

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO, Acting :
Insurance Commissioner of the :
Commonwealth of Pennsylvania, :
Plaintiff :
v. :
RELIANCE INSURANCE COMPANY, :
Defendant :
Docket No. 269 M.D. 200 :
Before The Honorable :
James Gardner Colins, :
President Judge :
Assigned to Referee :
Edward S. Finkelstein, Esq.

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RECEIVED AND FILED
COMMONWEALTH COURT
OF PENNSYLVANIA

IN RE: Gallagher Bassett Services, Inc.
Proof of Claim No. 2081470 and various other claims
noted herein

ORDER

AND NOW, this ^{7th} 4 day of Jan., 200~~8~~⁹, upon
consideration of the Joint Petition of Gallagher Bassett
Services, Inc. and Joel S. Ario, Acting Insurance
Commissioner of the Commonwealth of Pennsylvania, to
Approve Settlement and Release Agreement (the "Petition")
and upon consideration of the Referee's Recommendation for
approval of the Settlement and Release Agreement, it is
hereby

ORDERED that the said Petition be and hereby is
granted and that the Settlement and Release Agreement,

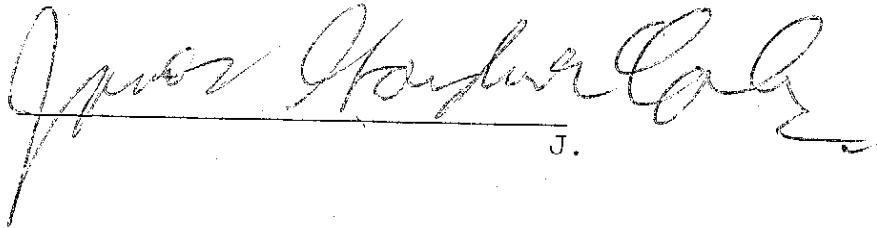
attached as Exhibit "A" to the Petition (hereinafter, the "Agreement"), is approved; that the terms of the Agreement are included by reference in this Order, and that the Liquidator is authorized to perform as necessary and appropriate to effectuate the terms of the Agreement.

Proof of Claim Nos. 2081470; 2096356; 2081452; 2081457; 2096347; 2096348; 2096352; 2096360; 2081462; 2096343; 2081455; 2096345; 2081474; 2081459; 2081447; 2081463; 2096338; 2081476; 2081451; 2096340; 2081449; 2081469; 2081461; 2081465; 2096349; and 2081471 and also 2140124, 2140123, 2140122, 2140121, 2140120, 2140119, 2140118, 2140117, and 2140116; and also 2096336 and 2096334 (except that those portions of 2096336 that have been included in Proof of Claim No. 2160594, which also includes other claims as part of the CR Supplement, and as set forth in the Settlement and Release Agreement which shall remain open and not settled); and the Arbitration (as more fully defined in the Settlement and Release Agreement); are hereby deemed settled and resolved by virtue of the Settlement and Release Agreement. Furthermore, as to Proof of Claim 2160594, this Order shall not prevent, preclude or stop Gallagher Bassett from filing any Objections to any Notice of Determination that is issued or may be issued by the Reliance Liquidator with respect to POC 2160594 or any

other POC number assigned by the Liquidator to any portion of POC 2160594.

The Liquidator shall serve this Order upon all counsel for the parties associated with the Agreement.

BY THE COURT:


J.

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIIO, Acting :
Insurance Commissioner of the :
Commonwealth of Pennsylvania, :
Plaintiff :
vi. : Docket No. 269 M.D. 2001
RELIANCE INSURANCE COMPANY, :
Defendant : Before The Honorable
: James Gardner Colins,
: President Judge
:
: Assigned to Referee
: Edward S. Finkelstein, Esq.

IN RE: Gallagher Bassett Services, Inc.
Proof of Claim No. 2081470 and various other claims,
noted herein

**REFEREE'S RECOMMENDATION TO THE COURT FOR APPROVAL
OF SETTLEMENT**

AND NOW, comes the Referee in the above-captioned matter who presents this Recommendation to the Court for approval of a global settlement of the claim assigned to him as well as several other claims filed by Gallagher Bassett in this proceeding, as well as a certain arbitration proceeding filed by the Reliance Liquidator against Gallagher Bassett on September 2, 2005 (the "Arbitration"):

1. The Referee was appointed by Your Honorable Court by Order dated October 2, 2006 to hear objections to the

Notice of Determination to Proof of Claim No. 2081470 issued by the Liquidator, submit findings of fact, where appropriate and necessary, and issue recommended decisions regarding said objections.

2. The Referee has engaged in numerous incidents of correspondence and discussions with the parties regarding Proof of Claim No. 2081470.

3. As early as April 20, 2007 the parties advised the Referee that they were working on a settlement of Proof of Claim No. 2081470 as well as various other claims submitted by Gallagher Bassett in this proceeding.

4. No settlement, having been reached, by letter dated July 2, 2007, the Referee scheduled a trial on Proof of Claim No. 2081470 to begin November 5, 2007.

5. The parties advised the Referee by letter dated October 31, 2007 that they were very close to reaching a global settlement of not only Proof of Claim No. 2081470 but various other Proof of Claims filed by Gallagher Bassett, as well as the Arbitration, and requested that the hearing of November 5 be continued.

6. The Referee, based on the representations of counsel that they were close to a global settlement, continued the hearing of November 5, 2007 by letter dated November 1, 2007.

7. By letter dated November 13, 2007 the parties requested an additional eighty (80) days, to the beginning of February 2008 to finalize the settlement documents.

8. By letter dated November 14, 2007 the Referee rejected the parties' request and scheduled a hearing for December 6, 2007 at 10:00 a.m. in Harrisburg, PA and further stated there would no be further continuances granted.

9. By letter dated November 20, 2007 Gallagher Bassett filed with the Court an Unopposed Application to Continue the 12/6/07 Hearing and Extend the Date for filing the Parties' Proposed Settlement Agreement.

10. By Order of Court dated November 21, 2007 Judge Colins ordered that the December 6, 2007 hearing before the Referee was continued pending the submission of a settlement agreement to the Referee on or before 4:00 p.m. December 20, 2007; and if a settlement agreement was not submitted to the Referee by that date the matter would proceed to hearing on December 21, 2007 at 10:00 a.m., Courtroom 2, 6th Floor, Irvis Office Building, Harrisburg, PA.

11. As the parties appeared to still be somewhat apart regarding a settlement, the Referee scheduled a pre-trial conference with both counsel which was held at the

offices of Commonwealth Court on December 11, 2007 for seven (7) hours which has led to a global settlement of Proof of Claim No. 2081470 as well as Proof of Claim Nos. 2096356; 2081452; 2081457; 2096347; 2096348; 2096352; 2096360; 2081462; 2096343; 2081455; 2096345; 2081474; 2081459; 2081447; 2081463; 2096338; 2081476; 2081451; 2096340; 2081449; 2081469; 2081461; 2081465; 2096349; and 2081471, as well as the Arbitration.

12. In addition to releasing and discharging the claims enumerated above, the parties have also agreed to the release and discharge Proof of Claim Nos. 2096336 and 2096334; as well as the programs identified as Proof of Claim Nos. 2140124, 2140123, 2140122, 2140121, 2140120, 2140119, 2140118, 2140117, and 2140116; except that the parties have carved out of 2096336 supplemental claims which they have now included in Proof of Claim No. 2160594. Furthermore, the Baker Hughes CR Supplement identified in POC 2160594 and any other claims in the CR Supplements are not released. Proof of Claim No. 2160594 is deemed timely filed and if and when a Notice of Determination is issued by the Liquidator regarding POC No. 2160594 or any other POC No. assigned by the Liquidator to any portion of POC No. 2160594 Gallagher Bassett reserves its right to file Objections to that Notice of Determination.

13. The parties have agreed in the settlement to cooperate in good faith with respect to the resolution of Proof of Claim No. 2160594 as well.

14. The initial claim submitted to the Referee for resolution, POC No. 2081470, was a claim by Gallagher Bassett for Extra Work it alleged it performed for Reliance during the rehabilitation and the liquidation proceedings for work that Gallagher Bassett asserted went beyond the Claims Services Agreements with Reliance. Reliance denied that it owed Gallagher Bassett any additional monies because of the way Gallagher Bassett had to handle claims after the liquidation began based on the fact that the Liquidator asserted the Claims Services Agreement between Reliance and Gallagher Bassett was a "cradle to grave" agreement and therefore Gallagher Bassett had to perform the services that it was seeking extra compensation for without extra compensation as the services were covered by the Claims Services Agreement.

15. Pursuant to Paragraph E of the Joint Petition for Approval of the Settlement and Release Agreement, the Liquidator has asserted that the settlement is fair and reasonable and in the best interests of the estate of Reliance.

16. The parties have acknowledged in the Settlement and Release Agreement that the settlement represents compromises of doubtful and disputed claims and that the Settlement and Release Agreement is not to be construed as an admission of any liability or fault. Gallagher Bassett has determined that the Settlement and Release Agreement is in its best interests by executing the Joint Petition for Approval of the Settlement and Release Agreement.

17. The Referee believes that in the interests of judicial economy and to preserve the estate of Reliance, the global settlement set forth in the Settlement and Release Agreement attached hereto should be approved by the Court.

Dated: 12/28/07



Edward S. Finkelstein,
Referee

SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement is entered into between Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, as Statutory Liquidator of Reliance Insurance Company (in Liquidation) (the "Statutory Liquidator"), Reliance Insurance Company (in Liquidation), on its own behalf and as the successor in interest by mergers, to United Pacific Insurance Company, Reliance Insurance Company of Illinois, Reliance National Insurance Company, Reliance National Indemnity Company, Reliance Universal Insurance Company, Reliance Direct Company, United Pacific Insurance Company of New York, and Reliance Surety Company ("Reliance") (Reliance, with the Statutory Liquidator, collectively referred to herein as the "Reliance Liquidator"), and Gallagher Bassett Services, Inc. ("Gallagher Bassett"), in exchange for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged.

WHEREAS, Gallagher Bassett and the Reliance Liquidator (collectively referred to herein as the "Parties") desire to enter into this Settlement and Release Agreement to resolve completely certain disputes between them while acknowledging that certain other disputes are not resolved, all as set forth herein, under the provisions, terms and conditions set forth herein.

I. FACTUAL BACKGROUND AND DEFINITIONS.

1. The Parties agree to the following paragraphs, which set forth the factual background to this Settlement and Release Agreement and define certain terms used herein:

A. THE PARTIES' RELATIONSHIP

2. Reliance and Gallagher Bassett entered into multiple Claims Services Agreements pursuant to which Gallagher Bassett provided third-party administrator services to Reliance. In

connection with certain Claims Services Agreements, Gallagher Bassett deposited funds provided by Reliance for the payment of claims, allocated loss expenses and fees into custodial imprest sub-accounts for the different Reliance policyholders (together, the "Imprest Accounts"). Reliance contends that the Claims Services Agreement pursuant to which Gallagher Bassett provided third-party administrator services is what is known in the industry as a "cradle to grave" agreement, and that Gallagher Bassett was paid a flat fee on a per claim basis for all work relating to each such claim and a flat fee for account administration for all work relating to that account. Gallagher Bassett disputes these contentions, and contends, in part, that the intervening insolvency of Reliance created a change in circumstances not contemplated by the parties' agreements. Reliance disputes this contention.

B. GALLAGHER BASSETT'S PROOFS OF CLAIM ("POCs")

3. Gallagher Bassett submitted 28 POCs dated December 23, 2003 to the Reliance Liquidator for the payment of administrative fees, charges and/or other payments which Gallagher Bassett claimed under Class (a) pursuant to 40 P.S. §221.44(a).

4. The total sum for which Gallagher Bassett sought payment with respect to the 28 POCs dated December 23, 2003 totaled \$600,368.50, plus interest, after taking into account a credit due and owing to the Reliance Liquidator of \$99,659.00 (the "\$99,659.00 Credit"), as set forth in a letter from counsel for Gallagher Bassett, Heidi B. Hamman Shakely, Esquire, to the Statutory Liquidator of Reliance Insurance Company (In Liquidation), dated December 23, 2003.¹

¹ All calculations subsequently referred to in this Release and Settlement Agreement indicating a total amount sought by Gallagher Bassett take into account the \$99,659.00 Credit. Since this \$99,659.00 Credit is resolved by this Settlement and Release Agreement, this Credit is not part of and does not apply to the total amount claimed by Gallagher Bassett for the claims asserted in the Commercial Risk Supplement. (The Commercial Risk Supplement is described in Paragraphs I, G. 33-40, below.)

5. One of the 28 POCs submitted by Gallagher Bassett dated December 23, 2003, in the amount of \$339,107.00, plus interest, as further supplemented, was for alleged extra work that Gallagher Bassett alleged that it performed at the request of the Reliance Liquidator during and as part of the rehabilitation and liquidation process.

6. One of the 28 POCs submitted by Gallagher Bassett dated December 23, 2003, was a Contingent Claims POC, which stated that it was being submitted in order to preserve Gallagher Bassett's claims, rights, and remedies against the Reliance Liquidator that could arise and/or be discovered that were not a supplement to or included under another POC.

7. After receiving Gallagher Bassett's December 23, 2003 submission, the Reliance Liquidator assigned the following numbers to Gallagher Bassett's POCs: 1) POC No. 2096356; 2) POC No. 2081452; 3) POC No. 2081457; 4) POC No. 2096347; 5) POC No. 2096348; 6) POC No. 2096352; 7) POC No. 2096360; 8) POC No. 2081462; 9) POC No. 2096343; 10) POC No. 2081455; 11) POC No. 2096345; 12) POC No. 2081474; 13) POC No. 2081459; 14) POC No. 2081447; 15) POC No. 2081463; 16) POC No. 2096338; 17) POC No. 2081476; 18) POC No. 2081451; 19) POC No. 2096340; 20) POC No. 2081449; 21) POC No. 2081469; 22) POC No. 2081461; 23) POC No. 2081465; 24) POC No. 2096336 ("POC No. 2096336 (TIC United)"); 25) POC No. 2096349; 26) POC No. 2081471; 27) POC No. 2096334 ("POC No. 2096334 (Contingent Claims)"); and 28) POC No. 2081470 ("POC No. 2081470 (Extra Work)").

C. SUPPLEMENTS TO THE 28 POCs (EXCLUDING THE COMMERCIAL RISK-RELATED SUPPLEMENTS).

8. With submissions dated May 27, 2005, Gallagher Bassett supplemented all of its POCs with supporting documentation and in some cases, with additional dollar amounts sought

from the Reliance Liquidator, with the exception of POC No. 2096338, POC No. 2096336, and POC No. 2081470

9. With the May 27, 2005 submissions, Gallagher Bassett supplemented POC No. 2096334 (Contingent Claims), on May 27, 2005, with Exhibits 3a through 3i, to add the invoices relating to 9 additional programs insured by Reliance that were not previously referenced in any of Gallagher Bassett's prior POCs, and Gallagher Bassett further supplemented 4 of its original POCs, POC Nos. 2081462, 2081474, 2096340, and 2081469, to include additional invoices that were not a part of its original submission.

10. The May 27, 2005 supplements to POC No. 2096334 (Contingent Claims) and to POC Nos. 2081462, 2081474, 2096340, and 2081469 increased the total amount claimed in Gallagher Bassett's POCs by approximately \$138,521.69, for an approximate total sought by Gallagher Bassett of \$738,890.19.

11. Although the 9 additional programs in the May 27, 2005 submission were submitted as a supplement to Gallagher Bassett's December 23, 2003 POC No. 2096334 (Contingent Claims), the Reliance Liquidator issued the following separate POC numbers for these programs: 1) ACCOR—POC No. 2140124 ("POC No. 2140124"); 2) BMI Transportation, Inc.—POC No. 2140123 ("POC No. 2140123"); 3) Community Care of America, Inc.—POC No. 2140122 ("POC No. 2140122"); 4) Integrated Health Services, Inc.—POC No. 2140121 ("POC No. 2140121"); 5) La Petite Holding Corporation—POC No. 2140120 ("POC No. 2140120"); 6) Leviton Manufacturing Company—POC No. 2140119 ("POC No. 2140119"); 7) Liberty Healthcare, L.P.—POC No. 2140117 ("POC No. 2140117"); 8) Meenan Oil Company, L.P.—POC No. 2140118 ("POC No. 2140118"); and 9) The San Antonio Texans, L.L.C.—POC No. 2140116 ("POC No. 2140116"). Gallagher Bassett filed the claims regarding the 9

additional programs represented by Exhibits 3a through 3i as part of its Contingent POC and Reliance agrees that such claims were timely filed.

12. By letter dated April 12, 2006, Gallagher Bassett supplemented POC No. 2081470 (Extra Work), to include additional invoices and to increase the amount sought for this POC to \$396,557.00.

13. The April 12, 2006 supplement to POC No. 2081470 (Extra Work) increased the approximate total amount sought by Gallagher Bassett as to all of its POCs to \$796,340.19, plus interest.

14. With submissions dated August 11, 2006, Gallagher Bassett supplemented its POCs, withdrew its claim relating to POC No. 2140121 and reduced the amount of POC No. 2081469 by \$5,417.00, which reduced the overall approximate total sought by Gallagher Bassett in its POCs to \$748,623.19, plus interest.

15. In response to requests by the Reliance Liquidator, Gallagher Bassett provided certain additional information and documents to the Reliance Liquidator relating to Gallagher Bassett's POCs.

D. OBJECTION PROCEEDING FOR POC NO. 2081470 (EXTRA WORK).

16. On May 18, 2006, the Reliance Liquidator issued the Notice of Determination ("NOD") for POC No. 2081470 (Extra Work).

17. On July 17, 2006, Gallagher Bassett filed in the Commonwealth Court of Pennsylvania an Objection to the NOD issued for POC No. 2081470 (Extra Work) (hereinafter, the "Extra Work Objection Proceeding").

18. The Reliance Liquidator denies that Gallagher Bassett is entitled to any relief in the Extra Work Objection Proceeding.

E. NOTICES OF DETERMINATION ISSUED BY THE RELIANCE LIQUIDATOR FOR OTHER POCS.

19. On November 16, 2006, and May 14, 2007, the Reliance Liquidator issued NODs for POC No. 2140 21 and POC No. 2140120, respectively, to which Gallagher Bassett did not file objections.

20. On September 3, 2007, the Reliance Liquidator issued NODs for POC No. 2081469 and POC No. 2140124.

21. On October 30, 2007, as part of the settlement negotiations between the Parties, the Reliance Liquidator inactivated the 2 NODs issued on September 3, 2007.

22. On September 17, 2007, the Reliance Liquidator issued NODs for: 1) POC No. 2081452; 2) POC No. 2096347; 3) POC No. 2096348; 4) POC No. 2096343; 5) POC No. 2081459; 6) POC No. 2096338; 7) POC No. 2096349; 8) POC No. 2140123; 9) POC No. 2140122; and 10) POC No. 2140116.

23. On November 9, 2007, as part of the settlement negotiations between the Parties, the Reliance Liquidator inactivated the 10 NODs issued on September 17, 2007. As a result of the foregoing inactivations referenced in Paragraphs I, E., 21 and 23, and except for the NODs referenced in Paragraph I, E., 19, there currently are no pending NODs.

24. The 2 NODs inactivated on October 30, 2007, and the 10 NODs inactivated on November 9, 2007, were inactivated without prejudice to the Reliance Liquidator reissuing them and without prejudice to Gallagher Bassett filing Objections to newly-issued NODs if this Settlement and Release Agreement is not approved by the Court in full and without modification or if the settlement set forth herein is not otherwise completed.

F. THE IMPREST AND RELATED CLAIMS AGAINST GALLAGHER BASSETT.

25. After its entry into Liquidation, the Reliance Liquidator demanded that Gallagher Bassett remit to the Reliance Liquidator all of Reliance's funds that were maintained in the Imprest Accounts.
26. On September 5, 2003, and August 6, 2004, Gallagher Bassett sent to Reliance in Liquidation two checks from the Imprest Accounts in the amounts of \$865,892.99 and \$462,587.30, respectively.
27. Gallagher Bassett did not return the remainder of the funds in the Imprest Accounts, asserting certain rights and arguments against the Reliance Liquidator, which the Reliance Liquidator has denied.
28. On August 25, 2004, the Reliance Liquidator filed suit against Gallagher Bassett in the Commonwealth Court, which was captioned as M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania in her Official Capacity as Liquidator of Reliance Insurance Company v. Gallagher Bassett Services, Inc., No. 617 M.D. 2004, which sought the return of funds held by Gallagher Bassett in Imprest Accounts, and asserted claims for an accounting, unjust enrichment and other relief (the "Imprest Litigation").
29. By Memorandum Opinion and Order dated August 3, 2005, in the Imprest Litigation, the Commonwealth Court sustained preliminary objections filed by Gallagher Bassett with respect to an arbitration provision, dismissed the Reliance Liquidator's Complaint with prejudice and ordered the parties to proceed to arbitration.
30. On September 2, 2005, the Reliance Liquidator sent a Demand for Arbitration to Gallagher Bassett, which asserted claims for return of certain funds in the Imprest Accounts, for an accounting, unjust enrichment and other relief (the "Arbitration").

31. The Arbitration is currently pending before three arbitrators, the Hon. L. Anthony Gibson, Andrew S. Walsh, and Kenneth D. Goldberg.

32. Gallagher Bassett denies that the Reliance Liquidator is entitled to any relief in the Arbitration.

G. COMMERCIAL RISK-RELATED SUPPLEMENTS.

33. By letter dated June 25, 2007, Gallagher Bassett supplemented POC No. 2096336 (TIC United), and increased the total amount claimed by Gallagher Bassett by \$25,250.00, plus interest, (the "TIC United CR Supplement"), based upon a recent demand by Commercial Risk Re-Insurance Company ("CR") that the \$25,250.00 is a receivable due from Gallagher Bassett for CR's funds which Gallagher Bassett alleges it used for certain claim payments made for the TIC United program on behalf of Reliance.

34. Gallagher Bassett provided additional information regarding the TIC United CR Supplement to the Reliance Liquidator by letter dated November 6, 2007, in response to questions and requests from the Reliance Liquidator relating to TIC United.

35. By letter dated August 13, 2007, Gallagher Bassett further supplemented POC No. 2096334 (Contingent Claims), with Exhibit 3j for the Baker Hughes, Inc. program insured by Reliance, and increased the total amount claimed by Gallagher Bassett by \$588,463.69, plus interest, based upon a recent demand by CR (the "Baker Hughes CR Supplement").

36. Although the Baker Hughes CR Supplement was submitted by Gallagher Bassett as a supplement to the December 23, 2003 POC No. 2096334 (Contingent Claims), the Reliance Liquidator issued a separate POC number, POC No. 2160594, for the Baker Hughes CR Supplement. Gallagher Bassett contends that it filed the Baker Hughes Supplement as part of the Contingent POC and Reliance does not dispute that it was so filed.

37. On November 6, 2007, Gallagher Bassett further supplemented its Baker Hughes CR Supplement, POC No. 2160594, or POC No. 2096334 (Contingent Claims), by including the previously submitted TIC United CR Supplement and incorporating the Baker Hughes CR Supplement, and by adding supplements for three additional CR-related programs insured by Reliance: 1) Riverwood International Corporation (the "Riverwood CR Supplement"); 2) Administaff, Inc. (the "Administaff CR Supplement"); and 3) Operators Self-Insurers Fund (the "OSIF CR Supplement") (these five programs will be collectively referred to herein as the "CR Supplement").

38. Gallagher Bassett filed its November 6, 2007 CR Supplement alternatively under the Baker Hughes CR Supplement, POC No. 2160594, or under POC No. 2096334 (Contingent Claims), based upon the ongoing settlement negotiations with the Reliance Liquidator as to how the CR Supplement would be treated.

39. The total dollar amount of the CR Supplement was \$960,252.76, plus interest, which Gallagher Bassett asserts should be given a Class (a) priority.

40. The Reliance Liquidator reserves the right to deny that any sum is owing to Gallagher Bassett on account of the CR Supplement, except as set forth in Paragraph II, C., 12, below.

II. TERMS AND CONDITIONS.

NOW, THEREFORE, IN CONSIDERATION of and in reliance upon the provisions, promises, recitals, covenants, understandings, obligations, and terms and conditions set forth herein, and intending to be legally bound thereby, the Parties mutually agree, represent, and warrant as follows:

A. THE DISTRIBUTION OF THE FUNDS FROM THE AGGREGATE IMPREST ACCOUNT (THE "IMPREST FUNDS").

1. The Parties agree that Gallagher Bassett currently holds \$634,964.70 in an Imprest Account hereinafter referred to as the "Aggregate Imprest Account."
2. The Reliance Liquidator will cause to be established by the law firm of Braverman Kaskey P.C. an interest-bearing escrow account in the name of Reliance Insurance Company Escrow Account (the "Escrow Account").
3. Within 5 business days after receipt by Gallagher Bassett of both (i) final approval by the Court of this Settlement and Release Agreement, and (ii) written wire transfer instructions from the Reliance Liquidator for the Escrow Account, Gallagher Bassett will wire transfer \$634,964.70 of the Imprest Funds from the Aggregate Imprest Account to the Escrow Account. The Parties agree that those funds with accruing interest belong to the Reliance Liquidator, subject to the provisions of Paragraph II, C., 16, below. The funds will remain in the Escrow Account until the entire CR Supplement (including all of the claims therein, whether or not assigned separate POC numbers) is resolved either by a fully executed written agreement between the Parties which has been approved by the Pennsylvania Commonwealth Court, if such approval is necessary or sought by one of the Parties (a "CR Supplement Agreement"), or by a final court order (a "CR Supplement Order"). Subsequent to the resolution of the entire CR Supplement either by a CR Supplement Agreement or by a CR Supplement Order, the funds in the Escrow Account, plus any interest on those funds, will be distributed. The funds in the Escrow Account, including interest, will be distributed to the Reliance Liquidator after the resolution of the entire CR Supplement, UNLESS the Parties' CR Supplement Agreement provides otherwise, or a CR Supplement Order directs the distribution of the funds in the Escrow Account.

4. The Parties acknowledge that the \$300,000.00 remaining in the Aggregate Imprest Account belongs to Gallagher Bassett, although Gallagher Bassett will continue to hold the \$300,000.00 in the Aggregate Imprest Account until the entire CR Supplement is resolved either by a CR Supplement Agreement or by a CR Supplement Order. Subsequent to the resolution of the entire CR Supplement either by a CR Supplement Agreement or by a CR Supplement Order, Gallagher Bassett will remove the \$300,000 from the Aggregate Imprest Account for its own use.

5. None of the funds will be released from either the Aggregate Imprest Account or the Escrow Account without either a CR Supplement Agreement or a CR Supplement Order.

6. Within 10 business days of the end of each calendar quarter, the Reliance Liquidator or Braverman Kaskey P.C. will furnish quarterly statements to Gallagher Bassett of the balance in the Escrow Account, beginning with a quarterly statement showing the balance of the account as of March 31, 2008, via e-mail to Joe C. Tixier, Senior Counsel, Arthur J. Gallagher & Co., at Joe_Tixier@ajg.com, or as otherwise designated by Gallagher Bassett.

7. Within 10 business days after the end of each calendar quarter, Gallagher Bassett will furnish quarterly statements to the Reliance Liquidator of the balance of the Aggregate Imprest Account, beginning with a quarterly statement showing the balance of the account as of March 31, 2008, via e-mail to Emy Poulad, Associate General Counsel, Reliance Insurance Company (In Liquidation), at emy.poulad@relianceinsurance.com, or as otherwise designated by Reliance or the Liquidator.

B. RELEASES.

8. The Reliance Liquidator hereby fully and finally releases, remises, covenants not to sue, acquits and forever discharges Gallagher Bassett, its parents, subsidiaries, affiliates,

predecessors, successors and assigns, and its past, present or future employees, officers, directors, agents, representatives and attorneys of and from any and all claims, demands, actions or causes of action suits, rights, liabilities, contracts, duties and obligations, damages, costs, expenses, and compensation of any kind and nature whatsoever, whether sounding in contract, tort or other legal duty, whether based on state, federal, or common law, arising before the date of this Settlement and Release Agreement, including but not limited to claims asserted in, based on, arising out of or in any way related to (a) the Imprest Litigation; (b) the Arbitration; (c) the Imprest Funds, subject to the foregoing language in this Settlement and Release Agreement; (d) the \$99,659.00 Credit; and/or (e) any other credits that the Reliance Liquidator has asserted are owed by Gallagher Bassett with respect to any imprest account relating to any of Reliance's insureds.

9. Gallagher Bassett hereby fully and finally releases, remises, covenants not to sue, acquits and forever discharges the Reliance Liquidator, its predecessors, successors and assigns, and its past, present or future employees, officers, directors, agents, representatives and attorneys of and from any and all claims, demands, actions or causes of action, suits, rights, liabilities, contracts, duties and obligations, damages, costs, expenses, and compensation of any kind and nature whatsoever, whether sounding in contract, tort or other legal duty, whether based on state, federal, or common law, asserted in, based on, arising out of or in any way related to 1) POC No. 2081470 (Extra Work); 2) the Extra Work Objection Proceeding; 3) POC No. 2096356; 4) POC No. 2081452; 5) POC No. 2081457; 6) POC No. 2096347; 7) POC No. 2096348; 8) POC No. 2096352; 9) POC No. 2096360; 10) POC No. 2081462; 11) POC No. 2096343; 12) POC No. 2081455; 13) POC No. 2096345; 14) POC No. 2081474; 15) POC No. 2081459; 16) POC No. 2081447; 17) POC No. 2081463; 18) POC No. 2096338; 19) POC No. 2081476; 20) POC No.

2081451; 21) POC No. 2096340; 22) POC No. 2081449; 23) POC No. 2081469; 24) POC No. 2081461; 25) POC No. 2081465; 26) POC No. 2096349; and 27) POC No. 2081471.

10. Gallagher Bassett hereby fully and finally releases, remises, covenants not to sue, acquits and forever discharges the Reliance Liquidator, its predecessors, successors and assigns, and its past, present or future employees, officers, directors, agents, representatives and attorneys, of and from any and all claims, demands, actions or causes of action, suits, rights, liabilities, contract, duties and obligations, damages, costs, expenses, and compensation of any kind and nature whatsoever, whether sounding in contract, tort or other legal duty, whether based on state, federal, or common law, asserted in, based on, arising out of or in any way related to POC No. 2096336 (TIC United), POC 2096334 (Contingent Claims), and the programs identified as POC Nos. 2140124, 2140123, 2140122, 2140121, 2140120, 2140119, 2140118, 2140117, and 2140116, EXCEPT, however, the Parties agree that this paragraph does not include the following and the following are not released: the portion of POC No. 2096336 (TIC United) for \$25,250.00 submitted on June 25, 2007, known as the TIC United CR Supplement, the Baker Hughes CR Supplement identified as POC No. 2160594, or any of Gallagher Bassett's other claims in the CR Supplement. The Parties expressly agree that Gallagher Bassett does not release any of its claims in the CR Supplement, as described in Paragraphs I., G. 33-40, above.

C. THE CR SUPPLEMENT.

11. The Parties agree that the Baker Hughes CR Supplement, the TIC United CR Supplement, the Riverwood CR Supplement, the Administaff CR Supplement, and the OSIF CR Supplement, as described in Paragraphs I., G. 33-40, above, shall all be consolidated under one POC number, POC No. 2160594.

12. The Parties agree that CR Supplement, POC No. 2160594 and any other POC numbers assigned by the Liquidator to any portion of the CR Supplement, is or are timely filed, and that each of the claims that are part of the CR Supplement, including the TIC United CR Supplement, the Baker Hughes CR Supplement, the Riverwood CR Supplement, the Administaff CR Supplement and the OSIF CR Supplement, whether or not separate POC numbers are assigned to these claims, are all timely filed.

13. The Parties agree that nothing in this Settlement and Release Agreement limits, prevents, precludes, or estops Gallagher Bassett from filing any Objections to any NOD issued by the Reliance Liquidator with respect to the CR Supplement, POC No. 2160594 or any other POC number assigned by the Liquidator to any portion of this POC.

14. The Parties agree that nothing in this Settlement and Release Agreement limits, prevents, precludes or estops Gallagher Bassett from seeking interest on the amounts claimed in the CR Supplement, POC No. 2160594. The Parties further agree that the Reliance Liquidator makes no representation as to how such claim for interest will be treated by the Reliance Liquidator in any NOD with respect to the CR Supplement.

15. The Parties agree that they will cooperate in good faith with respect to the resolution of the CR Supplement, POC No. 2160594, and Gallagher Bassett agrees to cooperate in providing the Reliance Liquidator all reasonably necessary information relative to and to support the CR Supplement, POC No. 2160594, at no cost to the Reliance Liquidator.

16. Except as provided in Paragraph II., C., 12, above, the Parties agree that the Parties reserve and retain all of their rights to assert, and are not waiving, any and all claims, rights, defenses and/or arguments with respect to the CR Supplement, POC No. 2160594, including but not limited to, any claim, right, defense or argument under common law or under

Article V of The Insurance Department Act of 1921, as amended and as added to, 40 P.S. §§ 221.1-221.63.

D. ISSUANCE OF NODS.

17. The Parties agree that as part of this settlement, the Reliance Liquidator will issue NODs or Amended NODs with respect to each of the following POCs: 1) POC No. 2096356; 2) POC No. 2081452 3) POC No. 2081457; 4) POC No. 2096347; 5) POC No. 2096348; 6) POC No. 2096352; 7) POC No. 2096360; 8) POC No. 2081462; 9) POC No. 2096343; 10) POC No. 2081455; 11) POC No. 2096345; 12) POC No. 2081474; 13) POC No. 2081459; 14) POC No. 2081447; 15) POC No. 2081463; 16) POC No. 2096338; 17) POC No. 2081476; 18) POC No. 2081451; 19) POC No. 2096340; 20) POC No. 2081449; 21) POC No. 2081469; 22) POC No. 2081461; 23) POC No. 2081465; 24) POC No. 2096336 (excluding the amounts sought in the TIC United CR Supplement); 25) POC No. 2096349; 26) POC No. 2081471; 27) POC No. 2096334 (Contingent Claims); 28) POC No. 2140124; 29) POC No. 2140123; 30) POC No. 2140122; 31) POC No. 2140119; 32) POC No. 2140117; 33) POC No. 2140118; and 34) POC No. 2140116. The Parties agree that the NODs or Amended NODs referenced in this paragraph will be issued with Class (a) designations for zero dollar amounts, and that the Reliance Liquidator will pay nothing on account of the POCs listed in this paragraph, other than as set forth in this Settlement and Release Agreement. Gallagher Bassett agrees that it will not object to the NODs issued in full compliance with the terms of this paragraph.

E. ACKNOWLEDGMENTS.

18. The Parties acknowledge and agree that no statement of fact or opinion has been made by the other Party, or anyone acting on behalf of the other Party, other than as set forth

herein, to induce the execution of this Settlement and Release Agreement, and that this Settlement and Release Agreement is executed of their own free act.

19. The Parties acknowledge and agree that the settlement of their claims pursuant to this Settlement and Release Agreement is in good faith, and this Settlement and Release Agreement represents compromises of doubtful and disputed claims, and this Settlement and Release Agreement is not to be construed by either Party as an admission of any liability or fault by the other Party. The Parties further agree that they have accepted the terms and conditions specified herein as a complete compromise of matters involving disputed issues of law and fact, and that they assume the risk that the fact or law may be other than they believe.

F. USE OF THIS AGREEMENT.

20. By this settlement, neither Reliance nor the Statutory Liquidator admits to any liability owed to Gallagher Bassett for any of the POCs filed by Gallagher Bassett, including without limitation, the Extra Work POC and the claims in Extra Work Objection Proceeding, nor can Gallagher Bassett use this settlement or any aspect thereof against the Reliance or the Statutory Liquidator and/or any Liquidator in any insurer insolvency proceeding brought pursuant to Article V of The Insurance Department Act of 1921, as amended and as added to, 40 P.S. §§ 221.1-221.13, and any successor legislation, in any pending or future matters including, but not limited to, rehabilitation proceedings, liquidation proceedings, arbitrations or litigation.

21. However, the Parties agree that either Party may use this Settlement and Release Agreement in order to enforce any of the provisions, terms and conditions set forth herein as against the other.

G. INFORMATION REQUESTS AND FILE RETRIEVALS.

22. Gallagher Bassett agrees to work with Reliance reasonably and in good faith to resolve issues regarding Reliance's future requests, if any, for information and/or file retrieval by Gallagher Bassett.

23. With respect to requests made on a claim-by-claim basis for information regarding individual claims, the Parties will conduct themselves in a manner consistent with their past pattern and practices regarding requests for this type of information.

24. Except as provided in Paragraph II., G., 25 below, with respect to requests by the Reliance Liquidator for closed claim file retrievals, Gallagher Bassett will invoice the Reliance Liquidator, and the Reliance Liquidator will pay, \$6.05 per claim file, inclusive of all charges, for each of the closed claim files sent to the Reliance Liquidator, assuming shipment by UPS ground or a comparable shipping method. All of the Reliance Liquidator's requests for closed claim files will be made directly to John Feiter (JohnFeiter@gbtpa.com) (or such individual as later designated in writing by Gallagher Bassett) and not to any other Gallagher Bassett personnel.

25. In any calendar quarter in which the Reliance Liquidator requests the retrieval of more than 150 closed claim files, the terms in Paragraph II., G., 24 will govern with respect to the first 150 closed claim files. With respect to requests by the Reliance Liquidator for closed claim files above 150 files per calendar quarter (the "Above 150 Files"), the terms in Paragraph II., G., 24 will govern, EXCEPT that, at Gallagher Bassett's option, Gallagher Bassett may instead invoice the Reliance Liquidator, and the Reliance Liquidator will then pay, for each of the Above 150 Files, (a) the actual per-file out-of-pocket amount to be paid by Gallagher Bassett to a third-party document storage facility for file retrieval, plus (b) the actual per-file out-of-pocket amount to be paid by Gallagher Bassett for shipping by UPS ground or a comparable shipping method,

plus (c) \$1.75/file for clerical charges. Gallagher Bassett will provide to Reliance copies of the storage facility invoices for the Above 150 Files, as well as the UPS invoices, as available.

26. Gallagher Bassett will use reasonable efforts not to knowingly destroy the closed claim files for Reliance insureds. If in the future Gallagher Bassett were to decide that it needs to change this current policy and begin destroying the closed files or those closed files stored for a certain period of time, Gallagher Bassett will advise Reliance (*via* e-mail notification to Patricia Rothbardt Patricia.Rothbardt@relianceinsurance.com) and Michael Higgins (Michael.Higgins@relianceinsurance.com), or such individual as later designated in writing by Reliance) 60 days in advance.

27. Gallagher Bassett agrees to work with Reliance reasonably and in good faith to resolve issues regarding timeliness of closed claim file retrieval requests.

H. APPROVAL BY THE COURT.

28. Promptly after the execution of this Settlement and Release Agreement by both Parties, the Parties will submit the executed Settlement and Release Agreement to the Referee in the Extra Work Objection Proceeding for Court approval.

29. The Parties agree that this Settlement and Release Agreement, including each and every agreement, release, term and condition herein, is expressly subject to, and conditioned on, approval by the Court of this Settlement and Release Agreement and the settlement contained herein in full and without modification. In the event that the Court does not approve this Settlement Agreement and Release in full and without modification, then this Settlement Agreement and Release shall become null and void.

I. ENTIRE AGREEMENT AND SUCCESSORS IN INTEREST.

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30. This Settlement and Release Agreement contains the entire agreement between the Parties hereto with regard to the matters set forth herein and it supersedes any and all prior agreements or understandings, whether written or oral. This Settlement and Release Agreement shall be binding upon and inure to the benefit of the successors and assigns of each.

J. GOVERNING LAW.

31. This Settlement and Release Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth of Pennsylvania.

K. WARRANT OF CAPACITY TO EXECUTE AGREEMENT.

32. The Parties warrant that no other person or entity has any interest in the matters being released herein and that they have not sold, assigned, transferred, conveyed or otherwise disposed of any of the claims, demands, obligations or causes of action being released herein. The Parties warrant that all signatories to this Settlement and Release Agreement are duly authorized to execute this Settlement Agreement and Release and to bind their Parties to the terms and conditions set forth herein.

L. FURTHER ASSURANCES.

33. The Parties agree to execute such other documents and take such actions as may reasonably be necessary to further the purpose of this Settlement and Release Agreement, including, without limitation, after approval by the Court of this Settlement and Release Agreement, the filing and/or submission of such documents as are necessary to effectuate promptly the dismissal of the Extra Work Objection Proceeding with prejudice and the dismissal of the Arbitration with prejudice.

M. NO MODIFICATION.

34. No changes or modifications of this Settlement and Release Agreement shall be valid unless they are made in writing and are signed by both of the Parties or the Party's respective successor in interest.

N. EXECUTION OF THE SETTLEMENT AND RELEASE AGREEMENT.

35. This Settlement and Release Agreement may be executed in one or more counterparts, each of which shall be deemed an original. For purposes of this Settlement and Release Agreement, facsimile signatures shall be deemed to be the valid and binding signatures of the respective Parties hereto.

WE HAVE READ, UNDERSTAND, AND AGREE TO BE LEGALLY BOUND BY ALL OF THE TERMS AND CONDITIONS OF THIS SETTLEMENT AND RELEASE AGREEMENT.

IN WITNESS WHEREOF, the Parties hereto warrant that they have read all of this Settlement and Release Agreement and fully understand everything contained herein. Each party fully and freely assents to all terms of the Settlement and Release Agreement, as executed below, to be effective as of the latest date of execution.

Dated: December 19, 2007

Gallagher Bassett Services, Inc.

By: 

Title: EVP - CFO

Joel S. Aric, Acting Insurance
Commissioner of the Commonwealth of
Pennsylvania, as Statutory Liquidator of
Reliance Insurance Company (In
Liquidation), Reliance Insurance Company
(In Liquidation), on its own behalf and as
the successor in interest by merger per the