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**UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK**

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In re	:	
	:	
Highlands Insurance Company (U.K.)	:	In a Case Under Chapter 15
Limited,	:	of the Bankruptcy Code
	:	
	:	Case No. 07-13970(____)
Debtor in a Foreign Proceeding	:	
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**VERIFIED PETITION FOR RECOGNITION OF A
 FOREIGN MAIN PROCEEDING AND MOTION FOR RELATED
 RELIEF PURSUANT TO 11 U.S.C. §§ 1504, 1517, 1520, 1521**

Dan Yoram Schwarzmann and Mark Charles Batten of PricewaterhouseCoopers LLP, in their capacity as the court-appointed joint administrators (the “Petitioners”) of Highlands Insurance Company (U.K.) Limited (the “Company”), a debtor in a proceeding (the “English Proceeding”) before the High Court of Justice, Chancery Division, Companies Court (the “English Court”), by their U.S. counsel, Clifford Chance US LLP, respectfully submit this verified petition seeking recognition of the English Proceeding as a foreign main proceeding and motion for related relief (the “Verified Petition and Motion”) pursuant to sections 1504, 1517, 1520 and 1521 of title 11 of the United States Code (the “Bankruptcy Code”) and Rule 65 of the

Federal Rules of Civil Procedure, as made applicable by Rule 7065 of the Federal Rules of Bankruptcy Procedure.

PRELIMINARY STATEMENT

1. The Company is insolvent on a balance sheet basis,¹ and the directors of the Company therefore determined that placing the Company into administration under the U.K. Insolvency Act 1986 (the “UK Insolvency Act”) would be the most practical way to either rescue the Company as a going concern, or failing that, to achieve a better realization for the Company’s creditors as a whole than would be the case if the Company were to be placed into liquidation. Accordingly, on October 25, 2007, the Company’s directors presented an application (the “Application”) to the English Court to place the Company into administration.

2. On November 1, 2007, the English Court granted the Application and appointed the Petitioners as the joint administrators of the Company.

3. In order to prevent creditors from taking actions in the U.S. that would interfere with the English Proceeding and to otherwise aid with the administration of the Company, the Petitioners respectfully submit this Verified Petition and Motion and seek the relief set forth below.

BACKGROUND

4. The Company was incorporated under the U.K. Companies Act 1948 in England in 1974 for the purposes of transacting insurance and reinsurance business. The Company’s registered office is in Gloucestershire, England.

¹ A copy of the Company’s most recent, unaudited balance sheet is attached hereto as Exhibit A. Although the balance sheet reflects that the Company is solvent, an actuarial review undertaken by the Company since this balance sheet was prepared demonstrates that the Company’s total liabilities are significantly greater than what is set forth in the 2006 balance sheet, and that the Company is insolvent on a balance sheet basis. However, the Company has not subsequently prepared a more current balance sheet.

5. The Company began writing insurance business in 1982 and between 1983 and 1994, predominantly wrote London market excess-of-loss business. Most, if not all, of the policies comprising the Company's portfolio were written in the U.K.

6. The Petitioners believe that the Company's policyholders are mostly situated in the U.K. and the U.S.

7. The Company ceased underwriting new and renewal business in January 1994.

8. On November 1, 2003, PRO Insurance Solutions Ltd. was retained by the Company to manage the run-off of the Company's business. The run-off has been conducted at the Company's registered office.

9. The Company is a wholly-owned subsidiary of Highlands Holdings (U.K.) Limited, which in turn is wholly-owned by Highlands Insurance Group, Inc., a corporation organized under the laws of the State of Delaware, U.S. ("HIGI").

10. On October 31, 2002, HIGI (together with several of its subsidiaries) commenced a case under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. See Case No. 02-13196(JBR). Pursuant to HIGI's chapter 11 plan, which became effective on March 31, 2003, all the shares of HIGI were cancelled and new shares were issued to a liquidating trust. The plan has been substantially consummated and a final decree closing the case was entered on September 30, 2003. See ECF docket entry no. 174.

THE ENGLISH PROCEEDING

11. On October 25, 2007, the directors of the Company filed the Application with the English Court requesting the appointment of the Petitioners as the joint administrators charged

with managing the affairs, business and property of the Company in accordance with the UK Insolvency Act.

12. On November 1, 2007, the English Court conducted a hearing to consider the application and subsequently entered an order appointing the Petitioners as the joint administrators of the Company (the "Administration Order"). A certified copy of the Administration Order is attached hereto as Exhibit B.

13. Upon the appointment of the Petitioners, the day-to-day management of the Company is conducted by the Petitioners, and the directors of the Company are, in nearly all respects, suspended from their duties. Moreover, the Petitioners act as officers of the English Court.

14. The Administration Order also approved the appointment of the Petitioners as foreign representatives authorized to commence this Chapter 15 case. See Exhibit B.

15. An administration under the UK Insolvency Act is a procedure intended to salvage a company that is, or may become, insolvent. The overriding purpose of an administration is to rescue a company as a going concern. If a rescue of the Company is not practical, then the Company may be liquidated.

16. When a company is placed into administration, parties are prohibited from taking any actions to enforce security interests in the company's property and from repossessing goods in the company's possession (absent consent of the administrator or leave of the court). In addition, parties are prohibited from commencing or continuing any proceedings or executing a legal process against the company or its property. This moratorium continues throughout the administration.

17. Within 10 weeks of the appointment of the Petitioners (or such longer period as the English Court or creditors may allow), the Petitioners must present their proposals for achieving the purposes of the administration to creditors at a duly-convened meeting of creditors. At the meeting, creditors may accept or reject the proposals.

18. If the proposals are accepted, the Petitioners must then manage the affairs of the Company in accordance with the proposals. If the proposals are rejected, then the English Court may terminate the administration or make such other order as it determines appropriate.

19. The administration will expire after 30 months unless the creditors consent to a 12 month extension or the English Court makes an order extending the administration.

JURISDICTION AND VENUE

20. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 1334 and 157 and the “Standing Order of Referral of Cases to Bankruptcy Judges” of the United States District Court for the Southern District of New York (Ward, Acting C.J.) dated July 10, 1984.

21. Pursuant to 28 U.S.C. § 157(b)(2)(A), this is a core proceeding.

22. Venue is properly located in this District in accordance with 28 U.S.C. § 1410.

RELIEF REQUESTED

23. For the reasons set forth herein and in the memorandum of law in support of the Verified Petition and Motion (the “Memorandum of Law”) filed simultaneously herewith, the Petitioners respectfully request that this Court enter an order substantially in the form attached hereto as Exhibit C (the “Proposed Order”), pursuant to sections 1504, 1517, 1520 and 1521 of the Bankruptcy Code and Rule 65 of the Federal Rules of Civil Procedure, as made applicable by

Rule 7065 of the Federal Rules of Bankruptcy Procedure, finding, concluding and/or ordering that:

(a) the English Proceeding is a “foreign proceeding” as that term is defined in 11 U.S.C. § 101(23);

(b) the English Proceeding is a “foreign main proceeding” as that term is defined in 11 U.S.C. § 1502(4);

(c) the Petitioners are “foreign representatives” as that term is defined in 11 U.S.C. § 101(24);

(d) the Petitioners have met the requirements of 11 U.S.C. § 1515 and therefore the English Proceeding is recognized as a foreign main proceeding under 11 U.S.C. § 1517;

(e) until the conclusion of the English Proceeding, the Petitioners are entitled to all relief set forth in 11 U.S.C. § 1520; and

(f) until the conclusion of the English Proceeding, all persons and entities are enjoined and restrained from:

i. transferring, relinquishing or disposing of any property of the Company that is located within the territorial jurisdiction of the U.S. or the proceeds of such property;

ii. taking or continuing any act to obtain possession of, or exercise control over, the Company or any of its property that is located within the territorial jurisdiction of the U.S. or the proceeds of such property;

iii. commencing or continuing any proceedings (including without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever), including by way of counterclaim, (each, individually, an “Action”) against the Company or any of its property located within the territorial jurisdiction of the U.S. or the proceeds of such property or seeking discovery of any nature against the Company;

iv. enforcing or taking any action to enforce any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or arbitration award against the Company or any of its property located within the territorial jurisdiction of the U.S. or the proceeds of such property;

v. commencing or continuing any Action to create, perfect or enforce any lien, set-off or other claim against the Company or any of its property located within the territorial jurisdiction of the U.S. or the proceeds of such property including, without limitation, rights under insurance, reinsurance or retrocession contracts;

vi. invoking, enforcing or relying on the benefits of any statute, rule or requirement of federal, state, or local law or regulation requiring the Company to establish or post security in the form of a bond, letter of credit or otherwise as a condition of prosecuting or defending any Action and such statute, rule or requirement shall not apply to the Company as a party to proceedings; provided, however, that nothing shall affect any security in existence, or the replacements for such security, required or permitted under any applicable state insurance law or regulation for the benefit of claim holders in the U.S.;

vii. drawing down any letter of credit established by, on behalf of or at the request of, the Company (unless expressly authorized by the terms of any agreement pursuant to which the letter of credit has been established);

viii. withdrawing from, setting-off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such trust, escrow or similar arrangement has been established; and

ix. declaring or treating the filing of this Verified Petition and Motion and any pleadings, declarations, memoranda or affidavits in support thereof, or the English Proceeding a default or event of default under any agreement, contract or arrangement;

(g) until the conclusion of the English Proceeding, all persons and entities that are parties to any trust, escrow agreement or similar arrangement in which the Company has an interest, are required to:

i. provide notice to the Petitioners' U.S. counsel, Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019 (Attn: Sara M. Tapinekis), of any withdrawal from, set-off against, or other application of property that is the subject of any such trust or escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Petitioners to assess the propriety of such withdrawal, set-off or other application, including, without limitation, the date and amount of such

withdrawal, set-off or other application and a copy of any contract, related trust or other agreement pursuant to which any such withdrawal, setoff or other application was made, and provide such notice and other information contemporaneously; and

ii. turn over and account to the Petitioners for all funds resulting from such withdrawal, set-off or other application in excess of amounts expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such trust, escrow or similar arrangement has been established;

(h) until the conclusion of the English Proceeding, all persons and entities that are beneficiaries of letters of credit established by, on behalf, or at the request, of the Company are required to:

i. provide notice to the Petitioners' U.S. counsel of any drawdown (without the express written consent of the Petitioners) of any such letter of credit, together with information sufficient to permit the Petitioners to assess the propriety of such drawdown and a copy of any letter of credit pursuant to which any such drawdown was made, and provide such notice and other information contemporaneously; and

ii. turnover and account to the Petitioners for all funds resulting from such drawdown;

(i) until the conclusion of the English Proceeding, all persons and entities are required to:

i. turn over and account to the Petitioners for any property of the Company located within the territorial jurisdiction of the U.S. of which they have possession, custody or control;

ii. deliver to the Petitioners any books, papers or records of the Company of which they have possession, custody or control and all creditors having any books, papers or records that the Petitioners may reasonably require in relation to their duties or related to any matter that may affect the administration of the Company shall preserve them and submit them to the Petitioners, or their designees, for examination at all reasonable times; and

(j) until the conclusion of the English Proceeding, to the extent that any person or entity has a claim of any nature or source against the Company or any property of the Company or is a party to any proceeding in which the Company is or was named as a party, or as a result of which a liability of the Company may be established, such person or entity must notify the Petitioners, and put the Petitioners' U.S. counsel on the master service list (or similar common notice mechanism) of any such proceeding and take such other steps as may be necessary to ensure that they receive (i) copies of any and all documents sent by the parties to such proceeding or issued by the court, administrator, arbitrator, regulator or similar official having jurisdiction over such proceeding, and (ii) any and all correspondence on other documents circulated to parties named in the master service list (or similar common notice mechanism).

BASIS FOR RELIEF REQUESTED

24. The Petitioners respectfully submit that an order granting recognition of the English Proceeding is appropriate under 11 U.S.C. § 1517.

25. As more fully set forth in the Memorandum of Law, the English Proceeding is a “foreign proceeding” within the meaning of 11 U.S.C. § 101(23).

26. The Petitioners are persons, and as demonstrated by the Administration Order, they have been duly appointed by the English Court as the foreign representatives as that term is defined in 11 U.S.C. § 101(24).

27. The center of main interests of the Company is in the U.K., which is where the English Proceeding is pending, and the English Proceeding therefore qualifies as a “foreign main proceeding” within the meaning of 11 U.S.C. § 1502(4).

28. The Verified Petition and Motion meets the requirements of 11 U.S.C. § 1515 because a certified copy of the Administration Order is attached hereto. In addition, the Petitioners have submitted a statement in accordance with 11 U.S.C. § 1515(c) identifying all foreign proceedings with respect to the Company that are known to the foreign representatives. See Foreign Representatives’ Statement Pursuant to 11 U.S.C. § 1515(c) Identifying Foreign Proceedings filed contemporaneously herewith.

29. Because the English Proceeding is entitled to recognition as a foreign main proceeding, the Petitioners are entitled to the relief sought herein under 11 U.S.C. § 1520, which sets forth the automatic relief that takes effect upon recognition of a foreign main proceeding.

30. Moreover, for the reasons set forth in the Memorandum of Law, the Petitioners are entitled to the relief sought herein under 11 U.S.C. § 1521 because such relief is necessary to effectuate the purpose of chapter 15 and to protect the assets of the Company and the interests of the Company’s creditors. To effectively satisfy creditors’ claims in a fair and equitable manner

and prevent seizure by U.S. creditors of the Company's assets, the English Proceeding must be made binding and enforceable in the U.S.

31. As set forth in the List Filed Pursuant to Rule 1007(a)(4) of the Federal Rules of Bankruptcy Procedure, (filed contemporaneously herewith), the Company is subject to litigation and arbitration currently pending in the U.S.

32. Moreover, the Company has significant assets in the U.S., including, but not limited to, funds totaling approximately \$2.5 million, which currently are held in an account maintained by the New York branch of Citibank, N.A. It therefore is essential that the Petitioners are afforded the relief sought herein to protect these and other assets from being diverted in a piecemeal fashion by individual creditors in the U.S..

33. The relief requested herein is necessary to prevent the Company's U.S. creditors from taking actions that would undermine the English Proceeding.

34. For the reasons set forth above and as more fully discussed in the Memorandum of Law, the relief sought herein is appropriate under Chapter 15 of the Bankruptcy Code and would not be manifestly contrary to any public policy of the U.S.

35. No previous application for the relief requested herein has been made in this or any other court.

CONCLUSION

WHEREFORE, the Petitioners respectfully request that this Court enter an order substantially in the form of the Proposed Order, attached hereto as Exhibit C, granting the relief requested herein and such other and further relief as is just and proper.

Dated: December 18, 2007
New York, New York

CLIFFORD CHANCE US LLP

By: /s/ Jennifer C. DeMarco

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Highlands Insurance Company (U.K.)	:	In a Case Under Chapter 15
Limited,	:	of the Bankruptcy Code
	:	
	:	Case No. 07-13970(____)
Debtor in a Foreign Proceeding	:	
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Dan Yoram Schwarzmann, pursuant to 28 U.S.C. § 1746, hereby declares under penalty of perjury of the laws of the United States as follows:

1. Mark Charles Batten and I have been appointed by the High Court of Justice, Chancery Division, Companies Court (the “English Court”) to act as the joint administrators of Highlands Insurance Company (U.K.) Limited (the “Company”). I am familiar with the administration proceeding pending before the English Court.

2. I have been authorized by the English Court to act as the foreign representative in connection with the administration proceeding pending before the English Court and to commence any proceedings pursuant to Chapter 15 of title 11 of the United States Code.

3. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 18th day of December, 2007
in London, England



Dan Yoram Schwarzmann