

AT RICHMOND, JUNE 20, 2003

COMMONWEALTH OF VIRGINIA, *ex rel.*
STATE CORPORATION COMMISSION,

Applicant,

v.

CASE NO. INS-2003-00024

RECIPROCAL OF AMERICA

and

THE RECIPROCAL GROUP,

Respondents.

**ORDER OF LIQUIDATION WITH A FINDING OF INSOLVENCY AND
DIRECTING THE CANCELLATION OF DIRECT INSURANCE POLICIES**

ON A FORMER DATE CAME Alfred W. Gross, as Deputy Receiver (the "Deputy Receiver") of Reciprocal of America ("ROA") and The Reciprocal Group ("TRG") (collectively, the "Companies"), and filed with the Clerk of the Commission his Application for Orders Setting Hearing on Liquidation of Reciprocal of America and the Reciprocal Group, Establishing Response Dates, Ordering Liquidation, Approving Claims Bar Dates, and Related Matters (the "Application"), seeking, *inter alia*, that the Commission enter an order declaring the Companies to be insolvent, ordering that the Companies be liquidated, permitting the payment of certain workers' compensation benefits, and authorizing the cancellation of ROA's direct insurance policies.

A hearing was held before the Commission on June 19, 2003, with respect to such matters, at which appearances were made by counsel on behalf of the Deputy Receiver; John Knox Walkup, Special Deputy Receiver for Doctors Insurance Reciprocal, RRG; Robert S. Brandt, Special Deputy Receiver for American National Lawyers Insurance Reciprocal, RRG; Michael D. Pearigen, Special Deputy Receiver for The Reciprocal Alliance, RRG, (together the "SDRs"); Clark Regional Medical Center, T.J. Samson Community Hospital, Pineville Community Hospital, Highlands Regional Medical Center, Twin Lakes Regional Medical

Center, Hardin Memorial Hospital, Gateway Regional Medical Center, Regional Medical Center/Trover Clinic Foundation, Murray-Calloway County Hospital, Owensboro Mercy Health System, Harrison Memorial Hospital, River Valley Behavioral Health Hospital, Muhlenberg Community Hospital, and Lincoln Trail Hospital (together the "Kentucky Claimants"); and Coastal Region Board of Directors ("Coastal").

AND THE COMMISSION having considered the Application, and the evidence and argument of counsel, makes the following findings:

1. Reciprocal of America is insolvent, as that term is defined in Va. Code Ann. § 38.2-1501 (Michie 2001).

2. The Reciprocal Group is insolvent, as that term is defined in Va. Code Ann. § 38.2-1501 (Michie 2001).

3. Further efforts to rehabilitate ROA and TRG would be useless, and the Companies should be liquidated as contemplated in Va. Code Ann. § 38.2-1519 (Michie 2001).

4. The direct insurance policies issued by ROA should be cancelled on or before the date on which claims arising thereunder cease to be covered by the applicable insurance guaranty associations. Notice of such cancellation should be provided the affected insureds as soon as practicably possible.

5. The Deputy Receiver should continue making workers' compensation Disability Payments, as more fully described in the Application, until such time as such payments are assumed by the applicable insurance guaranty associations. Such payments are generally essential to the daily sustenance of the recipients in this Commonwealth and in other states. The Deputy Receiver should continue to pursue reimbursement agreements with the associations,

with respect to any such payments made by the Deputy Receiver for which a guaranty association is liable.

6. The rights and liabilities of creditors, policyholders, insureds, stockholders, members, and all other persons interested in the property and assets of the Companies will be fixed as of the date of the entry of this Order of Liquidation by operation of Va. Code Ann. § 38.2-1512 (Michie 2001). The determination of the classification to be accorded a particular claim is not foreclosed by operation of the said § 38.2-1512.

THE COMMISSION further finds that, as to the matters considered at such hearing, the Application should be granted.

THEREFORE, IT IS ORDERED THAT:

1. TRG and ROA are hereby found and declared to be insolvent.
2. The Deputy Receiver be, and he is hereby, directed to proceed with the liquidation of ROA and TRG in accordance with the provisions of Title 38.2, Chapter 15, of the Virginia Code, other applicable Virginia law, and the orders of the Commission, and all subject to the further orders of the Commission.
3. Pending further Orders of the Commission, the Deputy Receiver be, and he is hereby, authorized to continue making Disability Payments arising under ROA workers' compensation insurance policies as described hereinabove until such time as such Disability Payments can be made by the guaranty associations.
4. The Deputy Receiver be, and he is hereby, authorized to cancel all direct insurance policies issued by ROA, such cancellation to be effective on or before the last date for which claims arising thereunder would be covered by the applicable insurance guaranty association.

5. The Deputy Receiver shall provide notice of such cancellation to affected policyholders by publication and mailing as described in the Application filed by the Deputy Receiver of ROA and TRG on April 30, 2003.

6. This matter is continued.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Walter A. Marston, Jr., Esquire, Reed Smith LLP, Riverfront Plaza, West Tower, 901 East Byrd Street, Suite 1700, Richmond, Virginia 23219-4069, Counsel to the SDRs; Greg E. Mitchell, Esquire, R. K. Moorman, Esquire, Jan de Beer, Esquire, and William C. Gullett, Esquire, Frost Brown Todd LLC, 250 West Main Street, Suite 2700, Lexington, Kentucky 40507, Counsel to the Kentucky Claimants; Wiley F. Mitchell, Jr., Esquire, Wilcox & Savage, P.C., 1800 Bank of America Center, Norfolk, Virginia 23510, Counsel to Coastal; Patrick H. Cantilo, Esquire, Mark Bennett, Esquire, and Pierre J. Riou, Esquire, Cantilo & Bennett, L.L.P., 7501 C North Capital of Texas Highway, Suite 200, Austin, Texas 78731, Counsel to the Deputy Receiver; Melvin J. Dillon, Special Deputy Receiver, c/o Reciprocal of America and The Reciprocal Group, In Receivership, 4200 Innslake Drive, Glen Allen, Virginia 23060; Philip B. Morris, Esquire, Morris & Morris, P.O. Box 30, Richmond, Virginia 23218-0030; H. L. Kneedler, Esquire, Curtis G. Manchester, Esquire, and Kevin R. McNally, Esquire, Counsel to Special Deputy Receiver, ReedSmith LLP, Riverfront Plaza, West Tower, 901 East Byrd Street, Suite 170, Richmond, Virginia 23219-4069; J. G. Matherne, Esquire, and William Gibson, Esquire, Wyatt, Tarrant & Combs, LLP, 2525 West End Avenue, Suite 1500, Nashville, Tennessee 37203-1423; Kathryn A. Stephenson, Esquire, and Paul W. Ambrosius, Esquire, Trauger, Ney & Tuke, Southern Turf Building, 222 4th Avenue, North, Nashville, Tennessee 37219-2117; Leslie F. Shechter, Esquire, and J. W. Luna, Esquire, Farmer & Luna, PLLC, 333 Union Street, Suite 300,

Nashville, Tennessee 37201; Jody M. Wagner, Treasurer of Virginia, 101 North 14th Street, Richmond, Virginia 23219; Steven G. Friedman, 1019 Stirling Court, Charlottesville, Virginia 22901; Ross C. Reeves, Esquire, and Michael R. Katchmark, Esquire, Wilcox & Savage, PC, One Commercial Place, Suite 1800, Norfolk, Virginia 23510; William B. Hubbard, Esquire, and Robyn E. Smith, Esquire, Weed Hubbard Berry & Doughty, PC, 201 Fourth Avenue North, Suite 1420, Nashville, Tennessee 37219; Michelle Long, Esquire, Tennessee Hospital Association, 500 Interstate Boulevard, Nashville, Tennessee 37210; Don B. Long, Jr., Esquire, and Clark R. Hammond, Esquire, Johnston Barton Proctor & Powel, 2900 AmSouth/Harbert Plaza, 1901 6th Avenue North, Birmingham, Alabama 35203-2618; Commissioner of Insurance Alfred W. Gross, Deputy Receiver of Reciprocal of America and The Reciprocal Group, In Receivership, c/o The Bureau of Insurance; and Peter B. Smith, Esquire, Office of the General Counsel, State Corporation Commission.