

At IAS Part 3, Room 248 of the Supreme Court of the State of New York, County of New York at the Courthouse, 60 Centre Street, Borough of Manhattan, City and State of New York, on the 10 day of October 2007.

M. SA 133
Other

FOR THE COURT
OF MOTION

PRESENT:

HON. KARLA MOSKOWITZ,

024654

JUSTICE.

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Index No.: 41292/85

In the Matter of

**ORDER TO
SHOW CAUSE**

the Liquidation of

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK.

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Upon reading the annexed verified petition (the "Verified Petition") of Eric R. Dinallo, Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of Union Indemnity Insurance Company of New York ("Union"), by Mark G. Peters, Special Deputy Superintendent and Agent of the Liquidator, duly verified the 10th day of October, 2007, and the exhibits attached thereto, requesting the issuance of an order, *inter alia*, approving: (i) the Liquidator's Initial Report on the Status of the Liquidation of Union (the "Initial Report") and the financial transactions delineated therein; (ii) the establishment of November 15, 2007 as the bar date for presentment of all claims other than administrative costs and expenses; (iii) the payment of all administrative costs and expenses; (iv) a distribution, to the extent that assets are available after payment of all administrative costs and expenses and in accordance with the priorities set forth in Insurance Law Section 7434, to those the Liquidator creditors of

W U F E E

Union possessing allowed claims; and also requesting that the Court issue this Order to Show Cause approving: (i) a return date at least 45 days after the date of issuance of this Order to Show Cause for a hearing (the "Hearing") to be had before this Court on the petition; (ii) the form of notice to be given to Union's policyholders, claimants and creditors with allowed or unadjudicated claims and all other interested parties regarding the petition and the Hearing (the "Notice"); and (iii) the method of service of the Notice, *i.e.* by United States mail to Union's policyholders, claimants and creditors with allowed or unadjudicated claims and to all interested parties by publication in the *New York Times* and *Business Insurance* once a week for two consecutive weeks following the issuance of the Order to Show Cause;

LET all of Union's creditors with allowed or unadjudicated claims and all other interested parties or their attorneys show cause before this Court at an IAS Part 03 Room 248 thereof, at the Courthouse located at 60 Centre Street in the County, City and State of New York, on the 18 day of December, 2007 at NOON ~~6 o'clock in the~~ noon of said day, or as soon thereafter as counsel can be heard, why an order approving the Initial Report and granting the relief sought in the Verified Petition should not be issued;

AND, sufficient cause having been alleged therefor and the Court having found the form and method of notice specified herein to be the best notice practicable, it is hereby

ORDERED, that the Notice in the form annexed hereto be served: (i) by mailing same by United States mail at least 30 days prior to the scheduled Hearing date to all of Union's policyholders, claimants and creditors with allowed or unadjudicated claims; and (ii) to all interested parties by publication in the *New York Times* and

Business Insurance once a week for two consecutive weeks following the issuance of this Order to Show Cause; and it is further

ORDERED, that the form and method of notice specified herein shall constitute due and sufficient notice of this Order to Show Cause, the Verified Petition and the Hearing to all persons and entities entitled to receive such notice; and it is further

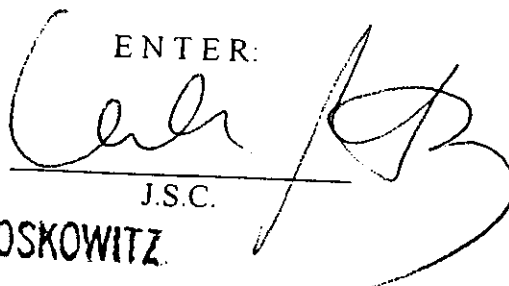
ORDERED, that any person or entity that wishes to object to the Verified Petition must serve a written statement setting forth the objections and all supporting documentation upon the Liquidator and the Clerk of the Court at least fifteen business days prior to the above-scheduled return date, service on the Liquidator to be made by first class mail to the following address:

The Superintendent of Insurance of the State of New York as
Liquidator of Union Indemnity Insurance Company of New York
123 William Street
New York, New York 10038-3889
Attention: Jack A. Franceschetti, Esq.

and it is further

ORDERED, that unless this Court otherwise directs, no person or entity will be entitled to object to the Verified Petition or otherwise be heard, except by serving and filing a written objection as described hereinabove, and that any person who fails to object in the manner herein provided shall be deemed to have waived any objections to the relief sought in the Verified Petition and shall be barred from raising objections in this or any other proceeding.

ENTER:


J.S.C.

KARLA MOSKOWITZ

**IN THE MATTER OF THE LIQUIDATION OF
UNION INDEMNITY INSURANCE
COMPANY OF NEW YORK
Supreme Court County of New York
Index No.: 41292/85**

NOTICE

On July 16, 1985, Union Indemnity Insurance Company of New York ("Union") was placed into liquidation and then-Superintendent of Insurance of the State of New York James P. Corcoran and his successors in office were appointed as Liquidator (the "Liquidator") of Union. Pursuant to the New York Insurance Law ("Insurance Law") and the Liquidation Order, the Liquidator was given the responsibility of, among other things, marshalling Union's assets and adjudicating claims consistent with Article 74 of the Insurance Law. The Liquidator has submitted to the court supervising Union's liquidation proceeding (the "Court") a verified petition (the "Verified Petition") seeking approval of: (i) the initial report on the status of Union's liquidation (the "Initial Report") and the financial transactions delineated therein; (ii) the establishment of November 15, 2007 as the bar date for presentment of all claims other than administrative costs and expenses; (iii) the payment of all administrative costs and expenses; and (iv) a distribution, to the extent that assets are available after payment of all administrative costs and expenses and in accordance with the priorities set forth in Insurance Law Section 7434, to those creditors of Union possessing allowed claims.

A hearing is scheduled on the Verified Petition on _____, 2007 at 10:00 A.M. before the Supreme Court of the State of New York, County of New York at the Courthouse, IAS Part 3, Room 248, 60 Centre Street, New York, New York. If you wish to object to the Verified Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Liquidator and Clerk of the Court, at least fifteen business days prior to the hearing. Service on the Liquidator shall be made by first class mail at the following address:

The Superintendent of Insurance of the State of New York as
Liquidator of Union Indemnity Insurance Company of New York
123 William Street
New York, New York 10038-3889
Attention: Jack A. Franceschetti, Esq.

By filing the Verified Petition, the Liquidator is seeking permission from the Court to pay in the near future a monetary distribution to certain creditors possessing allowed claims pursuant to Insurance Law Section 7434. For this reason, creditors of Union are advised to review all available information and to ascertain all of their rights before considering any proposal offering to buy or otherwise compromise their claims.

The Verified Petition and Initial Report are available for inspection at the above address. In the event of any discrepancy between this notice and the documents submitted to Court, the documents control.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor Claims Department at (212) 341- 6814.

ERIC R. DINALLO
Superintendent of Insurance of the
State of New York as Liquidator of
Union Indemnity Insurance Company
of New York

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

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In the Matter of

VERIFIED PETITION

the Liquidation of

Index No.: 41292/85

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK.
-----X

Eric R. Dinallo, Superintendent of Insurance of the State of New York as liquidator (the "Liquidator") of Union Indemnity Insurance Company of New York ("Union"), by Mark G. Peters, Special Deputy Superintendent and Agent of the Liquidator, hereby petitions this Court, pursuant to Article 74 of the New York Insurance Law, requesting the issuance of an order (the "Order") approving: (i) the initial report on the status of Union's liquidation (the "Initial Report") and the financial transactions delineated therein; (ii) the establishment of November 15, 2007, as the bar date for presentment of all claims other than administrative costs and expenses; (iii) the payment of all administrative costs and expenses; and (iv) a distribution, to the extent assets are available after payment of all administrative costs and expenses in accordance with the priorities set forth in Insurance Law Section 7434, to those creditors of Union possessing allowed claims; and also requesting that the Court issue an order to show cause (the "Order to Show Cause") approving: (i) a return date at least 45 days after the issuance of the Order to Show Cause for a hearing (the "Hearing") to be had before this Court on the petition; (ii) the form of notice to be given to Union's policyholders, claimants and creditors with allowed or unadjudicated claims and all other interested parties regarding the petition and the Hearing (the "Notice"); and (iii) the method of service of the Notice -- *i.e.* by United States mail to Union's policyholders, claimants and creditors with allowed or unadjudicated claims and to all interested parties by publication in the *New York Times* and *Business Insurance* once a week for two

consecutive weeks following the issuance of the Order to Show Cause; and respectfully alleges and sets forth the following:

1. By order entered on July 16, 1985 (the "Liquidation Order"), Union was placed into liquidation. A copy of the Liquidation Order is annexed hereto as Exhibit A.

2. The Liquidation Order appointed then-Superintendent of Insurance James P. Corcoran and his successors in office as Liquidator.

3. The Liquidation Order charged the Liquidator with, among other things, the responsibility of:

- a. Identifying Union's policyholders, claimants and creditors;
- b. Notifying Union's policyholders, claimants and creditors to present their claims;
- c. Marshalling Union's assets;
- d. Adjudicating the claims presented by Union's policyholders, claimants and creditors and determining the total liabilities of Union;
- e. Distributing Union's assets to creditors with allowed claims; and
- f. Otherwise liquidating Union's business pursuant to Article 74 of the New York Insurance Law.

4. Annexed hereto as Exhibit B is the Initial Report. The Initial Report sets forth the results, to date, of the Liquidator's efforts to identify Union's creditors, adjudicate claims and collect assets. In the Initial Report, the Liquidator seeks allowance of certain claims and approval of the distribution of assets to Class two creditors with allowed claims, pursuant to Insurance Law 7434, in order to further facilitate the wind-up of the liquidation proceeding.

5. Article 74, as applicable in this proceeding, requires the Liquidator to distribute Union's assets to all creditors with allowed claims to the extent sufficient funds are available after administrative costs and expenses are paid in full.

6. The Liquidator believes that the affairs of the Union estate are in a condition such that a distribution is appropriate.

7. Liquidator respectfully requests that the Court issue the annexed Order to Show Cause, which approves the form of notice and service of notice on Union's policyholders, claimants and creditors and all other interested parties and requests that the Hearing on the petition be scheduled no sooner than 45 days from the date of issuance of the Order to Show Cause in order to afford sufficient time for the Liquidator to properly serve the Notice and for interested parties to thereafter respond, if they so choose, to the Verified Petition in a timely manner.

8. Based on the foregoing the Liquidator respectfully requests that the Court issue an order that:

- a. Approves the Initial Report;
- b. Approves the financial transactions delineated in the Initial Report.
- c. Provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by Union reported through November 15, 2007 will be considered for allowance;
- d. Provides that all claims for losses and loss adjustment expenses including, without limitation, direct policy claims reported after November 15, 2007 be barred and discharged;
- e. Authorizes the Liquidator to make a distribution of assets, consistent with this Court's orders and the priorities set forth in Insurance Law Section 7434, to those creditors of Union with allowed claims to the extent that, in the Liquidator's discretion, sufficient funds are available; and
- f. Provides for such other and further relief as the Court shall deem appropriate and just.

9. Based on the foregoing the Liquidator respectfully further requests that the Court issue the annexed Order to Show Cause:

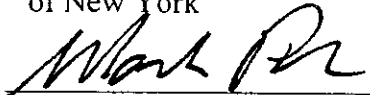
- a. Approving a return date at least 45 days after the date of issuance of the Order to Show Cause for a hearing to be had before this Court on the petition;
- b. Approving the form of notice to be given to interested parties regarding the petition and the Hearing; and
- c. Approving the method of service of the Notice, *i.e.*, by United States mail to Union's policyholders, claimants and creditors with allowed or unadjudicated claims and to all interested parties by publication in the *New York Times* and *Business Insurance* once a week two consecutive weeks following the issuance of the Order to Show Cause.

10. No previous application for the relief sought herein has been made to this or any court or judge thereof.

WHEREFORE, Petitioner respectfully requests that the Court sign the accompanying Order to Show Cause approving the form and method of service of the notice of the petition and scheduling a hearing at least 45 days from the date of issuance of the Order to Show Cause, and that, upon such hearing, the Court issue an order granting the relief sought in this Verified Petition.

Dated: New York, New York
October 10, 2007

ERIC R. DINALLO
Superintendent of Insurance of the
State of New York as Liquidator of
Union Indemnity Insurance Company
of New York

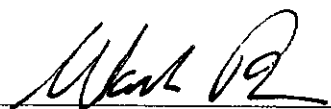
By: 
Mark G. Peters
Special Deputy Superintendent
and Agent of the Liquidator

STATE OF NEW YORK)
) ss:
COUNTY OF NEW YORK)

Mark G. Peters, being duly sworn, deposes and says:


That he has read the foregoing Verified Petition, and that the same is true to his knowledge except as to the matters therein stated to be alleged on information and belief and as to those matters he believes it to be true; that the reason this petition is verified by this deponent rather than by the Superintendent of Insurance is that deponent is the duly appointed Special Deputy Superintendent and Agent of the Superintendent of Insurance as Liquidator of Union Indemnity Insurance Company of New York and as such is acquainted with the facts alleged therein.

Deponent further says that the sources of his information and the grounds of his belief as to the matters to be alleged on information and belief are from or were derived from the records, books and papers of said Union Indemnity Insurance Company of New York in the possession of the Liquidator and communications made to deponent by employees of the Liquidator.



Mark Peters
Special Deputy Superintendent
and Agent of the Liquidator

Sworn to before me this
10th day of October, 2007



Notary Public

CATHY BOSCO
Notary Public, State Of New York
No. 01BO6019788
Qualified In Kings County
Commission Expires 02/16/2011

At a Special Term, Part 3 of the Supreme Court of the State of New York, held in and for the County of New York, at the Courthouse, 60 Centre Street, in the Borough of Manhattan, City and State of New York, on the 16th day of July, 1985.

P R E S E N T :

HON. IRA GAMMERYMAN

JUSTICE.

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In the Matter of
the Application of

Index No. 41292/1985
ORDER OF LIQUIDATION

JAMES P. CORCORAN, as Superintendent of Insurance of the State of New York, for an order to take possession of and liquidate the business and affairs of

UNION INDEMNITY INSURANCE COMPANY OF NEW YORK

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Petitioner, **JAMES P. CORCORAN**, Superintendent of Insurance of the State of New York (the "Superintendent"); having moved this Court by Order to Show Cause for an Order pursuant to Section 7417 of the Insurance Law to take possession of and liquidate the business and affairs of **UNION INDEMNITY INSURANCE COMPANY OF NEW YORK ("UNION INDEMNITY")**,

NOW, upon reading and filing the Order to Show Cause signed June 8, 1985 (per **JAWN A. SANDIFER, J.**) the Petition of

JAMES F. CORCORAN, the Superintendent, sworn to the 4th day of June, 1985 (the "Petition"), and the exhibits annexed thereto, with proof of due service thereof, in support of the motion; and the affirmation of EDWARD M. CAMERON, III dated June 25, 1985 with exhibits attached; the affidavit of DOUGLAS L. KING sworn to July 9, 1985; the affidavit of DOUGLAS L. KING sworn to July 10, 1985 with exhibits attached, all in opposition thereto; and the undated So Ordered Stipulation of the Hon. LOUIS GROSSMAN, Justice of this Court; and it appearing to my satisfaction (i) that UNION INDEMNITY was incorporated under the laws of the State of New York on October 20, 1975 and licensed as a stock casualty insurer in the State of New York on October 20, 1978; (ii) that it is amenable to the Insurance Law of the State of New York and particularly to Article 74 thereof; (iii) that it is impossible to reinsure in whole or in part the existing policy obligations of UNION INDEMNITY pursuant to Section 7403 (c) of the Insurance Law; (iv) that the corporate charter as well as any rights and interest in licenses or certificates of authority to write insurance be vested in the Superintendent of Insurance; (v) that UNION INDEMNITY is insolvent, that it is in such condition that its further transaction of business would be hazardous to its policyholders, creditors or to the public, that it is to their best interests that this application should be granted and UNION INDEMNITY liquidated under and pursuant to Article 74 of the Insurance Law; and petitioner having appeared by Hon. ROBERT

ABRAMS, Attorney General of the State of New York in support of said motion and UNION INDEMNITY having appeared by KROLL, POMERANTZ & CAMERON by ROY POMERANTZ, Esq. in opposition thereto, and after oral argument and hearing before this Court and after due deliberation having been made thereon and the duly recorded decision of this Court;

NOW, on motion of Hon. ROBERT ABRAMS, Attorney General of the State of New York, it is

ORDERED AND ADJUDGED, that the petition of the Superintendent is granted; and it is further

ORDERED AND ADJUDGED, that UNION INDEMNITY is insolvent; and it is further

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent, or any successor in office as Superintendent, is hereby appointed Liquidator of UNION INDEMNITY, and is hereby authorized and directed forthwith to take possession of the property and liquidate the business and affairs of UNION INDEMNITY pursuant to Article 74 of the Insurance Law and to deal with the property and business of UNION INDEMNITY in his name as Superintendent, and is vested with title to all of the property, licenses, corporate charter, contracts and rights of action of UNION INDEMNITY pursuant to Section 7403 of the Insurance Law; and it is further

ORDERED AND ADJUDGED, that the notice aforesaid be given by publication in the national editions of The New York Times and The Journal of Commerce, commencing on or about the 9th day of August, 1935, and thereafter once a week for two successive weeks; and it is further

ORDERED AND ADJUDGED, that notice of liquidation be given by publication of such notice in one newspaper in Washington, D.C. and San Juan, Puerto Rico, as well as the Capitals of the Provinces of Canada, and in all the Capital Cities of the States in the United States except California, Maryland, North Carolina, South Dakota and Wyoming, and in the newspapers in other cities to be selected by the Liquidator in his discretion, by publication of such notice once a week for two successive weeks within the period allowed for the filing of claims, the newspaper to be selected by the the Liquidator in his discretion; and it is further

ORDERED AND ADJUDGED, that the notice prescribed is sufficient notice to all persons interested in the assets of UNION INDENTITY; and it is further

ORDERED AND ADJUDGED, that notice of the making and entry of this order be given by the Superintendent, as Liquidator, to the extent it can be reasonably ascertained, by mail to all policyholders, creditors and all other persons having any unsatisfied claim or demand of any character against the corpor-

ation in the possession of the Superintendent, as Liquidator, at the last known address of such persons as disclosed by said records and in such other manner and form as he in his discretion may find desirable, demanding that all persons indebted to UNION INDEMNITY render accounts of their indebtedness and pay any sums due to the Superintendent, as Liquidator; and giving notice to present proofs of claim with the Superintendent, as Liquidator, at a place specified in such notice within twelve months from the date of the entry of this Order and no later than the 17th day of July, 1986; and that such notice may contain such other rules, regulations and information as the Superintendent, as Liquidator, may deem necessary for the purpose of this proceeding in fixing and determining all lawful and valid claims and demands against the corporation; and it is further

ORDERED AND ADJUDGED, that in the event one or more Insurance Departments and/or Guaranty Funds or Associations of foreign States that have adopted the Uniform Insurers Liquidation Act in which respondent was licensed to do business, desire to give formal notice to policyholders and creditors in their respective states to present proofs of claim to the respective State Insurance Department or Guaranty Fund or Association, the Superintendent, as Liquidator, may permit the giving of such notice as he in his discretion may find desirable; and it is further

ORDERED AND ADJUDGED, that all outstanding policy and other insurance obligations of UNION INDEMNITY terminate and all liability thereunder cease and be fixed as of 12:01 A.M. Eastern Daylight Savings Time on *August 17*, 1985, or prior thereto upon the procurement by policyholders of new insurance covering their risks insured thereby, and notice thereof shall be given as hereinabove set forth; and it is further

ORDERED AND ADJUDGED, that all other subsisting contracts, leases, tax sharing agreements, individual labor contracts and other obligations of UNION INDEMNITY terminate, and all liability thereunder cease and be fixed as of the date of the entry of this Order; and it is further

ORDERED AND ADJUDGED, that the Superintendent, as Liquidator, is relieved of the provisions set forth in Section 7403(c) of the Insurance Law, to wit: to reinsure in whole or in part the policy obligations of UNION INDEMNITY; and it is further

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent or any successor in office as Superintendent, is hereby authorized, permitted and allowed to sell, assign and transfer any and all stocks, bonds and securities in his possession or which may hereafter come into his possession belonging to UNION INDEMNITY, in liquidation, at market price or better,

or when there is no market price) at the best price obtainable, at private sale and at such times and upon such terms and conditions as in his discretion he deems for the best interests of the creditors of UNION INDEMNITY, in liquidation, and that he be authorized, permitted and allowed to take such steps and to make and execute such agreements and other papers as may be necessary to effect and carry out such sales, transfers and assignments; and it is further

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent or any successor in office as Superintendent, is hereby authorized, permitted and allowed to sell, assign and transfer the Corporate Charter of UNION INDEMNITY and any and all insurance licenses or certificates of authority to write insurance in such a method and manner as is to be approved by this Court; and it is further

ORDERED AND ADJUDGED, that UNION INDEMNITY, its officers, directors, trustees, policyholders, agents and employees and all other persons having any property or records belonging to UNION INDEMNITY, are hereby directed to assign, transfer and deliver to the Superintendent, as Liquidator, all of such property in whatsoever the same may be, and that any persons, firms or corporations having any books, papers or records relating to the business of said corporation shall preserve the same and submit them to the Superintendent, as Liquidator, for examination at all reasonable times; and it is further

ORDERED AND ADJUDGED, that the officers, directors, trustees, policyholders, agents and employees of UNION INDemnITY, and all other persons are enjoined and restrained from the further transaction of business or from dealing with or disposing of the property or assets of said corporation, or doing or permitting to be done any act or thing which might waste its property or assets or allow or suffer the obtaining of preferences, judgments, attachments or other liens, or the making of any levy against said corporation, or its estate while in the possession and control of the Superintendent, as liquidator; and it is further

ORDERED AND ADJUDGED, that the officers, directors, trustees, policyholders, agents and employees of UNION INDemnITY, and all other persons, including but not limited to claimants, plaintiffs and petitioners who have claims against UNION INDemnITY, are permanently enjoined and restrained from bringing or further prosecuting any action at law, suit in equity, special or other proceeding against the said corporation or its estate, or the Superintendent and his successors in office, as liquidator thereof, or from making or executing any levy upon the property or estate of said corporation, or from in any way interfering with the Superintendent, or any successor in office, in his possession, or in the discharge of his duties as liquidator thereof, or in the liquidation of the business of said corporation; and it is further

ORDERED AND ADJUDGED, that all parties to law suits in this State and all other states and territories of the United States, are hereby enjoined and restrained from proceeding with any pre-trial conference, trial, application for judgment, or proceeding on judgments or settlements in such actions at law, suits in equity, special or other proceedings in which UNION INDEMNITY is obligated to defend a party insured or any other person it is legally obligated to defend by virtue of its insurance contract for a period of 180 days from the date hereof; and it is further

ORDERED AND ADJUDGED, that those persons who may have first-party or New York Comprehensive Automobile Insurance Reparations Act (No-Fault) policyholder loss claims against UNION INDEMNITY coming within the purview of Article 76 of the Insurance Law, are enjoined for 90 days from the date hereof from presenting and filing such formal claims in this proceeding pursuant to Section 7432 of the Insurance Law; and it is further

ORDERED AND ADJUDGED, that all further papers in this proceeding shall bear the caption and be entitled:

**"SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK**

**In the Matter of
the Liquidation of**

**UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK"**

in place and stead of the caption as heretofore used; and it is further

ORDERED AND ADJUDGED, that the Superintendent, as Liquidator, may at any time make further application for such further and different relief as he sees fit.

E N T E R

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J. S. C.

filed
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79 County
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**INITIAL REPORT ON THE STATUS OF THE LIQUIDATION OF
UNION INDEMNITY INSURANCE COMPANY OF NEW YORK**

INTRODUCTION

Eric R. Dinallo, Superintendent of Insurance of the State of New York as liquidator (the "Liquidator") of Union Indemnity Insurance Company of New York ("Union") has appointed Mark G. Peters, Special Deputy Superintendent in Charge and Agent of the Liquidator (the "Special Deputy") to carry out, through the New York Liquidation Bureau (the "NYLB"), the responsibilities of the Liquidator. The Liquidator, by the Special Deputy, hereby reports on the status of the Union liquidation proceeding.

Placed into receivership in 1985, Union has not yet filed an initial court report or paid a single distribution. Given the 22 year lapse, payment of an initial distribution should not be further delayed.

In April 2007, a new Special Deputy, Mark G. Peters, was appointed to the NYLB with a mandate to engage in sweeping reform. The NYLB was at that time an entity with a troubled history, which included the indictment of the immediate former Special Deputy Superintendent, the failure of the NYLB to have its financial statements properly audited, and years of poor management. The delays in issuing an initial court report for Union are a result of that poor management.

As part of the new Special Deputy's reform efforts, the Liquidator has installed new senior management and has hired a respected independent accounting firm to audit Union's financial statements. The Liquidator expects the full reports of the auditors by year's end. To the extent that the audit reveals the need for changes in Union's financial statements, the Liquidator will submit an amended report at the appropriate time, the Liquidator does not,

however, believe that the audit will alter the viability or propriety of at least a partial immediate distribution, even if some of the financial statements do require restatement.

By order (the "Liquidation Order") of the Supreme Court of the State of New York entered on July 16, 1985, Union was adjudged to be insolvent and was placed into liquidation. The Liquidation Order appointed then-Superintendent of Insurance James P. Corcoran and his successors in office as liquidator of Union.

Pursuant to the Liquidation Order, the Liquidator was charged with the responsibility of:

- a. Identifying Union's policyholders, claimants and creditors;
- b. Notifying Union's policyholders, claimants and creditors to present their claims;
- c. Marshalling Union's assets;
- d. Adjudicating the claims presented by Union's policyholders, claimants and creditors and determining the total liabilities of Union;
- e. Distributing Union's assets to creditors with allowed claims; and
- f. Otherwise liquidating Union's business pursuant to Article 74 of the New York Insurance Law.

The Liquidator has been engaged in the above tasks since the commencement of the liquidation proceeding. As will be discussed herein, the Liquidator's ability to make a distribution to creditors and bring this proceeding closer to termination has been complicated and hampered due to extensive litigation regarding, *inter alia*, the collectibility of reinsurance.

This is the Liquidator's initial report concerning the status of the liquidation of Union (the "Initial Report"). This Initial Report sets forth a proposed distribution of assets consistent with New York Insurance Law ("Insurance Law") Section 7434 to those creditors of Union possessing allowed claims. Based upon the current status of the liquidation proceeding, as reported herein, the Liquidator seeks approval of: (i) this Initial Report and the financial transactions delineated

therein; (ii) the establishment of November 15, 2007 as the bar date for presentment of all claims other than administrative costs and expenses; (iii) the payment of all administrative costs and expenses; and (iv) a distribution, to the extent assets are available after payment of all administrative costs and expenses and in accordance with the priorities set forth in Insurance Law Section 7434, to those creditors of Union possessing allowed claims.

Outlined below is a history of Union, a summary of the activities the Liquidator has performed in furtherance of and pursuant to the Liquidation Order and Article 74, and the basis for the Liquidator's recommendations for: (i) the establishment of a bar date for the presentment of new claims; (ii) the approval of payment of all administrative costs and expenses; and (iii) a distribution, to the extent assets are available, to those creditors of Union with allowed claims.

I. HISTORY

Union was incorporated on October 20, 1975 and licensed in New York as a stock casualty insurer on October 20, 1975. Union was a wholly-owned subsidiary of Frank B. Hall & Co., Inc. ("F.B. Hall"). Its principal office was located at 260 Madison Avenue, New York, New York. Union was authorized under its charter to transact the kinds of insurance specified in Paragraphs 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 19 and 20 of Section 1113(a) of the Insurance Law. In addition to the State of New York, Union was authorized to transact business in Canada, the District of Columbia, Puerto Rico and all states except California, Maryland, North Carolina, South Dakota and Wyoming. It was approved as a non-admitted insurer in California, Maryland, North Carolina and South Dakota.

Union filed an annual statement for the year ending December 31, 1983, reporting a surplus of \$9,275,076. However, a report on examination of Union dated January 3, 1985, conducted by the New York State Insurance Department (the "Insurance Department") found

that Union was insolvent as of December 31, 1983 in the amount of \$27,916,683 and that its capital was impaired by \$30,416,683. Because of those findings, the Insurance Department closely monitored Union's financial condition. On February 5, 1985, the Insurance Department directed Union to eliminate its capital impairment and to cease issuing policies while the impairment existed.

On March 15, 1985, Union filed with the Insurance Department its annual statement for the year ending December 31, 1984. That statement acknowledged an insolvency in the amount of \$14,580,959. Meanwhile, the Insurance Department conducted its own further examination of Union's financial affairs for the year ending December 31, 1984 and, on March 25, 1985, issued a report which found that Union was insolvent in the amount of \$138,501,581 and its capital was impaired by \$141,001,581.

Because Union was unable to comply with the directive to eliminate its capital impairment, and given the dramatic increase in the reported insolvency in the March 25, 1985 report, the Superintendent of Insurance of the State of New York, as regulator, petitioned this Court to liquidate Union. The petition was granted and the Liquidation Order was entered on July 16, 1985.

II. FINANCIAL CONDITION OF UNION AS OF THE DATE OF LIQUIDATION

Upon entry of the Liquidation Order, the Liquidator conducted a review of Union's financial position as of July 16, 1985, the date that this proceeding commenced. The Liquidator

found that, as of that date, Union had assets in the amount of \$114,340,678 and liabilities of \$130,711,904, making it insolvent in the amount of \$16,371,226.¹

A. Assets

Union's assets, as of the date of liquidation, primarily consisted of its investment portfolio and reinsurance recoverables. Union had cash and investments in the total amount of \$26,093,005. Reinsurance recoverables on paid losses totaled \$66,413,659.²

The balance of Union's assets consisted of premium in the course of collection in the amount of \$17,169,462, income tax refunds in the amount of \$2,247,152, office furniture and equipment in the amount of \$493,777, statutory deposits held by this or other states in the amount of \$1,374,718, and other restricted assets in the amount of \$548,905.

B. Liabilities

Union was a casualty insurer that wrote various types of liability policies. Union's business was concentrated in personal and commercial lines, in particular automobile, general liability, commercial multi-peril, fire, allied lines, ocean marine and surety policies. Union also provided some medical malpractice and workers' compensation coverage and was a reinsurer of other insurers.

¹ The discrepancy between the insolvency identified in the Insurance Department's March 1985 report (*see* p. 4, *supra*) and the Liquidator's opening balance sheet is the result of several factors. First, the Liquidator's opening balance sheet understated Union's liabilities because no provision was made for incurred but not reported ("IBNR") claims, which since 1985 amounted to approximately \$43,000,000. However, at that time, the Liquidator did not have the information required to reliably estimate IBNR claims. The development of IBNR claims in 1985 has been significant. In addition, the Liquidator's opening balance sheet made no provision for unauthorized reinsurance, which amounted to \$76,000,000. This provision reduces the company's balance sheet credit for reinsurance recoverables where the reinsurers are not authorized to conduct an insurance business in New York and have not provided collateral for their obligations. Finally, some \$3,000,000 in miscellaneous assets were reflected in the Insurance Department's March 1985 report but not reported in Union's opening balance sheet as set forth below.

² The Liquidator's opening balance sheet did not account for reinsurance recoverables in respect of unpaid losses.

Union's gross liability for unpaid claims as of July 16, 1985 was reported to be \$49,874,877. Union's reserves for claim adjustment expense totaled \$6,136,698. In addition, liabilities for reinsurance premium balances payable in the amount of \$51,447,370 and for funds held by Union under reinsurance treaties in the amount of \$12,027,773 were reported. The balance of Union's reported liabilities, which totaled \$11,225,186, consisted of unearned premiums, franchise and premium taxes payable and miscellaneous expenses.

As previously noted, the Liquidator did not report reserves for IBNR claims and expenses. As of the date of liquidation, the Liquidator had no reliable basis for the calculation of these reserves. However, Union's IBNR claims as of the date of liquidation were among its most significant liabilities. Further, as noted, the Liquidator's opening balance sheet did not reflect a provision for unauthorized reinsurance, which resulted in further understatement of Union's liabilities.

III. LIQUIDATION PROCEEDING

A. Claims Presented

The Liquidator, in accordance with Insurance Law Section 7432(b), was obligated to notify all persons who may have had claims against Union at the date of liquidation, as disclosed by Union's books and records, to present their claims in this proceeding. The Liquidation Order provides that the last day for filing claims in the proceeding is July 17, 1986. Pursuant to Article 74, claims presented prior to the filing deadline are entitled to share in the distribution of Union's assets.

The Liquidator mailed proof of claim forms to known policyholders, claimants against policyholders, and other creditors disclosed by Union's books and records. The proof of claim form provided notice of Union's liquidation and of the creditor's obligation to present all claims

by the proof of claim filing deadline. The Liquidator was unable to identify every creditor or potential creditor who appeared on Union's books and records prior to the filing deadline. Upon becoming aware of such a creditor or potential creditor, the Liquidator mailed the creditor a proof of claim form. Provided that the proof of claim form was completed and returned within four months from the date of the Liquidator's mailing, the proof of claim was deemed timely filed. The claims of those policyholders that did not receive a proof of claim form were accepted as timely filed.

As of March 31, 2007, 31,299 proofs of claim have been filed in this proceeding. The claims, in general, fall into broad categories: guaranty and security fund policyholder claims, general creditor policyholder claims, reinsurance claims, and non-policy related claims (*e.g.*, vendor and state tax claims). In addition, policyholders were entitled to file proofs of claim for "policyholder protection" ("PHP"). A PHP proof of claim does not articulate the specifics of a particular claim. Rather, it secures for the policyholder the right to be in the proceeding as a timely-filed creditor without describing an actual claim. As of March 31, 2007, 3,540 policyholders filed timely proofs of claim for PHP. Claims against the policyholders entitled to PHP continue to be made in this proceeding, more than twenty-one years after the claim-filing deadline as prescribed in the Liquidation Order.

1. **New York Statutory Scheme of Distribution**

Under the Insurance Law priority scheme that was in effect when Union was ordered into liquidation, all claims against an insurer in liquidation, with two limited exceptions, were general creditor claims and were entitled to share pro-rata in the distribution of assets. A revised statutory scheme for priority of distribution became effective June 29, 1999.

The 1999 amendment to Insurance Law Section 7434 set forth a comprehensive list of nine classes of creditor claims in specific order of priority of distribution. The statute provides that no distribution can be made to a class of creditors until each claim in the preceding class has been paid in full. This amendment applied to any proceeding under Article 74 of the Insurance Law pursuant to which an order of liquidation was entered on or after the effective date of June 29, 1999. Accordingly, the 1999 amendment to Section 7434 did not apply to Union. In amendments passed by the Legislature in 2005, Insurance Law Section 7434 was amended, effective May 11, 2005, adding subsection (e), which reads as follows:

The provisions of this section shall apply to distributions made after the effective date of this subsection in any proceeding under this article, regardless of the date such proceeding was commenced under this article, provided that the foregoing provisions of this subsection shall not apply to distribution made pursuant to a final court order of distribution entered on or before the effective date of this subsection.

The 2005 amendments thus retroactively engrafted the statutory scheme of prioritized rankings of classes of claimants, upon, *inter alia*, the ongoing Union liquidation. As noted below, a creditor such as a reinsurer who was equal in standing to all other creditors and claimants, was now relegated to an inferior rank as a member of “Class six,” subordinate to the top five classes.

2. Description of the Classes of Creditors

Section 7434 sets forth the classes of creditors as follows:

- (i) Class one. Claims with respect to the actual and necessary costs and expenses of administration incurred by a liquidator, rehabilitator or conservator.
- (ii) Class two. All claims under policies (except for reinsurance contracts), including claims of federal, state or local government for losses incurred, third party claims,

claims for unearned premiums, and all claims of security funds or guaranty associations.

- (iii) Class three. Claims of the federal government, except those under Class two.
- (iv) Class four. Claims for wages owing to employees of an insurer against whom an Article 74 proceeding is commenced for services rendered within one year before commencement of the proceeding, not exceeding \$1,200 to each employee, and claims for unemployment insurance contributions required by article eighteen of the labor law.
- (v) Class five. Claims of state and local governments, except those under Class two.
- (vi) Class six. Claims of general creditors, including but not limited to claims arising under reinsurance contracts.
- (vii) Class seven. Claims filed late or any other claims other than claims under Class eight or Class nine below.
- (viii) Class eight. Claims for advanced or borrowed funds made pursuant to Insurance Law Section 1307.
- (ix) Class nine. Claims of shareholders or other owners.

3. **Claims Against Union Presented by Class**

a. **Class One Claims**

These expenses include the actual and necessary costs of administration incurred by the Liquidator in this proceeding.³

³ See Section III.D, *intra*.

b. Class Two Claims

There are a total of 25,877 Class two claims in this proceeding.⁴ Policyholder claims are of two types: security/guaranty fund and general creditor policyholder claims.

(i) Security/Guaranty Fund Policyholder Claims

Security/Guaranty Fund policyholder claims consist of claims by New York's insurance security funds (the "Security Funds") and sister-state guaranty funds (the "Guaranty Funds"). The Security Funds and Guaranty Funds (collectively, the "Funds") were created by state statutes to pay certain types of claims covered by policies issued by insurance companies licensed in their states that are unable, due to insolvency, to meet their insurance obligations. The Funds are entitled to make claims for reimbursement of their payment of losses and expenses relating to their liabilities as a result of the insurance company's insolvency.

The Security Funds consist of the Property/Casualty Insurance Security Fund (the "P/C Fund") and the Public Motor Vehicle Liability Security Fund (the "PMV Fund"), which are maintained in accordance with Article 76 of the Insurance Law, and the Workers' Compensation Fund (the "WC Fund"),⁵ which is maintained in accordance with Article 6A of the New York Workers' Compensation Law. These funds, along with 42 Guaranty Funds, have claims in this proceeding for losses paid and expenses incurred as a result of the insolvency of Union.

(ii) General Creditor Policyholder Claims

General creditor policyholders' claims include policyholder claims that, for some reason, were not covered by a Fund. For example, where a policyholder claim is greater than a Fund's

⁴ This figure does not include the 3,540 PHP proofs of claim.

⁵ Claimants with claims covered by the WC Fund were not required to file proofs of claims. Therefore, the number of claimants handled by the WC Fund is not reflected in the number of proofs of claim presented in this proceeding.

statutory coverage the amount above the statutory cap is a general creditor policyholder claim and the policyholder may file a claim to recover such amount. These claims for amounts in excess of Fund coverage are particularly common among “Major Policyholders” (*i.e.* Fortune 500 companies and other large companies) whose policies provided excess coverage.⁶ Some of the Major Policyholder claims have been resolved. Others had reserves established and were subsequently disallowed because the losses did not develop or it has been determined that Union’s layer may never be reached. In some instances, it is anticipated that dormant “Major Policyholder” claims may emerge as coverage of the policies below Union’s layer may be exhausted. These policyholders may seek allowance for claims under policies for environmental losses, breast implant cases and other such “long-tail” claims that, by their nature, take years to develop.

In addition, the Funds do not provide coverage for all types of insurance policies and bonds. For example, Union had a substantial amount of surety business and many Funds do not provide coverage for surety bonds. Therefore, claimants with claims against non-Fund covered surety bonds are Class two creditors whose claims, if allowed, will share in any distribution of Union’s assets.

c. **Class Three Through Class Nine Claims**

These claims include reinsurance claims, claims by insurers for amounts due under reinsurance contracts with Union, vendor and state tax claims, etc. Due to the limited assets of Union, it is likely that Class two creditors will not receive full payment of the allowed claims. Because, as noted above, subordinate claims holders cannot be paid until claims of a higher

⁶ Excess insurance coverage is insurance coverage that is written in excess of (*i.e.*, surplus or in addition to) primary or direct insurance. It is designed to increase the limits of liability provided by the primary insurance policy.

priority class have been fully paid, it is not likely that Classes three through nine will receive any distribution.

B. Current Status of Claims Presented

Of the 31,299 claims presented, 23,545 have been adjudicated, 3,540 were filed for policyholder protection, 2,027 were voided as duplicates, 465 have been withdrawn and 1,722 remain open.

1. Class Two Claims

The Funds have proofs of claim for reimbursement of payments made for losses and expenses as a result of Union's insolvency. The allowances of the Funds' claims are updated periodically based on their payment of the underlying claims and expenses. The Funds' timely filed proofs of claims will remain open until all allowed claims handled by the Funds have been resolved.

Forty-two Guaranty Funds filed proofs of claims. As of March 31, 2007, the 42 Guaranty Funds have collectively paid \$73,946,372, of which \$53,915,791 was for loss, \$1,130,539 was for return of unearned premium, \$14,223,592 was for loss adjustment expense and \$4,676,450 was for administrative costs.

As of March 31, 2007, the P/C Fund made claim payments in the amount of \$108,354,036 and expense payments in the amount of \$35,342,508 for a total of \$143,696,544. The PMV Fund made claim payments in the amount of \$101,000. As of March 31, 2007, the WC Fund made claim payments in the amount of \$759,478 and expense payments in the amount of \$778,851 for a total of \$1,538,329.

As of March 31, 2007, 1,692 general creditor policyholder proofs of claim have been allowed in the amount of \$20,738,729. General creditor policyholder claims encompass a wide variety of non-Fund covered claims.

As of March 31, 2007, there were 317 open proofs of claims,⁷ of which 39 are Security Fund covered. The remainder consists of general creditor policyholder claims, surety claims and claims by the Funds.

2. The Remaining Classes of Claims

The remaining classes of claims may not be further adjudicated due to the insufficient assets in the proceeding to pay Class two claims in full.

Of the remaining 1,882 non-Class two general creditor claims, 58 have been adjudicated consisting of 26 disallowed and 32 allowed by the Court in the amount of \$404,837. Although the 32 allowed claims have been adjudicated, as noted above they will not participate in any distribution for the reasons discussed above.

C. Collection of Assets

The Liquidator has collected assets in the total amount of \$144,477,100 through March 31, 2007. The Liquidator has augmented the estate's cash and invested assets from the date of liquidation in the amount of \$72,270,573. The collection of assets consists of investment income, reinsurance recoveries, premiums, salvage and subrogation, litigation awards and miscellaneous receipts. As of March 31, 2007, Union had total cash and invested assets of \$98,363,578.

The collections are described in more detail below.

⁷ The open proofs of claims include 22 claims for which objections to disallowance have been filed and are pending adjudication.

1. **Investment Income**

As of March 31, 2007, the Liquidator earned \$52,558,681 on Union's invested assets.

2. **Reinsurance**

Decisions in three lawsuits affected Union's proceeding and in particular Union's reinsurance assets.

On February 7, 1985, Union commenced an action against certain reinsurers seeking recoveries under reinsurance contracts entitled *Union v. AIG MultiLine*, N.Y. County Index No. 4835/84 (the "AIG Action"). One month after the complaint was filed, the reinsurers invoked the reinsurance contracts' respective arbitration clauses and moved to stay the case and compel arbitration. Motion practice in the *AIG Action* absorbed the next five and one-half years during which time Union was placed into liquidation.

In 1989, this Court granted the reinsurers' motion to compel arbitration. *Curiale v. AIG MultiLine*, 143 Misc.2d 62, 539 N.Y.S.2d 630 (Sup.Ct., N.Y. Co. 1989). The Appellate Division, First Department, reversed and held that the arbitration agreements are not enforceable against the Liquidator of an insolvent New York insurer. *Curiale v. AIG MultiLine Syndicate* 167 A.D.2d, 332, 562, N.Y.S.2d 993 (1st Dept. 1990).⁸

While the *AIG Action* was proceeding, the Liquidator commenced suit in 1987 against Union's parent company, F.B. Hall, its affiliates, directors, officers and auditors, as well as Union's directors and officers, for breach of fiduciary duty, breach of statutory duty, and fraud. *Corcoran v. Frank B. Hall* (the "F.B. Hall Action"). On June 22, 1987, the F.B. Hall defendants filed motions to dismiss the F.B. Hall Action.

Denying those motions, this Court determined that the Liquidator had paramount and

⁸ See also *Curiale v. Ardra Insurance Company, Ltd.*, 77 N.Y.2d 225, 566 N.Y.S.2d 575 (1990) (same).

exclusive standing to bring suit against the F.B. Hall defendants, *Corcoran v. Frank B. Hall & Co.*, Index No. 5273/87 slip op. (Sup. Ct., N.Y. Co., Nov. 2, 1988), and the Appellate Division, First Department, affirmed. 149 A.D.2d 165, 545 N.Y.S.2d 278 (1st Dept. 1989).

The third action is *In the Matter of the Liquidation of Union Indemnity, (Michigan National Bank v. American Centennial Ins., et al.)*, N.Y. County Index No. 41292/85 (the “Michigan National Bank Action”). In that case, Michigan National Bank, the beneficiary of a \$2,000,000 surety bond issued to Ginzo Investment Corp. by Union, brought an action on the bond directly against Union’s reinsurers (American Centennial Ins., *et al.*). Thereafter, the Liquidator intervened in the *Michigan National Bank Action*, alleging that the reinsurance proceeds were assets of the Union estate, payable to the Liquidator and not to Michigan National Bank. Meanwhile, the reinsurers counterclaimed that the reinsurance treaties had been procured by fraud, that F.B. Hall, the parent company of Union, had operated Union for improper purposes, and that Union had failed to disclose its insolvency in its annual reports.

On December 14, 1988, the reinsurers moved for summary judgment against the Liquidator seeking to rescind their reinsurance obligations on the grounds of fraud in the inducement. By decision dated October 16, 1989, this Court granted the motion and rescinded the reinsurance contracts. In a second decision dated November 14, 1989, the decision was amended to add another reinsurer to those entitled to relief.

The Liquidator moved to renew and reargue. Upon reargument, this Court, in an order entered November 16, 1992, modified its prior decision. Rather than allow rescission, which was barred by the Liquidation Order, this Court rendered a declaratory judgment that the reinsurance contracts were unenforceable. All these decisions were brought up for review on appeal and the Appellate Division affirmed. 200 A.D.2d 99, 611 N.Y.S.2d 506 (1st Dept. 1994).

Leave to appeal to the Court of Appeals was granted and the Court of Appeals affirmed as well. 89 N.Y.2d 94, 651 N.Y.S.2d 383 (1996).

In March 1993, the reinsurers in the *AIG Action*, brought a motion for summary judgment. The lower court, in an order entered August 19, 1993, granted summary judgment and declared the reinsurance contracts with Union to be unenforceable and the Appellate Division affirmed. 200 A.D.2d 99, 611 N.Y.S.2d 506. The Appellate Division also held that the reinsurers could not defeat the Liquidator's right to claim the return of premiums paid where the reinsurers had succeeded in having the contracts voided. *Curiale v. AIG MultiLine Syndicate* 204 A.D.2d 237, 613 N.Y.S.2d 360 (1st Dept. 1994).

The *Michigan National* and *AIG Multi-Line* declarations that the applicable Union reinsurance contracts were unenforceable eliminated, directly and by implication, all of Union's reinsurance recoverables, which were then quantified at approximately \$200,000,000. The potential effect was to more than double the depth of the insolvency and to drastically diminish the Union estate's ultimate distributions to creditors. *See Union Indemnity, Michigan National v. American*, Index No. 41292/85 (Sup.Ct., N.Y. Co.) (slip op. 10/20/92).

Under the new management, the NYLB is in the process of rebooking and rebilling reinsurance recoverables. As of March 31, 2007, the Liquidator's gross recovery from reinsurers totaled \$27,576,802.

3. Directors and Officers Litigation

As mentioned above, in the F.B. Hall Action, the Liquidator asserted claims against Union's parent and sole shareholder, F.B. Hall, its subsidiaries, the former directors and officers of Union, and Touche Ross & Co., the former auditors of F.B. Hall and Union, to recover damages in the amount of \$140,000,000 arising from the alleged mismanagement of Union by F.B. Hall prior

to liquidation. The parties reached a settlement, approved by order entered June 5, 1997 in the amount of \$55,400,000. The Liquidator received the initial installment of the settlement on July 28, 1997 in the amount of \$26,400,000. The remainder of the settlement was to be paid in annual installments over 10 years, commencing November 9, 1998. Subsequently, by order entered March 17, 1998, this Court approved a prepayment agreement between the parties whereby the Liquidator received accelerated payment of the installment portion of the settlement in the amount of \$20,234,884 for a total recovery through March 31, 2007 of \$47,705,462.

4. **Salvage and Subrogation**

As of March 31, 2007, the Liquidator has made salvage and subrogation recoveries in the total amount of \$5,742,211.

5. **Premium in the Course of Collection**

The Liquidator has collected premiums on policies written by Union in the amount of \$2,099,805.

6. **Receipts from Special Deposits**

The Liquidator has collected \$328,062 from the statutory deposits held by ancillary receivers.

7. **Miscellaneous Receipts**

As of March 31, 2007, the Liquidator has collected miscellaneous receipts in the amount of \$8,466,077 of which the majority, \$7,977,578, was transferred from a money market account for activities prior to 1994.

D. **Disbursement of Assets**

The Liquidator has disbursed a total of \$83,704,661 from July 16, 1985 through March 31, 2007, of which \$68,900,019 has been incurred by the estate and \$11,919,839 has been

incurred by the Security Funds in administrative expenses. These expenses include \$36,102,313 for the salaries of the Liquidator's staff, \$7,043,907 for employee benefits, \$12,473,817 for rent and \$5,614,858 for overhead expenses such as insurance, office equipment and supplies, postage and telephone.

Also included are professional fees, the Liquidator has retained counsel to represent him in the actions reported above as well as other matters. The total paid to counsel through March 31, 2007 is \$9,037,703. Additionally, the Liquidator has retained accountants and other consultants to prepare financial statements and for litigation support. The total amount paid to such consultants is \$9,691,899.

The balance of the Liquidator's administrative expenses consists of salvage and subrogation fees in the amount of \$93,201 and other miscellaneous expenses in the amount of \$762,160.

The expenses listed above total \$80,819,858. However, \$11,919,839 has been allocated to and paid by the Security Funds. Thus, the estate's administrative expenses are \$68,900,019. As stated above, the Security Funds have a claim for all expenses paid in connection with this proceeding.

The remaining disbursements were the advance to an affiliate for administrative expenses in the amount of \$1,200,000, a refund to a reinsurer of \$1,272,786⁹ and the loan to the WC Fund in the amount of \$412,017.

E. Loan Pursuant to Chapter 33

In May 2005, Article 74 of the Insurance Law was amended pursuant to New York Law Chapter 33 of the Session Laws of 2005 ("Chapter 33") to permit the WC Fund to take loans

⁹ On November 25, 1998, pursuant to a release agreement dated October 13, 1998 Union refunded \$1,272,786 to Mentor Insurance Co., Ltd., a Bermuda reinsurer of Union.

against the assets of insolvent domestic estates. As such, the Superintendent is authorized to make one or more loans to the WC Fund, up to a total of \$70,000,000 in the aggregate, from the assets of one or more insolvent domestic estates.

Chapter 33 Section 1 provides that any loan pursuant to Section 7433(a) of the Insurance Law shall be a liability of the WC Fund and shall be repaid pursuant to a plan of repayment to be prescribed by the Superintendent. Section 1 further provides that the repayment plan shall, among other things, require that any loan shall be made upon commercially reasonable terms in accordance with the Superintendent's fiduciary responsibilities and that no less than one-fourth of the payment collected pursuant to Section 108 of the Workers' Compensation Law shall be dedicated to the repayment of such loans.

Union loaned the WC Fund a total of \$412,017 pursuant to the above provisions. Pursuant to the loan agreement, the WC Fund has made quarterly payments to the estate in the total amount of \$380,107, leaving a balance of \$31,910 as of March 31, 2007.

IV. CURRENT STATUS

A. Assets and Liabilities

Union's comparative balance sheet and statement of cash receipts and disbursements for the period ending March 31, 2007 are annexed hereto as Exhibit 1. As of March 31, 2007, Union had total assets of \$106,419,398 and total liabilities of \$515,650,555, leaving Union insolvent in the amount of \$409,231,157. The March 31, 2007 balance sheet reflects the sum of the transactions described herein.

1. Assets

Union's assets consist of cash and investments in the amount of \$98,363,578, restricted assets in the amount of \$6,008,419, and other assets in the amount of \$2,047,401. The restricted

assets are assets restricted by legal or contractual requirements, *e.g.*, monies placed in an escrow account, and are not currently available for distribution to creditors. The other assets consist of net reinsurance recoverables on paid losses of \$40,934,¹⁰ receivables from affiliates of \$1,259,294, accrued investment income of \$715,263, and the remaining balance of the WC Loan of \$31,910.

2. Liabilities

Union's liabilities for all classes as of March 31, 2007 total \$515,650,555, of which \$5,802,964 are for secured claims for pledged collateral, \$2,631,589 are Class one liabilities for operating and administrative expenses, and \$273,928,292 are Class two liabilities, *i.e.*, policy-related claims. The Class two liabilities consist of allowed amounts and outstanding reserves for policy-related non-fund covered claims in the amount of \$46,818,355, \$169,767,759 for the Funds' claims for the allowed and outstanding losses, \$1,130,539 for the return of unearned premium, and \$57,377,641 for paid and outstanding administrative and loss adjustment expenses (to be reduced by \$1,166,002¹¹ in advances).

The liabilities of the remaining classes total \$233,287,710 and are not explained in detail as there will not be sufficient assets to pay them.

B. Adjudication of Claims

A claim is "adjudicated" upon the Court's approval or disapproval of the Liquidator's recommendation to the Court that the claim be either "allowed" or "disallowed." An "allowed" claim is a claim that has been approved by a liquidation court and is therefore allowed to share in the distribution of assets pursuant to Insurance Law Section 7434. A "disallowed" claim is a

¹⁰ As noted above, the NYLB is in the process of rebooking and rebilling Union's reinsurance recoverables.

¹¹ This amount represents money retained by the Guaranty Funds from special deposits or from various recoveries (*i.e.*, subrogation, salvage, etc.). This amount reduces the Guaranty Funds' potential claim.

claim that has been rejected and will not share in any distribution of the estate's assets. Pursuant to orders issued by this Court setting forth a procedure for claims adjudication (the "Adjudication Orders") and appointing referees (the "Referee Orders"), creditors who object to the Liquidator's recommendations are entitled to a hearing before the Court or a Court-appointed referee. Copies of the Adjudication Orders and the Referee Orders are attached as Exhibit 2 and 3, respectively.

As of March 31, 2007, 31,299 potential claims have been recorded in this proceeding. As previously noted, this includes 3,540 proofs of claim that were filed for policyholder protection. Of the remaining filed claims, 2,027 proofs of claim have been voided as duplicate filings, 465 claims were voluntarily withdrawn in the proceeding, and 23,545 claims have been adjudicated. Of the adjudicated claims, 1,269 claim filings were resolved by Guaranty Funds on behalf of the Liquidator, 9,675 claims have been allowed, and 12,601 claims have been either disallowed or recommended for disallowance. A total of 1,722 claims remain open, including 474 deferred claims which had not been timely filed in the proceeding and 22 claims recommended for disallowance and pending resolution of objections filed by creditors.

Of the many classes of claims, the claims categorized as Class one and Class two will be the only claims receiving a distribution pursuant to Insurance Law Section 7434. Class one, as previously referenced, are administrative expenses. Class two are policy-related claims and are further analyzed here.

1. Funds' Claims

The Funds, having been triggered by Union's insolvency, were each deemed to have timely filed an omnibus proof of claim prior to the date fixed for filing proofs of claim. Having paid policyholder claims and associated expenses, the Funds are entitled to reimbursement from the assets of the insolvent estate and each has a claim for reimbursement of those payments. The

allowance of the Funds' claims is updated periodically. Although the Liquidator seeks to impose a bar date, as discussed below at page 24, the bar date will bar only presentment of claims after such date. Allowable Class two claims presented by proof of claim prior to the bar date, such as the omnibus proofs of claim filed by the Funds, will receive a distribution even though the claims will not fully develop until after the bar date.

a. P/C Fund Claims

As of March 31, 2007, the P/C Fund's claim, including loss, return premium and expense, has been allowed in the amount of \$143,267,573. The loss and expense reserves for the remaining 14 open P/C Fund claims are \$3,109,665. The Liquidator continues to submit underlying P/C Fund claims to the Court for allowance, as they are evaluated, to effect payment of losses and expenses. Pursuant to Insurance Law Section 7609, the claim of the P/C Fund will remain open until all underlying P/C Fund claims fully develop – *i.e.*, have been resolved or otherwise quantified.

b. The WC Fund Claims

As of March 31, 2007, the WC Fund's claim, including loss, return premium and expenses, has been allowed in the amount of \$1,450,071. In accordance with Workers' Compensation Law Section 109(c), the WC Fund is entitled to a valid claim for the full amount of its payments. Claimants with claims covered by the WC Fund were not required to file proofs of claim. Therefore, the claims handled by the WC Fund are not reflected in the number of proofs of claim filed or deemed to be filed in this proceeding. As of March 31, 2007, three claims remain open with loss and expense reserves of \$127,191. Pursuant to Article 6A of the Workers' Compensation Law, the respective claim of the WC Fund will remain open until all underlying claims have been resolved or otherwise quantified.

c. **The PMV Fund Claims**

As of March 31, 2007, the PMV Fund's claim including losses and expenses has been allowed in the amount of \$101,000. Pursuant to Insurance Law Section 7609, the respective claim of the PMV Fund will remain open until it is verified that all underlying claims have been resolved or otherwise quantified.

d. **Guaranty Funds Claims**

As of March 31, 2007, the claims of 40 Guaranty Funds have been allowed in the final amount of \$58,565,762. The claims of the remaining two Guaranty Funds have been allowed for an interim amount of \$15,261,808 and have reserves for open claims in the amount of \$6,392,870. The Liquidator continues to submit the Guaranty Funds' claims for paid losses and expenses to the Court for allowance as they are reviewed. The two remaining Guaranty Funds' proofs of claim will remain open until all underlying claims have been resolved or otherwise quantified. Although there has been no distribution in the Union proceeding, the Guaranty Funds have been advanced \$1,166,002 in subrogation and salvage recoveries and special deposits forwarded to them from ancillary receivers. *See* Section IV.A.2, *supra* at p. 20.

2. **Non-Fund Covered Claims**

As of March 31, 2007, there were 1,692 non-fund covered claims allowed in the amount of \$20,738,729. Reserves posted for the remaining 297 claims total \$26,079,626.

Class three - Federal government claims other than those payable as a Class two claim:

As of March 31, 2007, there is one claim allowed in the amount of \$137,245.

Class four - Wages claims: There was one claim, which was disallowed.

Class five - State and local government claims: As of March 31, 2007, there are two open claims with outstanding reserves totaling \$19,604 and two claims allowed in the amount of \$51,733. Two claims have been disallowed.

Class six -- General creditor claims: As of March 31, 2007, there were 647 open claims with outstanding reserves in the amount of \$5,232,576 and 29 claims that have been allowed in the amount of \$215,860. A total of 23 claims have been disallowed.

a. Reinsurance Claims

Reinsurance claims include all claims arising under reinsurance contracts. According to Union's books and records, Union has 282 open reinsurance claims filed in the proceeding, excluding 41 that were not filed timely and have been classified as Class seven.

Class seven -- Late filed claims: As of March 31, 2007, there were 474 claims that were not filed timely in the proceeding.

Class eight -- Section 1307 claims: None.

Class nine -- Shareholder claims: None

V. RELIEF SOUGHT

The Liquidator seeks to expedite the liquidation of Union and to distribute its assets in a manner that will treat all affected parties in accordance with Article 74. The Liquidator, therefore, proposes to establish a bar date to cut off the presentment of any new claims. As previously discussed, the Liquidator has compiled a list of all creditors and has addressed their claims in this Initial Report. The certainty resulting from the establishment of a bar date will enable the Liquidator to quantify Union's liability and determine with finality the ultimate amount due to creditors, to make a distribution of assets to Class two creditors with allowed

claims, and to take the remaining steps to wind up the Union estate.¹² Without a bar date, claims covered by PHP proofs of claim and reinsurance claims could continue to accrue *ad infinitum*. The Court's setting of a bar date will cut off any further submission of new claims covered by such proofs of claim and thereby expedite closure of the liquidation proceeding, which has been open for more than two decades. Accordingly, the Liquidator believes that it is in the best interest of Union's policyholders, claimants, creditors and the general public for the Court to establish a bar date of November 15, 2007 ("Bar Date").

In order to calculate a feasible and appropriate initial distribution percentage, the Liquidator must determine Union's distributable assets and make a conservative estimate of its outstanding liabilities. This approach is necessary to ensure that there will be sufficient assets to pay all creditors (including creditors whose claims have yet to be adjudicated) their respective shares of Union's assets. As such, the Liquidator would now like to ensure that: (i) Union's policyholders and creditors have the opportunity to present their claim on or before the Bar Date; and (ii) any claims, other than administrative costs and expenses, submitted after the Bar Date are barred.

For the above reasons, the Liquidator proposes that the Court bar and discharge all claims, except administrative costs and expenses, not submitted to the Liquidator by November 15, 2007.

¹² See also N.Y. Insurance Law §7417, which vests courts with the authority to grant such relief as the nature of the case and the interests of policyholders, creditors and the public may require. This authority encompasses the establishment of bar dates to facilitate the efficient closure of an estate in order to preserve and maximize the assets available to pay all classes of creditors with allowed claims. See, e.g., *In the Matter of Dominion Ins. Co.*, Index No. 40924/1986, (Sup.Ct., N.Y. Co., April 5, 1999); *In the Matter of Ideal Mutual Ins. Co.*, Index No. 40275/85, (Sup.Ct., N.Y. Co., December. 9, 2003) (liquidation courts approving bar dates). Petitioner will be pleased to provide the Court with copies of these decisions and any other documents which Petitioner has referenced but not attached to this Initial Report in order to reduce the report's paper volume.

A. Payment to Creditors

As noted above, the priority of distribution of assets from a liquidating insurer is set forth by Insurance Law Section 7434, which provides that all members of a senior class be paid in full before the members of the next class may receive any payment. Section 7434(a) (1) provides in pertinent part:

Upon the recommendation of the Superintendent, and under the direction of the court, distribution payments shall be made in a manner that will assure the proper recognition of priorities and a reasonable balance between the expeditious completion of the liquidation and the protection of unliquidated and undetermined claims. . . . No claim by a shareholder, policyholder or other creditor shall be permitted to circumvent the priority classes through the use of equitable remedies.

In view of the above, the Liquidator believes that the affairs of the estate are in a condition such that a distribution on allowed claims can now be made. The relevant classes of claims with respect to this distribution are as follows:

Class one. Claims with respect to the actual and necessary costs and expenses of administration, incurred by the Liquidator.

Class two. All claims under policies.

The Liquidator has accounted for Union's financial situation through March 31, 2007, and has reserved for the Class two claims which have yet to be adjudicated, as well as for projected administrative costs and expenses. This reserve is necessary to ensure that at the time of any subsequent distribution, there will be sufficient assets to pay all Class two creditors in parity and the administrative costs and expenses incurred as of that time. Accordingly, the Liquidator recommends that, to the extent sufficient assets are available, Class one claims be paid in full and an initial distribution be made to each Class two creditor possessing an allowed claim.


V. CONCLUSION / COURT APPROVAL

The Liquidator submits this Initial Report in order to describe to the supervising Court the status of the Union liquidation and to serve as the basis for a partial immediate distribution to Union's policyholders and creditors with allowed claims as provided by Insurance Law Section 7434.

Accordingly, the Liquidator hereby moves, on notice, to Union's policyholders and creditors, for an order which:

- a. Approves the Initial Report;
- b. Approves the financial transactions delineated in the Initial Report.
- c. Provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by Union reported through November 15, 2007 will be considered for allowance;
- d. Provides that all claims for losses and loss adjustment expenses including, without limitation, direct policy claims reported after November 15, 2007 be barred and discharged;
- e. Authorizes the Liquidator to make a distribution of assets, consistent with this Court's orders and the priorities set forth in Insurance Law Section 7434, to those creditors of Union with allowed claims to the extent that, in the Liquidator's discretion, sufficient funds are available; and
- f. Provides for such other and further relief as the Court shall deem appropriate and just.

Dated: New York, New York
October 10, 2007


MARK G. PETERS
Special Deputy Superintendent
And Agent of the Liquidator

**UNION INDEMNITY INSURANCE COMPANY
IN LIQUIDATION
STATEMENT OF ASSETS**

	March 31, 2007	July 16, 1985 Liquidation Date
Unrestricted Assets:		
Cash-Unrestricted	\$ 9,813,229	\$ 2,887,912
Short-Term Investments	17,662,799	-
Bonds, Preferred Stocks, and Common Stocks	<u>70,887,550</u>	<u>23,205,093</u>
Total Cash and Invested Assets	\$ 98,363,578	\$ 26,093,005
Investment in Subsidiary	-	-
Other Invested Assets		
Reinsurance Recoverables on Paid Losses and LAE	48,585,705	\$ 66,413,659
Less: Allowance for Uncollectible Reinsurance Recoverable	<u>(48,544,771)</u>	<u>-</u>
Net Reinsurance Recoverable on Paid Losses and LAE	40,934	66,413,659
Reinsurance Recoverables on Unpaid Losses and Unpaid LAE	1,117,885	-
Less: Allowance for Uncollectible Reinsurance Recoverable	<u>\$ (1,117,885)</u>	<u>-</u>
Net Reinsurance Recoverable on Unpaid Losses and LAE	-	-
Premiums Due and Accrued From Agents and Policyholders	-	17,169,462
Receivable from Affiliates	1,259,294	-
Accrued Investment Income	715,263	-
Furniture, Fixtures, and Equipment	-	493,777
Other Assets	<u>31,910</u>	<u>2,247,152</u>
Total Unrestricted Assets	100,410,979	112,417,055
Restricted Assets:		
Restricted - Statutory Deposits in This or Other States	351,705	1,374,718
Restricted - Other	<u>5,656,714</u>	<u>548,905</u>
Total Restricted Assets	6,008,419	1,923,623
Total Assets	\$ 106,419,398	\$ 114,340,678

**UNION INDEMNITY INSURANCE COMPANY
IN LIQUIDATION
STATEMENT OF LIABILITIES**

	March 31, 2007	July 16, 1985 Liquidation Date
Secured Claims	\$ 5,802,964	-
Class I - Administrative Claims:	2,631,589	\$ 2,174,070
Class II - Claims and Related Costs:		
Guaranty Fund Claims:		
Allowed Claims:		
Administrative Claims Expenses	\$ 4,674,745	-
Loss Adjustment Expenses (LAE)	49,718,343	-
Loss Claims	163,122,587	-
Unearned and Advance Premium Claims	<u>1,130,539</u>	-
Total Allowed Claims	218,646,214	-
Less Advance Dividends	<u>(1,166,002)</u>	-
Total Allowed Claims	217,480,212	-
Non - Allowed Claims:		
Administrative Claims Expenses	144,591	-
Loss Adjustment Expenses (LAE)	2,839,962	\$ 6,136,698
Loss Claim Reserves	6,645,172	49,874,877
Unearned and Advance Premium Claims	<u>-</u>	-
Total Non-Allowed Claims	9,629,725	\$ 56,011,575
Total Guaranty Fund Claims:	227,109,937	56,011,575
General Creditor Claims:		
Allowed Claims:		
Loss Claims	20,077,669	-
Unearned and Advance Premium Claims	<u>661,060</u>	-
Total Allowed Claims	20,738,729	-
Less Dividends	<u>-</u>	-
Total Allowed Claims	20,738,729	-
Non - Allowed Claims:		
Loss Claims Reserves	26,075,897	-
Unearned and Advance Premium Claims	3,729	9,051,116
Loss Adjustment Expenses (LAE)	<u>-</u>	-
Total Non- Allowed Claims	26,079,626	9,051,116
Total General Creditor Claims	46,818,355	9,051,116
IBNR	<u>-</u>	-
Total Class II Claims and Related Costs:	273,928,292	\$ 65,062,691
Class III - Federal Government Claims:		
Allowed Claims:	137,245	-
Less: Dividends	<u>-</u>	-
Total Allowed Claims	\$ 137,245	-
Non - Allowed Claims	<u>-</u>	-
Total Class III Claims	\$ 137,245	-
Class IV - Employee Claims:		
Allowed Claims:	-	-
Less: Dividends	<u>-</u>	-
Total Allowed Claims	-	-
Non - Allowed Claims	<u>-</u>	-
Total Class IV Claims	-	-

**UNION INDEMNITY INSURANCE COMPANY
IN LIQUIDATION
STATEMENT OF LIABILITIES**

	March 31, 2007	July 16, 1985 Liquidation Date
Class V - State and Local Government Claims:		
Allowed Claims:	\$ 51,733	-
Less: Dividends	<u> -</u>	<u> -</u>
Total Allowed Claims	51,733	-
Non - Allowed Claims	<u>19,604</u>	<u> -</u>
Total Class V Claims	\$ 71,337	-
Class VI - General Creditors:		
Allowed General Unsecured Creditor Claims (Other than Reinsurance Related)	215,860	-
Less: Dividends	<u> -</u>	<u> -</u>
Total Allowed Claims	215,860	-
Non Allowed General Unsecured Creditor Claims (Other than Reinsurance Related)	<u>5,232,576</u>	<u> -</u>
Total General Unsecured Creditor Claims (Other than Reinsurance Related)	5,448,436	-
Reinsurance Related Unsecured Claims	155,563,051	\$ 63,475,143
Less: Dividends	<u> -</u>	<u> -</u>
Total Reinsurance Related Unsecured Claims	155,563,051	\$ 63,475,143
Total Class VI Claims	161,011,487	\$ 63,475,143
Class VII - Late Filed Claims:		
Allowed Claims:	-	-
Less: Dividends	<u> -</u>	<u> -</u>
Total Allowed Claims	-	-
Non - Allowed Claims	<u>\$ 72,046,219</u>	<u> -</u>
Total Class VII Claims	72,046,219	-
Class VIII - Section 1307 (Shareholder) Loans:		
Allowed Claims:	-	-
Less: Dividends	<u> -</u>	<u> -</u>
Total Allowed Claims	-	-
Non - Allowed Claims	<u> -</u>	<u> -</u>
Total Class VIII Claims	-	-
Class IX - Share Holder Claims:		
Allowed Claims:	-	-
Less: Dividends	<u> -</u>	<u> -</u>
Total Allowed Claims	-	-
Non - Allowed Claims	<u> -</u>	<u> -</u>
Total Class IX Claims	-	-
Other Liabilities	21,422	-
Total Liabilities	<u>515,650,555</u>	<u>130,711,904</u>
TOTAL DEFICIT	<u>\$ (409,231,157)</u>	<u>\$ (16,371,226)</u>

UNION INDEMNITY INSURANCE COMPANY
STATEMENT OF CHANGES IN CASH AND INVESTED ASSETS
FOR THE PERIOD ENDING MARCH 31, 2007

BEGINNING CASH AND INVESTED ASSETS - JULY 16, 1985		\$ 26,093,005
Receipts	Investment Income Received	52,558,681
	Reinsurance Recovered	27,576,802
	Premiums and Commission Collected	2,099,805
	Salvage and Subrogation	5,742,211
	Expense Reimb Rec from NYSF	11,919,839
	Litigation Awards	47,705,462
	Release from Special Deposit	328,062
	Partial payment of WC loan	380,107
	Miscellaneous	8,466,077
Total Cash Receipts		156,777,046
Disbursements	Loan to WC Security Fund	412,017
	Advance to Affiliate	1,200,000
	Release to Reinsurer	1,272,786
	Salvage and Subrogation fees paid	93,201
	Salaries	36,102,313
	Employee Relations & Welfare	7,043,907
	Rent & Rent Items	12,473,817
	Professional Fees	18,729,602
	Other	762,160
	Office Expense	5,614,858
Total Cash Disbursements		83,704,661
Net Increase (Decrease) in Cash		73,072,385
Unrealized Loss on Investments		(801,812)
ENDING CASH AND INVESTED ASSETS - MARCH 31, 2007		\$ 98,363,578

At IAS Part 27 of the Supreme Court of the State of New York, 60 Centre Street, in the Borough of Manhattan, City and State of New York, on the 11 day of JANUARY, 1991.

P R E S E N T :

HON. IRA GAMMERMAN

JUSTICE.

-----X Index No. 41292/85

In the Matter of
the Liquidation of
UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK

ORDER APPROVING THE
PETITIONER'S PROPOSED
PROCEDURE FOR JUDICIAL
REVIEW OF THE
PETITIONER'S
DISALLOWANCE OF CLAIMS

-----X

SALVATORE R. CURIALE, the Superintendent of Insurance of the State of New York as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK (the "Liquidator"), having moved this Court by Petition dated October 7, 1993, for approval of a Procedure (the "Procedure") for Judicial Review of the Liquidator's Recommendations for Disallowance of Claims made in this proceeding, and it appearing from the Petition that the Procedure will best serve the interests of UNION INDEMNITY INSURANCE COMPANY ("UNION"), its creditors, all other interested persons and that it should be approved and implemented;

IT IS HEREBY ORDERED:

1. The Procedure is Approved.
2. The Court finds that the Procedure is required for the orderly administration of the Union estate. The Procedure will enable the Liquidator to dispose of claims on an ongoing basis while offering due process to all claimants who object to his recommendations.

3. The Procedure is as follows:

- a) The Liquidator shall, on a periodic basis, prepare a list of claims recommended for disallowance. The Liquidator shall serve each claimant with a "Notice of Recommendation of Disallowance". Service shall be made by first class mail to claimant's last known address. The Notice of Recommendation of Disallowance shall advise each claimant that:
 - i) The claimant's claim has been recommended for disallowance by the Liquidator;
 - ii) The claimant may object to the Notice of Recommendation of Disallowance by serving written objections on the Liquidator that must be received by the Liquidator within sixty days of the date of the Notice of Recommendation of Disallowance:

- iii) If the claimant fails to timely object to the Liquidator's recommendation for disallowance, the Liquidator shall submit an ex-parte motion to this Court for an order approving his recommendations of disallowance of the claimant's claim.
- iv) Each claim for which a timely objection is received will be referred to the referee appointed by the Court, pursuant to the Orders dated December 22, 1986 and April 26, 1991, to hear and report on the validity of the claimant's objections and that the Liquidator will notify each claimant of the time and place of the hearing on the claimant's claim.
- b) The Liquidator shall submit an ex-parte order, after seventy-five days from the date of the Notice of Recommendation of Disallowance, which shall provide for the approval and confirmation of the Liquidator's recommendations for disallowance with respect to each claim for which no objection is received.

E N T E R

S/
IRA GAMMELMAN
J. S. C.

FILED
JAN. 20, 1994
CLY. CLK'S OFFICE
NEW YORK

0665M/1-3

SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

Index Number : 041292/1985

PART 03

UNION INDEMNITY INSURANCE **C**

vs

AMERICAN CENTENNIAL INSURANCE

Sequence Number : 132

APPT REF COMPUTE/EXAMINE ACCT.

INDEX NO. _____

MOTION DATE _____

MOTION SEQ. NO. _____

MOTION CAL. NO. _____

The following papers, numbered 1 to _____ were read on this motion to/for _____

Notice of Motion/Order to Show Cause — Affidavits — Exhibits

Answering Affidavits — Exhibits

Replying Affidavits JAN 25 2007

Cross-Motion IAS MOTION SUPPORT OFFICE No

Upon the foregoing papers, it is ordered that this motion

PAPERS NUMBERED

FILED

JAN 29 2007

COUNTY OF NEW YORK
CLERK'S OFFICE

Order of appointment of successor Referee signed to court

Dated: 1/18/07

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE FOR THE FOLLOWING REASON(S):

No copy

no diff

14
03
At IAS Part 03 of the Supreme Court of the State of New York, County of New York, at the Courthouse, 60 Centre Street, New York, New York on the 18th day of July, 2006.

P R E S E N T

HON. KARLA MOSKOWITZ

JUSTICE

-----X
In the Matter of

the Liquidation of

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK
-----X

Index No.: 41292/1985

**ORDER APPOINTING
SUCCESSOR REFEREE**

HOWARD MILLS, SUPERINTENDENT of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK ("UNION") having duly moved this Court for an order appointing a Successor Referee to hear and report on the objections filed by claimants to the Liquidator's recommended disallowances of their claims.

NOW, on the motion of VINCENT J. TABONE, Attorney for the Superintendent of Insurance as Liquidator, it is

ORDERED, that the motion is granted without opposition; and it is further

ORDERED, that any and all claims and objections filed by claimants in the

within proceeding which has not been settled or compromised are referred to:

NAME: Amy Rothstein

ADDRESS: Doar, Rieck, Kaley & Mack
217 Broadway

PHONE NO.: New York, NY 10007

212-619-3730

#132

FILED
JAN 29 2007
NEW YORK
COUNTY CLERK'S OFFICE

as Successor Referee to hear and take evidence on the factual issues raised by the said objections, and to report thereon with all convenient speed; and it is further:

ORDERED, that the Successor Referee shall be paid a fee based on an hourly rate of \$125/hour as an administrative expense of the estate, and it is further ^{OR WHATEVER HIGHER RATE THE LIQUIDATION BUREAU OBTAINS AUTHORITY TO PAY}

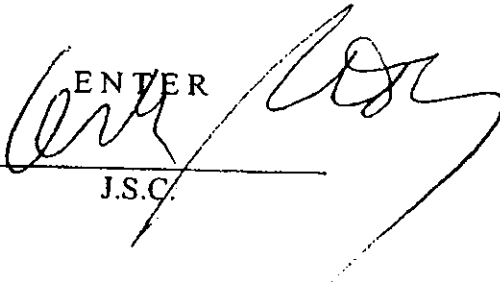
ORDERED, that the Successor Referee appointed to hear and report on objections shall conduct the hearings at the place of business of the Superintendent of Insurance, as Liquidator, namely 123 William Street, Borough of Manhattan, City and State of New York; and it is further

ORDERED, that at least five (5) days before objections to disallowed claims shall be brought on for a hearing by the Liquidator before the Successor Referee, a notice thereof, in writing, setting forth the name of the claimants, the day, hour and place of hearing, shall be sent by mail by the Liquidator to the objectants' addresses as set forth in said objections; and it is further

ORDERED, that the Successor Referee hereinabove designated to hear and report to the Court as to any and all affirmative claims of the Superintendent of Insurance, as Liquidator, against such objectants to the end that all claims directly against the Company, in liquidation, may be adjudicated in this proceeding; and it is further


ORDERED, that whenever it shall appear to the Superintendent of Insurance, as Liquidator, upon satisfactory proof to him, that any claims on which objections have been filed to his recommended disallowances should be compromised, settled or adjusted, the Liquidator, on agreement with the claimants, may compromise, settle or adjust said

claims, subject to required Court approval, without the necessity of any report whatsoever on the part of the Liquidator or the Successor Referee.


ENTER

J.S.C.

FILED
JAN 29 2007
NEW YORK
COUNTY CLERK'S OFFICE



Index No.: 41292

Year 1985

SUPREME COURT OF THE STATE OF NEW YORK: COUNTY OF NEW YORK

In the Matter of

the Liquidation of

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK

ORDER APPOINTING SUCCESSOR REFEREE

VINCENT J. TABONE

Attorney for Superintendent
of Insurance as Liquidator

Office and Post Office Address, Telephone

New York Liquidation Bureau
123 William Street
New York, NY 10038-3889
(212) 341-6755

ATTORNEY CERTIFICATION

The undersigned, an attorney admitted to practice in the courts of New York State, certifies that, upon information, belief and reasonable inquiry, the contentions in the above referenced document(s) are not frivolous.

Dated: New York, New York
December 4, 2006



Jack A. Franceschetti

At 1AS Part 03 of the Supreme Court of the State of New York, County of New York, at the Courthouse, 60 Centre Street, New York, New York 10007 on the 15th day of August, 2003.

P R E S E N T

HONORABLE ~~JUSTICE~~

JUSTICE **KARLA ROSKOPF**

FILED

AUG - 6 2003

In the Matter of

Index No. 41292/1985

The Liquidation of

ORDER APPOINTING
SUCCESSOR REFEREE

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK

GREGORY V. SERIO, SUPERINTENDENT of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK ("UNION INDEMNITY") having duly moved this Court for an order appointing a Successor Referee to hear and report on the objections filed by claimants to the Liquidator's recommended disallowances of their claims.

NOW, on the motion of STEVEN R. HARRIS, ESQ., Attorney for the Superintendent of Insurance as Liquidator, it is

ORDERED, that the motion is granted without opposition and it is further

ORDERED, that any and all claims and objections filed by claimants in the within proceeding which has not been settled or compromised are referred to:

NAME: Rebecca H. Ransom
ADDRESS: 404 Park Avenue South NY 10016
PHONE NO.: 212 779 9575

subject while, ~~41292~~ 41292 for me with Court

as Successor Referee to hear and take evidence on the factual issues raised by the said objections, and to report thereon with all convenient speed, and it is further:

ORDERED, that the Successor Referee shall be paid a fee based on an hourly rate of \$125/hour as an administrative expense of the estate, and it is further

ORDERED, that the Successor Referee appointed to hear and report on objections shall conduct the hearings at the place of business of the Superintendent of Insurance, as Liquidator, namely 123 William Street, Borough of Manhattan, City and State of New York; and it is further

ORDERED, that at least five (5) days before objections to disallowed claims shall be brought on for a hearing by the Liquidator before the Successor Referee, a notice thereof, in writing, setting forth the name of the claimants, the day, hour and place of hearing, shall be sent by mail by the Liquidator to the objectants' addresses as set forth in said objections; and it is further

ORDERED, that the Successor Referee hereinabove designated to hear and report to the Court as to any and all affirmative claims of the Superintendent of Insurance, as Liquidator, against such objectants to the end that all claims directly against the Company, in liquidation, may be adjudicated in this proceeding; and it is further

ORDERED, that whenever it shall appear to the Superintendent of Insurance, as Liquidator, upon satisfactory proof to him, that any claims on which objections have been filed to his recommended disallowances should be compromised, settled or adjusted, the Liquidator, on agreement with the claimants, may compromise, settle or adjust said claims, subject to required Court approval, without the necessity of any report whatsoever on the part of the Liquidator or the Successor Referee

ESTER
Wey
L.S.C.
KARLA MOSKOWITZ

FILED

AUG - 6 2003

COURT CLERK'S OFFICE
NEW YORK

PRESENT

Justice

0041292/1985

UNION INDEMNITY INSURANCE
vs
AMERICAN CENTENNIAL INSURANCE

SEQ 127

APPT REE COMPUTE/EXAMINE ACCT.

INDEX NO. _____
MOTION DATE 8/1/03
MOTION SEQ. NO. _____
MOTION CAL. NO. _____

The following papers, numbered 1 to _____ were read on this motion to/for _____

Notice of Motion/ Order to Show Cause - Affidavits - Exhibits ...
Answering Affidavits - Exhibits _____
Replying Affidavits _____

PAPERS NUMBERED

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion

is granted to appoint receiver trustee Order signed hereunder.

FILED

AUG - 6 2003

COUNTY CLERK'S OFFICE
NEW YORK

Dated: 8/1/03

[Signature]
MARLA BOSKOWITZ
J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE

At IAS Part 27 of the Supreme Court
of the State of New York, County
of New York, at the Courthouse,
60 Centre Street, Borough of
Manhattan, City and State of
New York, on the 11th day of
of April, 1991.

P R E S E N T

HON. *IRA GAMMERMAN*
JUSTICE.

-----x

In the Matter of
the Liquidation of

Index No. 41292/1985

O R D E R

UNION INDEMNITY INSURANCE COMPANY OF
NEW YORK

-----x

Upon reading and filing the annexed petition of
SALVATORE R. CURIALE, Superintendent of Insurance of the State
of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK, (hereinafter referred to as "UNION"), by RICHARD
S. KARPIN, Assistant Special Deputy Superintendent of Insurance
and Agent in this proceeding, duly verified the 11th day of
April, 1991, the Affirmation of LAWRENCE A. DINERSTEIN upon all
the papers and proceedings heretofore had herein and due
deliberation having been had thereon,

NOW, on motion of WILLIAM F. JEROME, attorney for the petitioner, it is

ORDERED, that so much of the Order granted on December 8, 1986 which appointed the HON. HYMAN KORN referee, and entered on the 22nd day of December, 1986 and all proceedings thereunder be and the same hereby are vacated and set aside, and it is further

ORDERED, that ARTHUR BLYN, Esq.,
14 EAST 4th STREET SUITE 408 NEW YORK, N.Y. 10012-1135
be hereby designated successor referee to report in this case to act in the same capacity and with the same powers as directed in the original order appointing a referee in this matter to hear and take evidence on the factual issues raised by the said objections and report thereon with all convenient speed and it is further

ORDERED, that the aforesaid referee shall conduct all hearings at the place of business of the Superintendent of Insurance, as Liquidator, namely 123 William Street, Borough of Manhattan, City and State of New York.

Filed
4/26/91
NY Co.
Clerk's
Office

DATE APR 26 1991 ENTER, J. G.
I hereby certify that the foregoing paper is a true copy of the original thereof, filed in my office on the 26 day of APR 1991
J. S. C.

County Clerk and Clerk of the Supreme Court New York County
NO FEE - OFFICIAL USE

0492M/29

At IAS Part 27, of the Supreme Court of the State of New York, County of New York, at the Court house, 60 Centre Street, in the Borough of Manhattan, City and State of New York, on the 8th day of December, 1986.

P R E S E N T :

HON. IRA G. GAMMERMAN

JUSTICE.

-----x
In the Matter of
the Liquidation of

Index No. 81292/1986

O R D E R

UNION INDEMNITY INSURANCE COMPANY
OF NEW YORK.
-----x

JAMES P. CORCORAN, Superintendent of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK, having duly moved this Court for an order approving and confirming his recommendations for the disallowance in full of the claims as set forth in the schedule annexed to the Order to Show Cause dated the 29th day of October, 1986, and said motion having duly come on to be heard on the 2nd day of December, 1986;

NOW, upon reading and filing the Order to show Cause granted by Hon. IRA G. GAMMERMAN on the 29th day of October, 1986, the petition of JAMES P. CORCORAN, Superintendent of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK, duly verified the said 1st of October, 1986

and the schedule thereto annexed with proof of service in support thereof, and upon reading the objections filed by the claimants hereinafter set forth; and after hearing WILLIAM F. JEROME, attorney for the Superintendent of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK, in support of said motion, and due deliberation having been had thereon, and upon filing the opinion of this Court:

NOW, on motion of WILLIAM F. JEROME, attorney for JAMES P. CORCORAN, Superintendent of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK, it is

ORDERED, that the motion and petition to approve and confirm the recommendations of the Superintendent of Insurance of the State of New York, as Liquidator of UNION INDEMNITY INSURANCE COMPANY OF NEW YORK are granted, except as hereinafter provided, and it is further

ORDERED, that the recommendations made by the Superintendent of Insurance, as Liquidator, as set forth in the motion and petition regarding the disallowance of claims against the company in liquidation, to which no objections have been filed are approved and confirmed, except as hereinafter provided; and it is further

ORDERED, that the objections filed to the Liquidator's motion and petition by the following claimants is the within pro-

ceeding which has not been settled or compromised as set forth in Exhibit "A" attached, are referred to the Hon. *Klyman Korn*

1350 Avenue of the Americas, New York, N.Y. 10019

Referee to hear and take evidence on the factual issues raised by the said objections and report thereon with all convenient speed, and it is further

ORDERED, that the fee of said Referee shall be set by the Court; and it is further

ORDERED, that the aforesaid Referee shall conduct all hearings at the place of business of the Superintendent of Insurance, as Liquidator, namely, 123 William Street, Borough of Manhattan, City and State of New York; and it is further

ORDERED, that at least five (5) days before objections shall be brought on for a hearing by the Liquidator before the said Referee, a notice thereof, in writing, setting forth the name of the claimants, the day, hour and place of hearing, shall be sent by mail by the Liquidator to the objectants at the objectant's addresses as set forth in said objections; and it is further

ORDERED, that the Referee hereinabove designated to hear and report to the Court upon objections filed herein, shall take evidence and report to the Court as to any and all affirmative claims of the Superintendent of Insurance, as Liquidator, against such objectants to the end that all claims directly against the Company, in liquidation, may be adjudicated in this proceeding;

and it is further

ORDERED, that whenever it shall appear to the Superintendent of Insurance, as Liquidator, upon satisfactory proof to him, that any claims on which objections have been filed to his reports should be compromised, settled or adjusted, the Liquidator, on agreement with the claimant, may compromise, settle or adjust said claims, and such settled claims shall be deemed withdrawn from this order of reference and they shall thereupon be deemed confirmed as allowed as agreed upon without further order and without the necessity of any report whatsoever on the part of the Liquidator or the Referee; and it is further

ORDERED, subject to the further reference of the Court, that any other objections to disallowed claims as against the liquidated Company which have not been made a part of this Order, but became known subsequent to the date hereof, shall be deemed annexed to the foot of this Order upon appropriate notice to claimants, and said objections shall be referred to the Referee designated herein to hear and report in the manner aforesaid.

E N T E R

151 I.G.
J. S. C.

Filed
12/22/56
NY County

EXHIBIT "A"

Name of Claimant
Attorney, if any
Company Claim Number
Liquidator's Claim Number

Eugene Semel
c/o John Gutman, Esq.
4009 Fifth Avenue
Brooklyn, NY 11232
Co. Cl. #115-45826 U-VEH-6 MF

Jerusalem Caterers, Inc.
c/o Edward T. Longo
115-89 A Lefferts Blvd.
South Ozone Park, NY 11420
Co. Cl. #115-40126 U-FIRE-80 MF

Glam Realty, Inc. & Vehicle Brokerage, Inc.
c/o Braverman & Rost, Esqs.
1205 Franklin Avenue
Garden City, NY 11530
Co. Cl. #115-43814 U-VAN-12 MF

Seacrest Trading Co., Inc.
c/o Weg & Myers, P.C.
52 Duane Street
New York, NY 10007
Co. Cl. #115-45614 U-FIRE-81 MF

Maken Industries
c/o Joseph Aronauer, Esq.
245 Park Avenue
New York, NY 10167
Co. Cl. #115-30755 U-GL-109

Index No.: 41292/85

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

In the Matter of
the Liquidation of
UNION INDEMNITY INSURANCE COMPANY OF NEW YORK

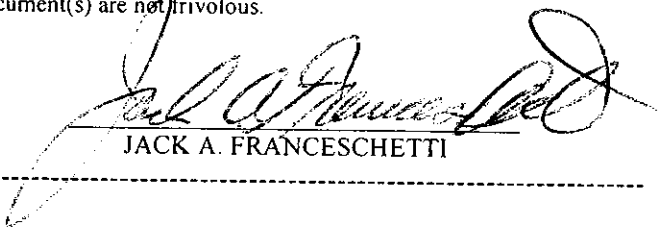
**ORDER TO SHOW CAUSE
AND VERIFIED PETITION WITH EXHIBITS**

Andrew J. Lorin
Attorney for Superintendent of Insurance as Liquidator
Office and Post Office Address, Telephone
New York Liquidation Bureau
123 William Street – 2nd Floor
New York, NY 10038-3889
(212) 341-6755

ATTORNEY CERTIFICATION

The undersigned, an attorney admitted to practice in the courts of New York State, certifies that, upon information, belief and reasonable inquiry, the contentions in the above referenced document(s) are not frivolous.

Dated: New York, New York
October 11, 2007



JACK A. FRANCESCHETTI

NOTICE OF ENTRY

that the within is a (*certified*) true copy of a
duly entered in the office of the clerk of the within named court on

200

NOTICE OF SETTLEMENT

that an order
settlement to the HON.

of which the within is a true copy will be presented for
one of the judges of the within named court, at

200 at M.

Dated: , on

Yours, etc.

Andrew J. Lorin
Attorney for Superintendent of Insurance as Liquidator
Office and Post Office Address, Telephone
New York Liquidation Bureau
123 William Street – 2nd Floor
New York, NY 10038-3889
(212) 341-6755

To

Attorney(s) for