

IN THE CIRCUIT COURT OF JEFFERSON COUNTY, ALABAMA

STATE OF ALABAMA, EX REL, MICHAEL)
DEBELLIS, as Commissioner of Insurance,)
and NELSON BURNETT, as Chief of the)
Insurance Department's Receivership)
Division,)

Plaintiffs,)

v.)

AMERICAN TRUST LIFE INSURANCE)
COMPANY,)

Defendant.)

CIVIL ACTION NO. CV-96-4767 ✓

FILED IN OPEN COURT ON THIS THE
6th DAY OF November, 1996

Thomas A. Woodall
THOMAS A. WOODALL, JUDGE

ORDER TERMINATING REHABILITATION PROCEEDINGS
AND
ORDER OF LIQUIDATION

This matter came before the Court on application of Nelson Burnett, as Receiver of American Trust Life Insurance Company, (hereinafter referred to as ATLIC) for authorization to terminate the rehabilitation proceedings of ATLIC, and for an Order of Liquidation pursuant to Ala. Code § 27-32-7 (1975). The Court has been informed by the parties, and their counsel that the issues contained in such petition have been resolved. Based upon such submission of counsel, the Court hereby finds that it is in the best interest of ATLIC, its policyholders and creditors, that rehabilitation proceedings be terminated, and that ATLIC be placed in liquidation upon the terms and conditions contained herein.

NOW, THEREFORE, it is ORDERED, ADJUDGED and DECREED as follows:

1. The Receiver's Petition to Terminate the Rehabilitation Proceedings and for Order of Liquidation for ATLIC is hereby GRANTED.

2. ATLIC, as of August 6, 1996, was insolvent. Efforts to rehabilitate ATLIC have not succeeded, and ATLIC is in such financial condition that the continuation of its rehabilitation, and the further transaction of its business thereunder would be hazardous to its policyholders, creditors, and the public.

3. As Receiver, Nelson Burnett is hereby directed to liquidate ATLIC in accordance with Ala. Code §§ 27-32-12, et. seq. (1975), and to take such action as the nature of the cause and the interest of the policyholders, creditors and the public may require. As Receiver, Nelson Burnett is further authorized to employ such legal counsel, accountants, appraisers, experts, clerks and assistants of his own choosing pursuant to Ala. Code § 27-32-15(f) (1975).

4. As Receiver, Nelson Burnett is further vested with title to all property, assets, contracts and rights of action of ATLIC, wherever located, whether tangible or intangible, including, without limitation, all stock, equity securities, partnership interests or other ownership interests of any kind in any other corporation, partnership (limited or otherwise), trust or other entity which is beneficially or legally owned or held by or attributable to ATLIC, as of the date of this Order.

5. As Receiver, Nelson Burnett is further authorized to institute and prosecute, in the name of ATLIC or in his own name as Receiver, any and all suits or other legal proceedings, defend suits in which ATLIC is a party, in this State or elsewhere, whether or not such suits are pending as of the date of this Order; abandon the

prosecution or defense of such suits, legal proceedings, or claims where to do so would be in the best interest of the policyholders and creditors of ATLIC; prosecute any action which may exist on behalf of the policyholders and creditors of ATLIC against any person, controlling parties of ATLIC, partnership, corporation or other entity, or any other person; and apply, on his own behalf, to have any default or default judgment set aside and to defend on the merits and assert all defenses available to ATLIC as against third parties.

6. All directors, officers and managers of ATLIC, if any, are hereby discharged and removed, and all authority of such directors, officers and managers is revoked, except as such persons may be appointed or reappointed by the Receiver, in his sole discretion, after entry of this Order.

7. All banks, brokerage houses, or other companies or persons having in their possession assets which are, or may be the property of ATLIC, are hereby ordered to deliver the possession of the same immediately to the Receiver, and are further ordered not to disburse the same without the written consent of, or unless directed in writing by, the Receiver. Such persons and entities, and all other persons and entities, are further enjoined from disposing of or destroying any records pertaining to any business transactions between ATLIC and banks, brokerage houses or other persons or companies having done business with ATLIC, or having in their possession assets which are or were the property of ATLIC.

8. All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of ATLIC, shall account for, and to the extent due and

owing, shall pay all unearned premiums and commissions owed to ATLIC as a result of policies canceled by this Order, or in the normal course of business, directly to the Receiver within thirty (30) days after demand by the Receiver, or appear before this Court to show good cause, if any they may have, as to why they should not be required to account to the Receiver. All agents, brokers or other persons are enjoined and restrained from returning any unearned premiums, or any money in their possession collected for premiums, to policyholders or others. The Receiver shall serve a copy of this order on all agents, brokers or others which shall constitute notice of its injunctive provisions.

9. All attorneys employed by ATLIC as of this date shall, within thirty (30) days after notice of this Order, report to the Receiver with respect to the name, company claim numbers and status of each file they are handling on behalf of ATLIC. Said report shall also include an accounting of any funds received from or on behalf of ATLIC. All attorneys described herein are hereby discharged as of the date of this Order unless their services are retained by the Receiver after entry of this Order.

10. Each data processing service or other entity that 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 ATLIC or any subsidiary, shall transfer custody and control of such records to the Receiver upon demand.

11. Except for contracts of insurance, all contracts executory or likewise to which ATLIC was a party, including all agents' contracts, general agents' contracts, brokers'

contracts, retirement and "golden parachute" agreements, are hereby canceled unless specifically adopted by the Receiver within thirty (30) days after the date of this Order. Any cancellation under this provision shall not be treated as an anticipatory breach of such contracts. All other contracts, policies and direct insurance, with obligations that have been assumed by respective state guaranty funds, shall remain in full force and effect. Persons and entities suffering real damages or loss as a result of said contract cancellations shall retain the right to file claim(s) with the Receiver which claim(s) shall be, if proven, allowed, allowed in part or disallowed in accordance with Alabama's Liquidation Act, Ala. Code §§ 27-32-1, et seq. (1975), the Uniform Insurers Liquidation Act, Ala. Code § 27-32-22, et seq. (1975), and other applicable laws of the State of Alabama.

12. All policies or contracts of insurance which are covered policies within the meaning of the Alabama Life and Disability Insurance Guaranty Association Act, Ala. Code §§ 27-44-1, et seq. (1975), or any similar law of any other state, or the obligations or any part thereof, of which the Alabama Life and Disability Insurance Guaranty Association or any similar organization in any other state, is obligated to assure payment of, which shall remain in full force and effect, until canceled by such guaranty association, or they expire, in accordance with applicable laws.

13. The Receiver shall give notice by first-class mail to all persons (including, but not limited to, individuals, aggregations of individuals, partnerships, corporations, associations, estates, trusts, and governmental units, to include all entities not named), having claims against ATLIC, and shall advise such persons to present and file with the

Receiver proper proofs of claim, or where applicable to file said claims with the appropriate insurance guaranty association of the state where the policyholder or creditor resides.

14. The deadline for filing such claims against ATLIC shall be 5:00 p.m., Central Standard Time, on July 1, 1997. The Receiver's notice shall specify the deadline for filing claims and further direct all claimants to file their claims with the Receiver at the address designated in such notice. Said notice shall be made by first-class mail to all claimants at their last known address, where available, but if sufficient information for notification by first-class mail is not available, the Receiver shall give notice by publication in a newspaper of general circulation in those states where ATLIC is currently licensed to transact business, and those states and counties where ATLIC currently has its corporate and administrative offices, or by any other method reasonably calculated to give actual notice to the policyholders and creditors of ATLIC.

15. The Receiver shall have drafted and printed appropriate proof of claim forms to be used by policyholders and creditors filing claims against ATLIC. Claim forms used by any ancillary receiver of ATLIC or any life and health guaranty association of another state shall also be acceptable for use in the claims filing process.

16. The Receiver shall be and is hereby authorized to pay all routine administrative expenses incurred by the Receiver without prior approval of the Court provided no one expenditure exceeds the sum of \$10,000. Specific accounting and certification of these expenses as reasonable and necessary will be made to the Court.

17. The Receiver is further granted the authority to dissolve the corporate existence of ATLIC in accordance with the provisions of Ala. Code § 27-32-12(b) (1975) at such time as he deems appropriate.

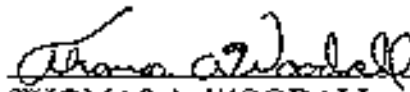
18. The Receiver will make a written report to the Court by January 1, 1997, documenting the progress being made in carrying out the mandates of this Order, and any recommendations which the Receiver feels are in the best interests of the policyholders and creditors of ATLIC.

19. The injunctive provisions contained in this Court's Consent Order of Rehabilitation, Temporary Restraining Order, Preliminary Injunction and Other Relief are continued in effect until further order of this Court, including paragraph 5(D) of said Order which provides that all persons are restrained and enjoined from:

Commencing or further prosecuting any action in law or equity or administrative proceedings except in this Court; obtaining any preference, judgment, attachment, or other liens against any of the property, personal or real, of Defendant ATLIC; commencing or continuing any action in the nature of an attachment, garnishment or execution against any of the property, personal or real, of ATLIC; making any levy, garnishment or execution against any of the property, personal or real, of ATLIC or its subsidiaries or their assets of any part thereof except in this Court.

20. The court shall retain exclusive jurisdiction over this matter for all purposes necessary to effectuate and enforce this Order.

ENTERED this 1st day of November, 1996.



THOMAS A. WOODALL
CIRCUIT JUDGE

AMERICAN TRUST LIFE INSURANCE COMPANY
(FOR INTERNAL USE - UNAUDITED)
STATEMENT OF ASSETS, LIABILITIES, SURPLUS, OTHER FUNDS & DEFICIT
AUGUST 9, 1996

	Per Company	Adjusted	Est Net Realizable Values
ASSETS			
I. Cash & Deposits			
A. AmSouth Checking #84097205	105	105	
B. SouthTrust CD	22,000	22,000	
Total Cash	<u>22,105</u>	<u>22,105</u>	22,105
II. Real Estate			
A. 1612-1614 3rd Ave North	305,000	305,000	
Less encumbrance (Parker/ST)	(291,000)	(291,000)	0
B. 1013 13th Ave North	85,000	85,000	
Less encumbrance (Hale)	(59,000)	(51,536)	0
C. 1811 Ave C	11,735	11,735	5,000
D. 3005 Fairwest, Montg	220,000	0 Foreclosed	
Less encumbrance (S/T)	(13,000)	0	0*
Total Real Estate	<u>260,735</u>	<u>39,199</u>	
III. Mortgage Loans on Real Estate			
Mtg Receivable—Figueroa	3,451	3,451	
Mtg Receivable—Gray	4,066	4,066	
Mtg Receivable—Brown	11,780	11,780	
Mtg Receivable—Hardy	13,615	13,615	
Mtg Receivable—Silas	12,977	12,977	
Mtg Receivable—Alexander	7,145	7,145	
Total Mortgage Loans	<u>53,054</u>	<u>53,054</u>	47,749**
IV. Receivable Affiliates			
Hillards Company	0	111,000	
American Trust Corp	0	15,600	
Less Reserve for uncollectibility	0	(126,600)	
Total Other Receivables	<u>0</u>	<u>0</u>	0
V. Investment Income Due & Accrued			
	0	1,285	1,285
VI. Furniture, Fixtures & Equipment			
	3,837	3,837	750
Total Assets	<u>399,731</u>	<u>119,480</u>	<u>71,899</u>
LIABILITIES			
VII. Policy Reserves			
	366,918	364,765	364,765
VIII. Claims Liability/Surrenders			
	5,132	11,600	11,600
IX. Notes Payable			
Affiliates—American Trust Corp.	3,850	3,850	
Mortgages Payable	341,000	342,765	
Less reported with asset	(341,000)	(342,765)	
Total Notes Payable	<u>3,850</u>	<u>3,850</u>	3,850
X. Amts Held for Agents			
	148	148	148
XI. General Expenses Due			
	26,390	6,838	6,838
XII. Taxes, License & Fees			
	0	26,827	26,827
Total Liabilities	<u>392,438</u>	<u>414,028</u>	<u>414,028</u>
CAPITAL & SURPLUS			
Common Stock	50,000	50,000	
Unassigned Surplus	(102,707)	(344,548)	
Total Capital & Surplus	<u>(52,707)</u>	<u>(294,548)</u>	
Total Liabilities, Cap & Surplus	<u>339,731</u>	<u>119,480</u>	
DEFICIT			
DEFICIT & LIABILITIES			<u>(342,139)</u>
			<u>71,899</u>

* Possible recovery on foreclosed property
** Discounted at 10%

FILED IN OPEN COURT ON THIS THE
1st DAY OF November, 1996
Thomas A. Woodall
THOMAS A. WOODALL, JUDGE

AMERICAN TRUST LIFE INSURANCE COMPANY
 RECEIVERSHIP REPORT OF SOURCES AND USES OF CASH
 FOR THE PERIOD AUGUST 9, THROUGH OCTOBER 31, 1996

SOURCE OF FUNDS:	MONTH OF AUGUST	MONTH OF SEPTEMBER	MONTH OF OCTOBER	INCEPTION TO DATE
INTEREST INCOME	95.74	297.45	323.95	717.14
RENTAL INCOME	965.00	1,540.00	440.00	2,885.00
MORTGAGE LOAN PAYMTS	183.48	330.55	454.05	948.08
PREMIUM INCOME	333.83	679.92	879.29	1,881.04
AMOUNTS HELD FOR OTHERS	0.00	60.00	50.00	100.00
LIQUIDATION OF STATUTORY DEPOSIT	22,000.00	0.00	0.00	22,000.00
TOTAL SOURCE OF FUNDS	23,498.05	2,891.92	2,141.29	28,531.26

USE OF FUNDS:

ALLOCATED DEPARTMENT EXPENSE:

TOTAL ALLOCATED DEPARTMENT EXPENSE	0.00	0.00	0.00	0.00
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ALLOCATED RECEIVERSHIP EXPENSE:

PAYROLL EXPENSE	2,608.09	9,649.26	0.00	12,257.97
TOTAL ALLOCATED RECEIVERSHIP EXPENSE	2,608.09	9,649.26	0.00	12,257.97

DIRECT EXPENSE:

BANK FEES	14.15	0.00	0.00	14.15
CONTRACT LABOR	312.00	1,272.00	1,032.50	2,616.50
POSTAGE & EXPRESS MAIL	32.00	0.00	0.00	32.00
REAL ESTATE EXPENSE	486.20	0.00	0.00	486.20
INTEREST EXPENSE	199.91	0.00	0.00	199.91
COMMISSION /DEBIT	76.38	122.77	234.74	433.89
UTILITIES	0.00	263.42	670.05	933.47
MOVING EXPENSE	0.00	155.58	0.00	155.58
MILEAGE & PER DIEM	1,713.13	1,891.75	0.00	3,604.88
TOTAL DIRECT EXPENSES	2,813.77	3,705.52	1,937.29	8,456.58

TOTAL USE OF FUNDS	5,421.86	13,354.60	1,937.29	20,713.95
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CASH INCREASE(DECREASE)	18,076.19	(10,462.88)	204.00	7,817.31
CASH BALANCE AT INCEPTION	105.99			105.99
CASH BALANCE 8/31/96	18,181.58	18,181.58		
CASH BALANCE 9/30/96		7,718.70	7,718.70	
CASH BALANCE 10/31/96			7,922.70	7,922.70
CASH INCREASE(DECREASE)	18,076.19	(10,462.88)	204.00	7,817.31

PRIORITY EXPENSES INCURRED AND UNPAID

CLAIMS PAYABLE				13,850.00
CASH SURRENDERS				2,483.48
CONTRACT LABOR-HOME OFFICE				280.00
RECEIVERSHIP EXPENSES @10/31/96				3,713.29
INSURANCE DEPT EXPENSES @9/30/96				1,846.08
TOTAL PRIORITY INCURRED & UNPAID				22,172.85
ESTIMATED REQUIRED CASH TO 12/31/96				7,500.00
LESS CASH AVAILABLE				(7,922.70)
PROJECTED CASH SHORTAGE				21,750.15

FILED IN OPEN COURT ON THIS THE
 LAST DAY OF November, 1996
 Thomas A. Woodall
 THOMAS A. WOODALL, JUDGE

IN THE CIRCUIT COURT OF JEFFERSON COUNTY, ALABAMA

STATE OF ALABAMA, EX REL.
MICHAEL DEBELLIS, as Commissioner
of Insurance, and
NELSON BURNETT, as Chief of the
Insurance Department's Receivership
Division,

Plaintiffs,

v.

AMERICAN TRUST LIFE INSURANCE
COMPANY,

Defendant.

CIVIL ACTION NO. CV9604767

FILED IN OFFICE

AUG 9 1996

POLLY CONRAD
Clerk

**CONSENT ORDER OF REHABILITATION,
PRELIMINARY INJUNCTION,
APPOINTMENT OF RECEIVER, AND OTHER RELIEF**

This cause was submitted to the Court upon the duly verified application of the Plaintiffs for a temporary restraining order or a preliminary injunction, appointment of a Receiver and other appropriate relief as prayed for in the sworn Complaint filed in this matter.

On August 9, 1996, the parties entered into a Stipulation for the entry of a Consent Order wherein American Trust Life Insurance Company (ATLIC) agreed to the entry of a Consent Order of Rehabilitation, Permanent Injunction, and Other Relief without further delay and waived its right to a formal hearing on this issue.

ATLIC having conceded and consented to the entry of a final order in this matter granting Plaintiffs' full and complete relief as requested in their sworn petition, this Court finds and orders that:

1. The petition for injunctive and other relief is filed in conformity with the applicable provisions of Title 27, *Code of Alabama 1975*, and the Alabama Rules of Civil Procedure.

2. A show cause order, as requested by the Plaintiffs, is hereby granted. ATLIC stipulated to the entry of a consent order of receivership without further delay and waived a formal hearing on this issue, therefore, a show cause hearing is not necessary, and a final order of rehabilitation is due to be immediately rendered. Any statutory references as to the date of the issuance of a show cause order shall mean the date of this final order.

3. Defendant ATLIC is a mutual aid association domiciled in the state of Alabama. This Court has jurisdiction over the parties and of the subject matter of this proceeding and finds that ATLIC is insolvent in the approximate amount of \$370,626. An exact insolvency amount shall be determined at a later date when further information concerning ATLIC's financial condition is received, developed and analyzed by the Receiver.

4. Plaintiffs Michael DeBellis and Nelson Burnett have demonstrated to the Court's satisfaction that a permanent injunction and other relief requested in Plaintiff's Bill of Complaint (as given below) should be granted immediately because there is a real and present danger Defendant ATLIC will suffer immediate and irreparable harm as described in Plaintiffs' Complaint should such relief not be granted. This harm includes the further erosion of ATLIC's financial condition, attachment or garnishment of all or substantially all of ATLIC's assets by a few creditors fortunate enough to know the whereabouts of ATLIC's assets, and increasing exposure to ATLIC, its policyholders and creditors due to said insurer's inability to pay claims and confront and resolve its insolvent condition.

5. In accordance with Sections 27-32-5, 27-44-18 and other pertinent sections of Title 27, Code of Alabama 1975, Defendant ATLIC, its agents, servants, employees and all officers and directors thereof, all persons in active concert or participation with Defendant ATLIC, and all persons and other legal entities, be and the same are hereby restrained and enjoined until further order of the Court from:

A. Transacting any further business of Defendant ATLIC of whatever kind and nature except as hereinafter provided in further orders of this Court.

B. Exercising any direction, control or influence whatsoever over said business of Defendant ATLIC and its subsidiaries or their assets pending further order of this Court.

C. Interfering in any shape, form or fashion, either directly or indirectly with the Receiver's operation of this receivership or in his possession or control of or in his title, right and interest to the property, books, records and all other assets of Defendant ATLIC as authorized by this or further order of this Court.

D. Commencing or further prosecuting any action in law or equity or administrative proceedings except in this Court; obtaining any preferences, judgment, attachments, or other liens against any of the property, personal or real of Defendant ATLIC; commencing or continuing any action in the nature of an attachment, garnishment or execution against any of the property, personal or real, of ATLIC, making any levy, garnishment or execution of any of the property, personal or real, or ATLIC or its subsidiary or its assets or any part thereof except in this Court.

E. Disposing of, removing, transferring, assigning or concealing the property or assets of Defendant ATLIC, including money, accounts receivable, stocks, bonds, notes, funds, premiums,

or any other property, whether real, personal or mixed, or doing or permitting to be done any action which might waste the assets of Defendant ATLIC.

F. Returning any unearned premiums or any money in their possession collected as premiums for enrollment contributions to policyholders (subscribers). Further, all persons are directed to turn over all funds of ATLIC in their possession, now or hereinafter acquired, to Nelson Burnett, as Receiver of Defendant ATLIC, who shall keep and maintain accurate reports of the receipt of any such funds and report same to the Court.

G. Asserting any claim against the Alabama Insurance Commissioner, the Receiver of Defendant ATLIC, or their agents and employees except insofar as such claims arise in the receivership proceedings of ATLIC presently before this Court.

H. The aforementioned injunctive relief is viewed as being reasonable and necessary to provide for an orderly receivership proceeding. Without such an orderly receivership proceeding, the policyholders and creditors of ATLIC have less of an opportunity to recover any monies due them from ATLIC. Because this Court finds that the aforementioned injunctive relief is so vital to an orderly receivership proceeding, this Court will not recognize any lien, sale, assignment, transfer, hypothecation, security interest, judgment, order, attachment, garnishment or legal process of any kind or nature with respect to, touching or pertaining to or affecting ATLIC or its assets or the Receiver of ATLIC or his agents. No such legal process shall be effective or enforceable unless entered in this Court in accordance with the injunctive relief granted by this and other orders of this Court.

6. Nelson Burnett, as Chief of the Receivership Division of the Alabama Department of Insurance, and his successors in office, under the provisions of Section 27-2-53 and Chapter 32 of

Title 27, *Code of Alabama 1975*, be and is hereby appointed Receiver of all property, business, assets (general or other), affairs and estate of said Defendant ATLIC, and is directed to take immediate possession, custody and control of said property, both real and personal, wherever subsequently found or located, including but not limited to the home office and other business premises and all rights of action, as well as the books, papers, documents of any kind and nature, evidence of debt and all other property and assets of every kind whatsoever belonging to ATLIC, including but not limited to, all real estate, stocks, bonds, checking and bank accounts, debentures, mortgages, fixtures, furniture, certificates of deposit, receivables, office supplies and rights of action of any kind.

7. Nelson Burnett, as permanent Receiver of Defendant ATLIC, in accordance with Section 27-32-11, et al., *Code of Alabama 1975*, shall continue to operate the business of Defendant ATLIC with the purpose of rehabilitating, conserving and preserving said company under the present and further order and direction of the Court; that Nelson Burnett, as Receiver of ATLIC, shall proceed to collect any and all debts due said company and he shall recommend to the Court such action which would remove the causes and conditions which have made receivership necessary, if such course of action is feasible.

8. Nelson Burnett, as permanent Receiver of Defendant ATLIC, shall have authority to negotiate sales of property, blocks of insurance business or other assets of Defendant ATLIC when necessary or desirable, but if he shall receive an offer for same, before making a private or public sale, Nelson Burnett, as Receiver, shall report the terms of such offer to the Court for such action or approval as the Court may deem proper.

9. Nelson Burnett, as permanent Receiver of Defendant ATLIC, is authorized and directed to hire legal, clerical, managerial and other employees necessary to carry on the business of Defendant ATLIC and the Receiver is also authorized to rent or lease office facilities and to pay reasonable and necessary expenses and salaries incidental thereto.

10. Nelson Burnett, as permanent Receiver of ATLIC, is hereby vested with all of the duties, rights, powers, obligations, immunities and authority placed upon the Commissioner of Insurance by Section 27-32-15 and other pertinent sections of the Alabama Insurance Code, now or hereinafter amended, as provided under the provisions of Sections 27-2-55, et al., *Code of Alabama 1975*.

11. The expenses of this receivership, including the administrative costs of the receiver, as well as any other costs relative to this proceeding, shall be paid from the assets of ATLIC, as approved by this Court.

12. In accordance with Sections 27-2-51, 27-32-5(c) and 27-32-15(d), *Code of Alabama 1975*, neither the Insurance Commissioner nor the Receiver is required at this time to post a bond in connection with these receivership proceedings.


13. Nelson Burnett, as permanent Receiver of ATLIC, be and is hereby authorized to apply to the Court for further instructions in the discharge of his duties as Receiver.

14. The Court reserves jurisdiction of this cause for such other orders on the premises and matters pertaining to this particular order or this cause in general as it may find necessary, appropriate or desirable to make from time to time and reserves jurisdiction generally of this cause.

15. The Clerk of the Court is directed to effect personal service of this Order upon all parties in this cause.

DONE and ORDERED at Birmingham, Alabama, on this 9th day of August, 1996 at

11:30 ~~A.M.~~ P.M.



CIRCUIT JUDGE

COUNSEL OF RECORD FOR PLAINTIFFS:

Michael A. Bownes, Esquire
Ralph R. Norman, III, Esquire
Alabama Insurance Department
135 South Union Street
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 241-4116
Facsimile: (334) 241-4192

DEFENDANT MAY BE SERVED AT:

John R. Hilliard, President
American Trust Life Insurance Company
1614 Third Avenue North
Birmingham, Alabama 35203

SUMMONS - CIVIL -

Case Number

CV9604767 *TAN*

IN THE Circuit COURT OF Jefferson COUNTY

Plaintiff State of Alabama v. Defendant American Trust Life Ins. Co.

American Trust Life Ins. Co., c/o John R. Hilliard, President
1614 Third Avenue North, Birmingham, AL 35203

NOTICE TO

THE COMPLAINT WHICH IS ATTACHED TO THIS SUMMONS IS IMPORTANT AND YOU MUST TAKE IMMEDIATE ACTION TO PROTECT YOUR RIGHTS. YOU OR YOUR ATTORNEY ARE REQUIRED TO FILE THE ORIGINAL OF YOUR WRITTEN ANSWER, EITHER ADMITTING OR DENYING EACH ALLEGATION IN THE COMPLAINT WITH THE CLERK OF THIS COURT. A COPY OF YOUR ANSWER MUST BE MAILED OR HAND DELIVERED BY YOU OR YOUR ATTORNEY TO THE PLAINTIFF OR PLAINTIFF'S ATTORNEY Michael A. Bownes and Ralph R. Norman, III WHOSE ADDRESS IS Alabama Department of Insurance, P.O. Box 303351, Montgomery, AL 36130-3351.

THIS ANSWER MUST BE MAILED OR DELIVERED WITHIN 30 DAYS AFTER THIS SUMMONS AND COMPLAINT WERE DELIVERED TO YOU OR A JUDGMENT BY DEFAULT MAY BE ENTERED AGAINST YOU FOR THE MONEY OR OTHER THINGS DEMANDED IN THE COMPLAINT.

FILED IN OFFICE
AUG 9 1996
POLLY CONRADI
Clerk

TO ANY SHERIFF OR ANY PERSON AUTHORIZED by the Alabama Rules of Civil Procedure:

- You are hereby commanded to serve this summons and a copy of the complaint in this action upon the defendant.
- Service by certified mail of this summons is initiated upon the written request of _____ pursuant to the Alabama Rules of Civil Procedure.

Date AUG 09 1996

Polly Conradi By: _____
Clerk/Registrar

Certified Mail is hereby requested.

Plaintiff's/Attorney's Signature

RETURN ON SERVICE:

Return receipt of certified mail received in this office on _____ (Date)

I certify that I personally delivered a copy of the Summons and Complaint to _____ County,

Alabama on _____ (Date)

Date

Server's Signature

Address of Server

Type of Process Server

IN THE CIRCUIT COURT OF JEFFERSON COUNTY, ALABAMA

STATE OF ALABAMA, EX REL.)
MICHAEL DEBELLIS, as Commissioner)
of Insurance, and)
NELSON BURNETT, as Chief of the)
Insurance Department's Receivership)
Division,)

Plaintiffs,)

v.)

AMERICAN TRUST LIFE INSURANCE)
COMPANY,)

Defendant.)

CIVIL ACTION NO. CV9604767

FILED IN OFFICE
AUG 9 1996
POLLY CONRADI
Clerk

**PETITION FOR ORDER TO SHOW CAUSE, FOR TEMPORARY
RESTRAINING ORDER OR INJUNCTION, APPOINTMENT
OF RECEIVER, AND OTHER RELIEF**

Now come the Plaintiffs, Michael DeBellis, as Commissioner of Insurance for the State of Alabama, and Nelson Burnett, as Chief of the Insurance Department's Receivership Division, and respectfully shows the Court the following:

PARTIES

1. Plaintiff DeBellis is over the age of 19 years, is a resident of the State of Alabama, and serves as Commissioner of Insurance for the State of Alabama.
2. Plaintiff Burnett is over the age of 19 years, is a resident of the State of Alabama, and serves as Chief of the Receivership Division of the Alabama Department of Insurance.
3. Defendant American Trust Life Insurance Company (hereinafter "ATLIC") is a mutual aid association incorporated in the State of Alabama with its principal place of business in

Birmingham, Jefferson County, Alabama. ATLIC is licensed by the Commissioner of Insurance for the purpose of transacting business in this state as a mutual aid association pursuant to Sections 27-30-1, et seq., *Code of Alabama 1975*.

JURISDICTION

4. Plaintiff DeBellis, as Alabama Commissioner of Insurance, is charged by law (Sections 27-2-7, et al., *Code of Alabama 1975*) to enforce the provisions of and execute the duties imposed by the Alabama Insurance Code (Title 27, *Code of Alabama 1975*). (All Code sections hereinafter cited refer to said Code.) Included among these obligations and duties is the initiation of appropriate Delinquency Proceedings against any insurer for the purpose of liquidating, rehabilitating, reorganizing or conserving such insurer when the proper grounds for such action exist (Sections 27-32-1, et seq.).

5. Plaintiff Burnett, as Chief of the Receivership Division, is charged by law to be appointed Receiver of any insurer placed into receivership in accordance with the insurance laws of this state (Sections 27-2-53, et seq.).

6. This action is brought before this Court pursuant to Sections 27-30-33(16), 27-32-1, et seq., and 27-2-53, to secure an Order which will: (1) temporarily and eventually permanently appoint Plaintiff Burnett, as Chief of the Insurance Department's Receivership Division, Receiver of ATLIC; (2) authorize Plaintiff Burnett to attempt to rehabilitate, reorganize and conserve its assets (general and otherwise) and protect its policyholders, stockholders and creditors; (3) temporarily and eventually permanently restrain ATLIC, the directors of ATLIC, that company's stockholders, members, subscribers, agents, employees, all other persons in active concert or

participation with those mentioned above, and all other persons and other legal entities, from the further transaction of ATLIC's business or the waste, disposal, seizure or attachment of its property or that of its subsidiaries, or from any interference with the Insurance Department in the operation of ATLIC in receivership; (4) continue the operation of said company under the Insurance Department's direct control in a manner subject to the approval of this Court; and (5) authorize Plaintiff Burnett or his agents to take steps as the Court may direct toward removal (if possible) of the causes and conditions which have made rehabilitation, reorganization and conservation of ATLIC necessary.

7. This Court has original jurisdiction of delinquency proceedings pursuant to Section 27-32-3(a).

FACTUAL AND LEGAL ALLEGATIONS

8. Plaintiff DeBellis, through his financial examiners, has conducted an examination of the affairs and financial condition of ATLIC as of December 31, 1994. According to said examination, which was completed on August 11, 1995, ATLIC is impaired and insolvent. (See Examination Report attached hereto as Exhibit A.) Impairment and insolvency are grounds for rehabilitation or liquidation of domestic insurers pursuant to Sections 27-32(6)(1) and 27-32-7.

9. On or about the 20th day of February, 1996, Plaintiff DeBellis issued a "Notice of Impairment" to ATLIC in accordance with Section 27-27-41. (Copy attached as Exhibit B.) ATLIC has failed to make good the impairment within 60 days of said notice.

10. On or about the 20th day of February, 1996, Plaintiff DeBellis issued notice to ATLIC of his intent to suspend ATLIC's certificate of authority in this state. The grounds for this action

were that ATLIC "is in unsound condition or is in such condition or is using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous to its members, policyholders, dependents, beneficiaries or to the public" and that ATLIC "has been unable to provide a plan whereby the deficiencies will be corrected so as to result in a viable solution to the unsound financial condition." The facts supporting these grounds are set forth in the Report of Examination. This notice was amended on or about February 29, 1996. On or about the 4th day of April, 1996, Plaintiff DeBellis issued an order suspending the certificate of authority of ATLIC. (Copies attached as Exhibits C, D and E, respectively.)

11. Although ATLIC has stopped selling new insurance policies, it has hundreds of policyholders who are in danger due to the impaired and insolvent condition of the company as well as its hazardous operations.

12. Plaintiffs allege that several meetings have been held with representatives of the Insurance Department and ATLIC concerning steps to be taken by ATLIC to resolve the company's financial impairment.

13. Plaintiffs allege that on July 29, 1996, representatives of the Alabama Insurance Department met with a representative of ATLIC by telephone conference, at which time the serious nature of the company's impairment situation was again discussed and it was agreed by the parties that a financial examiner from the Insurance Department would return to ATLIC on August 6, 1996, for the purpose of reviewing any and all transactions made since the last examination which could have improved the impairment.

14. Plaintiffs allege that pursuant to Section 27-32-1(1) a domestic insurer is impaired when its liabilities and capital stock exceed its assets and the insurer shall be deemed to be

insolvent and that pursuant to Section 27-32-6(1) insolvency is, in and of itself, sufficient reason to place such an insurer into rehabilitation proceedings.

15. Plaintiffs allege that based on the examination, ATLIC is insolvent by at least \$370,626. An exact insolvency amount shall be determined at a later date.

16. Plaintiffs allege that ATLIC does not have the financial ability, and has developed no viable alternatives, to cure the impairment noted above.

17. Plaintiffs allege that due to the adverse financial condition of ATLIC and the possibility that its remaining assets could be seized by a small number of creditors and/or claimants to the detriment and exclusion of all of ATLIC's policyholders and the majority of its creditors, further attempts to cure the impairment noted above without an Order of Rehabilitation would be vain and useless.

18. Plaintiffs allege that unless a Receiver is appointed by this Court to take immediate possession and control of ATLIC's assets and operations, there is a strong possibility that immediate and irreparable injury will occur to ATLIC, its policyholders and creditors as a result of, among other things, the seizure of ATLIC's assets.

19. On or about August 8th, 1996, the Board of Directors of ATLIC held a specially called meeting and did adopt a resolution consenting to the entry by this Court of a final order of rehabilitation and for a permanent injunction and authorized ATLIC's president to enter into a stipulation for the entry of a Consent Order in accordance therewith. A copy of said resolution is attached hereto as Exhibit F.

PRAYER FOR RELIEF

WHEREFORE PREMISES CONSIDERED, Plaintiffs pray as follows:

A. That this Court immediately issue a Temporary Restraining Order or a Preliminary Injunction (to be made permanent) restraining Defendant, the directors, stockholders, members, subscribers, agents and employees of ATLIC, and all other persons in active concert or participation with those involved herein, and any other individuals or legal entities, from the further transactions of ATLIC's business, or the waste, disposal, attachment or seizure of its assets (general and otherwise) until further Order of this Court, pursuant to Section 27-32-5.

B. That this Court temporarily, and eventually permanently, appoint Plaintiff Burnett, as Chief of the Receivership Division, under the provisions of Sections 27-2-53, et seq., Receiver of ATLIC and direct Plaintiff Burnett to forthwith take possession of the assets of ATLIC and its subsidiaries and administer the same under the Orders of this Court for the purpose of attempting to rehabilitate, reorganize and conserve the assets of ATLIC, all in accordance with Sections 27-32-1, et seq.

C. That this Court, pursuant to Section 27-32-4 and other pertinent sections of Chapter 32, Title 27, issue an Order directing Defendant ATLIC to appear on a date certain to be fixed by the Court and then and there to show cause why a preliminary or permanent injunction should not be issued restraining ATLIC, its directors, stockholders, members, subscribers, agents and employees of ATLIC, all persons in active concert or participation of those mentioned herein, and all other individuals or legal entities, from the further transactions of ATLIC's business or the waste, disposal, seizure or attachment of its assets (general and otherwise) until the further Order of this Court.

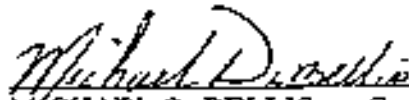
D. That this Court require ATLIC to pay the costs of this action and any further proceedings related to a receivership, including reasonable attorney's fees, and costs and expenses involved therein.

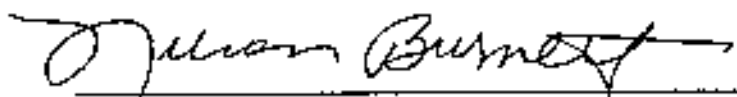
E. That this Court issue a temporary restraining order or a preliminary and eventually permanent injunction restraining all persons and other legal entities, except the Plaintiffs, from the making of claims or the commencement of or further prosecution of any actions in law or equity or administrative proceedings except in this Court; the obtaining of any preferences, judgment, attachments, or other liens against any of the property, personal or real, of ATLIC or its subsidiaries, commencing or continuing any action in the nature of an attachment, garnishment or execution against any of the property, personal or real, of ATLIC, or its subsidiaries, the making of any levy, garnishment, or execution against any of the property, personal or real, ATLIC, its subsidiaries, or their assets.

F. That this Court award such additional relief as may seem just and equitable to the Court under the above-mentioned circumstances and retain jurisdiction of this matter to supervise any Orders of the Court.

STATE OF ALABAMA)
)
MONTGOMERY COUNTY)

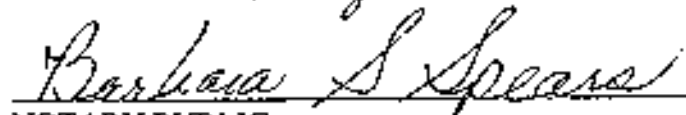
The undersigned hereby swear and affirm that the allegations made in this Complaint are true and correct to the best of our knowledge and belief. We also aver, swear and affirm that the exhibits attached to and incorporated into this Complaint are true and correct copies of those public documents on file in the office of the Insurance Department.


MICHAEL DEBELLIS, as Commissioner of
Insurance, Plaintiff

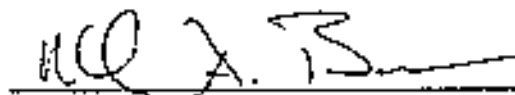

NELSON BURNETT, as Chief of Receivership
Division, Alabama Insurance Department,
Plaintiff


Sworn to and subscribed before me this 9th day of August, 1996.

(SEAL)


NOTARY PUBLIC
My commission expires: 6-10-98

OF COUNSEL FOR PLAINTIFFS:


MICHAEL A. BOWNES
General Counsel


RALPH B. NORMAN, III
Associate Counsel

Alabama Insurance Department
135 South Union Street
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 241-4116
Facsimile: (334) 241-4192

DEFENDANT MAY BE SERVED AT:

John R. Hilliard, President
American Trust Life Insurance Company
1614 Third Avenue North
Birmingham, Alabama 35203

In accordance with Rule 65 (C) A.R.C.P., the Insurance Department chooses not to post bond in this matter.

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

of

AMERICAN TRUST LIFE INSURANCE COMPANY

BIRMINGHAM, ALABAMA

as of

DECEMBER 31, 1994

STATE OF ALABAMA

COUNTY OF JEFFERSON

Greg Taylor, AFE, being first duly sworn, upon his oath deposes and says:

THAT he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial conditions of American Trust Life Insurance Company, for the period from January 01, 1991 through December 31, 1994;


THAT the following 35 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Greg Taylor, AFE, Examiner-in-Charge

Subscribed and sworn to before the undersigned authority this 11th day of August, 1995.



(Signature of Notary Public)

ELVIRA Willoughby Notary Public
(Print Name)

in and for the State of Alabama

My commission expires 11-18-95

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FOB JAMES, JR.
GOVERNOR

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Telephone: (334) 269-3550
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Birmingham, Alabama
August 11, 1995

MICHAEL DeBELLIS
COMMISSIONER

DEPUTY COMMISSIONER
DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBINSON

GENERAL COUNSEL
MICHAEL A. BOWMAN

LICENSING MANAGER
LINDA PUGH

Honorable Michael DeBellis
Commissioner of Insurance
State of Alabama
135 South Union Street
Montgomery, Alabama 36130-3351

Dear Commissioner:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and financial condition of

AMERICAN TRUST LIFE INSURANCE COMPANY

at its Home Office located at 1614 3rd Avenue North, Birmingham, Alabama 35203, as of December 31, 1994. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate American Trust Life Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the three year period ended December 31, 1990, by an examiner representing the state of Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 1994. Where deemed appropriate, transactions subsequent to 1994 were reviewed.

The Company was examined in accordance with the statutory requirements of the Alabama Insurance Code, the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable procedures and applicable guidelines promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Corporate records were inspected. Income and disbursement items for selected periods were tested. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 1994, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report was confined to those items to which a material change was made, or which indicated a violation of the Alabama Insurance Code, or for which comments and/or recommendations were deemed appropriate.

A market conduct examination was conducted concurrently with this examination. The market conduct examination consisted of a

review of the Company's plan of operation, territory, policy forms and underwriting practices, advertising, compliance with agents' licensing requirements, and treatment of policyholders and claimants.

A letter of representation was presented to the Company at the beginning of this examination. In this certificate, management should attest to having valid title to all reported assets and to the non-existence of unrecorded liabilities as of December 31, 1994. At the conclusion of this examination, the letter of representation had not been completed and returned to the examiners...

ORGANIZATION AND HISTORY

The Company was incorporated in Jefferson County, under the laws of the State of Alabama, in 1935 as the Jordan Mutual Aid Association.

The Company's charter originally provided for capital of \$5,000, divided into 500 shares of \$10 par value common stock. There have been subsequent amendments to the charter in order to increase the amount of capital to \$50,000, divided into 5,000 shares of \$10 par value common stock.

On September 30, 1977, Hilliard and Company, Inc., purchased 2,493 shares of the then outstanding 2500 shares of common stock of the Company. Concurrently, the name of the Company was change to "American Trust Life Insurance Company, Inc."

The Company merged with Lincoln Industrial Insurance Company, per a court order dated December 14, 1981. The Company

was the survivor.

In 1982, Hilliard and Company, Inc., acquired 100% ownership of the Company by purchasing the remaining seven shares of common stock from the Alabama Department of Revenue, under the provisions of the Uniform Disposition of Unclaimed Property Act. Subsequent amendments to the Company's charter increased the number of outstanding shares to 5,000 with a \$10 par value as of the date of this examination.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in Section 27-29-1, Code of Alabama 1975. In connection therewith, the Company is registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

The Form B filings, which are required under the Holding Company Act, were made for 1991 and 1994. For the other years under examination, 1992 and 1993, no Form B filings were made.

Form B filings are required to be filed annually in accordance with Section 27-29-4, Code of Alabama 1975. Furthermore, Alabama Insurance Department Regulation 55, requires that an amendment to Form B should be filed within fifteen days after the end of any month in which there is a material change to information provided in the annual registration statement.

Management and Service Agreements

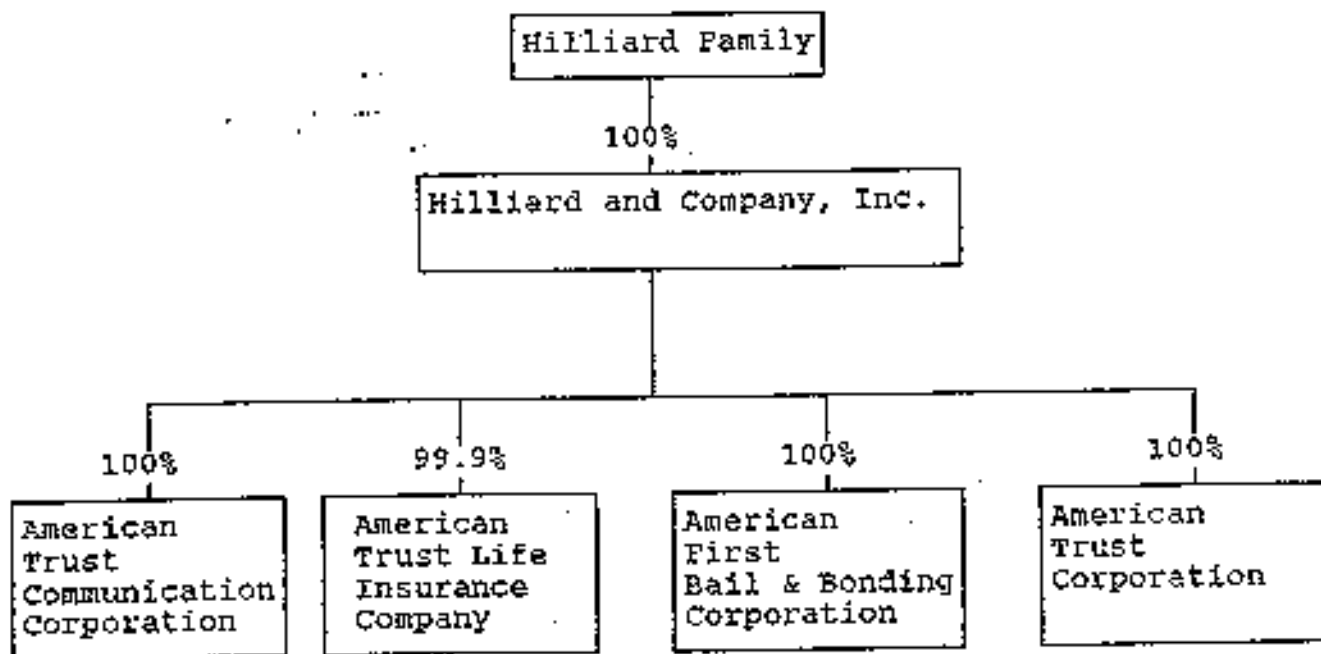
The Company had no written management or service agreements

at December 31, 1994. The day-to-day administrative duties were performed by persons working for affiliated companies.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 1994:

ORGANIZATION CHART



CORPORATE RECORDS

The Company's Certificate of Incorporation and By-Laws were inspected during the course of the examination and appeared to provide for operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

Minutes of the meetings of the stockholders and the Board of

Directors were reviewed. The minutes appeared to be complete with respect to recording actions taken on matters before the respective bodies for deliberation and action.

MANAGEMENT AND CONTROL

Stockholders

The Company is a stock corporation with ultimate control vested in its stockholder(s). At December 31, 1994, Hilliard and Company, Inc., appeared to own 99.9% of the outstanding common stock of the Company. Each director of the Company appeared to own one share of common stock in accordance with Section 27-30-30(a), Code of Alabama 1975. The examiners could not verify that each director owned one share of common stock at December 31, 1994, because the Company not supply its stock ledger to the examiners. In the minutes of Company board meetings, it appears that the Company is issuing one share of stock to its board members in accordance with the aforementioned section of the Alabama Insurance Code.

Board of Directors

The management and conduct of the business and affairs of the Company is vested in a Board of Directors consisting of no fewer than seven and no more than fifteen members. The directors shall be elected by a majority vote at the annual meeting of the stockholders. The following individuals were serving as directors at December 31, 1994:

Director/Residence

Occupation

John Randall Hilliard Birmingham, Alabama	Alabama State Representative
Rita Gail Hilliard Birmingham, Alabama	City of Birmingham Magistrate
Carol Jean Hilliard Birmingham, Alabama	Assistant Coordinator, Alabama Community Assistance
Mary Franklin Hilliard Birmingham, Alabama	Housewife
Earl Frederick Hilliard Birmingham, Alabama	United States Congressman
Elvira Willoughby Birmingham, Alabama	District Director, US House of Representatives
Frederick Earl Hilliard Birmingham, Alabama	Stock Clerk, Sears

Executive Committee

The By-Laws of the Company provide that the Board of Directors may appoint an executive committee consisting of three or more directors which shall include the Chairman of the Board and the President. There was no evidence that an executive committee had been elected during the period covered by this examination.

Officers

Officers of the Company, elected by the Board of Directors and serving at December 31, 1994, were as follows:

<u>Officer</u>	<u>Position</u>
John Randall Hilliard	President
Frederick Earl Hilliard	Vice President
Elizabeth Redmond	Secretary
Elvira Willoughby	Treasurer

Conflict of Interest

The Board of Directors approved and adopted a formal policy statement on business ethics and conflicts of interest. Said statement required that all directors, officers and employees

report annually, on a form approved by the Board of Directors, any conflicts between the Company's interest and the interest of its directors, officers and employees.

A review of signed conflict of interest statements indicated the Company was in compliance with the Alabama Insurance Code in regards to having directors, officers, and responsible employees complete annual statements which disclose any apparent conflicts of interest between the Company's interest and the interests of said individuals. No conflicts were disclosed during the period covered by this examination.

Dividends to Stockholders

The Company did not declare nor pay any dividends during the period covered by this examination.

FIDELITY BONDS AND OTHER INSURANCE

At December 31, 1994, the Company did not have fidelity bond coverage. Per NAIC guidelines, the Company should maintain fidelity bond coverage of at least \$25,000. It was recommended in the previous examination that the Company maintain fidelity bond insurance.

The Company maintained property insurance on its investment real estate in the following amounts:

<u>Property</u>	<u>Address</u>	<u>Amount</u>
Office building	3005 Fairwest Place	\$250,000
Apartment building	1013 13th Street	\$185,000
House	1811 Avenue C	\$ -0-

EMPLOYEE AND AGENT WELFARE

The Company did not have any employees at December 31, 1994.

The day-to-day administrative duties were performed by persons working for affiliated companies. There were no written management or service agreements in affect between the Company and any of its affiliates at December 31, 1994.

The Company's agents received commission only.

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company's agent operations were conducted under the supervision of the Company's Secretary. All policies were sold on a monthly debit basis through the Company's agents.

At December 31, 1994, there were approximately nine agents licensed to solicit business for the Company.

The Company's claims office was located at its home office in Birmingham, Alabama.

Policy Forms and Underwriting

During the period covered by this examination, the Company issued only one policy form.

- A) Monthly Debit Ordinary Policy - provided 3, 5, 10, or 20 year pay life plans with contract denominations of between \$500 and \$2,500.

Advertising

The Company had no formal advertising program as of December 31, 1994.

Compliance with Agents' Licensing Requirements

A representative sample of commissions to agents, paid by the Company during the examination period, was checked against a listing of agents licensed to write for the Company during the

same time period. All commission payments sampled were found to be paid to properly licensed persons.

Policyholders' Complaints

The complaints against the Company appear to be minimal, with any complaint handled in a timely manner. Two complaints were filed with the Alabama Insurance Department during the period covered by this examination and were handled in a timely manner by the Company.

Treatment of Policyholders and Claimants

During the course of the examination, a selected number of policy and claim files were reviewed. Said claims were handled promptly and in accordance with contract provisions. It appears, the Company treated policyholders and claimants in a fair manner.

TERRITORY

The Company was authorized to transact business in the State of Alabama only during the period covered by this examination.

STATUTORY DEPOSITS

The following schedule reflects the deposits held by the State of Alabama at December 31, 1994, for the protection of all policyholders:

<u>Certificates of Deposit</u>	<u>Amount</u>
Citizens Federal Savings Bank, Birmingham, AL	\$ 1,000
Citizens Federal Savings Bank Birmingham, AL	<u>21,000</u>
Total	<u>\$22,000</u>

Confirmation was received directly from the State of Alabama

with no exceptions noted.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<u>Year</u>	<u>Net Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
1990	\$30,494	\$263,699	\$359,882	\$ (96,183)
1991	31,814	579,180	351,508	227,672
1992	26,978	537,553	353,054	184,499
1993	21,306	974,607	352,045	622,562
1994	15,808	32,218	352,844	(320,626)

Amounts reported for the years 1990 and 1994 are per examination; amounts for the remaining years were taken from the Company's Annual Statements.

REINSURANCE

The Company did not cede nor assume any reinsurance during the period covered by this examination.

ACCOUNTS AND RECORDS

The principal accounting records are maintained manually. The Company retained an outside bookkeeper for the purposes of creating the quarterly statements and preparing the Annual Statement. The Company did not maintain detailed Annual Statement workpapers; therefore, the examiners spent an inordinate amount of time trying to reconcile the Company's Annual Statement with the amounts listed in the Company's real estate and mortgage loan files, along with various other records. The Company could not produce detailed workpapers for real estate or mortgage loans which totaled to the Annual statement amounts.

The Company does not maintain a general ledger but does maintain cash receipts and disbursements journals.

A number of errors were found in the Company's filed 1994 Annual Statement, which was incomplete with regard to various schedules and exhibits. Listed below are some areas where errors and/or omissions occurred in the Company's 1994 Annual Statement:

1. Schedule A - Real Estate
2. Schedule B - Mortgage Loans
3. Schedule E - Cash
4. Schedule T - Premiums and Annuity Considerations
5. Schedule Y - Transactions with Affiliates
6. Exhibit 2 - Net Investment Income
7. Exhibit 5 - General Expenses
8. Exhibit 13 - Assets

The Company records were not kept in conformity with accepted industry practices or NAIC guidelines. The four Annual Statements applicable to the examination period were not completed accurately nor in their entirety. This is the third consecutive examination which has noted this deficiency.

It was noted by the examiners that the Company either over reported or under reported several financial statement items that were deemed immaterial for the purposes of this examination and therefore, no notes to the financial statements were deemed necessary. Listed below are some areas where errors and/or omissions occurred in the Company's 1994 financial statements:

	<u>Per A/S</u>	<u>Per Exam</u>	<u>Difference</u>
<u>ASSETS:</u>			
Investment Income	\$9,640	\$2,312	\$(7,328)
Receivable from parent, subsidiaries and affiliates	-0-	6,000	6,000
<u>LIABILITIES:</u>			
General Expenses	-0-	3,000	3,000
TOTAL	<u>\$9,640</u>	<u>\$5,312</u>	<u>\$(4,328)</u>

FINANCIAL STATEMENTS INDEX

The financial statements included in this report were prepared on the basis of the Company's records, and the findings made during the course of the examination for the year ended December 31, 1994. Amounts shown in the comparative statements for years 1991, 1992 and 1993 were taken from office copies of filed Annual Statements. The statements are presented in the following order:

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Statement of Income.....	15
Reconciliation of Capital and Surplus Account.....	15

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the year ended December 31, 1994

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Mortgage loans on real estate (Note 1)	\$422,571		\$422,571	\$ -0-
Investment real estate (Note 2)	498,709		498,709	-0-
Collateral loans (Note 3)	-0-			-0-
Cash on hand and on deposit (Note 4)	22,578			22,578
Investment income due and accrued	9,640			9,640
Furniture and equipment	3,837		3,837	xxx
Aggregate write-ins for other than invested assets	<u>1,660</u>		<u>1,660</u>	<u>xxx</u>
Total assets	<u>\$958,995</u>	<u>\$-0-</u>	<u>\$926,777</u>	<u>\$ 32,218</u>
 <u>Liabilities</u>				
Aggregate reserve for life policies and contracts (Note 5)				\$ 351,500
Policy and contract claims - Life (Note 5)				722
Premium and annuity considerations received in advance				536
Amounts held for agents' account				<u>86</u>
Total liabilities				\$ 352,844
 <u>Surplus and Other Funds</u>				
Common capital stock (Note 6)		\$ 50,000		
Unassigned funds (surplus) (Note 7)		<u>(370,626)</u>		
Surplus as regards policyholders				<u>\$(320,626)</u>
Total Liabilities, Surplus and Other Funds				<u>\$ 32,218</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

SUMMARY OF OPERATIONS
For the years ended December 31,

	1991	1992	1993	1994
Income:				
Premium and annuity considerations	\$ 31,816	\$ 26,978	\$ 21,306	\$ 15,808
Net investment income	817	(2,840)	(3,149)	2,596
Aggregate write-ins for miscellaneous income	<u>123</u>	<u>21</u>	<u>-0-</u>	<u>-0-</u>
Total Income	\$ <u>32,756</u>	\$ <u>24,159</u>	\$ <u>18,157</u>	\$ <u>18,404</u>
Deductions:				
Death benefits	\$ 11,665	\$ 15,446	\$ 11,729	\$ 21,042
Surrender benefits and other fund withdrawals	2,533	3,659	8,494	3,209
Increase in aggregate reserve for life & accident & health policies	9,906	5,798	-0-	-0-
Commissions on premium and annuity considerations	5,187	4,530	5,134	3,928
General insurance expenses	64,086	39,061	24,275	5,031
Insurance, taxes, licenses and fees	<u>2,347</u>	<u>4,171</u>	<u>728</u>	<u>666</u>
Total Deductions	\$ <u>95,724</u>	\$ <u>72,665</u>	\$ <u>50,360</u>	\$ <u>33,876</u>
Net gain from operations after dividends to policyholders and federal income taxes	(62,968)	(48,506)	(32,203)	(15,472)
Net Income	\$ (62,968)	\$ (48,506)	\$ (32,203)	\$ (15,472)

RECONCILIATION OF CAPITAL AND SURPLUS
For the years ended December 31,

	1991	1992	1993	1994
Capital and surplus, December 31, previous year	\$ (96,183)	\$ 227,672	\$ 184,499	\$ 622,562
Net Income	(62,968)	(48,506)	(32,203)	(15,472)
Change in net unrealized capital gains or (losses)	359,272	-0-	215,458	-0-
Change in non-admitted assets	-0-	-0-	-0-	(921,280)
Change in reserve on account of change in valuation basis	-0-	-0-	1,646	-0-
Capital changes, paid in	-0-	2,260	185,678	(2,260)
Capital changes, transferred to surplus	-0-	-0-	-0-	2,260
Surplus adjustment, paid in	<u>27,551</u>	<u>3,073</u>	<u>67,484</u>	<u>(6,436)</u>
Net change in capital and surplus for the year	\$ 323,855	\$ (43,173)	\$ 438,063	\$ (943,188)
Capital and surplus, December 31,	\$ 227,672	\$ 184,499	\$ 622,562	\$ (320,626)

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS AND EXHIBITS

Note 1 - Mortgage loans on real estate

\$-0-

The above asset is \$422,571 less than the amount reported by the Company in its 1994 Annual Statement.

It was noted that the Company could not reconcile its mortgage loan ledger amount to the Annual Statement amount of \$422,571. The amount the examiners could determine per mortgage loan ledger, at December 31, 1994, was \$434,033. The mortgage loan ledger was \$11,462 more than the amount that was reported in the Company's 1994 Annual Statement. The difference was deemed not relevant since either of the aforementioned amounts would be non-admitted by the examiners for the following reasons:

The mortgage held by the Company on its home office building, located at 1614 3rd Avenue, North, Birmingham, was not admitted by the examiners. The last appraisal on the home office building was August 25, 1991, and was done with improvements included in the value. The Company did not supply any requested documentation to verify that the renovations had been started and/or completed.

The Company seems to hold a third mortgage on the home office building. It appears that a William Parker held a first mortgage on the home office building at December 31, 1994. Mr. Parker issued a mortgage to Earl F. Hilliard, as recorded in Real 2971, Page 224, and it appears that Southtrust Bank holds a second mortgage issued to Earl F. Hilliard, recorded in Real 3171, Page 292.

The Company did not have a title policy on the home office building, paid property tax receipts, nor did it have any evidence of current property insurance coverage on the building.

The African American Institute (AAI) was the mortgagor on the home office building and was an affiliate of the Company at the time the mortgage was issued. AAI paid the Company \$3,000 per month in mortgage payments. The Company, in turn, rented space from AAI for \$1,500 a month. A commercial lease was in effect at December 31, 1994, between AAI and the Company.

It appears that the cost of the home office property to the Company, as recorded in a deed filed on November 18, 1987, between Earl F. Hilliard and American Trust Life Insurance Company, is \$500. Section 27-37-9, Code of Alabama 1975, states in pertinent part that:

"Purchase money mortgages on real property shall be valued in an amount not exceeding the acquisition cost of real property covered thereby or the unpaid balance of the debt secured by such mortgage, whichever is less."

Under said section of the Alabama Insurance Code, it appears that the most the Company could admit this mortgage for is its acquisition cost, or \$500.

The Company held a mortgage for \$5,778, on a house located at 3508 Avenue B, Birmingham, as reported in the mortgage loan ledger at December 31, 1994. The Company could not provide the examiners with an appraisal on the property, proof of property insurance coverage nor any proof that property tax payments on the house were current.

The Company held a mortgage for \$4,717, on a house located at 1833 15th Street, South, Birmingham, as reported in the mortgage loan ledger at December 31, 1994. The Company did not provide the examiners with an appraisal on the property or a title policy on the property.

The Company held a mortgage on a house located at 1612 20th Street, Birmingham, for \$12,648 as reported in the mortgage loan ledger at December 31, 1994. No appraisal or title policy on this property was provided to the examiners.

The Company held a mortgage for \$15,204, on a house located at 2322 11th Place, North, Birmingham, as reported in the mortgage loan ledger at December 31, 1994. The Company had an appraisal on this property, dated June 19, 1991, for \$15,000. The Company could not provide a title policy, and proof that property tax payments or property insurance coverage were current on this property. It appears that this mortgage was reissued in May of 1994, in favor of American First Bail Bonding Corporation, an affiliated company.

The Company held a mortgage for \$15,742, on a house located at 1215 15th Street, Birmingham, as reported in the mortgage loan ledger at December 31, 1994. The Company did not provide the examiners with an appraisal on the property. The Company did have a title policy on the property dated December 1, 1980, for \$1,500, and did have evidence of current property insurance on the house.

The Company held a mortgage for \$2,200, on vacant lots

located on Victory Lane, Mobile, as reported in the Company's mortgage loan ledger at December 31, 1994. An appraisal for \$8,400, on said lots, was dated February 15, 1984. The Company did have a current property tax receipt which valued the property at \$1,320.

The Company held a mortgage for \$7,145, on a house located at 4304 10th Avenue, North, Birmingham, as reported in the mortgage loan ledger at December 31, 1994. The Company did not provide the examiners with an appraisal on the property, evidence that property tax payments on the house were current nor current property insurance coverage on this house. Furthermore, there no payment has been made on this mortgage since October 15, 1993.

All of the mortgages discussed above could not be valued by the examiners due to the lack of current appraisals and/or current title opinions and/or current property tax receipts at December 31, 1994.

The Company is subject to Section 27-41-37(b), Code of Alabama 1975, which states, in pertinent part:

"The moneys derived by such corporations from payment of subscriptions to its capital stock, (contributed surplus for mutual) may be invested in bonds of the United States or of this state or of the cities or counties of this state, estimated at their market value, or in notes or mortgages secured by real estate collateral worth twice the amount of said mortgages or notes."

Note 2 - Investment Real Estate

\$-0-

The above asset is \$498,709 less than the amount reported by the Company in its 1994 Annual Statement.

It was noted that the Company could not reconcile the amount

in its investment real estate files to the Annual Statement amount of \$498,709. The amount the examiners could determine per real estate files, at December 31, 1994, was \$498,235. The real estate files were \$10,474 less than the amount that was reported in the Company's 1994 Annual Statement. The difference was deemed not relevant since either of the aforementioned amounts would be non-admitted by the examiners for the following reasons:

The value of the apartment building, located at 1013 13th Street North, Birmingham, owned by the Company at December 31, 1994, could not be determined by the examiners. The Company did not have an appraisal nor did it have a title policy on the property. The apartment building appeared to be purchased by Eric Major on October 5, 1992, for \$65,000, comprised of \$6,500 cash and a mortgage note to the seller for \$58,500. On September 29, 1993, Eric Major exchanged the apartment building for property owned by the Company. The Company determined the value of the apartment building at that time to be \$285,000, of which approximately \$57,000 was a mortgage note assumed by the Company. The deed for the sale to the Company was dated December 31, 1993.

The Company could not provide paid property tax receipts on the apartment building.

The apartment building's value was also not admitted by the examiners in accordance with Alabama Department of Insurance Regulation 18. Regulation 18 states, in pertinent part, as follows:

"(2) In the case of investment real estate, the allowable market value shall not exceed that amount which is necessary

to produce at a rate of 6% per year the net investment income (which is gross income, less upkeep, repairs, taxes and depreciation) reported and received on that property."

According to the Company's cash receipts and disbursements journals, the Company received \$4,757 in income and disbursed \$11,266 in expenses on the apartment building in 1994. Therefore, in accordance with Regulation 18, the allowable market value of the apartment building should be \$-0- at the examination date.

The value of the office building, located at 3005 Fairwest Place in Montgomery, and owned by the Company at December 31, 1994, could not be determined by the examiners. The examiners requested an updated appraisal in accordance with Section 27-37-7(b), Code of Alabama 1975. No response was received from the Company before the completion of this examination. The Company's title policy on the office building was made on October 10, 1992, for \$50,000, and disclosed a mortgage in favor of Southtrust Bank. The mortgage was executed by Montgomery West Communications Foundation, Incorporated, dated June 6, 1991, and recorded June 11, 1991, for a original principle amount of \$53,650.

The office building value was also not admitted by the examiners in accordance with the following section of Alabama Department of Insurance Regulation 18.

"(2) In the case of investment real estate, the allowable market value shall not exceed that amount which is necessary to produce at a rate of 6% per year the net investment income (which is gross income, less upkeep, repairs, taxes and depreciation) reported and received on that property."

According to the Company's cash receipts and disbursements journals, the Company received \$7,310 in income on this property during 1994. The examiners could not verify any cash disbursements in 1994 on the office building, except mortgage loan payments made to Southtrust Bank which totaled \$15,000 during 1994. At a rate of 6%, the most the Company could admit as an asset at December 31, 1994, would be approximately \$122,000. The investment income amount of \$7,310 should be reduced by upkeep, repairs, taxes and depreciation, in accordance with Regulation 18, which in turn would lower the \$122,000 amount calculated by the examiners.

Paid property tax receipts on the office building were not provided by the Company.

The value of a house, located at 1811 Avenue C in Birmingham, and owned by the Company at December 31, 1994, could not be determined by the examiners. The Company could not produce an appraisal on the property, and it appears the Company foreclosed on the property in 1984.

Furthermore, the Company did not have any proof of property insurance coverage on the house nor was there any proof that property taxes had been paid on the real estate. The house's value, therefore, has been determine to be \$-0-, at December 31, 1994.

The examiners requested an updated appraisals on all real estate owned by the Company, in accordance with section 27-37-7(b), Code of Alabama 1975. No response was received from the

Company before the completion of this examination.

Note 3 - Collateral loans

\$ -0-

The Company did not report any amount under this caption at December 31, 1994.

It was noted that Exhibit 2 - Net Investment Income of the 1994 Annual Statement reported \$3,922 in income collected during the year on collateral loans. Column 5 of that exhibit noted a non-admitted amount of \$8,556. Collateral loans were not reported on the balance sheet during the examination period.

In 1993, Exhibit 13 reported ledger assets of \$91,389 and assets not admitted in the same amount. A hand written notation on the Company's file copy of this exhibit stated "remove from ledger 9/94." Exhibit 2 reported income collection and the non-admittance of \$4,634 in 1993.

No documentation was available for review on the captioned item.

Note 4 - Cash on hand and on deposit

\$22,578

The captioned amount is the same as was reported by the Company in its 1994 Annual Statement.

It was noted that \$22,000 of the referenced amount was held by the State of Alabama as the Company's statutory deposit. The remaining \$578 was the balance of a checking account at AmSouth Bank, Birmingham, Alabama.

In 1991, 1993, and 1994, Schedule E - Cash of the Annual Statement was not completed accurately nor in its entirety per NAIC instructions thereto.

The previous examination report noted that the Company had purchased a \$120,000 Certificate of Deposit (CD) from AmSouth Bank in June of 1988. That examiner was not able to verify the disposition of said CD, and recommended that the Company provide a written explanation and substantial proof of the same to the Alabama Department of Insurance. This issue was never addressed by the Company. During the course of this examination, another request was made to the Company to provide this information. The examiners received no response.

A review of the cash receipts and disbursement journals was conducted. It was noted that the Company received periodic interest payments from Secor/First Alabama (FAB), and AmSouth banks during the examination period. Support documentation was not made available to the examiners. The disbursements journal recorded CD purchases from AmSouth Bank on January 28, 1993, February 21, 1994, and March 9, 1994, in the amounts of \$1,000, \$1,400, and \$3,000, respectively. The existence of these CDs, and the item(s) producing income from several banks, could not be verified. Said investments were not included in the Company's cash inventory at December 31, 1994.

Between March 1991, and January 1994, the Company received approximately \$21,800 from "stock purchases." The monies originated from the parent, Hilliard & Company, Inc., affiliated companies, and Mr. Earl F. Hilliard, a director of the Company. No information was reported on Schedule Y, Part 2 - Summary of Insurer's Transactions with Any Affiliates. The examiners were

unable to determine the source of the stock for sale. Documentation was requested on these stock sales. No response was received from the Company as of the examination date.

The cash receipts and disbursement journals recorded numerous entries for loans to and/or from the parent, affiliated companies and Mr. Hilliard. The examiners requested files and substantiating documentation on all of the loans made during the examination period. At the conclusion of the examination, no information had been made available for review. It appears that the Company may be in violation of Sections 27-27-26 and 27-27-40, Code of Alabama 1975, referencing pecuniary interests of officers and employees, and written agreements for business loans.

<u>Note 5 - Aggregate reserve for life</u>	
<u> policies and contracts</u>	<u>\$351,500</u>
<u> Policy and contract claims - Life</u>	<u> \$772</u>

The above liability is the same amount as reported by the Company in its 1994 Annual Statement.

Due to the problems encountered in the valuation of the Company's assets, it is the Department's position that an actuary will not be used to verify Company reserves at the time of this report. An actuary will be used to verify reserves when the Company has provided evidence and documentation of the valuation of its investment real estate and mortgage loans.

<u>Note 6 - Common Capital Stock</u>	<u>\$50,000</u>
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The above captioned amount is \$2,260 less than the amount reported by the Company in its 1994 Annual Statement.

In the 1992 Annual Statement, the capital amount was increased by \$2,260, and was carried forward in the Company's Annual Statements for 1993 and 1994. The examiners could find no evidence in the Company's minutes or stock ledger to support the increase. Therefore, the \$2,260 was removed from the Company's capital account and placed back into unassigned surplus.

Note 7 - Unassigned Funds (surplus) \$(370,626)

The above captioned amount is \$919,020 less than the amount reported by the Company in its 1994 Annual Statement.

The following schedule presents a reconciliation of the unassigned funds reported by the Company with that developed by this examination:

Unassigned funds per 1994 Annual Statement	\$ <u>548,394</u>
Examination changes:	
Mortgage loans on real estate (Note 1)	\$(422,571)
Investment real estate (Note 2)	(498,709)
Common capital stock (Note 6)	<u>3,260</u>
Net decrease per examination	(919,020)
Unassigned funds per Examination	\$(<u>370,626</u>)

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examiners could not determine if the Company had any contingent liabilities in regards to pending litigation. The examiners requested a letter from the Company's attorney about pending litigation against the Company. No response was received during the course of the examination. The examiners also requested the Company President and Treasurer sign a letter of representation in accordance with NAIC procedures. The letter

was not received prior to the conclusion of the examination.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had not satisfactorily complied with all of the prior recommendations. These items are discussed below.

Management and Control

The previous two examination reports recommended that the Company comply with section 27-27-30, Code of Alabama 1975, which requires all of a company's directors be stockholders. The minutes from the Board of Directors meetings indicated that all members of the Board had been voted one share of stock each; however, the Company could not produce a stock register which issued said shares to the directors. It was also noted that the Notes to Financial Statements section of the 1994 Annual statement reported that "All outstanding shares of American Trust Life Insurance Company, Incorporated are owned by Hilliard & Company, Incorporated."

Holding Company

The previous examination report recommended that the Company file amendments to its Form B Registration Statement in accordance with section 27-29-4, Code of Alabama 1975. The Company did not file annual updates in 1992 and 1993.

Fidelity Bond

The previous examination recommended that the Company

maintain fidelity bond coverage in accordance with NAIC guidelines. The Company did not obtain fidelity bond insurance during the examination period.

Accounts and Records

The previous examination recommended that the Company maintain its records in conformity with accepted industry standards, NAIC guidelines and Section 27-30-21, Code of Alabama 1975. The Company did not maintain its records in conformity with the above mention standards.

Mortgage loans on real estate

The previous examination recommended that the Company have proof of hazard insurance on each mortgage loan. The Company did not maintain proof of hazard insurance on all of its mortgage loans.

Investment real estate

The previous examination recommended that the Company depreciate its investment real estate in accordance with the NAIC publication Accounting Practices and Procedures Manual for Life, Accident and Health Insurance Companies. Although the Company responded that a depreciation schedule had been set up consistent with said manual, the examiners were not provided with same.

The previous examination recommended that the Company keep its real estate file up to date and in the Home Office. The files were not so maintained during the period of examination; however, it appears that the existing documentation was maintained in the Home Office.

Cash on hand and on deposit

The Company did not address the examiner's recommendation to provide a written explanation and substantial proof of the same to the Alabama Department of Insurance as to the disposition of the \$120,000 certificate of deposit.

Investment income due and accrued

The previous report recommended that the Company only accrue amounts receivable which are evidenced by a lease or other verifiable source. Neither leases nor substantiating documentation was provided to the examiners for review.

Receivable from parent, subsidiaries and affiliates

The previous examination recommended that Hilliard and Company, Inc., return \$6,000, which appeared to be a dividend payment, to the Company and send verification of same to the Alabama Department of Insurance. The Company responded that the \$6,000 had been repaid, and that an affidavit from Jewel Clark was attached. The Alabama Department did not receive an affidavit. The examiners requested a copy of that affidavit; it was not provided.

In addition, the examiner recommended that the \$105,000 payment to Hilliard and Company, Inc., for Home Office improvements be refunded back to the Company until said improvements were finished. The Company did not provide evidence that either the \$105,000 had been repaid, or the improvements had been completed.

COMMENTS AND RECOMMENDATIONS

Scope of Examination - Page 2

It is recommended that the Company complete the letter of representation in accordance with NAIC guidelines.

Holding Company Registration - Page 4

It is recommended that the Company file Form B registration statements for 1992 and 1993.

It is recommended that the Company comply with all the requirements of Section 27-29-4, Code of Alabama 1975, and all the requirements of Alabama Department of Insurance Regulation 55.

Management and Service Agreements - Page 4

It is recommended that the Company implement a written management or service agreement with its affiliates that meets the requirements of Section 27-29-5, Code of Alabama 1975.

Stockholders - Page 6

It is recommended that the Company supply evidence, pertaining to the issuance of stock to Company directors, that it is in compliance with Section 27-30-30(a), Code of Alabama 1975.

Fidelity Bond and Other Insurance - Page 8

It is recommended that the Company maintain fidelity bond insurance in accordance with NAIC guidelines.

It is recommended that the Company maintain property insurance on all of its investment real estate.

Accounts and Records - Page 11

It is recommended that the Company maintain its records in

accordance with Section 27-30-21, Code of Alabama 1975.

It is recommended that the Company complete its Annual Statement in conformity with the Annual Statement Instructions.

Mortgage Loans on Real Estate - Page 16

It is recommended that the Company non-admit all mortgage loans until current appraisals are done in accordance with Section 27-37-7(b), Code of Alabama 1975, and the appraisals meet all the requirements of Alabama Department of Insurance Regulation 59.

It is recommended that the Company have proof of current hazard insurance on each mortgage loan in order to protect its interest in the property.

It is recommended that the Company have proof of current property tax payments on each mortgage loan in order to protect its interest in the property.

It is recommended that the Company value purchase money mortgages in accordance with Section 27-37-9, Code of Alabama 1975.

Investment Real Estate - Page 19

It is recommended that the Company non-admit investment real estate until current appraisals are done in accordance with Section 27-37-7(b), Code of Alabama 1975, and the appraisals meet all the requirements of Alabama Department of Insurance Regulation 59.

It is recommended that the Company keep paid property tax receipts available for examination on all investment real estate.

It is recommended that the Company have and maintain property insurance in effect on all investment real estate to protect its interest in the property.

It is recommended that the Company depreciate its investment real estate in accordance with the NAIC Accounting Practices and Procedures Manual for Life, Accident and Health Insurance Companies manual.

Collateral Loans - Page 23

It is recommended that the Company provide documentation evidencing the status of collateral loans which generated the \$3,922 amount reported in Exhibit 2 - Net Investment Income of the Company's 1994 Annual Statement.

It is also recommended that the Company provide information relevant to the disposition of the \$91,389 amount reported and non-admitted under this caption in 1993.

Cash on Hand and on Deposit - Page 23

It is recommended that Annual Statement Schedule E - Cash be completed accurately and in its entirety per NAIC instructions thereto.

The previous examination report recommended that the Company provide the Alabama Insurance Department with a written explanation and substantial proof of the disposition of the \$120,0000 Certificate of Deposit which had been purchased in 1988. It is recommended that the Company address this issue and provide the requested information.

It is recommended that the Company provide support

documentation to evidence the disposition of the various Certificates of Deposit purchased during the examination period.

It is recommended that the Company provide a written explanation for the receipt of approximately \$21,800 which was derived from the sale of "stock." Furnished information should include the source of the assets sold. Because such funds were received from the parent and affiliated companies, the transactions should have been recorded on Schedule Y, Part 2 - Summary of Insurer's Transactions with Any Affiliates of the Annual Statement. It is recommended, therefore, that said schedule be completed appropriately per NAIC instructions.

Compliance With Previous Recommendations - Page 27

It is recommended that the Company comply with all previous examination recommendations.

Compliance with Alabama Department of Insurance Regulation 60

It is recommended that the Company complete and file future annual and quarterly statements in accordance with the last filed report of examination pursuant to Alabama Department of Insurance Regulation 60.

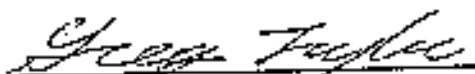
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and the people affiliated with American Trust Life Insurance Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Anne Ward, an examiner representing the Alabama Insurance Department, participated in this examination.

Respectfully submitted,


Greg Taylor, AFE
Examiner-in-Charge
Alabama Insurance Department



STATE OF ALABAMA
DEPARTMENT OF INSURANCE
135 SOUTH UNION STREET
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

MICHAEL DeBELLIS
COMMISSIONER

DEPUTY COMMISSIONER
DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBISON

GENERAL COUNSEL
MICHAELA. BOWNES

LICENSING MANAGER
LINDA PUGH

FOR JAMES, JR.
GOVERNOR

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

IN THE MATTER OF:)
)
AMERICAN TRUST LIFE INSURANCE) CASE NO. C-96- 44 N
COMPANY)

NOTICE OF IMPAIRMENT

Pursuant to Section 27-27-41, Code of Alabama 1975, notice is hereby given that the examiners of the Alabama Insurance Department have found American Trust Life Insurance Company to be insolvent as of December 31, 1994, by a capital impairment in the amount of \$370,626.

It was further determined by said examiners that said company has, during the period covered by the examination, policies issued and in force providing benefits with a maximum aggregate benefit of \$2,500, such that pursuant to Sections 27-30-15 and 27-30-5, Code of Alabama 1975, said company must have and maintain unimpaired surplus funds, representing the excess of its admitted assets over all its required reserves and incurred liabilities, of not less than \$75,000.

American Trust Life Insurance Company is hereby given notice to make good the impairment of \$370,626 and further that it increase its surplus to not less than \$75,000 within sixty (60) days after service of this notice.

In the event the above described deficiencies are not made good and proof thereof filed with the Commissioner of Insurance within such sixty (60) day period, American Trust Life Insurance Company shall be deemed insolvent and delinquency proceedings shall be instituted under Chapter 32 of the Alabama Insurance Code, and/or other legal remedies deemed appropriate under the circumstances.

DONE and ORDERED this 20th day of February, 1996.



MICHAEL DEBELLIS
COMMISSIONER OF INSURANCE

MD/RN/bc

COPY OF NOTICE FURNISHED TO:

Mr. John Randall Hilliard, President
American Trust Life Insurance Company
1614 Third Avenue North
Birmingham, Alabama 35203



STATE OF ALABAMA
DEPARTMENT OF INSURANCE
135 SOUTH UNION STREET
POST OFFICE BOX 303351
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MICHAEL DEBELLIS
COMMISSIONER

DEPUTY COMMISSIONER
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STATE FIRE MARSHAL
JOHN S. ROBINSON

GENERAL COUNSEL
MICHAELA BOWNES

LICENSING MANAGER
LINDA PUGH

FOB JAMES, JR.
GOVERNOR

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

IN THE MATTER OF:)
) CASE NO. C-96- 45 N
AMERICAN TRUST LIFE INSURANCE)
COMPANY)

NOTICE OF INTENT TO SUSPEND

Notice is hereby given, pursuant to Section 27-30-12, Code of Alabama 1975, of the undersigned's intention to suspend the certificate of authority of American Trust Life Insurance Company (American Trust), said Order to be effective February 20, 1996.

The grounds for said Order of Suspension are as follows:

1. American Trust is in unsound condition or is in such condition or is using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous to its members, policyholders, dependents, beneficiaries or to the public.
2. American Trust has been unable to provide a plan whereby the deficiencies will be corrected so as to result in a viable solution to the unsound financial condition.

Facts in support of the above-stated grounds are contained in the Report of Examination of American Trust as of December 31, 1994, which said report is dated August 11, 1995.

GIVEN this 20th day of February, 1996.

MICHAEL DEBELLIS
COMMISSIONER OF INSURANCE

MD/RN/bc

NOTICE OF INTENT TO DISPEND
CASE NO. C-96- 45 N
PAGE 2

COPY OF NOTICE FURNISHED TO:

Mr. John Randall Hilliard, President
American Trust Life Insurance Company
1614 Third Avenue North
Birmingham, Alabama 35203

Can



STATE OF ALABAMA
DEPARTMENT OF INSURANCE
135 SOUTH UNION STREET
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STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
LINDA PUGH

FOR JAMES, JR.
GOVERNOR

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

IN THE MATTER OF:)
)
AMERICAN TRUST LIFE INSURANCE) CASE NO. C-96-45N
COMPANY)

AMENDED NOTICE OF INTENT TO SUSPEND

Notice is hereby given, pursuant to Section 27-30-12, Code of Alabama 1975, of the undersigned's intention to suspend the certificate of authority of American Trust Life Insurance Company (American Trust), said Order to be effective March 20, 1996.

The grounds for said Order of Suspension are as follows:

1. American Trust is in unsound condition or is in such condition or is using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous to its members, policyholders, dependents, beneficiaries or to the public.

2. American Trust has been unable to provide a plan whereby the deficiencies will be corrected so as to result in a viable solution to the unsound financial condition.

Facts in support of the above-stated grounds are contained in the Report of Examination of American Trust as of December 31, 1994, which said report is dated August 11, 1995.

GIVEN this 29th day of February, 1996.

MICHAEL DEBELLIS
COMMISSIONER OF INSURANCE

MD/RN/bc

NOTICE OF INTENT TO RESPOND
CASE NO. C-96-45N
PAGE 2

COPY OF NOTICE FURNISHED TO:

Mr. John Randall Hilliard, President
American Trust Life Insurance Company
1614 Third Avenue North
Birmingham, Alabama 35203



FOB JAMES, JR.
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
135 SOUTH UNION STREET
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
Telephone: (334) 269-3550
Facsimile: (334) 241-4192

MICHAEL OEGELUS
COMMISSIONER

DEPUTY COMMISSIONER
DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBISON

GENERAL COUNSEL
MICHAEL A. BOWYER

LICENSING MANAGER
LINDA PUGH

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

IN THE MATTER OF:)
)
AMERICAN TRUST LIFE INSURANCE) CASE NO. C-96-45N
COMPANY)

ORDER OF SUSPENSION

American Trust Life Insurance Company (American Trust) is a mutual aid association holding a current certificate of authority in this state.

The Report of Examination of American Trust as of December 31, 1994, revealed that American Trust is in unsound condition or is in such condition or is using such methods and practices in the conduct of its business as to render its further transaction of insurance in this state hazardous to its members, policyholders, dependents, beneficiaries or to the public.

A Notice of Intent to Suspend was provided on February 20, 1996, which said was amended on February 29, 1996. American Trust has been unable to provide a plan whereby the deficiencies will be corrected so as to result in a viable solution to the unsound financial condition.

Therefore, it is hereby ORDERED, pursuant to Sections 27-30-11, 27-3-22 and 27-3-23, Code of Alabama 1975, as follows:

- A. That the certificate of authority of American Trust is suspended as of the date of this Order.
- B. That American Trust shall not solicit or write any new coverage in this state during the period of suspension.
- C. That during the period of suspension, American Trust shall file its annual statement, pay fees, licenses and taxes as required under the law as if the certificate had continued in full force, and it shall service its outstanding policies and adjust losses thereunder.

D. That the licenses of all agents of American Trust are likewise suspended and canceled during the period of suspension. Said agents shall, pursuant to Section 27-8-19, promptly return said licenses to this Department for cancellation.

E. That notice of the suspension shall be given to all American Trust agents of record in this state.

F. That in the event American Trust's certificate of authority has not been reinstated within one (1) year from the date of this Order, by establishing that it is so qualified, and has not been otherwise terminated, notice is hereby given that said certificate shall automatically be revoked without further notice or action by this Department.

DONE and ORDERED, this 4th day of April, 1996.



MICHAEL DEBELLIS
COMMISSIONER OF INSURANCE

MD/RN/bc

cc: American Trust Life Insurance Company
All Alabama Agents of American Trust Life Insurance Company
Alabama Life and Disability Insurance Guaranty Association

STATE OF ALABAMA, EX REL.
MICHAEL DEBELLIS, as Commissioner
of Insurance, and
NELSON BURNETT, as Chief of the
Insurance Department's Receivership
Division,

Plaintiffs.

v.

AMERICAN TRUST LIFE INSURANCE
COMPANY,

Defendant.

CIVIL ACTION NO _____

**STIPULATION OF THE PARTIES FOR ENTRY OF
CONSENT ORDER OF REHABILITATION,
PERMANENT INJUNCTION AND OTHER RELIEF**

THIS STIPULATION, made and entered into this 9th day of August, 1996, by and between the State of Alabama, ex rel., Michael DeBellis, etc., Petitioners, by and through its attorney of record, Ralph R. Norman, III, and American Trust Life Insurance Company (ATLIC), by and through its President, John R. Hilliard.

- WITNESSETH -

WHEREAS, the Alabama Insurance Department intends to file a Petition for Temporary Restraining Order and Show Cause for Appointment of Receiver and Permanent Injunction against the Respondent ATLIC; and

WHEREAS, the Board of Directors of Respondent ATLIC did, at a specially called meeting on August 8, 1996, adopt a resolution consenting to the entry by this Court of a

final Order of Rehabilitation and for a permanent injunction and for the other relief requested in the Plaintiffs' petition; and

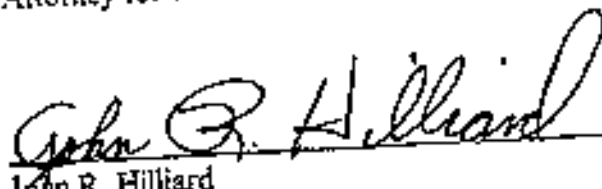
WHEREAS, the Parties hereto are desirous of entering into a Stipulation seeking the entry of a Consent Order without further delay.

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES, it is hereby agreed and stipulated by and between the parties that this Court enter a Consent Order of Rehabilitation, Permanent Injunction, and Other Relief as requested by the Plaintiffs without further delay and do hereby waive a formal hearing on this issue.

IN WITNESS WHEREOF, the parties have hereunto set their hands, on the day and date first written above.



Ralph R. Norman, III
Attorney for the Plaintiffs



John R. Hilliard
President
American Trust Life Insurance Company

STATE OF ALABAMA)
)
JEFFERSON COUNTY)

I, Elvira Wilboughby-Williams, hereby certify that I am the duly elected Secretary of the Board of Directors of American Trust Life Insurance Company. I further certify that upon due notice, a special meeting of the Board of Directors of American Trust Life Insurance Company was held on August 8th, 1996, and that the following is an excerpt from the minutes of that meeting:

Earl F. Hilliard moved that American Trust Life Insurance Company proceed on a voluntary basis under an Order of Rehabilitation and Permanent Injunction in connection with a receivership action by the Alabama Department of Insurance against American Trust Life Insurance Company, and further that the President, John R. Hilliard, be authorized and empowered to enter into a stipulation for the entry of a Consent Order in accordance therewith.

This motion was seconded by Carol Jean Allen, and was carried by a vote of 5 votes for the motion and 0 votes against the motion.

I hereby certify that the above is a true and correct copy and that no motion to the contrary has passed to date.

(CORPORATE SEAL)

Elvira Wilboughby-Williams
Secretary

Sworn to and subscribed before me, this 8th day of August, 1996.

(NOTARY SEAL)

Samuel F. Webb
Notary Public
My Commission Expires: 9/22/98