

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.

**RECEIVER'S MOTION FOR ORDER APPROVING ASSUMPTION AGREEMENT
BETWEEN FLORIDA SELECT INSURANCE COMPANY AND
CAPITOL PREFERRED INSURANCE COMPANY**

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 Assumption Agreement between Florida Select and Capitol Preferred Insurance Company (hereinafter "Capitol Preferred") 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. 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").

3. 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."

4. 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."

5. 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.

6. In furtherance of the efforts to assist the policyholders of Florida Select, the Receiver entered discussions with Capitol Preferred regarding the assumption by Capitol Preferred of the policies currently held or serviced by Florida Select in the state of South Carolina.

7. Capitol Preferred is an "A" rated company licensed to operate in the state of South Carolina with rates and forms on file with the South Carolina Department of Insurance.

Capitol Preferred is 100% reinsured and in a position to assume all of the Florida Select South Carolina policies.

8. After extensive negotiations, the Receiver and Capitol Preferred were able to reach an agreement on a plan for the assumption of this book of business. The terms and conditions for the assumption of these policies by Capitol Preferred are set forth in a Assumption Agreement provided herein as Attachment "C."

9. Working closely with the Florida Office of Insurance Regulation and the South Carolina Department of Insurance, the Receiver has developed this plan to provide for Florida Select's South Carolina policyholders to continue their homeowners' insurance coverage through Capitol Preferred. The Florida Office of Insurance Regulation and South Carolina Department of Insurance have reviewed the attached Assumption Agreement between the parties and granted their approval. A copy of the approvals by both the Florida Office of Insurance Regulation and the South Carolina Department of Insurance are incorporated herein as Composite Attachment "D."

10. The Receiver believes the Assumption Agreement to be in the best interests of the estate of Florida Select and an essential component of the Receiver's ongoing efforts to rehabilitate the company, maximize value to potential claimants, and protect the policyholders of Florida Select.

11. Capitol Preferred has waived any notice of hearing or timing requirements that may be applicable in this matter and consents to the immediate entry of an Order approving the attached Assumption Agreement. A copy of the waiver is incorporated herein as Attachment "E."

12. The Receiver recommends and requests that the Court approve the Assumption Agreement provided herein as Attachment "C" and issue its Order directing the parties to comply with the terms and conditions set forth therein.

WHEREFORE and with good cause shown, the Receiver respectfully moves this Court to enter an Order approving the Assumption Agreement between Florida Select and Capitol Preferred Insurance Company and provide such other relief deemed necessary and appropriate by this Court.

DATED this 4th day of October 2006.



MARK S. HAMILTON, Senior Attorney
Florida Bar No. 0063819
Florida Department Of Financial Services
Division of Rehabilitation and Liquidation
Post Office Box 110
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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.

William L. Gary

William L. GARY
CIRCUIT JUDGE

A Certified Copy
Attest:

Bob Inzer

Clerk Circuit Court
Leon County, Florida

By *[Signature]*



D.C.

FLORIDA SELECT INSURANCE COMPANY - CAPITOL PREFERRED INSURANCE COMPANY

ASSUMPTION AGREEMENT

THIS ASSUMPTION AGREEMENT (the "Agreement") is executed to be effective as of 12:01 A.M. Eastern Standard Time on the 15th day of September, 2006 (the "Execution Date") by and between Capitol Preferred Insurance Company, Inc. a Florida and South Carolina licensed and authorized insurance company (hereinafter referred to as "INSURER"), and Florida Select Insurance Company in Receivership (hereinafter referred to as "COMPANY").

RECITALS

- I. **Definitions.** Any term not defined in this section which is defined elsewhere in this Agreement shall have the meaning ascribed to it therein.
 - a. "Aggregate Losses" shall mean those losses which include, but are not limited to, compensatory, punitive, bad faith and other damages arising from, and all loss adjustment expenses relating to, the adjustment or defense of any and all claims with respect to losses occurring on or after the Assumption Date with respect to the Policies. Aggregate Losses shall not include punitive or bad faith claims for acts, actions or omissions occurring before the Assumption Date.
 - b. "Assumed Policies" shall mean the COMPANY policies in the State of South Carolina (as set forth on Exhibit "A") and assumed by the INSURER on the Assumption Date.
 - c. "Assumed Premium" shall mean all unearned premium, net of unearned commissions due from agents payable as of the assumption date, all other agent balances, and premiums receivable. Assumed Premium shall not include commission monies due agents for the month of September 2006. Those monies shall be paid directly to the agents by the COMPANY and deducted out of the Assumed Premium total.
 - d. "Assumption" shall mean the transfer of risks from COMPANY to the INSURER whereby the INSURER agrees to assume all obligations of COMPANY with respect to the Assumed Policies in force and agrees to pay one hundred percent (100%) of the Aggregate Losses of the Policies as of a date and time certain.
 - e. "Assumption Date" shall mean 12:01 A.M. Eastern Standard Time on September 15, 2006.

- f. "COMPANY" shall mean Florida Select Insurance Company in Receivership.
- g. "Department" shall mean the applicable state agency regulating insurance in either Florida or South Carolina.
- h. "INSURER" shall mean the insurance company designated above which company is, and shall remain during the term of this Agreement, a duly licensed entity authorized to transact property and casualty insurance business in the states of Florida and South Carolina.
- i. "INSURER's Policy" shall mean the insurance policy offered by the INSURER to a COMPANY insured upon expiration of an Assumed Policy pursuant to this Agreement.
- j. "OFFICE" shall mean the Florida Office of Insurance Regulation.
- k. "Parties" shall mean the INSURER and COMPANY.
- l. "South Carolina Department" shall mean the South Carolina Department of Insurance.
- m. "Written Premium" shall mean the gross written premium of COMPANY on the Policies, less policy cancellation and return premiums, as of the Assumption Date.

THEREFORE, in consideration of the mutual covenants and agreements set forth, the Parties hereto do covenant and agree as follows:

1. Agreement to Assume Policies.

- a. The Parties agree that all of the COMPANY in force policies in South Carolina are to be assumed by the INSURER on the Assumption Date. Policies to be assumed are set forth on Exhibit A by COMPANY policy number and expiration date.
- b. Pursuant to this Agreement and the Assumption Procedures, the INSURER shall assume all of the Assumed Policies set forth on Exhibit A or supplements thereto, if available for Assumption on the Assumption Date.
- c. All COMPANY policies shall renew on Florida Selects paper until such times as the INSURER's system is programmed to offer renewals.

- d. The INSURER understands and agrees it has been informed that the COMPANY policies in South Carolina have been subject to solicitations outside the control of the COMPANY (commonly referred to as "cherry picking") since the inception of the Receivership. The INSURER agrees that no specific number of COMPANY policies has been guaranteed as part of any agreement between the Parties.

2. Terms of Assumption.

a. Liabilities:

- i. The INSURER agrees to assume and pay one hundred percent (100%) of the defined Aggregate Losses occurring on or after 12:01 A.M Eastern Standard Time on September 15, 2006 (the "Assumption Date") for which COMPANY is or becomes obligated under the Assumed Policies in force set forth in Exhibit A.
- ii. The INSURER, in addition, agrees to assume and undertake all other obligations of COMPANY with respect to the Assumed Policies subject to the following:
 - a. COMPANY shall remain liable for all Aggregate Losses for the Assumed Policies occurring prior to the Assumption Date, including any bad faith or punitive damage claims for acts, actions or omissions occurring before the Assumption Date, and the INSURER shall have no responsibility with respect to such losses.
 - b. The cost of any notice and ancillary documentation to current COMPANY policyholders to effectuate the Assumption of the Assumed Policies shall be borne equally by the Parties as such expenses are incurred.
 - c. COMPANY shall pay by wire transfer to the INSURER .9500 of the Assumed Premium multiplied by 1.000 on or before the 10th day following approval of this Agreement by the Receivership Court. The remaining .0500 of the Assumed Premium and any adjustments due to or from the COMPANY to the INSURER will be paid on or before the 120th day following approval of this Agreement by the Receivership Court. Any subsequent amounts due to or from COMPANY as a result of the monthly remittance and bordereau process to include premium adjustments on endorsements of policies not issued by the INSURER shall

be remitted to the appropriate Party within ten (10) days following the end of each month without interest.

B. Servicing of Policies:

- i. Commencing on the Assumption Date, the INSURER shall be responsible for all agent and brokerage commissions, as well as for all return premiums for cancellations of the COMPANY Policies for which it receives Assumed Premium. In addition, the INSURER shall be responsible for all fees to the INSURER's servicing companies for the Assumed Policies.
- ii. Commencing on the Assumption Date, or as soon as programming is completed, the INSURER shall become responsible for offering and processing renewals with respect to the Assumed Policies, utilizing INSURER's own approved rates and forms (the INSURER's Policy) and thereafter for processing endorsements to, and cancellations and renewals of, the INSURER's Policies. The INSURER shall be responsible for all agent and brokerage commissions for the INSURER's Policies, for all return premiums for cancellations of the INSURER's Policies occurring after renewal, and for all fees to its servicing companies accruing on or after the initial issuance of the INSURER's Policies. The INSURER shall be entitled to one hundred percent (100%) of the premiums payable with respect to the INSURER's Policies from date of renewal forward.

C. Loss Payments and Settlements:

- i. COMPANY shall service all claims for Aggregate Losses occurring prior to the Assumption Date.
- ii. Servicing of claims for losses on Assumed Policies occurring on or after the Assumption Date shall be the sole responsibility of the INSURER. COMPANY shall have no responsibility, except as provided for in the definition of Aggregate Losses, for payment of losses or loss adjustment expenses or for the servicing of claims with respect to losses occurring under the Assumed Policies on or after the Assumption Date.
- iii. COMPANY agrees to abide by the loss settlements of the INSURER and/or its claims administration

contractor with respect to the obligations assumed hereunder, such settlement to be considered as satisfactory payment of loss. The INSURER undertakes to settle losses on Assumed Policies and to provide staffing for the adjustment of such losses in accordance with INSURER'S Claims Manual and prudent insurance practice.

- iv. With regard to the Assumed Policies, COMPANY agrees that it shall give notice promptly to the INSURER of any claim by a third party or the commencement of any legal proceedings against COMPANY with respect to such claim. The INSURER shall have the exclusive right to control the contest and defense of any such claim or litigation and the result of any such proceeding will be binding upon the parties hereto. Except as it relates to claims of bad faith based on acts or actions occurring before the Assumption Date, INSURER shall assume liability for any and all costs associated with the defense and payment of any such claim or litigation.
- v. COMPANY agrees to assign to the INSURER any and all salvage and subrogation rights arising with respect to losses occurring on or after an Assumption Date, which COMPANY may have with respect to the Assumed Policies. Any and all salvage and subrogation rights arising with respect to losses occurring prior to the Assumption Date shall remain the sole and exclusive property of COMPANY.

D. Conditions to Closing:

The following conditions must be met prior to this Agreement becoming effective:

- i. Company shall obtain approval of this Agreement by a Court Order from the Leon County Circuit Court having jurisdiction of the Receivership, which Order shall be attached hereto.
- ii. This Agreement shall be approved in writing by the respective OFFICE or South Carolina Department as necessary to carry out the terms and conditions provided herein.

The Parties agree to cooperate with each other to obtain the necessary approvals and accomplish the terms set forth in the Assumption

Agreement including, but not limited to: 1) executing any and all documents as may be necessary to carry out said terms; and 2) complying with any administrative, regulatory, judicial, or other requisite requirement necessary in furtherance of the terms of this Assumption Agreement.

3. Policy Data. COMPANY shall provide, or has provided, to the INSURER, by electronic data transfer, or by such other means as is acceptable to the INSURER, relevant information regarding the Assumed Policies. The first such transmission of data shall be provided to the INSURER at the earliest possible date convenient to the INSURER and COMPANY and thereafter on a basis as agreed to by the INSURER and COMPANY.
4. INSURER's Continuing Status. The INSURER, during the period of this Agreement, shall remain licensed and authorized to transact property and casualty insurance business in the states of Florida and South Carolina. Should the INSURER fail to maintain its authority and licensing to conduct such business, or should the INSURER fail to maintain or should the INSURER become subject to an adverse finding pursuant to Chapter 631, Florida Statutes, or any other order of the OFFICE, South Carolina Department, or a court of competent jurisdiction that in any material form or manner limits or constrains the ability of the INSURER to engage in the business of property and casualty insurance, other than the initial *Consent Order Appointing The Florida Department of Financial Services As Receiver For Purposes Of Rehabilitation, Injunction, And Notice Of Automatic Stay*, such occurrence shall constitute and be deemed a material breach and default of this Agreement by the INSURER.

INSURER has been assigned a Preliminary Financial Stability Rating of "A" by Demotech, Inc. INSURER shall finalize and maintain, at a minimum, an "A" Rating by Demotech, Inc. In the event that INSURER fails to obtain and maintain this rating such occurrence shall constitute and be deemed a material breach and default of the Agreement by the INSURER.

5. Attorney's Fees. If either of the parties hereto shall bring a Court action alleging material breach of this Agreement or seeking to enforce, rescind, renounce, declare void or terminate this Agreement or any provisions thereof, the prevailing party shall be entitled to recover all of its legal expenses, including reasonable attorney's fees and costs (including attorney's fees and costs for any appeals taken), and to have the same awarded as part of the judgment in the proceeding in which such legal expenses and attorney's fees and costs were incurred.
6. Benefits. This Agreement shall be binding upon the parties, their heirs, legal representatives, successors and assigns.

7. Captions. The paragraph captions as to contents of the particular paragraphs herein are inserted only for convenience and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular paragraph in which they are referred.
8. Construction of Agreement. Words of a gender used in this Agreement shall be held to include any other gender, and words in a singular number shall be held to include the plural, when the sentence so requires.
9. Entire Agreement. This Agreement contains all oral and/or previously written agreements, representations, and arrangements between the parties hereto concerning the Program, and all rights which the respective parties may have had under any prior written or oral agreements are hereby canceled and terminated, and all parties agree that there are no representations or warranties other than those set forth herein.
10. Florida Law. It is acknowledged that this Agreement was executed in and shall be construed and governed in accordance with the laws of the State of Florida and the rules, orders and regulations of the OFFICE or South Carolina Department in effect at the time of the execution of this Agreement.
11. Modification. No change or modification of this Agreement shall be valid unless the same shall be in writing and signed by all of the parties hereto and not disapproved by either the OFFICE or South Carolina Department.
12. Notices. Any and all notices, designations, consents, offers, acceptances, or any other communications provided for herein shall be given in writing, by hand delivery, by overnight delivery, by registered or certified mail, or by facsimile transmission and shall be addressed as follows:

As to INSURER: Capitol Preferred Insurance Company
2255 Killearn Center Boulevard, Suite 101
Tallahassee, FL 32309
Attn: Mr. James Graganella
Telefax: (850) 521-3072

As to COMPANY: Department of Financial Services
Division of Rehabilitation and Liquidation
Alexander Building
2020 Capitol Circle Southeast
Tallahassee, FL 32301
Attn: Mr. Wayne Johnson
Telefax: (850) 488-1510

Notices sent by hand delivery shall be deemed delivered on the date of hand delivery. Notices sent by overnight delivery shall be deemed delivered on the

next business day after being placed into the hands of the INSURER or COMPANY. Notices sent by registered or certified mail shall be deemed delivered on the third business day after being deposited into the post office. Notices sent by facsimile transmission shall be deemed to be delivered on the day when sent if sent prior to 4:30 p.m. (the time being determined by the time zone of the recipient) otherwise they shall be deemed delivered on the next business day.

13. Parties Represented. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.
14. Assignment. COMPANY does assign and transfer to the INSURER, without additional charge, the servicing rights associated with the Flood Policy Book of Business ("Flood Book") underwritten by NFIP, as such policies serviced are set forth on Exhibit "B" attached hereto. This assignment of COMPANY's rights shall apply to all flood policies serviced by COMPANY in the State of South Carolina and will be subject to continuing assignment at such time a new, replacement policy is offered, accepted, and underwritten by the INSURER.

Capitol Preferred Insurance Company, Inc.

By: James H. Hester

Title: President & CEO

Florida Select Insurance Company in Receivership

By: Michael P. Smith

Title: Special Deputy Receiver



OFFICE OF INSURANCE REGULATION

FINANCIAL SERVICES
COMMISSIONJEB BUSH
GOVERNORTOM GALLAGHER
CHIEF FINANCIAL OFFICERCHARLIE CRIST
ATTORNEY GENERALCHARLES BRONSON
COMMISSIONER OF
AGRICULTUREKEVIN M. MCCARTY
COMMISSIONER

October 4, 2006

Mr. Mark Hamilton
Senior Attorney
Department of Financial Services
Division of Rehabilitation and Liquidation
Alexander Building
2020 Capitol Circle Southeast
Tallahassee, FL 32301

RE: Florida Select Insurance Company/Capitol Preferred Insurance Company

Dear Mr. Hamilton:

The Office has received the proposed assumption agreement between Capitol Preferred Insurance Company, Inc., a Florida and South Carolina licensed and authorized insurance company ("Capitol Preferred"), and Florida Select Insurance Company in Receivership (hereinafter referred to as "Florida Select"). Pursuant to the agreement, Capitol Preferred shall assume all Florida Select policies in force in the State of South Carolina in effect as of September 15, 2006. As outlined in the agreement, Capitol Preferred agrees to assume and pay one hundred percent of the losses, as defined in the agreement, occurring on or after the assumption date for which Florida Select is or becomes obligated under the assumed policies. Florida Select shall remain liable for all losses for the assumed policies occurring prior to the assumption date, including any bad faith or punitive damage claims for acts, actions or omissions occurring before the assumption date, and Capitol Preferred shall have no responsibility with respect to such losses.

Subject to the approval of the Leon County Circuit Court, having jurisdiction over the receivership of Florida Select, and no objection by the South Carolina Insurance Department, the Office has no objection to the execution of the assumption agreement under the terms and conditions outlined in the agreement.

THOMAS D. STREUKENS, DEPUTY COMMISSIONER, OFFICE OF INSURANCE REGULATION
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0326 • (850) 413-5000 • FAX (850) 488-2348

Affirmative Action / Equal Opportunity Employer

Composite Attachment "D"

Mr. Mark Hamilton
October 4, 2006
Page 2 of 2

Within 10 days of the execution of the assumption agreement, the parties shall provide the Office with a copy of the executed assumption agreement, a copy of the approval by the Leon County Circuit Court, and the approval or no objection letter provided by the South Carolina Insurance Department.

If you have any questions feel free to contact me at (850) 413-5000.

Sincerely,



Thomas D. Streukens
Deputy Commissioner

Cc: Claude Mueller, Director – Property and Casualty Financial Oversight
Wayne Johnson, Assistant Director - Division of Rehabilitation and Liquidation

Mark Hamilton

From: Charles Perry [CPerry@doi.sc.gov]
Sent: Monday, October 02, 2006 5:04 PM
To: Mark Hamilton
Cc: Wayne Johnson
Subject: RE: Florida Select

Mark,
The attached assumption agreement is acceptable.
Thanks,
Charles

>>> "Mark Hamilton" <Mark.Hamilton@fldfs.com> 10/02/2006 1:46 PM >>>

Charles,

Thank you for your review and approval of the proposed Order.

Attached is a clean copy of the Assumption Agreement between the parties. Please advise if the S.C. Department of Insurance still approves of its form and content.

Thank you.

Mark

From: Charles Perry [mailto:CPerry@doi.sc.gov]
Sent: Monday, October 02, 2006 9:56 AM
To: Mark Hamilton
Cc: Wayne Johnson
Subject: RE: Florida Select

Mark,
I hope everything is going well. Thank you for your email. We don't have any objections to the order being submitted to the Court. Please let us know when everything has been approved. Thanks again.
Charles

>>> "Mark Hamilton" <Mark.Hamilton@fldfs.com> 10/02/2006 8:53 AM >>>

Charles,

Good morning. The Judge who is handling this estate is out until tomorrow morning. We are finalizing a few last items in the proposed Assumption Agreement to clarify some matters and will forward the finalized assumption agreement for your review and approval.

I have attached the proposed Motion and Order for your review. Please advise if you have any objections to it being entered by the Court.

Thank you for your assistance.

Mark

10/2/2006

From: Charles Perry [mailto:CPerry@doi.sc.gov]
Sent: Monday, October 02, 2006 7:58 AM
To: Mark Hamilton; Wayne Johnson
Subject: Florida Select

Wayne and Mark,

Has the Florida Court approved the assumption agreement between Florida Select and Capitol Preferred? Please let me know the status.

Thanks.

Charles

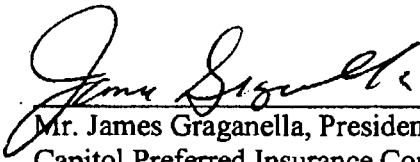
IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT IN
AND FOR LEON COUNTY, FLORIDA

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

CASE NO.: 2006-1669

WAIVER OF NOTICE OF HEARING AND TIMING REQUIREMENTS

Comes now the undersigned, as representative and on behalf of Capitol Preferred Insurance Company, who hereby waives any notice of hearing and timing requirements that may be applicable in the above-styled matter as it relates the *Receiver's Motion For Order Approving Assumption Agreement Between Florida Select Insurance Company And Capitol Preferred Insurance Company* (hereinafter "Motion") and hereby consents to the immediate entry by the Court of an Order approving the Motion and the Assumption Agreement executed between the parties in this action.



Mr. James Graganella, President
Capitol Preferred Insurance Company
2255 Killlearn Center Blvd., Suite 101
Tallahassee, FL 32309

Attachment "E"