

1 fulfillment of Petitioner's workers' compensation obligations in Arizona pursuant to A.R.S. §
2 23-961 (the "WC Deposit").

3 5. The Liquidator and the Industrial Commission of Arizona ("ICA) have entered into
4 a Refunding Agreement dated December 12, 2006 (Exhibit A).

5 6. The Liquidator, the ICA and the Director have entered into an Agreement to
6 Release Workers' Compensation Deposit dated December 12, 2006 ("Release Agreement")
7 (Exhibit B), wherein the Liquidator agrees that the Director shall release the WC Deposit held
8 by the Director to the ICA.

9 **CONCLUSIONS OF LAW**

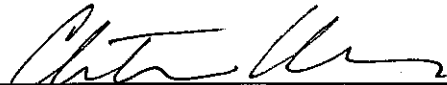
10 1. The Director has no personal liability for the release of such deposit so made by
11 her in good faith as provided in A.R.S. § 20-588(B).

12 2. ICA is entitled to the release of the WC Deposit pursuant to A.R.S. Title 23 and
13 the Release Agreement.

14 **ORDER**

15 **THEREFORE, IT IS ORDERED** that the WC Deposit in the approximate amount of
16 \$13,212,284 (Thirteen million two hundred twelve thousand two hundred eighty-four dollars)
17 shall be released to the ICA.

18
19 DATED this 21st day of December, 2006.

20
21 
22 _____
23 CHRISTINA URIAS
Director of Insurance

1 COPY of the foregoing mailed/delivered
this 28th day of December, 2006 to:


2
3 Joseph DiMemmo
4 Deputy Insurance Commissioner
5 Commonwealth of Pennsylvania
6 901 North 7th Street
7 Harrisburg, PA 17102

8 Laura M. Spear, Esq.
9 Vice President & Liquidation Team Counsel
10 Legion Insurance Company in Liquidation
11 One Logan Square, Suite 1500
12 Philadelphia, PA 19103

13 Larry Etchechury, Director
14 Industrial Commission of Arizona
15 800 West Washington Street
16 Phoenix, Arizona 85007

17 Laura McGrory, Chief Counsel
18 Industrial Commission of Arizona
19 800 West Washington Street
20 Phoenix, Arizona 85007

21 Gerrie Marks, Deputy Director
22 Steve Ferguson, Assistant Director
23 Leslie Hess, Deputy Receiver
Herbert Swafford, Legal Analyst
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, AZ 85018

24 
25 _____
26 Curvey Walters Burton

REFUNDING AGREEMENT

This Refunding Agreement ("Agreement") is entered into this 12th day of December 2006, by and between M. Diane Koken, Pennsylvania Insurance Commissioner, in her official capacity as Statutory Liquidator (the "Liquidator") of Legion Insurance Company ("Legion") and of Villanova Insurance Company ("Villanova") and the state insurance guaranty associations that join this Agreement by signature to a counterpart of this Agreement (hereinafter called ("SGAs")).

Recitals

A. The SGAs, subject to state-by-state conditions and limitations on coverage and applicability, may be authorized or required to fulfill the obligations of Legion and/or Villanova under its policies, *i.e.*, to pay covered claims and related adjusted expenses ("SGA Obligations"), because Legion and Villanova have been declared insolvent and ordered to be liquidated.

B. On July 25, 2003, the Pennsylvania Commonwealth Court (the "Court") entered orders of liquidation for Legion and Villanova directing that Legion and Villanova be liquidated, with an effective liquidation date of July 28, 2003. The Court also appointed the Pennsylvania Insurance Commissioner, and her successors in office, as Statutory Liquidator of each Legion and Villanova.

C. On November 9, 2005, the Liquidator filed with the Court her Proposal to Distribute Assets, which contained the Liquidator's request for authorization to make early distributions to various SGAs from assets of the Legion and Villanova estates and recommendations as to certain liquidation procedures and notices.

D. The Liquidator believes the following agreements are statutorily required and necessary to confirm the SGA Obligations, to reconcile the differences in the servicing and

payment of obligations by or on behalf of various SGAs that have covered claims, to avoid potential preferences among or within classes of claimants, and to assure equality in the treatment of the claims of SGAs for reimbursement from the assets of Legion and Villanova.

Agreements

The Liquidator and the SGAs, severally and each on their own behalf, in consideration of the mutual benefits and promises received by the parties hereto and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, agree that the recitals set forth above are hereby adopted and made a part of this agreement and further agree to the following terms and conditions:

1. Any payments made by the Liquidator from Legion's and/or Villanova's general assets pursuant to the Proposal to Distribute Assets that relate to SGA Obligations will be treated as early access distributions to the applicable SGA in accordance with 40 P.S. §221.36.

2. Each SGA that joins this Agreement by signature agrees to provide the Liquidator with such information as the Liquidator requests including, but not limited to, the reporting of the payment of administrative expenses, loss adjustment expenses, and policyholder claims and the use of special/statutory deposits prior to and following the entry of the liquidation order effective July 28, 2003, when assets received have been disbursed or the SGA's Obligations have been fulfilled, accounting for all assets so disbursed, all disbursements made therefrom, and any interest earned by the SGAs on such assets.

3. Each SGA that joins this Agreement by signature to a counterpart of this Agreement will be entitled to receive, in accordance with 40 P.S. §221.36, any early access distributions from Legion and Villanova made by the Liquidator in the same manner to the same

extent as may be provided to insurance guaranty associations of other states. Such early access distributions include funds received from liquidated special/statutory deposits of any state insurance department or from any ancillary receiver, actual distributions, whether direct or indirect, from the Liquidator classified as early access distributions, and funds received under expense reimbursement agreements; provided, however, that nothing in this Agreement shall be construed to indicate that a subrogation collection or deductible reimbursement amount related to a covered claim of an SGA is an early access distribution.

4. If an SGA that joins this Agreement by signature to a counterpart of this Agreement is in a state whose Insurance Departments hold special/statutory deposits ("Deposits") with respect to Legion and Villanova, the Liquidator may, in her discretion, assign to the SGAs all of the Liquidator's right, title, and interest in and to the Deposits held by the respective state insurance departments; provided, however, that the amount of Deposits so assigned shall not exceed the amount of each respective SGA's statutory obligations and that the SGA is able to receive the deposit. The amount of assets of Legion and Villanova to be distributed to SGAs in states where insurance departments hold Deposits will be reduced by the amount of Deposits held by the respective state insurance departments.

5. Each SGA will return to the Liquidator, within 30 days after receipt of a written request from the Liquidator, or within 90 days after receipt of such notice if it is necessary for the SGA to make an assessment, any early access distributions including any special/statutory deposits assigned, with any investment income earned on assets reimbursed, the SGA has received (a) in excess of the amount determined by the Liquidator to be due the SGA, (b) if that repayment later becomes necessary to pay claims of secured creditors or claims of a higher priority under 40 P.S. §221.36 (b) (1) or other relevant law, or (c) if that repayment later

becomes necessary to fund any shortfall in the amounts reasonably required by the Liquidator to pay her administrative expenses for Legion and Villanova. No SGA shall be required to return any early access distributions that constitute reimbursement for its administrative expenses, provided that each SGA provides an accounting to the Liquidator within 30 days after receipt of the written request from the Liquidator demonstrating the portion of its early access distributions that have been attributed its administrative expenses. Any amounts which are not paid within the timetable as specified above in this paragraph 5 will accrue interest at the one-week LIBOR rate plus two percentage points as of the date such amounts were due. Such interest will accrue from the first date the payment is overdue until the date the unpaid and overdue amount is received by the Liquidator.

6. Each SGA will be permitted to file with the Liquidator an omnibus proof of claim, as supplemented from time to time and in a form mutually agreed to by the Liquidator and the SGA, for all SGA Obligations paid or otherwise discharged.

7. The Liquidator and each SGA shall cooperate in making arrangements for the final disposition of the information, files and documents received by the SGA from Legion and Villanova or the Liquidator.

8. This Agreement shall be governed by and construed in accordance with Pennsylvania law, but without regard to its choice of law rules. The SGAs agreed to submit to the exclusive jurisdiction of the Commonwealth Court of Pennsylvania solely with respect to the enforcement of this Agreement, or any issue or dispute arising out of or relating to this Agreement.

9. Any notices and all other matters of communication from the Liquidator to the SGAs about this Agreement shall be sent by first class United States mail, postage prepaid, by

overnight delivery service or facsimile transmission to any affected SGA that joins this Agreement by signature to a counterpart of this Agreement.

10. Any notices and all other matters of communication from any SGA to the Liquidator about this Agreement shall be sent by first class United States mail, postage prepaid, by overnight delivery service or facsimile transmission to the Statutory Liquidator of Legion Insurance Company, c/o Deputy Insurance Commissioner Joseph DiMemmo, at 901 North 7th Street, Harrisburg, PA 17102 (telecopy number: 717- 772-4543).

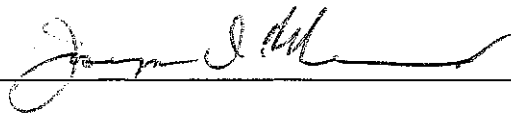
11. Each party shall pay all of its own costs, fees, and expenses incurred or to be incurred in negotiating and preparing this Agreement and in closing and carrying out the transactions contemplated by this Agreement; provided, however, that the expenses of the SGAs shall be treated by the Liquidator as administrative expenses as found under 40 P.S. §221.44 (a).

12. Notwithstanding the above, the Statutory Liquidator reserves the right at any time to review and to disallow a claim the Liquidator deems to be erroneous or unreasonable. Should the Liquidator disallow any such claim reported by SGAs, the SGAs reserve their rights to object accordingly.

WHEREFORE, this Refunding Agreement is executed by the parties' duly authorized representatives as of the day first written above as follows:

M. Diane Koken, Pennsylvania Insurance
Commissioner, in her capacity as Statutory
Liquidator for Legion Insurance Company (In
Liquidation) and Villanova Insurance Company (In
Liquidation)

By: _____



JOSEPH DIMEMMO
Deputy Insurance Commissioner

By: 

Guaranty Association for
*Arizona Workers' Compensation,
Special Fund of the Industrial
Commission of Arizona*

AGREEMENT TO RELEASE WORKERS COMPENSATION DEPOSIT

This Agreement ("Release Agreement") is entered into and is effective this 13th day of December, 2006, between Christina Urias, Director of the Arizona Department of Insurance (the "Director"), M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of Legion Insurance Company in Liquidation ("Legion"), a Pennsylvania corporation, and the Industrial Commission of Arizona ("ICA").

Recitals

A. Effective July 28, 2003, the Commonwealth Court of Pennsylvania ("Liquidation Court") entered its Order placing Legion in liquidation and appointing the Insurance Commissioner of the Commonwealth of Pennsylvania as Liquidator of Legion in Cause No. 183 M.D. 2002.

B Legion has assets in Arizona, which include workers compensation deposits held by the Director through the Arizona State Treasurer in an amount of approximately \$13,212,284.58 ("Thirteen million two hundred twelve thousand two hundred eighty four dollars and fifty eight cents") ("Legion WC Deposit") pursuant to A.R.S. § 23-961.

C. The ICA represents that it has paid or will make payment to claimants of Legion in an amount in excess of the Legion WC Deposit in fulfillment of Legion's obligations under Arizona Revised Statutes, Title 23, Chapter 6 ("Arizona WC Obligations"). Specifically, on May 26, 2005, the ICA filed a proof of claim with the Legion Liquidator in the amount of \$40,966,750 ("Forty million nine hundred sixty six thousand seven hundred fifty dollars and no cents"), and as of June 30, 2005, approximately \$4,647,181.87 ("Four million six hundred forty seven thousand one hundred eighty one dollars and eighty seven cents") has been paid to claimants for Arizona WC Obligations, which sum includes costs and expenses.

D. The Liquidator and the ICA wish to provide the ICA with early access to the Legion WC Deposit pursuant to this Release Agreement and the terms of the Refunding Agreement between the Liquidator and the ICA, by requesting the Director to distribute the Legion WC Deposit to the ICA.

Agreement

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, the Liquidator, Director and the ICA agree as follows:

1. Upon execution of this Release Agreement by all parties, the Director shall issue an Order releasing the Legion WC Deposit held in trust with the Arizona State Treasurer to the ICA as an early access distribution of assets of Legion.

2. The Liquidator hereby acknowledges the right and obligation of the ICA to apply the Legion WC Deposit to pay the covered claims of claimants and insureds of Legion, together with costs and expenses as provided in A.R.S. § 23-966, and hereby consents to the transfer of the Legion WC Deposit by the Director to the ICA.

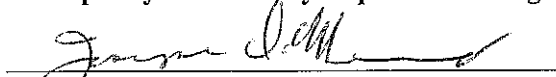
3. The Liquidator understands that the entire Legion WC Deposit will be released by Order of the Director to the ICA.

4. The Liquidator agrees that the ICA will be treated in accordance with the section of the Early Access Proposal titled "Ensuring an Equitable Allocation to the Early Trigger States" and the terms of the Refunding Agreement.

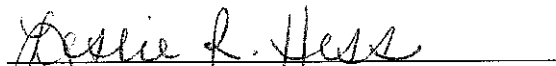
5. Upon the earlier of the payment of all covered claims by the ICA or the closing of the domiciliary proceedings by the Liquidator, any amounts owed back to the Liquidator pursuant to the terms of the Refunding Agreement, if any, will be returned to the Liquidator in accordance with the Refunding Agreement.

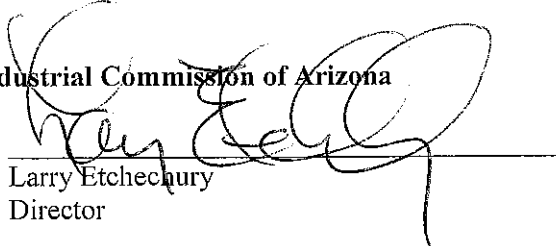
IN WITNESS WHEREOF, the parties hereto have caused the Agreement to be executed as of the date first written above.

M. Diane Koken, Pennsylvania Insurance Commissioner, Commonwealth of Pennsylvania in her official capacity as Statutory Liquidator of Legion Insurance Company in Liquidation

By: 
Joseph DiMemmo
Deputy Insurance Commissioner, Commonwealth of Pennsylvania

Christina Urias, Director, Arizona Department of Insurance

By: 
Leslie Hess, Deputy Receiver

The Industrial Commission of Arizona
By: 
Larry Etchechury
Director

ICA LEGAL DIVISION
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