

IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT, IN
AND FOR LEON COUNTY, FLORIDA

CIVIL ACTION NO.: 2006-1669

In Re: The Receivership of
FLORIDA SELECT INSURANCE COMPANY,
a Florida Corporation authorized to transact
an insurance business in Florida.

FILED
CIRCUIT CIVIL DIV.
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CLERK OF CIRCUIT
LEON COUNTY, FLORIDA

**RECEIVER'S MOTION FOR ORDER APPROVING PLAN FOR
TRANSITION OF FLORIDA SELECT POLICIES**

Comes now the Florida Department of Financial Services, as Receiver of Florida Select Insurance Company (hereinafter "Florida Select"), by and through undersigned counsel, respectfully moves this honorable Court for an Order approving the plan for the transition of Florida Select policies and, as good cause therefore, would show this Court:

1. Florida Select is a corporation authorized pursuant to the Florida Insurance Code to transact business in the state of Florida as a domestic property and casualty insurer. Respondent's principal place of business as listed in their 2006 For Profit Corporation Annual Report with the Florida Department of State, Division of Corporations, is 1819 Main Street, Suite #700 and Suite #1101, Sarasota, Florida 34236. Respondent's corporate offices are located at 3760 River Run Drive, Birmingham, Alabama 35243.

2. Section 631.021(3), Florida Statutes (2006), provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving a Florida domiciled insurer.

3. Section 631.041(4), Florida Statutes (2006), provides, in pertinent part, for the issuance of "...such other injunctions or orders as may be deemed necessary to prevent

interference with the department or the proceeding; waste of the assets of the insurer; the commencement or prosecution of any actions; the obtaining of preferences, judgments, attachments, or other liens; or the making of any levy against the insurer or against its assets or any part thereof.”

4. Additionally, Section 631.141 (5), Florida Statutes (2006), provides that, subject to the direction of the Court, the receiver shall proceed to conduct the business of the insurer or take such steps as authorized in Chapter 631 to rehabilitate, liquidate, or conserve the assets of the insurer.

5. On June 30, 2006, the Receiver filed its *Petition For Order Appointing The Florida Department Of Financial Services As Receiver For Purposes Of Rehabilitation, Injunction, And Notice Of Automatic Stay* (hereinafter the “Petition”).

6. Incorporated with the Petition, the Receiver filed the *Consent To Order Of Rehabilitation Or Liquidation* executed by Mr. David W. Lacefield, President of Florida Select Insurance Company on June 29, 2006. The Receiver also filed the *Joint Resolution Of The President, Directors And Majority Stockholders of Florida Select Insurance Company* consenting to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Rehabilitation or for Liquidation. Copies are incorporated herein as Composite Attachment “A.”

7. On June 30, 2006, this Court entered the *Consent Order Appointing the Florida Department of Financial Services as Receiver of Florida Select for Purposes of Rehabilitation, Injunction and Notice of Automatic Stay* (hereinafter the “Consent Order”). A copy is incorporated herein as Attachment “B.”

8. Pursuant to the Consent Order, the Receiver is conducting the business of Florida Select and taking all steps, as the Court may direct, toward the removal of the causes and

conditions which have made this Consent Order of rehabilitation necessary and taking such further action, as the Receiver deems necessary or appropriate, to reform and revitalize Florida Select.

9. One of the factors that resulted in the receivership was the inability of Florida Select to obtain a Property Catastrophe Excess of Loss Reinsurance Contract (“CAT Contract”) to cover the risk affiliated with the outstanding policies of the company in the state of Florida.

10. The Receiver explored all available options in its efforts to ensure policyholders would be safeguarded from risk throughout the 2006 hurricane season and the course of this receivership. The alternatives reviewed included, but were not limited to, the potential purchase of the Florida Select company by another authorized insurer, as well as the potential assumption of Florida Select policies in the state of Florida by another authorized insurer. The initial efforts to safeguard policyholders from risk through such mechanisms were not successful.

11. The Receiver made extensive attempts to procure a CAT Contract on its own for the benefit of Florida Select policyholders. However, the financial condition of the company, as well as the ongoing receivership status, resulted in any opportunities to obtain such coverage being in excess of \$20,000,000 and, consequently, cost prohibitive to the receivership.

12. During this same period of time, the Receiver entered discussions with Southern Fidelity Insurance Company (“Southern Fidelity”) regarding the efforts to safeguard Florida Select policyholders. Southern Fidelity is a Florida domiciled authorized insurer, and has earned an “A” Exceptional Demotech Financial Stability Rating.

13. In furtherance of the discussions between the parties, Southern Fidelity was able to coordinate the arrangement of a CAT Contract for the benefit of Florida Select policyholders in the state of Florida at a substantial cost savings to the receivership. Consequently, the Receiver and Southern Fidelity entered into a Memorandum of Understanding which enabled the

Receiver to secure the CAT Contract coverage and ensure policyholder risks were covered throughout the 2006 hurricane season. The premium due for the CAT Contract procured by Southern Fidelity was approximately \$12,360,200. A copy of the Memorandum of Understanding is incorporated herein as Attachment "C".

14. As part of its duties, the Receiver has continued to assess the financial ability of Florida Select to renew policies and provide ongoing coverage to its existing policyholders. The Receiver is also cognizant of the fact that if Florida Select continues to have in-force policies as of June 1, 2007, a substantial premium of several million dollars would be due from Florida Select to the Florida Hurricane Catastrophe Fund ("FHCF"). In addition, the Receiver would need to procure additional CAT Contract coverage for the 2007 hurricane season to protect the policyholders of Florida Select in the state of Florida. The cost for such coverage is unknown, but would most certainly exceed the premium paid for the coverage outlined in Paragraph 13 of this Motion.

15. Based upon the financial circumstances of the company, the uncertainty of continuing cash flows to the company necessary to cover future costs, and the need to ensure the policyholders of Florida Select are protected, the Receiver recommends that the Court direct it to stop renewing policies and authorize it to non-renew or cancel policies of the Florida Select book of business in the state of Florida.

16. In furtherance of this recommendation, the Receiver has had ongoing discussions with Southern Fidelity, as well as with Computer Sciences Corporation ("CSC"), which has been the service provider to Florida Select over the past several years, regarding renewing, cancelling, and reinstating coverage to its policyholders.

17. In an effort to ensure the policyholders are provided with as much written notice of this recommendation as is reasonable, necessary, and allowable while still ensuring an orderly

transition during the non-renewal/cancellation process, CSC has indicated that it is necessary to limit the amount of notice given to policyholders or agents to sixty (60) days. CSC has prepared a transition plan that outlines the process recommended to be used for Florida Select policyholders. A copy of the transition plan is incorporated herein as Attachment "D".

18. In order to ensure a smooth transition for Florida Select policyholders that are non-renewed or cancelled, Southern Fidelity has agreed to provide the policyholders with an offer for a replacement policy with their company on the company's standard homeowner's and dwelling fire policy forms and rates that have been approved by the Office of Insurance Regulation and are based upon the coverage that was contained within the expired/non-renewed/canceled policy.

19. There is no requirement for any Florida Select policyholder to accept the offer of coverage from Southern Fidelity. In the event that the policyholder chooses to accept the offer from Southern Fidelity, they need only make their premium payment to Southern Fidelity as outlined in the offer of coverage they will receive. In the event that the policyholder chooses not to accept the offer from Southern Fidelity, they would still be able to contact their agent to ascertain other available options.

20. An additional factor involved in the Receiver recommending the course of action set forth in this Motion is that the ongoing receivership status of the company has led to several mortgage companies initiating a process of "force-placing" Florida Select policyholders. In doing so, the mortgage companies indicated that they would no longer accept the policy coverage being offered through Florida Select as being in compliance with the terms of the policyholder's mortgage(s). Consequently, several mortgage companies have procured coverage elsewhere for the policyholders under the terms of the mortgage. Any additional costs have been directly borne by the policyholders without benefit of a choice in the matter. In providing the

Offer of Coverage outlined in this Motion, Southern Fidelity is affording the policyholders with a viable choice of coverage and is offering to assist policyholders in resolving the “force-placing” problem outlined above.

21. The Receiver has prepared a proposed Notice of Non-Renewal and a proposed Notice of Cancellation. The Receiver recommends it be authorized to issue these notices in their current, or substantially similar form, to policyholders while providing them with sixty (60) days of notification of either their non-renewal or cancellation, as may be appropriate depending on the policy, during this period of rehabilitation. Copies of the proposed notices are incorporated herein as Attachment “E”.

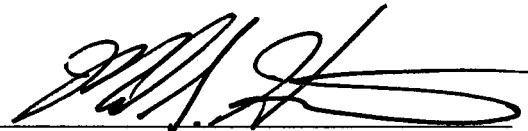
22. Southern Fidelity has also prepared an Offer of Coverage that the Receiver recommends be allowed to be issued in its current, or substantially similar, form to Florida Select policyholders receiving the Notice of Non-Renewal or Notice of Cancellation. A copy of the proposed Offer of Coverage is incorporated herein as Attachment “F”.

23. The Receiver believes the provisions outlined in the Memorandum of Understanding (Attachment “C”), and those provided in the transition plan prepared by CSC (Attachment “D”) are in the best interests of the estate of Florida Select and an essential component of the Receiver’s ongoing efforts to preserve the assets of the estate, maximize value to potential claimants, and ensure secure coverage for the policyholders of Florida Select. The Receiver recommends that the Court authorize it to implement the processes outlined.

24. Pursuant to the provisions of Section 631.252, Florida Statutes (2006), in the event that the financial condition of Florida Select changes and it is necessary to liquidate the company the Receiver requests this Court to authorize it to cancel any remaining policies of Florida Select, no later than thirty (30) days from the entry of an order of liquidation.

WHEREFORE and with good cause shown, the Receiver respectfully moves this Court to enter an Order: 1) approving the Receivers Motion For Approval of Transition of Florida Select Policies; 2) directing the Receiver to stop renewing policies; 3) directing the issuance of the Notice of Non-Renewals and Notice of Cancellations (Attachment "E") contemplated above as in this Motion in the same, or substantially similar, form; 4) directing the issuance of the Offer of Coverage (Attachment "F") contemplated above in this Motion in the same, or substantially similar, form; and 5) providing such other relief deemed necessary and appropriate by this Court.

DATED this 21st day of December 2006.



MARK S. HAMILTON, Senior Attorney
Florida Bar No. 0063819
Florida Department Of Financial Services
Division of Rehabilitation and Liquidation
Post Office Box 110
Tallahassee, Florida 32302-0110
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(850) 488-1510 - Facsimile

JOINT RESOLUTION OF THE PRESIDENT, DIRECTORS AND MAJORITY
STOCKHOLDERS OF FLORIDA SELECT INSURANCE COMPANY

The undersigned, being the Directors and Sole Shareholder of Florida Select Insurance Company (the "Company"), hereby certify that the following is a true and correct copy of a resolution adopted at a combined meeting of the Directors and Sole Shareholder of the Company:

RESOLVED, that the Board of Directors and Sole Shareholder of the Company consent to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Rehabilitation or for Liquidation;

FURTHER RESOLVED, that the President of the Company is hereby authorized to execute any and all consent agreements or other documents on behalf of Florida Select Insurance Company to obtain entry of an Order for Rehabilitation or Liquidation and is authorized to take any and all additional actions deemed necessary or appropriate by the Department of Financial Services to effectuate the foregoing or to comply with the Order, without further approval of the Directors and Sole Shareholder.

Dated this 29th day of June, 2006.

DIRECTORS OF FLORIDA SELECT INSURANCE COMPANY:

David W. Laceyfield
David W. Laceyfield

John W. McCullogh
John W. McCullogh

Bobby L. Nolen
Bobby L. Nolen

Fred H. Wright
Fred H. Wright

Florida Select Ins. Holdings, Inc.

By: David W. Laceyfield, President.

For Shareholder ~~Vesta Fire Insurance Corporation~~

Florida Select Ins. Holdings, Inc.

**CONSENT TO ORDER OF
REHABILITATION OR LIQUIDATION**

IT IS HEREBY agreed as follows:

1. Florida Select Insurance Company (herein "Respondent"), is a Florida corporation and is a domestic insurer authorized to transact an insurance business in the State of Florida.

2. The Respondent admits that grounds exist for the appointment of a Receiver under Section 631.051, Florida Statutes (Grounds for rehabilitation; domestic insurers.), in that the Respondent does not have adequate reinsurance to withstand potential hurricane exposure for the 2006 hurricane season.

3. The Respondent consents to the entry of an Order Appointing the Florida Department of Financial Services, Division of Rehabilitation and Liquidation as Receiver and acknowledges that the Department of Financial Services may apply to the Court for an Order for Rehabilitation or Liquidation, on the basis that the Respondent has consented to the entry of such order, at any time after the execution of this agreement.

Dated this 29th day of June, 2006.

(Corporate seal)


FLORIDA SELECT INSURANCE COMPANY

IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT IN AND
FOR LEON COUNTY, FLORIDA

State Of Florida, ex rel., The
Department Of Financial Services Of
The State Of Florida,

Relator,

v.

CASE NO.: 2006- 1669

Florida Select Insurance Company,
a Florida Corporation authorized to
transact an insurance business in Florida

Respondent.

CONSENT ORDER APPOINTING THE FLORIDA DEPARTMENT OF
FINANCIAL SERVICES AS RECEIVER FOR PURPOSES OF REHABILITATION,
INJUNCTION, AND NOTICE OF AUTOMATIC STAY

THIS CAUSE was considered on the Petition of the State of Florida, Department of Financial Services (hereinafter the "Department") for entry of a consent order of rehabilitation of Florida Select Insurance Company. The Court having reviewed the pleadings of record, having heard presentation of counsel, and otherwise being fully informed in the premises, finds:

1. Florida Select Insurance Company (hereinafter "Respondent") is a corporation authorized pursuant to the Florida Insurance Code to transact business in the state of Florida as a domestic property and casualty insurer. Respondent's principal place of business as listed in its 2006 For Profit Corporation Annual Report with the Florida Department of State, Division of Corporations, is 1819 Main Street, Suite #700 and Suite #1101, Sarasota, Florida 34236. Respondent's corporate offices are located at 3760 River Run Drive, Birmingham, Alabama 35243.

2. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving a Florida domiciled insurer.

3. Section 631.051(11), Florida Statutes, authorizes the Department to apply to this Court for an order directing it to rehabilitate a domestic insurer upon the ground that the insurer has consented to such an order through a majority of its directors, stockholders, members, or subscribers. Respondent has consented to the appointment of the Department as Receiver for purposes of rehabilitation. It is in the best interests of Respondent and its creditors and insureds that the relief requested in the petition be granted.

THEREFORE, IT IS ORDERED AND ADJUDGED as follows:

4. The Department of Financial Services of the State of Florida is appointed Receiver of Respondent for purposes of rehabilitation and that the Receiver is authorized and directed to:

A. Conduct the business of Respondent and take all steps, as the Court may direct, toward the removal of the causes and conditions which have made this Order of Rehabilitation necessary and to take such further action, as the Receiver deems necessary or appropriate, to reform and revitalize the Respondent.

B. Take immediate possession of all the property, assets, and estate, and all other property of every kind whatsoever and wherever located, belonging to Respondent, pursuant to Section 631.141, Florida Statutes, including but not limited to: offices maintained by the Respondent, rights of action, books, papers, evidences of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, and all real

property of Respondent, wherever situated, whether in the possession of Respondent or its officers, directors, trustees, employees, consultants, attorneys, agents, affiliates, or other persons.

C. Employ and authorize the compensation of legal counsel, actuaries, accountants, clerks, consultants, and such assistants as it deems necessary, purchase or lease personal or real property as it deems necessary, and authorize the payment of the expenses of these proceedings and the necessary incidents thereof, as approved by the Court, to be paid out of the funds or assets of the Respondent in the possession of the Receiver or coming into its possession.

D. Reimburse such employees, from the funds of this receivership, for their actual necessary and reasonable expenses incurred while traveling on the business of this receivership.

E. Not defend or accept service of process on legal actions wherein the Respondent, the Receiver, or the insured is a party defendant, commenced either prior to or subsequent to the order, without authorization of this Court; except, however, in actions where Respondent is a nominal party, as in certain foreclosure actions, and the action does not affect a claim against or adversely affect the assets of Respondent, the Receiver may file appropriate pleadings in its discretion.

F. Commence and maintain all legal actions necessary, wherever necessary, for the proper administration of this receivership proceeding.

G. Collect all debts that are economically feasible to collect which are due and owing to the Respondent.

H. Deposit funds and maintain bank accounts.

I. Take possession of all Respondent's securities and certificates of deposit on deposit with the Chief Financial Officer (fka: Treasurer) of Florida, if any, and convert to cash as much as may be necessary, in its judgment, to pay the expenses of administration of this receivership or otherwise best benefit the estate.

J. Apply to this Court for further instructions in the discharge of its duties as may be necessary.

K. For purposes of this Order, the term "affiliate" shall be defined in accordance with Section 631.011(1), Florida Statutes, and shall include, but not be limited to, Florida Select Insurance Holdings, Inc., and Florida Select Insurance Agency, Inc.

IT IS FURTHER ORDERED AND DIRECTED:

5. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of Respondent's affairs or the affairs of its affiliates is required to fully cooperate with the Receiver, pursuant to Section 631.391, Florida Statutes. Any person who fails to cooperate with the Receiver, interferes with the Receiver, or fails to follow the instructions of the Receiver, may be excluded from the building where the Respondent's offices are located at the Receiver's discretion.

6. Title to all property, real or personal, all contracts, rights of action and all books and records of Respondent, wherever located, is vested in the Receiver pursuant to Section 631.141, Florida Statutes.

7. The Receiver is granted all of the powers of the Respondent's directors, officers, and managers, whose authority shall be suspended, except as such powers are re-delegated in writing by the Receiver. The Receiver has full power to direct and manage the affairs of Respondent, to hire and discharge employees, and to deal with the property and business of the Respondent.

8. All attorneys employed by Respondent as of the date of the Order, within 10 days of receiving notice of this Order, are required to report to the Receiver on the name, company claim number and status of each file they are handling on behalf of the Respondent. Said report should also include an accounting of any funds received from or on behalf of the Respondent. All attorneys employed by Respondent are advised that pursuant to Sections 631.011(17) and 631.011(21), Florida Statutes, a claim based on mere possession does not create a secured claim and all attorneys employed by Respondent, pursuant to In Re the Receivership of Syndicate Two, Inc., 538 So.2d 945 (Fla. 1st DCA 1989), who are in possession of litigation files or other material, documents or records belonging to or relating to work performed by the attorney on behalf of Respondent are required to deliver such litigation files, material, documents or records intact and without purging to the Receiver, on request, notwithstanding any claim of a retaining lien which, if otherwise valid, should not be extinguished by the delivery of these documents.

9. All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Respondent are required to account for and pay all premiums and commissions unearned due to cancellation of policies in the normal course of business owed to the Respondent directly to the Receiver within 30 days of demand by the Receiver or appear before this Court to show cause, if any they may have, as to why they should not be required to account to the Receiver or be held in contempt of Court for violation of the

provisions of the Order. No agent, broker, premium finance company or other person should use premium monies owed to the Respondent for refund of unearned premium or for any purpose other than payment to the Receiver.

10. Any premium finance company, which has entered into a contract to finance a premium for a policy, which has been issued by the Respondent, is required to pay any premium owed to the Respondent directly to the Receiver.

11. Reinsurance premiums due to or payable by the Respondent shall be remitted to, or disbursed by, the Receiver. The Receiver shall handle reinsurance losses recoverable or payable by the Respondent. All correspondence concerning reinsurance shall be between the Receiver and the reinsuring company or intermediary.

12. Upon request by the Receiver, any company providing telephonic services to the Respondent is directed to provide a reference of calls from the number presently assigned to the Respondent to any such number designated by the Receiver or perform any other services or changes necessary to the conduct of the receivership.

13. Any bank, savings and loan association, financial institution or other person which has on deposit, in its possession, custody or control any funds, accounts and any other assets of the Respondent is directed to immediately transfer title, custody and control of all such funds, accounts and other assets to the Receiver. The Receiver is authorized to change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution shall be permitted to exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever,

or refuse to transfer any funds or assets to the Receiver's control unless and until obtaining an order from this Court authorizing such action.

14. Any entity furnishing telephone, water, electric, sewage, garbage or trash removal services to the Respondent is required to maintain such service and transfer any such accounts to the Receiver as of the date of the Order, unless instructed to the contrary by the Receiver.

15. Any data processing service not affiliated with Florida Select Insurance Company which has custody or control of any data processing information and records including but not limited to source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to the Respondent is directed to transfer custody and control of such records to the Receiver. The Receiver is authorized to compensate any such entity for the actual use of hardware and software, which the Receiver finds to be necessary to this proceeding. Compensation should be based upon the monthly rate provided for in contracts or leases with Respondent which were in effect when this proceeding was instituted, or based upon such contract as may be negotiated by the Receiver, for the actual time such equipment and software is used by the Receiver.

16. The United States Postal Service is directed to provide any information requested by the Receiver regarding the Respondent and to handle future deliveries of Respondent's mail as directed by the Receiver.

17. All insurance policies, bonds or similar contracts of coverage issued by the Respondent shall remain in full force and effect until they are cancelled.

18. All affiliated companies and associations are directed to make their books and records available to the Receiver, to include all records located in any premises occupied by said affiliate, whether corporate records or not, and to provide copies of any records requested by the

Receiver whether or not such records are related to Respondent. The Receiver has title to all policy files and other records of, and relating to Respondent, whether such documents are kept in offices occupied by an affiliate company or any other person, corporation, or association. The Receiver is authorized to take possession of any such records, files, and documents, and to remove them to any location in the Receiver's discretion. Any disputed records shall not be withheld from the Receiver's review, but should be safeguarded and presented to this Court for review prior to removal by the Receiver.

19. The Receiver shall have complete access to and control of all computer records of the Respondent and its affiliates at all times including but not limited to Respondent's computer records. Each affiliate shall be given reasonable access to such records for the purpose of carrying out its business operations.

20. Any person, firm, corporation or other entity having notice of the Order that fails to abide by its terms is directed to appear before this Court to show good cause, if any they may have, as to why they should not be held in contempt of Court for violation of the provisions of this Order.

21. Pursuant to Sections 631.041(3) and (4), Florida Statutes, all persons, firms, corporations and associations within the jurisdiction of this Court, including, but not limited to, Respondent and its officers, directors, stockholders, members, subscribers, agents and employees, are enjoined and restrained: from the further transaction of the insurance business of the Respondent; from doing, doing through omission, or permitting to be done any action which might waste or dispose of the books, records and assets of the Respondent; from by any means interfering with the Receiver or these proceedings; from the transfer of property and assets of Respondent without the consent of the Receiver; from the removal, concealment, or other

disposition of Respondent's property, books, records, and accounts; from the commencement or prosecution of any actions against the Respondent or the Receiver together with its agents or employees, the service of process and subpoenas, or the obtaining of preferences, judgments, writs of attachment or garnishment or other liens; and, from the making of any levy or execution against Respondent or any of its property or assets. Notwithstanding the provisions of this paragraph, the Receiver is permitted to accept and be subpoenaed for non-party production of claims files in its possession, including medical records, which may be contained therein. In such cases, the requesting party must submit an affidavit to the Receiver stating that notice of the non-party production was appropriately issued and provided to the patient and that the patient was given the opportunity to object and either did not object to the non-party production, or objected and the Court overruled the objection, in which case a copy of the Court's ruling must be attached to the affidavit. The Receiver is authorized to impose a charge for copies of such claim files pursuant to the provisions of Sections 119.07, and 624.501, Florida Statutes.

22. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Florida Select Insurance Company agree to fully cooperate with the Receiver in the effort to rehabilitate Florida Select Insurance Company.

23. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Florida Select Insurance Company having any interest in the building located at: 1819 Main Street, Suite #700 and Suite #1101, Sarasota, Florida 34236; the building located at 3760 River Run Drive, Birmingham, Alabama 35243; or any other facility in which Florida Select Insurance Company may operate, agree to make available, at that location and at no charge to the Receiver or to Florida Select Insurance Company, office space,

and related facilities (telephone service, copiers, computer equipment and software, office supplies, parking, etc.) to the extent deemed necessary by the Receiver in its sole discretion.

24. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Florida Select Insurance Company having any interest in the computer equipment and software currently used by or for Florida Select Insurance Company shall make such computer equipment and software available to the Receiver at no charge to the Receiver or Florida Select Insurance Company to the extent deemed necessary by the Receiver in its sole discretion.

25. Except for contracts of insurance, all executory contracts to which the Respondent was a party shall be cancelled and stand cancelled unless specifically adopted by the Receiver within ninety (90) days of the date of this Order or from the date of the Receiver's actual knowledge of the existence of such contract, whichever is later. "Actual Knowledge" means the Receiver has in its possession the original of a written contract to which the Respondent is a party, and the Receiver has notified the vendor in writing acknowledging the existence of the contract. Any vendor, including but not limited to, any and all employees / contractors of insurer, claiming the existence of a contractual relationship with the insurer shall provide notice to the Receiver of such relationship. This notice shall include any and all documents and information regarding the terms and conditions of the contract, including a copy of the written contract between the vendor and the insurer, if any, what services or goods were provided pursuant to the contract; any current, future and/or past due amounts owing under the contract, and any supporting documentation for third party services or goods provided. Failure to provide the required information may result in vendors' contractual rights not being recognized by the Receiver. The rights of the parties to any such contracts are fixed as of the

date of the Order and any cancellation under this provision shall not be treated as an anticipatory breach of such contracts.

CONTINUATION OF INVESTIGATION

26. The Receiver is authorized to conduct an investigation of Respondent and its affiliates, as defined above, to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent's parent corporations, its subsidiaries, and affiliates are required to make all books, documents, accounts, records, and affairs, which either belong to or pertain to the Respondent, available for full, free and unhindered inspection and examination by the Receiver during normal business hours (8:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of the Order. The above-specified entities are required to cooperate with the Receiver to the fullest extent required by Section 631.391, Florida Statutes. Such cooperation should include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

27. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of the affairs of Respondent or its affiliates is directed to fully cooperate with the Receiver as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraph. Upon receipt of a certified copy of the Order, any bank or financial

institution is directed to immediately disclose to the Receiver the existence of any accounts of Respondent and any funds contained therein and any and all documents in its possession relating to Respondent for the Receiver's inspection and copying.

28. All Sheriffs and all law enforcement officials of this state shall cooperate with and assist the Receiver in the implementation of this Order.

29. In the event the Receiver determines that reorganization, consolidation, conversion, reinsurance, merger, or other transformation of the Respondent is appropriate, the Receiver shall prepare a plan to effect such changes and submit the plan to this Court for consideration.

30. Upon petition by the Receiver stating that further efforts to rehabilitate Respondent would be useless, this Court will consider entry of an order of liquidation of Respondent.

NOTICE OF AUTOMATIC STAY

31. Notice is hereby given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial petition herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of the order, and which prohibits:

A. The commencement or continuation of judicial, administrative or other action or proceeding against the insurer or against its assets or any part thereof;

B. The enforcement of a judgment against the insurer or an affiliate obtained either before or after the commencement of the delinquency proceeding;

C. Any act to obtain possession of property of the insurer;

D. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;

E. Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631;

F. The set-off or offset of any debt owing to the insurer except offsets as provided in Section 631.281, Florida Statutes.

32. This Court retains jurisdiction of this cause for the purpose of granting such other and further relief as from time to time shall be deemed appropriate.

DONE and ORDERED in Chambers at the Leon County Courthouse in Tallahassee, Leon County, Florida this 30th day of June 2006.

Tom Bortman for
William L. GARY
CIRCUIT JUDGE

A Certified Copy
Attest:

Bob Inzer

Clerk Circuit Court
Leon County, Florida

By *[Signature]*

D.C.





FLORIDA
DEPARTMENT OF
FINANCIAL SERVICES

September 13, 2006

MEMORANDUM OF UNDERSTANDING

**RE: Florida Select Insurance Company in Receivership ("Florida Select")
Leon County Circuit Court Civil Action Case Number 2006-CA-1969**

Whereas the Florida Department of Financial Services, Division of Rehabilitation and Liquidation, was appointed as the Receiver ("Receiver") for Florida Select by Consent Order of the Leon County Circuit Court dated June 30, 2006; and

Whereas, in furtherance of the Receiver's desire to assist all policyholders of Florida Select the Receiver has initiated efforts to secure the transition of the Florida Select book of business; and

Whereas Capitol Preferred Insurance Company ("CPIC") and Southern Fidelity Insurance Company ("SFIC") (collectively "Authorized Insurers") have expressed their intent to secure the transition of the Florida Select book of business to their companies; and

Whereas the Receiver and the Authorized Insurers (collectively "Parties") desire to enter into a formal Agreement for the transition of the Florida Select book of business;

Therefore, this Memorandum of Understanding will serve to document the intent and understanding of the parties as follows:

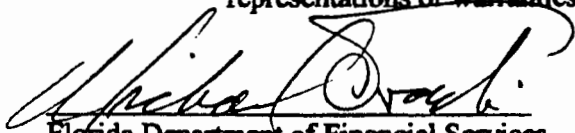
FLORIDA POLICYHOLDERS

- SFIC has coordinated the arrangement of a Property Catastrophe Excess of Loss Reinsurance Contract ("CAT Contract") for policyholders of Florida Select with an effective date of September 1, 2006. Florida Select and SFIC will be parties to said CAT Contract and retain all rights, duties, and obligations set forth therein. The CAT Contract shall take effect at 12:01 a.m., Standard Time, September 1, 2006, and shall remain in effect until 12:01 a.m., Standard Time, June 1, 2007, in respect of Policies in force, written, or renewed during the term of the CAT Contract. A copy of the DRAFT CAT Contract is attached and incorporated herein as Attachment "A." The Parties agree that a final version of the CAT Contract shall be the same or substantially the same in form and substance, or as may otherwise be agreed to by the Parties in writing.
- Florida Select agrees to fund the premium due for the procurement of the CAT Contract, estimated to be \$12,360,200. Florida Select also agrees to fund a reinstatement premium of \$3,250,000 due for the CAT Contract.

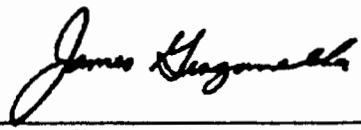
- The Parties agree that SFIC shall be retained to provide management services for any catastrophic claim event covered under the CAT Contract due to their expertise in this area. SFIC agrees to prepare a CAT Claims Plan ("CAT Plan") and present said plan to Florida Select for its review and approval. SFIC shall implement the approved CAT Plan in the event of a catastrophic claim event. SFIC shall be paid a management fee as mutually agreed to by the Parties for such services.
- Florida Select agrees to grant to SFIC the exclusive right to renew Florida Select policies upon policy expiration due to the non-renewal of said policies. SFIC will have the duty of offering renewals to policyholders upon policy expiration due to the non-renewal of these policies by Florida Select. SFIC agrees to offer renewals on their approved policy forms and rates according to the coverage contained in the expiring/non-renewed policy, or as may be otherwise agreed to by the policyholder. Subject to approval by OIR, it is anticipated that SFIC will offer a policy in its Standard Homeowners Program. SFIC fully understands that no specific number of policies has been guaranteed as part of any agreement between the parties.
- Notwithstanding the provisions of the previous paragraph, Florida Select will cancel all remaining policies prior to May 1, 2007. SFIC will offer coverage to each of these policyholders consistent with the terms outlined in the previous paragraph.
- Florida Select will assign and transfer, without charge, the servicing rights associated with the Flood Policy Book of Business ("Flood Book") underwritten by NFIP. This assignment of Florida Select's rights shall apply to all flood policies serviced by Florida Select and will be subject to assignment at such time a new, replacement policy is offered, accepted, and underwritten by SFIC. This provision shall apply equally to both Florida and South Carolina Flood Book policies.
- The ongoing management, accounting, and daily operations of Florida Select shall continue to be the responsibility of the Receiver for Florida Select. At such time as a Florida Select policy has been transferred to SFIC, it shall become the sole responsibility of SFIC to manage and account for said policy. The Parties agree to use their best efforts to coordinate the nonrenewal/renewal process so that it allows for a smooth transition from Florida Select to SFIC.
- The Parties understand that several mortgage companies are "force-placing" Florida Select policyholders due to the current status of the company. The Parties agree to cooperate with each other and use their best efforts to prevent such a problem from continuing.
- SFIC currently has an "A" Exceptional Demotech Financial Rating. SFIC agrees to maintain such rating for the duration of this agreement. In the event that SFIC loses the "A" rating, the provisions of this Letter of Understanding are voidable by Florida Select.
- The Parties agree to cooperate with each other to accomplish the terms set forth in this Letter of Understanding including, but not limited to: 1) executing any and all documents as may be necessary to carry out said terms; and 2) securing the additional approval(s) of any regulatory agency, judicial body, executive board, or any other governing entity, as may be applicable and necessary to carry out said terms. No agreement shall become final until such time as all necessary approvals have been obtained.
- SFIC agrees that it has conducted its own review and due diligence as to the policies of Florida Select and agrees that Florida Select makes no representations or warranties as to such policies.

SOUTH CAROLINA POLICYHOLDERS

- The Parties agree that the Authorized Insurers shall assume all of the remaining outstanding South Carolina policies, inclusive of any Builder's Risk Policies, of Florida Select as of an effective date of 09/15/06. The Authorized Insurers shall assume liability for any and all claims that occur on or after the effective date of the assumption of the policies. The Authorized Insurers have been informed that the policies in South Carolina have been subject to solicitations outside the control of Florida Select (commonly referred to as "cherry picking") from various entities since the inception of the Receivership. The Authorized Insurers fully understand that no specific number of policies has been guaranteed as part of any agreement between the parties.
- As of the effective date, the Authorized Insurers agree that all South Carolina policyholders shall be covered under the reinsurance contract(s) and 100% reinsured.
- The Authorized Insurers will be provided all unearned premium, net of unearned commissions due from agents payable as of the effective date of the assumption of risk, all other agent balances, and premiums receivable.
- As there will be no need for any block cancellation of policies, the Authorized Insurers will provide for the return of premium to consumers who cancel policies of their own volition subsequent to the date of the assumption of risk.
- Florida Select will assign and transfer, without charge, the servicing rights associated with the Flood Policy Book of Business ("Flood Book") underwritten by NFIP. This assignment of Florida Select's rights shall apply to all flood policies serviced by Florida Select and will be subject to assignment at such time a new, replacement policy is offered, accepted, and underwritten by the Authorized Insurers. This provision shall apply equally to both Florida and South Carolina Flood Book policies.
- The Parties agree to cooperate with each other to accomplish the terms set forth in this Memorandum of Understanding including, but not limited to: 1) executing any and all documents as may be necessary to carry out said terms; and 2) securing the additional approval(s) of any regulatory agency, judicial body, executive board, or any other governing entity, as may be applicable and necessary to carry out said terms. No agreement shall become final until such time as all necessary approvals have been obtained.
- The Authorized Insurers agree that they have conducted their own review and due diligence as to the policies of Florida Select and agree that Florida Select makes no representations or warranties as to such policies.


Florida Department of Financial Services
Division of Rehabilitation and Liquidation
Receiver for Florida Select Insurance Company
P.O. Box 110
Tallahassee, FL 32302-0110

Sept 13, 2006
DATE


Jim Gaganella, President
Capitol Preferred Insurance Company &
Southern Fidelity Insurance Company
2255 Killearn Center Blvd., Suite #101
Tallahassee, FL 32309

9-13-06
DATE

FLORIDA SELECT/SOUTHERN FIDELITY: TRANSITION OF FLORIDA SELECT POLICIES

REVISED DECEMBER 19, 2006

EXPERIENCE
TEAMWORK



EXPERIENCE. RESULTS.



PROJECT DEFINITION

• PHASE ONE

- Offer renewal policies to Florida Select Insureds (Florida Select and Florida Select Braishfield) for expiration dates March 1, 2007 - April 30, 2007

– PHASE TWO

- Generate mid-term cancellations for remainder of Florida Select Policies
- Issue Renewal Offers on Southern Fidelity Paper
 - Policy effective date will equal cancellation effective date
 - Policies will be issued for an annual term
- Approach see details



EXPERIENCE. RESULTS.

PHASE – ONE RECOMMENDED PROCESS

- Expiration Dates March 1, 2007 – April 30, 2007
- Generate Notification to Florida Select Policy Holders of the upcoming renewal offer from Southern Fidelity
 - Endorse policies with specific reason code (SFC) to generate letter of explanation - to be referred to as a non-renewal see Endorsement Calendar-
 - Send letters via certified mail
 - Use Florida Select letter head and envelopes
- Timeline
 - January 3, 2007 – start generating renewal offers for March 1, -April 30th providing a 57 day renewal offer
 - By March 5th renewals through April 30th will have generated.



EXPERIENCE. RESULTS.

PHASE – ONE RECOMMENDED PROCESS - Continued

- **Generate renewal offers**
 - Include in the Renewal Offer of Southern Fidelity a reference to Florida Select – referred to as a Welcome Letter



EXPERIENCE. RESULTS.

PHASE – ONE ADVANTAGES

- Fewer renewals would be generated on Florida Select Paper
- Fewer insured's impacted with mid-term cancellations
- Reduced impact to agents for placement of policies
- Should reduce number insured's applying to Citizens for insurance
- Insureds with policy expiration dates of March 1, 2007 – April 30, 2007 will receive a 60 day notification from Florida Select advising that coverage will not be offered – reference is made within the non-renewal that the insured will receive a renewal offer from Southern Fidelity
- Agents will not have to look for a provider for the insureds
- Mortgage Companies will not force place policies due to the rating of Vesta – Florida Select



EXPERIENCE. RESULTS.

PHASE 1 ENDORSEMENT CALENDAR

ACTIVITY DATE		EXPIRATION MONTH
December 28, 2006	March 1 – March 31, 2007	2,028 endorsements for FSB 2,120 endorsements for FLS
December 29, 2007	April 1 – April 30, 2007	1,661 endorsements for FSB 2,208 endorsements for FLS



PHASE – TWO RECOMMENDED PROCESS - DETAILS

- Approach
 - Day 1 Florida Select (references activity date on Cancellation calendar)
 - Cancellations are generated on POINT using unique reason code of PFL
 - Nightly cycle verifies and creates cancellation stats, updates receivables
 - Sets normal next activity date to generate refund
 - Day 1 Southern Fidelity
 - Conversion Program for Southern Fidelity creates renewal offer
 - Day 2 Florida Select
 - Refund activity date updated to current if cancellation reason is equal to unique code – generating refund immediately
 - Generate Payables
 - Print refunds and mail to insureds within 5 business days



PHASE – TWO RECOMMENDED PROCESS (Continued)

- Approach continued
- Action Items
 - Delivery of Cancellation Notices and Renewal Offers
 - Coordination with print vendor to mail cancellation notices and renewal offers on same day
 - Note: Cancellation Notices and Renewal Offers can not be mailed in same envelope. CSC and print vendor will attempt to coordinate placing them in the mail on the same day



TENATIVE CALENDAR OF EVENTS

ACTIVITY DATE	EXPIRATION MONTH	CANCELLATION DATE AND RENEWAL EFFECTIVE DATE
January 15, 2007	May 1 – 31, 2007	March 20, 2007
January 18, 2007	June 1 – 30, 2007	March 24, 2007
January 22, 2007	July 1 – 31, 2007	March 28, 2007
January 25, 2007	August 1 – 31, 2007	March 30, 2007
January 29, 2007	September 1 - 30, 2007	April 4, 2007
February 1, 2007	October 1 – October 31, 2007	April 7, 2007
February 5, 2007	November 1 –November 30, 2007	April 11, 2007
February 8, 2007	December 1 – 31, 2007	April 14, 2007
February 12, 2007	January 1 – 31, 2008	April 18, 2007
February 15, 2007	February 1 – 28, 2008	April 21, 2007



EXPERIENCE. RESULTS.

IN PROGRESS

- Conversion Program is complete
 - Awaiting DFS approval – Program will convert policies at expiration date to Southern Fidelity – date driven – first effective date for renewal is March 1, 2007
- Cancellation Program is in development
 - Next Steps
 - CSC Testing
 - Southern Fidelity Sign off

NOTICE – DECEMBER 28, 2006 – NOTICE

NOTICE OF NON-RENEWAL

**Insured Name
Insured Address**

**Agent Name
Agent Address
Agent Phone**

**Policy Number
Date:**

Non-Renewal

Re: Receivership of Florida Select Insurance Company ("Florida Select")

Dear Florida Select Policyholder:

On June 30, 2006, Florida Select Insurance Company ("Florida Select") was ordered into receivership for purposes of rehabilitation by the Second Judicial Circuit Court in Leon County, Florida. The Florida Department of Financial Services is the court appointed Receiver of Florida Select.

Florida Select's records indicate that you are one of the company's policyholders. Based upon the financial status of the company and its ongoing rehabilitation, Florida Select will not be offering a renewal for your policy. All coverage under your policy through Florida Select will cease as of ****NON-RENEWAL DATE HERE****.

In order to assist Florida Select policyholders, the Department of Financial Services has arranged with Southern Fidelity Insurance Company ("Southern Fidelity") to provide you an offer of replacement coverage for your current policy. Southern Fidelity is a Florida domiciled authorized insurer, and has earned an "A" Exceptional Demotech Financial Stability Rating which meets the requirements of most mortgage lenders.

You will receive an offer for a replacement policy with Southern Fidelity within the next few days. The offer you receive from Southern Fidelity will be on policy forms and rates approved by the Office of Insurance Regulation and based upon the coverage contained in your expired/non-renewed policy.

Your current agent will continue to serve you. The offer from Southern Fidelity will include an invoice for your premium. There is no requirement for you to accept the offer of coverage from Southern Fidelity. However, in order for you to take advantage of the availability of the offer from Southern Fidelity, it is imperative that you timely respond to the offer and make a premium payment as indicated in the offer. In the event you choose not to accept the offer of coverage from Southern Fidelity, please contact your agent to determine what other options may be available.

If you would like more information regarding Southern Fidelity, you may visit its website at www.southernfidelityins.com. If you have any questions regarding the offer of coverage from

Southern Fidelity you may contact them at 1-866-874-7342. Your agent may also be able to assist you with any questions you may have on these matters.

For additional information regarding Florida Select or the receivership process, please visit the Receiver's website at www.floridainsurancereceiver.org or contact the Florida Department of Financial Services at 1-800-882-3054.

Sincerely,

The Florida Department of Financial Services,
as Receiver of Florida Select Insurance Company

NOTICE –January _____, 2007 – NOTICE

NOTICE OF CANCELLATION

Insured Name
Insured Address

Agent Name
Agent Address
Agent Phone

Policy Number
Date:

Cancellation

Re: Receivership of Florida Select Insurance Company ("Florida Select")

Dear Florida Select Policyholder:

On June 30, 2006, Florida Select Insurance Company ("Florida Select") was ordered into receivership for purposes of rehabilitation by the Second Judicial Circuit Court in Leon County, Florida. The Florida Department of Financial Services is the court appointed Receiver of Florida Select.

Florida Select's records indicate that you are one of the company's policyholders. Based upon the financial status of the company and its rehabilitation, your policy with Florida Select will be cancelled as of the Cancellation Date shown above. All coverage under your policy through Florida Select will cease as of **(**CANCELLATION DATE HERE**)**. Policies with a normal expiration date, or those policies that are cancelled for non-payment of premium prior to the Cancellation Date, shall stand cancelled as of the earlier time and date.

In order to assist Florida Select policyholders, the Department of Financial Services has arranged with Southern Fidelity Insurance Company ("Southern Fidelity") to provide you an offer of replacement coverage for your cancelled policy. Southern Fidelity is a Florida domiciled authorized insurer, and has earned an "A" Exceptional Demotech Financial Stability Rating which meets the requirements of most mortgage lenders.

You will receive an offer for a replacement policy with Southern Fidelity within the next few days. The offer you receive from Southern Fidelity will be on policy forms and rates approved by the Office of Insurance Regulation and based upon the coverage contained in your cancelled policy.

Your current agent will continue to serve you. The offer from Southern Fidelity will include an invoice for your premium. There is no requirement for you to accept the offer of coverage from Southern Fidelity. However, in order for you to take advantage of the availability of the offer from Southern Fidelity, it is imperative that you timely respond to the offer and make a premium payment as indicated in the offer. In the event you choose not to accept the offer of coverage from Southern Fidelity, please contact your agent to determine what other options may be available.

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For additional information regarding Florida Select or the receivership process, please visit the Receiver's website at www.floridainsurancereceiver.org or contact the Florida Department of Financial Services at 1-800-882-3054.

Sincerely,

The Florida Department of Financial Services,
as Receiver of Florida Select Insurance Company



Welcome to Southern Fidelity Insurance Company!

We are happy to have the opportunity to meet your home insurance needs. Southern Fidelity is a Florida domiciled insurance company located in Tallahassee, Florida. Our financial strength has earned us an "A - Exceptional" rating from Demotech, a respected industry rating authority. We are a Florida based Insurance Company dedicated to the needs of Floridians.

On June 30, 2006, The Florida Department of Financial Services placed Florida Select Insurance in receivership. As a result, Florida Select will no longer be able to insure your home or property. With approval of the Office of Insurance Regulation, Southern Fidelity Insurance Company has been authorized to provide you with a replacement policy to ensure that you are not inconvenienced or left without valuable home or property coverage.

Your new Southern Fidelity policy is attached for your records. Your current Agent will continue to serve you. Aside from making certain that your policy premium is paid, no action is necessary on your part.

Four things you should know.

1. Florida Select offered coverage options for scheduling some types of personal property that are not available with Southern Fidelity. If you have scheduled personal property, you may wish to discuss coverage options with your agent.
2. **This policy does not provide flood coverage.** You must purchase your flood insurance separately from this policy. It is important to make sure that your home is properly protected with this important coverage.
3. We can replace your house and belongings, but we can not replace you. Please make sure that your home is protected with deadbolt locks and smoke detectors.
4. Your Declaration Page is attached. This lists all the forms and endorsements that are a part of your policy. Copies of each form and endorsement are included in your policy booklet. Only those forms listed on the Declaration Page are applicable to your policy.

We pledge to you that under normal circumstances, should you report a claim, you will be contacted within 24 hours by one of our adjusters. It is our company policy that all claims are paid promptly and fairly under the terms of the policy. Our goal is your satisfaction.

For policy information, questions, or to reach the claims department, please call 1 (866) 874-7342.

Thank you for allowing us the opportunity to meet your insurance needs.

P.O. Box 16029 • Tallahassee, FL 32317-6029 • Phone 1-866-874-7342 • Fax (850) 521-3081