IN THE CHANCERY COURT FOR THE STATE OF TENNESSEE
TWENTIETH JUDICIAL DISTRICT, DAVIDSON COUNTY

STATE OF TENNESSEE ex rel. JULIE MIX McPEAK, COMMISSIONER OF COMMERCE AND INSURANCE FOR THE STATE OF TENNESSEE,	)	
	)	**Nos. 03-293 (IV)**
	)	**03-294 (IV)**
	)	**03-295 (IV)**
Petitioner,	)	
v.	)	
AMERICAN NATIONAL LAWYERS INSURANCE RECIPROCAL (RRG), a Tennessee Domiciled Insurance Company, DOCTORS INSURANCE RECIPROCAL (RRG), a Tennessee Domiciled Insurance Company and THE RECIPROCAL ALLIANCE (RRG), a Tennessee Domiciled Insurance Company,	)	
Respondents.	)	

RECEIVER'S ANNOUNCEMENT OF PROPOSAL TO ALLOCATE JOINT RECOVERIES OF THE THREE RECEIVERSHIP ESTATES
AND
MOTION FOR APPROVAL OF INTERIM DISTRIBUTION TO APPROVED CLASS 2 CLAIMANTS
AND
REPORT AND LISTING OF CLASS 2 CLAIMS PROPOSED TO BE PAID IN INTERIM DISTRIBUTION

I. Introduction

Julie Mix McPeak, as Commissioner of the Tennessee Department of Commerce and Insurance, in her capacity as Receiver of American National Lawyers Insurance Reciprocal (RRG) in Liquidation ("ANLIR"), Doctors Insurance Reciprocal (RRG) in Liquidation ("DIR") and The Reciprocal Alliance (RRG) in Liquidation ("TRA") (collectively referred to as "RRGs"), and through her appointed Special Deputy Receiver of each respective RRG, makes this filing:

(a) to announce the proposed allocation amongst the RRG Receivership Estates of recoveries jointly realized by the RRGs Receivership Estates for purposes of distributions to approved Class 2 claim holders;

(b) to approve an interim distribution of 50% to the holder of each approved Class 2 claim; and

(c) to submit, to the extent required pursuant to T.C.A. §56-9-331 and to the extent needed prior to the interim distribution being paid, the report and listing of all the Class 2 claims (which have been approved and to which no objection has been lodged) that will be subject to the interim distribution requested herein, if approved by the Court.

As set forth with more detail below, the RRG Receiver, through her appointed Special Deputy Receivers, maintains that the allocation set forth herein of joint recoveries -- based upon the concept of "actual net approved Class 2 claim loss" of the RRG Receiverships -- is the most fair to the three separate RRG Receivership Estates, and their respective Class 2 claimants. As stated in more detail below, if the proposed allocation methodology is used, the assets available for distribution are sufficient to pay an interim distribution of 50% to each approved non-objecting Class 2 claimant of each of the separate RRG Receivership Estates, consistent with applicable provisions of the Tennessee Insurance Code (e.g., T.C.A. §56-9-332).

II. Proposed Allocation of Joint Recoveries

As this Court is aware, the RRG Receiverships have achieved through settlements approximately $71.86 million from third party actions. These recoveries have been through confidential settlements approved earlier this year by the Court.

The RRG Receiver and her three RRG Special Deputy Receivers, propose -- and otherwise intend to effect -- allocation of the joint recoveries amongst the RRG Receiverships to address actual net Class 2 claim loss of the RRG Receiverships. The "net Class 2 claim loss amount" method allows allocation from joint recoveries of the actual amount of funds required by each RRG Receivership, after subtracting the funds already available to each RRG Receivership, providing a net Class 2 claim loss for each RRG. All three of these net Class 2 claim losses will be totaled providing

an aggregate of net Class 2 claim loss for all three RRGs. Next a ratio will be determined by dividing the aggregate of all net Class 2 claim loss by the total amount of joint recovery. Then, for each RRG this ratio will be multiplied times that RRG's net Class 2 claim loss, representing the allocation from joint recovery for that particular RRG.[1] Attached as **Exhibit A** is a conceptual step-by-step explanation of this proposed allocation methodology.

While interim pro rata distributions--such as the one requested approval of herein--inherently must be based on estimations of aggregate Class 2 claims and conservative reserving for payment of equal interim distribution percentages to later approved Class 2 claims amounts, this "net Class 2 claim loss amount" allocation of joint recoveries will provide the fairest method to ultimately pay all of the approved Class 2 claims to the fullest extent possible, because it will be based on the joint recoveries being used to address the net amount of RRG Receivership's actual Class 2 claims.

As noted earlier, the RRG Receiver and her Special Deputy Receivers assert that use of the "net Class 2 claim loss" allocation methodology is the most fair to the three RRG Receiverships and their respective Class 2 claimants. The RRG Receiver settled the third party asset recovery litigation jointly on behalf of all of the RRG Receiverships with a principal reason being the obtaining of funds that would be used to pay claims as fully as possible pursuant to the priorities set forth in T.C.A. §56-9-330. It was, and is, an important goal of the RRG Receiver, in the context of T.C.A. §56-9-330, to pay as much as possible toward the approved Class 2 claims of all the RRG Receiverships. The damages asserted in those third party actions, and which were utilized in gauging whether settlement would be agreed to, were the projected aggregate net amount of Class 2 losses for all the RRG Receiverships. And it was the ability to pay Class 2 claims as fully as possible that was an important consideration by the RRG Receiver in exercising her discretion to settle the third party claims and

[1] Allocation of the joint recovery funds would continue at the recovery ratio up to the point where the RRG no longer had any "net Class 2 claim loss." At that point, no further allocation of joint recoveries would occur until the remaining Class 2 claims of all the RRG Receiverships were addressed to the same extent.

secure the joint recoveries as allowed under T.C.A. §56-9-310. Therefore, it makes sense and is fair for those joint recoveries to be allocated in a fashion that would allow payment of actual approved Class 2 claim amounts of the three RRG Receiverships to the fullest extent possible.

III. Request for Approval of a Pro Rata Interim Distribution of 50% of Each Approved Class 2 Claim

The RRG Receiver, by and through her Special Deputy Receivers, has reviewed, in good faith, the information available and has considered all reasonable matters regarding what pro rata percentage distribution can safely be proposed for the Court to review and approve, if the "net Class 2 claim loss" allocation method is utilized. In this instance, consideration and allowance must be given for the amounts expected to be spent in operating the three RRG Receiverships until final distribution and closure. Consideration and allowance must be given for those Class 2 claims that, while liquidated or otherwise valued, have not had an approved Class 2 claim amount established or agreed to, nor a Notice of Determination issued. Consideration and allowance must be given to what could occur in relation to the pending objections to the NODs issued regarding Class 2 claims and possible hearings/trials before the referee and/or appeals relating to those objections. Finally, consideration and allowance would need to be given in relation to any assertion by ROA/TRG of a Class 2 claim.[2]

Based on the above-referenced review, the RRG Receiver asserts that there is an aggregate amount of $61,521,366 in finalized approved Class 2 claims to which no objection(s) have been filed. Attached as **Exhibit B** is the listing of such approved, "non-objected to" Class 2 claims for ANLIR;

[2] As the Court is aware, on September 16, 2011, the RRGs filed a motion requesting that a deadline be established for liquidation of any Class 2 claim which Reciprocal of America ("ROA") or The Reciprocal Group ("TRG") asserts that they have or may have. Hearing on that motion occurred Friday, September 30, 2011. The Court has ordered, in granting that motion, that any unliquidated Class 2 claim asserted by ROA or TRG must be liquidated by November 2, 2011 or be subject to disallowance by the particular RRG Receivership. The hearing of this Motion is set for November 9, 2011 at 2:00 p.m. Central Time. Therefore, at that time, the RRG Receiver anticipates a better understanding of what, if any, Class 2 claims ROA/TRG will be asserting in the RRG Receiverships and to know whether any change in the proposed pro rata interim distribution should be made.

Exhibit C is the listing of such approved, "non-objected to" Class 2 claims for DIR; and **Exhibit D** is the listing of such approved, "non-objected to" Class 2 claims for TRA, which all together total to the above-referenced $61,521,366 aggregate amount.[3] Given good faith review of the existing objections[4] to the various Class 2 claim determinations, the RRG Receiver maintains that approximately $26.8 million should be reserved to address contingencies relating to those objections. Moreover, with regard to the Class 2 claims which have not had Notices of Determination ("NOD") issued, but which have been liquidated or reasonably evaluated/reserved for, the RRG Receiver maintains that approximately $15.2 million should be reserved to address contingencies as to those Class 2 claims. Adding all of these amounts together results in the following aggregate exposure to the RRG Receiverships for the Class 2 claims:

$ 61.5 million (current non-objected approved Class 2 NOD's)
26.8 million (contingency for all objections to Class 2 NOD's)
15.2 million (contingency for non-NOD'ed Class 2 claims)
$103.5 million

Given the amounts available for distribution from the joint recoveries under the "net Class 2 claim loss" methodology, the RRG Receiver asserts that an interim distribution of 50% of the approved, "non-objected to" Class 2 claims can, and should, be made -- 50% of the above-noted $61.5 million set forth in **Exhibits B, C and D** -- which is an interim payment of approximately $30.75 million. There would remain, after such payment, sufficient funds to address 50% distributions to 1) all of the other potential approved Class 2 claims, 2) the Class 2 claim(s) presented by ROA/TRG and approved by the relevant RRG Receivership (see footnote 2 infra), 3) any other reasonably foreseeable contingency that could arise relating to Class 2 claims, and 4) the costs and expenses of administering the RRG Receivership Estate through closure. Accordingly, a 50% interim

[3] These three listings of claims include numerous claims determined as having $0.00 value and which have not been objected to. If the interim distribution is approved, these $0.00 value claims will not have any payment made on them.

[4] Presently, there are approximately 285 objections on file as to Class 2 claim determinations.

distribution would comport with T.C.A. §§56-9-330(a) and 56-9-332 by providing a pro rata interim distribution while also reserving an adequate amount for equal pro rata payment for any future approved Class 2 claim and, thus, treats equally, and adequately protects, the interests of all existing and potential approved Class 2 claimants of the RRG Receiverships.

Thus, if an allocation of joint recoveries occurs pursuant to the "net Class 2 claim loss" concept set forth herein, then the RRG Receiver, in good faith, believes it to be proper and supported, and, thus, moves for permission to make an interim distribution of 50% as to each approved Class 2 claim (other than the $0.00 value claims) set forth in **Exhibits B, C and D** attached hereto. Later and/or final distributions and supplementation of these lists of approved Class 2 claims (and permission to pay equal pro rata amounts to later approved Class 2 claims) will be upon further motion made to and order entered by the Court.

IV. Report and Listing of Class 2 Claims Ready for Payment, Pro Rata or Otherwise

As referenced above, **Exhibits B, C, and D** set forth for ANLIR, DIR, and TRA, respectively, the Class 2 claims which have been approved and to which no objections have been filed. These are the Class 2 claims upon which it is proposed that 50% of approved claim amount be paid – other than, of course, those that show a $0.00 value. To the extent required by T.C.A. §56-9-331, and to the extent such is required before payment can be made, it is requested that these exhibits be reviewed and accepted as claims listings and reports regarding the approved/"ready for payment" Class 2 claims of ANLIR (**Exhibit B**), DIR (**Exhibit C**), and TRA (**Exhibit D**). Supplementation of these listings will be reported to the Court as further Class 2 claims are approved, not objected to, and otherwise deemed by the particular RRG Receivership as "ready for payment," pro rata or otherwise.

V. Notice

Notice of this Motion will be given to every claimant of the RRG Receivership Estates, regardless of class of claim. Every such claimant will have a postcard sent to him/her/it, at each

claimant's address as shown in the RRG Receivership's records, informing the claimant of the filing of this motion, the hearing date, time and place, the deadline for response to the motion, a short description of the relief sought in the motion and a reference to the Tennessee Department of Commerce and Insurance website where a complete copy of the motion and exhibits will be posted. Attached as **Exhibit E** is a template of that "postcard" notice.

VI. Request That Order Granting Requested Relief Be Made Final Pursuant to Rule 54.02 Tenn. R. Civ. P.

This Motion seeks relief that needs to be relied upon in going forward with the progression of the RRG Receiverships toward distributions and ultimate closure. But the relief afforded through granting this Motion does not address all matters at issue in the RRG Receivership proceedings. In order to provide certainty with regard to the relief granted, the Receiver requests that the Court expressly find that there exists no just reason for delay and that the Order granting this Motion be entered as final regarding the matters addressed in that Order. Rule 54.02 Tenn. R. Civ. P.

VII. Conclusion

For the reasons set forth herein, and in reliance upon the proposed allocation of joint recoveries based upon a "net Class 2 claim loss" concept, approval is sought for the pro rata interim distribution of 50% of the approved claim amounts to the claimants listed in **Exhibits B, C and D**. The RRG Receiver further requests this Court accept **Exhibits B, C, and D** attached hereto as a report and listing of claims pursuant to T.C.A. §56-9-331 and to incorporate those listings in an order granting the relief requested herein.

Respectfully submitted,

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SETTING OF HEARING/DEADLINE FOR RESPONSE IN OPPOSITION

THIS MOTION IS SET TO BE HEARD ON WEDNESDAY, NOVEMBER 9, 2011 AT 2 P.M. (CENTRAL TIME) IN THE COURTROOM FOR THE CHANCERY COURT OF DAVIDSON COUNTY, TENNESSEE (PART IV) LOCATED AT THE METRO COURTHOUSE IN NASHVILLE, TENNESSEE. ANY RESPONSE IN OPPOSITION IS TO BE FILED WITH THE COURT AND SERVED ON ABOVE-NOTED COUNSEL ON OR BEFORE WEDNESDAY, NOVEMBER 2, 2011. IF NO RESPONSE IS TIMELY FILED AND SERVED, THE MOTION CAN BE GRANTED WITHOUT FURTHER NOTICE OR HEARING

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing has been delivered by U.S. Mail, First Class postage prepaid, to the following on this 5th day of October, 2011:

Sarah A. Hiestand, Senior Counsel
Office of the Attorney General
State of Tennessee
Post Office Box 20207
Nashville, TN 37202-0207

On or before October 12, 2011, a postcard notification will be sent by U.S. Mail, First Class postage prepaid, to all claimants of the RRG Receivership Estates at the claimant's address as shown in the RRG Receivership's records informing the claimant of the filing of foregoing, the hearing date, time, and place, deadlines for response, a short description of the relief sought, and that a copy of the foregoing will be posted on the Tennessee Department of Commerce and Insurance website.

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