

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

In Re: The Receivership of SOUTHERN
FAMILY INSURANCE COMPANY, a Florida
corporation.

CASE NO.: 06-CA-1060

In Re: The Receivership of ATLANTIC
PREFERRED INSURANCE COMPANY,
a Florida corporation.

CASE NO.: 06-CA-1083

In Re: The Receivership of FLORIDA
PREFERRED PROPERTY INSURANCE
COMPANY, a Florida corporation.

CASE NO.: 06-CA-1198

**ORDER APPROVING RECEIVER'S PLAN OF LIQUIDATION AND
TRANSITION**

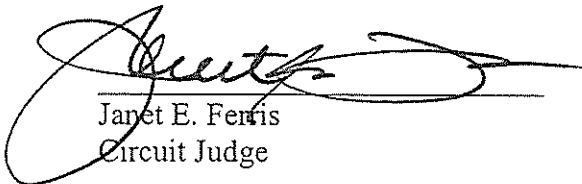
THIS CAUSE came before the Court for consideration of The Department of Financial Services', as Receiver of the above-named insurance companies (hereinafter the Receiver), Plan of Liquidation and Transition. Southern Family Insurance Company, Atlantic Preferred Insurance Company and Florida Preferred Property Insurance Company were ordered liquidated by this Court, with all policies issued by the three companies cancelled effective 12:01 a.m. July 1, 2006. Working with the Florida Insurance Guaranty Association (FIGA), the Office of Insurance Regulation (OIR) and Citizens Property Insurance Corporation (Citizens), the Receiver developed a plan to provide for the transition to Citizens of eligible policyholders of the three above-named insurance companies, effective 12:01 a.m. July 1, 2006. This will help assure continuous insurance coverage for eligible policyholders, while reducing administrative effort and expense. The Plan of Liquidation and Transition is included in this Order as Attachment

A, and incorporated by reference herein. The Office of Insurance Regulation, while not a party to the agreement, has approved the agreement.

Having considered the Receiver's Plan of Liquidation and Transition, included in this Order as Attachment A, and incorporated by reference herein, having heard the presentation of counsel, and being otherwise advised in the premises, it is

ORDERED that the Receiver's Plan of Liquidation and Transition is **APPROVED**.

DONE AND ORDERED this 2nd day of June, 2006.



Janet E. Ferris
Circuit Judge

ATTACHMENT:

Receiver's Plan of Liquidation and Transition

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

In Re: The Receiverships of

SOUTHERN FAMILY
INSURANCE COMPANY,
A Florida Corporation,

CASE NO.: 2006-CA-001060

ATLANTIC PREFERRED
INSURANCE COMPANY,
A Florida Corporation,

CASE NO.: 2006-CA-001083

and

FLORIDA PREFERRED PROPERTY
INSURANCE COMPANY,
A Florida Corporation,

CASE NO.: 2006-CA-001198

Respondent.

RECEIVER'S PLAN OF LIQUIDATION AND TRANSITION

The Florida Department of Financial Services as Receiver (hereinafter the "Receiver") of Southern Family Insurance Company, Atlantic Preferred Insurance Company, and Florida Preferred Property Insurance Company (hereinafter the "Respondents"), hereby submits this Liquidation and Transition Plan (hereinafter the "Liquidation Plan") on behalf of itself, Citizens Property Insurance Corporation (hereinafter "Citizens") and the Florida Insurance Guaranty Association (hereinafter "FIGA").

1. Effective June 1, 2006, the Court has entered Orders Appointing the Florida Department of Financial Services as Receiver of Southern Family Insurance Company, Atlantic Preferred Insurance Company and Florida Preferred Property Insurance Company for Purposes of Liquidation, Policy Transition, and Notice of Automatic Stay" (hereinafter

the “Liquidation Orders”).

2. To the extent that this Liquidation Plan contains provisions that are inconsistent with provisions that are contained in the Liquidation Orders, the provisions in the Liquidation Plan shall control.

3. As found in the forgoing Orders, by letters dated April 25, 2006, May 1, 2006, and May 9, 2006, to the Honorable Tom Gallagher, Chief Financial Officer of the State of Florida, Kevin McCarty, Commissioner of the Florida Office of Insurance Regulation (hereinafter the “Office”), recommended that delinquency proceedings, pursuant to Chapter 631, Florida Statutes, be initiated against Respondents. These letters detail a plan for placing each company into liquidation, for payment of claims by FIGA and for the orderly transition of policyholders with coverage from the Respondents into Citizens provided the policyholders were not offered alternative coverage in the admitted market or, where applicable, in the surplus lines market.

4. Recognizing the plan for the orderly transition of coverage for Respondents’ policyholders, the Florida Legislature, in Senate Bill 1980, signed into law by Governor Bush on May 16, 2006, provides in section 627.351(6)(v)6, Florida Statutes, effective July 1, 2006: “(v) Notwithstanding any other provision of law: . . . (6) If ordered by a court of competent jurisdiction, [Citizens] may assume policies or otherwise provide coverage for policyholders of an insurer placed in liquidation under chapter 631, under such forms, rates, terms, and conditions as [Citizens] deems appropriate, subject to approval by the [O]ffice.”

5. In this Liquidation Plan, Citizens will provide new coverage for Respondents’ eligible policyholders whose policies are cancelled pursuant to the

Liquidation Orders, such coverage to go into effect immediately following the cancellation of Respondents' policies. Citizens will utilize Respondents' forms, rates, and rules through the expiration of the original policy periods. Additionally, Citizens will utilize the computer systems of Respondents' affiliates as needed to administer the policies and claims associated with the new coverage being provided to policyholders under this Liquidation Plan. Over a twelve-month period, upon the expiration of the original policy periods, Citizens will be rewriting such policies on Citizens' own systems using Citizens' normal forms and rates over a twelve-month period.

6. The Receiver represents that it is in the best interest of Respondents' policyholders to keep their coverage with Respondent in effect until 12:01 am on July 1, 2006 to fully utilize Respondents' current 78% quota share reinsurance contracts.

7. Citizens and the Receiver represent that, without the transition plan provided for herein, on July 1 as many as 320,000 of Respondents' policyholders will be without coverage; approximately 1,500 of Respondents' independent agents will be scrambling to find markets and are likely to find that Citizens is the only available market; these independent agents will be burdened with re-writing customers into Citizens using a Citizens application, a Citizens form, and a Citizens rate in a short period of time and right at the start of the Hurricane Season; and that is impossible, not only for agents, but also for Citizens, as 320,000 policies is eight times the number of policies that Citizens and its more than 7,000 agents write in a single month; and there is nothing that Respondents' agents can do ahead of time, because these insureds are ineligible for Citizens until they are cancelled by the Liquidation Order on July 1, 2006.

8. Citizens, the Receiver, and FIGA further represent that, as of July 1,

Respondents' insureds will not have any returned unearned premium to apply toward the purchase of a Citizens policy; they will be required to file individual claims with FIGA for the return of the unearned premium, which could be a very costly and time consuming process.

9. Citizens represents that it has no installment payment plan, so Respondents' insureds will have to pay out of pocket or borrow to pay their premium (a temporary double payment for many, since they already paid for their coverage from the Respondents); Respondents' rates are substantially lower than those of Citizens, so these insureds would be required to pay higher premiums for the remaining term of coverage than they would have under this Transition Plan.

10. Citizens represents that its providing of coverage using Respondents' forms and rates as proposed in this Liquidation Plan will be at a substantial discount to the rates that Citizens would otherwise charge for similar coverage using its own rates and forms; that Citizens' providing of coverage using Respondents' forms and rates and the computer systems of Respondents' affiliates is more difficult for Citizens to implement than were it to use its own forms, rates and systems; and that Citizens' willingness to agree to the Liquidation Plan as authorized by section 627.351(6)(v)6, Florida Statutes, is conditioned upon: 1) the agreement of the Receiver and FIGA to all terms and conditions of the Liquidation Plan, and 2) the approval of the Liquidation Plan by the Court and the Office.

The terms and conditions of this Liquidation Plan are as follows:

11. Through their execution below, the Receiver, Citizens and FIGA hereby agree to this Liquidation Plan, provided, however, that this Liquidation Plan shall not be

effective unless it is ordered by the Court and approved by the Office as provided in Section 627.351(6)(v)6, Florida Statutes, as added by 2006 Senate Bill 1980.

12. Citizens will make one or more filings with the Office for approval of Citizens' coverage using Respondents' forms, rates, and rules as Citizens' form, rates and rules for the remaining original policy periods of Respondents' policies.

13. Effective 12:01 a.m., July 1, 2006, those eligible policyholders whose policies were canceled as of 12:01, a.m., July 1, 2006 pursuant to the Liquidation Orders will be provided coverage by Citizens under this Liquidation Plan, without the need of filing an application with Citizens or paying premium already paid to Respondents, such coverage being provided using Respondents' forms, rates, and rules as approved by the Office for use by Citizens (hereinafter the "Transition Coverage").

14. As a condition to Citizens' providing Transition Coverage to former policyholders of Respondents for the period after Respondents' policies are cancelled pursuant to the Liquidation Orders until the policies would otherwise have expired or been renewed, (i) Citizens is hereby assigned the entirety of the unearned premium, paid or not paid, that is associated with such cancelled policies, including unearned commissions; and (ii) FIGA shall pay such unearned premium to Citizens as provided in this paragraph provided that the amount of such payment to Citizens will be reduced: (a) by the amount of the unearned commission of Respondents' independent agents (for which Citizens retains its assignment), except that the unearned premium payable by FIGA to Citizens under this section shall not be reduced by the Po e Unearned Commission as defined below; and (b) the amount of unearned premium that is unpaid by Respondents' policyholders (for which Citizens retains its assignment).

15. Pursuant to the Managing General Agency Agreement between Poe Insurance Managers, Inc. ("MGA") and Respondents, Respondents paid to or owed MGA "a flat fee of 26.5% of each Company's gross premiums written, less pass through surcharges, and net of cancellations." Because the policies of Respondents are being cancelled pursuant to the Liquidation Orders, the fee payable to MGA is reduced by such cancellations. For purposes of this Liquidation Plan, "Poe Unearned Commission" means that amount of the 26.5% MGA fee attributable to the unearned premium, excluding the unearned commission paid or payable to Respondent's independent agents, but including the unearned commission paid or payable to Respondent's affiliates and employed agents.

16. In order to reduce the administrative costs associated with this receivership, the unearned premium associated with the Transition Coverage shall be paid by FIGA directly to Citizens in no more than six (6) semi-annual payments with the first payment due upon notification by the Receiver of the unearned premium calculated to be due Citizens. The Receiver shall make its best efforts to provide FIGA with notification of this unearned premium calculation prior to October 1, 2006.

17. Since Citizens will not have received from FIGA the entirety of the unearned premium prior to the expiration of all Transition Coverage, in the event of the early cancellation of any Transition Coverage by Citizens or the policyholder, that cancelled policyholder shall have a pro-rata unearned premium claim payable by FIGA with a corresponding reduction in the amount of unearned premium due from FIGA to Citizens.

18. A policyholder is ineligible for Transition Coverage to replace a policy cancelled by the Liquidation Orders if: (a) it is a personal lines policyholder that has received an offer of coverage from an admitted carrier; (b) it is a commercial lines

policyholder that has received an offer of coverage from an admitted or surplus lines carrier; (c) it is a policyholder with coverage written on a form that is not a personal residential policy, a commercial residential policy, or commercial nonresidential policy, of the type that Citizens is authorized to issue under Section 627.351(6); (d) the policyholder has obtained replacement coverage for the cancelled policy; (e) it is a commercial lines policyholder and, instead of providing Transition Coverage, Citizens offers to provide coverage using its normal forms, rates, rules, and systems; (f) the coverage of a Respondent's policyholder has been cancelled other than by the Liquidation Orders.

19. A policyholder of Respondents who is not eligible for Transition Coverage may still be eligible for coverage from Citizens under regular eligibility rules, application processes, and using the forms, rates, rules, and systems that Citizens normally uses.

20. With respect to policyholders who may be eligible for Transition Coverage, Citizens shall issue a "Notice of Offer of Automatic Coverage" evidencing Citizens' offer to provide coverage to such policyholders in accordance with this Liquidation Plan without any further action on the part of the policyholders. The Receiver and Citizens shall work together and share costs of providing appropriate information to the policyholders and agents regarding the cancellation of coverage and the subsequent Transition Coverage offered by Citizens. While Citizens will not be issuing any evidence of coverage other than the Notice of Offer of Automatic Coverage, eligible policyholders may rely on the declaration pages and other policy forms from their coverage with Respondents for details of the Transition Coverage.

21. Respondents shall cover losses occurring before 12:01 a.m., July 1, 2006.

Citizens' Transition Coverage shall cover losses occurring on or after 12:01 a.m., July 1, 2006.

22. Transition Coverage shall automatically terminate at the end of Respondents' remaining original policy periods, regardless of whether Citizens issues a notice of cancellation or non-renewal. Citizens will notify the policyholders having Transition Coverage, and notify their agents, that upon the expiration of the Transition Coverage such policyholders may be eligible for coverage with Citizens utilizing its own forms, rates, and rules. Citizens will also make reasonable efforts to automate, if possible, and ease the application process by such policyholders and their agents to avoid a lapse in coverage.

23. With respect to the business and policies of Respondents and their affiliates, Citizens has no liabilities of any nature whatsoever. In accordance with Section 627.351(6), Florida Statutes, Citizens has no extra-contractual liabilities, including common law or statutory liability for bad faith, for Transition Coverage.

24. The Receiver and Citizens shall cooperate fully with one another to facilitate Citizens' duties under the Liquidation Plan. In that regard, at no cost to Citizens, the Receiver will make available for use by Citizens, its employees, and its third-party vendors through at least December 31, 2006, any access the Receiver has to the facilities, hardware, software, applications, data, and other documents, books and records of Respondents and Respondents' affiliates controlled by Receiver under the Liquidation Orders ("Receiver Facilities, Records, and Systems"). The purpose of this access is to facilitate Citizens' servicing of the Transition Coverage and associated claims using Respondents' forms, rates and rules and Citizens' ability to issue financial reports

associated with the Transition Coverage and associated claims. To the extent reasonably practical, the facilities that the Receiver provides to Citizens shall be secure and substantially segregated from the facilities used by the Receiver, FIGA, and Respondents' affiliates. In the event that the Receiver's access to the Receiver Facilities, Records, and Systems is impaired or eliminated, the Receiver shall immediately notify Citizens, and all parties shall seek relief and guidance from the Court to address any concerns arising from the lack of access.

25. In the event that Citizens has Transition Coverage outstanding under the Liquidation Plan in the event that it receives notice from the Receiver of the impairment or elimination of access to the Receiver Facilities, Records, and Systems, Citizens may at its discretion, and upon approval of this Court, cancel Transition Coverage immediately or as otherwise ordered by the Court, in which event any cancelled policyholder may apply for coverage with Citizens if it is otherwise eligible in accordance with Section 627.351(6), Florida Statutes.

26. The Receiver will use its best efforts (i) to provide for security, disaster recovery, and backup of the systems of Respondents' affiliates that Citizens and FIGA will be using to service the Transition Coverage and associated claims; (ii) to preserve the licenses that enable Citizens and FIGA to use such systems; and (iii) to provide Citizens with data feeds to enable it, if possible, to automate the rewriting of policies using its own systems.

27. The parties hereto shall take measures to protect the confidentiality and privacy of policyholder and claimant information with respect to the policyholders and claimants of Respondents and Citizens to the extent required by law.

28. At its discretion, Citizens may provide Transition Coverage under this Liquidation Plan directly or through its appointed agents. Pursuant to Section 627.351(6)(v)6, Florida Statutes, as added by 2006 Senate Bill 1980, Citizens will not be using the services of Respondents or Respondents' affiliates or any licensed insurance agents who are employees of Respondents or Respondents' affiliates.

29. Citizens may subsequently apply to this Court for an order providing for the assignment to Citizens of Respondents' reimbursement contract with the Florida Hurricane Catastrophe Fund, as provided in Section 215.555(5)(e), Florida Statutes, as added by 2006 Senate Bill 1980.

30. The Receiver, Citizens, and FIGA will cooperate with one another with respect to their servicing of policies and claims under this Liquidation Plan.

31. The Receiver, Citizens, or FIGA may petition this Court for modifications to the Liquidation Plan. The Receiver, Citizens, and FIGA, may enter into other agreements to facilitate the terms and conditions of this Liquidation Plan.

Respectfully submitted this 1st day of June 2006, and agreed to by:



FLORIDA DEPARTMENT OF
FINANCIAL SERVICES

CITIZENS PROPERTY INSURANCE
CORPORATION

FLORIDA INSURANCE
GUARANTY ASSOCIATION

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FLORIDA DEPARTMENT OF
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Robert L. Rieber

CITIZENS PROPERTY INSURANCE
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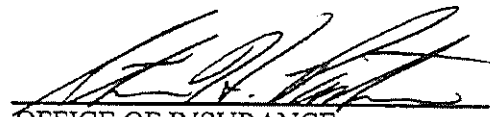
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FLORIDA DEPARTMENT OF
FINANCIAL SERVICES

CITIZENS PROPERTY INSURANCE
CORPORATION


FLORIDA INSURANCE
GUARANTY ASSOCIATION



OFFICE OF INSURANCE
REGULATION, solely for purposes of
providing its approval and not as a
party to this Liquidation Plan

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