

NO. D-1-GV-03-004537

THE STATE OF TEXAS	§	IN THE DISTRICT COURT OF
	§	
v.	§	TRAVIS COUNTY, TEXAS
	§	
HIGHLANDS INSURANCE COMPANY	§	53rd JUDICIAL DISTRICT

ORDER APPROVING APPLICATION FOR AUTHORITY TO SETTLE
(Highlands Insurance Company (U.K.) Ltd.)

On October 13, 2008, the *Application for Authority to Settle (Highlands Insurance Company (U.K.) Ltd.)* (the "Application") filed by Prime Tempus, Inc., Special Deputy Receiver ("SDR") under contract to the Permanent Receiver of Highlands Insurance Company ("Highlands") came before the Court for consideration. No party filed any objection to the Application. The Court heard evidence and argument in support of the Application. Based thereon, the Court hereby finds as follows:

- A. This Court has jurisdiction over the Application.
- B. The Court has authority to enter this Order under the Texas Insurance Code (Insurer Receivership Act) §§ 443.007 and 443.008 (the "Act").
- C. The SDR is authorized to file this Application pursuant to §§ 443.102, 443.007 and 443.008 of the Act.
- D. Notice of the Application was given in compliance with this Court's August 13, 2008 Order Approving Notice Regarding Settlement. The notice of the Application was timely, adequate, proper and sufficient to bind all parties in interest, and no further notice of the Application is required. The notice given complies with § 443.007 of the Act.
- E. A reasonable opportunity to object or be heard with respect to the Application and the relief requested therein has been afforded the parties affected by the relief requested in the Application.

F. Entry of this Order approving the *Settlement Agreement Between Highlands Insurance Company in Receivership and Highlands Insurance Company (U.K.) Ltd.* (the "Settlement Agreement") will aid in Highlands' rehabilitation because it will resolve and settle a vigorously contested dispute with Highlands Insurance Company (U.K.) Ltd. In Administration ("HICUK") over the handling and payment of Section 51 Policy¹ obligations, provide certainty and continuity for policyholder claimants under Section 51 Policies with respect to the assertion and handling of their claims, and provide certainty to the estates of Highlands and HICUK with respect to the liability for and handling of such claims. Section 51 Direct Policyholder/Claimants will not be prejudiced by the relief requested in the Application (i.e. by having their claims heard and paid exclusively in the HICUK Administration) because the evidence establishes that those claimants should be paid in full on their allowed claims in the HICUK Administration.

G. The channeling injunction requested in the Application will make the HICUK Administration the exclusive venue for processing and paying Section 51 Policy Claims. The injunction is authorized by § 443.008 of the Act, is warranted by the facts, and should be approved.

H. The injunction requested in the Application to prohibit cross-estate setoffs is necessary to ensure that the Section 51 Policy liabilities are fully and exclusively handled in the HICUK Administration. The injunction is authorized by § 443.008 of the Act, is warranted by the facts and should be approved.

I. HICUK should have sufficient funds when aggregated with the First and Second Section 51 Payments to pay the Section 51 Direct Policyholder/Claimants and its other direct liabilities in full.

¹ Capitalized terms not otherwise defined in this Order have the same meaning ascribed them in the Settlement Agreement.

J. The settlement embodied in the Settlement Agreement is in the best interest of Highlands, its policyholders, creditors and claimants and should be approved.

NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Settlement Agreement is **APPROVED** in all respects and the SDR is authorized to take the steps required to implement the Settlement Agreement according to its terms.

2. The Settlement Agreement shall not become effective unless and until the Effective Date (as defined therein) occurs.

3. Upon the occurrence of the Effective Date:

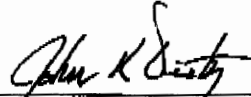
- a. All Section 51 Policies and all Section 51 Policyholder claims shall be administered exclusively through the Administration for HICUK.
- b. Highlands shall have no liability to Section 51 Policyholders with respect to the Section 51 Policies.
- c. Any now existing or hereafter asserted claim on a Section 51 Policy made by any Section 51 Policyholder or otherwise in the Highlands receivership shall be disallowed and denied in the Highlands Receivership and shall be exclusively asserted against HICUK either through the Administration or pursuant to the Scheme.
- d. No Section 51 Policyholder or any HICUK policyholder, reinsurer or claimant may set off any claim in the Administration, any claim in the Scheme or any claim against HICUK against any obligation owed by such policyholder, reinsurer or claimant in the Receivership, unless Highlands otherwise consents in writing.
- e. The Settlement Agreement is binding on all Section 51 Policyholders, any claimant under a Section 51 Policy and all creditors or claimants in the Highlands Receivership.

4. From and after the date of this order and until this provision is superseded by the terms of the Settlement Agreement on its Effective Date, no party shall setoff

obligations in the Highlands Receivership with claims assertable against HICUK unless Highlands otherwise consents in writing.

5. This Court shall retain exclusive jurisdiction over any disputes arising out of or related to this Order.

SIGNED this 13th day of October, 2008.



THE HONORABLE JOHN K. DIETZ
JUDGE, 250th JUDICIAL DISTRICT COURT