Buildings – Operations by Contractor
9015	5	Building NOC – Operation by Owner
9016	7	Racetrack Operation – Horse or Dog: All other including Starters and Their Assistants &
9019	9	Bridge Operation & D
9023	8	Buildings – Dwelling

9033	7	Housing Authority & Clerical, Salespersons, D
9040	10	Hospital – All other Employees
9042	10	Municipal hospitals
9043	10	hospitals
9044	5	Unknown
9047	10	Nursing Home, all other emps
9050	6	hotels
9052	6	Hotel – All Other Employees & Salespersons, D
9058	5	Commissary Work – Restaurant Employees
9059	5	Child Day care center – all other emps
9060	6	Club – Country & Clerical
9061	6	Fraternity or Sorority Houses & Clerical
9063	5	Exercise Institute & Clerical
9078	5	Commissary Work
9079	5	Restaurant NOC
9082	5	Restaurant NOC
9083	5	Restaurant Fast Food
9084	8	Bar, Lounge, Night Club, Tavern
9088	10	Rocket or Missile Testing or Launching & D
9089	5	Billiard Hall
9093	5	Bowling Lane
9101	5	School – All other Employees
9102	6	Lawn Maintenance – Commercial or Domestic & D
9108	10	Aircraft Reporting
9110	4	Charitable or Welfare Organization – All other Employees & D
9154	4	Dinner Theater – Theater Operations More than 50% Total Payroll – All Other Employees
9156	7	Dinner Theater – Theater Operations More than 50% Total Payroll – Players
9178	9	Athletic Team or Park – Non contract Sports
9179	9	Athletic Team or Park – Contract Sports
9180	7	Amusement Device Operation NOC & D
9182	9	Athletic Team or Park – Operation & D
9186	10	Amusement Device Operator – Traveling – All Employees & D
9191	9	athletic teams (tennis, bowling, golf, swimming, rowing, archery)
9220	5	Cemetery Operations & D
9402	8	Snow Removal – Clearing Snow from Streets or Roads & D
9403	10	Ashes Collection & D
9410	10	Municipal, Township, County, or State Employee NOC
9501	7	Painting – Shop only & D
9505	7	Automobile, Bus, Truck or Trailer Body Mfg – Painting
9516	7	Television, Radio, Video, and Audio Equipment Installation, Service, or Repair & D
9521	7	Carpet Installation
9522	6	Upholstering

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9526	10	Scaffolds
9529	8	Construction Elevator installation & D
9530	8	Building Raising or Moving (MI)
9534	9	Bell Installation & D
9545	8	Bill Posting & D
9549	8	Sign Painting or Lettering – Outside & D
9552	8	Sign Mfg – Erection & D
9553	8	Sign Painting
9586	1	Beauty Parlor
9600	5	Taxidermist
9620	5	Crematory Operations & D
9984	10	Atomic Energy – Project Work
9985	10	Atomic Energy – Radiation Exposure NOC

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PROPOSAL APPLICATION
NEW CLIENT FORM

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Workers' Compensation Coverage

Application Questionnaire

This questionnaire must be attached to the standard ACORD Workers' Compensation Application.

Please provide the following:

1. Applicant Name ______________________

2. Mailing Address ______________________

3. Address and Days/Hours of Operation:

	Days	Hours
• Location 1: ____________	____	____
• Location 2: ____________	____	____
• Location 3: ____________	____	____

4. Provide details on each claim where payments and reserves exceed 50% of either the Annual premium or $10,000, whichever is less. ______________________

5. What is applicant's "alcohol sales: food sales" ratio? ______________________

6. Please check if Yes or No, explaining all Yes answers:

	Yes	No
a. Return –to- Work and/or Light Duty Programs available?	____	____
• ______________________		
b. Does applicant provide entertainment?	____	____
• ______________________		
c. Does applicant deliver food?	____	____
• ______________________		

7. ______________________ Applicant's Signature ______________________ Producer's Signature / Date

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1997

TEL:
TOLL FREE:
FAX:

ALL INFORMATION IS REQUIRED IN ORDER TO BE APPROVED
PEO'S PROPOSAL APPLICATION / NEW CLIENT

ALL REQUESTED DATA IS REQUIRED FOR UNDERWRITING

PEO NAME ____________________

CO. LEGAL NAME: ____________________
CLIENT CODE: ____________________ CLIENT EFFECTIVE DATE: ____________________
ADDRESS: ____________________

CONTACT: ____________________ TITLE: ____________________
TEL: ____________________ FAX: ____________________
E-MAIL: ____________________ WEBSITE: ____________________
FEIN: ____________________ STATE LICENSE #: ____________________ YR STARTED: ____________________

State	W/C Code	HAZ Rating	Description	# Of Emp	Annual Payroll

- ATTACH THE CURRENT WORKERS COMP DECLARATIONS PAGE & PREMIUM SCHEDULE.
- ATTACH PAYROLL BY CLASS CODES BY LOCATION IF CLIENT IS IN MORE THAN ONE LOCATION PER STATE.
- ATTACH THREE (3) YEARS CURRENTLY VALUED WORK COMP LOSS RUNS.
- ATTACH CURRENT NCCI WORKERS COMPENSATION EXPERIENCE RATING WORKSHEET.
- ATTACH AN EXPLANATION OF ANY WORKERS COMP CLAIM IN EXCESS OF $25,000.
- DOES APPLICANT HAVE A WRITTEN SAFETY PROGRAM? YES ☐ NO ☐
- ATTACH OSHA 200 LOGS
- ATTACH WRITTEN DESCRIPTION OF BUSINESS.
- ATTACH RISK ASSESMENT FORM
- ATTACH EXECUTED PERSONAL AND CORPORATE RELEASE FORM

Companies Approval ____________________ Date Approval Needed ____________________

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ADDENDUM "A"

Schedule of Business

I. Line of Business

- Workers' Compensation and Employers' Liability;

II. Territory

- Risks in the states of ________________ and ________________

III. Class

- Various contractors, hospital / healthcare facilities and related classes of business, other than prohibited operations; as outlined in the Classification Schedule;

IV. Maximum Limits of Liability

- Workers' Compensation
- Coverage A:
- Employers' Liability:
- Coverage B:

V. Projected Annual Premium Volume

- $________________

II. SUBMISSION REQUIREMENTS

The following are to be submitted to ____________________ or each referral:

1. Fully completed Acord Workers' Compensation Application (Acord 130) Including the applicant Information Section;
2. Three (3) years plus current year premium and payroll history;
3. Currently valued (within 120 days) loss experience for past three (3) years plus current year;
4. Large losses excess of $25,000 for past three (3) years plus current year; and
5. Most recent experience modification.
6. Rating shall be performed using the company's currently filed rates allowing for premium discounts, and schedule credits and MOD.
7. A maximum twenty five percent (25%) schedule credit may be applied to risks in the States of ____________ the ____________, and ________ with standard premium of $2,500 or more;
8. Schedule Credits/Debits are not permitted in the State (s) of ________________
9. Employers' Liability Limits may be increased (subject to the filed rating plan) to: $1,000,000 each accident
   $1,000,000 disease – each employee
   $1,000,000, disease – policy limit
10. Roofers require inspection prior to binding;

Any risks not falling within the above guidelines must be submitted to the company for special consideration and no such risk may be bound without prior written approval by an underwriter. The company shall have no obligation to accept any risk submitted for special consideration by Agent. In addition, the following risks must be submitted to the company, prior to binding:

1. All risks providing bus transportation to their employees; and
2. All risks having aircraft exposures;
3. All risks having been cited for a willful OSHA violation within the past three (3) Years;