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

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In re	:	
	:	
Highlands Insurance Company (U.K.) Limited,	:	In a Case Under Chapter 15 of the Bankruptcy Code
	:	
	:	
Debtor in a Foreign Proceeding	:	Case No. 07-13970 (MG)
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	x	

**DECLARATION OF DAN YORAM SCHWARZMANN IN
 SUPPORT OF 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, pursuant to 28 U.S.C. § 1746, hereby declares under penalty of perjury as follows:

1. I am Dan Yoram Schwarzmann of the London office of PricewaterhouseCoopers LLP (“PWC”), and together with Mark Charles Batten, also of the London office of PWC, I am authorized by the High Court of Justice, Chancery Division, Companies Court (the “English Court”) to act as foreign representative of Highlands Insurance Company (U.K.) Limited (the “Company”) in connection with the administration of the Company pursuant to the U.K. Insolvency Act 1986 (the “UK Insolvency Act”) and the commencement of this Chapter 15 case. A copy of the order of the English Court appointing Mark Charles Batten and me to act as the

joint administrators of the Company and to commence this Chapter 15 case is attached as Exhibit B to the Verified Petition for Recognition of a Foreign Main Proceeding and Motion for Related Relief Pursuant to 11 U.S.C. §§ 1504, 1517, 1520, 1521 (the “Verified Petition and Motion”), filed contemporaneously herewith.

2. I submit this declaration in support of the Verified Petition and Motion.

BACKGROUND

3. The Company was incorporated in 1974 under the U.K. Companies Act 1948 for the purposes of transacting insurance and reinsurance business. The Company’s registered office is at Bruton Court, Bruton Way, Gloucester, Gloucestershire, GL1 1DA United Kingdom.

4. The Company began writing insurance business in 1982 and between 1983 and 1994, predominantly wrote London market excess-of-loss business. The Company’s business was placed both directly and through brokers; primarily the latter.

5. Most, if not all, of the policies comprising the Company’s portfolio were written in the U.K.

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

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

8. Based on actuarial reviews of the Company’s assets and liabilities, it appears that the Company is insolvent on a balance sheet basis.

9. Based on the information currently available to me, it appears that the Company’s policyholders are mostly situated in the U.K. and the U.S.

10. 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”).

11. 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). I have been advised that 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. I have further been advised that 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 Administration and the English Proceeding

12. On October 25, 2007, the directors of the Company filed an application with the English Court to place the Company into administration and to request the appointment of Mark Charles Batten and me as the joint administrators charged with managing the affairs, business and property of the Company in accordance with the UK Insolvency Act.

13. On November 1, 2007, the English Court conducted a hearing to consider the application and subsequently entered the Administration Order.

14. Upon our appointment as the joint administrators of the Company, Mark Charles Batten and I conduct the daily management of the Company and act as officers of the English Court.

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 our appointment as the joint administrators (or such longer period as the English Court or creditors may allow), we must present 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 Mark Charles Batten and I 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.

20. Under the auspices of the English Court and with the assistance of this Court, our ultimate goal as joint administrators of the Company is to rescue the Company as a going concern. As such, we plan to explore whether commutations with the Company's creditors can be agreed with a view toward stabilizing the Company's financial position. If this is achieved, it may be possible to rescue the Company as a going concern and restore the Company's balance

position. Failing that, we seek 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.

21. To effectuate such goal, we require the assistance of this Court to bind creditors in the U.S. to the moratorium imposed in the U.K. while we perform our duties as discussed above. The relief sought in the Verified Petition and Motion is necessary to protect the property of the Company situated in the U.S. from piecemeal distribution on a basis inconsistent with the goals of the administration.

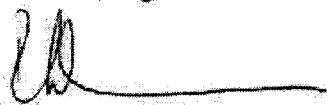
22. The Company has significant assets in the U.S. including, but not limited to, funds totaling approximately \$2.5 million, which are currently held in an account maintained by the New York branch of Citibank, N.A.

23. Moreover, the Company is currently involved in arbitration and litigation pending in the U.S. The relief sought in the Verified Petition and Motion will allow Mark Charles Batten and me to assess the Company's position in such litigation and arbitration and ascertain the appropriate method for proceeding in light of the goals of the administration.

24. For these reasons, Mark Charles Batten and I respectfully request the ancillary assistance of this Court in connection with the administration proceeding currently before the English Court.

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

Executed on this 6th day of December, 2007
in London, England



Dan Yorann Schwarzmann