

**Office of the Special Deputy Receiver
222 Merchandise Mart Plaza
Suite 960
Chicago, IL 60654
312-836-9500
www.osdchi.com**

INVITATION FOR BIDS (the “IFB”):

**PURCHASE OF 100% OF THE SHARES OF STOCK OF
SPECIALTY SURPLUS INSURANCE COMPANY, an
Illinois domiciled stock property and casualty company**

POSTED: September 11, 2017

DUE DATE: October 10, 2017

DUE TIME: 4:00PM Central Time

Purchasing Party Contact Information:

Fred Griffith
Chief Financial Officer
Lumbermens Mutual Casualty Company, In Liquidation
1 Corporate Drive, Suite 200
Lake Zurich, Illinois 60047
fred.griffith@lmcco.com
fax: (847) 320-2585

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I. BACKGROUND

A. ILLINOIS INSURANCE RECEIVERSHIP

Pursuant to the Illinois Insurance Code (the “Code”), the Director of the Illinois Department of Insurance (the “Director”), is affirmed as Conservator, Rehabilitator or Liquidator of domestic insurance companies that have been ordered into conservation, rehabilitation or liquidation pursuant to state court proceedings. These proceedings arise before the Chancery Division of the Circuit Court of Cook County, Illinois (the “Supervising Court”). Grounds for obtaining an order of conservation, rehabilitation or liquidation are specified in the Illinois Insurance Code. Examples of the statutory grounds include insolvency, operating in a condition hazardous to its policyholders or creditors, and consent of a majority of the company’s board of directors.

As Conservator, the Director receives possession and control of an insurance company for the purpose of further determining its condition. The company remains subject to the conservation order and the Director’s possession and control until: (i) a subsequent order of rehabilitation or liquidation is entered against the company, (ii) the Director determines not to institute proceedings against the insurance company for rehabilitation or liquidation and seeks to have the company discharged from conservation, or (iii) the Supervising Court otherwise issues an order terminating the conservation proceedings.

As Rehabilitator and Liquidator, the Director is vested with title to the insurance company’s assets. As Rehabilitator, the Director conducts the company’s business and, subject to the approval of the Supervising Court, may implement a plan of rehabilitation. As Liquidator, and subject to court supervision, the Director administers the winding down of the company’s business and affairs including the marshaling of company assets, the liquidation of company assets as appropriate, the evaluation and adjudication of claims asserted against company assets by policyholders and others, and the distribution of assets to claimants having court approved claims.

The Code authorizes the Director to appoint a Special Deputy as the Director’s agent for purposes of administering the conservation, rehabilitation or liquidation of the insurance companies. The Office of the Special Deputy Receiver (the “OSD”), an Illinois not-for-profit corporation, supports the activities of the Director’s Special Deputy or Attorney-in-Fact in managing the affairs of the companies placed into receivership under Article XIII of the Code. The activities of conservation, rehabilitation and liquidation are conducted at the OSD located at 222 Merchandise Mart Plaza, Suite 960, Chicago, Illinois 60654.

B. LUMBERMENS MUTUAL CASUALTY COMPANY

Lumbermens Mutual Casualty Company (“Lumbermens”) is a property and casualty mutual insurance company domiciled in the State of Illinois. Lumbermens was placed into rehabilitation by order of the Supervising Court on July 2, 2012 (the “Rehabilitation Order”), and into liquidation pursuant to an order entered on May 8, 2013 (the “Liquidation Order”). Pursuant to the Liquidation Order, Jennifer Hammer, Director of the Illinois Department of Insurance, is the statutory and court-affirmed Liquidator of Lumbermens (the “Liquidator”). Effective May 1, 2017, the Liquidator appointed Jim Stephens as her Special Deputy and Attorney-In-Fact. The Liquidation Order vested title to all of Lumbermens’ property, contracts and rights of action in the Liquidator and created an estate consisting of all of the assets and liabilities of Lumbermens (the “Estate”).

C. SPECIALTY SURPLUS INSURANCE COMPANY

Lumbermens purchased Investors Insurance Company, a New Jersey domiciled stock property and casualty company, from Markel Corporation (“Markel”) effective January 1, 2000. Lumbermens changed the name of the company to Specialty Surplus Insurance Company (“SSIC”). All of SSIC’s pre-2000 loss and LAE reserves are 100% reinsured by a Markel subsidiary, Evanston Insurance Company, which is also responsible for the handling of pre-2000 losses. The reinsurance recoverable on these claims totals \$3,488,000 as of December 31, 2016.

Lumbermens caused SSIC to be re-domiciled in Illinois as a stock property and casualty company effective April 10, 2001. SSIC is licensed in three states (Illinois, New Jersey, and New York) and is eligible to write insurance in 15 other states (Connecticut, Delaware, Hawaii, Kansas, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Mexico, Oregon, South Carolina, South Dakota, Virginia, and Wisconsin).

In 2003, Lumbermens and its affiliated insurance companies, including SSIC, ceased writing new insurance policies and went into run-off. In 2004, SSIC, again in conjunction with Lumbermens and other affiliated insurance companies, commenced operating under a run-off plan approved by the Illinois Department of Insurance (the “Department”). The Department has not examined SSIC since 2012, and although SSIC continues to file annual statements it is currently exempt from the requirement to submit an independent actuarial report.

As of December 31, 2016, SSIC reported in its annual statement: (i) net admitted assets in the amount of \$17,356,458, including an Illinois statutory deposit of \$2,719,412; (ii) capital and surplus in the amount of \$16,862,356; (iii) total liabilities in the amount of \$494,102; (iv) net income in the amount of \$330,764; (v) gross loss and LAE reserves in the amount of \$3,648,839; and (vi) ceded loss and LAE reserves in the amount of \$3,617,144 (inclusive of the Evanston Insurance Company reinsurance cover referenced above).

With respect to policies written subsequent to January 1, 2000, SSIC primarily underwrote coverages for commercial multiple peril, other liability, other property, and inland marine. Lumbermens reinsures 80% of the net loss and LAE reserves, and due to Lumbermens’ insolvency the reinsurance recoverable has been accounted for as uncollectible by SSIC.

Additional information will be made available in an electronic data room (the “Data Room”) to those persons executing and returning to the Purchasing Party a Non-Disclosure Agreement (“NDA”), as described in Section III of this IFB.

II. OBJECTIVE

The Liquidator has received an unsolicited offer for the purchase of 100% of the shares of stock of SSIC. In order to determine the market value of SSIC, the Liquidator is soliciting bids from parties interested in entering into a stock purchase agreement for purposes of transferring ownership of 100% of the shares of stock of SSIC.

III. NON-DISCLOSURE AGREEMENT

If, after reviewing this IFB, you are interested in receiving financial and claim information relating to SSIC, you may submit a fully executed Non-Disclosure Agreement in the form attached hereto as Attachment 1. You may also obtain an NDA form for execution by contacting the Purchasing Party.

IV. TIMETABLE

<u>EVENT</u>	<u>DATE</u>
IFB Published on the OSD Website	September 11, 2017
Deadline For Written Questions	September 22, 2017
Written Responses to Questions Posted to the OSD Website	September 28, 2017
Written Bids Submitted to the OSD	October 10, 2017
Expected Completion of Bid Evaluation	October 11, 2017
Notification to Awardee	October 12, 2017
Finalize Purchase Agreement	TBD
Court Approval	TBD

V. BIDDERS – GENERAL – NO CONTACT WITH DIRECTOR OF INSURANCE OR SPECIAL DEPUTY RECEIVER

Bidders must send or deliver their bid package, consisting of one signed original bid and five printed copies to the person designated by the OSD as its purchasing party:

Fred Griffith
Chief Financial Officer
Lumbermens Mutual Casualty Company, In Liquidation
1 Corporate Drive, Suite 200
Lake Zurich, IL 60047

(the “Purchasing Party”). If you request confidential treatment of a portion of your bid, you must submit an additional copy with the proprietary or confidential information deleted. This copy must describe the general nature of the redacted information and retain as much of the bid’s substance as possible.

All bid packages must be actually received by the Purchasing Party at the address set forth above no later than 4:00 P.M. Central Time on October 10, 2017 (*i.e.*, forms of constructive delivery, such as the “mailbox rule,” do not apply). Any bid package that is incomplete, or is actually received after 4:00 P.M. Central Time on October 10, 2017 shall be disqualified from consideration for award.

From the date this IFB is posted until the award of bid has been announced, no Bidder may initiate any contact regarding this IFB with the Director of Insurance, the Special Deputy Receiver, or their respective agents, employees or staffs, other than by way of written inquiries which must be directed to the Purchasing Party.

The Purchasing Party shall be the sole point of contact for questions and requests until the award of bid has been announced. This prohibition includes, but is not limited to, any lobbying of individuals considered to have any influence over bid evaluation and selection. Violation of this provision shall be grounds for immediate disqualification from consideration for award under this IFB, and may result in a temporary prohibition from participation in future requests for proposals, invitations for bids, or other relationships with the OSD.

If, prior to the Bid Date, it becomes necessary to revise any part of this IFB, or if additional information is necessary for a clarification of provisions within this IFB, a supplement will be provided to all known potential bidders and posted on the OSD's website. If a supplement is necessary, the OSD may extend the Bid Date in order to accommodate any additional information requirements.

Subsequent to the Bid Date the OSD reserves the right to request, in its sole discretion as agent for the Liquidator, best and final offers from fewer than all bidders. In such an event, the dates set forth in Section IV of this IFB for "Expected Completion of Bid Evaluation" and "Notification to Awardee" will be revised in the notice requesting the submission of best and final offers. Nevertheless, bidders should not expect that the OSD will ask for best and final offers and must, therefore, submit their best offer.

VI. BID GUIDELINES

- A. Subsequent to having executed and returned an NDA, bidders may submit written questions to the Purchasing Party. Written questions must be submitted on or before September 22, 2017. Written responses will be posted in the Data Room on or before September 28, 2017. In the event the Purchasing Party responds to a bidder by telephone, then the Purchasing Party will post any new data that may be shared with the bidder in the data Room.
- B. Bids must include a statement that you have read this IFB in its entirety, understand its terms and conditions, and that the Bidder is in compliance with the laws of the State of Illinois.
- B. Bids must include the specific information requested below.
 - 1. Firm Name.
 - 2. Address of firm's headquarters.
 - 3. Firm's headquarters' telephone number, including country code.
 - 4. Name and mailing address of individual(s) responding to this IFB.
 - 5. Individual(s) telephone number(s) and fax number(s).

6. Individual(s) fax number(s).
 7. Individual(s) email address(es).
 8. Date the bid (responding to this IFB) is completed.
 9. Brief history of firm, including ownership. Please include prior names and the length of time your organization has been in business under its present name and ownership.
 10. Name of parent firm or holding company (if any) and the name of affiliates or subsidiaries (if any).
 11. Name of firm's directors, officers, and/or managing partner.
- C. Bids must identify the purchase price to be paid to the Estate in consideration of the firm's purchase of 100% of the shares of stock in SSIC.
- D. The bid package must include a mark-up of the stock purchase agreement, a copy of which is attached hereto as Attachment 2, which the firm would be ready, willing and able to execute if it were awarded the bid.
- E. Preference will be given to bidders who submit proposed stock purchase agreements incorporating the terms set forth in Section VII of this IFB.

VII. PREFERRED AND REQUIRED TERMS

- A. This Purchase Agreement (the "Agreement"), dated _____, 2017, is entered into by and between Jennifer Hammer, Director of the Illinois Department of Insurance, (the "Director") acting solely in her capacity as the statutory and court-affirmed liquidator (the "Liquidator") of Lumbermens Mutual Casualty Company, In Liquidation ("Lumbermens") (the "Seller") and [*] (the "Purchaser"). The Liquidator and Purchaser are each a "Party" and collectively the "Parties" to this Agreement.
- B. The Parties' respective obligations under this Agreement are subject to the entry of an order by the Supervising Court approving the Liquidator's Petition for Approval of the Purchase and Sale of 100% of the shares of stock in SSIC (the "Petition"). [Required]
- C. The Parties agree to hold a closing of the transaction contracted for under this Agreement within the later of five (5) business days following: (i) the Supervising Court's entry of an order approving the sale; and (ii) Purchaser's receipt of all regulatory approvals constituting a condition precedent to its legal capacity to close this transaction, unless mutually agreed by the Parties, in writing, to extend the closing date. If, however, the Supervising Court enters an order denying the Petition, this Agreement shall be null and void.
- D. In consideration of its payment of the Purchase Price, Purchaser shall receive title to 100% of the shares of stock of SSIC.
- E. This Agreement, and all disputes, claims, or controversies arising out of or relating to this Agreement, shall be governed, construed and enforced in accordance with the substantive laws of the State of Illinois, without regards to conflict or choice of law principles. [Required]

- F. The Parties hereby consent to the personal and subject matter jurisdiction, without right of removal, of the Supervising Court for the resolution of any dispute arising from or related to this Agreement. [Required]

VIII. OSD PROCUREMENT GUIDELINES

- A. The OSD recognizes that although it is a private not-for-profit corporation organized under the laws of the State of Illinois, its activities are assigned by the Director of the Illinois Department of Insurance (the "Director") acting in the capacity of statutory and court-affirmed Receiver of insurance companies. The OSD further recognizes that its representation of the Director, as Receiver, arises from the power of attorney given by the Director to her Attorney-in-Fact who also fills the position of Special Deputy and Chief Executive Officer of the OSD. Accordingly, it is the policy of the OSD not to contract with any person or entity that is in violation of the laws of the State of Illinois or is barred from contracting with the Illinois Department of Insurance, under Public Act 095-0971, or otherwise. OSD Invitations for Bid and resulting contracts require compliance with Illinois state law by bidders.
- B. You may submit your bid by mail, courier service, or hand-delivery. We neither accept nor allow computer, fax or other forms of electronic submissions. We must have actual receipt of bids at the time and place specified in the IFB. It will not be sufficient to show that you mailed or commenced delivery prior to the due date and time. All times are State of Illinois local times.
- C. The OSD reserves the right to request best and final offers from final qualifying bidders. However, bidders should not expect that the OSD will ask for best and final offers and must, therefore, submit their best offer.
- D. All bids must state that they remain firm for 60 days from opening.
- E. Bidders must be prepared for the OSD to accept their bids as submitted but, at the OSD's sole option, contract negotiations may be necessary or desirable. If negotiations do not result in a purchase agreement acceptable to the Liquidator, the OSD may reject the bid or revoke the award of bid and commence negotiations with another bidder. Final terms of the purchase agreement must be approved or signed by the appropriately authorized OSD official(s) and approved by the Circuit Court of Cook County, Illinois as required by statute.
- F. The content of a bid is subject to verification. The inclusion of misleading or inaccurate responses will result in a bidder's disqualification.
- G. The IFB process is for the Estate's benefit only and is intended to provide the OSD with competitive information to assist in the selection process. All decisions on compliance, evaluation, terms and conditions will be made solely at the OSD's discretion and made to favor the Estate.
- H. This IFB does not commit the OSD to select a bidder or for the Estate to enter into a purchase agreement with any party. We may seek clarification or your bid from you at any time, and failure to respond is cause for rejection. Clarification is not an opportunity to materially change your bid. Submission of a bid confers on you no right to an award or to a subsequent contract. The OSD reserves the right to rescind or revoke this IFB prior to the execution of a final contract by the Estate. The OSD may in its sole discretion: reject all bids; reject individual bids if they are non-

responsive or non-compliant with the requirements set forth in this IFB; or waive minor discrepancies in any bid. All materials submitted in response to this IFB shall become the property of the Estate and will not be returned.

- I. Any award of bid made under this IFB is subject to the approval of the Supervising Court. In order that the Liquidator may represent to the Supervising Court that the proposed award of bid is in the best interests of the Estate and its creditors, requests to treat entire bids as confidential or proprietary will not be honored. Unless you request in your bid that we treat specifically identified information as proprietary, none of the bid will be treated as confidential. Any request that a portion of your bid be treated as confidential must include a statement of the specific legal grounds supporting your assertion that the specified material in your bid is proprietary. If you request confidential treatment of a portion of your bid, you must submit an additional copy with the confidential or proprietary information deleted. This copy must describe the general nature of the redacted information and retain as much of the bid's substance as possible. By submitting your bid you agree that the OSD may copy the bid in order to facilitate its evaluation and any statutorily required court approval, and that copying will not violate the rights of either your Firm or any third party. A request to treat portions of a bid as confidential or proprietary may result in the bid being downgraded if, in the OSD's sole discretion, the request will hinder the Liquidator's ability to fairly and adequately represent, compare and contrast the competing bids to the Supervising Court. Failure to comply with the requirements of this paragraph shall be grounds for disqualification from consideration for award.
- J. Regardless of any claim of confidentiality a bidder may assert, the OSD will publicly disclose the Awardee's name and the financial terms of the contract. The OSD and the Liquidator reserve the right to disclose the names of all bidders, and copies of their respective bids to the Supervising Court for its review (although we may request that the court review the bids *in camera*, the OSD will file the bids on the public record if required to do so by the court).
- K. A notice will be posted to the OSD website, www.osdchi.com, identifying the Awardee. Posting of the notice extends your Firm's bid/proposal time until we sign a purchase agreement and the statutorily required court approval has been obtained, or we determine not to sign a purchase agreement.
- L. This IFB is, and the resulting contract shall be, governed by the substantive laws of the State of Illinois. Changes in applicable laws and rules may affect the award process or the resulting contract. Bidders are responsible for ascertaining pertinent legal requirements and restrictions.

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