

ROLE OF MICHAEL T. MCRAITH, DIRECTOR OF THE ILLINOIS DIVISION OF INSURANCE, IN THE AUTOMOTIVE PROFESSIONAL, INC'S BANKRUPTCY CASE PENDING IN THE NORTHERN DISTRICT OF ILLINOIS, CASE NO. 07 B 6720

On March 2, 2007, before API commenced its Chapter 11 bankruptcy case, Michael T. McRaith (the "Director"), Director of the Illinois Division of Insurance, filed a complaint in Illinois state court seeking authorization to conserve the assets API for the benefit of its consumers pursuant to the provisions of the Illinois Insurance Code. In the state court proceeding, the Director obtained an interim order appointing the Director as conservator of API's assets ("Order of Conservation"). After the entry of the Order of Conservation, API filed for relief under Chapter 11 of the Bankruptcy Code. Since the commencement of API's bankruptcy case, the Director has contested both API's eligibility as a debtor under the Bankruptcy Code, and the jurisdiction of the Bankruptcy Court over API's assets.

The Bankruptcy Court has not accepted the Director's arguments. Rather than dismissing API's bankruptcy case, as requested by the Director, the Bankruptcy Court appointed Frances Gecker, an independent third-party, as Chapter 11 trustee of API's bankruptcy estate, and ordered the Director to turn over all of API's assets in his possession to the Trustee. The Director's request to appeal the Bankruptcy Court's orders were denied by the District Court. The Director appealed the District Court's orders to the Seventh Circuit Court of Appeals.

Since her appointment, the Trustee has entered into several settlement agreements with car dealerships that provide for the release of certain reserve funds generated from the settling dealers' sale of API's vehicle service contracts ("VSCs"). Under such agreements, the reserve funds are used to purchase insurance contracts to cover repair and cancellation claims of consumers who had purchased VSCs from the settling dealers.

Some, but not all, of the Trustee's settlements provide for the payment of Guaranteed Price Refund ("GPR") Claims. In the case of agreements that do not include GPR Claims, consumers wishing to assert such claims may file claims against API's bankruptcy estate pursuant to procedures that will be established at a later date.

The Director has filed objections to all of the Trustee's settlements with dealers, which objections have been overruled by the Bankruptcy Court. The Director appealed the Bankruptcy Court's orders approving the Trustee's settlements to the District Court.

In order to conserve assets for the benefit of API's consumers, the Director has elected to settle his disputes with the Trustee and dismiss his appeals described above. In connection with the Director's settlement with the Trustee, the Trustee has agreed that certain additional notice will be provided to API's consumers in connection with the Trustee's settlements with dealers and in connection with any liquidating plan proposed by the Trustee in API's bankruptcy case. Such notice will include information regarding the effect of API's bankruptcy case, any proposed settlement and any proposed liquidating plan on the rights of consumers holding API VSCs.

The Director is not a party to, and has not approved the content of, any of the Trustee's settlements with dealers.