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8 Proposed Attorney for
9 ARADIGM CORPORATION
10 Debtor and Debtor-in-Possession

11 UNITED STATES BANKRUPTCY COURT
12 NORTHERN DISTRICT OF CALIFORNIA, OAKLAND DIVISION

13 In re

14 ARADIGM CORPORATION

CASE NO. 19-40363 WJL

Chapter 11

**CHAPTER 11 STATUS CONFERENCE
STATEMENT**

Date: March 27, 2019
Time: 10:30 a.m.
Judge: William J. Lafferty

16
17 Aradigm Corporation, as debtor and debtor in possession (the “Debtor”) in the above-
18 captioned chapter 11 case (the “Chapter 11 Case”), hereby submits its Chapter 11 Status Conference
19 Statement pursuant to the Order and Notice of Chapter 11 Status Conference (dkt no. 6):

20 1. The Factors Leading To This Bankruptcy Filing, The Debtor's Objectives In This
21 Chapter 11 Case, And The Means Proposed To Achieve Those Objectives:

22 A. Factors Leading to Bankruptcy Filing.

23 The Debtor is a publicly traded emerging specialty pharmaceutical company focused on the
24 development and commercialization of products for the treatment and prevention of severe
25 respiratory diseases. The Debtor has concentrated on the development of drug delivery
26 technologies, particularly the development of respiratory drug delivery. The Debtor's lead product
27 candidates are proprietary formulations of the potent antibiotic ciprofloxacin that are delivered by
28 inhalation for the management of infections associated with the severe respiratory diseases of cystic

1 fibrosis, non-cystic fibrosis bronchiectasis ("NCFBE") or infections with non-tuberculous
2 mycobacteria.

3 The Debtor's inhaled ciprofloxacin formulation ("Ciprofloxacin DI") for the treatment of
4 NCFBE patients with chronic lung infection with *P. aeruginosa* recently completed two Phase 3
5 trials. In July 2017, the Debtor submitted a New Drug Application ("NDA") to the Federal Drug
6 Administration ("FDA") for Ciprofloxacin DI. In January 2018, the FDA sent a Complete Response
7 Letter ("CRL") stating that it cannot approve the NDA in its present form.

8 During the course of 2018 the Debtor had a meeting with the FDA to understand if a new
9 submission under the Limited Pathway for Antimicrobial Drugs would be possible. The Debtor
10 addressed all issues stated in the CRL and requested another meeting with the FDA. That meeting
11 was held on January 25, 2019. At that meeting, the FDA reiterated the position taken in the CRL
12 requesting that the Debtor conduct an additional Phase 3 trial. The Debtor estimates that a Phase 3
13 trial will cost approximately \$75 million. The Debtor remains confident in the efficacy, safety and
14 quality of Ciprofloxacin DI and is committed to continue working on the approval of Ciprofloxacin
15 DI in the US for NCFBE patients who have very severe disease with high morbidity and mortality
16 and no available treatment options.

17 In March 2018, the Debtor submitted a marketing authorization application ("MAA") to the
18 European Medicines Agency ("EMA"), seeking approval for Ciprofloxacin DI for the treatment of
19 NCFBE patients with chronic lung infection with *P. aeruginosa*. The EMA is currently reviewing
20 the MAA for Ciprofloxacin DI according to standard timelines.

21 The Debtor continues to seek regulatory approval of Ciprofloxacin DI formulation to treat
22 NCFBE patients. However, the Debtor has limited operating income and relies on investor capital to
23 fund its operations and its research, development and regulatory effort. Addressing the delays the
24 Debtor has experienced obtaining regulatory approval and the FDA's request for an additional Phase
25 3 trial will require significant expenditures by the Debtor on additional research and development
26 and regulatory activities, but the Debtor lacks the capital to fund these expenditures. The Debtor's
27 principal funding partner, Grifols, S.A. ("Grifols"), indicated that it was unwilling to fund the new
28 Phase 3 trial requested by the FDA and was unwilling to continue to fund the Debtor. The Debtor

1 therefore determined to seek a buyer for its assets and filed this Chapter 11 case in order to conserve
2 its cash resources and to pursue a sale of its assets.

3 The Debtor's directors and officers insurance policy was scheduled to expire by its terms on
4 February 15, 2019. The Debtor received a quote to renew the policy for an additional one year term
5 for a premium of approximately \$1.3 million, which was approximately 40% of the Debtor's cash
6 on hand at that time. If the Debtor did not renew the policy, the members of its board of directors
7 likely would resign. Thus, the Debtor had the choice of purchasing the D&O policy, which would
8 leave it with little cash and therefore limited runway to pursue a sales process for its assets, or to
9 allow the policy to lapse, which would probably result in the resignation of the Debtor's Board but
10 would leave the Debtor with a longer runway to pursue a sale. The Debtor determined that it was
11 not in the best interests of its creditors and shareholders to purchase the D&O policy and therefore
12 allowed the policy to expire. As expected, the Debtor's Board, after authorizing the filing of a
13 Chapter 11 case, resigned and the Debtor filed this Chapter 11 case.

14 B. The Debtor's Objectives and the Means to Pursue Them.

15 The Debtor's objective in this Chapter 11 case is to pursue a sale of its assets. The
16 complicating factor is the Debtor's relationship with Grifols. Grifols is the Debtor's largest
17 shareholder, holding approximately 48% of the Debtor's stock, and its largest creditor, with a claim
18 based on notes and convertible notes of approximately \$35 million. In addition, Grifols and the
19 Debtor are parties to a License and Collaboration Agreement (the "Grifols License").

20 In broad terms, the Grifols License distinguishes between the right to pursue regulatory
21 approval of the Debtor's inhaled liposomal ciprofloxacin formulations and to manufacture such
22 product, on the one hand, and the right to commercialize the product once approved on the other. In
23 the Grifols License, the Debtor granted to Grifols an exclusive worldwide license to commercialize
24 the product as well as all liposomal ciprofloxacin products for various indications, in return for
25 certain milestone payments and a royalty stream once the product was commercialized, while the
26 Debtor retained the exclusive right to pursue regulatory approval and to manufacture the product.

27 Because Grifols controls the commercial rights to the product, the Grifols License puts
28 Grifols in the position of a gatekeeper. The Debtor's options appear to be to pursue a sale of its

1 development and manufacturing rights to a party willing to purchase those rights subject to Grifols'
2 rights under the Grifols License, or to pursue in coordination with Grifols a sale of both Grifols' and
3 the Debtor's rights to the product, and perhaps other options. Whether any party will be interested in
4 acquiring the Debtor's rights to the product without also acquiring the commercial rights from
5 Grifols is uncertain.

6 The Debtor is evaluating the most prudent way to market and sell its assets. The Debtor has
7 interviewed three investment banks and has received proposals from each of them to represent the
8 Debtor in a sale process. The Debtor is analyzing whether to retain an investment banker and, if so,
9 which one. Additionally, the Debtor is aware that there are at least four parties that have already
10 expressed interest in acquiring the rights to the product.

11 The Debtor has also been in discussions with its second largest stakeholder, First Eagle
12 Investment Management, regarding a DIP loan. First Eagle is the Debtor's second largest
13 shareholder, holding approximately 26% of the Debtor's stock, and its second largest creditor, with
14 a claim based on notes and convertible notes of approximately \$4.4 million. The proceeds of the
15 DIP loan would be used to fund additional runway for a sales process as well as to fund the fees of
16 an investment bank, if one is retained.

17 2. A Proposed Schedule For Filing A Plan And Disclosure Statement, And For
18 Confirmation Of The Proposed Plan.

19 The Debtor believes that the sale process should be completed before filing a plan of
20 reorganization and disclosure statement. If the sales process is unsuccessful, the Debtor will likely
21 convert its case to a case under Chapter 7. The Debtor estimates that the sale process will take three
22 to four months to complete. If the process is successful, the Debtor should be able to file a plan
23 promptly after the sale is completed. The Debtor submits that there is no point in spending
24 administrative expenses on a plan process until it is known whether the sales process will be
25 successful.

26 3. An Outline Of The Proposed Plan.

27 The Debtor is unable to outline a plan of reorganization with any specificity at this time.
28 Whether a plan is possible will not be known until the sales process is complete, and the structure of

1 the plan will turn upon the form of the consideration the Debtor receives in a sale. If the sale is a
2 cash transaction, the Debtor anticipates a simple pot plan structure. If the consideration takes a
3 different form, the plan structure may have to change as well.

4 4. The Type, Status And Adequacy Of Insurance Coverage For The Debtor's Assets.

5 The Debtor's current insurance certificates are attached as Exhibit 1. The Debtor submits
6 that the coverage amounts are adequate for the Debtor's business.

7 5. Retention Of Professionals.

8 On February 22, 2019 the Debtor filed its application to retain Jeffer Mangels Butler &
9 Mitchell LLP as its bankruptcy counsel. (Dkt. No. 14.) A hearing was held on the application on
10 March 6 and on March 8 counsel filed a supplemental declaration as requested by the Court. (Dkt.
11 No. 29.) The Application is pending.

12 The Debtor intends to file an application to retain Rose Ryan LLC for specialty accounting
13 services, Moss Adams LLC to prepare its tax returns, Sheppard Mullin Richter & Hampton LLP as
14 its trademark counsel and Bozicevic Field & Francis LLP as its patent counsel.

15 As described above, the Debtor has interviewed three investment banks and has received
16 proposals from each of them to represent the Debtor in a sale process. The Debtor is reviewing the
17 proposals and is analyzing whether to retain an investment banker and, if so, which one. If the
18 Debtor elects to proceed, the Debtor will file an application to retain an investment bank.

19 6. The Debtor's Post-Petition Operations, Revenue And Financial Results.

20 Since the Filing Date the Debtor has continued to pursue the regulatory approval process. In
21 particular, the Debtor has focused on the European approval process with EMA. As the Debtor is a
22 research and development company, these efforts generate little immediate revenue but do require
23 expenditures.

24 7. The Status Of Any Litigation Pending In Or Outside This Court.

25 The Debtor is not a party to any pending litigation at this time.

26 8. Attendance At The Meeting Of Creditors And Compliance With Requests For
27 Information From The US Trustee.

28 The meeting of creditors is April 8, 2019 at 1:30 p.m.

1 The IDI was held on March 6, 2019. Lisa Thomas and John Siebert attended on behalf of the
2 Debtor along with counsel. The Debtor has complied with all information requests from the US
3 Trustee.

4 9. The Status Of Monthly Operating Reports, DIP Accounts And Post-Petition
5 Payments To Taxing Authorities.

6 On March 15, 2019, the Court entered an order authorizing the Debtor combine the monthly
7 operating report for February 2019 with its March 2019 monthly operating report and to file a single
8 monthly operating report covering the period February 15 to March 31, 2019. (Dkt. No. 32.) This
9 report is due April 22 (because April 21 is a Sunday).

10 On March 8, 2019 the Court entered an order authorizing the Debtor to continue to use its
11 existing bank accounts on an interim basis pending a final hearing. (Dkt. No. 30.) The final hearing
12 is March 27, 2019.

13 All required post-petition payments to taxing authorities have been made.

14 10. Cash Collateral And Extensions Of Credit.

15 There is no party with a security interest in the Debtor's cash and therefore no cash collateral
16 issues. As described above, the Debtor has been in discussions with its second largest stakeholder,
17 First Eagle Investment Management, regarding a DIP loan. The proceeds of the DIP loan would be
18 used to fund additional runway for a sales process and to fund the fees of an investment bank, if one
19 is retained.

20 11. Relief from the automatic stay.

21 Not applicable.

22 12. Motions to assume or reject executory contracts or unexpired leases.

23 The Debtor intends to market the lease of its business premises. If a buyer is found, the
24 Debtor will seek to assume and assign the lease to that buyer. If no buyer is found, and depending
25 on the status of the sales process, the Debtor may seek to reject the lease.

26 The majority of the Debtor's executory contracts are related to the Debtor's efforts to obtain
27 regulatory approval of the Debtor's inhaled ciprofloxacin formulation. The disposition of those
28 contracts therefore depends upon the results of the Debtor's sales process.

EXHIBIT 1



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

03/14/2019

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Woodbury-Sawyer & Co 50 California St Fl 12 San Francisco CA 94111	CONTACT NAME:	
	PHONE (A/C, No, Ext): E-MAIL ADDRESS:	
INSURED Aradigm Corporation 3929 Point Eden Way Hayward CA 94545	INSURER(S) AFFORDING COVERAGE	NAIC #
	INSURER A:	
	INSURER B:	
	INSURER C:	
	INSURER D:	
	INSURER E:	
	INSURER F:	

COVERAGES

CERTIFICATE NUMBER:

REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:						EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMPI/OP AGG \$ \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS ONLY <input type="checkbox"/> NON-OWNED AUTOS ONLY						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE OED <input type="checkbox"/> RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$ \$
X	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N N	N/A	Y	UB-5J530506	09/30/2018 09/30/2019	PER STATUTE <input type="checkbox"/> OTH-ER <input type="checkbox"/> E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

CERTIFICATE HOLDER

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

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CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
03/01/2019

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

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PRODUCER Marsh USA Inc. Three James Center 1051 East Cary Street, Suite 900 Richmond, VA 23219	CONTACT NAME: PHONE (A/C, No, Ext): FAX (A/C, No): E-MAIL: ADDRESS:
CN103156917---2019	INSURER(S) AFFORDING COVERAGE INSURER A: Federal Insurance Company INSURER B: INSURER C: INSURER D: INSURER E: INSURER F:
INSURED Aradigm Corporation 3929 Point Eden Way Hayward, CA 94545	NAIC # 20281

COVERAGES

CERTIFICATE NUMBER:

CLE-006407076-01

REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:			35310940	06/01/2018	06/01/2019	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$
A	<input type="checkbox"/> AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS ONLY <input checked="" type="checkbox"/> NON-OWNED AUTOS ONLY			73210817	06/01/2018	06/01/2019	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE DED <input type="checkbox"/> RETENTION \$			79895050	06/01/2018	06/01/2019	EACH OCCURRENCE \$ 10,000,000 AGGREGATE \$ 10,000,000 \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N N	N/A				PER STATUTE <input type="checkbox"/> OTH-ER <input type="checkbox"/> E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Products Liability			99476777	06/01/2018	06/01/2019	Occurrence 12,000,000 Aggregate 12,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)
Evidence of Coverage

CERTIFICATE HOLDER

CANCELLATION

Aradigm Corporation 3929 Point Eden Way Hayward, CA 94545	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh USA Inc. <i>Manashi Mukherjee</i>
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ADDITIONAL REMARKS SCHEDULE

Page 2 of 2

AGENCY Marsh USA Inc.		NAMED INSURED Aradigm Corporation 3929 Point Eden Way Hayward, CA 94545	
POLICY NUMBER			
CARRIER	NAIC CODE	EFFECTIVE DATE:	

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
 FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

A Property Policy No. 35310940 Effective 6/1/2018 Expiration 6/1/2019

Premises 1 3929 Point Eden Way, Hayward, CA Personal Property Limit \$1,791,000 Deductible \$25,000
 Business Income Limit \$3,000,000

Premises 2 6925 Gulon Road, Indianapolis, IN Personal Property Limit \$1,035,164 Deductible \$25,000
 Business Income Limit \$ 500,000

Premises 3 5335 W 74th Street, Indianapolis, IN Personal Property Limit \$1,054,000 Deductible \$25,000

A Crime (ERISA) Policy No. 35310940 Effective 6/1/2018 Expiration 6/1/2019

Limit \$500,000 Deductible \$5,000

A International Package Policy No. 35310940 Effective 6/1/2018 Expiration 6/1/2019

Automobile - Hired and Non Owned Liability Limit \$1,000,000
 Medical Payment \$ 10,000

Workers Compensation

Bodily Injury By Accident - Each Accident \$1,000,000
 Bodily Injury By Disease - Aggregate \$1,000,000
 Bodily Injury By Disease - Each Employee \$1,000,000

Reparation Expenses Each Employee \$ 100,000
 Aggregate \$ 500,000

A Fiduciary Liability Policy No. 82498938 Effective 6/1/2018 Expiration 6/1/2019

Limit \$2,000,000

Carrier B Argonaut- Midwest Insurance Company

B Employment Practices Liability Policy No. ML4209143 Effective 6/1/2018 Expiration 6/1/2019

Limit \$2,000,000 Each Claim