

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL ARIO,
INSURANCE COMMISSIONER OF THE
COMMONWEALTH OF PENNSYLVANIA,

Plaintiff

v.

AMERICAN NETWORK
INSURANCE COMPANY

Defendant

No. 4 M.D. 2009

ORDER OF LIQUIDATION

AND NOW, this ___ day of _____, upon consideration of the Petition for Liquidation of American Network Insurance Company (In Rehabilitation) ("ANIC") filed by Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, on October 2, 2009, the Amended Petition for Liquidation and the responses thereto, it is hereby **ORDERED** that:

1. ANIC is declared insolvent and ordered to be **LIQUIDATED** pursuant to Article V of The Insurance Department Act of 1921, Act of May 17, 1921, P.L. 789, *as amended*, 40 P.S. §§221.1 – 221.63 ("Article V").
2. The Rehabilitation Order of January 6, 2009, is hereby **TERMINATED**.
3. Insurance Commissioner Joel Ario and his successors in office are hereby **APPOINTED** Statutory Liquidator of ANIC and directed to take possession of ANIC's property, business and affairs in accordance with Article V.
4. The Liquidator is hereby **VESTED** with all the powers, rights and duties authorized under Article V and other applicable statutes and regulations.

ASSETS OF THE ESTATE

5. The Liquidator is vested with title to all property, assets, contracts and rights of actions ("assets") of ANIC of whatever nature and wherever located, as of the date of

filing of the Petition for Liquidation. All assets of ANIC are hereby found to be *in custodia legis* of this Court and this Court asserts jurisdiction as follows: (a) *in rem* jurisdiction over all assets of ANIC wherever they may be located and regardless of whether they are held in the name of ANIC or in any other name; (b) exclusive jurisdiction over all determinations as to whether assets belong to ANIC or to another party; (c) exclusive jurisdiction over all determinations of the validity and amounts of claims against ANIC; and (d) exclusive jurisdiction over the determination of the priority of all claims against ANIC.

6. The filing or recording of this Order with the Clerk of the Commonwealth Court or with the Recorder of Deeds of the county in which ANIC's principal office or place of business is located (Lehigh County), shall impart the same notice as is imparted by any deed, bill of sale or other evidence of title duly filed or recorded with that Recorder of Deeds.

7. The Liquidator is directed to take possession of all assets that are the property of ANIC.

8. The Liquidator is directed to continue telephone, data-processing, water, electric, sewage, garbage, delivery, trash removal and utility services needed by the estate of ANIC by establishing a new account for the Liquidator as of the date of this Order.

9. ANIC's directors, officers and employees, to the extent the following obligations have not been satisfied in the course of ANIC's rehabilitation, shall: (a) surrender peaceably to the Liquidator the premises where ANIC conducts its business; (b) deliver all keys or access codes thereto and to any safe deposit boxes; (c) advise the Liquidator of the combinations and access codes of any safe or safekeeping devices of ANIC or any password or authorization code or access code required for access to data processing equipment; and (d) deliver and surrender peaceably to the Liquidator all the assets, books, records, files, credit cards,

and other property of ANIC in their possession or control, wherever located, and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

10. ANIC's directors, officers and employees are enjoined from taking any action, without approval of the Liquidator, to transact further business on behalf of ANIC. They are further enjoined from taking any action that would waste the assets of ANIC or would interfere with the Liquidator's efforts to wind up the affairs of ANIC.

11. Except as otherwise provided in this Order, executory contracts to which ANIC is a party to as of the date of this Order may be affirmed or disavowed by the Liquidator.

12. All banks, investment bankers, companies, other entities or other persons having in their possession assets which are, or may be, the property of ANIC, shall, unless otherwise instructed by the Liquidator, deliver the possession of the same immediately to the Liquidator, and shall not disburse, convey, transfer, pledge, assign, hypothecate, encumber or in any manner dispose of the same without the prior written consent of, or unless directed in writing by, the Liquidator.

13. All persons and entities are enjoined from disposing of or destroying any records pertaining to any transactions between ANIC and any party.

14. The amount recoverable by the Liquidator from any reinsurer shall not be reduced as a result of this Order of Liquidation, regardless of any provision in a reinsurance contract or other agreement. Payment made directly by the reinsurer to an insured or other creditor of ANIC shall not diminish the reinsurer's obligation to ANIC, except to the extent provided by law.

TRANSFER OF COVERAGE TO GUARANTY ASSOCIATIONS

15. The Liquidator shall make arrangements for the continued payment of the claims arising under ANIC's policies and shall facilitate the continued coverage of such policies

by state guaranty associations by making ANIC's facilities, computer systems, books, records and third party administrators (to the extent possible) available to any guaranty association (and to states and state officials holding statutory deposits for the benefit of such claimants). For a period not to exceed 365 days from the effective date of this Order, the Liquidator is authorized to advance funds for the payment of claims from the estate of ANIC, subject to the receipt of refunding agreements, and such advances will be deemed to be made in accordance with Section 536(a) of Article V, 40 P.S. §221.36(a). Thereafter, no disbursements shall be made to guaranty associations except in accordance with Section 536 of Article V, 40 P.S. §221.36.

PROOF OF CLAIM FILING

16. All claims against the estate of ANIC, together with proper proof thereof, shall be filed on or before October 4, 2010. No person shall participate in any distribution of the assets of ANIC unless his, her or its claim has been filed with the Liquidator in accordance with the time limit established by the Liquidator, subject to the provisions for the late filing of claims pursuant to Section 537 of Article V, 40 P.S. §221.37.

17. No judgment or order against ANIC or its insureds entered after the date of filing of the Petition for Liquidation, and no judgment or order against ANIC or its insureds entered at any time by default or by collusion, will be considered as evidence of liability or quantum of damages by the Liquidator in evaluating a claim against the estate of ANIC.

18. In addition to the notice requirements of Section 524 of Article V, 40 P.S. §221.24, the Liquidator shall publish notice in newspapers of general circulation, where ANIC has its principal places of business, and in the national edition of the *Wall Street Journal*, that: (a) specifies the last day for the filing of claims; (b) explains the procedure by which claims may be submitted to the Liquidator; (c) provides the address of the Liquidator's office for the

submission of claims; and (d) notifies the public of the right to present a claim, or claims, to the Liquidator.

19. Within thirty (30) days of giving notice of the order of liquidation, as set forth in Section 524 of Article V, 40 P.S. §221.24, and of the procedures for filing claims against the estate of ANIC, the Liquidator shall file a compliance report with the Court noting, in reasonable detail, the date that and manner by which these notices were given.

ADMINISTRATIVE EXPENSES

20. The Liquidator shall pay as costs and expenses of administration pursuant to Section 544 of Article V, 40 P.S. §221.44, the actual, reasonable and necessary costs of preserving or recovering the assets of ANIC and the costs of goods or services provided to and approved by the Rehabilitator or by this Court during the period of ANIC's rehabilitation and that are unpaid as of the date of this Order.

21. Distribution of the assets of ANIC in payment of the costs and expenses of estate administration including, but not limited to, compensation for services of employees and professional consultants, such as attorneys, actuaries and accountants, and expenses of a guaranty association in handling claims, shall be made under the direction and approval of the Court. This includes reimbursement to the Pennsylvania Insurance Department for expenses it has incurred in compensating professional consultants, attorneys and other persons it has engaged on behalf of ANIC for the preservation of its assets.

STAY OF LITIGATION

22. Unless the Liquidator consents thereto in writing, no action at law or in equity, including, but not limited to, an arbitration or mediation, the filing of any judgment, attachment, garnishment, lien or levy of execution process against ANIC or its assets, shall be brought against ANIC or the Liquidator or against any of their employees, officers or

rehabilitation or liquidation officers for acts or omissions in their capacity as employees, officers or rehabilitation or liquidation officers of ANIC or the Liquidator, whether in this Commonwealth or elsewhere, nor shall any such existing action be maintained or further prosecuted after the effective date of this Order. All above-enumerated actions currently pending against ANIC in the courts of the Commonwealth of Pennsylvania or elsewhere are hereby stayed; relief sought in these actions shall be pursued by filing a proof of claim against the estate of ANIC pursuant to Section 538 of Article V, 40 P.S. §221.38.

23. All secured creditors or parties, pledges, lienholders, collateral holders or other person claiming secured, priority or preferred interests in any property or assets of ANIC are hereby enjoined from taking any steps whatsoever to transfer, sell, assign, encumber, attach, dispose of, or exercise, purported rights in or against any property or assets of ANIC except as provided in 40 P.S. §221.43.

MARY HANNAH LEAVITT, Judge

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Plaintiff

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AMERICAN NETWORK
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Defendant

No. 4 M.D. 2009

AMENDED PETITION FOR LIQUIDATION

Petitioner Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (the “Commissioner”), in his capacity as Rehabilitator of American Network Insurance Company (the “Rehabilitator”), hereby seeks an order of liquidation of the business and affairs of American Network Insurance Company (in Rehabilitation) (“ANIC”), pursuant to Article V of the Insurance Department Act of 1921 (the “Act”), 40 P.S. §§221.14, 221.18(a), 221.19 and 221.20.

INTRODUCTION

During the nine months that ANIC and its parent corporation, Penn Treaty Network America Insurance Company (“PTNA”) (collectively “the Companies”) have been in rehabilitation, the Rehabilitator has evaluated the Companies’ claims history, the sufficiency of the Companies’ reserves and the Companies’ overall financial condition. That evaluation has shown that PTNA is far more insolvent than originally believed, with statutory capital and surplus that would be negative by more than \$1.3 billion as of 2009 if appropriate reserves for future claims and risks were held and that ANIC would have statutory capital and surplus that would be negative by approximately \$45 million as of 2009 if appropriate reserves for future claims and risks were held. Furthermore, the statutory surplus deficiency is projected to further

worsen over time. The foregoing is true even when assuming that the Companies' could achieve significant future rate increases (a 60% increase for PTNA and a 70% increase for ANIC implemented over ten years) and could eliminate commission payments. The negative surplus position of both Companies would be considerably worse if those rate increases were not achieved or if commission payments continued.

The Rehabilitator has analyzed the amount of rate increases that would be required for the Companies to have sufficient assets and future revenues to fund future claims so that rehabilitation might be possible and has concluded that given the amount and timing of the needed rate increases, there is no reasonable likelihood of obtaining sufficient rate increases. The Rehabilitator has also concluded that the magnitude of rate increases required would be more detrimental to policyholders than liquidation. The Rehabilitator has also considered whether there are any other viable alternatives to rehabilitate PTNA or ANIC and has determined that no such alternatives exist. If, however, in the unlikely event that during the time the petition to liquidate is pending any person proposes a transaction with respect to PTNA, ANIC or any portion of their business that appears on its face to be fair to, and in the best interests of, the Companies' policyholders and other interested parties, such a transaction would be considered.

JURISDICTION

1. Jurisdiction is founded upon 42 Pa.C.S. §761(a)(3) and 40 P.S. §221.4(d).

PARTIES

2. Plaintiff is Joel Ario, acting in his official capacity as Insurance Commissioner of the Commonwealth of Pennsylvania and as Rehabilitator of ANIC. The Commissioner maintains his principal office at 1326 Strawberry Square, Harrisburg, Pennsylvania 17120.

3. Under the Act, the Commissioner is vested with the authority and charged with the duty to execute the insurance laws of the Commonwealth of Pennsylvania for the protection of policyholders, creditors and the public, generally. 40 P.S. §221.1 et seq.; 40 P.S. §§41-42.

4. ANIC is a stock insurance company organized and existing under the laws of the Commonwealth of Pennsylvania and is licensed to issue annuities and life, accident and health insurance policies. ANIC is domiciled in Pennsylvania and maintains a principal place of business at 3440 Lehigh Street, Allentown, Pennsylvania, 18103. ANIC is a wholly owned subsidiary of PTNA, which is a wholly owned subsidiary of Penn Treaty American Corporation (“PTAC”), a publicly traded holding company.

BACKGROUND

5. ANIC’s primary business, over 92% of its total annualized premium, is long term care (“LTC”) insurance. As of June 30, 2009, ANIC had approximately 10,811 policyholders generating approximately \$22.9 million of annual in-force premium for all lines of business.

6. LTC policies are guaranteed renewable as long as the policyholder continues paying the premiums. Premium rates are established at the time the policy is first purchased. Rates may not be increased for an individual policyholder based on changed conditions including increasing age or declining health, but the policies do permit rate increases, subject to regulatory approval / disapproval, if actuarially supported and increased for all policyholders insured under the same policy form. The Companies’ LTC policies vary based upon a variety of features including the daily maximum coverage amounts (ranging from \$60 to \$300 per day), the maximum benefit period (one to ten years or unlimited), availability of

coverage for home health care services, inflation based benefits adjustments and the benefits trigger(s).

7. The April 2009 preliminary report filed by the Rehabilitator in this proceeding described the distinction between the Companies' Newco business (issued from 2002-2008) and Oldco business (pre-2002), including the believed adequacy of the pricing of the Newco business and inadequacy of the pricing of the Oldco business. As a result of the inadequate pricing of the Oldco business, the Companies filed for rate increases in 2001, 2003 and 2006. The 2001 rate increase requests were, on average across all policyholder classes, products and states, for 34%, and the Companies ultimately received approval for and implemented, on a nationwide average basis, 92% of the aggregate requested 2001 rate increases. The 2003 rate increase requests were, on average across all policyholder classes, products and states, for 16%, and the Companies ultimately received approval for and implemented, on a nationwide average basis, 80% of the aggregate requested 2003 rate increases. The 2006 rate increase requests were, on average across all policyholder classes, products and states, for 37%, and the Companies ultimately received approval for and implemented, on a nationwide average basis, 54% of the aggregate requested 2006 rate increases as of April 2009. Efforts to obtain approval of rate increases have continued into this year. The average annual LTC premium for PTNA and ANIC was slightly over \$2,000 as of June 30, 2009, although there is wide variation based upon rating class and the benefit levels purchased.

8. The Companies do not have any major liabilities other than policyholder obligations, agent commissions, which for ANIC total approximately \$2.5 million per year based on current premiums, and premium taxes.

9. Based upon their financial condition, the Commissioner on January 5, 2009, with the consent of the Companies' boards of directors, sought orders placing PTNA and ANIC in rehabilitation.

10. On January 6, 2009, this Court issued Orders of Rehabilitation, appointing the Commissioner as statutory Rehabilitator of PTNA and ANIC pursuant to the Act. See 40 P.S. §221.15. The Commissioner now brings this Petition for Liquidation (and a Petition for Liquidation of PTNA) pursuant to the authority conferred on him by 40 P.S. §§221.18(a), 221.19 and 221.20.

11. Following this Court's Rehabilitation Orders, the Rehabilitator has undertaken to evaluate the sufficiency of PTNA's and ANIC's reserves, the Companies' overall financial condition and the possible alternatives for rehabilitation, including rate increases, reducing expenses, transfer of policies or a subset of policies to a solvent insurer, purchase of reinsurance, raising capital and sale of PTNA, ANIC or all or a portion of their assets or business.

12. The April 2009 preliminary report included as an appendix a report from Signal Hill that explained why a sale, financing or reinsurance transaction was not a viable alternative and evaluated rate increases (with a potential future sale transaction) as a possible means of rehabilitating PTNA and ANIC. At that time, the Rehabilitator was advised that PTNA was insolvent with total statutory capital and surplus of negative \$224 million as of December 31, 2008 and that ANIC was in weak financial condition, but solvent, with total statutory capital and surplus of \$4.8 million as of December 31, 2008.

13. Further analysis of PTNA's and ANIC's claims history following the April 6, 2009 filing, however, has shown that both Companies have seriously under-reserved for

their policyholder obligations. As a result, the financial condition of PTNA and ANIC is considerably worse than previously understood and reported.

14. Submitted herewith as Exhibit A is a true and correct copy of a September 2009 report as amended October 15, 2009 issued by Milliman regarding reserve deficiencies and future projections (the "Milliman Report"). The Milliman Report includes two sets of projections for each of the Companies (referred to as Scenario A and Scenario B). The two scenarios represent a range of best estimates of the Companies as ongoing entities based on two sets of assumptions, one of which (Scenario A) is more optimistic than the other producing more favorable results in terms of surplus levels. Both sets of projections assume the termination of commission payments and the implementation of rate increases.

15. The Milliman Report concludes that if appropriate reserves were established for future claims and risks, PTNA's statutory capital and surplus as of 2009 would be negative by more than \$1.3 billion and ANIC's statutory capital and surplus as of 2009 would be negative by approximately \$45 million under the more optimistic Scenario A, which assumes 60% rate increases for PTNA and 70% increases for ANIC over ten years. Under Scenario B, the surplus figures are negative \$2.1 billion and negative \$130 million for PTNA and ANIC respectively. Furthermore, Milliman projects that surplus will worsen over time.

16. The Milliman Report shows that under Scenario A, the present value of ANIC future premiums is \$183 million, while the present value of future insurance claims is \$283 million. Under Scenario B, the gap increases with a present value of future premiums being \$175 million and the present value of future insurance claims being \$344 million.

17. The main differences in the assumptions used for Scenario A versus the assumptions used for the April 2009 Milliman report are higher projected claim costs which project to be worse based on a study of more recent experience, lower projected investment

returns, and a more optimistic assumption about obtaining future rate increases. Scenario B, which is also within Milliman's range of best estimates, has additional differences that are explained in the Milliman Report, but uses a future rate increase assumption that is similar to that used for the April 2009 Milliman report.

18. In order for ANIC to have sufficient assets and revenues to fully pay its policyholder obligations and cover its operating costs, it is estimated that, even if agent commissions payments ceased as of January 1, 2010 and the other more optimistic assumptions used for Scenario A in the Milliman Report held true, either one-time aggregate (i.e., combined for all policyholder classes, products and states) rate increases of 82% on ANIC's Oldco LTC policies would need to be implemented by July 1, 2010 or immediate 16% aggregate rate increases by July 2010 plus additional 70% rate increases on top of that over ten years would be necessary. If such rate increases were obtained and other assumptions were met, ANIC's capital and surplus would turn positive in 2050, which means that ANIC would remain in rehabilitation for at least forty (40) years. If the less optimistic (but not conservative) Scenario B assumptions are used, a one-time July 1, 2010 aggregate rate increase would need to be 165% to allow surplus to turn positive by 2050.

19. Even if ANIC could raise rates by 70% in the aggregate over the next ten years and the other assumptions under Scenario A of the Milliman report hold true (including no agent commissions), ANIC will exhaust its assets in 2042 and will have over \$100 million of remaining policyholder liabilities. The results are worse in Scenario B.

20. Milliman ran various sensitivity tests on its projections which are described in its report and show that PTNA and ANIC are insolvent even when more aggressive assumptions are used.

21. Ernst & Young LLP was engaged by the Companies and has produced a report providing an analysis of the actuarial assumptions used by Milliman and Milliman's projections. A copy of the Ernst & Young LLP report is submitted herewith as Exhibit B.

GROUND FOR LIQUIDATION

22. Section 221.18(a) provides:

Whenever he has reasonable cause to believe that further attempts to rehabilitate an insurer would substantially increase the risk of loss to creditors, policy and certificate holders, or the public, or would be futile, the rehabilitator may petition the Commonwealth Court for an order of liquidation...

40 P.S. §221.18(a). The Commissioner, as Rehabilitator of ANIC, has determined that ANIC is insolvent, that further attempts to rehabilitate ANIC would substantially increase the risk of loss to the policyholders of ANIC and that further attempts to rehabilitate ANIC would be futile. Specifically, there will be insufficient assets to pay all policyholder claims in full, no rehabilitation is reasonably feasible and continued rehabilitation will reduce ANIC's assets available to pay policyholders and result in preferential treatment of earlier claimants and creditors.

A. ANIC Is Insolvent

23. ANIC's annual statutory financial statements as of December 31, 2008 showed a total statutory capital and surplus of \$4.8 million.

24. From April 2009 through September 2009, the Companies' management and the Rehabilitator's actuarial firm, Milliman, undertook a detailed study of PTNA's and ANIC's claim history and reserving assumptions.

25. On completion of this study, Milliman and the Companies' management concluded that both PTNA's and ANIC's reserves are insufficient and must be substantially increased.

26. It has been concluded that when reserves are properly adjusted, ANIC total capital and surplus is negative by approximately \$45 million, and will further deteriorate over time, even assuming significant insurance rate increases and the termination of agent commission payments.

27. Thus, under 40 P.S. §221.3, ANIC is insolvent and an Order of Liquidation is warranted.

B. Continued Rehabilitation Would Substantially Increase The Risk Of Loss To ANIC's Policyholders

28. The best protection for ANIC policyholders is guaranty association coverage. Even if ANIC implemented an aggregate 70% rate increase over the next ten years on its Oldco business, stops paying agent commissions and other favorable assumptions hold true, it is estimated that ANIC will exhaust its assets in 2042, leaving over \$100 million in unpaid future insurance claim obligations. Guaranty association coverage, however, is available to ANIC's policyholders and would fully protect the majority of policyholders. Even those policyholders whose coverage exceeds their guaranty association limit would receive substantially more complete payment of their claims if guaranty association coverage is triggered.

29. Guaranty association coverage cannot be obtained for many of ANIC's policyholders unless ANIC is placed in liquidation. The laws of several states where large numbers of ANIC policyholders reside either do not provide guaranty association coverage unless an order of liquidation is entered or permit guaranty association coverage without an order of liquidation only if ANIC stops paying claims.

30. Continued rehabilitation will result in preferential treatment of policyholders and other creditors whose claims come due first.

31. Continued rehabilitation will also result in payments to non-policyholders, such as payment of premium taxes and, unless suspended by this Court, agent commissions. Such payments will drain ANIC's estate of funds needed to pay policyholder claims.

C. Continued Efforts To Rehabilitate ANIC Would Be Futile And Not In The Best Interest Of Policyholders

32. The Rehabilitator has explored possible rehabilitation strategies, including sale of ANIC or transfer of all or a portion of ANIC's assets or business to another insurer. No solvent entity has expressed any interest in purchasing ANIC or assuming any of its policies on any terms which would treat ANIC policyholders as favorably as they would be treated in liquidation. The Rehabilitator has considered alternatives involving new capital or reinsurance and has determined that no such alternatives are available in the market given the financial condition and performance of ANIC.

33. The Rehabilitator has also explored whether ANIC's insolvency could be cured by rate increases. ANIC's Oldco LTC policyholders have already had total average rate increases of 46.9%. To return ANIC's total statutory capital and surplus to a positive position by 2050 through rate increases, using the more favorable Scenario A assumptions from the Milliman Report, would require either a one-time additional aggregate rate increase of 82% approved and in effect by July 2010 or aggregate rate increases of 16% approved and in effect by July 2010 plus further rate increases of another 70% over a 10 year period.

34. There is no reasonable likelihood that ANIC could obtain rate increases both of that magnitude and within the time frame required.

35. Sudden rate increases of that magnitude are also not in the best interest of policyholders because many policyholders are on fixed incomes and cannot afford significant rate increases and did not anticipate significant rate increases when they first purchased their insurance. The average age of ANIC's policyholders is 74 and the average annual LTC premium

is already over \$2,000. If significant rate increases are imposed, undoubtedly a significant number of policyholders will allow their coverage to lapse, and will therefore lose coverage that would otherwise be available from guaranty associations following the entry of an order of liquidation. Furthermore, rate increases, even if sought and approved, will not assure that ANIC will not be subsequently placed into liquidation. If ANIC is placed into liquidation following the implementation of further additional significant rate increases, policyholders will have to pay the higher premiums to the state guaranty associations to maintain coverage, but will not have any greater guaranty association benefits than they would if ANIC were placed into liquidation prior to increasing its insurance rates.

TRANSITION TO GUARANTY ASSOCIATIONS

36. Upon entry of the proposed order of liquidation, relevant state guaranty association statutes are triggered and guaranty associations become obligated, to the extent of their statutory coverage, for payment of the claims of ANIC's insureds.

37. To maintain continued confidence in the insurance system, the Commissioner seeks the approval of the Court to continue to process and pay policyholder claims in a timely fashion in accordance with various guaranty association obligations. ANIC has sufficient funds to make these payments pending the guaranty associations' assumption of their obligations and making such payments is consistent with the Act's purpose to first and foremost protect policyholders.

38. ANIC's policyholders, who are elderly and whose claims are for payment of nursing and other care, would be severely prejudiced by any delay in processing and payment of their claims.

TEMPORARY SUSPENSION OF AGENT COMMISSIONS

39. ANIC's insolvency is demonstrated by the Milliman Report. Even when Milliman assumes that commission payments are ceased, ANIC projects to exhaust its assets by 2042, leaving over \$100 million of unpaid policyholder obligations. The continued payment of \$2.5 million per year in commissions depletes assets that would otherwise be available to pay policyholder claims, including those that may be in excess of available guaranty association coverage. For this reason, and the reasons previously asserted in connection with the application to suspend payment of PTNA agent commissions, the Commissioner requests an immediate suspension of commissions prior to any hearing on this petition.

STAY OF LITIGATION

40. Section 221.26 of the Act provides that upon entry of an Order appointing the Commissioner liquidator of a domestic insurer, all existing actions brought against the insurer are prohibited from continuing. The Section states: "Upon issuance of an Order appointing the commissioner liquidator of a domestic insurer[,],...no action at law or equity shall be brought by or against the insurer, whether in this Commonwealth or elsewhere, nor shall any such existing actions be continued after issuance of such order." 40 P.S. §221.26(a).

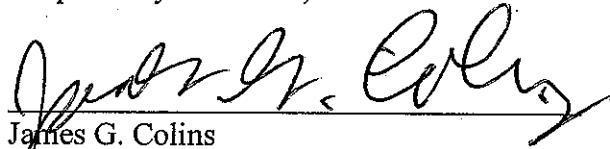
41. Pursuant to 40 P.S. §221.26, the Commissioner requests that the Order of Liquidation provide that all actions pending against ANIC, in the Commonwealth of Pennsylvania or elsewhere, be stayed indefinitely and bar the bringing of any actions against ANIC, its Rehabilitator and Liquidator or any of their officers or employees, including any liquidation or rehabilitation officer.

EFFECTIVE DATE

42. The Commissioner requests that the liquidation of ANIC be effective immediately following a hearing on the petition.

WHEREFORE, Plaintiff respectfully requests that this Court grant the Petition, enter an Order of Liquidation in the form attached hereto, and order such other relief as this Court deems necessary and appropriate.

Respectfully submitted,



James G. Collins

James R. Potts

Virginia Lynn Hogben

Attorney I.D. Nos. 10089, 73704, 32378

COZEN O'CONNOR

1900 Market Street

Philadelphia, PA 19103

(215) 665-2000

Counsel for Plaintiff,

JOEL ARIO, Insurance Commissioner of the
Commonwealth of Pennsylvania as Rehabilitator of
AMERICAN NETWORK INSURANCE
COMPANY

VERIFICATION

I, Robert L. Robinson, am the Chief Rehabilitation Officer of American Network Insurance Company, and hereby verify that the facts set forth in the foregoing Amended Petition are true and correct to the best of my knowledge, information and belief and that I am authorized to make this verification on behalf of Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, acting in his official capacity as Statutory Rehabilitator of American Network Insurance Company. I understand that this Verification is made subject to the penalties of 18 P.S. §4904 relating to unsworn falsifications to authorities.

Robert L. Robinson

Executed on October 22, 2009

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CERTIFICATE OF SERVICE

I, Virginia Lynn Hogben, hereby certify that on October 23, 2009 I served the foregoing Amended Petition for Liquidation, Exhibits A and B thereto and supporting Memorandum of Law on the directors of American Network Insurance Company by U.S. First-Class Mail as follows:

Emile G. Ilchuk
1069 Seventh Street
North Catasauqua, PA 18032-2214

Peter M. Ross
726 Bent Lane
Newark, DE 19711

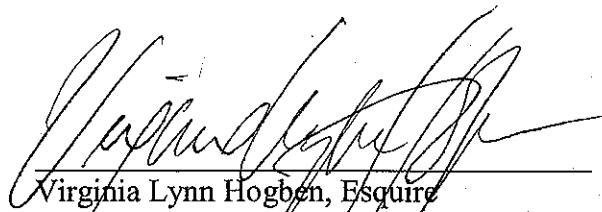
Eugene J. Woznicki
4629 Firestone Drive
Frisco, TX 75034

Cameron B. Waite
2055 Miller Rd.
Pennsburg, PA 18073

Stephen R. La Pierre
1636 N. Cedar Crest Boulevard
#107
Allentown, PA 18104

On this date, I also served a Notice of Filing of the Rehabilitator's Petition for Liquidation of American Network Insurance Company on all parties listed on the Master Service

List by electronic mail or facsimile, or by U.S. Mail where no electronic mail address or facsimile number was available.



Virginia Lynn Hogben, Esquire

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