

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

PATRICK MCPHARLIN, DIRECTOR
OF THE DEPARTMENT OF INSURANCE
AND FINANCIAL SERVICES,

Petitioner,

Case No. 15-898-CR

v

Hon. CLINTON CANADY III

AFFIRMATIVE INSURANCE COMPANY OF
MICHIGAN,

Respondent.

STIPULATED PETITION OF THE DIRECTOR OF THE DEPARTMENT OF
INSURANCE AND FINANCIAL SERVICES FOR AN ORDER PLACING
AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN INTO
REHABILITATION, APPROVING COMPENSATION OF
SPECIAL DEPUTY REHABILITATOR, AND PROVIDING INJUNCTIVE RELIEF

Patrick McPharlin, Director of the Department of Insurance and Financial Services ("Director"), by and through his attorneys, Bill Schuette, Attorney General, and M. Elizabeth Lippitt and Christopher L. Kerr, Assistant Attorneys General, petitions the Court for an order authorizing the Director to rehabilitate Affirmative Insurance Company of Michigan, approving the compensation of the appointed Special Deputy Rehabilitator, and providing certain injunctive relief. In support of this Petition, the Director states as follows:

THE PARTIES

1. Affirmative Insurance Company of Michigan ("AIM") is a Michigan domestic property and casualty insurance company owned on a stockholder basis

and authorized to transact insurance in Michigan. On March 1, 2011, AIM voluntarily suspended writing any new insurance business in the State of Michigan, and on June 24, 2011, AIM suspended writing any renewal business in this State. AIM currently has fewer than 200 open claims (in pay status or in litigation) under its Michigan insurance policies issued or renewed on or before June 24, 2011.

2. Patrick McPharlin is the duly appointed Director of the Department of Insurance and Financial Services (“DIFS”).

JURISDICTION

3. MCL 500.8102 provides that a proceeding under Chapter 81 of the Michigan Insurance Code of 1956, MCL 500.8101 – 500.8159 (“Chapter 81”), including a rehabilitation proceeding, may be applied to an insurer who, *inter alia*: (a) is or has been transacting insurance business in this state and against whom claims arising from that business may exist now or in the future; or (b) has insureds resident in this state. AIM satisfies both criteria and is therefore subject to rehabilitation or any other proceeding authorized by Chapter 81.

4. Pursuant to MCL 500.8112, the Ingham County Circuit Court is the proper court to petition for an order of rehabilitation.

REHABILITATION IS APPROPRIATE BASED ON AIM'S BOARD OF DIRECTORS CONSENTING TO REHABILITATION AND BASED ON THE COMPANY'S IMPAIRED FINANCIAL CONDITION

5. MCL 500.8112 authorizes the Director to petition this Court for an Order authorizing the Director to rehabilitate AIM based on one or more of thirteen (13) listed grounds. These grounds include:

(a) The insurer is in such condition that the further transaction of business would be hazardous financially to its policyholders, creditors, or the public.

* * *

(l) The board of directors . . . request[s] or consent[s] to rehabilitation under this chapter.

6. Pursuant to MCL 500.8112(l), entry of an Order authorizing the Director to rehabilitate AIM is proper because AIM's Board of Directors has consented to rehabilitation under Chapter 81. (Exhibit A, Unanimous Written Consent of the Board of Directors of Affirmative Insurance Company of Michigan dated October 2, 2015.) Toward this end, AIM has stipulated to the relief sought in this Rehabilitation Petition and to the entry of the Order attached as Exhibit B.

7. Pursuant to MCL 500.8112(a), entry of an Order authorizing the Director to rehabilitate AIM is also proper because AIM's financial condition is such that further transaction of business would be hazardous financially to its policyholders, creditors, or the public.

8. Specifically, AIM is a wholly-owned subsidiary of its parent company, Affirmative Insurance Company ("AIC"). (Exhibit C, Affirmative Insurance Holdings, Inc. Corporate Organizational Chart.) AIC is an Illinois domestic property and casualty insurance company, and on September 16, 2015, the Illinois Director of Insurance placed AIC into rehabilitation. (Exhibit D, *State of Illinois v Affirmative Insurance Company*, Agreed Order of Rehabilitation.)

9. The Illinois Director of Insurance placed AIC into rehabilitation because, among other reasons, AIC reported a net loss of \$43 million for the first

half of 2015 and further reported unimpaired policyholder surplus of roughly \$2.5 million as of June 30, 2015, representing an over 89% decrease from its December 31, 2014 policyholder surplus of approximately \$24.3 million.

10. AIM cedes all of its claims and losses to AIC (after cessions to other reinsurers) pursuant to a Net Quota Share Reinsurance Contract between AIM and AIC. (Exhibit E, Notes to AIM June 30, 2015 Quarterly Statement, p 6.2.) In other words, AIC—which is now in an Illinois rehabilitation—is responsible for paying the bulk of AIM’s Michigan insurance claims.

11. Further, although AIM’s June 30, 2015 Quarterly Statement reported unimpaired policyholder surplus of approximately \$9.2 million, over \$1.5 million of that reported surplus represents an unpaid reinsurance receivable from AIC. (Exhibit E, AIM June 30, 2015 Quarterly Statement, pp 3 and 6.2.)

12. Due to its Illinois rehabilitation, it is possible (if not likely) that AIC ultimately will not be in financial position to fully honor its reinsurance contract with AIM and/or pay its outstanding \$1.57 million reinsurance receivable owed to AIM.

13. If AIC does not fully honor its reinsurance contract with AIM, AIM would be forced to pay all Michigan insurance claims from its own policyholder surplus. If this occurs, the amount of anticipated claims/losses under AIM’s outstanding Michigan insurance policies could potentially exceed the company’s unimpaired surplus, meaning that AIM is currently in hazardous financial condition and the company’s eventual insolvency is a real risk.

14. Similarly, if AIC is unable to pay its outstanding \$1.57 million reinsurance receivable owed to AIM, AIM would be in jeopardy of falling below Michigan's minimum surplus requirement of \$7.5 million. See MCL 500.410.

15. In addition, it is possible that AIC, through the Illinois rehabilitator, may seek to utilize some or all of AIM's \$9.2 million surplus to pay AIC's own insured claims or the claims of other AIC creditors. Because AIC wholly owns and controls AIM, this scenario could occur and likewise places AIM in hazardous financial condition.

16. For each of the reasons explained above, immediate action placing AIM into rehabilitation is necessary to protect the interests of AIM's policyholders, creditors, and the public. Rehabilitation is further necessary to ensure that AIM's assets are protected and dealt with in an orderly manner consistent with decisions made by the Illinois rehabilitator who now controls AIM's parent, AIC.

17. Based upon the existence of the above-described statutory grounds for rehabilitation, including AIM's stipulation to the relief sought by this Petition, the Court should enter the Rehabilitation Order attached as Exhibit B.

APPOINTMENT AND COMPENSATION OF SPECIAL DEPUTY
REHABILITATOR

18. The Director, as Rehabilitator, is authorized to appoint Special Deputy Rehabilitators, who shall have all the powers and responsibilities of the Rehabilitator granted under Section 8114 of the Insurance Code and shall serve at the pleasure of the Director. MCL 500.8114(1).

19. Pursuant to MCL 500.8114(1), the compensation of any Special Deputy Rehabilitator(s) and all expenses of taking possession of the insurer and of conducting the proceedings shall be fixed by the Director, with the approval of the Court, and shall be paid out of the funds or assets of the insurer.

20. Upon his appointment as Rehabilitator, the Director appoints James Gerber, the Director of Receiverships at DIFS, as Special Deputy Rehabilitator for AIM. The Director further reserves the right to appoint other Special Deputy Rehabilitator(s) to replace and/or serve with Mr. Gerber in the future as the need arises.

21. The Director, as Rehabilitator, has fixed the compensation of Special Deputy Rehabilitator Gerber pursuant to the terms set forth in the Order attached as Exhibit B. The Director requests that the Court approve this compensation arrangement.

22. The Director, as Rehabilitator, has determined that it is appropriate and necessary for the success of the rehabilitation that the services and compensation of James Gerber be approved so that this Rehabilitation may proceed effectively, efficiently, and provide the maximum protection to creditors, policyholders, and the public.

RELIEF REQUESTED

Based upon the foregoing, the Director requests that the Court issue an Order, in the form attached as Exhibit B, that grants the Director the following, nonexclusive relief:

- a. Places AIM into rehabilitation pursuant to Chapter 81;
- b. Grants the Director, as Rehabilitator, possession, title, and control of AIM, its assets, resources, and business to the fullest extent allowed by law;
- c. Approves the compensation of James Gerber as Special Deputy Rehabilitator;
- d. Grants the injunctive relief necessary to protect AIM's business, assets, policyholders, creditors, the public, and the rehabilitation process; and
- e. Grants the Director such other and further relief that is necessary and appropriate for the rehabilitation of AIM.

Respectfully submitted,

Bill Schuette
Attorney General



Christopher L. Kerr (P57131)
M. Elizabeth Lippitt (P70373)
Assistant Attorneys General
Michigan Department of Attorney
General
Corporate Oversight Division
Attorneys for Petitioner
P.O. Box 30755
Lansing, Michigan 48909
(517) 373-1160

Dated: October 28, 2015

STIPULATION OF
AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN

Affirmative Insurance Company of Michigan stipulates to the relief sought by this Petition and to the existence of a statutory basis for the entry of an Order placing the company into rehabilitation. Further, Affirmative Insurance Company of Michigan waives any right to a hearing on this Petition:

**AFFIRMATIVE INSURANCE COMPANY
OF MICHIGAN**

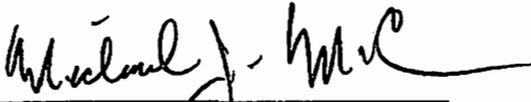
By: Michael McClure (by consent via PDF signature-- see attached) 10/27/15
Michael J. McClure Date

Its: Board Director and President

STIPULATION OF
AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN

Affirmative Insurance Company of Michigan stipulates to the relief sought by this Petition and to the existence of a statutory basis for the entry of an Order placing the company into rehabilitation. Further, Affirmative Insurance Company of Michigan waives any right to a hearing on this Petition:

**AFFIRMATIVE INSURANCE COMPANY
OF MICHIGAN**

By: 

Michael J. McClure

10/27/15
Date

Its: Board Director and President

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**UNANIMOUS WRITTEN CONSENT
OF THE BOARD OF DIRECTORS
OF
AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN**

OCTOBER 2, 2015

The undersigned, being all of the Board of Directors of Affirmative Insurance Company of Michigan, a Michigan domestic stock company organized under and existing by virtue of the laws of the State of Michigan, ("AIM"), pursuant to the Michigan Insurance Code, MCL 500.100 – 500.8302, do hereby give their written consent to the taking of the following action:

WHEREAS, AIM is a wholly-owned subsidiary of Affirmative Insurance Company ("AIC"), an Illinois domestic stock company; and

WHEREAS, on September 16, 2015, an Agreed Order of Rehabilitation was entered against AIC in the Circuit Court of Cook County, Illinois, appointing the Illinois Director of Insurance as Rehabilitator of AIC; and

WHEREAS, the Rehabilitator of AIC, acting through the Illinois Office of the Special Deputy Receiver, has authorized the Board of Directors of AIM to adopt these Resolutions; and

WHEREAS, the Board of Directors of AIM are willing to consent to the rehabilitation of AIM as contemplated under Chapter 81 of the Michigan Insurance Code.

NOW, THEREFORE, BE IT RESOLVED, that AIM, by its Board of Directors, agrees and irrevocably consents to the commencement of rehabilitation proceedings by the entry of a Stipulated Order of Rehabilitation against AIM in the Circuit Court of Ingham County, Michigan, upon the filing of a Stipulated Petition for Rehabilitation by the Director of the Michigan Department of Insurance and Financial Services ("DIFS Director"); and

BE IT FURTHER RESOLVED, that AIM, by its Board of Directors, authorizes and directs AIM's Director and President, Michael J. McClure, or AIM's legal counsel or other authorized representative, to stipulate and consent to any relief sought by the DIFS Director with regard to placing AIM into rehabilitation under Chapter 81 of the Michigan Insurance Code; and

BE IT FURTHER RESOLVED, that AIM, by its Board of Directors, agrees and irrevocably consents to waive: (1) any right to appear and answer or otherwise plead in response to the Stipulated Petition for Rehabilitation; and (2) any right to appeal the Stipulated Order of Rehabilitation; and

BE IT FURTHER RESOLVED, that AIM, by its Board of Directors, irrevocably consents to, authorizes, and directs AIM's Director and President, Michael J. McClure, or AIM's legal counsel or other authorized representative, to accept and acknowledge service of process of the Stipulated Petition for Rehabilitation; and

BE IT FURTHER RESOLVED, that AIM, by its Board of Directors, authorizes and directs the officers of AIM to take all other necessary and proper action on behalf of AIM to give full force and effect to the foregoing Resolutions; and

BE IT FURTHER RESOLVED, that the Directors of AIM may execute this Unanimous Written Consent in counterparts, each of which shall be considered an original and all of which shall constitute one

document, and that a Director's facsimile or electronically-transmitted signature shall be valid and binding to the same extent as an original signature; and

BE IT FURTHER RESOLVED, that the recitals and prefatory phrases and paragraphs set forth above are incorporated in full as part of the foregoing Resolutions.

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We, the undersigned, being all of the Directors of Affirmative Insurance Company of Michigan do hereby ratify, adopt, approve, consent to and confirm all of the above preambles, resolutions and actions.

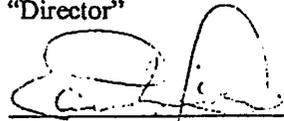
Dated the day and year first set above.

"Director"



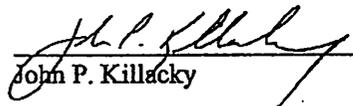
Michael J. McClure

"Director"



Earl R. Fonville

"Director"



John P. Killacky

"Director"

Catherine Witherspoon

We, the undersigned, being all of the Directors of Affirmative Insurance Company of Michigan do hereby ratify, adopt, approve, consent to and confirm all of the above preambles, resolutions and actions.

Dated the day and year first set above.

"Director"

Michael J. McClure

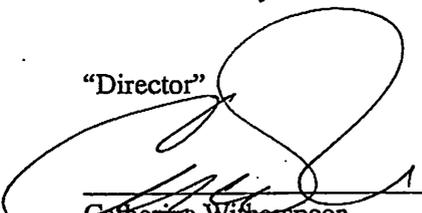
"Director"

Earl R. Fonville

"Director"

John P. Killacky

"Director"



Catherine Witherspoon

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STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

PATRICK MCPHARLIN, DIRECTOR
OF THE DEPARTMENT OF INSURANCE
AND FINANCIAL SERVICES,

Petitioner,

Case No. _____-CR

v

Hon. _____

AFFIRMATIVE INSURANCE COMPANY OF
MICHIGAN,

Respondent.

_____ /

STIPULATED ORDER
PLACING AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN INTO
REHABILITATION, APPROVING COMPENSATION OF
SPECIAL DEPUTY REHABILITATOR, AND PROVIDING INJUNCTIVE RELIEF

At a session of said Court
held in the Circuit Courtrooms
in the City of Lansing, Michigan on the
____ day of October, 2015.

PRESENT: HONORABLE _____
Circuit Court Judge

WHEREAS, Petitioner Patrick McPharlin, Director of the Department of Insurance and Financial Services ("Director"), has filed a Stipulated Petition seeking an Order Placing Affirmative Insurance Company of Michigan into Rehabilitation, Approving the Compensation of the Special Deputy Rehabilitator, and Providing Injunctive Relief (the "Rehabilitation Petition"); and

WHEREAS, Respondent Affirmative Insurance Company of Michigan (“AIM”), by and through its Board of Directors, has consented to being placed into Rehabilitation under Chapter 81 of the Michigan Insurance Code of 1956, MCL 500.8101 – 500.8159 (“Chapter 81”), under the terms and conditions determined by the Director to be appropriate; and

WHEREAS, AIM has further stipulated to the relief sought in the Rehabilitation Petition and to the entry of this Order; and

WHEREAS, the Court has reviewed the Rehabilitation Petition and the terms of this Order, and being otherwise fully advised, finds as follows:

A. MCL 500.8102 provides that a proceeding under Chapter 81, including a rehabilitation proceeding, may be applied to an insurer who: (a) is or has been transacting insurance business in this state and against whom claims arising from that business may exist now or in the future; or (b) has insureds resident in this state. AIM satisfies both criteria and is therefore subject to rehabilitation or any other proceeding authorized by Chapter 81.

B. MCL 500.8112 vests this Court with jurisdiction to consider the Director’s Rehabilitation Petition and to enter this Order.

C. MCL 500.8112 authorizes the Director to petition this Court for an Order authorizing the Director to rehabilitate AIM based on one or more of thirteen (13) listed grounds. These grounds include:

(a) The insurer is in such condition that the further transaction of business would be hazardous financially to its policyholders, creditors, or the public.

* * *

(l) The board of directors . . . request[s] or consent[s] to rehabilitation under this chapter.

D. Pursuant to MCL 500.8112(a), this Order authorizing the Director to rehabilitate AIM is proper and should be entered because the Court finds that AIM's financial condition is such that further transaction of business would be hazardous financially to its policyholders, creditors, or the public.

E. Pursuant to MCL 500.8112(l), this Order authorizing the Director to rehabilitate AIM is also proper and should be entered because AIM's Board of Directors has consented to rehabilitation under Chapter 81.

F. AIM has stipulated to the relief sought in the Rehabilitation Petition and to the entry of this Order.

G. As defined by MCL 500.8103(b), a "Creditor" is a person having a claim against AIM, whether matured or unmatured, liquidated or unliquidated, secured or unsecured, absolute, fixed, or contingent.

H. Based upon MCL 500.8105(1), the Court is authorized to enter this Order including terms that the Court considers necessary and proper to prevent:

(a) Interference with the Rehabilitator or with the rehabilitation proceedings;

(b) The institution or further prosecution of any actions or proceedings against AIM, its assets, or its policyholders;

(c) The obtaining of preferences, judgments, attachments, garnishments, or liens against AIM, its assets, or its policyholders;

(d) The levying of execution against AIM, its assets, or its policyholders; and

(e) Any other threatened or contemplated action that might lessen the value of AIM's assets or prejudice the rights of its policyholders, creditors, or the administration of this rehabilitation proceeding.

I. All Creditor claims against AIM are within the exclusive jurisdiction of this Court and will be determined, resolved, paid, and/or discharged, in whole or in part, according to the terms and conditions approved by the Court.

J. MCL 500.8114(2), in conjunction with MCL 500.8121(1)(m), authorizes the Rehabilitator "[t]o prosecute an action that may exist on behalf of the creditors, members, policyholders, or shareholders of the insurer against an officer of the insurer or another person."

L. Immediate action placing AIM into rehabilitation is necessary to protect the interests of AIM's policyholders, creditors, and the public. Rehabilitation is further necessary to ensure that AIM's assets are protected and dealt with in an orderly manner consistent with decisions made by the Illinois rehabilitator who now controls AIM's parent company, Affirmative Insurance Company ("AIC"), which owns 100% of AIM's stock.

THEREFORE, IT IS HEREBY ORDERED that:

1. Pursuant to MCL 500.8112 and MCL 500.8113, the Director's Rehabilitation Petition is GRANTED, and AIM is placed into rehabilitation under Chapter 81.

2. Pursuant to MCL 500.8113(1), the Director is appointed Rehabilitator of AIM, and is further authorized to appoint one or more Special Deputy

Rehabilitator(s) pursuant to MCL 500.8114(1). Hereafter, the Director shall be referred to as the "Rehabilitator."

3. Pursuant to MCL 500.8113(1), the Rehabilitator shall take immediate possession of all the assets of AIM and administer those assets under the Court's general supervision.

4. Pursuant to MCL 500.8113(1), this Order shall by operation of law vest legal title to all assets, accounts, and moneys of AIM in the Rehabilitator. The filing or recording of this Order with the Clerk of the Circuit Court or the Register of Deeds for the county in which the statutory home office, principal place of business, or resident agent of AIM is located shall impart the same notice as a deed, bill of sale, or other evidence of title duly filed or recorded with that Register of Deeds would have imparted.

5. Pursuant to MCL 500.8115(1) and paragraph 23(a) of this Order, all actions or proceedings in which AIM is a plaintiff that are pending as of the date this Order is entered are automatically STAYED for ninety (90) days plus such additional time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings. Pursuant to paragraph 23(a) of this Order, the institution or continuation of any actions or proceedings in which AIM is a defendant, or is obligated to defend another party, is PROHIBITED AND ENJOINED until such time as this Court enters an order lifting the injunction or the Rehabilitator agrees that the matter may proceed.

6. The Rehabilitator, without being specifically set forth in this Order, shall have: (a) all the powers contained in MCL 500.8114 and 500.8115; (b) all applicable powers set forth in Chapter 81; and (c) such additional powers as the Court shall grant from time to time upon petition of the Rehabilitator.

7. Pursuant to MCL 500.8114(2), upon entry of this Order, all powers of the current directors, officers, and managers of AIM are suspended in their entirety, and the Rehabilitator shall have and exercise the full and complete power of such directors, officers, and managers. In his sole discretion, the Rehabilitator may redelegate, in writing, some or all of his authority to a former director, officer, or manager of AIM.

8. Among his plenary powers provided by law, the Rehabilitator shall have full power and authority to direct and manage AIM, to hire and discharge AIM's officers, managers, and employees subject to any contract rights that they may have, and to deal in totality with the property and business of AIM.

9. Subject to any contractual rights and applicable law, upon entry of this Order all pre-rehabilitation employment contracts of AIM's officers, managers, and employees are terminated. Notwithstanding the termination of their pre-rehabilitation employment contracts, the officers, managers, and employees of AIM shall remain employed as at-will employees until such time as they are notified by the Rehabilitator or Special Deputy Rehabilitator that they have been discharged. Within their sole discretion, the Rehabilitator and Special Deputy Rehabilitator may re-contract with any officers, managers, or employees of AIM whose pre-

rehabilitation employment contracts are terminated pursuant to this paragraph 9 upon terms agreeable to the parties.

10. Any director, manager, officer, employee, or agent of AIM and any other person shall, at the Rehabilitator's direction, vacate any building, office, or other premise of AIM.

11. Pursuant to MCL 500.8114(2) and (4), the Rehabilitator may take such action as he considers necessary or appropriate to reform or revitalize AIM, and is empowered to pursue all avenues of reorganization, consolidation, conversion, reinsurance, merger, or other transformation of AIM to effectuate rehabilitation and maintain, to the greatest extent possible, a continuity of insurance coverage.

12. Pursuant to MCL 500.8114(4), if the Rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger, or other transformation of AIM is appropriate, he shall prepare a plan to effect those changes and shall apply to the Court for approval of such plan.

13. Pursuant to MCL 500.8116(1), if the Rehabilitator believes that further attempts to rehabilitate AIM would be futile or would substantially increase the risk of loss to creditors, policyholders, or the public, he may petition the Court for an order of liquidation.

14. Pursuant to MCL 500.8116(2), the Rehabilitator may petition the Court at any time for an order terminating the rehabilitation of AIM.

15. Except as provided in this paragraph 15, the Rehabilitator shall not pay any Creditor claims for goods or services provided prior to the date of this Order

until further order of the Court. In order to ensure the continuity of insurance coverage to AIM's policyholders, and to minimize disruptions to AIM's business operations, the Rehabilitator shall pay: (a) all Creditor claims for goods and services provided to AIM's policyholders/insureds prior to the date of this Order arising from covered losses under AIM insurance policies, according to the company's normal claims processing procedures; and (b) all Creditor claims for wages (including any existing fringe benefits, such as health and dental insurance) of AIM's officers, managers, and employees arising from services they rendered directly to AIM that were earned but unpaid as of the date of this Order, together with reimbursement to AIM's parent company AIC for any such wages that it paid on behalf of AIM.

16. Pursuant to MCL 500.8137(4), claims made under pre-rehabilitation employment contracts by AIM's directors, officers, or persons in fact performing similar functions or having similar powers are statutorily limited to the payment of wages (including any existing fringe benefits, such as health and dental insurance) arising from services they rendered directly to AIM that were earned but unpaid prior to the date of this Order. Accordingly, the provision in paragraph 15 requiring payment of pre-rehabilitation wages does not apply to, and at no time shall the Rehabilitator pay, any claims for severance, post-termination benefits, or other non-wage payments that might otherwise be payable to an AIM director or officer upon the termination of his or her employment contract entered into prior to the date of this Order.

17. The Rehabilitator shall pay all Creditor claims for goods or services provided on or after the date of this Order as they become due in the ordinary course of business.

18. The Rehabilitator shall pay any other normal administrative expenses incurred on or after the date of this Order that are necessary for the continued operation and/or rehabilitation of AIM as they become due in the ordinary course of business.

19. Pursuant to MCL 500.8113(3), entry of this Order shall not constitute an anticipatory breach of any contracts or relationships between AIM and any other persons or entities. Except for employment contracts terminated under paragraph 9 of this Order, and pursuant to MCL 500.8105(1)(k), during the pendency of this rehabilitation, all persons or entities other than AIM policyholders that have contractual or other relationships with AIM as of the date of this Order are hereby ENJOINED AND RESTRAINED from terminating or attempting to terminate such contracts or relationships on the basis of the entry of this Order or AIM's financial condition. Notwithstanding the foregoing, the Rehabilitator shall review the necessity of any contracts subject to this Paragraph 19 during the pendency of this rehabilitation, and upon determining that any such contract is unnecessary to AIM's rehabilitation, the Rehabilitator is authorized to terminate the contract either in accordance with the contract's notice and other applicable provisions or under such varying terms and conditions as the Rehabilitator deems necessary and appropriate.

20. Pursuant to MCL 500.8106, all officers, managers, directors, trustees, owners, employees, or agents of AIM, or any other persons or entities having authority over or in charge of any segment of the affairs of AIM, shall fully cooperate with the Rehabilitator and any Special Deputy Rehabilitators that he appoints. Among other things, "full cooperation" requires a person or entity described in this paragraph to:

- (a) Promptly reply to any inquiry by the Rehabilitator, including a written reply when requested;
- (b) Provide the Rehabilitator with immediate, full, and complete possession, control, access to, and use of all books, accounts, documents, and other records, information, or property of or pertaining to AIM in his, her, or its possession, custody, or control as may be necessary to enable the Rehabilitator and Special Deputy Rehabilitator to operate the business and to maintain the continuity of insurance coverage for all policyholders;
- (c) Provide the Rehabilitator with full and complete access to and control of all assets, documents, data, computer systems, security systems, buildings, leaseholds, and property of or pertaining to AIM; and
- (d) Provide the Rehabilitator with full and complete access to all legal opinions, memoranda, letters, documents, information, correspondence, legal advice, and any other attorney-client privileged and/or attorney work product materials relating to AIM or the operation of AIM and its business, provided to or from AIM's in-house or outside counsel by or to AIM, its officers, managers, directors, trustees, owners, employees, or agents.

In addition, pursuant to MCL 500.8105(1)(c), no person shall obstruct or interfere with the Rehabilitator or Special Deputy Rehabilitator in the conduct of this rehabilitation proceeding.

21. As provided by MCL 500.8106(4), any failure to cooperate with the Rehabilitator or Special Deputy Rehabilitator, any obstruction or interference with the Rehabilitator or Special Deputy Rehabilitator in the conduct of this

rehabilitation proceeding, or any violation of an order of the Director validly entered under Chapter 81, may result in:

- (a) A sentence requiring the payment of a fine not exceeding \$10,000.00, or imprisonment for a term of not more than one year, or both; and
- (b) After a hearing, the imposition by the Director of a civil penalty not to exceed \$10,000.00, or the revocation or suspension of any insurance licenses issued by the Director, or both.

22. Any person or entity with possession, custody, or control of assets, documents, data, accounts, moneys, books, records, information, or property of or pertaining to AIM, shall immediately:

- (a) Provide the Rehabilitator with notice that such assets, documents, data, accounts, moneys, books, records, information, or property are in his, her, or its possession, custody or control, together with a description of the assets, documents, data, accounts, books, records, information, or property in his, her, or its possession, custody or control.
- (b) Tender possession, custody, and control of such assets, documents, data, accounts, moneys, books, records, information, or property to the Rehabilitator.
- (c) Take all necessary steps to safeguard, preserve, and retain the assets, documents, data, accounts, moneys, books, records, information, or property.

23. Pursuant to MCL 500.8105(1) and MCL 500.8114(2), and except as provided in paragraphs 5, 26, 27, and 28 of this Order, all Creditors of AIM are ENJOINED from:

- (a) Instituting or continuing to prosecute any actions or proceedings to determine, enforce, collect, or assert any claims against AIM, its assets, policyholders, insureds, members, officers, directors, or employees;
- (b) Instituting or continuing to prosecute any actions or proceedings to determine, enforce, collect, or assert any claims against the Rehabilitator or Special Deputy Rehabilitator, their agents, attorneys, employees, or representatives, or the State of Michigan and its officers, agencies, or

departments for claims or causes of action arising out of or relating to AIM or any proceedings under Chapter 81;

(c) Obtaining preferences, judgments, attachments, garnishments, or liens against AIM, its assets, policyholders, insureds, members, officers, directors, or employees;

(d) Levying of execution against AIM, its assets, policyholders, insureds, members, officers, directors, or employees; and

(e) Threatening or taking any other action that may lessen the value of AIM's assets or prejudice the rights of AIM's creditors as a whole, its policyholders, insureds, or members, or the administration of this rehabilitation proceeding.

24. Pursuant to MCL 500.8105(1)(g) and (k), all health care providers are hereby specifically enjoined and restrained from pursuing collection against, obtaining judgments against, and/or balance billing of AIM's policyholders, insureds, or members for health care goods provided or services rendered prior to the date of this Order. All health care providers that provided such goods or rendered such services prior to the date of this Order shall seek payment solely from AIM as an AIM Creditor, as defined in this Order and MCL 500.8103(b). The foregoing prohibition does not apply to any fees for health care goods or services that are not covered by and remain the policyholder's, insured's, or member's responsibility under his or her AIM insurance policy or applicable Michigan law.

25. Any person who violates an injunction issued in this matter shall be liable to the Rehabilitator, the policyholder/insured, or both, for the reasonable costs and attorney fees incurred in enforcing the injunction or any court orders related thereto and any reasonably foreseeable damages.

26. All Creditor claims against AIM are within the exclusive jurisdiction of this Court and will be determined, resolved, paid, and/or discharged, in whole or in part, according to the terms and conditions approved by the Court.

27. Any and all claims by Creditors against AIM must be raised or asserted within the rehabilitation proceeding before this Court and are subject to this Court's orders regarding the submission and determination of claims.

28. At the appropriate time and if necessary, the Rehabilitator shall develop a method for the submission, evaluation, and resolution of any unpaid Creditor claims for goods and services provided to AIM prior to the date of this Order.

29. Pursuant to MCL 500.8114(1), the Rehabilitator appoints James Gerber, the Director of Receiverships at DIFS, as Special Deputy Rehabilitator for AIM. Mr. Gerber shall serve at the pleasure of the Rehabilitator, who reserves the right to appoint other Special Deputy Rehabilitator(s) to replace and/or serve with Mr. Gerber in the future as the need arises. Subject to the supervision and direction of the Rehabilitator and this Court, Mr. Gerber shall have all the powers and responsibilities of the Rehabilitator granted under MCL 500.8114.

30. Pursuant to MCL 500.8114(1), the Rehabilitator has fixed the compensation of Mr. Gerber as follows, which this Court approves: Mr. Gerber shall be compensated as a salaried employee of DIFS and shall not receive any additional salary in his capacity as Special Deputy Rehabilitator for AIM. However, Mr. Gerber's expenses for travel, lodging, meals, and other expenses incurred in

connection with his appointment as Special Deputy Rehabilitator shall be paid out of the funds or assets of AIM as normal administrative expenses pursuant to paragraph 18 of this Order. Mr. Gerber will separately invoice and submit these expenses, which shall be reimbursed subject to State of Michigan reimbursement rates. If the Rehabilitator so elects in the future, he may allocate to AIM the pro rata portion of Mr. Gerber's salary, at the rate of \$86.43 an hour, attributable to the performance of his duties as Special Deputy Rehabilitator, which compensation shall be paid out of the funds or assets of AIM pursuant to MCL 500.8114(1). In the event that AIM does not possess sufficient cash or liquid assets to pay Mr. Gerber's expenses, or his salary if the Director makes the allocation election permitted by this paragraph, the Rehabilitator may advance the necessary funds, which shall be repaid out of the first available money of AIM pursuant to MCL 500.8114(1).

31. If AIM remains in rehabilitation, the Rehabilitator and Special Deputy Rehabilitator shall make an accounting to the Court of AIM's financial condition and progress towards rehabilitation on or before April 30, 2016. Thereafter, the Rehabilitator and Special Deputy Rehabilitator shall make a similar accounting to the Court each succeeding one-year period during which AIM remains in rehabilitation.

32. The Court reserves jurisdiction to amend this Order of Rehabilitation or issue such further orders as it deems just, necessary, and appropriate.

Ingham County
Circuit Court Judge

Stipulated and Agreed:

Christopher L. Kerr (P57131)
M. Elizabeth Lippitt (P70373)
Attorneys for Petitioner

Date

**AFFIRMATIVE INSURANCE
COMPANY OF MICHIGAN**

By: _____
Michael J. McClure

Date

Its: Board Director and President

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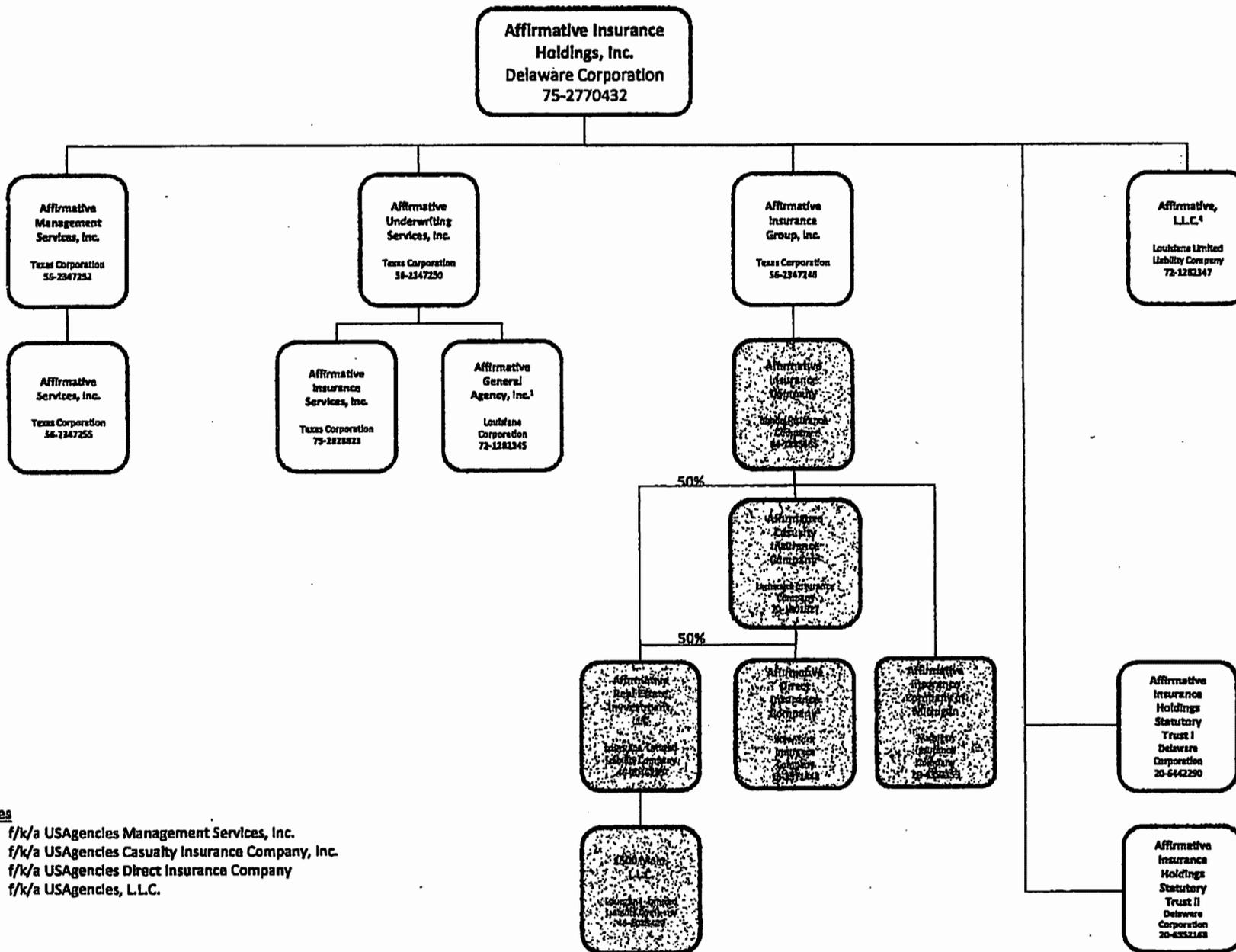
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Corporate Organizational Chart

Updated 7/01/2015



Notes

- (1) f/k/a USAgencies Management Services, Inc.
- (2) f/k/a USAgencies Casualty Insurance Company, Inc.
- (3) f/k/a USAgencies Direct Insurance Company
- (4) f/k/a USAgencies, L.L.C.

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

PEOPLE OF THE STATE OF ILLINOIS, *ex rel.*)
ANNE MELISSA DOWLING, ACTING DIRECTOR)
OF INSURANCE OF THE STATE OF ILLINOIS,)

Plaintiffs,)

v.)

AFFIRMATIVE INSURANCE COMPANY,)
an Illinois domestic property and casualty stock)
company,)

Defendant.)

2015CH13718
CALENDAR/ROOM 13
TIME 00:00
Injunction

NO.:

AGREED ORDER OF REHABILITATION

THIS CAUSE COMING TO BE HEARD upon the Verified Complaint for Rehabilitation filed herein by THE PEOPLE OF THE STATE OF ILLINOIS, upon the relation of ANNE MELISSA DOWLING, Acting Director of Insurance of the State of Illinois (the "Director"), seeking an Order of Rehabilitation as to and against Affirmative Insurance Company ("Affirmative") pursuant to the provisions of Article XIII of the Illinois Insurance Code (the "Code"), 215 ILCS 5/187 *et seq.* ("Article XIII"); 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 Hereby Finds That:

A. Sufficient cause exists for the entry of an order for rehabilitation of the Defendant, Affirmative, including that a majority of the Board of Directors of Affirmative has approved a resolution consenting to the entry of an Agreed Order placing Affirmative into rehabilitation pursuant to the provisions of Article XIII; and

B. Pursuant to Section 191 of the Code, 215 ILCS 5/191, this Agreed Order creates an estate comprising of all of the liabilities and assets of Affirmative; and

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

(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 Affirmative; and

(ii) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Rehabilitator is entitled to immediate possession and control of all property, contracts, and rights of action of Affirmative; and

(iii) Pursuant to Section 191 of the Code, 215 ILCS 5/191, the Rehabilitator is authorized to remove any and all records and property of Affirmative to her possession

and control or to such other place as may be convenient for purposes of the efficient and orderly administration of the rehabilitation of Affirmative; and

(iv) Pursuant to Section 192(2) of the Code, 215 ILCS 5/192(2), the Rehabilitator is authorized to deal with the property, business and affairs of Affirmative in her name, as Director; and

(v) Pursuant to Section 192(2) of the Code, 215 ILCS 5/192(2), the Rehabilitator, without the prior approval of the Court, is authorized to sell or otherwise dispose of any real or personal property of Affirmative, or any part thereof, and to sell or compromise all debts or claims owing to Affirmative having a value in the amount of Twenty-Five Thousand (\$25,000.00) Dollars, or less. Any such sale by the Rehabilitator of the real or personal property of Affirmative having a value in excess of Twenty-Five Thousand (\$25,000.00) Dollars, and sale or compromise of debts owing to Affirmative by the Rehabilitator where the debt owing to Affirmative exceeds Twenty-Five Thousand (\$25,000.00) Dollars shall be made subject to the approval of the Court; and

(vi) Pursuant to Section 192(2) of the Code, 215 ILCS 5/192(2), 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 a company in rehabilitation in a manner consistent with subsection (4) of Section 193 of the Code, 215 ILCS 5/193(4); and

(vii) Pursuant to Section 192(3) of the Code, 215 ILCS 5/192(3), the Rehabilitator is authorized to bring any action, claim, suit or proceeding against any person with respect to that person's dealings with Affirmative including, but not limited to, prosecuting any action, claim, suit, or proceeding on behalf of the policyholders, claimants, beneficiaries or creditors of Affirmative; 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, claimants, beneficiaries, and creditors to effect a plan of 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 rehabilitation 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 the rehabilitation order was entered; and

(x) Subject to the provisions of Section 202 of the Code, 215 ILCS 5/202, the Rehabilitator 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 respective assets of Affirmative, all administrative expenses incurred during the course of the rehabilitation of Affirmative; 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 Illinois Insurance 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 the property of Affirmative and to recover such property or its value, if it has been converted, except for payments made in the ordinary course of business or payments made pursuant to 215 ILCS 5/204(m)(C).

D. This Agreed Order of Rehabilitation affirming Anne Melissa Dowling, Acting Director of Insurance of the State of Illinois, and her successors in office as Rehabilitator of Affirmative is an interlocutory appealable order as of right pursuant to Illinois Supreme Court Rule 307.

It Is Hereby Ordered That:

1. The Agreed Order of Rehabilitation prayed for herein is entered as, to and against Affirmative.

2. There being no just reason for delaying enforcement or appeal of the Agreed Order prayed for herein, the Agreed Order of Rehabilitation is a final order within the meaning of Illinois Supreme Court Rule 307(a)(5).

3. Anne Melissa Dowling, Acting Director of Insurance of the State of Illinois, and her successors in office, is affirmed as the statutory Rehabilitator (the "Rehabilitator") of Affirmative, with all of the powers appurtenant thereto.

4. All treaties, contracts and agreements of reinsurance, wherein Affirmative 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. All treaties, contracts and agreements of reinsurance wherein Affirmative was, or is, the assuming or retrocessional reinsurer are canceled on a cut-off basis, effective upon the entry of this Order of Rehabilitation; the foregoing notwithstanding, all treaties, contracts and agreements of reinsurance under which a direct or indirect subsidiary of Affirmative was the ceding company and Affirmative was the assuming company shall remain in full force and effect.

5. Subject to the further orders of the Court, the Rehabilitator is authorized to take such actions as the nature of the cause and the interests of Affirmative, and its policyholders, claimants, beneficiaries, creditors, or the public may require including, but not limited to, the following:

A. The Rehabilitator shall proceed to take immediate possession and control of the

property, books, records, accounts, business and affairs, and all other assets of Affirmative, and of the premises occupied by it for the transaction of its business, and may marshal and liquidate the assets, business and affairs of Affirmative pursuant to the provisions of Article XIII of the Code, *supra*, and the Rehabilitator is authorized to wind down and terminate the business and affairs of Affirmative, and to make the continued expenditure of such wages, rents and expenses as she may deem necessary and proper for the administration of the rehabilitation of Affirmative; and

B. The Rehabilitator may both sue and defend on behalf of Affirmative, or for the benefit of the policyholders, claimants and other creditors of Affirmative, in the courts either in her name as the Rehabilitator of Affirmative, or in the name of Affirmative, as the case may be.

6. The Director is vested with the right, title and interest in all funds recoverable under contracts, treaties, certificates, and agreements of reinsurance heretofore entered into by or on behalf of Affirmative, and that all reinsurance companies involved with Affirmative are restrained and enjoined from making any settlements with any claimant or policyholder of Affirmative, or any other person, other than the Director as Rehabilitator, except with the written consent of the Director, except when the reinsurance contract, treaty, certificate, or agreement expressly and lawfully provides for payment by the reinsurer directly to a claimant or policyholder on the behalf of Affirmative.

7. Any acts or omissions of the Rehabilitator in connection with the rehabilitation,

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 policyholder, claimant, beneficiary, third party or creditor to receive a greater percentage of debt owed to or by Affirmative than any other policyholder, claimant, member, third party or creditor in the same class.

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

**“IN THE MATTER OF THE REHABILITATION OF
AFFIRMATIVE INSURANCE COMPANY”**

9. All costs of the proceedings prayed for herein shall be taxed and assessed against the Defendant, Affirmative.

10. Pursuant to its authority under Section 189 of the Code, 215 ILCS 5/189, the Court hereby issues the following mandatory and prohibitive injunctions:

A. All accountants, auditors and attorneys of Affirmative are ordered to deliver to the Rehabilitator, at her request, copies of all documents in their possession or under their control concerning or related to Affirmative, and to provide the Rehabilitator with such information as she may require concerning any and all business and/or professional relationships between them and Affirmative, and concerning any and all activities, projects, jobs and the like undertaken and/or performed by them at the request of Affirmative, or their agents, servants, officers, directors and/or employees, or which Affirmative may be, or are, entitled to as the result of its relationship with such

accountants, auditors and attorneys; and

B. Affirmative and its directors, officers, agents, servants, representatives, employees, and affiliated companies, and all other persons and entities, shall give immediate possession and control to the Rehabilitator of all property, business, books, records and accounts of Affirmative, and all premises occupied by Affirmative for the transaction of its business; and

C. Affirmative and its officers, directors, agents, servants, representatives and employees, and all other persons and entities having knowledge of this Agreed Order are restrained and enjoined from transacting any business of Affirmative, or disposing of any company property or assets, including books, records and computer and other electronic data, without the express written consent of the Rehabilitator, or doing or permitting to be done any action which might waste the property or assets of Affirmative, until the further order of this Court; and

D. The officers, directors, agents, servants, representatives and employees of Affirmative, and all other persons and entities having knowledge of this Agreed Order are restrained and enjoined from bringing or further prosecuting any claim, action or proceeding at law or in equity or otherwise, whether in this State or elsewhere, against Affirmative, or its property or assets, or the Director or Rehabilitator, except insofar as those claims, actions or proceedings arise in or are brought in these rehabilitation 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 Affirmative, or its property or assets while in the possession and control of the Rehabilitator, or from interfering in any way with the Rehabilitator in her possession or control of the property, business, books, records, accounts, premises and all other assets of Affirmative, until the further order of this Court; and

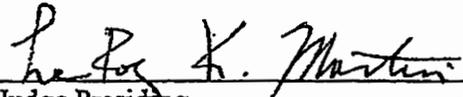
E. Any and all banks, brokerage houses, financial institutions and any and all other companies, persons or entities having knowledge of this Agreed Order having in its possession accounts and any other assets which are, or may be, the property of Affirmative, are restrained and enjoined from disbursing or disposing of said accounts and assets unless otherwise authorized or approved by the Rehabilitator and are further restrained and enjoined from disposing of or destroying any records pertaining to any business transaction between Affirmative, and such banks, brokerage houses, financial institutions, companies, persons or entities having done business, or doing business, with Affirmative, or having in their possession assets which are, or may be, the property of Affirmative, and further, that each such person or entity is ordered to immediately deliver any and all such assets and/or records to the Rehabilitator, and

F. All insurance and reinsurance companies and entities that assumed liabilities from Affirmative arising under either contracts, policies of insurance, certificates of insurance, or agreement, contracts, treaties or certificates of reinsurance issued by Affirmative, are restrained and enjoined from making any settlements with any claimant or policyholder

of Affirmative, or any other person other than the Rehabilitator, except with the written consent of the Rehabilitator, except when the reinsurance agreement, contract, treaty, or certificate expressly and lawfully provides for payment to or on the behalf of Affirmative' insured by the reinsurer.

11. The Court retains jurisdiction in this cause for the purpose of granting such other and further relief as the nature of this cause and the interests of Affirmative, its policyholders, beneficiaries, members and creditors, or of the public, may require and/or as the Court may deem proper in the premises.

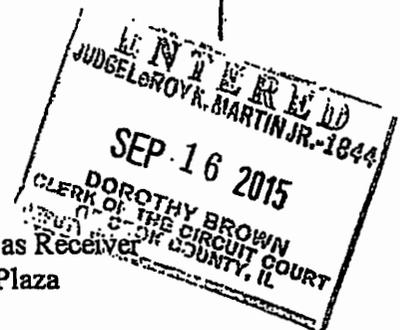
ENTERED:


Judge Presiding

Lisa Madigan
Attorney General Of
The State of Illinois
Attorney for the PEOPLE OF
THE STATE OF ILLINOIS
Phillip Bullimore
Assistant Attorney General
James R. Thompson Center
100 West Randolph Street, 13th Floor
Chicago, Illinois 60601
(312) 814-3671
Attorney Code #99000

Of Counsel:

J. Kevin Baldwin
Daniel A. Guberman
Counsel to the Director as Receiver
222 Merchandise Mart Plaza
Suite 960
Chicago, IL 60654
(312) 836-9500
Attorney Code #16819



Affirmative Insurance Company

- Affirmative experienced significant reserve increases in late 2014.
- Affirmative had developed a Plan to improve surplus with the sale of assets. However, the proceeds from the sale of assets were not sufficient to cover the additional reserve increases that were needed in 2015.
- Affirmative Insurance Company filed its June 2015 Quarterly Statement with policyholders' surplus of \$2,491,146 which was an 89% decrease in Policyholders' surplus from December 31, 2014.
- The significant reduction in surplus required immediate regulatory action.
- The Illinois Department of Insurance obtained from Affirmative's Board members their consent to place Affirmative into Rehabilitation.
- On September 16, 2015, an Order of Rehabilitation was issued by the Cook County Court in Illinois.
- Under an Order of Rehabilitation, the Director of Insurance becomes Rehabilitator of an insurance company and, as Rehabilitator, is vested with title to the company's property, assets, rights of action or lawsuits, books, records and premises. Rehabilitation can be used as a mechanism by which the Rehabilitator tries to restructure or run-off the company's business.
- Until further notice, Affirmative's existing insurance policies will remain in-force through the expiration of the current term, unless the policy is otherwise cancelled or non-renewed in accordance with applicable state law. For additional information about the renewal of existing insurance policies, policyholders should contact their agent at (866) 859-6408 or www.myaffirmativeinsurance.com
- Affirmative will not issue any new policies of insurance.
- The Rehabilitator is working with Affirmative's insurance producers and agents to provide for an orderly transition of its policyholders to new insurance companies.
- Until further notice, all insurance claims will continue to be paid in the ordinary course of business.

September 17, 2015

Office of the
Special Deputy Receiver
Representing Anne Melissa Dowling
Acting Director of Insurance
State of Illinois

222 Merchandise Mart Plaza
Suite 960
Chicago, Illinois 60654
312/836-9500
312/836-1944 FAX
www.osdchi.com

Writer's Direct Line:
X

Affirmative Insurance Company, In Rehabilitation FAQ's

On September 16, 2015 an Agreed Order of Rehabilitation was entered on behalf of Affirmative Insurance Company, (AIC) by the Circuit Court of Cook County, Illinois. Anne Melissa Dowling, the Acting Director of Insurance for the State of Illinois was appointed Rehabilitator of (AIC) and directed to take possession and control of the property, books, records, assets, business and affairs of the Company. The case number for this action is **15 CH 13718**.

The Director of Insurance has appointed a Special Deputy who will be responsible for the day- to-day operations of Affirmative Insurance Co. through the Office of the Special Deputy Receiver.

Q. What is Rehabilitation?

A. An Order of Rehabilitation allows the Director of Insurance to restructure an insurance company's business. The Director is vested with title to the company's property, assets, rights of action or lawsuits, books, records and premises. **The coverage of claims will continue under an Order of Rehabilitation.**

Q. Will my claim be paid?

A. Until further notice, all claims will be reported and paid per their usual course. At this time, all claims are being paid at 100% of the authorized settlement or payment.

Q. What if I have an accident?

A. Continue to report all new losses to Affirmative Insurance Company or your agent.

Q. Will my policy remain in force?

A. If your premium is current and your policy has not been cancelled or non-renewed for any other reason your policy will remain in force through its' current expiration date.

As of September 16, 2015, Affirmative is **not** issuing any new policies.

Any questions regarding **renewals** direct the insured to their agent at **866-859-6408** or www.myaffirmativeinsurance.com.

AIC wrote business in 9 states:

Alabama, Arizona, California, Georgia, Illinois, Indiana, Louisiana, Missouri, and Texas

At one time, AIC was licensed in 15 states so there may be claims pending in states in addition to those noted above.

For a complete copy of the Rehabilitation Order, go to our website at www.osdchi.com.

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PROPERTY AND CASUALTY COMPANIES - ASSOCIATION EDITION

QUARTERLY STATEMENT

AS OF JUNE 30, 2015

OF THE CONDITION AND AFFAIRS OF THE

AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN

NAIC Group Code 3596 3596 NAIC Company Code 12569 Employer's ID Number 204352159
FICR# P:01

Organized under the Laws of Michigan, State of Domicile or Port of Entry MI

Country of Domicile United States of America

Incorporation/Organization 02/14/2008 Commenced Business 05/08/2006

Statutory Home Office CSC Lawyers Incorporating Service Company, 601 Abbot Road East Lansing, MI, US 48823
(Street and Number) (City or Town, State, Country and Zip Code)

Main Administrative Office 4450 Sojourn Drive, Suite 500
(Street and Number) 972 728 6300
Acetson, TX, US 75001 5094 (Area Code) (Telephone Number)
(City or Town, State, Country and Zip Code)

Mail Address P.O. Box 9030 Acetson, TX, US 75001 9030
(Street and Number or P.O. Box) (City or Town, State, Country and Zip Code)

Primary Location of Books and Records 4450 Sojourn Drive, Suite 500
(Street and Number) 972 728 6300
Acetson, TX, US 75001 5094 (Area Code) (Telephone Number)
(City or Town, State, Country and Zip Code)

Internet Website Address www.affirmative.com

Statutory Statement Contact Flem Chan 972 728 6300
(Name) (Area Code) (Telephone Number)
FChan@Affirmative.com 877 219 7528
(E-mail Address) (FAX Number)

OFFICERS

President Michael John McClure # EVP, CFO and Treasurer Earl Russell Fonville
EVP and Secretary John Patrick Kibacky SVP and Chief Actuary Daniel David Schlemmer

OTHER

DIRECTORS OR TRUSTEES

Earl Russell Fonville John Patrick Kibacky Michael John McClure
Catherine A Witherspoon

State of Texas SS:
County of Dallas

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and execution therefrom for the period enclosed, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ, or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related contemporaneous electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Michael John McClure
President

John Patrick Kibacky
EVP and Secretary

Earl Russell Fonville
EVP, CFO and Treasurer

Subscribed and sworn to before me this 12th day of August, 2015

- a. Is this an original filing? _____ Yes [X] No []
b. If no,
1. State the amendment number _____
2. Date filed _____
3. Number of pages attached _____

Asta Wichmann Daniels
Sr. Accountant
January 27, 2016

STATEMENT AS OF JUNE 30, 2015 OF THE AFFIRMATIVE INSURANCE COMPANY OF MICHIGAN

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ _____) _____		
2. Reinsurance payable on paid losses and loss adjustment expenses _____		
3. Loss adjustment expenses _____		
4. Commissions payable, contingent commissions and other similar charges _____		
5. Other expenses (excluding taxes, licenses and fees) _____	744	699
6. Taxes, licenses and fees (excluding federal and foreign income taxes) _____		
7.1 Current federal and foreign income taxes (including \$ _____ on realized capital gains (losses)) _____	16,559	9,149
7.2 Net deferred tax liability _____	12	42
8. Borrowed money \$ _____ and interest thereon \$ _____		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ _____ and including warranty reserves of \$ _____ and accrued accident and health experience rating refunds including \$ _____ for medical loss ratio rebate per the Public Health Service Act) _____		
10. Advance premium _____		
11. Dividend declared and unpaid:		
11.1 Stockholders _____		
11.2 Policyholders _____		
12. Ceded reinsurance premiums payable (net of ceding commissions) _____	(1,002)	(1,226)
13. Funds held by company under reinsurance treaties _____		
14. Amounts withheld or retained by company for account of others _____		
15. Remittances and items not allocated _____		
16. Provision for reinsurance (including \$ _____ certificate) _____		
17. Net adjustments in assets and liabilities due to foreign exchange rates _____		
18. Drafts outstanding _____		
19. Payable to parent, subsidiaries and affiliates _____		280
20. Derivatives _____		
21. Payable for securities _____		
22. Payable for securities lending _____		
23. Liability for amounts held under uninsured plans _____		
24. Capital notes \$ _____ and interest thereon \$ _____		
25. Aggregate write ins for liabilities _____		
26. Total liabilities excluding protection cell liabilities (Lines 1 through 25) _____	16,319	9,913
27. Protection cell liabilities _____		
28. Total liabilities (Lines 26 and 27) _____	16,319	9,913
29. Aggregate write ins for special surplus funds _____		
30. Common capital stock _____	7,600,000	7,600,000
31. Preferred capital stock _____		
32. Aggregate write ins for other than special surplus funds _____		
33. Surplus notes _____		
34. Gross paid in and contributed surplus _____	1,600,000	1,600,000
35. Unassigned funds (surplus) _____	239,634	224,928
36. Less treasury stock, at cost:		
36.1 _____ shares common (value included in Line 30 \$ _____) _____		
36.2 _____ shares preferred (value included in Line 31 \$ _____) _____		
37. Surplus as regards policyholders (Lines 29 to 35, less 36) _____	9,239,634	9,224,928
38. Totals (Page 2, Line 28, Col. 3) _____	9,254,947	9,233,841
DETAILS OF WRITE-INS		
2501. _____		
2502. _____		
2503. _____		
2598. Summary of remaining write ins for Line 25 from overflow page _____		
2599. Totals (Lines 2501 through 2503 plus 2598 & Line 25 above) _____		
2901. _____		
2902. _____		
2903. _____		
2998. Summary of remaining write ins for Line 29 from overflow page _____		
2999. Totals (Lines 2901 through 2903 plus 2998 & Line 29 above) _____		
3201. _____		
3202. _____		
3203. _____		
3298. Summary of remaining write ins for Line 32 from overflow page _____		
3299. Totals (Lines 3201 through 3203 plus 3298 & Line 32 above) _____		

NOTES TO FINANCIAL STATEMENTS

C. Fair Values for All Financial Instruments by Levels 1, 2, 3

The table below reflects the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method (subsidiaries, joint ventures and ventures). The fair values are also categorized into the fair value three-level hierarchy as described above in Note 20A.

Type of Financial Instrument	Aggregate Fair Value	Admitted Value	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Financial Instruments – assets						-
Bonds:						-
U.S. Treasury & Govt Agencies	522,186	525,562	522,186			-
Corporate Debt Sec.	2,881,478	2,926,376		2,881,478		-
Cash, cash equivalents and short-term investments	2,867,713	2,867,713	2,867,713			-
Total Assets	6,271,376	6,319,651	3,389,898	2,881,478		
Financial Instruments – Liabilities						-
Total Liabilities						

D. Financial Instruments for which Not Practicable to Estimate Fair Value

Not applicable

23. Reinsurance

A. Unsecured Reinsurance Recoverables

The Company has unsecured reinsurance recoverables in excess of 3% of the Company's policyholder surplus as follows:

NAIC Code	Federal ID #	Name of Reinsurer	Amount
42609	34-1385465	Affirmative Insurance Company	\$ 1,574,027
	AA-9991159	Michigan Catastrophic Claims Assn.	23,287,937
10357	52-1952955	Platinum Underwriters Reinsurance Inc.	411,570
30058	75-1444207	SCOR Reinsurance Company	408,546

The Company cedes all its premiums and losses to AIC after cessions to other reinsurers pursuant to a Net Quota Share Reinsurance Contract.

The Michigan Catastrophic Claims Association (MCCA) is a reinsurance facility that covers no-fault medical losses above a specific retention amount. As a writer of personal automobile policies in the state of Michigan, the Company cedes premiums and claims to the MCCA.

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company does not have retroactively rated contracts or contracts subject to redetermination.

25. Change in Incurred Losses and Loss Adjustment Expenses

The company cedes 100% of its incurred losses and loss adjustment expenses to AIC and other reinsurers. The net change in incurred losses or loss adjustment expenses year to date as of June 30, 2015 was zero.

36. Financial Guaranty Insurance

The Company is not a financial guaranty insurer.