

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
THE LIQUIDATION OF )  
INTERNATIONAL UNDERWRITERS ) C.A. No. 12892  
INSURANCE COMPANY )

ORDER

WHEREAS, the Honorable Donna Lee H. Williams, Commissioner of Insurance of the State of Delaware, in her capacity as the Receiver of International Underwriters Insurance Company in Liquidation ("Receiver"), has moved this Court for approval of the Settlement Agreement Among International Underwriters Insurance Company in Liquidation ("IUIIC"), Insurors Nationwide Service Agency, Inc. ("INSA"), Robert Henry Garwood ("Garwood I") and Robert Henry Garwood, II ("Garwood II"), dated December 14, 1995, attached to the Receiver's motion as Exhibit 1 (D.I. 71);

WHEREAS, prior to the entry of the Stipulated Liquidation and Injunction Order in this matter, Garwood I and Garwood II were officers and directors of IUIIC;

WHEREAS, prior to the entry of the Stipulated Liquidation and Injunction Order, IUIIC wrote property and casualty insurance policies in the State of Texas using insurance agents, including INSA, who collected and remitted to IUIIC premiums for policies issued by IUIIC to Texas policyholders. IUIIC and INSA entered into a Services Agreement effective February 15, 1990 (the "Services Agreement") under which INSA was to act as a managing general agent to provide underwriting, policy issuance, and premium collection services under the supervision and control of IUIIC's officers in exchange for a commission to INSA of twenty-five percent

(25%) of the net premiums for the insurance placed with IUIC. INSA placed the insurance with IUIC through the use of approximately fourteen (14) producers, all of whom were Texas insurance agents;

WHEREAS, after the entry of the Stipulated Liquidation and Injunction Order, IUIC's Texas property and casualty policies were cancelled on or about April 10, 1993 and some of the premiums collected by the agents, including the commission, were unearned, with some of this "unearned premium" (including agents' unearned commissions) in the possession of the agents. In addition, some of the agents have retained the earned premium. As a result of the entry of the Stipulated Liquidation and Injunction Order, the agents are required to return any premium, including the earned and unearned portions, to the Receiver;

WHEREAS, prior to the entry of the Stipulated Liquidation and Injunction Order, on or about January 20, 1993, INSA and IUIC entered into an agreement for the purchase by IUIC of outstanding amounts due on certain insurance policies which were financed by INSA (the "Premium Finance Notes Agreement"). The policies financed included policies of IUIC and two of its affiliated companies, Indemnity Underwriters Insurance Company ("Indemnity"), an Oklahoma insurance company, and Underwriters Lloyds Insurance Company ("ULIC"), a Texas insurance company. Both Indemnity and ULIC are also the subject of liquidation proceedings in their respective states of domicile;

WHEREAS, on September 30, 1992, Mr. Robert Henry Garwood executed a Surplus Note on behalf of IUIC under which it agreed to be indebted to another company owned by Mr. Garwood, Garwood Financial Corporation, for repayment of \$2,000,000 advanced by Garwood Financial Corporation to IUIC;

WHEREAS, on March 8, 1995, the Receiver filed suit against GARWOOD in the United States District Court for the District of Delaware in the matter docketed at The Honorable Donna Lee H. Williams v. Robert Henry Garwood, et al., C.A. No. 95-160 (the "Litigation"), alleging negligence, breaches of fiduciary duties owed to IUIC, breaches of contract, conversion, tortious interference, unjust enrichment, fraudulent conveyances and voidable transfers, and making a demand for an accounting;

WHEREAS, the parties have executed several consecutive stipulations staying GARWOOD's time to answer the complaint in order to provide the parties with an opportunity to informally exchange information and discuss a resolution of this matter. During this exchange of information, GARWOOD provided information on the financial condition of GARWOOD and other affiliated companies owned partially or wholly by Robert H. Garwood or Robert H. Garwood, II. Based partly on the financial condition of GARWOOD and the uncertainties, time and expense of litigation, the parties have reached agreement to settle their disputes fully and finally pursuant to the terms in the Settlement Agreement;

WHEREAS, pursuant to the Settlement Agreement, GARWOOD would pay \$700,000 to IUIC in addition to assigning to the Receiver the right to collect the outstanding balances due from the Producers and the policyholders under the Premium Finance Notes Agreement. GARWOOD has already executed the assignment forms;

WHEREAS, in the Litigation, the Receiver has alleged damages in excess of \$2.4 million. However, based upon GARWOOD's financial condition and the uncertainties, time and expense of litigation, the Receiver has determined that the settlement under the terms set forth

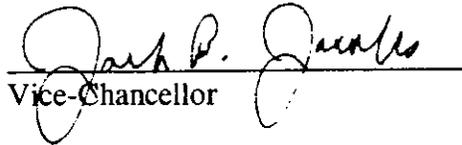
in the Settlement Agreement would be in the best interests of the policyholders and other creditors of IUIC;

WHEREAS, this Court established February 26, 1996 as the date by which all written comments or objections to the Receiver's motion should be filed with the Court;

WHEREAS, the Court did not receive any comments or objections to the motion from the guaranty associations which the Receiver has represented to be the estate's major creditors;

WHEREAS, after notice and an opportunity to be heard to the major creditors of the estate and after having reviewed the documentation submitted by the Receiver, this Court finds that the terms of the settlement appear to be in the best interests of the policyholders and other creditors of International Underwriters and the general public;

NOW, THEREFORE, IT IS HEREBY ORDERED this 28<sup>TH</sup> day of February, 1996 that the Receiver's motion for approval of the Settlement Agreement Among International Underwriters Insurance Company in Liquidation, Insurors Nationwide Service Agency, Inc., Robert Henry Garwood and Robert Henry Garwood, II is GRANTED and the Receiver, Insurors Nationwide Service Agency, Inc., Robert Henry Garwood and Robert Henry Garwood, II are ordered to comply with the terms of the Settlement Agreement.

  
Vice-Chancellor