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

**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
December 31, 2014**

Case No. 110917050

Judge Robin Reese

Attached is the Report of the Special Deputy Liquidator of Western Insurance
Company as of December 31, 2014.

DATED this 13th day of February, 2015.

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

By: /s/ Scott M. Lilja
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 13th day of February, 2015, I mailed true and correct copies of the foregoing **Report of the Special Deputy Liquidators as of December 31, 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/ Scott M. Lilja

**WESTERN INSURANCE COMPANY
IN LIQUIDATION
REPORT OF THE SPECIAL DEPUTY LIQUIDATORS
AS OF DECEMBER 31, 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 DECEMBER 31, 2014. Attached is a financial report prepared by and under the supervision of Assistant Deputy Liquidator Jackie Muro for the period ending DECEMBER 31, 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**

Remaining staff at the Reno office has been terminated. One former employee contracts with the Receiver for special projects.

The Reno office building was returned to the mortgagor bank through a deed-in-lieu of foreclosure. WIC has relocated its operations to the receiver's office in Salt Lake City. The Salt Lake City office and staff are 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.

- **Legal**

Essentially all pre-receivership litigation has been concluded. 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. About \$21 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.

Also, the liquidator has filed proceedings to recover affiliate transfers. The action to recover transfers to affiliates was originally filed in the liquidation court. Defendants removed it to federal court in Salt Lake City. The liquidator filed a motion to remand to the state court which was granted. Defendants have appealed that order which appeal remains pending.

- **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, 1,822 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 has been 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 550. To date, 403 determinations have been approved by the court and 97 are pending court approval. The small balance remains to be determined.

The complex and laborious process of reviewing and adjudicating claims is ongoing. 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 to the liquidator's claim determinations 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's 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 December 31, 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 13th day of February, 2015.

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

EXHIBIT A

Western Insurance Company, In Liquidation

Balance Sheet

As of December 31, 2014

Dec 31, 14

ASSETS

Current Assets

Checking/Savings

Cash & short term investments 7,245,434.71

Total Checking/Savings 7,245,434.71

Other Current Assets

Investments 3,689,140.23

Other A/R and Prepaid Expenses 2,188.90

Total Other Current Assets 3,691,329.13

Total Current Assets 10,936,763.84

Other Assets

Notes Receivable, net 1,360,370.59

Real estate held, net 429,928.00

Statutory accounts 384,451.44

Total Other Assets 2,174,750.03

TOTAL ASSETS 13,111,513.87

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable 102,230.47

Other Current Liabilities 92,200.30

Total Current Liabilities 194,430.77

Long Term Liabilities

Claims - Class 2 16,700.00

Claims - Class 3 58,542,400.00

Claims - Class 7 703,650.00

Claims - Class 8 459,250.00

Total Long Term Liabilities 59,722,000.00

Total Liabilities 59,916,430.77

Equity -46,804,916.90

TOTAL LIABILITIES & EQUITY 13,111,513.87

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