

## **EXHIBIT C**

**SETTLEMENT AGREEMENT BETWEEN  
HIGHLANDS INSURANCE COMPANY IN RECEIVERSHIP AND  
HIGHLANDS INSURANCE COMPANY (U.K.) LTD. IN ADMINISTRATION**

This Agreement is made between (1) Highlands Insurance Company in Receivership ("Highlands"), acting through Prime Tempus, Inc. its Special Deputy Receiver ("SDR"), and (2) Highlands Insurance Company (U.K.) Ltd. in Administration ("HICUK"), acting through Dan Schwarzmann and Mark Batten as its court-appointed joint administrators ("Administrators").

**RECITALS**

- A. Highlands is a Texas domiciled property and casualty insurance company. On November 6, 2003, Highlands was placed into a receivership for the purpose of rehabilitation pursuant to an Agreed Permanent Injunction and Order Appointing Receiver entered by the 53<sup>rd</sup> Judicial District Court of Travis County, Texas ("Receivership Court") in cause number D-1-GV-03-004537 ("Receivership Proceeding"). The Commissioner of Insurance for the State of Texas was appointed as the Receiver for Highlands ("Receiver"). Subsequently, the Receiver appointed Prime Tempus, Inc. to act as the Special Deputy Receiver for Highlands.
- B. HICUK is a company incorporated in England in 1974 under the U.K. Companies Act 1948 for the purposes of transacting insurance and reinsurance business. HICUK began writing insurance in 1982, and between 1983 and 1994 predominantly wrote London market excess-of-loss business. Most, if not all, of the policies comprising the HICUK portfolio were written in the United Kingdom.

Effective November 1, 2007, the High Court of Justice, Chancery Division, Companies Court ("English Court") placed HICUK into administration under the U.K. Insolvency Act 1986 ("Administration") and appointed the Administrators to manage the business and affairs of HICUK.

- C. On August 17, 2007, Highlands filed in the Receivership Court a First Amended Rehabilitation Plan ("Rehabilitation Plan"). HICUK filed an objection to the Rehabilitation Plan.
- D. Highlands and HICUK have negotiated a resolution to the dispute between them in relation to the Rehabilitation Plan and by this Agreement wish to memorialize their joint resolution of the issues in dispute between them.
- E. This Agreement is made without acknowledgment by any party hereto of any fault or liability. If this Agreement does not become effective or becomes void *ab initio*, it may not be used for any purpose by any party or non-party in any proceeding, whether judicial, arbitration or otherwise, except to enforce the provisions of paragraphs 5(a) and 5(d)(i)(B), which shall survive.

#### AGREEMENT

Highlands and HICUK agree as follows:

- 1. Consideration: This Agreement is supported by adequate consideration, the receipt and sufficiency of which is acknowledged by each of them.
- 2. Effective Date: The Effective Date of this Agreement shall be the first date on which all of the following conditions have been satisfied:
  - a. The Receivership Court has entered an order approving this Agreement (the "Approval Order") and containing the provisions

described in paragraph 4(a), below.

- b. The Receivership Court has entered an order approving the Rehabilitation Plan (with such amendments if any agreed to by Highlands and, to the extent such amendments materially impact HICUK, also agreed to by HICUK) (the "Rehabilitation Plan Order");
- c. The time to appeal the Approval Order and the Rehabilitation Plan Order has expired and no appeal has been filed;
- d. If an appeal is filed as to either the Approval Order or the Rehabilitation Plan Order, no stay has been granted pending the determination of such appeals;
- e. An order of the English Court sanctioning a scheme of arrangement pursuant to section 895 of the Companies Act 2006 ("Scheme") between HICUK and Section 51 Direct Policyholder/Claimants (as defined in paragraph 3 below) including those provisions and features more specifically set out in paragraph 5(d)(ii)(C) to 5(d)(ii)(H) below, is filed with the Registrar of Companies in England and the conditions to the Scheme becoming effective, if any, are satisfied or otherwise waived in accordance with the provisions thereof; and
- f. Relief is granted by the United States Bankruptcy Court for the Southern District of New York pursuant to Chapter 15 of the United States Bankruptcy Code recognizing, enforcing and giving

effect to the Scheme in the United States ("Chapter 15 Injunction")  
and containing the provisions specified in paragraph 4(b), below

3. **Section 51 Policies.** By a Deed of Transfer dated October 9, 1986 and an Instrument of Transfer dated December 29, 1988, each by and between Highlands and HICUK (the "Section 51 Transfer Documents"), certain insurance and reinsurance policies defined therein (collectively, the "Section 51 Policies") were transferred from Highlands to HICUK pursuant to Section 51 of the English Insurance Companies Act of 1982 (collectively, the "Section 51 Transfers"). Since the date of the transfers, HICUK has administered the Section 51 Policies and, until approximately 2006, has paid any liability properly arising under such policies to policyholders, cedants and claimants. In this Agreement, those Section 51 Policies which are contracts of insurance and not reinsurance contracts shall hereinafter be referred to as "Section 51 Direct Policies" and a person who is a policyholder, claimant or otherwise and has a direct right of action pursuant to such a Section 51 Direct Policy or a contribution or subrogation claim based on such a Section 51 Direct Policy shall hereinafter be referred to as a "Section 51 Direct Policyholder/Claimant". In this Agreement, Section 51 Direct Policyholder/Claimants and any other person who is a cedant or otherwise and has a direct right of action pursuant to a reinsurance contract or a contribution or subrogation claim based on such a reinsurance contract shall hereinafter be referred to as a "Section 51 Policyholder".

4. **Required Terms.**

- a. Approval Order. The Approval Order must expressly provide that, subject to the Effective Date of this Agreement:
  - i. All Section 51 Policies and all Section 51 Policyholder claims shall be administered exclusively through the

Administration for HICUK.

- ii. Highlands shall have no liability to Section 51 Policyholders with respect to the Section 51 Policies.
- iii. 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.
- iv. 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.
- v. The notice of the application to approve this Agreement is effective, as at the date of the Approval Order, to bind all Section 51 Policyholders and any claimant under a Section 51 Policy.

b. Chapter 15 Injunction. The Chapter 15 Injunction must expressly provide that:

- i. The Scheme is recognized and in force in the United States,
- ii. All Section 51 Direct Policies and all Section 51 Direct Policyholder/Claimants claims shall be administered exclusively through the Scheme.
- iii. Section 51 Direct Policyholder/Claimants shall be required to make any and all claims in respect of their Section 51 Direct Policy and to seek payment of such claims exclusively in accordance with the provisions of the Scheme (which provides that Section 51 Direct Policyholder/Claimants shall assert such claims solely against HICUK) and shall be precluded and enjoined from making any such claims except as specifically provided for under the Scheme.

5. Duties and Obligations

a. Rehabilitation Plan Objection. When this Agreement is signed by HICUK and Highlands, whether it has become effective or not,

HICUK must withdraw with prejudice any and all objections to the Rehabilitation Plan, and shall further withdraw all witness and exhibit designations made by it in the Rehabilitation Plan proceedings and cancel all Rule 11 or other agreements made by it with the SDR in the Rehabilitation Plan proceedings. Highlands understands that when this Agreement is signed by the parties, HICUK has determined that it will publicly announce its support for the Rehabilitation Plan and will not directly or indirectly cooperate with or support any other party with respect to an objection to the Rehabilitation Plan.

- b. Application for Approval Order. In the event that it is not possible for Highlands to apply for the Approval Order at the same time as the application for the Rehabilitation Plan Order, Highlands shall bring this Agreement to the attention of the Receivership Court and will inform the Receivership Court that it shall be applying for the Approval Order expeditiously.
- c. Support for Approval of This Agreement. The Administrators will supply such support and information as reasonably requested by the SDR in connection with any hearing to approve this Agreement in the Receivership Court. Without limiting the foregoing, the Administrators and their actuarial consultant from PricewaterhouseCoopers shall, if requested by the SDR, appear in the Receivership Court and testify in respect of any matters as the

SDR may reasonably request.

d. First Section 51 Payment. Following the satisfaction of the conditions listed in paragraph 2(a)-(d) above:

- i. Highlands shall, within 10 business days thereof, pay the sum of US\$ 6,625,000 (the "First Section 51 Payment") without deduction or set-off to an interest bearing escrow account pursuant to escrow arrangements to be agreed by HICUK and Highlands ("Escrow Arrangements") but which shall provide for the payment of the First Section 51 Payment and all accrued interest to:
  - (A) HICUK upon the Bar Date (as defined in paragraph 5(d)(ii)(C) below); and
  - (B) Highlands if any of the conditions listed in paragraph 2 are not satisfied by September 30, 2009 or such other date as the parties hereto may agree; and
- ii. HICUK shall, upon the payment of the First Section 51 Payment by Highlands to be held subject to the Escrow Arrangements, use all reasonable endeavors to formulate, draft and implement the Scheme, which shall include, without limitation, the following provisions and features:
  - (A) the Scheme will be between HICUK and the Section 51 Direct Policyholder/Claimants as scheme creditors;
  - (B) Highlands will join into the Scheme in order to undertake to the English Court to pay the Second Section 51 Payment (as defined in paragraph 5(g) below) to HICUK in accordance with this Agreement and the Scheme;
  - (C) All claims under Section 51 Direct Policies shall be administered and paid exclusively through the Administration pursuant to the Scheme with the effect that the Section 51 Direct Policyholder /Claimants will be required to submit details of any and all claims under Section 51 Direct Policies by a pre-determined bar date ("Bar Date");
  - (D) Any claims (other than agreed but unpaid claims)

under Section 51 Direct Policies which have not been submitted to HICUK in accordance with the Scheme by the Bar Date shall be attributed a nil value and no Section 51 Direct Policyholder /Claimant with such a claim shall be entitled to claim in, or receive payment under, the Scheme;

- (E) HICUK will, following the Bar Date, endeavor to agree claims in a timely manner but, if it is not possible to agree a claim and/or any claim becomes disputed, such claims will be referred to an independent adjudicator whose decision shall be binding.
  - (F) HICUK shall not reject or deny coverage under any Section 51 Direct Policy by reason of the Section 51 Transfers (although, for the avoidance of doubt, HICUK reserves its rights to reject, defend against or deny coverage under any Section 51 Direct Policy for any other reason);
  - (G) upon the agreement or adjudication of Section 51 Direct Policyholder/Claimants' claims, HICUK will pay such claims in accordance with the Scheme; and
  - (H) Section 51 Direct Policyholder/Claimants shall be required to make any and all claims in respect of their Section 51 Direct Policy exclusively against HICUK and shall be precluded from making any such claims against, or seeking payment of such claims from, Highlands.
- iii. HICUK shall use best efforts to obtain the Chapter 15 Injunction once the Scheme is in effect; and
- iv. HICUK shall confer at regular intervals with Highlands in relation to the form of the Scheme and the Chapter 15 Injunction and agrees not to:
- (A) convene a meeting or meetings of the Section 51 Direct Policyholder/Claimants in order to approve the Scheme; and/or
  - (B) apply to the English Court for the sanction of the Scheme; and/or
  - (C) apply to the United States Bankruptcy Court for the

Southern District of New York for the Chapter 15  
Injunction

without the consent of Highlands (such consent not to be unreasonably withheld or delayed) but once consent is granted by Highlands in respect of one of the stages described in paragraph 5(d)(iv)(A) - (C) above, the SDR and Highlands will not make any, and will not directly or indirectly cooperate with or support any other party with respect to an, objection with respect to such stage,

with the intention of HICUK and Highlands being that following the coming into force of the Scheme and the making of the Chapter 15 Injunction, the claims of Section 51 Direct Policyholder /Claimants under the Section 51 Direct Policies will be paid exclusively under the Scheme by HICUK and such Section 51 Direct Policyholder /Claimants will be precluded from making claims in respect of such Section 51 Direct Policies against Highlands.

- e. Support for Approval of the Scheme and Obtaining the Chapter 15 Injunction. Subject to Highlands granting its consent to HICUK applying to the English Court for the sanction of the Scheme and applying to the United States Bankruptcy Court for the Southern District of New York for the Chapter 15 Injunction in accordance with paragraph 5(d)(iv) above, the SDR will supply such support and information as reasonably requested by the Administrators in connection with any hearing to approve the Scheme or obtain the Chapter 15 Injunction.
- f. Proof of Claim in the Receivership. On the Effective Date, HICUK shall withdraw with prejudice all proofs of claim filed by it in the Receivership in respect of the Section 51 Policies, whether such claims were filed on its own behalf or on behalf of any Section 51 Policyholder. Notwithstanding the foregoing, HICUK

may continue to assert any pending proof of claim in which it asserts that Highlands has agreed to act as a reinsurer to HICUK.

- g. Second Section 51 Payment. Provided that all of the conditions in paragraph 2, above, have been satisfied, Highlands shall, within 10 business days of the Bar Date, pay the sum of US\$ 6,625,000 (the "Second Section 51 Payment") without deduction or set-off to HICUK in accordance with its obligations under the Scheme.
- h. Subsequent Schemes or Administration of Remaining Section 51 Policy Claims. If the Administrators develop and implement a scheme of arrangement for Section 51 Policyholders who are not Section 51 Direct Policyholders/Claimants (the "Remaining Section 51 Policyholders" and their claims being the "Remaining Section 51 Policy Claims") or through the Administration otherwise deal with the claims of such Remaining Section 51 Policyholders, HICUK shall use best efforts to ensure that such Remaining Section 51 Policyholders shall be required to make any and all Remaining Section 51 Policy Claims exclusively against HICUK (either through the scheme of arrangement or other arrangement) and shall be precluded from making any such claims against, or seeking payment of such claims from, Highlands.
- i. Set-Off. HICUK shall use best efforts to ensure that no Section 51 Policyholder or HICUK policyholder, reinsurer or claimant in the Administration may set off any claim in the Administration or any

claim against HICUK against any obligation owed by such policyholder, reinsurer or claimant in the Receivership. Highlands shall use best efforts to ensure that no Highlands policyholder, reinsurer or claimant in the Receivership may set off any claim in the Receivership or any claim against Highlands against any obligation owed by such policyholder, reinsurer or claimant in the Administration.

- j. Representation of HICUK. HICUK represents that to the best of its knowledge information and belief that, based on its current asset position and its current estimate of liabilities under policies of insurance with a priority equal to the priority of the Section 51 Direct Policies, it has sufficient funds, when aggregated with the First Section 51 Payment and Second Section 51 Payment, to pay the liabilities of HICUK to Section 51 Direct Policyholder/Claimants in full.
- k. Notice/Best Efforts to Implement this Agreement. Each of the SDR and the Administrators shall use best efforts to ensure that this Agreement shall become and remain effective in accordance with its terms. In that regard, upon the filing of the Application to obtain the Approval Order, the SDR and the Administrator shall jointly prepare and distribute a notice of this Agreement to those parties and or agents for parties likely to be affected by it pursuant to notice lists to be prepared by each of the SDR and the

Administrator.

1. Insurance Premiums. In a continuation of existing practice, for the year 2008 and 2009, HICUK shall promptly upon request by Highlands reimburse to Highlands 50% of the reasonable costs incurred by Highlands to renew the existing Directors and Officers liability insurance.
6. Releases
- a. On the Effective Date, and except as specified below, HICUK shall release Highlands, the Receiver, SDR and their predecessors and successors, employees and professionals from any and all claims or any sort, whether in contract, tort, or otherwise and whether known or unknown, except that the following are not released: (i) any obligation created by this Agreement, and (ii) any obligation that Highlands may have to HICUK under any reinsurance agreement (for purposes of this subparagraph, the Section 51 Policies shall not be deemed reinsurance agreements).
  - b. On the Effective Date and except as specified below, Highlands shall release HICUK, the Administrators (whether acting in their capacity as Administrators, or as administrators under the Scheme or otherwise) and their employees and professionals from any and all claims of any sort, whether in contract, tort, or otherwise and whether known or unknown, except that the following are not released: (i) any obligation created by this Agreement, and (ii) any

defense to any HICUK reinsurance claim (iii) claims against pre-Administration officers, directors, attorneys and agents of HICUK.

7. Exclusion of Liability. The parties hereto acknowledge that the Administrators and the SDR have entered into this Agreement solely as agents for and on behalf of HICUK, in the case of the Administrators, and Highlands, in the case of the SDR and they hereby agree that the Administrators and SDR shall incur no personal liability hereunder or under any deed, instrument or document entered into under or in connection with this Agreement.

8. Termination: If any of the conditions listed in paragraph 2 are not satisfied by September 30, 2009 or such other date as the parties hereto may agree, this Agreement shall be voided ab initio (except, for the avoidance of doubt, paragraphs 5(a) and 5(d)(i)(B), which shall survive).

9. Controlling Law. This Agreement shall be interpreted under Texas Law, including its choice of laws provisions. Notwithstanding the foregoing, with respect to the interpretation and effect of the Section 51 Transfer documents, English law shall control the interpretation, effect and application of such transfers to the parties and the insureds under the Section 51 Policies.

10. Amendment. No amendment to this Agreement shall be effective unless and until it is reduced to writing and signed by Highlands and HICUK.

11. Counterparts. This Agreement may be executed in multiple counterparts each of which shall be deemed an original, but all of which shall constitute the same agreement.

Signed on the dates indicated below:

HIGHLANDS INSURANCE COMPANY IN RECEIVERSHIP

By: Prime Tempus, Inc. as its Special Deputy Receiver

By: CK  
Craig Koenig, Its President

Date: 5/9/68

HIGHLANDS INSURANCE COMPANY (U.K.) LTD.

By: \_\_\_\_\_  
Dan Schwarzmann,  
For and on behalf of the Administrators

Date: \_\_\_\_\_

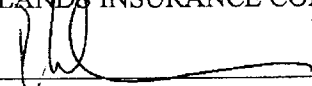
Signed on the dates indicated below:

HIGHLANDS INSURANCE COMPANY IN RECEIVERSHIP  
By: Prime Tempus, Inc. as its Special Deputy Receiver

By: \_\_\_\_\_  
Craig Koenig, Its President

Date: \_\_\_\_\_

HIGHLANDS INSURANCE COMPANY (U.K.) LTD.

By:  \_\_\_\_\_  
Dan Schwarzmann,  
For and on behalf of the Administrators

Date: \_\_\_\_\_

**FIRST AMENDMENT TO SETTLEMENT AGREEMENT BETWEEN  
HIGHLANDS INSURANCE COMPANY IN RECEIVERSHIP AND  
HIGHLANDS INSURANCE COMPANY (U.K.) LTD. IN ADMINISTRATION**

This is the first amendment (the "Amendment") made to that certain "Settlement Agreement Between Highlands Insurance Company in Receivership and Highlands Insurance Company (U.K.) Ltd. in Administration" executed May 9, 2008, between Highlands Insurance Company in Receivership acting through Prime Tempus, Inc. its Special Deputy Receiver and Highlands Insurance Company (U.K.) Ltd. in Administration acting through Dan Schwarzmann and Mark Batten as its court-appointed joint administrators (the "Joint Administrators") (the "Agreement").

**AMENDMENT TO AGREEMENT**

1. The language of Paragraph 5(g) of the Agreement, entitled "Second Section 51 Payment," is replaced in its entirety by the following language:

Provided that all of the conditions in paragraph 2, above, have been satisfied, Highlands shall, within 10 business days of the Bar Date, pay the sum of US\$ 6,375,000 (the "Second Section 51 Payment") without deduction or set-off to HICUK in accordance with its obligations under the Scheme.

2. The purpose and effect of this Amendment is to reduce the Second Section 51 Payment by US\$ 250,000. All other provisions of the Agreement remain unchanged.

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Amendment accepted and approved on the dates indicated below:

HIGHLANDS INSURANCE COMPANY IN RECEIVERSHIP

By: Prime Tempus, Inc. as its Special Deputy Receiver

By: SK  
Craig Koenig, Its President

Date: 12/8/08

HIGHLANDS INSURANCE COMPANY (U.K.) LTD. IN ADMINISTRATION

By: DS  
Dan Schwarzmann,  
For and on behalf of the Joint Administrators

Date: 8/12/08