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**IN THE THIRD JUDICIAL DISTRICT COURT OF SALT LAKE COUNTY
STATE OF UTAH**

In Re:

WESTERN INSURANCE COMPANY

**REPORT OF THE SPECIAL DEPUTY
LIQUIDATOR AS OF
JUNE 30, 2014**

Case No. 110917050

Judge Robin Reese

Attached is the Report of the Special Deputy Liquidator of Western Insurance
Company as of June 30, 2014.

DATED this 11th August, 2014.

VAN COTT, BAGLEY, CORNWALL
& MCCARTHY, P.C.

By: /s/ Mary Jane E. Galvin-Wagg
Gerald H. Suniville
Scott M. Lilja
Mary Jane E. Galvin-Wagg

*Attorneys for Lennard W. Stillman,
Special Deputy Liquidator of
Western Insurance Company*

CERTIFICATE OF SERVICE

I hereby certify that on the 11th of August, 2014, I mailed true and correct copies of the foregoing **Report of the Special Deputy Liquidator as of June 30, 2014** upon the persons who have elected to receive notices in this liquidation proceeding under Utah Code Ann. § 31A-27a-107(c) in the manner(s) requested.

By: /s/ Mary Jane E. Galvin-Wagg

**WESTERN INSURANCE COMPANY
IN LIQUIDATION
REPORT OF THE SPECIAL DEPUTY LIQUIDATORS
AS OF JUNE 30, 2014**

- **Introduction**

This report was prepared by the Special Deputy Liquidator appointed by the Utah Insurance Commissioner, acting as Liquidator, Todd E Kiser. This report covers activities in the liquidation of Western Insurance Company (hereinafter “WIC” or the “company”) up to and including JUNE 30, 2014. Attached is a financial report prepared by and under the supervision of Assistant Deputy Liquidator Jackie Muro for the period ending JUNE 30, 2014.

- **History**

The procedural history of this receivership proceeding is set forth more fully in the Report of the Special Deputy Liquidator as of December 31, 2012; the Court is respectfully referred thereto. Copies of many filings are available at www.westerninsurancecompany.net.

On August 25, 2011, the Utah Insurance Commissioner, pursuant to agreement by the WIC board, sought and received an order from the Third Judicial District Court placing WIC into Rehabilitation due to findings by the Utah Insurance Department that WIC was in a hazardous financial condition.

The appointed Deputy and Assistant Deputy Rehabilitator and staff began a review of the condition of the company in Reno, Nevada. After approximately two weeks, the Deputy Rehabilitators determined that the company was insolvent, rehabilitation was futile and recommended that the Rehabilitator seek an order of liquidation from the Rehabilitation Court.

That uncontested liquidation order was issued on September 13, 2011. All bonds and insurance contracts were terminated on December 16, 2011 except for one contract for bail bonds that was put into an 18-month run-off. After an extension approved by the Court, that run-off concluded on March 31, 2014. Collateral securing the program, held in a custodial account, was returned to the bond principal.

- **Administration Overview**

Only two individuals remain as on-site staff in Reno Nevada. The staff responsibilities have not changed significantly since the previous report filed in February, 2014 but duties have been concentrated in the remaining staff.

The Reno office staff was consolidated into one area of the second floor office building rather than the entire floor. The Salt Lake City staff is shared with other receiverships. Claimants send claims to the Salt Lake City office where they are scanned and uploaded to a cloud server. The original hard files are maintained in Salt Lake City.

WIC was a majority (75%) owner of the Reno office building location through a holding company (Western Moana Partners) established pre-receivership to hold title to the building. The remainder of the ownership was with affiliates Access Insurance Services (“Access,” in bankruptcy, D. Nev. Bankr. Case No. 11-52830) and Western Bonding Company, a WIC affiliate. WIC was managing the building for the partnership and listed the building for sale. WIC is the sole tenant. However, with the agreement of the other partners, WIC returned the building to the lender bank through a deed-in-lieu of foreclosure because the appraised value of the building exceeded the loan amount. WIC now leases the space back from the bank. WIC has dissolved the partnership.

- **Legal**

Essentially all pre-receivership litigation has been concluded. Collateral-recovery cases have been resolved. One case to recover on three notes owing to WIC is in litigation in NV federal bankruptcy court. WIC is also pursuing debts owed through the auspices of the liquidation court. Almost \$13 million of indemnity collections are unavailable due to the bankruptcies of the debtors. Twenty seven cases with WIC as defendant have been stayed by operation of the Liquidation Order although some courts were (and remain) reluctant to honor the stay order contained within the liquidation order. Foreclosures of notes in default held as bond collateral are also being pursued only if there is equity in the collateral.

Legal action against former officers, directors and other Affiliates of Western has been commenced (the "Affiliate action") pursuant to Utah Code Ann. § 31A-27a-502. The defendants removed the Affiliate action to the U.S. District Court for the District of Utah, and motions heard in June resulted in the action being remanded to the liquidation court. The defendants have appealed that remand to the Tenth Circuit Court of Appeals.

An action has also been filed against the former directors and officers of Western (the "D&O action") based on their negligence, breaches of duty, commingling of funds, conflicts of interest and other wrongdoing with regard to Western. The D&O action was also removed to the U.S. District Court for the District of Utah and a motion to dismiss the claims asserted was filed by the defendants. The motion to dismiss was denied as to all but one claim and the case is proceeding in discovery.

Also, proceedings to recover preferential and fraudulent transfers cases have been filed. Discovery is ongoing and pleadings may be amended as more information becomes available.

- **Claims**

The court-ordered claim bar date passed on March 9, 2012. A number of claims have been filed late and have been marked as such. Late-filed claims will be dealt with in accordance with Utah Code Ann. § 31A-27a-601(2). To date, approximately 1,400 claims have been filed. Some are duplicates: for example, consumer auto warranty or GPR claims that have been included with the claims of the warranty administrators or contract holders including auto dealers. Also, some contractors' surety bond claims may be duplicative of omnibus claims filed by a principal or obligee.

As part of its business operations, WIC received collateral that secured principals' performance under bonds that WIC issued. Also, WIC allegedly received collateral related to reserves built up for some automobile warranty programs. Some of that auto warranty and premium refund (GPR) collateral had been posted with Access, WIC's managing general agent for warranty and GPR business. Research shows that collateral for some programs was never sent to WIC or its agent but was retained by the warranty program administrators. Collateral that was held in cash but not within a trust arrangement held at a bank or trust company was commingled with the general assets of Access or the company and dissipated. Claims for cash collateral not associated with auto warranty and GPR contracts are included with policy holder level claims and are not secured claims (see 31A-27a-701-(2)(c)(i)(E), Utah Code). Non-cash, or cash collateral that had been held in trust accounts (secured claims) against which WIC had no claim or for which liability could be transferred to another company is being released back to the owners or the assuming insurers. WIC sought and received an order from the Liquidation Court to allow the release of that collateral. That process is ongoing but almost complete.

The approximate total of claims excluding duplicates and auto-related claims is 500. To date, 314 determinations have been approved by the court and approximately 100 are pending court approval. The balance remains to be determined.

The complex and laborious process of reviewing and adjudicating claims is ongoing, however, few claims remain to be determined. Claimants are notified of claim determinations in accordance with applicable provisions of the Utah Insurance Code on a rolling basis. Pursuant to § 31A-27a-608, allowed claims are submitted to the Liquidation Court for approval. A few objections have been filed and, to the extent not resolved, are scheduled for hearing.

For consumer claimants on auto warranty claims or premium reimbursement claims, Notices of Claim Determination will not be issued in light of the Court's January 19, 2012 and November 6, 2012 liquidation court orders. State insurance guaranty funds do not generally cover warranty or surety claims. **It is unknown at this time when, if or in what amount any distribution to claimants might be made.**

Status reports will be posted periodically on the web sites. Due to the volume of claimant inquiries, questions are directed to the company and liquidator's web sites: westerninsurancecompany.net and utinsreceivers.org, where these reports and other information are posted.

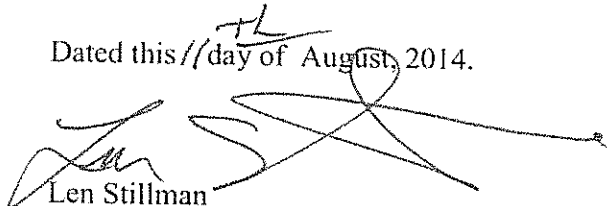
- **Ceded/Assumed Reinsurance**

Available reinsurance has been collected through a court-approved commutation and release agreement. To the extent that warranty and reinsurance programs proved valid, other companies have stepped into WIC's position and the warranties and associated reinsurance programs were assigned to them.

- **Miscellaneous**

A balance sheet financial report as of June 30, 2014, is attached to this Report. All reports will be filed and posted as ordered by the Liquidation Court unless otherwise required by the Court. Periodic updates and other information will also be posted as needed. **Note that the Utah Receivers Office address changed to suite 650 from suite 300 effective September 4, 2012.**

Dated this ¹⁴ / / day of August, 2014.



Len Stillman
Special Deputy Liquidator
215 S. State Street #650
Salt Lake City, Utah 84111

Western Insurance Company, In Liquidation
Balance Sheet
As of June 30, 2014

	Jun 30, 14
ASSETS	
Current Assets	
Checking/Savings	
Cash & short term investments	7,086,296.60
Total Checking/Savings	7,086,296.60
Other Current Assets	
Investments	3,434,916.44
Other A/R and Prepaid Expenses	128,575.12
Total Other Current Assets	3,563,491.56
Total Current Assets	10,649,788.16
Other Assets	
Notes Receivable, net	1,257,552.72
Real estate held, net	429,928.00
Statutory accounts	931,193.28
Total Other Assets	2,618,674.00
TOTAL ASSETS	13,268,462.16
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
200000 - Accounts Payable	48,828.29
Total Accounts Payable	48,828.29
Other Current Liabilities	
Other current liabilities	92,200.30
Total Other Current Liabilities	92,200.30
Total Current Liabilities	141,028.59
Long Term Liabilities	
Claims - Class 3	72,920,000.00
Claims - Class 7	703,500.00
Claims - Class 8	459,250.00
Total Long Term Liabilities	74,082,750.00
Total Liabilities	74,223,778.59
Equity	
32000 - Retained Earnings	-64,331,343.11
320010 - Change in Deferred Taxes	-1,107,348.00
320100 - Common Stock	3,071,355.00
320200 - Preferred Stock	769,000.00
320300 - Unrealized G/L - Equity	853,192.83
320410 - Paid In & Contributed Surplus	3,239,667.85
320420 - Unassigned Funds (Surplus)	-2,608,784.78
Net Income	-841,056.22
Total Equity	-60,955,316.43
TOTAL LIABILITIES & EQUITY	13,268,462.16

Note: The information contained in this report is prepared by the liquidator from information available to or known by the liquidator as of the date of the report. The liquidator makes no warranty as to the accuracy of the information which is subject to change