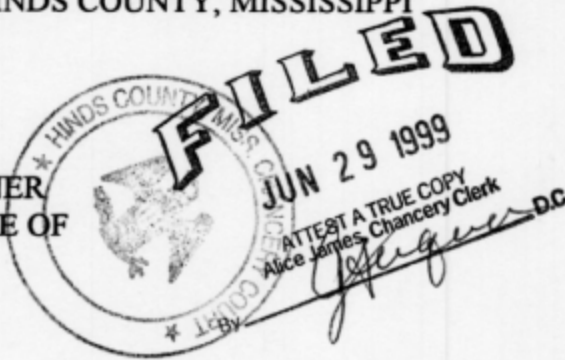


IN THE CHANCERY COURT OF THE FIRST JUDICIAL DISTRICT
HINDS COUNTY, MISSISSIPPI

GEORGE DALE, COMMISSIONER
OF INSURANCE OF THE STATE OF
MISSISSIPPI



PETITIONER

VS.

CIVIL ACTION NO. G99-908

FIRST NATIONAL LIFE INSURANCE
COMPANY OF AMERICA, A MISSISSIPPI DOMICILED
INSURANCE COMPANY

RESPONDENT

FINAL ORDER OF LIQUIDATION AND FINDING OF INSOLVENCY

THIS CAUSE having come before the Court on the Petition of George Dale, Commissioner of Insurance for the State of Mississippi (the "Commissioner") as Rehabilitator (the "Rehabilitator") of First National Life Insurance Company (the "Company") and Betty Cordial as Deputy Rehabilitator (the "Deputy Rehabilitator") of First National Life Insurance Company (the "Company"), for the entry of a Final Order of Liquidation and Finding of Insolvency pursuant to Miss. Code Ann. §83-24-27(1), and the Court having found as follows:

1.

On May 10, 1999, this Court entered an Order of Rehabilitation concerning the Company, and among other things, appointed the Commissioner as the Rehabilitator of the Company to have and exercise the powers and responsibilities of a rehabilitator pursuant to Miss. Code Ann. § 83-24-1 *et seq.* and other applicable laws.

2.

On May 12, 1999, this Court entered an Order appointing Betty Cordial as the Deputy Rehabilitator of the Company to have and exercise the powers and responsibilities of a deputy rehabilitator pursuant to Miss. Code Ann. § 83-24-1 *et seq.* and other applicable laws.

3.

Since that date, pursuant to the Order of Rehabilitation, the Rehabilitator and Deputy Rehabilitator have exercised their authority to take possession and control of the property, books, accounts, documents, and other records and assets of the Company, and of the premises occupied by the Company for transaction of its business, and to administer them under the general supervision of this Court to permit the Rehabilitator and Deputy Rehabilitator to ascertain the condition of the Company.

4.

Subsequent to the entry of the Order of Rehabilitation, the Rehabilitator has determined that the Company is insolvent within the meaning of Miss. Code Ann. § 83-24-7(k) and § 83-24-

35(4) because the Company's admitted assets do not exceed its liabilities (including but not limited to required reserves). Through a fraudulent scheme the Company has lost possession of its reserve investments and the full recovery of these investment monies is unlikely.

5.

The Company is insolvent. The admitted assets of Company as of the year ended December 31, 1998, as reflected on Exhibit A attached hereto from the Company's Annual Statement, were \$126,235,682. Of this amount, \$110,244,475 is reflected as being invested in bonds. During the Rehabilitation, Petitioners have determined that substantially all of the bond investments are missing. John Hackney, President of the Company, has advised that he invested the Company's assets in bonds through the broker known to him as LNS, Inc. Petitioners have confirmed that records of the Company reflect these investments, however, LNS, Inc. and the money invested in bonds through LNS, Inc. is missing. With total liabilities of \$107,400,507, and the missing bonds, the Company is insolvent.

6.

The Court should enter an Order of Liquidation pursuant to Miss. Code Ann. § 83-24-31(1) and §83-24-33 because the Company is insolvent within the meaning of Miss. Code Ann. §83-24-7(k); and the continuation of the Company's rehabilitation proceedings will substantially increase the risk of loss to its policyholders, creditors, and the public, and would be futile.

7.

The Company has limited assets to meet necessary administrative expenses. The Deputy Rehabilitator is working with the National Organization of Life and Health Insurance Guaranty Associations and all affected state guaranty associations including the Mississippi Life and Health Insurance Guaranty Association ("Guaranty Associations") to protect policyholders by the possible assumption of policy obligations by a solvent carrier, or through coverage provided directly by the Guaranty Associations. At this time it is unknown whether all policies will be covered by Guaranty Associations. Entry of an order of liquidation and a finding of insolvency will allow the various involved Guaranty Associations to assume their statutory responsibilities with respect to covered policies and benefits through statutory mechanisms such as Miss. Code Ann. § 83-23-215(2), and begin paying claims covered by the Guaranty Associations.

8.

The officers and directors of the Company are aware of the missing bond investments and the insolvent condition of the Company. Copies of this Petition have been forwarded to the officers and directors that can be located. Further notice is not required or appropriate and would delay the protection of policyholders, creditors and the general public. Objections to the Order of Liquidation, if any, can be heard at a post entry hearing as provided by Miss. Code Ann. § 83-24-19(5); or by an appeal with limitations upon the liquidation as provided in Miss. Code Ann. § 83-24-35(6).

It is in the best interests of the policyholders and creditors of Company and the public that the Company immediately be placed in liquidation pursuant to Miss. Code Ann. § 83-24-31(1) and § 83-24-33. Grounds exist that justify the immediate entry of a Final Order of Liquidation and Finding of Insolvency to permit the Rehabilitator and Deputy Rehabilitator to liquidate the Company and to take such other actions as may be necessary.

IT IS HEREBY ORDERED AND ADJUDGED:

- A. The Company is insolvent as defined by Miss. Code Ann. § 83-24-7;
- B. The Order of Rehabilitation entered on May 10, 1999, is superseded, the rehabilitation proceeding is terminated, the rehabilitation proceeding is converted to a liquidation proceeding, and the Company is to be liquidated;
- C. George Dale, Commissioner of Insurance of the State of Mississippi, and his successors in office, are appointed as the liquidator ("Liquidator") of the Company, and he is ordered to liquidate the business and affairs of the Company and exercise the powers, duties and responsibilities of a liquidator pursuant to Miss. Code Ann. § 83-24-1 et seq. and other applicable Mississippi laws;
- D. The Rehabilitator is authorized to appoint a Deputy Liquidator and Betty Cordial, the current Deputy Rehabilitator, is appointed as Deputy Liquidator; and she is granted all powers and responsibilities of the Liquidator granted by the Order of Liquidation and all such authority as conferred by operation of law;
- E. The Liquidator retains the right to terminate the Deputy Liquidator and/or substitute another person as Deputy Liquidator as he may deem necessary, and all Deputy Liquidators will

serve at the pleasure of the Liquidator as provided by Miss. Code Ann. §83-24-27(1);

F. All rights and liabilities of the Company and of the Company's creditors, policyholders, stockholders, employees and all other persons interested in the Company's estate, except as otherwise provided by Mississippi law, are fixed as of the date of the entry of this Order.

G. The policies of life or health insurance or annuities that are covered by a guaranty association or foreign guaranty association are continued in force for such period and under such terms as is provided for by any applicable guaranty association or foreign guaranty association as provided in Miss. Code Ann. § 83-24-37(3). Any premiums due for such policies on or after the date of entry of an order of liquidation belong to the applicable guaranty association. Pursuant to Miss. Code Ann. § 83-24-37(e), all benefits and/or policies not covered by a guaranty association or foreign guaranty association are terminated at 12:01 A.M. on the day after the entry of this Order of Liquidation.

H. The Liquidator and Deputy Liquidator are given possession and control and are vested with title to all of the tangible and intangible rights, property, and assets of the Company, wherever located, including but not limited to all monies, accounts, books, documents, records, the premises occupied by the Company for transaction of its business, contracts, rights of action, securities, brokerage accounts, policies, policy benefits due to Company, files, papers, electronic media, debentures, mortgages, furniture, fixtures, computer hardware, computer software, office supplies, motor vehicles, and all other equipment.

I. All persons and entities, including but not limited to banks, brokerage houses, agents, producers, general agents, sub-agents, contractors, reinsurers, reinsurance intermediaries, third-

party administrators, underwriting managers, officers, directors, stockholders, employees, representatives, accountants, attorneys, actuaries, affiliates, parent corporations, subsidiaries, and policyholders, in possession of any tangible or intangible right, property, asset or record of the Company, shall maintain all such rights, property, asset and records in a safe and secure manner for and on behalf of the Liquidator and are ordered to promptly deliver all such rights, property and records to the Liquidator or Deputy Liquidator upon request.

J. All general agents, agents, sub-agents, and brokers of Company are enjoined from returning to policyholders or others, any unearned premiums, or any monies in their possession collected from premiums;

K. General agents, agents, sub-agents, and brokers are ordered to remit all premiums, unearned premiums, collected commissions, and unearned commissions in their possession or under their control, or which they may hereafter acquire, to the Liquidator, together with all records and a full accounting thereof;

L. All persons and entities are enjoined and prohibited from:

- (1) The transaction of further business of the Company without the approval of the Liquidator;
- (2) Interfering with the Liquidator's, or Deputy Liquidator's, duties, activities, or responsibilities, or with this proceeding;
- (3) The transfer, waste, or dissipation of the bank accounts or any of the property or assets of the Company;
- (4) The obtaining of any preference, judgment, attachment, garnishment or lien against the Company or its assets, wherever located, or the levying of

execution against the Company or its assets, wherever located, or the commencement, prosecution or further prosecution of any suit, action or proceeding having any such purpose or effect;

- (5) The making of any sale or deed for nonpayment of taxes or assessments that would lessen the value of the assets of the Company;
- (6) The withholding from the Liquidator of the books, accounts, documents or other records relating to the business of the Company;
- (7) Any other threatened or contemplated action that might lessen the value of the Company's assets or prejudice the rights of policyholders, creditors or shareholders, or the administration of this proceeding;

M. No action at law or equity or in arbitration may be brought against the Company or Liquidator, whether in Mississippi or elsewhere. Such existing actions may not be maintained or further presented or prosecuted after issuance of this Liquidation Order. All claims must be submitted through the claims process;

N. All secured creditors or parties, pledgees, lien holders, collateral holders or other persons claiming a secured, priority or preferred interest in any property or assets of the Company are enjoined and prohibited from taking any steps whatsoever to transfer, sell, encumber, attach, dispose of or exercise purported rights in or against any property or assets of the Company without the prior approval of the Liquidator;

O. The Company, and its officers, directors, agents, servants, employees and/or other persons acting for or on behalf of the Company are prohibited from soliciting or accepting new business;

P. The Company, its officers, directors, employees, agents, stockholders, and all other persons, including but not limited to banks, brokerage houses, agents, producers, general agents, sub-agents, contractors, reinsurers, reinsurance intermediaries, third-party administrators, underwriting managers, representatives, accountants, attorneys, actuaries, affiliates, or parent corporations, and subsidiaries, are prohibited and restrained from the further transaction of business by or on behalf of the Company, and from dealing with or disposing of the property of the Company, committing any waste or concealment of assets, without the express authorization of the Liquidator or Deputy Liquidator;

Q. All general agents, agents, sub-agents and brokers of the Company, as well as any banks, brokerage houses, reinsurers, third party administrators, or other companies or persons having in their possession assets or commissions which are, or may be, the property of the Company are prohibited from disposing of or destroying the same, or disposing of or destroying any records pertaining to any business transactions between Company and its insureds, policyholders, general agents, agents, brokers, banks, brokerage houses, reinsurers, third party administrators, or other companies or persons having done business with Company, or having in their possession assets which are or were the property of Company;

R. All general agents, agents, and brokers of Company are prohibited from in any way counseling, encouraging or soliciting the cancellation, surrender, replacement or termination of policies issued by Company, which would eliminate, jeopardize or diminish the rights of policyholders to the benefits provided by the Mississippi Life and Health Insurance Guaranty Association, or similar associations in other states;

S. All contracts and agreements of reinsurance, wherein the Company is the ceding

insurer remain in full force and effect pending a determination and recommendation by the Liquidator as to when, and upon what terms, cancellation is appropriate. All reinsurers are ordered to pay all amounts due and unpaid to the Company under such contracts and treaties;

T. All treaties, contracts, and agreements of reinsurance wherein the Company is the assuming reinsurer are canceled on a "cut-off" basis effective with the entry of this Order of Liquidation. All ceding insurers or reinsurers are ordered to account for and pay all amounts due and unpaid to the Company under such contracts and treaties;

U. The continuing employment of legal counsel for the Rehabilitator as counsel for the Liquidator is approved pursuant to the same terms previously approved by the Court

V. All available constitutional, statutory and common law immunities applicable and available to the Liquidator are extended to the Deputy Liquidator, counsel for the Liquidator and Deputy Liquidator, and all other agents, and personnel of the Liquidator and Deputy Liquidator;

W. The Liquidator and the Deputy Liquidator are authorized to employ, or continue to employ, such special deputies, agents, actuaries, accountants, agents, appraisers, assistants, clerks, consultants and such other personnel as they deem necessary and to fix and pay the reasonable compensation and expenses of such persons out of the funds and assets of Company subject to the supervision of this Court;

X. The Liquidator and Deputy Liquidator are authorized to pay all routine administrative and operating expenses, including the compensation, fees and expenses of attorneys, accountants, agents, appraisers, and consultants, incurred in connection with the orderly liquidation of the Company and collection of the Companies assets, without prior approval of the Court, but subject to the general supervision of the Court;

Y. The Liquidator and Deputy Liquidator are authorized to pay all routine administrative expenses that remain outstanding that were directly incurred and authorized by the Rehabilitator or Deputy Rehabilitator during the period of rehabilitation;

Z. The Liquidator and Deputy Liquidator are authorized to return any funds received and collected in a fiduciary capacity after the entry of the order of rehabilitation for the accumulator rider that are not covered by a guaranty fund;

AA. The Liquidator and Deputy Liquidator are authorized to take actions necessary to prevent potential preferences from occurring, including specific injunctions against appropriate parties pursuant to Miss. Code Ann. § 83-24-51 - 55, and where appropriate, to enjoin the dissipation of Company's assets already paid out as potential preferences or fraudulent conveyances or any threatened or contemplated action that might lessen the value of Company's estate or prejudice the rights of its policyholders, creditors, or the public, or the administration of this proceeding;

BB. The Liquidator and Deputy Liquidator are authorized, pursuant to Miss. Code Ann. § 83-24-51 - 55 to void fraudulent transfers, and to void preferences;

CC. Financial reports to the Court shall be made by the Liquidator within one year of the Order of Liquidation and at least annually thereafter, each such financial report to include, at a minimum, the assets and liabilities of the Company and all funds received and disbursed by the Liquidator;

DD. The Liquidator is directed to give appropriate notice of the Order of Liquidation pursuant to Miss. Code Ann. § 83-24-43, the deadline for filing claims as established by the Court, and the procedures for filing claims against the estate of the Company;

EE. All powers and duties enumerated in Miss. Code Ann. §83-24-41 are hereby granted to the Liquidator and the Deputy Liquidator;

FF. This Order of Liquidation shall remain in effect until amended by this Court, or the Liquidator has completed his duties or is discharged by order of this Court; and

GG. This Order of Liquidation is hereby entered as a final judgment.

ORDERED AND ADJUDGED this the 29th day of June, 1999.

Signed WILLIAM SINGLETARY

CHANCELLOR

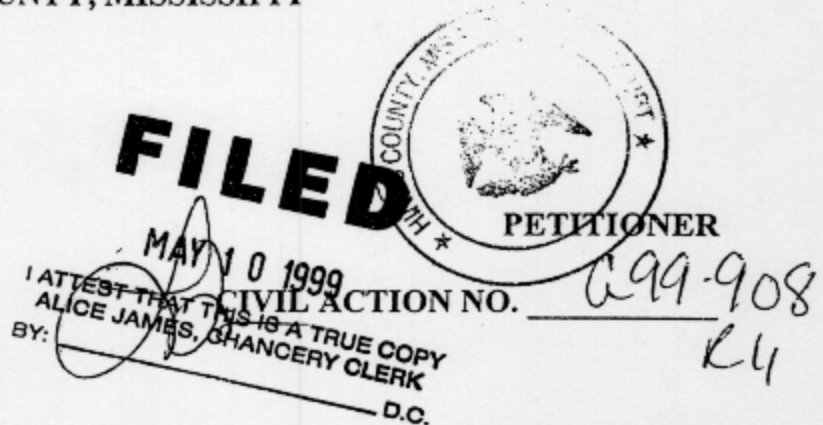
IN THE CHANCERY COURT OF THE FIRST JUDICIAL DISTRICT
HINDS COUNTY, MISSISSIPPI

GEORGE DALE, COMMISSIONER
OF INSURANCE OF THE STATE OF
MISSISSIPPI

VS.

FIRST NATIONAL LIFE INSURANCE
COMPANY OF AMERICA
A Mississippi Domiciled Insurance Company

RESPONDENT



ORDER OF REHABILITATION

The Court enters this Order on Petition of George Dale, Commissioner of Insurance for the State of Mississippi ("Commissioner" or "Petitioner") for the conservation and complete management of all assets and affairs of First National Life Insurance Company of America ("FNLIC" or "Company" or "insurer"). It appearing to the Court that the management of First National Life Insurance Company of America is unable to substantiate to the Commissioner of Insurance of the State of Mississippi the asset capitalization that it has claimed in communications submitted to the Mississippi Department of Insurance, and further, that this rehabilitation is in the best interest of FNLIC, its policyholders and the public, IT IS HEREBY ORDERED as follows:

I.

This Order of Rehabilitation ("Rehabilitation Order") is entered into pursuant to the provisions of Miss. Code Ann. § 83-24-1 et seq. (Rev. 1991).

II.

George Dale, as Commissioner of Insurance of the State of Mississippi, is hereby appointed Rehabilitator of Respondent, First National Life Insurance Company of America, with all the powers and immunities set forth in Miss. Code Ann. § 83-24-1 et seq. The Rehabilitator shall take possession of the assets of the insurer and manage them under the general supervision of the court. By operation of law, title to all assets of FNLIC is hereby vested in the Rehabilitator.

III.

The Rehabilitator may appoint a Deputy Rehabilitator. The Deputy Rehabilitator shall have all powers and responsibilities of the Rehabilitator granted by this Order and all such authority as conferred by operation of law. The Commissioner retains the right to substitute another person as Deputy Rehabilitator as he may deem necessary. The compensation of any Deputy Rehabilitator shall be fixed by the Commissioner with approval of the Court, and shall be paid from the funds of FNLIC. The person appointed by the Commissioner pursuant to this paragraph shall serve at the pleasure of the Commissioner as set forth at Miss. Code Ann. § 83-24-27(1). The Rehabilitator and Deputy Rehabilitator shall have all constitutional and statutory immunities.

IV.

FNLIC, its officers, directors, agents, stockholders, employees, and all other persons are hereby enjoined and restrained from the transaction of any of the business of FNLIC. Further, FNLIC, its officers, directors, agents, stockholders, employees, and all other persons are hereby enjoined and restrained from transferring or disposing of FNLIC assets, property, books, records, electronic media or other information, wherever located (without the express permission of the

Rehabilitator), wasting FNLIC assets, or transferring or dissipating any of FNLIC's assets or bank accounts.

V.

Any court in this state before which any action or proceeding in which FNLIC is a party, or is obligated to defend a party, is pending when this Rehabilitation Order against FNLIC is entered shall stay the action or proceeding for 90 days and such additional time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings. The Rehabilitator shall take such action respecting the pending litigation deemed necessary in the interest of justice and for the protection of creditors, policyholders, and the public. During this 90 day stay, and such additional time as determined necessary by the Court, all persons are enjoined and restrained from the institution or prosecution of any actions or proceedings.

VI.

The Rehabilitator shall immediately consider all litigation pending outside this state and shall petition the courts having jurisdiction over that litigation for stays whenever necessary to protect the estate of the insurer.

VII.

Pursuant to Miss. Code Ann. § 83-24-13 (Rev. 1991) all officers, directors, agents, and employees of Respondent, FNLIC, are hereby ordered to make available to the Rehabilitator all books, accounts, documents, electronic media, or other records or information or property pertaining to FNLIC, wherever located, including any books, accounts, documents or other records or information or other property of FNLIC in the possession of accountants, accounting firms,

investment advisors, or any person or entity with which FNLIC has a contract for services or has provided services to FNLIC.

VIII.

If it appears to the Rehabilitator that there has been criminal or tortious conduct, or breach of any contractual or fiduciary obligation detrimental to the insurer by any officer, manager, agent, broker, employee, or other person, all appropriate legal remedies may be pursued on behalf of the insurer.

IX.

All insurance agents, agencies, brokers, banks, security dealers, service providers and all other persons are hereby ordered to account to the Rehabilitator for all funds of FNLIC held by them in their fiduciary capacity or due to FNLIC. As said funds are vested in the Rehabilitator as provided by law, it is Ordered that such funds be directed and forwarded by such insurance agents, agencies, brokers, security dealers, service providers and all other persons to the Rehabilitator.

X.

The Rehabilitator is hereby authorized to take any and all action he deems necessary or appropriate to reform and revitalize FNLIC. He shall have all the powers of the directors, officers, and managers whose authority shall be suspended, except as they are redelegated by the Rehabilitator. He shall have full power to direct and manage, hire and discharge employees subject to any contract rights they may have, and deal with the property and business of the insurer.

XI.

The Rehabilitator is hereby authorized to void and set aside all fraudulent or improper transfers made or obligations incurred by FNLIC, as defined by Miss. Code Ann. § 83-24-27(6) (Rev. 1991).

XII.

The Rehabilitator, in accordance with Miss. Code Ann. § 83-24-1 et seq. and the limitations set forth therein, is hereby authorized to recover on behalf of the insurer the amount of any improper, unauthorized or fraudulent distributions.

XIII.

The Rehabilitator, pursuant to the authority under Miss. Code Ann. § 83-24-1 et seq., is hereby authorized to examine the affairs, transactions, accounts, records, documents, and other assets of FNLIC, its parent, subsidiaries, and affiliates to determine whether any dividends or other distributions made by FNLIC to its parent, subsidiaries, or affiliates are recoverable under Miss. Code Ann. § 83-24-1 et seq.

XIV.

All reasonable expenses of any litigation, including attorney's fees and costs incurred by the Rehabilitator, now or in the future, related to or arising out of this rehabilitation shall be paid out of the funds or assets of FNLIC or pursuant to assessments authorized by Miss. Code Ann. § 83-24-27 (Rev. 1991).

XV.

FNLIC's directors, officers, employees, or other authorized representatives may not take any action which might lessen the value of FNLIC assets or prejudice the rights of policyholders,

creditors, or shareholders, or the administration of this proceeding, including but not limited to solicitation of offers and negotiation of terms for the purchase of FNLIC or FNLIC's policyholders without the express permission of the Rehabilitator.

XVI.

FNLIC, its officers, directors, agents, stockholders, employees, and all other persons are hereby enjoined and restrained from interfering with the Rehabilitator other than through Petition of this Court.

XVII.

The Commissioner is relieved from giving bond and he shall be allowed his expenses related to this action, including without limitation, examination, expert, and attorney's fees, from FNLIC funds pursuant to Miss. Code Ann. § 83-24-27 (Rev. 1991). The Rehabilitator may employ such clerks, assistants and clerical help as necessary, and the compensation of such clerks, assistants, and clerical help shall be paid from the funds of FNLIC pursuant to Miss. Code Ann. § 83-24-27 (Rev. 1991).

XVIII.

The Rehabilitator shall report to the Court regarding the status of the rehabilitation at such intervals as the court specifies from the date of this Rehabilitation Order, and provide an accounting to this Court on a semi-annual basis, pursuant to Miss. Code Ann. § 83-24-25(2) (Rev. 1991).

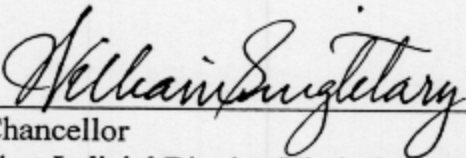
XIX.

This Court shall retain exclusive jurisdiction, as provided in Miss. Code Ann. § 83-24-25(1) (Rev. 1991), to determine all suits or motions related to the enforcement of this Order or any litigation related to FNLIC or the Rehabilitator and his deputies, agents, employees, or

representatives, which shall be determined in this rehabilitation proceeding; provided further that this proceeding including all petitions, orders and other filed papers shall be considered public records until further order of this court otherwise providing.

This Order of Rehabilitation is entered this 10th day of May, 1999.


SO ORDERED this 10th day of May, 1999.


Chancellor
First Judicial District, Hinds County, Mississippi

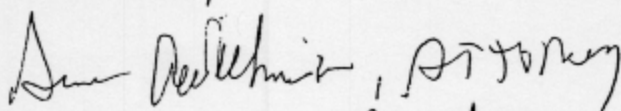
PRESENTED BY:

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Agreed to by Bd. of Directors
FNLIC, on behalf of:


for Board of Directors