

Colonial Insurance Company, in Rehabilitation  
140 Public Square, Cleveland, Ohio 44114

January 28, 2004

To: **All Policyholders, Agents and Other Interested Parties of Colonial Insurance Company, In Rehabilitation**

In my last letter I explained that Colonial Insurance Company ("Colonial") is in rehabilitation and that a proposed Rehabilitation Plan (the "Plan") had been filed with the Court overseeing Colonial's rehabilitation. On January 20, the Court conducted a status conference in regard to the rehabilitation and this letter explains the Court's direction at that status conference.

Since the Plan was filed with the Court, and most particularly since my last letter, some of the policyholders and others have contacted us with questions about the Plan. Additionally, the attorneys representing the plaintiffs in the pending class action against Colonial have also had questions and comments regarding the Plan. In light of all this, we filed an addendum with the Court clarifying some of the provisions in the Plan. Specifically, the addendum indicates the following:

1. In the event that all of the claims are ultimately paid by Colonial as contemplated under the Plan and additional assets remain to be distributed to the policyholders of Colonial, the addendum confirms that the convalescent care policyholders who have current policies as of the date of approval of the Plan and any terminated convalescent care policyholders who file a claim in the class action will have the right to intervene in the rehabilitation to seek a portion of surplus assets.
2. The addendum will clarify that the Rehabilitator would prefer to avoid assessment of Colonial's policyholders and that her proposed Rehabilitation Plan attempts to meet all of Colonial's obligations without any assessment of Colonial's policyholders.
3. If the Rehabilitator is able to obtain a new provider for the Medicare Supplement policies, to the extent that there is a profit from the sale of this business to the new provider, Colonial will include that profit with its other assets to be used for the benefit of all remaining policyholders.
4. The addendum will modify the Plan in regard to the directors and officers' liability to the class action plaintiffs. Currently, the Plan provides that the directors and officers will be released from all liability in that case. The addendum will state that the directors and officers will not be released from liability, but the class action plaintiffs will not pursue the personal assets of the directors and officers in collection of any judgment that they might obtain against them.

This addendum, as it has been filed with the Court, is available on the Rehabilitator's website at [www.ohinsliq.com](http://www.ohinsliq.com). Additionally, you can call or write the Rehabilitator's office to request a copy.

The Court has set a scheduling order for consideration of the Plan and this addendum. **Specifically, the Court has ordered that any objections to the Plan, including the addendum, must be filed in writing with the Court on or before February 10, 2004.** The Court's address is: 369 South High Street, Columbus, Ohio 43215. A copy of any such objection should also be mailed to the Rehabilitator's attorney, Valoria Hoover at Kohrman, Jackson & Krantz P.L.L., One Cleveland Center, 20<sup>th</sup> Floor, 1375 East Ninth Street, Cleveland, Ohio 44114-1793. The Rehabilitator will have until February 17, to respond to any such objections and the Court will then take the matter under advisement for ruling.

As Rehabilitator, we believe that this Plan of rehabilitation is in the best interest of all policyholders through protection of existing coverage. We look forward to the Court reviewing and approving this Plan and to moving forward with the protections provided for in the Plan. If you have any questions or concerns regarding this, please feel free to contact us through our website, or by mail addressed to the Office of the Chief Deputy Rehabilitator for Colonial Insurance Company, 1366 Dublin Road, Columbus, Ohio 43215-1093, or by telephone at (614) 487-9200.

Very truly yours,



Douglas L. Hertlein  
Chief Deputy Rehabilitator