

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.)

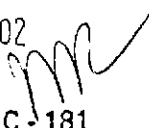
GALLANT INSURANCE COMPANY,)
an Illinois Domestic Stock, Property and Casualty)
Insurance Company,)

Defendant.)

NO. 02 CH 04056

ENTERED

AUG 09 2002

JUDGE 
ROBERT V. BOHARIC - 181

ORDER OF LIQUIDATION

THIS CAUSE COMING TO BE HEARD upon the Verified Complaint for Liquidation
With a Finding of Insolvency, 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 (the
“Director”), by and through their attorney, JAMES E. RYAN, Attorney General of the State of
Illinois, against the Defendant, GALLANT INSURANCE COMPANY (“GALLANT” or the
“Company”), pursuant to the provisions of Article XIII of the Illinois Insurance Code (the
“Code”), 215 ILCS 5/187 et seq.; the Court having jurisdiction over the parties hereto and the
subject matter hereof; the Court having reviewed the pleadings filed herein and having
considered the motion for judgment on the pleadings and the briefs and the 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. Sufficient cause exists for the entry of an Order of Liquidation of against the Defendant, GALLANT, based on the fact that GALLANT has consented to Liquidation; and

2. Pursuant to Section 191 of the Code, 215 ILCS 5/191, the entry of the Order of Liquidation creates an estate comprising all of the liabilities and assets of GALLANT; and

IT IS ORDERED THAT:

A. Judgment on the Pleadings is granted under 215 ILCS 5/188(13), and an Order of Liquidation is hereby entered as to and against GALLANT; and

B. This Order of Liquidation is an appealable order under Supreme Court Rule 307; and

C. Pursuant to Section 194 of the Code, 215 ILCS 5/194, the rights and liabilities of GALLANT, and of its policyholders, creditors and stockholders, and all other persons interested in GALLANT's assets, except as provided in Paragraph (J) and except for those persons entitled to file contingent claims or to have their claims estimated, are fixed as of the date the entry of the Order of Liquidation. 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); and

D. Pursuant to Section 209(5) of the Code, 215 ILCS 5/209(5), GALLANT'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; and

E. 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 GALLANT, 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 Liquidator is vested by operation of law with the title to all property, contracts, and rights of action of GALLANT; and
- (ii) 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 GALLANT; and
- (iii) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Liquidator is authorized to remove any and all records and property of GALLANT to his possession and control or to such other place as may be convenient for purposes of the efficient and orderly administration of GALLANT's liquidation; and
- (iv) 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 GALLANT in his name, as Director, and that the Liquidator is authorized to deal with the property, business and affairs of GALLANT in the name of GALLANT; and
- (v) 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 GALLANT, or any part thereof, and to sell or compromise all debts or claims owing to GALLANT having a value in the amount of Twenty-Five Thousand Dollars (\$25,000.00) or less. Any such sale by the Liquidator of the real or personal property of GALLANT having a value in excess of Twenty-Five Thousand Dollars (\$25,000.00), and sale or compromise of debts owing to GALLANT by the Liquidator where the debt owing GALLANT exceeds Twenty-Five Thousand Dollars (\$25,000.00) shall be made subject to the approval of the Court; and

- (vi) 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, officer, or trustee of GALLANT, 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 or policyholders of GALLANT; and
- (vii) 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 Order of Liquidation 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 the Order of Liquidation was entered; and
- (viii) 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 GALLANT all administrative expenses incurred during the course of the liquidation of GALLANT; and
- (ix) 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 Code, supra, nor for services rendered by any public officer for serving any process; and
- (x) Pursuant to the provisions of Section 204 of the Code, 215 ILCS 5/204, the Liquidator may seek to avoid preferential transfers of GALLANT's property and to recover such property or its value, if it has been converted; and

F. The Liquidator is authorized to take such actions as the nature of the cause and the interests of GALLANT, its policyholders, creditors, members, 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 GALLANT, and of the premises occupied by GALLANT for the transaction of its business, and shall take such action as the nature of this cause and the interests of GALLANT's policyholders, creditors, members, stockholders or the public may require, pursuant to the provisions of Article XIII of the Code, supra, and the Liquidator is further directed and

authorized to liquidate, wind down, or terminate GALLANT'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 GALLANT; and

- (ii) The Liquidator may both sue and defend on behalf of GALLANT, or for the benefit of GALLANT's policyholders and creditors, in the courts either in his name as the Liquidator of GALLANT, or in the name of GALLANT; and

G. The Director is vested with the right, title and interest in all funds recoverable under any insurance policies, and any treaties and agreements of excess insurance or reinsurance heretofore entered into by or on behalf of GALLANT, and all insurance, excess insurance or reinsurance companies involved with GALLANT are restrained and enjoined from making any settlements with any claimant or policyholder of GALLANT, or any other person, other than the Director as Liquidator, except with the written consent of the Director; and

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

**“IN THE MATTER OF THE LIQUIDATION OF
GALLANT INSURANCE COMPANY”**

I. All costs of these proceedings shall be taxed and assessed against the Defendant, GALLANT; and

J. All direct policies, bonds, and/or certificates of insurance heretofore issued by GALLANT are hereby canceled upon the following terms:

- (i) All direct policies, bonds 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 5/534.3 and 5/537.2, of the Illinois Insurance Guaranty Fund or which may give rise to “covered claims” of a similar property and casualty guaranty fund organization in any other state, as defined by the

provisions of such similar statute in any such other state, shall be cancelled:

- (a) At 12:01 a.m., local time of the insured or policyholder of any such direct policy, bond, and/or certificate of insurance, on the thirty-first (31st) day following the date on which the Order of Liquidation is entered; or
 - (b) Upon the expiration date of any such direct policy, bond 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 is entered; or
 - (c) Upon the date the insured or policyholder of any such direct policy, bond, and/or certificate of insurance replaces the direct policy, bond, 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 is entered, or upon the date Affirmative Insurance Company issues an assumption certificate assuming the obligations under such policy, bond, and/or certificate of insurance, if Affirmative Insurance Company does so prior to the thirty first (31st) day following the date on which the Order of Liquidation is entered, whichever is earlier.
- (ii) All direct policies and/or certificates of insurance which are covered policies or certificates of insurance within the meaning of the Illinois Life and Health Insurance Guaranty Association Law, 215 ILCS 5/531.01 *et seq.*, or any similar life, accident and health guaranty association law of any other state, or the obligations, or any part thereof, of which the Illinois Life and Health Insurance Guaranty Association, or any similar life, accident and health guaranty association organization in any other state, is obligated to assure payment of, shall remain in full force and effect until cancelled, or until they expire in accordance with their terms.
 - (iii) All other direct policies, bonds, and/or certificates of insurance issued by GALLANT shall be cancelled effective upon the date on which the Order of Liquidation is entered; and

K. 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) To enable the Liquidator to fulfill his statutory obligation to marshal the assets of the estate, including the investigation of potential claims of

improper conduct against any person with respect to their dealings with the Company as provided under Section 193(3) of the Code, 215 ILCS 5/193(3), all accountants, auditors, actuaries and attorneys of GALLANT, and all other persons or entities having knowledge of this Order, 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 GALLANT, and to provide the Liquidator with such information as he may require concerning any and all business and/or professional relationships or dealings with GALLANT, and concerning any and all activities, projects, jobs and the like undertaken and/or performed by them at the request of GALLANT, or its respective agents, servants, officers, directors and/or employees, or which GALLANT may be, or is, entitled to as the result of its relationship with such accountants, auditors, actuaries, attorneys, persons and entities; and

- (ii) GALLANT and its respective officers, directors, agents, third party administrators, managing general agents, 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 GALLANT, and all premises occupied by GALLANT for the transaction of its business; and
- (iii) GALLANT and its respective officers, directors, agents, servants, representatives and employees, and all other persons and entities having knowledge of this Order, are restrained from transacting any business of GALLANT, 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 GALLANT, until the further order of this Court; and
- (iv) The officers, directors, agents, third party administrators, managing general agents, servants, representatives, policyholders, creditors, and employees of GALLANT, 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 GALLANT 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 prayed for herein; 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 GALLANT, 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 GALLANT, 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 their possession accounts and any other assets which are, or may be, the property of GALLANT, 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 GALLANT and such banks, brokerage houses, financial institutions, companies, persons or entities having done business, or doing business, with GALLANT, or having in their possession assets which are, or may be, the property of GALLANT, 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, managing general agents, third-party administrators, and brokers of GALLANT, 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 GALLANT, to policyholders or others, and all said agents and brokers, and GALLANT's agents, representatives, employees and servants, are directed to turn over all such funds in their possession or under their control, or 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 GALLANT, employees, and any other persons asserting claims against such policyholders, and creditors of GALLANT, 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 workers' 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 or excess insurance heretofore entered into by or on behalf of GALLANT; and
- (viii) All insurance and reinsurance companies and entities that assumed liabilities from GALLANT arising under either contracts, policies of insurance, certificates of insurance, or contracts of reinsurance issued by GALLANT, are restrained from making any settlements with any claimant

or policyholder of GALLANT, 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 behalf of GALLANT's insured by the reinsurer; and

L. This Honorable Court shall make such further orders as it may deem necessary.

ENTERED:


Judge Presiding
8/9/02

JAMES E. RYAN
Attorney General of the State of Illinois
Attorney for the PEOPLE OF
THE STATE OF ILLINOIS
Jeffery P. Gray
Assistant Attorney General
James R. Thompson Center
100 West Randolph Street, 13th Floor
Chicago, Illinois 60601
(312) 814-6213
Attorney Code #99000

Joel A. Haber
Fagel & Haber
Special Assistant Attorney General
55 East Monroe St.
Chicago, IL 60603
(312) 580-2216

Of Counsel:
D. Daniel Barr
J. Kevin Baldwin
Counsel to the Director as Receiver
Office of the Special Deputy Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, Illinois 60654
(312) 836-9500
Attorney Code #16819

ENTERED

AUG 09 2002

JUDGE
ROBERT V. BOHARIC - 181