



**IN THE COMMONWEALTH COURT OF PENNSYLVANIA**

M. Diane Koken,  
Insurance Commissioner of the  
Commonwealth of Pennsylvania,

Plaintiff,

v.

Reliance Insurance Company,

Defendant,

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: Docket No. 269 M.D. 2001  
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: Honorable James Gardner Colins,  
: President Judge  
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: Before Referee Edwards S. Finkelstein  
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*IN RE:                   Objections of Universal Bonding Insurance Company to Notice of  
                                  Determination for Proof of Claim No. 2081683 and Objections of  
                                  United States Fire Insurance Company to Notice of Determination  
                                  for Proof of Claim No. 1135740*

**STIPULATED SETTLEMENT RESPECTING OBJECTIONS TO  
NOTICES OF DETERMINATION FOR PROOFS OF CLAIM  
NOS. 2081683 AND 1135740 AND LIQUIDATOR'S COUNTERCLAIM**

Claimants, Universal Bonding Insurance Company ("UBIC") and United States Fire Insurance Company ("U.S. Fire"), and M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("the Liquidator") of Reliance Insurance Company in Liquidation ("Reliance"), through their respective attorneys, hereby stipulate and agree as follows:

1. Reliance was placed into Rehabilitation by Order of the Commonwealth Court of Pennsylvania dated May 29, 2001.

2. By Order of October 3, 2001, the Commonwealth Court terminated the Rehabilitation and Reliance was placed into Liquidation.

3. By Order of September 9, 2002, the Commonwealth Court established claims filing procedures and directed that Referees be appointed by the Court to hear claim disputes and outstanding Objections to Notices of Determination issued by the Liquidator and to make recommendations to the Commonwealth Court regarding such claims and Objections.

4. On or about December 23, 2003, UBIC filed a Proof of Claim ("UBIC POC"), Claim No. 2081683, for claimed unpaid expenses. Among other things, UBIC sought reimbursement of the more than \$8 million resulting from UBIC's involvement in the National Coalition of Property Owners and Managers ("NCPO Program"), a habitational insurance program whose members were issued Reliance insurance policies.

5. On or about October 27, 2004, upon consideration of UBIC's POC and supporting documentation, the Liquidator issued a Notice of Determination ("NOD") assigning UBIC's claim priority level (e) and assigning it no value.

6. On or about December 23, 2004, UBIC filed an Objection to the Notice of Determination of the Liquidator asserting that the claimed expenses were entitled to be paid as class (b) claims and disputing the assignment of no value to the claim ("the UBIC Objection").

7. On or about December 19, 2003, U.S. Fire filed a Proof of Claim ("US Fire POC"), Claim No. 1135740, for contingent amounts for its involvement in the NCPO Program for certain allegedly improper claims, payments and related legal fees and expenses.

8. On or about October 29, 2004, upon consideration of US Fire POC and supporting documentation, the Liquidator issued a Notice of Determination assigning U.S. Fire's claim priority level (e) and assigning it no value.

9. On or about December 27, 2004, U.S. Fire filed an Objection to the Notice of Determination asserting that the claimed expenses were entitled to be paid as class (b) claims and disputing the assignment of no value to the claim ("the U.S. Fire Objection").

10. The Commonwealth Court assigned the UBIC and U.S. Fire Objections to Kirk T. Karaszkiwicz, and the matter was later re-assigned to Edward S. Finkelstein (the "Referee"), as Referee for hearing and recommendation.

11. Prior to the re-assignment to Referee Finkelstein, the parties met on several occasions to resolve the dispute amicably. The parties advised the Referee that they had settled all disputes between them.

12. Specifically, the parties have agreed that, subject to the Court's approval, all disputes between them regarding (1) UBIC POC, (2) the U.S. Fire POC, (3) the Liquidator's NODs respecting the POCs, (4) the objections to the NODs, and (5) the Liquidator's counter-claims, as well as all matters pending before the Commonwealth Court relating to this above referenced POC's are resolved as follows:

- A. UBIC withdraws its Objection to the NOD relating to the UBIC POC and accepts the Liquidator's Notice of Determination with respect to its POC. (See executed copy of Motion to Withdraw, attached as Exhibit A).
- B. The parties agree that the Proofs of Claim listed on the attached Exhibit "A" are all of the Proofs of Claim for UBIC currently pending with the Liquidator. UBIC covenants and agrees not to file any additional Proofs of Claim and further certifies that it has not received payment from any other source, including the insured or any state guaranty association, of the expenses for which it has submitted the Proofs of Claim.

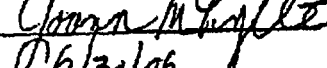
- C. U.S. Fire withdraws its Objection to the Notice of Determination relating to US Fire POC, and accepts the Liquidator's Notice of Determination with respect to its POC. (Exhibit A).
- D. The parties agree that the Proofs of Claim listed on the attached Exhibit "A" are all of the Proofs of Claim for U.S. Fire currently pending with the Liquidator. US Fire covenants and agrees not to file any additional Proofs of Claim and further certifies that it has not received payment from any other source, including the insured or any state guaranty association, of the expenses for which it has submitted the Proof of Claim.
- E. The Liquidator withdraws its counterclaim against UBIC relating to UBIC's POC. (Exhibit A).
- F. The Liquidator covenants and agrees not to file any further actions, claims or counter claims against either UBIC or U.S. Fire with respect to the Proofs of Claims subject to this proceeding.
13. This will fully and finally resolve all disputes, issues and claims between UBIC and U.S. Fire, on the one hand, and the Liquidator and the Reliance estate on the other hand.
14. The Pennsylvania Insurance Department Act of 1921 ("the Act") confers broad powers on the Liquidator to administer the affairs of an insolvent insurer's estate and to achieve the purposes of liquidation under the Act. See 40 P.S. §§221.1, 221.23.
15. Sections 221.23, 221.43, 221.44 and 221.45 of the Act confer upon the Liquidator the express authority to settle claims against the insolvent insurer's estate.
16. The Pennsylvania Supreme Court has recognized that the General Assembly conferred broad discretion upon the Insurance Commissioner, in her capacity as a statutory

receiver, to achieve the public policy and legislative goals of the Act. See Foster v. Mutual Fire Marine and Inland Ins. Co., 614 A.2d 1086 (Pa. 1992). The Act specifically authorizes the Liquidator, "to do such...acts as are necessary or expedient to collect, conserve or protect [the insolvent insurer's] assets or property, including the power to...compromise...any bad or doubtful debts." See 40 P.S. §221.23(6).


17. The Liquidator has determined that (1) this Stipulated Settlement is fair and reasonable and is in the best interest of the estate of Reliance, its policyholders and other creditors and (2) the terms of the Stipulated Settlement are consistent with the provisions of the Act and the Court's Orders. The Liquidator further believes that the Stipulated Settlement will assist her in achieving the objectives of liquidation under the Act, in that it will assist the Liquidator in conserving the assets of the estate, one of the primary objectives of liquidation, by eliminating the very substantial costs and expenses that would be incurred in litigating this Action, including among other things, the extensive discovery that would need to be undertaken.

WHEREFORE: The Liquidator, UBIC and U.S. Fire respectfully request that the Commonwealth Court (1) approve the terms of the Stipulated Settlement as set forth herein; (2) authorize the Parties to perform the Stipulated Settlement; and (3) approve the parties' motions to withdraw objections and counterclaim of the Liquidator.

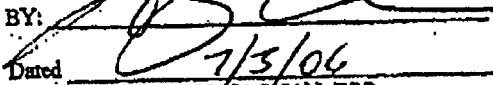
UNIVERSAL BONDING  
INSURANCE COMPANY

BY:   
Dated 6/30/06  
JOANN M. LYTLE, ESQ.  
BARBRA LEVY, ESQ.  
McCarter & English, LLP

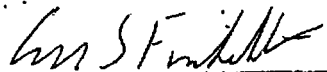
THE LIQUIDATOR

BY:   
Dated 6-28-2006  
DEBORAH F. COHEN, ESQ.  
KASSEM L. LUCAS ESQ.  
CHRISTOPHER J. LOWE, ESQ.  
Pepper Hamilton, LLP

UNITED STATES FIRE INSURANCE COMPANY

BY:   
Dated 7/5/06  
DENNIS P. MONAGHAN, ESQ.  
Graham Curtin, P.A.

APPROVED:

 Dated 7/24/06  
Edward S. Finkelstein, Referee

**IN THE COMMONWEALTH COURT OF PENNSYLVANIA**

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Insurance Commissioner of the  
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Plaintiff,

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Reliance Insurance Company,

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Docket No. 269 M.D. 2001

Honorable James Gardner Colins,  
President Judge

Before Referee Edwards S. Finkelstein

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*IN RE:           Objections of Universal Bonding Insurance Company to Notice of  
Determination for Proof of Claim No. 2081683 and Objections of  
United States Fire Insurance Company to Notice of Determination  
for Proof of Claim No. 1135740*

**JOINT MOTION TO WITHDRAW THE OBJECTIONS TO NOTICES OF  
DETERMINATION FOR PROOFS OF CLAIM NUMBERS 2081683 AND 1135740  
AND COUNTERCLAIM BY THE LIQUIDATOR**

Subject to the approval of this Commonwealth Court of the parties' Stipulated  
Settlement:

Universal Bonding Insurance Company ("UBIC"), hereby withdraws the  
Objections of UBIC filed on February 10, 2005 to the Notices of Determination issued by the  
Statutory Liquidator of Reliance Insurance Company (In Liquidation) for Proof of Claim  
Number 2081683. Universal Bonding hereby accepts the Notice of Determination issued by the  
Liquidator.

United States Fire Insurance Company hereby withdraws the Objections of U.S.  
Fire filed on December 27, 2005 to the Notice of Determination issued by the Statutory

Liquidator of Reliance Insurance Company (In Liquidation) for Proof of Claim Number  
1135740. US Fire hereby accepts the Notice of Determination issued by the Liquidator.

M. Diane Koken, Insurance Commissioner of the Commonwealth of  
Pennsylvania, in her official capacity as Statutory Liquidator of Reliance Insurance Company (In  
Liquidation), hereby withdraws its counterclaim filed against Universal Bonding in response to  
Universal Bonding's Objections, which are now withdrawn.

Respectfully submitted,

UNIVERSAL BONDING  
INSURANCE COMPANY

BY:

Dated

Joann M. Lytle  
JOANN M. LYTLE, ESQ.  
McCarter & English, LLP

THE LIQUIDATOR

BY:

Dated

Deborah F. Cohen  
6/27/2006  
DEBORAH P. COHEN, ESQ.  
KASSEM L. LUCAS ESQ.  
CHRISTOPHER LOWE, ESQ.  
Pepper Hamilton, LLP

UNITED STATES FIRE INSURANCE COMPANY

BY:

Dated

Dennis P. Monaghan  
7/3/06  
DENNIS P. MONAGHAN, ESQ.  
Graham Curtin, P.A.

APPROVED:

Edward S. Finkelstein  
Edward S. Finkelstein, Referee

Dated

7/24/06