

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. 2008

2008 MAY 29 P 3:05

RECEIVED AND FILED
COMMONWEALTH COURT
OF PA (PHILA)

**FIFTH REPORT OF THE LIQUIDATOR TO THE COURT ON THE
IMPLEMENTATION OF THE APPROVED PLAN FOR THE ALLOCATION OF
POLICYHOLDER COLLATERAL OF CONSOLIDATED FREIGHTWAYS
CORPORATION AND LIQUIDATOR'S SECOND PETITION TO PARTIALLY
ALLOCATE COLLATERAL**

Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Statutory Liquidator ("Liquidator") of Reliance Insurance Company ("Reliance") hereby makes his fifth Report to the Court on the implementation of the Liquidator's Plan for the Allocation of Policyholder Collateral pursuant to the Court's Order of October 4, 2006 (the "Collateral Allocation Order") and requests that the Court approve a further partial allocation and release of additional collateral as set forth herein (the "Second Petition").

Background

Reliance issued policies of insurance to Consolidated Freightways Corporation ("CF") for workers compensation and automobile/general liability ("AL/GL").¹ Most of the CF policies were issued with deductible provisions. Other CF policies contained

¹ A more complete discussion of the CF insurance program, as well as other facts which underlie this Report, are contained in the "Petition to Approve A Plan for Policyholder Collateral of Consolidated Freightways Corporation" ("the First Petition") which is attached as Exhibit "A". The First Petition was the basis of the Collateral Allocation Order.

retrospective premium obligations payable to Reliance. To secure its deductible reimbursement and retrospective premium obligations, CF posted collateral with Reliance in the total amount of \$100 million in the form of a \$55 million Letter of Credit (the "LOC") and a \$45 million surety bond issued by CNA (the "Bond" and jointly with the LOC, the "CF Collateral").

After Reliance was placed in liquidation in October 2001, claims which had arisen under the CF policies were sent to the guaranty associations ("GAs"). Subject to statutory limitations, the GAs assumed the obligation to pay CF's workers compensation claims, but most GAs rejected the AL/GL claims and these files were returned to CF for handling within the deductible obligation (the "Non-Covered Claims").

After Reliance was placed in liquidation, in September 2002 CF itself filed for bankruptcy. At that time CF ceased paying deductible reimbursement or retrospective premium obligations and ceased handling the Non-Covered Claims. The approximately 181 Non-Covered Claims remain essentially unadjusted until the present day and their precise current value is unknown. As more fully explained below, events over which Reliance had no control prevented it from handling these claims.

In June 2004, the Pennsylvania legislature enacted an amendment to the Pennsylvania Insurance Department Act, 40 P.S. §221.23a ("Section 523.1"), which controls a liquidator's maintenance and administration of collateral posted by an insured to secure deductible and other policy obligations.² If an insured fails to fund these obligations, the liquidator may draw the collateral to reimburse GAs for payments within a deductible and to pay an insurer for retrospective premium obligations. Section 523.1 also provides that if claims are not covered by any GA – such as the Non-Covered Claims – the liquidator shall also utilize the collateral to adjust and pay these claims. If the liquidator determines that the collateral is or may be insufficient to compensate all potential claimants, the liquidator may, subject to court approval, formulate a plan for the equitable allocation and distribution of the collateral among the claimants. Section 523.1 permits the liquidator to utilize up to 3% of the collateral to reimburse the liquidation estate for actual expenses incurred in fulfilling obligations under the Section ("Section 523.1 Expenses").

Although at the time of the enactment of Section 521.3 Reliance held significant CF Collateral, in view of the large number of workers compensation claims resting with the GAs and the unknown valuation of the Non-Covered Claims, the Liquidator concluded that the adequacy of the CF Collateral was in question and formulated a plan for (1) the evaluation of the Non-Covered Claims; and (2) for an interim allocation and distribution of CF Collateral to the GAs and to Reliance (the "CF Plan"). The CF Plan was the basis of the First Petition. Based upon the First Petition, on October 4, 2006 the Court issued the Collateral Allocation Order. The Collateral Allocation Order is attached as Exhibit "B".

² A more detailed discussion of Section 523.1 is contained in the First Petition.

The Collateral Allocation Order authorized the Liquidator to utilize the CF Collateral to reimburse the GAs \$30,254,461 for deductible claims paid by the GAs through December 31, 2005; to pay Reliance \$766,443 in retrospective premium due from CF through December 31, 2005; and to use up to \$20 million of the CF Collateral to adjust and pay the Non-Covered Claims through a third-party administrator. The Collateral Allocation Order directed the Liquidator to make periodic status reports to the Court and, by October 31, 2007, to provide the Court with a comprehensive evaluation of the status of all CF claims and of the adequacy of the CF Collateral to reimburse those claims. The Liquidator would at that time also be authorized to make an application for reimbursement of Section 523.1 Expenses.

The Collateral Allocation Order posited three scenarios for the October 2007 comprehensive evaluation: a determination that the CF Collateral was adequate and the filing of a final plan for on-going full claim payments; a determination that the CF Collateral was inadequate and the filing of a formal pro rata allocation plan; and a scenario where the Liquidator was still unable to precisely evaluate the overall adequacy of the CF Collateral. With respect to this last scenario, the Collateral Allocation Order, Section 6.c., stated:

If by October 31, 2007, the Liquidator determines that actuarial projections remain too imprecise to finally allocate and pay the [CF] Collateral, but that further partial allocation and payment is appropriate, the Liquidator will promptly file with the Court a Petition to Partially Allocate Collateral, setting forth the terms upon which [he] proposes to allocate and pay part of the [CF] Collateral. Upon approval by the Court, the Liquidation shall be entitled to proceed to allocate and pay the [CF] Collateral as directed by the Court.

Upon issuance of the Collateral Allocation Order, the Liquidator promptly reimbursed the GAs over \$30 million with respect to deductible reimbursement claims covered by the GAs and Reliance was paid \$766,443 in retrospective premiums. As directed by the Order, Reliance, working with CF, retained a third party administrator to begin the process of adjusting and paying the Non-Covered Claims. However, shortly after the adjustment process began and without prior notice, CF filed a complaint and related motions in its bankruptcy court, including one seeking an restraining order enjoining Reliance from accessing the CF Collateral, which prevented the Liquidator from on-going compliance with the Collateral Allocation Order (the "Adversary Proceeding").

The Adversary Proceeding and the Settlement

The Adversary Proceeding was exceptionally complex, but for purposes of the instant Report and Petition, can be summarized as pursuing four primary CF objectives:

- (1) that the CF Collateral be ordered released to the CF bankruptcy estate;

- (2) that the Non-Covered Claims be adjusted and paid as general unsecured claims in the CF bankruptcy estate;
- (3) a determination that interest accruing on drawn, but unreleased CF Collateral, be considered part of and re-deposited in the CF Collateral; and
- (4) a determination that a 2005 agreement between Reliance and CNA, the issuer of the Bond component of the CF Collateral, whereby the CF Collateral would be drawn between the bond and the letter of credit in proportional amounts was void. CF sought issuance of a bankruptcy court order directing that the bond be exhausted in the first instance prior to any further draws upon the LOC (the "Priority of Draw").

As a part of the Adversary Proceeding, CF obtained a temporary restraining order (the "TRO") which precluded the Liquidator from accessing the CF Collateral, thereby frustrating the continued adjustment and payment by the Liquidator of the Non-Covered Claims.

The Liquidator vehemently objected to CF's first two objectives. The Liquidator had no objection to the redeposit in CF Collateral of the accrued interest. The Liquidator maintained that the matter of Priority of Draw between the LOC and the Bond was an issue to be litigated between CF and CNA and a matter of no concern to the Liquidator as long as the overall integrity of and access to all CF Collateral was maintained.

Following the institution of the Adversary Proceeding, the parties engaged in very extensive motion practice in the bankruptcy court. In addition, on April 10, 2007, the Liquidator filed in this Court a Petition to Enforce the Collateral Allocation Order of October 2, 2006 (the "Enforcement Petition"). Ultimately, the parties agreed to attempt to dispose of the Adversary Proceeding by settlement. There followed 11 months of negotiations, which were complicated by tracking proceedings in the bankruptcy court. An initial settlement contemplated that CF would take back the Non-Covered claims to adjust and pay them in the CF bankruptcy estate utilizing CF estate assets. Since that agreement materially deviated from the Collateral Allocation Order, a petition for approval of the settlement and to amend the Collateral Allocation Order was filed with this Court on December 20, 2007 (the "Settlement Petition"). However, when the parties met to work out the details for implementing that settlement, it was determined that there were significant practical difficulties, not previously foreseen, that mitigated against CF taking back the claims. By mutual consent, that settlement was voided and on January 23, 2008 the Liquidator filed a praecipe to withdraw the Settlement Petition.

Negotiations continued and, in February 2008, CF and the Liquidator executed a Settlement Agreement which addresses/resolves all of the issues in the Adversary Proceeding. The Liquidator believes the Settlement Agreement protects all of his rights, duties and responsibilities under Section 523.1 and the Collateral Allocation Order and, in particular, the rights of the GAs, the Non-Covered Claimants and Reliance to access the CF Collateral. The Settlement Agreement is attached hereto as Exhibit "C". The Settlement Agreement provides that:

- (1) Non-Covered Claims will be adjusted and paid by Reliance utilizing the CF Collateral as contemplated in the Collateral Allocation Order;
- (2) The Liquidator agrees that Reliance may be named along with CNA as a necessary party in an action maintained by CF in bankruptcy court to litigate Priority of Draw between the LOC and the Bond (the "CNA Action"). The Liquidator will not object to the CNA Action unless the Liquidator determines that the action could impair the Liquidator's rights under the CF Collateral or CF asserts an abuse of discretion by the Liquidator;
- (3) The Liquidator agrees not to contest the TRO obtained by CF in the Adversary Proceeding while CF pursues the CNA Action, provided, however, that CF agrees that Collateral may be drawn to adjust and pay Non-Covered Claims and Reliance retrospective premium as provided in the Collateral Allocation Order and to fund a further Collateral release requested in this Second Petition;
- (4) Interest on drawn but un-released CF Collateral will be re-deposited in the CF Collateral.

Since the Settlement Agreement represents a return to the status quo ante under the Collateral Allocation Order, the Liquidator determined the approval by the Court was not necessary. As a result of the Settlement Agreement, on March 28, 2008 the Liquidator filed a praecipe to withdraw the Enforcement Petition. CF did obtain approval of the Settlement Agreement in bankruptcy court under the continuing Adversary Proceeding. The Liquidator has kept the National Conference of Insurance Guaranty Funds, as representative of those GAs with an interest in the implementation of the Collateral Allocation Order, apprised of the status and substance of the Settlement Agreement.

Status

Upon execution of the Settlement Agreement, the Liquidator contracted with a third party administrator to recommence adjustment and payment of the Non-Covered claims. The third party administrator has commenced its duties and it is expected that the process will proceed expeditiously as certain preliminary claim evaluations had been completed prior to the filing of the Adversary Proceeding. Collateral has been drawn to pay the third party administrator. CF will be cooperating with Reliance in the claim administration process as the party with the greatest historical claim knowledge.

CF has filed the CNA Action in bankruptcy court. Reliance is a necessary, but non-participating, party in that action. In ruling on CF and CNA cross-motions for summary judgment, the bankruptcy judge recently dismissed CF's bankruptcy "marshalling priority of draw" claims for accessing the CNA bond. CF is appealing. The judge also dismissed with leave to re-plead CF's claims for breach of contract by CNA.

During the interval since the last CF Collateral release, the GAs have continued to adjust and pay the workers compensation claims under their jurisdiction. GA paid claims

total \$7,552,981 from January 1, 2006 through September 30, 2007. A list of paid claims by GA is attached as Exhibit "D".³ CF's retrospective premium obligations to Reliance have also continued to accrue. Retrospective premium owed by CF totals \$58,147 for January 1, 2006 through September 30, 2007. \$67,887,026 remains in Collateral after the last release pursuant to the Collateral Allocation Order. In addition, \$2,548,888 in interest/investment income has accrued and continues to accrue on drawn, but unreleased, CF Collateral which interest/investment income will be added to the CF Collateral for a total of available Collateral of \$70,435,915.81.⁴

Petition for Partial Release of Collateral to Fund GA Paid Claims and Reliance Retrospective Premium

As noted above, the Court in the Collateral Allocation Order anticipated a scenario where, at the time of the projected October 2007 report to the Court, the Liquidator, while not yet capable of evaluating overall Collateral adequacy, might still deem a further allocation and distribution of the CF Collateral to be appropriate. Obviously, as a result of the Adversary Proceeding, the anticipated progress in valuing the Non-Covered Claims has been delayed. The best actuarial information to date, which is admittedly imprecise, projects a total outstanding workers compensation exposure of \$46,184,307 and total outstanding Non-Covered Claim exposure of \$23,345,500 for a total outstanding deductible claim exposure of \$69,529,762. Additional CF retrospective premium exposure cannot exceed \$1 million, although based on recent development with 8 open claims, anything approaching this figure is unlikely.

Based on these projections and factoring in available collateral of \$70,435,915.81, the Liquidator has concluded that a release of CF Collateral for GA paid claims and Reliance retrospective premium for the period January 1, 2006 through September 30, 2007 is appropriate. The proportional size of the two GA releases to projected total GA exposure should not negatively impact any future allocation plan, even in the event that the CF Collateral ultimately proves inadequate. In other words, under the Liquidator's best projections, the GAs would, even under a proportional allocation plan, be entitled to an amount in excess of the total CF Collateral released and proposed to be released. Furthermore, even if releases to the GAs through September 30, 2007 were to exceed a proportional allocation under an ultimate plan, the discrepancy could be rectified by a reduction in future GA releases. Of course, if Reliance were to prove to be over-compensated for retrospective premium, the Liquidator would simply direct a refund to the CF Collateral.

Based upon the forgoing analysis, the Liquidator respectfully requests that the Court approve the utilization of CF Collateral to reimburse the GAs for workers compensation deductible paid claims for January 1, 2006 through September 30, 2007

³ GA releases are shown net of Section 523.1 Expenses

⁴ Actual interest/investment income will be valued as closely as possible to the next CF Collateral release.

in the amount of \$7,552,981 and CF retrospective premium obligations to Reliance for January 1, 2006 through September 30, 2007 in the amount of \$58,147.

Request to Release Section 523.1 Expenses to the Liquidator

Section 523.1 specifically mandates that collateral securing policyholder deductible obligations held by a liquidation estate is not an estate asset. Nonetheless, the Section imposes significant and burdensome responsibilities on the liquidator to maintain and administer the collateral for the benefit of claimants and the policyholder. To compensate the liquidator for fulfilling these responsibilities, the statutes entitles the liquidator to deduct up to 3% of the collateral from reimbursements made to the GAs for reasonable actual expenses. In the Collateral Allocation Order, the Court directed the Liquidator to apply for release of these Section 523.1 Expenses with the anticipated October 2007 status report. The Liquidator has determined that the actual expense incurred in administering the GA reimbursements exceeds the 3% cap. The Liquidator at this time, therefore, requests the Court's approval to release to the Reliance estate 3% of the first \$30,254,461 CF Collateral release authorized by the Collateral Allocation Order, or \$853,768. The 3% was deducted from the GA reimbursements prior to release to the GAs in accordance with Section 523.1. Since the Liquidator's Section 523.1 Expenses continue to exceed 3%, the Liquidator also requests that, should the Court grant this Second Petition, the Court approve the release to the Reliance estate of 3% of the \$7,552,981 of GAs reimbursements requested herein, or \$233,597.

At this time the Liquidator also wishes to alert the Court to a possible future Section 523.1 Expense reimbursement request. The Liquidator has expended substantial sums for legal fees and other expenses in litigating the Adversary Proceeding and protecting and preserving the Collateral for the benefit of the GAs and Non-Covered claimants. Those fees and expenses have not yet been fully quantified, but the Liquidator may request also reimbursement of these fees from Collateral.

Future Status Reports

Unless otherwise directed by the Court, the Liquidator will continue to provide the Court with status reports every four months until such time as the Liquidator has sufficient information to make a final recommendation for allocation and distribution of Collateral or seeks other relief from the Court.

Conclusion

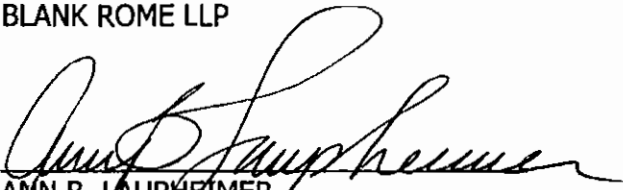
In conclusion, the Liquidator asks this Court to approve (1) the release of an additional \$7,552,981 from the CF Collateral so that the Liquidator may reimburse the GAs for workers compensation deductible paid claims for the time period from January 1, 2006 through September 30, 2007; (2) the release of \$58,147 to Reliance from the CF Collateral to pay CF's retrospective premium obligations to Reliance for the period January 1, 2006 through September 30, 2007; and (3) the release of \$1,087,365 to

Reliance to compensate Reliance in part (up to the 3% cap provided in Section 523.1 of the Act) for alls expenses of administering collateral and reimbursing \$38,041,346 to the GAs. As set forth above, the Liquidator will continue to keep the Court informed as to the progress of the comprehensive claim valuation analysis.

Respectfully submitted,

BLANK ROME LLP

By:


ANN B. LAUPHEIMER
One Logan Square
Philadelphia, PA 19103-6998
(215) 569-5500

Attorneys for Joel S. Ario,
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania, in his
Official capacity as Liquidator of
Reliance Insurance Company

Dated: May 29 2008

VERIFICATION

I, David S. Brietling, am Chief Liquidation Officer of Reliance Insurance Company (In Liquidation). I hereby verify that the facts set forth in the foregoing Fifth Report of the Liquidator to the Court on the Implementation of the Approved Plan for the Allocation of Policyholder Collateral of Consolidated Freightways Corporation and Petition to Partially Allocate Collateral are true and correct to the best of my knowledge, information and belief. I understand that this Verification is made subject to the penalties of 18 P.S. § 4904 relating to unsworn falsification to authorities.

Date: May 27, 2008

A handwritten signature in cursive script, reading "David S. Brietling", is written over a horizontal line.

David S. Brietling
Chief Liquidation Officer
Reliance Insurance Company (In
Liquidation)

Exhibit A

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN, Insurance :
Commissioner of the Commonwealth of :
Pennsylvania, :
In her official capacity as Liquidator of :
RELIANCE INSURANCE COMPANY :
: No. 296 M.D. 2001
Plaintiff, :
: :
v. :
: :
RELIANCE INSURANCE COMPANY, :
: :
Defendant. :

2006 JUN 21 P 3:02

RECEIVED AND FILED
COMMONWEALTH COURT
OF PENNSYLVANIA

**PETITION TO APPROVE A PLAN
FOR ALLOCATION OF POLICYHOLDER COLLATERAL OF
CONSOLIDATED FREIGHTWAYS CORPORATION**

Petitioner, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of Reliance Insurance Company ("Reliance"), petitions the Court for approval of a plan of allocation of policyholder collateral (the "Plan") originally posted by former Reliance policyholder Consolidated Freightways Corporation ("CF"), now bankrupt, for deductible obligations and retrospective premium obligations under Section 523.1 of the Pennsylvania Insurance Department Act, 40 P.S. § 221.23a.

In formulating the Plan, the Liquidator has actively conferred with the Trustee for the CF Liquidating Trust (the "Trustee"), successor to CF and the National Conference of Insurance Guaranty Funds (the "NCIGF"), as representative of various state guaranty associations which have claims under CF policies (the "Affected GAs"). Both the Trustee and the NCIGF have reviewed the Plan and concurred. The Liquidator

believes the Plan is in the best interests of the estate of Reliance, the Affected GAs, certain claimants of CF without guaranty association coverage and the Trustee.

LIQUIDATION BACKGROUND

1. On May 29, 2001, this Court entered an Order of Rehabilitation with respect to Reliance pursuant to the Pennsylvania Insurance Department Act of 1921, 40 P.S. §§ 221.1 – 221.63 (the “Act”).

2. On October 3, 2001, this Court entered an Order of Liquidation with respect to Reliance, which included a finding that Reliance was insolvent. See Liquidation Order, ¶2.

3. In June 2004, the Pennsylvania Legislature adopted an amendment to the Act to add a provision entitled “Policyholder Collateral, Deductible Reimbursements and other Policyholder Obligations” (“Section 523.1”). Section 523.1 provides a framework for the administration by a liquidator of all collateral held to secure policyholder deductibles and other obligations under policies issued by an insurer subsequently placed in liquidation. 40 P.S. § 221.23a.

Section 523.1 specifically provides that this collateral is not an asset of the liquidation estate and, with respect to this collateral, supercedes any other provision of law or contract. 40 P.S. §221.23a(a). Consequently, claims against the collateral are to be administered pursuant to Section 523.1 rather than through the proof of claim process established by the Act and the September 9, 2002 Order of this Court.

4. In particular, Section 523.1 mandates that a liquidator use the collateral to pay or reimburse claims within the deductible amounts under a deductible policy or

agreement.¹ 40 P.S. § 221.23a(b). Where a claim within a deductible amount is covered by a guaranty association, the collateral will be used to reimburse the guaranty association for claims paid within the deductible amount. 40 P.S. § 221.23a(f)(1). If, however, a claim within a deductible amount is not covered by any guaranty association and the insured is unwilling or unable to handle and pay the non-covered claim,² the liquidator is charged with adjusting and paying claims within the deductible amount, utilizing the collateral. 40 P.S. §221.23a(c). If the collateral also secures other obligations of the insured to pay amounts to the insolvent insurer directly, such as premium due under a retrospectively rated insurance policy,³ the collateral shall also be utilized to pay such obligations to the insolvent insurer's estate. 40 P.S. § 221.23a(d).

5. The obligations imposed upon a liquidator by Section 523.1 are relatively straightforward in situations where the available collateral is sufficient to pay all outstanding and anticipated claims against the collateral, including reimbursement claims by guaranty associations, non-covered claims, and claims for sums owed to the

¹ A deductible policy or agreement as defined by Section 523.1 includes “. . .any combination of one or more policies, endorsements, contracts or security agreements which provide for the policyholder to bear the risk of loss within a specified amount per each claim or occurrence covered under a policy of insurance. . . .” 40 P.S. § 221.23a(n)

² Non-covered claim generally means a claim that is subject to a deductible agreement, may be secured by collateral and is not covered by a guaranty association. 40 P.S. §221.23a (n).

³ Generally, a retrospectively rated insurance policy provides that the premium obligation of the insured is adjusted after the expiration of the policy period based upon the insureds actual loss experience. See 40 P.S. § 221.23a(d).

insolvent insurer's estate.⁴ Where, however, the liquidator determines that the collateral is insufficient to pay all outstanding and anticipated claims, Section 523.1(c) permits the liquidator to develop and file with the Court a plan for equitable distribution of the collateral. Specifically, Section 523.1 declares: "When the liquidator determines the collateral provided by the insured is insufficient to pay all additional and anticipated claims against the insured, the liquidator may file a plan for equitably allocating the collateral among claimants of the insured which provided the collateral, subject to court approval."

THE CF POLICIES, COLLATERAL AND CLAIMS

6. Reliance issued policies of insurance to CF for workers compensation coverage and automobile/general liability ("AL/GL") coverage. Most of the CF policies were issued with deductible provisions. Other CF policies provided for retrospective premium adjustments payable to Reliance. The specific policy periods, deductible amounts and lines of business are shown in Exhibit A.

7. To secure its deductible reimbursement obligations under the deductible policies and its obligations for retrospective premium adjustments, CF posted collateral with Reliance in the total amount of \$100 million in the form of a \$55 million letter of credit and a \$45 million surety bond issued by CNA. That collateral remains available to fund the Plan.

⁴ If the collateral is exhausted and the insured is not able to pay the remaining claims within the deductible, the liquidator's obligation to pay such claims from the collateral terminates, and the remaining claims are claims against the insolvent insurer's estate and subject to compliance with the proof of claim process established by the Act and the September 9, 2002 Order of this Court. 40 P.S. §221.23a(c).

8. After Reliance was placed in liquidation in October 2001, claims which had arisen under the CF policies were sent to the guaranty associations. Subject to applicable statutory limitations, the Affected GAs assumed the obligation to pay CF workers compensation claims. The Affected GAs which paid and are paying workers compensation claims are listed in Exhibit B. Through December 31, 2005, the Affected GAs had paid CF workers compensation claims in the amount of \$30,052,708.97.

9. With respect to the AL/GL claims, however, most guaranty associations interpreted the AL/GL policies as not requiring the guaranty associations to pay losses within CF's deductible.⁵ The rejected AL/GL claim files were returned to CF for handling within the deductible limits.

10. On September 3, 2002, CF filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. On or about the time of filing for bankruptcy, CF essentially ceased handling claims and the Liquidator ultimately took possession of the claim files from CF's third party administrator to avoid destruction of the files.

11. Effective December 13, 2004, following confirmation of CF's liquidating plan of reorganization, all responsibilities with respect to the administration, liquidation and disposition of all rights, claims and assets of CF were transferred to a liquidating trust.

⁵ Three Affected GAs – California, Pennsylvania and Texas - did initially fund some AL/GL claims within the CF deductible in the amount of \$201,753.00. While these Affected GAs will be reimbursed appropriate amounts if the CF Plan is approved by this Court, for purposes of clarity in describing the Plan, AL/GL claims will be treated as non-covered claims.

12. At the time of the CF bankruptcy there were approximately 181 known AL/GL claims outstanding under its Reliance policies. Since September 2002, these claims have, with rare exception, remained unadjusted and their current value is uncertain. In 2005, the Liquidator engaged a claims consultant to estimate the value of the AL/GL claims based *solely* on the outdated information contained in the claim files. Using the estimates provided by the consultant, the Liquidator concluded that a reserve of \$23 million would be reasonable – albeit imprecise and undoubtedly subject to future adjustment -- for these unadjusted claims.

13. In addition to claims under the workers compensation and AL/GL deductible policies, some of CF's Reliance policies provided for retrospective premium adjustments. From the date of liquidation through December 21, 2005, CF owed Reliance \$766,443.12 for retrospective premium adjustments.⁶

14. Section 523.1 requires the Liquidator to administer the collateral so as to satisfy all three types of CF obligations: claims covered and paid by guaranty associations, non-covered claims, and premium obligations owed by CF to the insurer.

THE PROPOSED CF PLAN

15. The CF scenario presents the perfect opportunity to utilize the flexibility of Section 523.1 to bring about the equitable result contemplated by the Section. In this case, the Affected GAs have paid out millions to satisfy CF claims and many non-covered claimants remain wholly uncompensated, notwithstanding the existence of \$100 million of CF collateral that might be used to reimburse the Affected GAs and pay the

⁶ This retrospective premium adjustment amount has been drawn from collateral and is being held by Reliance for allocation under the Plan, if approved by this Court.

uncovered claims. While the Liquidator does not yet possess a projection of the total value of CF claims that would permit a determination that the collateral will necessarily be adequate to satisfy fully all non-covered claimants, to reimburse the GAs for all paid and future claims and to satisfy CF's obligations to the estate, the Liquidator, after consultation with the NCIGF and the Trustee, believes that the Plan set forth in this petition satisfies Section 523.1 by protecting the interests of all affected parties and permitting prompt distribution of a reasonable portion of the collateral. The Plan, in its entirety, is set forth as follows.

16. **Settlement Fund.** Because CF is unable to pay the non-covered claims, the Liquidator will retain a third party administrator ("TPA") to adjust and settle known, but unresolved, non-covered AL/GL claims. The affected parties have all agreed that (1) CF, Reliance and the TPA will work together to adjust the non-covered AL/GL claims; and (2) from the CF \$100 million collateral, the Liquidator will make available an initial sum of up to \$20 million in collateral to settle the non-covered AL/GL claims within the deductible (the "Settlement Fund"). No settlement will be approved, however, unless it releases the Liquidator and the Reliance estate and, to the extent claimants, GAs or CF have submitted POCs for settled claims, the Liquidator shall be entitled to issue a NOD with an allowed amount of \$0 at the appropriate statutory priority. The reasonable administrative expenses of CF and the cost of the TPA will also be paid from the Settlement Fund.

17. **Reimbursement to Affected GAs.** The Affected GAs will be reimbursed from the collateral for CF claims they have paid through December 31, 2005 in the total amount of \$30,254,461.97.⁷

18. **Retrospective Premium.** Reliance will be reimbursed from the collateral for retrospective premium due through December 31, 2005 in the amount of \$766,443.12.

19. The Liquidator has determined that under these circumstances, and considering the available data upon which to base a reserve estimate, the proposed release of up to \$51,020,905.09 of the \$100 million in CF collateral is a reasonable component of a “plan of equitable allocation” of CF collateral, as contemplated by Section 523.1. This initial release leaves approximately \$49 million for unadjusted claims, adverse development and retrospective premium owed to Reliance and the Liquidator believes that this plan comports with the spirit, intent and language of Section 523.1.

20. **Initial Collateral Review.** Approximately one year from the effective date of this Plan, the Liquidator will review and evaluate:

(a) the amounts paid to date and future estimated reserves necessary to resolve any outstanding non-covered AL/GL claims;

⁷ This total includes the distributions to the Affected GAs set forth in Exhibit B as well as the limited AL/GL payments set forth in footnote 5. The actual amount reimbursed to the Affected GAs will be reduced by claim payments previously reimbursed to the Affected GAs from the collateral pursuant to the “Interim Agreement” approved by this Court in connection with the Large Deductible dispute between the GAs and Reliance on April 26, 2002, which pre-dates Section 523.1.

(b) the additional amounts paid by the Affected GAs after December 31, 2005 and future estimated reserves on claims covered by the Affected GAs; and

(c) the additional retrospective premium owed to Reliance after December 31, 2005 and estimated future retrospective premium amounts.

At the collateral review the Liquidator will determine whether sufficient, accurate data exists to ascertain the sufficiency of the remaining CF collateral.

21. Annual Plan Review.

(a) If at the next collateral review and as determined by the Liquidator, there is sufficient collateral, including any collateral remaining in the Settlement Fund, to fund all remaining known, outstanding and anticipated claims, retrospective premium and administrative expenses, the Liquidator shall continue under Section 523.1 to adjust and pay non-covered AL/GL claims, reimburse claims paid by Affected GAs, and pay any retrospective premium owed to the Reliance estate. The collateral will continue to be reviewed and adjusted annually, and excess collateral, if any, released to the Trustee as appropriate, until the collateral is exhausted and all claims, retrospective premium and administrative expenses have been settled and paid or reimbursed.

(b) If, however, at the one year anniversary of the Plan, the collateral review results in a determination by the Liquidator that actuarial projections remain too imprecise to establish reserves accurately, the Liquidator will confer with the NCIGF and the Trustee and will calculate a further partial draw against the collateral to reimburse GA paid claims, to replenish the Settlement Fund, and to pay retrospective premiums incurred, as necessary. Reimbursement of incurred amounts may be in whole or in part, depending upon the reserve calculations.

(c) At each year anniversary, as updated and more accurate information is obtained, the Liquidator will complete a collateral review and determine whether to proceed under paragraph (a) above if the collateral is determined to be sufficient, or paragraph (b) above if the collateral review remains inconclusive. Within one to three years, the Liquidator predicts that all non-covered AL/GL claims should be settled or fully evaluated and reserved, the Affected GA reserves should be further refined and all anticipated claims should be identified.

22. **Insufficient Collateral.** The foregoing notwithstanding, if, at any time during the administration of this Plan, the Liquidator determines that the collateral is insufficient to reimburse all claims paid by the Affected GAs, pay all non-covered AL/GL claims, pay all retrospective premiums due and owing, as well as administrative expenses, the Liquidator shall file with this Court an amended plan establishing an equitable *pro rata* allocation formula against the collateral controlling all future distributions. If the collateral is subsequently exhausted without the payment of all non-covered AL/GL claims and reimbursement of all claims paid by the Affected GAs, the remaining claims shall be claims against the Reliance estate and subject to compliance with the proof of claim process established by the Act and the September 9, 2002 Order of this Court.

23. **Liquidator Expenses.** The Liquidator is entitled under Section 523.1(i)(1) to deduct from reimbursements or collateral returned to CF up to 3% of the collateral for the Liquidator's reasonable actual expenses incurred in the administration of Section 523.1. The Liquidator shall during the annual plan review provide to the

Affected GAs and the Trustee a statement of the Liquidator's administrative expenses to facilitate reimbursement under this section.

CONCLUSION

24. Section 523.1 establishes a complex scheme for the administration by the Liquidator of collateral posted in connection with policyholder obligations under deductible policies. In situations such as CF, where the amount of collateral is significant and various constituencies share an interest in the collateral, the Liquidator must balance the rights of the Affected GAs for amounts they have paid and will continue to pay on CF's behalf, with protecting the interests of non-covered claimants to the collateral whose claims are outstanding, as well as the interests of the Reliance Estate in receiving retrospective premium owed and reimbursement for administrative expenses, and the residual interest of the CF Trustee in excess collateral. The Liquidator believes that the Plan, as formulated, fulfills her duty under Section 523.1 to equitably allocate the collateral. In addition, the Plan comports with the Liquidator's general duty under the Section 501(c)(iv) of the Act to apportion equitably unavoidable loss,⁸ if any materializes, while protecting, as best as possible, the interests of all parties.

WHEREFORE, the Liquidator respectfully requests that this Court grant the Petition, approve the Plan and order such other relief as this Court deems necessary and appropriate.

⁸ 40 P.S. § 221.1(c)(iv).

BLANK ROME LLP

By: 

ANN B. LAUPHEIMER
One Logan Square
Philadelphia, PA 19103-6998
(215) 569-5500

Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania, in her
official capacity as Liquidator of
Reliance Insurance Company


Dated: June 21, 2005

VERIFICATION

I, David S. Brietling, am authorized by M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. § 221.23, to act on her behalf in her capacity as the Liquidator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing Petition to Approve a Plan for Allocation of Policyholder Collateral Under Section 221.23a of the Pennsylvania Insurance Department Act are true and correct to the best of my knowledge, information and belief.

I understand that this Verification is made subject to the penalties of 18 P.S. § 4904 relating to unsworn falsification to authorities.

Date: June __, 2006



David S. Brietling

EXHIBIT A

Policy Number	Effective Date	Expiration Date	Line of Business	Policy Type
NKC0131913	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131913	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131913	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131913	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131914	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131914	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131914	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131914	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131915	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131915	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131915	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131915	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NGB0131922	10/1/1996	10/1/1997	GL	\$500,000 Deductible
NGB0131922	10/1/1997	10/1/1998	GL	\$500,000 Deductible
NGB0131922	10/1/1998	10/1/1999	GL	\$500,000 Deductible
NGB0131922	10/1/1999	10/1/2000	GL	\$500,000 Deductible
NWA0131923	10/1/1996	10/1/1997	WC	\$2,000,000 Deductible
NWA0131923	10/1/1997	10/1/1998	WC	\$2,000,000 Deductible
NWA0131923	10/1/1998	10/1/1999	WC	\$2,000,000 Deductible
NWA0131923	10/1/1999	10/1/2000	WC	\$2,000,000 Deductible
NWA0131924	10/1/1996	10/1/1997	WC	Retro
NWA0131924	10/1/1997	10/1/1998	WC	Retro
NWA0131924	10/1/1998	10/1/1999	WC	Retro
NWA0131924	10/1/1999	10/1/2000	WC	Retro
NWA0158556	10/1/1999	10/1/2000	WC	\$2,000,000 Deductible

EXHIBIT B

Workers Compensation

<u>State</u>	<u>Total Paid</u>
Alaska	691.00
Alabama	206,006.00
Arkansas	45,407.00
Arizona	85,461.00
California	10,994,010.44
Colorado	151,953.00
Connecticut	242,424.00
Florida	2,040,453.00
Georgia	587,810.00
Hawaii	176.00
Iowa	533,854.00
Illinois	2,287,987.00
Indiana	52,814.00
Kansas	250,135.00
Kentucky	22,277.00
Louisiana	76,627.00
Massachusetts	767,217.00
Maryland	275,271.00
Maine	128,617.00
Michigan	325,728.00
Minnesota	409,698.00
Missouri	395,709.00
Mississippi	128,169.00
Montana	51,976.00
North Carolina	756,715.97
Nebraska	110,792.00
New Jersey	681,887.00
New York	2,489,331.00
Oklahoma	150,058.00
Oregon	134,036.00
Pennsylvania	1,855,509.00
Rhode Island	57,653.00
South Carolina	845,504.56
Tennessee	1,318,042.00
Texas	804,927.00
Utah	323,585.00
Virginia	460,400.00
Vermont	4.00
Wisconsin	3,794.00
Grand Total All States	30,052,708.97

CERTIFICATE OF SERVICE

I, Sheila E. Branyan, hereby certify that on or about this day, pursuant to the Court's Order of April 1, 2004, service of the foregoing Petition of the Liquidator to Approve a Plan for Allocation of Policyholder Collateral of Consolidated Freightways Corporation was made on the attached Master Service List through the transmission of a Notice of Filing and through posting of a true and correct copy in PDF file format on the Reliance Documents website (www.reliancedocuments.com).

Dated: June 21, 2006


SHEILA E. BRANYAN

Master Service List

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

v.

Reliance Insurance Company

No. 269 M.D. 2001 (Commonwealth Court of Pennsylvania)

Jerome R. Richter
Ann B. Laupheimer
Blank Rome LLP
One Logan Square
Philadelphia, PA 19103
(215) 569-5500
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Steven B. Davis, Esquire
Chief Counsel
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg PA 17120
(717) 783-1975
(Attorneys for the Pennsylvania Insurance
Department)

Amy L. Weber, Esquire
Deputy Chief Counsel
Preston M. Buckman, Esquire
Special Funds Counsel
Commonwealth of Pennsylvania
Insurance Department
Office of the Chief Counsel
Capitol Associates Building
901 North 7th Street
Harrisburg, PA 17102
(717) 787-6009
(Attorneys for the Pennsylvania
Insurance Department)

Marilyn K. Kincaid, Esquire
Reliance Insurance Company
(in Liquidation)
Three Parkway
Philadelphia, PA 19102
(215) 864-4205
(Attorney for Reliance Insurance
Company (in Liquidation))

Joseph C. Crawford
Wolf, Block, Schorr & Solis-Cohen LLP
1650 Arch Street
22nd Floor
Philadelphia, PA 19103
Phone: (215) 977-2293
Fax: (215) 405-3893

(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Hillary C. Steinberg
James Michael Matour
Hangley Aronchick Segal & Pudlin, P.C.
One Logan Square
Philadelphia, PA 19103
(215) 568-6200
(Attorneys for Reliance Group
Holdings, Inc.)

Jeffrey B. Rotwitt
Obermayer Rebmann Maxwell & Hippel
1 Penn Center, 19th Floor
Philadelphia, PA 19103-1895
(215) 665-3000
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

William Charles Bensley
George Whittaker Howard
Edward M. Nass
Howard Brenner & Nass, P.C.
1608 Walnut Street, Suite 1700
Philadelphia, PA 19103
(215) 546-8200
(Attorneys for Francine and Ted Forman)

Brad S. Karp
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
(212) 373-3000
(Attorneys for Reliance Group
Holdings, Inc.)

Robert H. Levin
Adelman Lavine Gold & Levin, P. C.
1900 Two Penn Center Plaza
Philadelphia, PA 19102
(215) 568-7515
(Attorneys for Committee of Policyholders)

Richard D. Batchelder, Jr.
Ropes & Gray
One International Place
Boston, MA 02110-2624
(617) 951-7000
(Attorneys for Miami Cruiseline
Holdings LLC)

Frank F. McGinn
Bartlett Hackett Feinberg, P.C.
155 Federal Street
9th Floor
Boston, MA 02110
(617) 422-0200
(Attorneys for Flatley Company)

Elizabeth F. Abrams
Reed Smith Shaw & McClay LLP
2500 One Liberty Place
Philadelphia, PA 19103
(215) 851-8855
(Attorneys for Vitas Healthcare Corp.
and Various State Guaranty Assocs.)

Thomas J. Madigan
Pepper Hamilton LLP
One Mellon Center
500 Grant Street, 50th Floor
Pittsburgh, PA 15219-2502
(412) 454-5000
(Attorneys for O'Brien-Kreitzberg
& Associates, Inc.)

Douglas B. Provencher
Provencher & Flatt, LLP
823 Sonoma Avenue
Santa Rosa, CA 95404
(707) 284-2380
(Attorneys for Great Western Collection
Bureau)

Terence R. Savage
Employment Development Department
State of California
800 Capitol Mall, Legal Office
Sacramento, CA 95814
(916) 654-8410
(Attorneys for Employment Development
Department, State of California)

R. Nicholas Gimbel
McCarter & English, LLP
Mellon Bank Center
1735 Market Street
Suite 700
Philadelphia, PA 19103
Phone: (215) 979-3800

Fax: (215) 979-3899
(Attorneys for Brand Scaffold Services, Inc.,
Magellan Ins. Co. Ltd., and Sun Life Assurance
Company of Canada)

Philip J. Goodman
Chadbourne & Parke LLP
1200 New Hampshire Avenue, NW
Washington, DC 20036
(202) 974-5600
(Attorneys for 1741 Ivar LLC)

John Norig Ellison
Timothy Patrick Law
Anderson, Kill & Olick P.C.
1600 Market Street, Suite 2500
Philadelphia, PA 19103
(215) 568-4202
-and-
Marvin L. Wilenzik
Elliott Reihner Siedzikowski & Egan, P.C.
925 Harvest Drive
P.O. Box 3010
Blue Bell, PA 19422
(215) 977-1050
(Attorneys for Synagro Technologies, Inc.)

Jeremy Harwood, Esquire
Healy & Baillie, LLP
61 Broadway, 32 Floor
New York, NY 10006-2834
(212) 943-3980
-and-
Joseph M. Donley, Esquire
William E. Cox, Esquire
Kittredge, Donley, Elson, Fullem & Embick
400 Market Street, Suite 200
Philadelphia, PA 19106
(215-829-9900)
(Attorneys for Steamship Mutual Underwriting
Association (Bermuda) Ltd.)

Thomas V. White, Esquire
Joseph P. Rusnak, Esquire
Tune, Entekin & White, P.C.
AmSouth Center, Suite 1700
315 Deaderick Street
Nashville, TN 37238
(615) 244-2770
(Attorneys for Home Builders Association of
Tennessee Self-Insured Trust)

Michele Smolin, Esquire
McDonald, Hopkins, Burke & Haber
600 Superior Avenue E
Cleveland, OH 44114-2653
(216) 348-5400

(Attorneys for United Church of Christ Insurance Board)

Lisa Luborsky, Esquire
Britt, Hankins & Moughan
Two Penn Center Plaza, Suite 515
1500 John F. Kennedy Blvd.
Philadelphia, PA 19102-1888
(215) 569-6918

(Attorneys for the Pennsylvania Property and Casualty Insurance Guaranty Association)

Frederick P. Santarelli, Esquire
Elliott Greenleaf & Siedzikowski, P.C.
925 Harvest Drive
P.O. Box 3010
Blue Bell, PA 19422
(215) 977-1050
(Attorneys for Estate of Leo Frances Tenczynski)

Janice Marie Savinis, Esquire
Savinis, D'Amico & Kane, LLC
Suite 3626, Gulf Tower
707 Grant St.
Pittsburgh, PA 15219
(Attorney for Harold W. Thomas)

Francine L. Semaya, Esquire
Joseph James Bellew, Esquire
Cozen O'Connor
45 Broadway, 16th Floor
New York, NY 10006
(212-908-1270)
(Attorneys for Allied Holdings and Client Assurance Pool)

Richard F. McMenamin, Esquire
David L. Harbaugh, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
(215-963-5596)
(Attorneys for Fuji Bank Limited and The Tribune Company)

Eric P. Wilenzik, Esquire
Elliott Reihner Siedzikowski & Egan, P.C.
925 Harvest Drive
Blue Bell, PA 19422
(215-977-1000)
(Attorneys for Brandywine Realty Trust)

Sarah H. Zinn, Esquire
Hogan & Hartson, LLP
555 13th Street, N.W.
Washington, D.C. 20004-1109
(202) 637-6459
(Attorneys for National Structured Settlements Trade Association, General Electric Capital Assurance Co., First Colony Life Ins. Co., Federal Home Life Ins. Co., and GE Life and Annuity Assurance Co.)

David W. Cranshaw, Esquire
Morris, Manning & Martin, LLP
1600 Atlanta Financial Center
3343 Peachtree Road, N.E.
Atlanta, GA 30326
(404-233-7000)
(Attorneys for ChoicePoint and its division ChoicePoint Commercial Specialist)

P. Kevin Brobson, Esquire
Buchanan Ingersoll
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101
(717-237-4800)
(Attorneys for Magellan Reinsurance Company, Ltd. and RBH Reinsurance Ltd.)

Bruce R. Hoffman, Esquire
Law Office of Bruce R. Hoffman, LLC
574 Sea Island Parkway
Saint Helena Island, SC 29920-4205
(843-838-5290)
(Pro Se)

R. Jane Lynch, Esquire
Cox, Castle & Nicholson LLP
2049 Century Park East, Suite 2800
Los Angeles, CA 90067
(310-277-4222)
(310-277-7889) fax
(Attorneys for Lake at Las Vegas Joint Venture)

Kevin E. Wolff, Esquire
Robert J. Re, Esquire
McElroy, Deutsch & Mulvaney, LLP
1300 Mount Kemble Avenue
P.O. Box 2075
Morristown, NJ 07962-2075
(973-425-8717)
(Attorneys for Celanese Americas Corporation, Elwood Insurance Limited, and Celwood Insurance Company (f/k/a Hoechst Celanese Insurance Company, Ltd.)

Michael B. Dubin, Esquire
Semanoff, Ormsby, Greenberg & Torchia
Suite 200 Jenkins Court
610 Old York Road
Jenkintown, PA 19046
(215-887-0200)
(215-887-5356) fax
(Attorneys for Integrated Health Services, Inc.)

Deborah Fuchs Cohen, Esquire
Eric Jonathan Rothschild, Esquire
Pepper Hamilton LLP
3000 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103
(215) 981-4470
(Attorney for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Leonard P. Goldberger, Esquire
Amy Elizabeth Vulpio, Esquire
White and Williams LLP
1800 One Liberty Place
Philadelphia, PA 19103-7395
(215) 864-6376
(Attorneys for Insurance Company
of North America)

Harold S. Horwich, Esquire
Bingham McCutchen
One State Street
Hartford, CT 06103
(860) 240-2700
(Attorneys for St. Joseph's Medical Center)

Susan J. Guerrieri, Esquire
Stephen C. Baker, Esquire
John B. Dempsey, Esquire
Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103-6996
(215) 988-2700
(Attorneys for Mawson & Mawson, Inc.)

Joseph F. Orso, III, Esquire
Casale & Bonner, P.C.
Suite 202
33 West Third Street
Williamsport, PA 17701
(570) 326-7044
(Attorneys for Richard Ruhl)

Arthur Makadon, Esquire
Geoffrey A. Kahn, Esquire
Ballard Spahr Andrews & Ingersoll, LLP

1735 Market Street, 51st Floor
Philadelphia, PA 19103
(215) 665-8500
(Attorneys for Deloitte & Touche LLP)

Douglas Y. Christian, Esquire
Ballard Spahr Andrews & Ingersoll
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
(215) 864-8404
(Attorneys for American Longshore Mutual
Association)

Lisa M. Salazar, Esquire
McCarter & English LLP
Mellon Bank Center, Suite 700
1735 Market Street
Philadelphia, PA 19103-7501
(215) 979-3800
(Attorneys for Robert M. Steinberg)

Robert E. Kelly, Jr., Esquire
Anthony W. Parker, Esquire
Kelly Hoffman & Goduto LLP
Commerce Towers
300 North Second Street, 10th Floor
P.O. Box 62003
Harrisburg, PA 17106-2003
(717) 920-8100
(Attorneys for Petitioner South Carolina School
Boards Insurance Trust)

Joseph M. Hennelly, Jr., Esquire
Hennelly & Steadman, PLC
Goldworthy House
322 West Roosevelt
Phoenix, AZ 85003
(602) 230-7000
(Attorneys for Mark D. Tharp as Arizona's Special
Ancillary Receiver of Reliance)

Rowe W. Snider, Esquire
Steven T. Whitmer, Esquire
Julie L. Young, Esquire
Lord, Bissell & Brook
115 South LaSalle Street
Chicago, Illinois 60603
(312) 443-0700
(Attorneys for NCIGF)

Paul G. Witko, Deputy Attorney General
State of New Jersey
Office of the Attorney General
Department of Law and Public Safety
Division of Law
Station Plaza #4, 2nd Floor
22 South Clinton Ave.

P.O. Box 117
Trenton, NJ 08625-0117
(609) 777-3512
(Attorney for New Jersey Workers Compensation Bureau)

Malcolm C. Lindquist, Esquire
Lane Powell Spears Lubersky
1420 Fifth Ave.
Suite 4100
Seattle, WA 98101
(206) 223-7101
(Attorney for Labor Ready, Inc.)

James W. Kutz, Esquire
Kimberly M. Colonna, Esquire
McNees Wallace & Nurick, LLC
100 Pine St, P.O. Box 1166
Harrisburg, PA 17108-1166
(717) 232-8000
(Attorneys for Earth Tech, Inc.)

Guy A. Cellucci, Esquire
White and Williams LLP
1800 One Liberty Place
Philadelphia, PA 19103-7395
(215) 864-7000
(Attorneys for Hartford Fire Insurance Co., Hartford Specialty Co., and the Hartford Financial Services Group, Inc.)

Brian T. Guthrie, Esquire
Daniel W. Krane, Esquire
Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103-6996
(215) 988-2700
(Attorneys for Lexington Insurance Co.)

Edward G. Biester, Esquire
Duane Morris LLP
3030 South 17th Street
Philadelphia, PA 19103
(215) 979-1000
(Attorneys for Florida Workers' Compensation Insurance Guaranty Association Incorp.)

Lawrence Licitra, Esquire
Julie Pollack, Esquire
Swiss Reinsurance America Corporation
175 King Street
Armonk, NY 10504
(914) 828-8000
(Attorneys for Swiss Reinsurance America Corp.)

Daryn E. Rush, Esquire

Funk & Bolton
One South Broad Street
Suite 1830
Philadelphia, PA 19107
(215) 568-4104
(Attorneys for Travelers Casualty and Surety Co.)

John C. Connell, Esq.
Jerrold S. Kulback, Esq.
Archer & Greiner, PC
One Centennial Square
Haddonfield, NJ 08033
(856) 795-2121
(Attorneys for New Mexico Mutual Casualty Company and Southwest Casualty Company)

Kimberly A. LaMaina
Skadden, Arps, Slate, Meagher & Flom, LLP
One Rodney Square
Wilmington, DE 19801
(302) 651-3184
(Attorneys for Zenith Insurance Company)

Jeffrey B. Colien
John Mcnke
Joseph Krettek
Pension Benefit Guaranty Corporation
Office of the General Counsel
1200 K Street, N.W.
Washington, D.C. 20005
(202) 326-4020
(Attorneys for Pension Benefit Guaranty Corporation)

Timothy P. Law, Esquire
Anderson Kill & Olick, P.C.
1600 Market Street, Suite 2500
Philadelphia, PA 19103
(215) 568-4762
(Attorney for Harlem River Park Houses, Inc.)

Francis Patrick Newell
Harkins Cunningham LLP
2800 One Commerce Square
2005 Market Street
Philadelphia, PA 19103
(215) 851-6700
(Attorney for Celanese and the Celanese Reinsurers)

Jeff Farkas
Laura Torrado
Bear Stearns Investment Products Inc.
383 Madison Avenue
New York, NY 10179
(212) 272-3330
(Non-Attorney Representative of Bear Stearns)

Michael Wenschuh
Dennis Comstock
VonWin Capital, L.P.
60 Madison Avenue, Suite 201
New York, NY 10011
(212) 889-1601
(Attorneys for VonWin Capital)

Anthony L. Miscioscia
Gale White
White and Williams LLP
1800 One Liberty Place
Philadelphia, PA 19103
(215) 864-6234
(Attorneys for United National Insurance Company)

Jed A. Hart
Angelo, Gordon & Co.
245 Park Avenue, 26th Floor
New York, NY 10167
(212) 692-2003

James W. Schacht
Navigant Consulting, Inc.
175 West Jackson Blvd., Suite 500
Chicago, IL 60604
(312) 583-5700

Exhibit B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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

v.

Reliance Insurance Company,
Defendant.

In Re: Petition to Approve Plan for
Allocation of Policyholder Collateral for
Consolidated Freightways Corporation

269
No. 269 M.D. 2001

2006 OCT -4 A 9 47

PROCESSED AND FILED
COMMONWEALTH COURT
OF PENNSYLVANIA

ORDER

AND NOW, this 4th day of October, 2006, upon consideration of the Petition of M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her capacity as Liquidator of Reliance Insurance Company ("the Liquidator") for Approval of Plan for Allocation of Policyholder Collateral of Consolidated Freightways Corporation (Plan), and the absence of any objection thereto, the Court finds that the Plan complies with Section 523.1 of Article V of the Act of May 17, 1921, P.L. 789, as amended, added by the Act of June 28, 2004, P.L. 443; 40 P.S. §221.23a (known as the Insurance Company Law of 1981 (Act)), and equitably allocates the collateral of Policyholder Consolidated Freightways Corporation (the "Collateral") currently in the possession of Reliance Insurance Company ("Reliance"):

The Court finds as follows:

- A. Reliance currently holds the Collateral, which consists of \$100 million.
- B. The Collateral was posted by CF with Reliance to secure its deductible reimbursement obligations under policies of insurance issued by Reliance to Consolidated Freightways Corporation ("CF") for workers compensation

2425

coverage and automobile/general liability ("AL/GL") coverage and also to secure its obligations for retrospective premium adjustments (the "CF Policies").

C. The CF Policies consist of the following:

Policy Number	Effective Date	Expiration Date	Line of Business	Policy Type
NKC0131913	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131913	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131913	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131913	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131914	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131914	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131914	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131914	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NKC0131915	10/1/1996	10/1/1997	AL	\$3,000,000 Deductible
NKC0131915	10/1/1997	10/1/1998	AL	\$3,000,000 Deductible
NKC0131915	10/1/1998	10/1/1999	AL	\$3,000,000 Deductible
NKC0131915	10/1/1999	10/1/2000	AL	\$3,000,000 Deductible
NGB0131922	10/1/1996	10/1/1997	GL	\$500,000 Deductible
NGB0131922	10/1/1997	10/1/1998	GL	\$500,000 Deductible
NGB0131922	10/1/1998	10/1/1999	GL	\$500,000 Deductible
NGB0131922	10/1/1999	10/1/2000	GL	\$500,000 Deductible
NWA0131923	10/1/1996	10/1/1997	WC	\$2,000,000 Deductible
NWA0131923	10/1/1997	10/1/1998	WC	\$2,000,000 Deductible
NWA0131923	10/1/1998	10/1/1999	WC	\$2,000,000 Deductible
NWA0131923	10/1/1999	10/1/2000	WC	\$2,000,000 Deductible
NWA0131924	10/1/1996	10/1/1997	WC	Retro
NWA0131924	10/1/1997	10/1/1998	WC	Retro
NWA0131924	10/1/1998	10/1/1999	WC	Retro
NWA0131924	10/1/1999	10/1/2000	WC	Retro
NWA0158556	10/1/1999	10/1/2000	WC	\$2,000,000 Deductible

- D. The Collateral is in the form of a \$55 million letter of credit and a \$45 million surety bond issued by CNA.
- E. After Reliance was placed in liquidation in October 2001, claims which had arisen under the CF Policies were sent to the guaranty associations ("GAs"). Subject to applicable statutory limitations, certain GAs assumed the obligation to pay CF workers compensation claims. These are referred to as the "Affected GAs". The Affected GAs which paid and are paying CF workers compensation claims and the amounts they had paid through December 31, 2005 are as follows and the payments made total \$30,052,708.97:

<u>Guaranty Association</u>	<u>Total Paid</u>
Alaska	691.00
Alabama	206,006.00
Arkansas	45,407.00
Arizona	85,461.00
California	10,994,010.44
Colorado	151,953.00
Connecticut	242,424.00
Florida	2,040,453.00
Georgia	587,810.00
Hawaii	176.00
Iowa	533,854.00
Illinois	2,287,987.00
Indiana	52,814.00
Kansas	250,135.00
Kentucky	22,277.00
Louisiana	76,627.00
Massachusetts	767,217.00
Maryland	275,271.00
Maine	128,617.00
Michigan	325,728.00
Minnesota	409,698.00
Missouri	395,709.00
Mississippi	128,169.00
Montana	51,976.00
North Carolina	756,715.97
Nebraska	110,792.00
New Jersey	681,887.00
New York	2,489,331.00
Oklahoma	150,058.00
Oregon	134,036.00
Pennsylvania	1,855,509.00
Rhode Island	57,653.00
South Carolina	845,504.56
Tennessee	1,318,042.00
Texas	804,927.00

Utah	323,585.00
Virginia	460,400.00
Vermont	4.00
Wisconsin	3,794.00
Grand Total All States	30,052,708.97

F. Three Affected GAs – California, Pennsylvania and Texas - initially funded some AL claims within the CF deductible in the amount of \$201,753.00.

G. In addition to claims under the workers compensation and AL/GL deductible policies, some of the CF Policies provided for retrospective premium adjustments. From the date of liquidation through December 21, 2005, CF owed Reliance \$766,443.12 for retrospective premium adjustments.

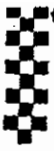
H. CF also has an as yet undetermined amount of claims that are not covered by GAs.

Accordingly, it is hereby ORDERED and DECREED as follows:

1. The Liquidator will retain a third party administrator ("TPA") to adjust and settle known, but unresolved, non-covered AL/GL claims.
2. From the Collateral, the Liquidator will make available an initial sum of \$20 million to settle the non-covered AL/GL claims within the deductible ("the Settlement Fund"). No settlement will be eligible for payment unless it releases the Liquidator and the Reliance Estate. To the extent claimants, GAs or CF have submitted POCs for any claim which is settled according to this process, the Liquidator shall be entitled to issue a NOD with an amount of \$0 at the appropriate statutory priority. The reasonable administrative expenses of CF and the costs of the TPA may be paid from the Settlement Fund.
3. The Liquidator shall pay to the Affected GAs from the Collateral the amounts set forth above at paragraph E.
4. The Liquidator shall pay to the California, Pennsylvania and Texas GAs \$201,753.00 that they paid in AL/GL claims.
5. The Liquidator shall reimburse Reliance from the Collateral for the amount of \$766,443.12 that was due and owing in retrospective premium through December 31, 2005.
6. **Ongoing Collateral Review**
 - a. No later than October 31, 2007, the Liquidator shall complete a review and evaluation of the Collateral and claims under CF Policies in order to determine whether there is sufficient collateral, including any Collateral

remaining in the Settlement Fund, to fund all remaining known, outstanding and anticipated claims, retrospective premium and administrative expenses.

- b. If by October 31, 2007, the Liquidator determines that there is sufficient collateral, she shall promptly file with the Court a Petition to Finally Allocate Collateral, setting forth the terms upon which she proposes to allocate and pay the Collateral. Upon approval by the Court, the Liquidator shall be entitled to proceed to allocate and pay the Collateral asset forth as directed by the Court.
 - c. If by October 31, 2007, the Liquidator determines that actuarial projections remain too imprecise to finally allocate and pay the Collateral, but that a further partial allocation and payment is appropriate, the Liquidator will promptly file with the Court a Petition to Partially Allocate Collateral, setting forth the terms upon which she proposes to allocate and pay part of the Collateral. Upon approval by the Court, the Liquidator shall be entitled to proceed to allocate and pay the Collateral as directed by the Court.
 - d. At each year anniversary of October 31, 2007, as updated and more accurate information is obtained, the Liquidator will complete a collateral review and determine whether to proceed under paragraph (b) above if the collateral is determined to be sufficient, or paragraph (c) above if the collateral review remains inconclusive.
 - e. No payments shall be made from the Collateral without approval of the Court.
7. **Insufficient Collateral.** If the Liquidator determines at any time that the Collateral is insufficient to reimburse all claims paid by the Affected GAs, pay all non-covered AL/GL claims, pay all retrospective premiums due and owing, as well as administrative expenses, the Liquidator shall file with the Court and seek the Court's approval of an amended plan establishing an equitable *pro rata* allocation formula against the Collateral controlling all future distributions. If the Collateral is exhausted without the full payment of all non-covered AL/GL claims and reimbursement of all claims paid by the Affected GAs in full, the remaining claims or partial claims shall be claims against the Reliance Estate and subject to compliance with the proof of claim process established by the Act and the September 9, 2002 Order of this Court, and any amendments or supplements thereto.
8. **Liquidator Expenses.** The Liquidator may withdraw up to 3% of the Collateral for reasonable actual expenses incurred in the administration of Section 221.23a of the Act. After each annual plan review, the Liquidator shall include in the Petition a statement of and request for approval of reimbursement of the Liquidator's administrative expenses. The Liquidator shall file the Petition with the Court, along with any response received.



9. **FURTHER**, within three months of the date of this Order and every four month period thereafter, the Liquidator shall file a report detailing the complete status of the Plan.

AND FURTHER, it is **ORDERED** that the Liquidator shall serve a copy of this Order upon all listed on the Master Service List, and also, shall file with this Court no later than October 13, 2006, an affidavit that service has been effectuated.

James Gardner Colins
JAMES GARDNER COLINS, President Judge

Exhibit C

AMENDED AGREEMENT

This Amended Agreement is by and between K. Morgan Enterprises, Inc., as trustee under the Trust for Certain Creditors of Consolidated Freightways Corporation and Certain Affiliates (the "Trustee"), and the Oversight Committee, and Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania in his capacity as Statutory Liquidator of Reliance Insurance Company (in Liquidation) (the "Liquidator"), for the following purposes and with reference to the following facts:

WHEREAS, Consolidated Freightways Corporation of Delaware and certain of its affiliates (collectively with the Trustee and the Oversight Committee hereinafter referred to as "CF") obtained insurance policies from Reliance Insurance Company ("Reliance") for, among other things, workers compensation, automobile liability ("AL") and commercial general liability ("GL") exposure. Certain of these policies contained deductible reimbursement obligations, while others provided for retrospective premium adjustments;

WHEREAS, for certain insurance policies covering the years October 1, 1996 through September 30, 2000, CF and Reliance National Risk Specialists, a division of Reliance, entered into a Deductible Reimbursement Agreement pursuant to which CF was responsible for payments within specified deductible amounts and CF made payments directly to third parties for losses incurred within the deductible limits under its insurance policies;

WHEREAS, as security for CF's obligations under the Deductible Reimbursement Agreement, CF delivered to Reliance a letter of credit in the amount of \$55,000,000.00 (the "Letter of Credit"), and a surety bond, obtained through The National Fire Insurance Company of Hartford (a part of the CNA group of Companies) ("CNA"), in the amount of \$45,000,000.00 (the "Bond", and, together with the Letter of Credit, the "Collateral"). The letter of credit also

covered the retrospective premium due on certain policies that were covered by the Deductible Reimbursement Agreement;

WHEREAS, the Commonwealth Court of Pennsylvania (the "Commonwealth Court") placed Reliance into liquidation on October 3, 2001 (hereinafter referred to as the "Liquidation Proceedings"). On September 3, 2002, CF filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (hereinafter referred to as the "Bankruptcy Proceedings");

WHEREAS, on or about December 8, 2004, Reliance states that it entered into a letter agreement with CNA pursuant to which Reliance agreed that it would draw down on the Bond for 45% of its total claims and the Letter of Credit for 55% of its total claims (the "Letter Agreement"). CF disputes the enforceability of the Letter Agreement;

WHEREAS, on October 4, 2006, the Commonwealth Court entered a Collateral Allocation Order, in which it authorized the Liquidator to use certain Collateral to reimburse Guaranty Associations ("GAs") for claims covered by the GAs within applicable deductibles, adjust and pay non-covered AL/GL claims in accordance with 40 P.S. §221.23a and reimburse Reliance for retrospective premium and certain expenses allowed under 40 P.S. §221.23a. The term "AL/GL claim" shall mean a claim within the deductible amount of any AL/GL policy. Pursuant to the Collateral Allocation Order, the Liquidator and the Trustee entered into a Master Claims Service Agreement and a related Certificate of Instruction.

WHEREAS, pursuant to 40 P.S. § 221.23a, the Collateral is not an asset of the Reliance liquidation estate. Furthermore, pursuant to 40 P.S. § 221.23a(i)(3) and the Collateral Allocation Order, once all claims covered by the Collateral have been paid and the Liquidator is satisfied that no new claims can be presented, the Liquidator must release all remaining Collateral to the Trustee;

WHEREAS, certain amounts of the Letter of Credit and certain amounts of the Bond were drawn down and, over time, interest accrued and is accruing on the drawn, but undistributed, portions of the Collateral;

WHEREAS, on February 14, 2007, CF commenced an adversary proceeding against Reliance in the Bankruptcy Court (No. RS 02-24284-MG, Adv. Pro. No. 07-01026-MG, United States Bankruptcy Court, Central District of California) (the "Complaint"). Among other things in the Complaint, CF sought a declaration that the Collateral is property of the bankruptcy estate, as well as an injunction to enjoin Reliance from paying any third-party claims within the deductible amounts of the AL/GL policies and to require all AL/GL claims to be adjudicated and paid through CF's bankruptcy estate. CF further sought to compel Reliance to draw down on the Bond in its entirety before drawing down on the Letter of Credit.

WHEREAS, Reliance disputed that CF was entitled to the relief it sought and moved to dismiss CF's Complaint. CF opposed the motion to dismiss, which was not heard by the Bankruptcy Court;

WHEREAS, at the same time CF filed the Complaint, CF also filed an Emergency Motion For Temporary Restraining Order And Preliminary Injunction Enjoining Defendant From: (1) Transferring, Dissipating, Encumbering And/Or Assigning Collateral In Its Possession And Control Which Is Property Of The Estate And Was Pledged By The Debtors As Security Under A Certain Deductible Reimbursement Agreement; (2) Making Any Further Draws On A Certain Letter Of Credit And Surety Bond; and (3) Further Enjoining Defendant From Paying Any Third-Party Claims In Connection With Debtors' Insurance Policies (the "TRO Motion");

WHEREAS, Reliance timely opposed the TRO Motion and filed a motion to dismiss the Complaint;

WHEREAS, On or about February 15, 2007, the Bankruptcy Court entered its Order on Motion for Temporary Restraining Order, Etc. (the "TRO"), which provided, among other things, that Reliance was enjoined from "transferring, dissipating, encumbering and/or assigning the collateral in its possession and within its control which is property of the Estate and was pledged by the debtors as security in the form of a Letter of Credit for obligations under a certain deductible Reimbursement Agreement, making any further draws on the Undrawn Collateral and the Bond." The TRO further enjoined Reliance "from paying any Deductible Claims";

WHEREAS, on April 10, 2007, Reliance and the Liquidator filed a Petition to Enforce the Collateral Allocation Order of October 4, 2006 (the "Petition") in Commonwealth Court. Among other things in the Petition, the Liquidator has asked the Commonwealth Court to hold that the Collateral is in the possession and control of the Liquidator and to enjoin CF from interfering with the Collateral Allocation Order;

WHEREAS, the Liquidator and Trustee seek to resolve the issues addressed in the Complaint, TRO Motion and the Petition;

WHEREAS, the Liquidator and Trustee entered into an Agreement dated October 31, 2007, which was approved by the Bankruptcy Court on January 14, 2008;

WHEREAS, the Liquidator and Trustee have met to work out the details for handling AL/GL claims and have determined that significant practical difficulties that were not previously ascertained now militate in favor of having the AL/GL claims handled in accordance with the Collateral Allocation Order and procedures agreed thereto.

NOW THEREFORE, the Trustee and Liquidator have agreed to amend the Settlement Agreement as set forth herein (the "Amended Agreement"). This Amended Agreement shall become effective upon Bankruptcy Court Approval:

1. Proceedings to Determine CNA's Obligation Under the Bond. The Liquidator acknowledges that, unless otherwise agreed by the Liquidator and the Trustee, the Trustee shall bring or maintain (and has now brought and maintained) an action against CNA to determine CNA's obligations under the Bond, including whether the Liquidator must draw down on the Bond in its entirety before he may further draw down on the Letter of Credit. The Liquidator agrees not to interfere in or object to such action unless the Liquidator determines that the action could impair the Liquidator's rights under the Collateral or the Trustee asserts an abuse of discretion by the Liquidator.

2. Stipulation as to the TRO. Pursuant the Agreement, the Liquidator and the Trustee entered into a stipulation regulating access to the Collateral. As a result of this Amended Agreement, the Liquidator and Trustee have revised the stipulation, a copy of which is attached hereto (the "Amended TRO Stipulation"), which provides that the TRO shall remain in effect until further order of the Bankruptcy Court or the parties agree otherwise, provided, however, that the Trustee agrees that the Liquidator may draw upon the Collateral as more set forth more fully in the Amended TRO Stipulation to fund a distribution pursuant to the Collateral Allocation Order to be proposed to the Commonwealth Court and to allow draws against the collateral for payment of AL/GL claims and any third party administration fees attributable thereto. Nothing in the Trustee's consent to the collateral draws described in this paragraph constitutes the Trustee's agreement that the Letter Agreement is enforceable or valid.

3. Interest and/or Investment Income. Any and all interest and/or investment income that accrued, continues to accrue, or will accrue in the future on drawn, but undistributed (at any time), portions of the Collateral shall re-vest in the Collateral, and such interest and/or investment income shall be treated as Collateral under the Collateral Allocation Order, the

Amended TRO Stipulation, and/or any future orders dealing with the Collateral. Accrued interest and/or investment income shall be credited with any drawn, but undistributed (at any time), collateral for distribution pursuant to the next distribution order of the Commonwealth Court. Upon court approval, as may be necessary, the Liquidator will report to the Trustee the amount of such interest/investment income earned as of the date of court approval. The next such report will be provided to the Trustee contemporaneously with the second quarterly financial report filed with the Commonwealth Court after Commonwealth Court approval of the distribution and semi-annually thereafter.

4. Process for Settling AL/GL Claims.

The Trustee and the Liquidator agree that AL/GL claims shall be adjusted pursuant to the Collateral Allocation Order and in accordance with the Master Claims Service Agreement and a related Certificate of Instruction. The Trustee and the Liquidator acknowledge that, as result of the Amended Agreement, certain minor revisions to the Master Claims Service Agreement and related Certificate of Instruction may be necessary currently or in the future. The parties agree to cooperate in good faith to effect such revisions. In addition, all settlements shall contain a full and final release of Reliance and the Liquidator. The Liquidator shall issue a notice of determination with an amount of \$0 at the appropriate statutory priority for claims settled in accordance with the procedure set forth above and for which a proof of claim has been filed in the Liquidation Proceedings.

5. Effect of Agreement on Pending and Other Proceedings. The Trustee will amend (and has amended) the Complaint, and thereby dismissed certain counts against Reliance, except, at the Trustee's election, that part of the Complaint relating to the Bond and the reversionary interest, and the Liquidator, upon Bankruptcy Court approval of this Amended Agreement, will

move to withdraw the Petition without prejudice. The TRO shall remain in effect as set forth in the Amended TRO Stipulation.

6. This Amended Agreement shall not be valid and binding until Bankruptcy Court Approval has been obtained.

7. The Liquidator and the Trustee agree that the Liquidator may make an application to the Commonwealth Court for a distribution pursuant to the Collateral Allocation Order as more fully set forth in the Amended TRO Stipulation.

8. The Liquidator and Trustee agree that the Trustee may continue the action against CNA referred to in paragraphs 1 and 5 of this Amended Agreement in the Bankruptcy Court, and that the Bankruptcy Court may hear, approve or otherwise resolve any AL/GL claim for which a proof of claim has been submitted in the Bankruptcy Proceedings, or for which the Trustee submits a settlement agreement or other motion for approval and otherwise resolve the issues presented in the amended complaint filed and maintained by the Trustee in accordance with paragraphs 1 and 5 of this Amended Agreement. The Liquidator and Trustee further agree that any dispute regarding the meaning or interpretation of the Collateral Allocation Order shall be brought in the Commonwealth Court, and that the Commonwealth Court may hear, approve or otherwise resolve any claim for which a proof of claim was filed in the Liquidation Proceedings. The Commonwealth Court shall also hear any Petition to Finally Allocate Collateral, or any Petition to Partially Allocate Collateral, as is required to be filed by the Liquidator in accordance with the Collateral Allocation Order. The Trustee and Liquidator each reserve the right to contend that the Bankruptcy Court or the Commonwealth Court, respectively are the appropriate forums to resolve any other dispute.

9. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument.

10. In the event that any provision of this Agreement shall be declared invalid and unenforceable by any court having jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining portions of this agreement.


K. Morgan Enterprises, Inc., As Trustee Under
The Trust For Certain Creditors Of
Consolidated Freightways Corporation And
Certain Affiliates & The Oversight Committee

By:


Kerry Morgan

Joel S. Ario, Acting Insurance Commissioner
Of The Commonwealth Of Pennsylvania In
His Capacity As Statutory Liquidator Of
Reliance Insurance Company (In Liquidation)

By:


David S. Brietling
Chief Liquidation Officer

Dated: February 12, 2008

Dated: February 12, 2008

Exhibit D

**Consolidated Freightways, Inc. 01/01/06 thru 09/30/2007:
Large Deductibles**

GA State	Total Collateral Draws for WC GA Paid 1/1/06 thru 9/30/07 To Be Distributed	Total Collateral Draws for ALGL Paid 1/1/06 thru 9/30/07 To Be Distributed	
Alabama	\$1,109.41		
Alaska	-\$593.65		
Arizona	\$0.00		
Arkansas	\$0.00		
California	\$2,733,950.37	\$2,533.24	
Colorado	\$8,355.55		
Connecticut	\$165,415.69		
Florida	\$572,286.56		
Georgia	-\$17,360.01		
Hawaii	\$0.00		
Illinois	\$227,961.76		
Indiana	\$16,319.57		
Iowa	\$67,445.62		
Kansas	\$72,137.09		
Kentucky	\$5,974.68		
Louisiana	\$3,474.19		
Maine	-\$0.04		
Maryland	\$15,477.14		
Massachusetts	\$0.00		
Michigan	\$234,263.34		
Minnesota	\$84,180.16		
Mississippi	\$22,148.21		
Missouri	-\$20,301.21		
Montana	\$91,649.30		
Nebraska	\$27,563.99		
New Jersey	\$220,783.30		
New York	\$859,230.04		
North Carolina	\$165,790.87		
Oklahoma	\$4,480.23		
Oregon	\$0.00		
Pennsylvania	\$775,881.41		
Rhode Island	\$0.00		
South Carolina	-\$9,698.53		
Tennessee	\$299,900.57		
Texas	\$199,418.08	\$305,814.04	
Utah	\$237,105.73		
Vermont	\$0.00		
Virginia	\$180,284.80		
Wisconsin	\$0.00		
Grand Total	\$7,244,634.24	\$308,347.29	

CERTIFICATE OF SERVICE

I, Sheila E. Branyan, hereby certify that on or about this day, pursuant to the Court's Order of April 1, 2004, service of the foregoing Fifth Report of the Liquidator to the Court on the Implementation of the Approved Plan for the Allocation of Policyholder Collateral of Consolidated Freightways Corporation and Liquidator's Second Petition to Partially Allocate Collateral was made on the attached Master Service List through the transmission of a Notice of Filing and through posting of a true and correct copy in PDF format on the Reliance Documents website (www.reliancedocuments.com).

Dated: May 29, 2008


SHEILA E. BRANYAN

Master Service List

Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania

v.

Reliance Insurance Company

No. 269 M.D. 2001 (Commonwealth Court of Pennsylvania)

Jerome R. Richter
Ann B. Laupheimer
Blank Rome LLP
One Logan Square
Philadelphia, PA 19103
(215) 569-5500
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Amy L. Weber, Esquire
Deputy Chief Counsel
Preston M. Buckman, Esquire
Special Funds Counsel
Commonwealth of Pennsylvania
Insurance Department
Office of the Chief Counsel
Capitol Associates Building
901 North 7th Street
Harrisburg, PA 17102
(717) 787-6009
(Attorneys for the Pennsylvania
Insurance Department)

Marilyn K. Kincaid, Esquire
Reliance Insurance Company
(in Liquidation)
Three Parkway
Philadelphia, PA 19102
(215) 864-4205
(Attorney for Reliance Insurance
Company (in Liquidation))

Brian P. Flaherty, Esq.
Wolf, Block, Schorr & Solis-Cohen LLP
1650 Arch Street
22nd Floor
Philadelphia, PA 19103
Phone: (215) 977-2048
Fax: (215) 405-2948
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Hillary C. Steinberg
James Michael Matour
Hangley Aronchick Segal & Pudlin, P.C.
One Logan Square
Philadelphia, PA 19103

(215) 568-6200
(Attorneys for Reliance Group
Holdings, Inc.)

Jeffrey B. Rotwitt
Obermayer Rebmann Maxwell & Hippel
1 Penn Center, 19th Floor
Philadelphia, PA 19103-1895
(215) 665-3000
(Attorneys for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

William Charles Bensley
George Whittaker Howard
Edward M. Nass
Howard Brenner & Nass, P.C.
1608 Walnut Street, Suite 1700
Philadelphia, PA 19103
(215) 546-8200
(Attorneys for Francine and Ted Forman)

Brad S. Karp
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
(212) 373-3000
(Attorneys for Reliance Group
Holdings, Inc.)

Robert H. Levin
Adelman Lavine Gold & Levin, P. C.
Four Penn Center, Suite 900
Philadelphia, PA 19103-2808
(215) 568-7515
(Attorneys for Committee of Policyholders)

Richard D. Bateholder, Jr.
Ropes & Gray
One International Place
Boston, MA 02110-2624
(617) 951-7000
(Attorneys for Miami Cruiseline
Holdings LLC)

Frank F. McGinn
Bartlett Hackett Feinberg, P.C.
155 Federal Street
9th Floor

Boston, MA 02110
(617) 422-0200
(Attorneys for Flatley Company)

Thomas J. Madigan
Pepper Hamilton LLP
One Mellon Center
500 Grant Street, 50th Floor
Pittsburgh, PA 15219-2502
(412) 454-5000
(Attorneys for O'Brien-Kreitzberg
& Associates, Inc.)

Douglas B. Provencher
Provencher & Flatt, LLP
823 Sonoma Avenue
Santa Rosa, CA 95404
(707) 284-2380
(Attorneys for Great Western Collection
Bureau)

Terence R. Savage
Employment Development Department
State of California
800 Capitol Mall, Legal Office
Sacramento, CA 95814
(916) 654-8410
(Attorneys for Employment Development
Department, State of California)

R. Nicholas Gimbel
McCarter & English, LLP
Mellon Bank Center
1735 Market Street
Suite 700
Philadelphia, PA 19103
Phone: (215) 979-3800
Fax: (215) 979-3899
(Attorneys for Brand Scaffold Services, Inc.,
Magellan Ins. Co. Ltd., and Sun Life Assurance
Company of Canada)

Anderson, Kill & Olick P.C.
1600 Market Street, Suite 2500
Philadelphia, PA 19103
(215) 568-4202
-and-

Marvin L. Wilenzik
Elliott Reihner Siedzikowski & Egan, P.C.
925 Harvest Drive
P.O. Box 3010
Blue Bell, PA 19422
(215) 977-1050
(Attorneys for Synagro Technologies, Inc.)

Jeremy J.O. Harwood, Esquire

Blank Rome LLP
23rd Floor
405 Lexington Avenue
New York, NY 10174
(212-885-5149)

-and-
Joseph M. Donley, Esquire
William E. Cox, Esquire
Kittredge, Donley, Elson, Fullem & Embick
400 Market Street, Suite 200
Philadelphia, PA 19106
(215-829-9900)
(Attorneys for Steamship Mutual Underwriting
Association (Bermuda) Ltd.)

Thomas V. White, Esquire
Joseph P. Rusnak, Esquire
Tune, Entekin & White, P.C.
AmSouth Center, Suite 1700
315 Deaderick Street
Nashville, TN 37238
(615) 244-2770
(Attorneys for Home Builders Association of
Tennessee Self-Insured Trust)

Michele Smolin, Esquire
McDonald, Hopkins, Burke & Haber
600 Superior Avenue E
Cleveland, OH 44114-2653
(216) 348-5400
(Attorneys for United Church of Christ Insurance
Board)

Lisa Luborsky, Esquire
Britt, Hankins & Moughan
Two Penn Center Plaza, Suite 515
1500 John F. Kennedy Blvd.
Philadelphia, PA 19102-1888
(215) 569-6918
(Attorneys for the Pennsylvania Property and
Casualty Insurance Guaranty Association)

Frederick P. Santarclli, Esquire
Elliott Greenleaf & Siedzikowski, P.C.
925 Harvest Drive
P.O. Box 3010
Blue Bell, PA 19422
(215) 977-1050
(Attorneys for Estate of Leo Frances Tenczynski)

Janice Marie Savinis, Esquire
Savinis, D'Amico & Kane, LLC
Suite 3626, Gulf Tower
707 Grant St.
Pittsburgh, PA 15219
(Attorney for Harold W. Thomas)

Francine L. Semaya, Esquire
Joseph James Bellew, Esquire
Cozen O'Connor
45 Broadway, 16th Floor
New York, NY 10006
(212-908-1270)
(Attorneys for Allicd Holdings and Client Assurance Pool)

Richard F. McMenamin, Esquire
David L. Harbaugh, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
(215-963-5596)
(Attorneys for Fuji Bank Limited and The Tribune Company)

Eric P. Wilenzik, Esquire
Elliott Reihner Siedzikowski & Egan, P.C.
925 Harvest Drive
Blue Bell, PA 19422
(215-977-1000)
(Attorneys for Brandywine Realty Trust)

Sarah H. Zimm, Esquire
Hogan & Hartson, LLP
555 13th Street, N.W.
Washington, D.C. 20004-1109
(202) 637-6459
(Attorneys for National Structured Settlements Trade Association, General Electric Capital Assurance Co., First Colony Life Ins. Co., Federal Home Life Ins. Co., and GE Life and Annuity Assurance Co.)

David W. Cranshaw, Esquire
Morris, Manning & Martin, LLP
1600 Atlanta Financial Center
3343 Peachtree Road, N.E.
Atlanta, GA 30326
(404-233-7000)
(Attorneys for ChoicePoint and its division ChoicePoint Commercial Specialist)

P. Kevin Brobson, Esquire
Buchanan Ingersoll
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101
(717-237-4800)
(Attorneys for Magellan Reinsurance Company, Ltd. and RBH Reinsurance Ltd.)

Bruce R. Hoffman, Esquire
Law Office of Bruce R. Hoffman, LLC
574 Sea Island Parkway
Saint Helena Island, SC 29920-4205
(843-838-5290)
(Pro Se)

R. Jane Lynch, Esquire
Cox, Castle & Nicholson LLP
2049 Century Park East, Suite 2800
Los Angeles, CA 90067
(310-277-4222)
(310-277-7889) fax
(Attorneys for Lake at Las Vegas Joint Venture)

Kevin E. Wolff, Esquire
Robert J. Re, Esquire
McElroy, Deutsch & Mulvaney, LLP
1300 Mount Kemble Avenue
P.O. Box 2075
Morristown, NJ 07962-2075
(973-425-8717)
(Attorneys for Celanese Americas Corporation, Elwood Insurance Limited, and Celwood Insurance Company (f/k/a Hocchst Celanese Insurance Company, Ltd.)

Michael B. Dubin, Esquire
Semanoff, Ormsby, Greenberg & Torchia
Suite 200 Jenkins Court
610 Old York Road
Jenkintown, PA 19046
(215-887-0200)
(215-887-5356) fax
(Attorneys for Integrated Health Services, Inc.)

Deborah Fuchs Cohen, Esquire
Eric Jonathan Rothschild, Esquire
Pepper Hamilton LLP
3000 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103
(215) 981-4470
(Attorney for M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania)

Leonard P. Goldberger, Esquire
Amy Elizabeth Vulpio, Esquire
White and Williams LLP
1800 One Liberty Place
Philadelphia, PA 19103-7395
(215) 864-6376
(Attorneys for Insurance Company of North America)

Harold S. Horwich, Esquire

Bingham McCutchen
One State Street
Hartford, CT 06103
(860) 240-2700
(Attorneys for St. Joseph's Medical Center)

Susan J. Guerrieri, Esquire
Stephen C. Baker, Esquire
John B. Dempsey, Esquire
Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103-6996
(215) 988-2700
(Attorneys for Mawson & Mawson, Inc.)

Joseph F. Orso, III, Esquire
Casale & Bonner, P.C.
Suite 202
33 West Third Street
Williamsport, PA 17701
(570) 326-7044
(Attorneys for Richard Ruhl)

Arthur Makadon, Esquire
Geoffrey A. Kahn, Esquire
Ballard Spahr Andrews & Ingersoll, LLP
1735 Market Street, 51st Floor
Philadelphia, PA 19103
(215) 665-8500
(Attorneys for Deloitte & Touche LLP)

Douglas Y. Christian, Esquire
Ballard Spahr Andrews & Ingersoll
1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
(215) 864-8404
(Attorneys for American Longshore Mutual Association)

Lisa M. Salazar, Esquire
McCarter & English LLP
Mellon Bank Center, Suite 700
1735 Market Street
Philadelphia, PA 19103-7501
(215) 979-3800
(Attorneys for Robert M. Steinberg)

Robert E. Kelly, Jr., Esquire
Anthony W. Parker, Esquire
Kelly, Parker & Cohen LLP
Commerce Towers
10th Floor
300 North Second Street
Harrisburg, PA 17106-2003
717-920-2220
(Attorneys for Petitioner South Carolina School

Boards Insurance Trust)

Joseph M. Hennelly, Jr., Esquire
Hennelly & Steadman, PLC
Goldworthy House
322 West Roosevelt
Phoenix, AZ 85003
(602) 230-7000
(Attorneys for Mark D. Tharp as Arizona's Special Ancillary Receiver of Reliance)

Rowe W. Snider, Esquire
Steven T. Whitmer, Esquire
Julie L. Young, Esquire
Lord, Bissell & Brook
111 S. Wacker Drive
Chicago, Illinois 60606
(312) 443-0700
(Attorneys for NCIGF)

Paul G. Witko, Deputy Attorney General
State of New Jersey
Office of the Attorney General
Department of Law and Public Safety
Division of Law
Station Plaza #4, 2nd Floor
22 South Clinton Ave.
P.O. Box 117
Trenton, NJ 08625-0117
(609) 777-3512
(Attorney for New Jersey Workers Compensation Bureau)

Malcolm C. Lindquist, Esquire
Lane Powell Spears Lubersky
1420 Fifth Ave.
Suite 4100
Seattle, WA 98101
(206) 223-7101
(Attorney for Labor Ready, Inc.)

James W. Kutz, Esquire
Kimberly M. Colonna, Esquire
McNees Wallace & Nurick, LLC
100 Pine St, P.O. Box 1166
Harrisburg, PA 17108-1166
(717) 232-8000
(Attorneys for Earth Tech, Inc.)

Guy A. Cellucci, Esquire
White and Williams LLP
1800 One Liberty Place
Philadelphia, PA 19103-7395
(215) 864-7000
(Attorneys for Hartford Fire Insurance Co., Hartford Specialty Co., and the Hartford Financial Services Group, Inc.)

Brian T. Guthrie, Esquire
Daniel W. Krane, Esquire
Drinker Biddle & Reath LLP
One Logan Square
18th and Cherry Streets
Philadelphia, PA 19103-6996
(215) 988-2700
(Attorneys for Lexington Insurance Co.)

Edward G. Biester, Esquire
Duane Morris LLP
3030 South 17th Street
Philadelphia, PA 19103
(215) 979-1000
(Attorneys for Florida Workers' Compensation
Insurance Guaranty Association Incorp.)

Lawrence Licitra, Esquire
Julie Pollack, Esquire
Swiss Reinsurance America Corporation
175 King Street
Armonk, NY 10504
(914) 828-8000
(Attorneys for Swiss Reinsurance America Corp.)

Daryn E. Rush, Esquire
Gibbons PC
1700 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103-2769
215-446-6220
(Attorneys for Travelers Casualty and Surety Co.)

John C. Connell, Esq.
Jerrold S. Kulback, Esq.
Archer & Greiner, PC
One Centennial Square
Haddonfield, NJ 08033
(856) 795-2121
(Attorneys for New Mexico Mutual Casualty
Company and Southwest Casualty Company)

Kimberly A. LaMaina
Skadden, Arps, Slate, Meagher & Flom, LLP
One Rodney Square
Wilmington, DE 19801
(302) 651-3184
(Attorneys for Zenith Insurance Company)

Jeffrey B. Cohen
John Menke
Joseph Krettek
Pension Benefit Guaranty Corporation
Office of the General Counsel
1200 K Street, N.W.

Washington, D.C. 20005
(202) 326-4020
(Attorneys for Pension Benefit Guaranty
Corporation)

Francis Patrick Newell
Harkins Cunningham LLP
2800 One Commerce Square
2005 Market Street
Philadelphia, PA 19103
(215) 851-6700
(Attorney for Celanese and the Celanese Reinsurers)

Jeff Farkas
Laura Torrado
Bear Stearns Investment Products Inc.
383 Madison Avenue
New York, NY 10179
(212) 272-3330
(Non-Attorney Representative of Bear Stearns)

Michael Winschuh
Dennis Comstock
VonWin Capital, L.P.
60 Madison Avenue, Suite 201
New York, NY 10011
(212) 889-1601
(Attorneys for VonWin Capital)

Jed A. Hart
Angelo, Gordon & Co.
245 Park Avenue, 26th Floor
New York, NY 10167
(212) 692-2003

James W. Schaecht
Navigant Consulting, Inc.
175 West Jackson Blvd., Suite 500
Chicago, IL 60604
(312) 583-5700

Michael J. Cawley
Wilson, Elser, Moskowitz, Eldermen & Dieker LLP
The Curtis Center
Suite 1130 East
Independence Square West
Philadelphia, PA 19106
(215) 627-6900
(Attorney for British Aviation Insurance Group Ltd.)

Laura L. McGrogry, Chief Counsel
Legal Division
Industrial Commission of Arizona
P.O. Box 19070
Phoenix, AZ 85005-9070
(Counsel for the Arizona Workers Compensation
Guaranty Association)

Arthur F. McNulty
Chief Counsel
Pennsylvania Insurance Department
Office of Chief Counsel
1341 Strawberry Square
Harrisburg, PA 17120
(717) 783-1975
(Counsel for M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Jonathan Neiss
Contrarian Capital Management, LLC
411 West Putnam Avenue, Suite 225
Greenwich, CT 06830
(203) 862-8255

F. Warren Jacoby
Cozen O'Connor
1900 Market Street
Philadelphia, PA 19103
(215) 665-2154
(Attorney for Hudson News Co., Hudson News
Distributors, LLC, Magazine Distributors, Inc., and
MET News Liquidating Trust)

David L. Neale
Tania M. Moyron
Levene, Neale, Bender, Rankin & Brill LLP
10250 Constellation Blvd.
Suite 1700
Los Angeles, California 90067
(310) 229-1234

Douglas H. Deems
The Claro Group, LLC
777 S. Figueroa Street, Suite 4050
Los Angeles, CA 90017
(213) 784-0190

Timothy P. Law, Esq.
John Norig Ellison, Esq.
Reed Smith
2500 One Liberty Place
1650 Market Street
Philadelphia, PA 19103-7301
(215) 851-8100
(Counsel for Conoco, Inc. and Harlem River Park
Houses, Inc.)