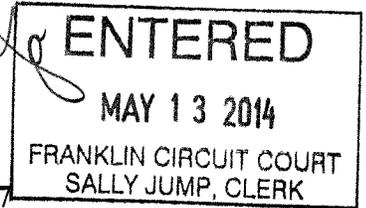


COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION II

CIVIL ACTION No. 13-CI-01282
CONSOLIDATED WITH 13-CI-01296 and 13-CI-01297



**SHARON P. CLARK, in her official capacity as
COMMISSIONER, KENTUCKY DEPARTMENT
OF INSURANCE**

PETITIONER

vs.

**KENTUCKY LEAGUE OF CITIES INSURANCE
SERVICES ASSOCIATION;
KENTUCKY LEAGUE OF CITIES, INC., et al.**

RESPONDENTS

ORDER APPROVING LOSS PORTFOLIO TRANSFER

Petitioner Sharon P. Clark, Commissioner of Insurance for the Commonwealth of Kentucky (the "Commissioner"), filed a Verified Petition for Rehabilitation (the "Petition") as against Kentucky School Boards Insurance Trust Workers' Compensation Self-Insurance Fund (the "Fund"). The Court considered the Petition, considered the Fund's consent to the Petition, and entered an order appointing the Commissioner and her successors in office as the Rehabilitator of the Fund.

KRS 304.33-160(5) authorizes the Rehabilitator to enter into plans for the reorganization, conversion, consolidation, reinsurance, merger, or other transformation of the Fund. Pursuant thereto, the Rehabilitator in the Petition moved this Court to approve a Loss Portfolio Transfer Agreement (the "LPT Agreement") with Kentucky Employers Mutual Insurance ("KEMI"). The Court has considered the Petition, has considered the proposed LPT Agreement, and has considered any and all opposition thereto.

IT IS ORDERED, ADJUDGED AND DECREED that:

1. The Rehabilitator's plan to enter into a LPT Agreement with KEMI is in the best interests of the Fund's policyholders, injured worker claimants, and the public.

2. The LPT Agreement, as described in the Petition and as attached to the Petition as Exhibit B, was properly prepared in accordance with KRS 304.33-160(5), which authorizes plans for reorganization, conversion, consolidation, reinsurance, merger, or other transformation of an insurer.

3. The Court approves the LPT Agreement and has determined and orders that all terms and conditions set forth therein are fair, reasonable, and in the best interest of the Fund's policyholders, injured worker claimants, and the public.

4. The Court approves the LPT Agreement and the terms and conditions thereof, including, *inter alia*:

(a) the transfer to KEMI of the workers' compensation Portfolio (as defined in the LPT Agreement) free and clear of all liens, claims and encumbrances of any kind, including all binders, contracts, certificates, and other obligations of the workers' compensation coverage issued by the Fund to its members prior to June 30, 2013 and identified in the LPT Agreement, together with the liability to pay all losses covered by the contracts of coverage to all Fund members as it may be limited by the LPT Agreement;

(b) the transfer and assignment to KEMI of all rights and interests of KSBIT and the Fund in all excess insurance policies and policies of reinsurance, irrespective of any restrictions or limitations contained in the excess insurance policies and policies of reinsurance respecting assignment or transfer thereof;

(c) the transfer of all accounting, actuarial and financial records, contract records, litigation files, claim files, other files, images, data, correspondence, books, documents and information of KSBIT and the Fund related to contracts of coverage, transferred claims, and excess insurance policies and policies of reinsurance;

(d) the payment to KEMI of \$35,000,000 (the "Transfer Payment") as contemplated by the LPT Agreement; and,

(e) the execution and delivery by the Rehabilitator and, as applicable, members of the Fund, of the Security Agreement, Memorandum of Understanding, and Installment Payment Agreements as contemplated by the LPT Agreement, including the granting of the security interests and liens by the Rehabilitator and Fund securing the payment of the

Transfer Payment and other obligations under the LPT Agreement to KEMI and the other terms and conditions of thereof.

5. The Court authorizes the Rehabilitator to execute and deliver the LPT Agreement, consummate the transactions contemplated by the LPT Agreement, and perform its obligations under the LPT Agreement, including execution and delivery of the additional agreements and documents contemplated thereby or that the Rehabilitator deems appropriate in connection therewith, the Rehabilitator being authorized to waive any conditions of the Rehabilitator's obligations and to take for itself and on behalf of the Fund such further actions as the Rehabilitator deems appropriate.

6. Following execution and delivery of the LPT Agreement by the Rehabilitator and KEMI, the Rehabilitator, the Fund, and KSBIT shall be bound to the terms and conditions of the LPT Agreement and the Rehabilitator shall perform its obligations thereunder, and KEMI shall not assume any liabilities or obligations of the Fund or KSBIT other than the "Assumed Liabilities" identified in the LPT Agreement and the Fund, and KSBIT shall retain all their other liabilities as contemplated by the LPT Agreement.

7. Pursuant to the Fund's Self-Insurance Agreements with its members, and pursuant to KRS 304.50-055, the Rehabilitator is to assess the Fund's members an aggregate amount necessary to pay the Transfer Payment to KEMI and to satisfy other liabilities and obligations of the Fund as the Rehabilitator deems appropriate.

IT IS THUS FURTHER ORDERED, ADJUDGED AND DECREED that:

8. The Rehabilitator's Assessment Plan, as described in the Petition and as attached to the Petition as Exhibit C, is fair and equitable and does not discriminate between the Fund's members. Accordingly, the Court approves the Assessment Plan.

9. The Rehabilitator is to levy the assessment against the members of the Fund as contemplated by the Assessment Plan; to permit the financing of the assessment payable by individual school districts as contemplated by the LPT Agreement, the form of Installment Payment Agreement attached to the LPT Agreement being hereby authorized and approved; and, to pursue diligently the collection of all assessment payments hereby authorized and directed by the Assessment Plan. If the actual collections of the assessment contemplated by the Assessment Plan are insufficient to satisfy in full the Transfer Payment and all liabilities of the Fund, including administrative expenses to administer the Fund, the Rehabilitator shall, subject to the oversight of this Court, levy additional assessments on the members of the Fund in order to satisfy the Transfer Payment and other liabilities of the Fund.

10. If any assessed member of the Fund is more than three (3) days past due on any payment of the assessment, the Rehabilitator is to commence collection of such past due installment payment pursuant to KRS 304.50-055 and KRS 160.160(5) by the intercept of any payment due to such member from the Commonwealth of Kentucky (the "Intercept").

11. The Intercept is a lawful and proper mechanism to ensure payment of the Fund's members' assessment liabilities and to ensure payment of the assessment to the Rehabilitator and payment of the Transfer Payment to KEMI. In furtherance thereof, all instrumentalities of the Commonwealth involved in the allocation or delivery of payments due to a member of the Fund, including the Kentucky Department of Education and the Kentucky Finance and Administration Cabinet, are directed to effectuate the Intercept and remit the same to the Rehabilitator.

12. Upon receipt of funds from such Intercept, the Rehabilitator is to deposit the funds into a deposit account(s) (the "Account(s)") established pursuant to the LPT Agreement,

and thereafter remit such funds to KEMI as contemplated by the LPT Agreement and its related agreements.

13. The Rehabilitator is authorized to execute and deliver the Security Agreement (the "Security Agreement") as contemplated by the LPT Agreement. Upon execution and delivery of the Security Agreement, the filing of a financing statement with the Kentucky Secretary of State, and entering into a control agreement (the "Control Agreement"), as contemplated by the LPT Agreement with the depository and KEMI, KEMI shall have a valid and enforceable first and prior security interest and lien under applicable Kentucky law in the collateral described in the Security Agreement, including the assessment receivable and all future assessment receivables of the Fund, the Installment Payment Agreements, the Account(s) and all proceeds thereof, to secure payment of the Transfer Payment and the Rehabilitator's and the Fund's other obligations under the LPT Agreement.

14. If the Fund becomes subject to any liquidation proceeding under Subtitle 33 of KRS Chapter 304, the Transfer Payment will be deemed an administrative cost and expense of, and secured claim against, the Fund.

15. The Workers' Compensation Funding Commission's special funding assessment pursuant to KRS 342.122 shall apply to the assessment and be paid by the Rehabilitator to the Workers' Compensation Funding Commission as required by law, but the Transfer Payment paid to KEMI under the LPT Agreement, shall not be subject to such special funding assessment and neither KEMI nor the Fund shall owe any special funding assessment on the Transfer Payment.

16. The Court retains jurisdiction to issue such further orders as it may deem appropriate.

Dated: 5/13/2014

**Signature on file with
original document**

Judge, Franklin Circuit Court

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was mailed, this 13 day of May, 2014, to the following:

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original document*

Sally Jump, Franklin County Circuit Court Clerk