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Special Deputy Liquidator of Western Insurance Company*

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

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In Re:

WESTERN INSURANCE COMPANY

**REPORT OF THE SPECIAL DEPUTY  
LIQUIDATOR AS OF  
MARCH 31, 2015**

**Case No. 110917050**

**Judge Robin Reese**

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Attached is the Report of the Special Deputy Liquidator of Western Insurance  
Company as of March 31, 2015.

DATED this 29<sup>th</sup> day of May 2015.

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

By: /s/ Scott M. Lilja  
Gerald H. Suniville  
Scott M. Lilja

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

**CERTIFICATE OF SERVICE**

I hereby certify that on the 29<sup>th</sup> day of May 2015, I mailed true and correct copies of the foregoing **Report of the Special Deputy Liquidator as of March 31, 2015** 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 MARCH 31, 2015**

- **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 MARCH 31, 2015. Attached is a financial report prepared by and under the supervision of Assistant Deputy Liquidator Jackie Muro for the period ending April 30, 2015.

- **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](http://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 other contracts were terminated as of 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. 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 \$21 million of indemnity collections are unavailable due to the bankruptcies of the debtors/indemnitors. 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 Affiliates of WIC 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 of 2014 resulted in the action being remanded to the liquidation court. The defendants have twice appealed that remand to the Tenth Circuit Court of Appeals which on both occasions sustained the remand to the state court.

An action has also been filed against the former directors and officers of WIC (the “D&O action”) based on their alleged negligence, breaches of duty, commingling of funds, conflicts of interest and other alleged wrongdoing with regard to WIC.

- **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 guaranteed premium refund (GPR) claims have also 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 programs that guaranteed a return of premium paid for non-use of an underlying auto warranty. Some of that premium refund (GPR) collateral had been posted with Access, WIC’s managing general agent for 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 WIC and dissipated.

Claims for cash collateral not associated with GPR contracts are included with policyholder 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.

WIC did assume the liabilities for some auto-related service contracts including some niche products such as paint-chip repair and glass-etching theft protection. Although WIC did not originate these programs, those programs have been transferred to other carriers or terminated.

The approximate total of claims excluding duplicates and auto-related claims is 542. To date, 430 determinations have been approved by the court and 45 are pending court approval. The balance of open claims remains to be determined. These numbers will change as duplicates, claim determinations, objections and withdrawals are resolved

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 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 GPR or surety claims. **It is unknown at this time when, if or in what amount any distribution to claimants might be made.** The Deputy Receiver continues to receive many inquiries related to amount and timing of distributions and status of GPR claims.

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 service contracts, GPR and reinsurance programs proved valid, other companies have stepped into WIC's position and the service contracts, GPR and associated reinsurance programs were assigned to them.

- **Miscellaneous**

Although not required by the Court, a balance sheet financial report as of April 30, 2015 is attached to this Report for the convenience of the reader. 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 28<sup>th</sup> day of May, 2015.

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

**Western Insurance Company, In Liquidation**

**Balance Sheet**

As of April 30, 2015

	Apr 30, 15
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Cash & short term investments	7,605,410.25
Total Checking/Savings	7,605,410.25
 <b>Other Current Assets</b>	
Investments	3,117,310.14
Other A/R and Prepaid Expenses	2,188.90
Total Other Current Assets	3,119,499.04
 Total Current Assets	 10,724,909.29
 <b>Other Assets</b>	
Notes Receivable, net	1,343,456.79
Real estate held, net	429,928.00
Statutory accounts	384,416.14
Total Other Assets	2,157,800.93
 TOTAL ASSETS	 12,882,710.22
 <b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	118,440.84
Other Current Liabilities	92,200.30
Total Current Liabilities	210,641.14
 <b>Long Term Liabilities</b>	
Claims - Class 2	16,700.00
Claims - Class 3	54,781,775.00
Claims - Class 7	689,825.00
Claims - Class 8	459,250.00
Total Long Term Liabilities	55,947,550.00
 Total Liabilities	 56,158,191.14
 Equity	 -43,275,480.92
TOTAL LIABILITIES & EQUITY	12,882,710.22

**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