

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

PEOPLE OF THE STATE OF ILLINOIS, *ex rel.*)
NATHANIEL S. SHAPO, DIRECTOR OF)
INSURANCE OF THE STATE OF ILLINOIS,)

Plaintiffs,)

v.)

ALLIANCE GENERAL INSURANCE COMPANY,)
an Illinois Domestic Stock, Property and Casualty)
Insurance Company,)

Defendant.)

00000293

NO.

**AGREED ORDER OF LIQUIDATION WITH A
FINDING OF INSOLVENCY AND INJUNCTIVE RELIEF**

THIS CAUSE COMING ON TO BE HEARD upon the Verified Complaint For Liquidation, filed herein by the PEOPLE OF THE STATE OF ILLINOIS upon the relation of NATHANIEL S. SHAPO, Director of Insurance of the State of Illinois, seeking the entry of an order of liquidation with a finding of insolvency against Alliance General Insurance Company ("ALLIANCE") and other relief, all pursuant to the provisions of Article XIII of the Illinois Insurance Code (the "Code"), 215 ILCS 5/187, *et seq.*, and further to protect the interests of ALLIANCE's policyholders and creditors, and of the public; the Court having jurisdiction over the parties hereto and the subject matter hereof; the Court having reviewed the pleadings filed herein and having considered arguments of counsel thereon, and the Court then being otherwise advised in the premises, and for good cause appearing therefore;

THE COURT FINDS THAT:

1. By his Verified Complaint, The Director seeks the entry of an Agreed Order of Liquidation With A Finding Of Insolvency against ALLIANCE pursuant to Section 188 of the Code, 215 ILCS 5/188. By his Verified Complaint, the Director alleges that sufficient cause exists under Section 188 of the Code, *id.*, for the entry of an order of liquidation against ALLIANCE, including, without limitation, the following facts and circumstances:

- (a) ALLIANCE is insolvent in an amount in excess of Three Million (\$3,000,000.00) Dollars, as follows:
 - (i) On July 22, 1999, pursuant to the Director's authority under Section 186.1 of the Code, 215 ILCS 5/186.1, and with the agreement of Alliance, the Director issued an Agreed Corrective Order against Alliance. The Agreed Corrective Order determined that Alliance was operating in a manner hazardous to its policyholders and the public due to an impairment of its surplus. Further, the Order provided that Alliance would consent to a statutory receivership process by the Department if at any time it submits a properly filed financial statement to the Department that does not demonstrate that its assets are greater than its liabilities.
 - (ii) Further, the Agreed Corrective Order provided that Alliance would not issue new or renew direct business policies (except the renewal of guaranteed renewable policies) without the prior written approval of the Director.
 - (iii) Alliance was required by the terms of the Agreed Corrective Order to file monthly financial statements with the Director. Alliance filed a financial statement for the month ending October 31, 1999 indicating that Alliance's liabilities exceeded its assets by Three Million, One Hundred Seventy One Thousand, Three Hundred Thirty Three (\$3,171,333.00) Dollars.
- (b) ALLIANCE entered into an order with the Director to correct a deficiency in its capital and minimum surplus as follows:

- (i) On August 26, 1999 the Director pursuant to 215 ILCS 5/13 and 5/34, issued a Second Amended Notice of Impairment to ALLIANCE (the "Second Amended Notice").
- (ii) The Second Amended Notice provided, in part, as follows:

"Whereas, the Illinois Department of Insurance (Department) originally issued a Notice of Impairment to Alliance General Insurance Company (Company) dated June 18, 1999. Whereas the Department issued An Amended Notice of Impairment on July 22, 1999 . . ."

"Whereas, the Company reports that it is working on a plan to bring its statutory capital back into compliance with Section 13 of the Illinois Insurance Code (215 ILCS 5/13); and,"

"NOW THEREFORE, the Company is HEREBY NOTIFIED, pursuant to Sections 13 and 34 of the Illinois Insurance Code (215 ILCS 5/13 and 5/34) that as of December 31, 1998, a condition of impairment of the surplus of the Company exists at least in the amount of \$98,590.00.

IT IS HEREBY ORDERED that the Company shall correct the aforesaid impairment by September 17, 1999, by complying with the required minimum capital and surplus of \$1,500,000 as set forth in Section 13 of the Illinois Insurance Code . . . YOU ARE ALSO NOTIFIED that if such impairment is not corrected and made good by September 17, 1999, the Company shall be deemed insolvent in accordance with Section 34(3) of the Illinois Insurance Code [215 ILCS 5/34(3)] and proceedings shall be initiated in accordance with Article XIII of the Illinois Insurance Code..."

- (iii) Further the aforementioned Agreed Corrective Order provided that Alliance would consent to a statutory receivership process under Article XIII if on or after September 17, 1999, Alliance cannot demonstrate its compliance with Section 13 of the Illinois Insurance Code (215 ILCS 5/13).
- (iv) Alliance, upon failing to correct its impairment by the September 17, 1999 deadline, unsuccessfully attempted a "run-off" of its outstanding policy liability under the close supervision of the Department.

- (v) As of and since September 17, 1999, ALLIANCE's capital and minimum required surplus has been and continues to be impaired, in violation of and in non-compliance with the Second Amended Notice and the Agreed Corrective Order.
- (c) ALLIANCE is in such condition that its further transaction of business would be hazardous to its policyholders, its creditors and to the public, in that Alliance is currently insolvent.
- (d) ALLIANCE's policyholder surplus is impaired and, therefore, is in such condition that it cannot meet the requirements for organization and authorization as required by the laws of the State of Illinois, as follows:
 - (i) Pursuant to the provisions of Section 13 of the Code, 215 ILCS 5/13, ALLIANCE is required to have, and at all times maintain, a minimum capital and surplus of not less than One Million Five Hundred Thousand (\$1,500,000.00) Dollars.
 - (ii) Adding the amount by which ALLIANCE's liabilities exceed its assets to those amounts ALLIANCE is required by statute to maintain as its minimum capital and surplus, ALLIANCE is impaired in an amount in excess of Four Million Five Hundred Thousand (\$4,500,000.00) Dollars.
- (e) On January 5, 2000, in resolutions passed unanimously by ALLIANCE's Board of Director's, the Directors, *inter alia*,: (i) consented to the commencement of liquidation proceedings against ALLIANCE; (ii) waived any right to contest this Verified Complaint; (iii) waived any right to appeal the entry of an Agreed Order of Liquidation With A Finding Of Insolvency And Injunctive Relief; and (iv) acknowledged that conditions exist, as expressly set forth in Paragraph 7 of the Verified Complaint, that would justify a court order for liquidation under Section 188 of the Code, 215 ILCS 5/188.

2. In light of the foregoing facts and circumstances, sufficient cause exists for the entry of an order for liquidation of ALLIANCE, including the fact that ALLIANCE is insolvent.

3. The entry of the order prayed for herein creates an estate comprising of all of the liabilities and assets of ALLIANCE.

4. Upon the entry of the Order prayed for herein, the Liquidator's statutory authority includes, without limitation, the following:

- (a) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Liquidator is vested by operation of law with the title to all property, contracts, and rights of action of ALLIANCE; and
- (b) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Liquidator is entitled to immediate possession and control of all property, contracts, and rights of action of ALLIANCE; and
- (c) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Liquidator is authorized to remove any and all records and property of ALLIANCE to his possession and control or to such other place as may be convenient for purposes of the efficient and orderly administration of ALLIANCE's liquidation; and
- (d) Pursuant to Section 193(1) of the Code, 215 ILCS 5/193(1), the Liquidator is authorized to deal with the property, business and affairs of ALLIANCE in his name, as Director, and the Court further Orders that the Liquidator is authorized to deal with the property, business and affairs of ALLIANCE in the name of ALLIANCE; and
- (e) Pursuant to Section 193(2) of the Code, 215 ILCS 5/193(2), the Liquidator, without the prior approval of the Court, is authorized to sell or otherwise dispose of any real or personal property of ALLIANCE, or any part thereof, and to sell or compromise all debts or claims owing to ALLIANCE having a value in the amount of Twenty-Five Thousand (\$25,000.00) Dollars, or less. Any such sale by the Liquidator of the real or personal property of ALLIANCE having a value in excess of Twenty-Five Thousand (\$25,000.00) Dollars, and sale or compromise of debts owing to ALLIANCE by the Liquidator where the debt owing ALLIANCE exceeds Twenty-Five Thousand (\$25,000.00) Dollars shall be made subject to the approval of the Court; and
- (f) Pursuant to Section 193(3) of the Code, 215 ILCS 5/193(3), the Liquidator is authorized to bring any action, claim, suit or proceeding against any director or officer of ALLIANCE or against any other person with respect to that person's dealings with the company including, but not limited to, prosecuting any action, claim, suit, or proceeding on behalf of the creditors, policyholders or shareholders of ALLIANCE; and

- (g) Pursuant to Section 194(b) of the Code, 215 ILCS 5/194(b), the Liquidator may, within two (2) years after the entry of the liquidation order 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
- (h) Subject to the provisions of Section 202 of the Code, 215 ILCS 5/202, the Liquidator is authorized to appoint and retain those persons specified in Section 202(a) of the Code, 215 ILCS 5/202(a), and to pay, without the further order of this Court, from the assets of ALLIANCE all administrative expenses incurred during the course of the liquidation of ALLIANCE; and
- (i) Pursuant to Section 203 of the Code, 215 ILCS 5/203, the Liquidator 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 Illinois Insurance Code, 215 ILCS 5/187 *et seq.*, nor for services rendered by any public officer for serving any process; and
- (j) Pursuant to the provisions of Section 204 of the Code, 215 ILCS 5/204, the Liquidator may seek to avoid preferential transfers of ALLIANCE's property and to recover such property or its value, if it has been converted; and

5. Except as otherwise provided in Paragraph "D," below, pursuant to Section 194 of the Code, 215 ILCS 5/194, the rights and liabilities of ALLIANCE, and of its policyholders, creditors and stockholders, and all other persons interested in ALLIANCE's assets, except for those persons entitled to file contingent claims or to have their claims estimated, are fixed as of the date of the entry of the order of liquidation prayed for herein. The rights of persons entitled to file contingent claims or to have their claims estimated shall be determined as provided in Sections 209(4)(b), (6) and (7) of the Code, 215 ILCS 5/209(4)(b), (6) and (7).

6. Pursuant to Section 209(5) of the Code, 215 ILCS 5/209(5), ALLIANCE's obligation, if any, to defend or continue the defense of any claim or suit under a liability insurance policy is terminated upon the entry of the order of liquidation prayed for herein.

IT IS HEREBY ORDERED THAT:

- A. This Order of Liquidation be and the same is hereby entered as to and against Alliance General Insurance Company with a finding of insolvency; and
- B. There being no just reason for delaying enforcement or appeal of this Order, this Order of Liquidation With a Finding of Insolvency is a final order within the meaning of Illinois Supreme Court Rule 307(a)(5); and
- C. Nathaniel S. Shapo, Director of Insurance of the State of Illinois, and his successors in office, is affirmed as the statutory liquidator (the "Liquidator") of ALLIANCE, with all of the powers appurtenant thereto; and
- D. That all direct policies and/or certificates of insurance heretofore issued by ALLIANCE are hereby canceled upon the following terms:
 - 1. All direct policies and/or certificates of insurance which may give rise to "covered claims," as defined in Sections 534.3 and 537.2 of the Code, 215 ILCS 5/554.3 and 5/537.2, of the Illinois Insurance Guaranty Fund, are hereby canceled as follows:
 - (a) At 12.01 a.m., local time of the insured or policyholder of any such direct policy and/or certificate of insurance, on the thirty-first (31st) day following the date on which the Order of Liquidation prayed for herein is entered; or
 - (b) Upon the expiration date of any such direct policy and/or certificate of insurance, if the expiration date is less than thirty-one (31) days after the date on which the Order of Liquidation prayed for herein is entered; or
 - (c) Upon the date the insured or policyholder of any such direct policy and/or certificate of insurance replaces the direct policy and/or certificate of insurance, or on request effects cancellation, if the insured or policyholder does so prior to the thirty-first (31st) day following the date on which the Order of Liquidation prayed for herein is entered, whichever is earlier.

2. All other direct policies and/or certificates of insurance issued by ALLIANCE are hereby canceled effective upon the date on which the Order of Liquidation prayed for herein is entered.
- E. Subject to the further orders of the Court, the Liquidator is authorized to take such actions as the nature of the cause and the interests of ALLIANCE, its policyholders, creditors and stockholders, or the public may require including, but not limited to, the following:
- (i) The Liquidator shall proceed to take immediate possession and control of the property, books, records, accounts, business and affairs, and all other assets of ALLIANCE, and of the premises occupied by ALLIANCE for the transaction of its business, and to marshal and liquidate the assets, business and affairs of ALLIANCE pursuant to the provisions of Article XIII of the Code, *supra*, and the Liquidator is further directed and authorized to wind down and terminate ALLIANCE'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 liquidation of ALLIANCE; and
 - (ii) The Liquidator may both sue and defend on behalf of ALLIANCE, or for the benefit of ALLIANCE's policyholders and creditors, in the courts either in his name as the Liquidator of ALLIANCE, or in the name of ALLIANCE; and
- F. All contracts, treaties and agreements of reinsurance wherein ALLIANCE was, or is, the assuming or retrocessional reinsurer are canceled on a cut-off basis, such cancellations to be effective upon the entry of the order prayed for herein; and
- G. All treaties, contracts and agreements of reinsurance, wherein ALLIANCE is the ceding company, shall remain in full force and effect pending a determination and recommendation by the Director as to when, and upon what terms, cancellation is appropriate; and
- H. The caption in this cause and all pleadings filed in this matter shall read:

**"IN THE MATTER OF THE
LIQUIDATION OF ALLIANCE
GENERAL INSURANCE COMPANY"**

- I. All costs of these proceedings are taxed and assessed against the Defendant, ALLIANCE; and
- J. Pursuant to its authority under Section 189 of the Code, 215 ILCS 5/189, the Court hereby issues the following mandatory and prohibitive injunctions:
- (i) All accountants, auditors and attorneys of the ALLIANCE are ordered to deliver to the Liquidator, at his request, copies of all documents in their possession or under their control concerning or related to ALLIANCE, and to provide the Liquidator with such information as he may require concerning any and all business and/or professional relationships between them and ALLIANCE, and concerning any and all activities, projects, jobs and the like undertaken and/or performed by them at the request of ALLIANCE, or its respective agents, servants, officers, directors and/or employees, or which ALLIANCE may be, or is, entitled to as the result of its relationship with such accountants, auditors and attorneys; and
 - (ii) ALLIANCE and its respective directors, officers, agents, fronting companies, servants, representatives, employees, and affiliated companies, and all other persons and entities having knowledge of this Order, shall give immediate possession and control to the Liquidator of all property, business, books, records and accounts of ALLIANCE, and all premises occupied by ALLIANCE for the transaction of its business; and
 - (iii) ALLIANCE and its respective officers, directors, agents, fronting companies, servants, representatives and employees, and all other persons and entities having knowledge of this Order are restrained from transacting any business of ALLIANCE, or disposing of any company property or assets, without the express written consent of the Liquidator, or doing or permitting to be done any action which might waste the property or assets of ALLIANCE, until the further order of this Court; and
 - (iv) The officers, directors, agents, fronting companies, servants, representatives and employees of ALLIANCE, and all other persons and entities having knowledge of this Order are restrained from bringing or further prosecuting any claim, action or proceeding at law or in equity or

otherwise, whether in this State or elsewhere, against ALLIANCE, or its property or assets, or the Director or Liquidator, except insofar as those claims, actions or proceedings arise in or are brought in the liquidation proceedings; or from obtaining, asserting or enforcing preferences, judgments, attachments or other like liens, including common law retaining liens, or encumbrances or the making of any levy against ALLIANCE, or its property or assets while in the possession and control of the Liquidator, or from interfering in any way with the Liquidator in his possession or control of the property, business, books, records, accounts, premises and all other assets of ALLIANCE, until the further order of this Court; and

- (v) Any and all banks, brokerage houses, financial institutions and any and all other companies, persons or entities having knowledge of this Order having in its possession accounts and any other assets which are, or may be, the property of ALLIANCE, are restrained from disbursing or disposing of said accounts and assets and are further restrained from disposing of or destroying any records pertaining to any business transaction between ALLIANCE, and such banks, brokerage houses, financial institutions, companies, persons or entities having done business, or doing business, with ALLIANCE, or having in its possession assets which are, or may be, the property of ALLIANCE, and further, that each such person or entity is ordered to immediately deliver any and all such assets and/or records to the Liquidator; and
- (vi) All agents, brokers and fronting companies of ALLIANCE, and their respective agents, servants, representatives and employees, and all other persons having knowledge of this Order, are restrained from returning any unearned premiums or any money in their possession, or under their control, collected from premiums upon policies, contracts or certificates of insurance or reinsurance previously issued by ALLIANCE, to policyholders or others, and all said agents and brokers, and ALLIANCE's agents, representatives, employees and servants are directed to turn over all such funds in their possession or under their control, including any premium or money to which they may hereafter acquire possession or control, to the Liquidator in gross and not net of any commissions which may be due thereon; and
- (vii) All policyholders under policies of insurance issued by ALLIANCE, persons asserting claims against such policyholders, and creditors of ALLIANCE, and all other persons, companies and entities having knowledge of this Order are restrained from instituting or pursuing any action or proceeding in any court or before any administrative agency, including boards and commissions administering worker's compensation or occupational diseases or similar laws of the State of Illinois, or any

other state, or of the United States, which seek in any way, directly or indirectly, to contest or interfere with the Liquidator's exclusive right, title and interest to funds recoverable under treaties and agreements of reinsurance heretofore entered into by or on behalf of ALLIANCE as the ceding insurer; and

- (viii) All insurance and reinsurance companies and entities that assumed liabilities from ALLIANCE arising under either policies of insurance or contracts of reinsurance issued by ALLIANCE, are restrained from making any settlements with any claimant or policyholder of ALLIANCE, or any other person other than the Liquidator, except with the written consent of the Liquidator, except when the reinsurance agreement, certificate, contract or treaty lawfully provides for payment to or on the behalf of ALLIANCE's insured by the reinsurer.

ENTERED:

Judge Presiding

JAMES E. RYAN
 Attorney General of the
 State of Illinois
 Attorney for the PEOPLE OF
 THE STATE OF ILLINOIS
 Roger P. Flahaven
 Assistant Attorney General
 100 West Randolph Street
 Twelfth Floor
 Chicago, Illinois 60601
 (312) 814-1030
 Attorney Code #99000

OF COUNSEL:

Cathleen M. Travis
 D. Daniel Barr
 Michael Buresh
 Counsel to the Director as Receiver
 222 Merchandise Mart Plaza
 Suite 1450
 Chicago, IL 60654
 (312) 836-9500
 Attorney Code #16819

UNANIMOUS WRITTEN CONSENT OF
THE BOARD OF DIRECTORS
OF
ALLIANCE GENERAL INSURANCE COMPANY

JANUARY 5, 2000

The undersigned, being the Board of Directors of Alliance General Insurance Company (the "Company"), an insurance company duly organized and legally existing under the laws of the State of Illinois, pursuant to the Illinois Insurance Code and pursuant to By-laws of the Company, do hereby give written consent to the taking of the following action:

WHEREAS, the Company has received the Agreed Corrective Order No. 01-99, dated July 22, 1999, issued by Nathaniel S. Shapo, Director of Insurance of the State of Illinois, pursuant to Section 186.1 of the Illinois Insurance Code; and

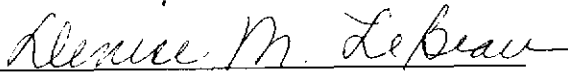
WHEREAS, the Company acknowledges that a condition exists that would justify a court order for the liquidation under Section 188 of the Code, 215 ILCS 5/1888; and

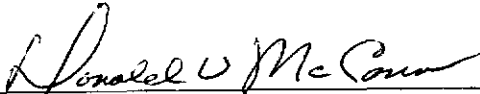
WHEREAS, the Company has been presented with a Verified Complaint for Liquidation With a Finding of Insolvency, to be filed by the People of the State of Illinois, ex rel., Nathaniel S. Shapo, Director of Insurance of the State of Illinois, alleging that the Company is insolvent and is in such condition that it cannot meet the requirements for organization and authorization as required by the laws of the State of Illinois, and further, that the condition of the Company is such that its further transaction of business would be hazardous to its policyholders, its creditors, and to the public; and

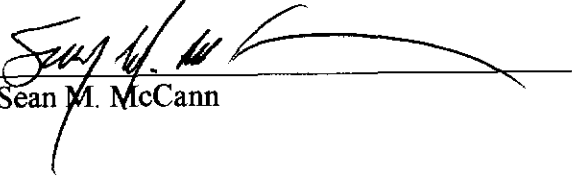
WHEREAS, the Board of Directors of the Company unanimously believes it is in the best interests of the Company's policyholders and creditors, and of the general public, for the Company to consent to the entry of the Order of Liquidation and does not object to a Finding of Insolvency against the Company by the Circuit Court of Cook County, Illinois;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Company agree and consent to the entry of an Order of Liquidation With a Finding of Insolvency against the Company by the Circuit Court of Cook County, Illinois; agree and consent to the liquidation of this Company by the Illinois Director of Insurance under the insurance laws of the State of Illinois; agree and consent to waive service of process of the Director's Complaint for the entry of an Order of Liquidation With a Finding of Insolvency; and agree and consent to waive any right to answer or otherwise plead to such Complaint and/or to appeal such Order.

IN WITNESS WHEREOF, this written consent has been executed by each member of the Board of Directors as of the date written above.


Denise M. LeBeau


Donald V. McCann


Sean M. McCann