



June 28, 2004

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Re: 2001 Private Passenger Automobile Filing Decision

The Supreme Court entered its ruling on the 2001 PPA case on June 25, 2004 and the opinion is unfavorable to the North Carolina Rate Bureau. The Court upheld the Court of Appeals' approval of the Commissioner's ordered rates as to the issue of dividends and deviations. With respect to the issue of capital and surplus, the Court determined that it had "improvidently granted" the Rate Bureau's Petition for Discretionary review. The effect of this ruling is to leave intact the Court of Appeals' opinion that the Commissioner had not considered investment income on capital and surplus in his ordered rates. Counsel is reviewing the limited options available to the Rate Bureau for this case and its implications on the 2002 case, the 2004 filing and hearing, the upcoming 2005 filing and a possible homeowners filing. However, absent a petition for rehearing granted by the Court, the Commissioner's ordered rates will become the law of the case.

We have contacted the Commissioner and arranged a meeting this week to discuss the decision and the potential mechanics of a return of escrow.

You might, knowing you have a great many questions, hold these until the week of July 5 when we will send you detailed information as a result of our meeting with the Department.

Sincerely,

Raymond F. Evans, Jr., CPCU

General Manager

RFE:lm

G-04-1