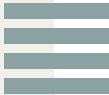




PAUL FRANK + COLLINS
ATTORNEYS AT LAW

the Art of taming complexity.

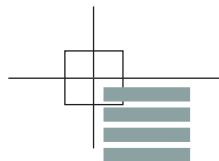


Doing business in the 21st century gets more complex by the day. Paul Frank + Collins has turned the taming of complex legal issues into an art form.

At Paul Frank + Collins, we thrive on the complexities of doing business. In fact, we pride ourselves on our ability to take a complex problem, analyze it, and provide sensible solutions for our clients. From such complex business issues as commercial real estate transactions, entity formation, tax regulations and the structuring and forming of captives, to complex litigation in such areas as antitrust, product liability, securities fraud, white collar crime and professional malpractice, the Paul Frank + Collins team focuses on achieving our clients objectives. And we do it in a timely and efficient manner.

Objectives vs. Obstacles

Rather than identifying the obstacles to success, we believe it is our job to sift through the complexities of an issue and find a solution. By listening to and communicating with our clients to gain a thorough understanding of their objectives and then combining that knowledge with our experience and commitment to exceptional client service, we've earned a solid reputation as a results-oriented firm –the firm you want with you in the boardroom or the courtroom.



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In the Boardroom

No matter what stage your business is in, building a relationship with experienced legal counsel who will take the time to understand your particular business is a key success factor. From initial investment to final transition, the Business Group at Paul Frank + Collins has the depth and breadth of experience you can count on to be with you every step of the way.

In the Courtroom

Whether you are a business person trying to resolve a conflict, a law firm searching for experienced co-counsel or an insurance company in need of a defense firm, the Paul Frank + Collins litigation team brings a combination of experienced trial lawyers, technological sophistication and a commitment to excellence to the table that represents a complete solution for our clients in dispute. In state and federal trial and appellate courts, administrative boards, government agencies and alternative dispute tribunals throughout the Northeast our litigation team is able to pursue successful outcomes for our clients.

A Team You Can Trust

Our clients—multinational, national, regional and local businesses, as well as high wealth individuals—all have something in common. They trust Paul Frank + Collins to develop effective and innovative legal solutions to their complex problems.

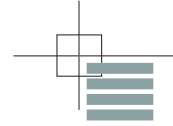
Representative

Industries Served:

- Alternative Risk
- Construction
- Education
- Financial Services
- Health Care
- Insurance
- Manufacturing & Distribution
- Professional Services
- Real Estate Development
- Technology

Practice Areas:

- Business Formation
- Captive Insurance
- Construction
- Employment
- Estate Planning, Trusts & Probate
- Federal & State Taxation
- International Law
- Immigration
- Intellectual Property
- Litigation
- Mergers & Acquisitions
- Public / Private Financing
- Real Estate Development
- Technology Transfer



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Captive Insurance Practice

Paul Frank + Collins has practiced captive insurance law since the early 1980s, when captive insurance companies were first attracted to Vermont. We provide comprehensive assistance to clients from the preliminary planning stages, through formation and licensure. Over the years, our captives have grown, developing sophisticated and diverse insurance programs, and we have played an active role ensuring that our captive insurance clients remain in compliance with ongoing regulatory and other legal requirements. We assist in policy and reinsurance agreement development and review, as well as security arrangements and coverage analysis.

We provide a wide range of legal services to insurers, including:

- Review and analysis of insurance coverage for pending or potential claims.
- Review and analysis of new or proposed coverages for national and local insurance clients.
- Drafting and review of complete policies and selected coverages, as well as security arrangements for national and local insurance clients.
- Regulatory compliance advice and representation.
- Advice and assistance with rates and forms, filings and disputes.
- Traditional and captive insurance company representation and business operations assistance, including:
 - Formations (including reciprocal formations for captives)
 - Negotiating and drafting portfolio transfer agreements
 - Negotiating and drafting reinsurance agreements
 - Reorganizations
 - Insolvency issues
 - Redomestication
 - Tax advice

In the legislative areas PF+C was instrumental in drafting and lobbying for passage of the redomestication statute in 1991, which facilitates the redomiciling of captives both to and from Vermont.

Established in Burlington, Vermont in 1968, Paul Frank + Collins provides a wide array of legal resources for corporate and individual clients.

2006 Annual Vermont Meeting Update

We offer the following summary of legal issues affecting the captive insurance industry. Paul Frank + Collins, the Vermont Captive Insurance Association ("VCIA") and the Vermont Department of Banking, Insurance, Securities and Health Care Administration continue to work to maintain Vermont as the premier onshore captive domicile. While some of the information in our report may not directly affect the Corporation, we offer this update to keep you apprised of the most pertinent industry developments and initiatives.

VERMONT LEGISLATIVE DEVELOPMENTS

With support from the Vermont Captive Insurance Association ("VCIA"), the Vermont Department of Banking, Insurance, Securities and Health Care Administration has proposed amendments to the Vermont captive insurance legislation as a part of the Department's annual legislative package. The proposal appears in House Bill 678. There are very few changes proposed for the current year. Like the changes made in 2005, this year's legislative changes are intended to facilitate business for specific segments of the captive insurance industry.

Specifically the Bill makes the following changes to the captive insurance legislation:

- Under current law the association controlling an association captive insurance company must have been in existence for one year before the association captive insurance company could be formed. Under the bill the one year seasoning requirement has been eliminated.
- Under current law a sponsored captive insurance company could be formed only as a stock company. The bill allows sponsored captive insurers to be formed as stock companies, member-managed limited liability companies or nonprofit corporations.
- The definition of a sponsor of a sponsored captive insurance company has been expanded to include, Vermont registered broker-dealers and financial institutions such as banks and trust companies.

The above changes are scheduled to be come effective on July 1, 2006. The Bill passed the Vermont House on February 3, 2006 and is under consideration by the Senate.

QUORUM FOR VERMONT BOARD MEETING

The Vermont Department of Banking, Insurance, Securities and Health Care Administration issued Memorandum #2005/07 on September 9, 2005. The Memorandum sets forth a new regulatory interpretation of what constitutes a "Vermont board meeting." The prior rule (Memorandum #1994/1) required the presence in Vermont of a quorum of directors (and a parent representative if not part of the quorum). The rule of the current Memorandum requires the company to first determine the number of persons who constitute a quorum (the "Quorum Number"). If the aggregate number of directors and parent representatives that physically attend the meeting in Vermont equals or exceeds the Quorum Number, then the meeting would qualify as the required Vermont meeting. For example, if a company had a nine member board, a one-third quorum requirement and one Vermont director, the Vermont meeting requirement is satisfied for regulatory purposes if the Vermont director and two parent representatives (whether or not directors) attend the meeting in Vermont. All other directors could attend telephonically. Note, however, that statutes require that a quorum of directors must attend the meeting (either in person or by telephone) for it to constitute a meeting in the first instance. We read the Memorandum to mean that at least one representative of the parent (who need not be a director) must be physically present in Vermont for the Vermont meeting to qualify as such.

REPORT OF THE GOVERNMENT ACCOUNTABILITY OFFICE ON RISK RETENTION GROUPS FINALLY RELEASED

The long awaited report of the GAO was finally released on September 14, 2005. The purpose of the report is to advise Congress on the effectiveness of the federal Liability Risk Retention Act ("LRRRA") in accomplishing its stated purpose of increasing the availability and affordability of commercial liability insurance. In addition, in light of the partial preemption under the LRRRA of state insurance law to create a simplified and cost effective single-state regulatory framework, and recent concerns about the adequacy of the regulation of risk retention groups, the report assesses whether the LRRRA's preemption has resulted in significant regulatory problems, and evaluates the sufficiency of LRRRA's ownership, control and governance provisions. A copy of the full report is available at <http://www.gao.gov/new.items/d05536.pdf>.

The GAO concludes that the LRRRA has indeed served its intended purpose of increasing the availability and affordability of liability insurance for members that experienced difficulty obtaining coverage. The number of risk retention groups has increased dramatically in recent years in response to shortages of capacity and coverage. The report states that the best example of this is the large number of risk retention groups formed over the last three years to provide medical malpractice insurance. (GAO Report p. 65).

The GAO also concludes that insurance regulators, working in conjunction with the NAIC, should develop a set of uniform baseline standards for regulating risk retention groups. The report finds that the regulatory standards applied by the leading risk retention group domiciles (meaning those states where the most risk retention groups have been formed) differ drastically in some instances. Risk retention groups are largely regulated by states in which they write little or no business. The regulators in the states where the groups conduct their business must rely on the regulators in the state of domicile. The lack of consistency of regulation by the domiciliary states has created in the non-domiciliary regulators a lack of trust and confidence, and a level of confusion.

One major point of confusion surrounds the lack of consistency in financial reporting among the states. State insurance regulators are used to receiving reports based on Statutory Accounting Principles (SAP) and run all of their solvency ratios and tests on SAP based financials. They are

unfamiliar with Generally Accepted Accounting Practices (GAAP) reporting allowed and mandated by some states, and even more confused by the use of “modified” GAAP which allows Letters of Credit and Surplus Notes to be counted as capital. The GAO concludes that such inconsistencies coupled with the introduction of new domiciles less experienced than Vermont in regulating risk retention groups, and an increase in the number of risk retention groups writing medical malpractice coverage (historically subject to high and unpredictable losses) has increased the risk of future insolvencies.

The report specifically recognizes that the regulatory structure applicable to risk retention groups need not be identical to that used to regulate the traditional insurance industry. (GAO Report p. 65). The report cites the two year negotiation period between the NAIC and the State of Vermont on how the NAIC accreditation standards should and should not apply to risk retention groups. (GAO Report p. 34). As a result of Vermont’s long fought battle, which occurred when the NAIC began its 1993 accreditation process of the State of Vermont, the NAIC determined that risk retention groups were sufficiently different from traditional insurers and that the laws necessary for effective solvency regulation in the traditional insurance industry should not apply to risk retention groups. Substitute standards were not, however, formally developed. The GAO suggests that more consistent standards be developed, and should include consistent accounting methods, compliance with state Insurance Holding Company Acts, and minimum standards for the qualification and number of staff that insurance departments must have available to charter risk retention groups. (GAO Report p. 66). It also suggests that these standards reflect the regulatory best practices of the more experienced domiciles.

Finally, the GAO concludes that the LRRRA’s provisions for the ownership, control and governance of risk retention groups may not be sufficient to protect the best interests of the insureds. The entire rationale for regulating risk retention groups in a manner less onerous than traditional insurance companies is that the groups will be motivated to succeed given the identity of the insureds and the owners. Legislative history also cites the lack of state solvency and guaranty fund protection as an incentive for risk retention groups to be self disciplined and succeed. Nonetheless, the GAO concludes that risk retention group insureds have been left vulnerable to misgovernance. (GAO Report p. 66). Culprits cited include: the chartering of “entrepreneurial risk retention groups” (GAO Report p. 53) where a few insureds or service providers may retain control of the group for their own personal gain; the lack of capital contributions by all insureds above and beyond premium payments; the permission granted by some domiciles for capital to be contributed by non-insureds; and the need for all insureds to possess the right to nominate and appoint directors. An analogy was made to mutual fund regulation where mutual funds rely on outside managers to operate them and are subject to inherent conflicts of interest. It was suggested that remedial action draw upon principles of the Investment Company Act of 1940; namely, provisions regulating the number of disinterested directors serving on the board and regulatory oversight of contracts between management companies or other significant service providers and risk retention groups. In summary, the GAO suggests:

- all insureds, and only insureds have the right to nominate and appoint the board;
- all insureds contribute to capital and surplus beyond their premium;
- a majority of the board of a risk retention group consist of independent directors (independent of service providers);
- safeguards be provided for negotiating the terms of management contracts; and
- members be better educated on the risks of owning a risk retention group, and the disclosure of no guaranty fund protection be provided on all policy applications and marketing materials and not just on the policy.

NAIC SCRUTINY OF RISK RETENTION GROUPS

The National Association of Insurance Commissioners (the "NAIC") continues to discuss and scrutinize risk retention groups, and more recently has been focused on the results of the GAO Report discussed above. The Vermont Insurance Department is well represented at the NAIC meetings and provides valuable input and leadership, as does the National Risk Retention Association, and key risk retention group representatives. Risk retention groups are currently the subject of several NAIC working committees. In particular, the Risk Retention C Working Group is charged with reviewing the recommendations made in the GAO Report and making recommendations to the NAIC in this regard. At the December 2005 meeting of the NAIC, the committee discussed the issue of additional disclosures relating to the unavailability of guarantee funds to cover losses if a risk retention group should fail. There was a difference of opinion among participants as to whether changes recommended in the GAO report should result in amendments to the federal LRRRA, or whether the NAIC should develop guidance and minimum standards for domestic regulators of risk retention groups to follow incorporating some of these recommendations. The committee also discussed whether risk retention groups should be prohibited from covering contractual liability, due to recent failures of two risk retention groups writing warranty coverage. The corporate governance issues raised in the GAO Report were tabled until the April 2006 NAIC meeting.

The Risk Retention Group E Task Force is focusing on the possibility of developing minimum standard regulatory requirements applicable to all U.S. domiciled risk retention groups, state accreditation issues, and the use of statutory versus GAAP accounting standards for financial reporting by risk retention groups. Captive risk retention groups are typically permitted by their regulators to utilize GAAP accounting. The principal differences between GAAP and SAP accounting with respect to risk retention groups is recognizing the use of letters of credit, which are utilized as capital, discounted loss reserves, and other GAAP-specific items, such as deferred taxes and deferred acquisition costs. The NAIC manuals generally permit a state insurance department to prescribe or allow accounting practices that differ from statutory accounting as long as a reconciliation is included in the annual statement. There was a discussion about whether it should be acceptable for a department to permit GAAP accounting as long as a reconciliation to SAP is included. No final determination was made on this point.

The current NAIC accreditation standards also require that insurers file four supplemental filings with their state insurance departments in addition to annual or quarterly financial statements. The required supplemental filings are: the annual audited financial statements, actuarial opinion, management's discussion and analysis, and holding company filings. A discussion ensued as to whether these standards should apply to captive risk retention groups. It was noted that all captive domicile states require the filing of audited financials statements and an actuarial opinion for captive risk retention groups. Most states require risk retention groups to file management's discussion and analysis, but few require holding company system filings. Future discussions on the topic were tabled for the April 2006 NAIC meeting.

PAUL FRANK + COLLINS INSURANCE SERVICES

Our law firm has recently formed a subsidiary, Paul Frank + Collins Insurance Services, LLC, that performs certain claim management, insurance audit and insurance consulting services. Claim management typically consists of managing the work of adjusters or claims counsel, and can include fund management and disbursement services. Coverage analysis may also be a part of this service. The second arm of the service is the provision of claims, underwriting and forensic audits. Consulting services can range from consulting on reinsurance disputes to litigation support. The law firm and Insurance Services provide personnel to each other on an independent contractor basis. Many services can be provided through either the law firm or Insurance Services depending on the client's desires and goals. We would be happy to provide you further information on any of these services upon request.

Alan D. Port Principal and Firm President

Mr. Port is the President of the Firm, and the senior member of the Insurance Law team at Paul Frank + Collins.

Mr. Port's insurance practice involves advising clients in the captive and traditional insurance industries, specifically with respect to the tax, regulatory and other legal ramifications of various transactions, entity structures and insurance programs.

Mr. Port was instrumental in drafting and lobbying for passage of the re-domestication statute in 1991, which facilitates the re-domiciling of captives both to and from Vermont, and has since been involved in more than a dozen instances of captives moving between domiciles, many of which involved Bermuda. As a result of this re-domiciling practice, Mr. Port is familiar with offshore captive regulations in Bermuda and maintains active associations with captive insurance attorneys on the island. Mr. Port regularly participates in the analysis of proposed captive insurance legislation.

Mr. Port's practice also includes estate planning and general corporate transactional work. He has participated in numerous seminars on estate planning and captive insurance issues. In 2002, Mr. Port was elected to lead the firm as president and chief executive officer. Mr. Port graduated cum laude from Middlebury College in 1969, received his M.A. from Boston University in 1971 and graduated cum laude from Cornell Law School in 1976. Mr. Port served on the Board of Editors of the Cornell Law Review in 1975-1976.

Mr. Port is a member of the Vermont Business Roundtable and their Education Working Group, as well as the Vermont Captive Insurance Association Strategic Planning Committee.

Stephanie J. Mapes Principal

Ms. Mapes is a member of the Insurance Law team at Paul Frank + Collins, with a focus on captive insurance.

Ms. Mapes captive insurance practice involves advising clients in the captive insurance industry, including pure and association captives, risk retention groups, reciprocal captives and other alternative insurance arrangements; specifically with respect to the tax, regulatory and other legal ramifications of various transactions, entity structures, contract negotiations and insurance programs.

Ms. Mapes is a frequent participant at captive insurance programs, including the Vermont Captive Association conference in Vermont as well as captive forums in Bermuda. She is also a guest lecturer at Vermont Law School on the topic of captive insurance.

Ms. Mapes also practices Intellectual Property Law with respect to trademark and copyright matters, including the traditional uses of intellectual property as well as the application of Internet Law.

Ms. Mapes graduated from the University of Delaware in 1983 and received her J.D. magna cum laude from Vermont Law School in 1988. She served on the staff of the Vermont Law Review in 1986 – 1987 and as the Editor in 1987-1988. Ms. Mapes is admitted to the Bar in Vermont.

Ms. Mapes is serves on the Board of Directors of several of the Vermont captive insurance companies represented by the firm, as well as the Board of Directors and the Executive Committee of the Lake Champlain Regional Chamber of Commerce, and the Board of the Vermont Patent and Trademark Depository Library as well as the Legislative Committee of the Board of the Vermont Captive Insurance Association.

William D. Riley Principal

Mr. Riley is a member of the Insurance Law team at Paul Frank + Collins, with a focus on captive insurance and insurance coverage.

Mr. Riley's captive insurance practice includes advising clients with respect to legal and regulatory issues associated with entity structures, governance, insurance programs, policy drafting and various insurance, reinsurance and alternative risk transactions.

Mr. Riley has been monitoring the fluctuating law and regulations of the Terrorism Risk Insurance Act on behalf of PF+C's captive clients since its enactment in 2002. He is the author of a white paper, entitled "TRIA and Captives: The Role of Captive Insurance in the Terrorism Risk Insurance Program," which was published in the Defense Research Institute's "TRIA Issues Compendium and Resource Database" in the Spring of 2005.

In his insurance coverage practice, Mr. Riley counsels and represents traditional and captive insurance companies with respect to coverage matters and bad faith claims. He prepares coverage opinions and has litigated numerous declaratory judgment actions involving a wide range of commercial and personal insurance lines, including commercial general liability, all risk property, automobile liability, workers' compensation, uninsured motorist, homeowners, professional liability and excess policies.

Mr. Riley also practices general trial and appellate law, where he has successfully litigated a variety of matters involving commercial, insurance and tort law in federal and state courts throughout Vermont.

Mr. Riley graduated from the University of Vermont in 1984 and received his MBA from the University of Michigan Graduate School of Business Administration in 1986. He graduated cum laude from Vermont Law School in 1992 where he was the Managing Editor of the Vermont Law Review and was awarded the American Jurisprudence Award for Legal Writing. Mr. Riley is admitted to practice in the Federal and State Courts of Vermont, including the Vermont Supreme Court, and the U.S. Tax Court.

Mr. Riley is a member of the Board of Trustees and Executive Committee of the Lake Champlain Land Trust, which works to preserve significant island and shoreline areas in the Champlain Region. Mr. Riley also serves on the Conference Committee of the VCIA.