

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

PEOPLE OF THE STATE OF ILLINOIS, *ex rel.*)
MICHAEL T. McRAITH, DIRECTOR OF)
INSURANCE OF THE STATE OF ILLINOIS,)

Plaintiffs,)

v.)

NO. 05 CH 11102

MIDLAND INSURANCE GROUP, INC., an)
Illinois corporation, STUDENT PLANS, INC., an)
Illinois corporation, and SECURITY INSURANCE)
COMPANY, LTD., an unauthorized alien company,))

Defendants.)

AGREED ORDER OF REHABILITATION

THIS CAUSE COMING ON TO BE HEARD upon the Verified Complaint for Rehabilitation, filed herein by the PEOPLE OF THE STATE OF ILLINOIS, on the relation of MICHAEL T. McRAITH, Director of Insurance of the State of Illinois (the "Director"), by and through their attorney, LISA MADIGAN, Attorney General of the State of Illinois, against the Defendants, MIDLAND INSURANCE GROUP, INC. ("MIDLAND"), STUDENT PLANS, INC. ("STUDENT PLANS"), and SECURITY INSURANCE COMPANY, LTD. ("SECURITY LTD."), pursuant to the provisions of Article XIII of the Illinois Insurance Code, 215 ILCS 5/187, *et seq.*, the Court having jurisdiction over the parties and the subject matter; the Court having reviewed the pleadings and having considered the arguments of counsel; and the Court then being otherwise advised in the premises;

THE COURT FINDS THAT:

1. Sufficient cause exists for the entry of an Agreed Order of Rehabilitation of the Defendants, MIDLAND, STUDENT PLANS and SECURITY LTD., including but not limited to the fact that the Defendant Companies' respective boards of directors have consented to the rehabilitation of the Defendant Companies; and

2. Pursuant to Section 191 of the Code, 215 ILCS 5/191, the entry of the Agreed Order of Rehabilitation creates a separate estate comprising all of the liabilities and assets of MIDLAND, STUDENT PLANS and SECURITY LTD.

IT IS ORDERED THAT:

A. An Agreed Order of Rehabilitation is hereby entered as to and against MIDLAND, STUDENT PLANS and SECURITY LTD., and the conservation proceedings of the Defendant Companies are hereby terminated; and

B. Pursuant to Section 194 of the Code, 215 ILCS 5/194, the rights and liabilities of MIDLAND, STUDENT PLANS and SECURITY LTD., and their affiliated companies and divisions, and of their policyholders, stockholders, members, creditors and all other persons interested in MIDLAND's, STUDENT PLANS' and SECURITY LTD.'s assets, except as provided in paragraph I herein, are hereby fixed as of the effective date of this Agreed Order of Rehabilitation; and

C. Michael T. McRaith, Director of Insurance of the State of Illinois, and his successors in office, is hereby appointed as the statutory Rehabilitator (the "Rehabilitator") of MIDLAND, STUDENT PLANS and SECURITY LTD., with all of the powers appurtenant thereto, including but not limited to:

- (i) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Rehabilitator is vested by operation of law with the title to all property, contracts, and

rights of action of MIDLAND, STUDENT PLANS and SECURITY LTD.; and

- (ii) Pursuant to Section 191 of the Code, *id.*, the Rehabilitator shall proceed to take immediate possession and control of all property, contracts, and rights of action of MIDLAND, STUDENT PLANS and SECURITY LTD.; and
- (iii) Pursuant to Section 191 of the Code, *id.*, the Rehabilitator is authorized to remove any and all records and property of MIDLAND, STUDENT PLANS and SECURITY LTD. to his possession and control or to such other place as may be convenient for purposes of the efficient and orderly administration of the Defendant Companies' rehabilitation; and
- (iv) Pursuant to Section 192(2) of the Code, 215 ILCS 5/192(2), the Liquidator shall deal with the property and business of MIDLAND, STUDENT PLANS and SECURITY LTD. in his name, as Rehabilitator, or in the name of the Defendant Companies; and
- (v) Pursuant to Section 192(2) of the Code, *id.*, the Rehabilitator, without the prior approval of the Court, may sell or otherwise dispose of any real or personal property of MIDLAND, STUDENT PLANS and SECURITY LTD., or any part thereof, and may sell or compromise all doubtful or uncollectible debts or claims owing to the Defendant Companies having a value in the amount of Twenty-Five Thousand Dollars (\$25,000) or less. Any such sale or disposal of real or personal property, or sale or compromise of doubtful or uncollectible debts, having a value in excess of Twenty-Five Thousand Dollars (\$25,000) shall be made subject to the approval of the Court; and
- (vi) Pursuant to Section 192(2) of the Code, *id.*, the Rehabilitator may solicit contracts whereby a solvent company agrees to assume, in whole or in part, or upon a modified basis, the liabilities of MIDLAND, STUDENT PLANS and/or SECURITY LTD. in a manner consistent with subsection (4) of Section 193 of the Code, 215 ILCS 5/193; and
- (vii) Pursuant to Section 192(3) of the Code, 215 ILCS 5/192(3), the Rehabilitator may bring any action, claim, suit, or proceeding against any director or officer of MIDLAND, STUDENT PLANS and/or SECURITY LTD., or against any other person with respect to that person's dealings with the Defendant Companies including, but not limited to, prosecuting any action, claim, suit, or proceeding on behalf of the creditors or policyholders of MIDLAND, STUDENT PLANS and/or SECURITY LTD.; and
- (viii) Pursuant to Section 192(4) of the Code, 215 ILCS 5/192(4), if at any time the Rehabilitator finds that it is in the best interests of the policyholders,

creditors, and the Defendant Companies to effect a plan of mutualization or rehabilitation, the Rehabilitator may submit such a plan to the Court for its approval; and

- (ix) Pursuant to Section 194(b) of the Code, 215 ILCS 5/194(b), the Rehabilitator may, within two (2) years after the entry of the Order of Rehabilitation prayed for herein or within such further time as applicable law permits, institute an action, claim, suit, or proceeding upon any cause of action against which the period of limitation fixed by applicable law had not expired as of the filing of the complaint upon which said Order was entered; and
- (x) Subject to the provisions of Section 202 of the Code, 215 ILCS 5/202, the Rehabilitator may appoint and retain those persons specified in Section 202(a) of the Code, 215 ILCS 5/202(a), and pay, without the further order of this Court, from the assets of MIDLAND, STUDENT PLANS, and/or SECURITY LTD. all administrative expenses incurred during the course of the rehabilitation of MIDLAND, STUDENT PLANS and SECURITY LTD.; and
- (xi) Pursuant to Section 203 of the Code, 215 ILCS 5/203, the Rehabilitator shall not be required to pay any fee to any public officer for filing, recording or in any manner authenticating any paper or instrument relating to any proceeding under Article XIII of the Code, 215 ILCS 5/187, *et seq.*, nor for services rendered by any public officer for serving any process; and
- (xii) Pursuant to the provisions of Section 204 of the Code, 215 ILCS 5/204, the Rehabilitator may seek to avoid preferential transfers of MIDLAND's, STUDENT PLANS' and SECURITY LTD.'s, property and to recover such property or its value, if it has been converted.

D. Subject to the further orders of the Court, the Rehabilitator is hereby authorized to take such actions as the nature of the cause and the interests of MIDLAND, STUDENT PLANS and SECURITY LTD., their policyholders, stockholders, members, creditors, or the public, and the provisions of Article XIII of the Code, 215 ILCS 5/187, *et seq.*, may require, including, but not limited to, the following:

- (i) The Rehabilitator is directed and authorized to rehabilitate, wind down, and terminate MIDLAND's, STUDENT PLANS' and SECURITY LTD.'s business and affairs, and to make the continued expenditure of such wages, rents and expenses as he may deem necessary and proper for the

administration of the rehabilitation of MIDLAND, STUDENT PLANS and SECURITY LTD.; and

- (ii) The Rehabilitator may both sue and defend on behalf of MIDLAND, STUDENT PLANS and/or SECURITY LTD., or for the benefit of MIDLAND's, STUDENT PLANS' and/or SECURITY LTD.'s policyholders, stockholders, members and creditors, in the courts either in his name as the Rehabilitator of MIDLAND, STUDENT PLANS and/or SECURITY LTD., or in the name of any of the Defendant Companies.

E. Pursuant to the Court's authority under Section 189 of the Code, 215 ILCS 5/189, the following mandatory and prohibitive injunctions are hereby issued:

- (i) All agents, accountants, auditors, actuaries and attorneys of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, shall immediately deliver to the Rehabilitator, upon his request, copies of all documents in their possession or under their control concerning or relating to MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, and to provide the Rehabilitator with such information as he may require concerning any and all business and/or professional relationships between them and MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, and concerning any and all activities, projects, jobs and the like undertaken and/or performed by them at the request of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, or their respective officers, directors, agents, servants, representatives and/or employees, or which MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, are, or may be, entitled to as the result of their relationship with such agents, accountants, auditors, actuaries and attorneys; and
- (ii) MIDLAND, STUDENT PLANS and SECURITY LTD. and their respective officers, directors, agents, third party administrators, servants, representatives and employees, and their affiliated companies and divisions, and all other persons and entities having knowledge of this Order, shall give immediate possession and control to the Rehabilitator of all property, business, books, records, accounts, and all other assets of MIDLAND, STUDENT PLANS and SECURITY LTD., and their affiliated companies and divisions, and all premises occupied by MIDLAND, STUDENT PLANS and SECURITY LTD. for the transaction of their business; and
- (iii) MIDLAND, STUDENT PLANS and SECURITY LTD. and their respective officers, directors, agents, third party administrators, servants,

representatives and employees, and their affiliated companies and divisions, and all other persons and entities having knowledge of this Order, are restrained and enjoined from transacting any business of MIDLAND, STUDENT PLANS and SECURITY LTD., and their affiliated companies and divisions, or dealing with, or disposing of any company property or assets, whether real, personal or mixed, without the express written consent of the Rehabilitator, or until further order of the Court; or doing or permitting to be done any action which might waste the property or assets of MIDLAND, STUDENT PLANS and SECURITY LTD., and/or their affiliated companies and divisions; and

- (iv) The officers, directors, agents, third party administrator, servants, representatives, employees, and policy or certificate holders of MIDLAND, STUDENT PLANS and SECURITY LTD., and their affiliated companies and divisions, and all other persons and entities having knowledge of this Order, are restrained and enjoined from (i) bringing, asserting or further prosecuting any claim, action or proceeding, at law or in equity or otherwise, whether in this State or elsewhere, against MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, or their property or assets, or against the Director or Rehabilitator, except insofar as those claims, actions or proceedings arise in or are brought in the rehabilitation proceedings prayed for herein; (ii) obtaining, asserting or enforcing preferences, judgments, attachments or other like liens or encumbrances, including common law retaining liens, or the making of any levy against MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, or their property or assets while in the possession and control of the Rehabilitator; (iii) interfering, in any way, with the Rehabilitator's conduct of the rehabilitation of MIDLAND, STUDENT PLANS and/or SECURITY LTD.; or (iv) interfering, in any way, with the Rehabilitator in his possession or control of the property, business, books, records, accounts, premises and all other assets of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, until the further order of this Court; and
- (v) Any and all banks, brokerage houses, financial institutions, investment advisors, and any and all other companies, persons or entities having knowledge of this Order, having in their possession accounts and any other assets which are, or may be, the property of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, are restrained and enjoined from disbursing or disposing of said accounts and assets, without the express written consent of the Rehabilitator; and are further restrained and enjoined from disposing of or destroying any records pertaining to any business transaction between MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their

affiliated companies and divisions, and such banks, brokerage houses, financial institutions, investment advisors, companies, persons or entities having done business, or doing business, with MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions; and further, that each such company, person or entity shall immediately turn over and deliver any and all such accounts, assets and/or records to the Rehabilitator; and

- (vi) All agents and brokers of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, and their respective agents, servants, representatives and employees, and all other persons and entities having knowledge of this Order, are restrained and enjoined from returning any premium, earned or unearned, or any other money in their possession, or under their control, collected in connection with policies, contracts or certificates of insurance or reinsurance previously issued, or to be issued, by MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, to policy or certificate holders or others; and all said agents and brokers, and their respective agents, servants, representatives and employees, and all other persons and entities, shall immediately turn over all such funds in their possession or under their control, or to which they may hereafter acquire possession or control, to the Rehabilitator in gross and not net of any commissions which may be due thereon, subject to the provisions of 215 ILCS 5/206; and
- (vii) All insurance and reinsurance companies and entities that assumed liabilities from MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, are restrained from making any settlements with any claimant or policy or certificate holder of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions, or any other person other than the Rehabilitator, without the express written consent of the Rehabilitator, except when the reinsurance agreement, policy or certificate, contract or treaty lawfully provides for payment to or on the behalf of MIDLAND's, STUDENT PLANS' and/or SECURITY LTD.'s insured by the reinsurer; and further, that the Rehabilitator be vested with the right, title and interest in all funds recoverable under treaties and agreements of excess insurance or reinsurance heretofore entered into by or on behalf of MIDLAND, STUDENT PLANS and/or SECURITY LTD., and/or their affiliated companies and divisions.

F. Any acts or omissions of the Rehabilitator in connection with the rehabilitation of the Defendant Companies shall not be construed or considered to be a preference within the meaning of Section 204 of the Code, 215 ILCS 5/204, notwithstanding the fact that any such act or

omission may cause a policy or certificate holder, member, or creditor to receive a greater percentage of debt owed to or by MIDLAND, STUDENT PLANS and/or SECURITY LTD., than any other policy or certificate holder, member, or creditor in the same class.

G. The caption in this cause and all pleadings filed in this matter shall read:

**“IN THE MATTER OF THE REHABILITATION OF
MIDLAND INSURANCE GROUP, INC., STUDENT PLANS, INC.
AND SECURITY INSURANCE COMPANY, LTD.”**

H. All costs of these proceedings shall be taxed and assessed against MIDLAND, STUDENT PLANS and SECURITY LTD.; and

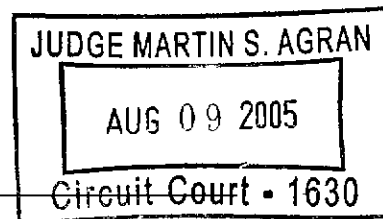
I. All in force direct policies and/or certificates of insurance heretofore issued and/or underwritten by MIDLAND, STUDENT PLANS and/or SECURITY LTD. with respect to the College Plan, Student Plan K-12 or Special Risks programs, and/or as the Rehabilitator may deem necessary and appropriate, shall be cancelled effective on the earliest of:

- (i) At 12:01 a.m., local time of the insured policy or certificate holder of any such policy or certificate of insurance, on September 1, 2005; or
- (ii) Upon the expiration of any such policy or certificate of insurance, if the expiration date is prior to September 1, 2005.

J. This Court shall make such further, different or other orders as it may deem proper in the premises.

ENTERED:

Judge Presiding



LISA MADIGAN
Attorney General of the State of Illinois
Attorney for the PEOPLE OF
THE STATE OF ILLINOIS

Michael J. McGivern
Senior Assistant Attorney General
100 West Randolph Street, 13th Floor
Chicago, Illinois 60601
(312) 814-7200
Attorney Code #99000

OF COUNSEL:

D. Daniel Barr
Dale A. Coonrod
Jennifer A. Donham
Counsel to the Director as Receiver
222 Merchandise Mart Plaza
Suite 1450
Chicago, Illinois 60654
(312) 836-9500
Attorney Code #16819