

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

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In re :
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Highlands Insurance Company (U.K.) : In a Case Under Chapter 15
Limited, : of the Bankruptcy Code
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: :
Debtor in a Foreign Proceeding : Case No. 07-13970 (MG)
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**ORDER GRANTING RECOGNITION OF ENGLISH
PROCEEDING AS FOREIGN MAIN PROCEEDING
AND RELATED INJUNCTIVE RELIEF**

This matter having come before the Court upon the petition for recognition of a foreign main proceeding (the “Chapter 15 Petition”), the Verified Petition for Recognition of a Foreign Main Proceeding and Motion for Related Relief Pursuant to 11 U.S.C. §§ 1504, 1517, 1520 and 1521 (the “Verified Petition and Motion”), the Memorandum of Law in Support of the Verified Petition and Motion (the “Memorandum of Law”), the Declaration of Dan Yoram Schwarzmann in Support of the Verified Petition and Motion, (the “Schwarzmann Declaration”), the Foreign Representatives’ Statement Pursuant to 11 U.S.C. § 1515(c) Identifying Foreign Proceedings (the “Section 1515(c) Statement”) and the List Filed Pursuant to Fed. R. Bankr. P. 1007(a)(4), (the “Rule 1007(a)(4) List,” and together with the Petition, the Verified Petition and Motion, the Memorandum of Law, the Schwarzmann Declaration and the Section 1515(c) Statement, the “Chapter 15 Pleadings”) each filed on December 18, 2007 by Dan Yoram Schwarzmann and Mark Charles Batten (the “Petitioners”) in their capacity as the duly appointed foreign representatives of Highlands Insurance Company (U.K.) Limited, (the “Company”) in a proceeding under the U.K. Insolvency Act 1986 (the “English Proceeding”) before the High Court of Justice, Chancery Division, Companies Court (the “English Court”); and upon the

Court's consideration of the Chapter 15 Pleadings and the record of the hearing before this Court on January 22, 2008 (the "Recognition Hearing") and all prior hearings and status conferences herein; and due and timely notice of the filing of the Chapter 15 Pleadings and the Recognition Hearing having been given pursuant to the Order Scheduling Hearing and Specifying Form and Manner of Service and Notice, dated December 18, 2007, which notice is deemed adequate for all purposes such that no other or further notice thereof need be given; and no objections to the relief requested in the Verified Petition and Motion having been filed or raised thereto that have not been overruled, withdrawn or otherwise resolved; and after due deliberation and sufficient cause appearing therefor, this Court hereby finds and concludes as follows:

A. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334, 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; and

B. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(P); and

C. Venue is proper in this District pursuant to 28 U.S.C. § 1410; and

D. The Petitioners, acting as the court-appointed joint administrators of the Company, are persons and the duly appointed foreign representatives of the Company (the "Foreign Representatives") within the meaning of 11 U.S.C. § 101(24); and

E. This case was properly commenced pursuant to 11 U.S.C. §§ 1504 and 1517; and

F. The Verified Petition and Motion meets the requirements of 11 U.S.C. § 1515; and

G. The English Proceeding is a foreign proceeding within the meaning of 11 U.S.C. § 101(23); and

H. The English Proceeding is entitled to recognition by this Court pursuant to 11 U.S.C. §§ 1515 and 1517(a); and

I. The English Proceeding is pending in the United Kingdom, which is the country where the Company has the center of its main interests, and therefore the English Proceeding is entitled to recognition as a foreign main proceeding pursuant to 11 U.S.C. §§ 1502(4) and 1517(b)(1); and

J. Until the conclusion of the English Proceeding, the Foreign Representatives, for the benefit of the Company, are entitled to all of the relief set forth in 11 U.S.C. §§ 1520; and

K. Absent injunctive relief, it appears to this Court that one or more parties in interest may commence or continue the prosecution of judicial, quasi-judicial, arbitration, administrative or regulatory actions or proceedings in connection with a claim against the Company or its property in the U.S., thereby interfering with, and causing harm to, the Company and the English Proceeding, and as a result, the Company and its creditors, as a whole, would suffer irreparable injury for which there is no adequate remedy at law; and

L. Absent injunctive relief, the English Proceeding and the Petitioners' efforts in conducting the administration of the Company may be thwarted by the actions of certain creditors, a result inimical to the purposes of chapter 15 as reflected, *inter alia*, in section 1501(a). Such actions may threaten, frustrate, delay and ultimately jeopardize the English Proceeding and the administration of the Company; and

M. The relief sought in the Verified Petition and Motion will not cause undue hardship or inconvenience to parties in interest and, to the extent that any hardship or inconvenience may result, such hardship or inconvenience will be outweighed by the benefits to the Company, its estate and its creditors, as well as to the interests of cooperation between the courts of the U.S. and those of foreign jurisdictions;

N. The relief sought in the Verified Petition and Motion is necessary to effectuate the purposes of chapter 15, to protect the Company and the interests of its creditors, and is not manifestly contrary to the public policy of the U.S; and

O. The Foreign Representatives have represented to the Court that the Foreign Representatives do not intend that this chapter 15 case has an impact on the matters currently before the Texas court in the receivership proceeding of Highlands Insurance Company pending in the District Court of Travis County, Texas, styled as *State of Texas v. Highlands Insurance Co.*, Case No. GV3-04537 (the "Receivership Proceeding").

For all of the foregoing reasons, and after due deliberation and sufficient cause appearing therefor, **IT IS HEREBY ORDERED THAT:**

1. The English Proceeding is granted recognition as a foreign proceeding as defined in 11 U.S.C. § 101(23) and pursuant to 11 U.S.C. § 1517(a); and

2. The English Proceeding is granted recognition as a foreign main proceeding pursuant to 11 U.S.C. § 1517(b)(1); and

3. Acts taken by the Petitioners and orders issued by the English Court in connection with the English Proceeding shall be given full force and effect and be binding on and enforceable against all persons and entities in the U.S.; and

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

5. Until the conclusion of the English Proceeding, all persons and entities are enjoined and restrained from:

(a) transferring, relinquishing or disposing of any property of the Company located within the territorial jurisdiction of the U.S. or the proceeds of such property;

(b) taking or continuing any act to obtain possession of, or exercise control over, the Company or any of its property located within the territorial jurisdiction of the U.S. or any proceeds thereof;

(c) 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 thereof or seeking discovery of any nature against the Company;

(d) enforcing or taking any act or commencing 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 thereof;

(e) taking any act or 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;

(f) 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 party to proceedings; provided, however, that nothing in this Order 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.;

(g) 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);

(h) 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

(i) declaring or treating the filing of the Chapter 15 Pleadings or the English Proceeding as a default or event of default under any agreement, contract or arrangement; and

6. 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:

(a) 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, set-off or other application was made, and provide such notice and other information contemporaneously; and

(b) 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; and

7. 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:

(a) provide notice to the Petitioners' U.S. counsel of any drawdown (without the express written consent of the Petitioners and/or in contravention of the English Proceeding) 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

(b) turnover and account to the Petitioners for all funds resulting from such drawdown; and

8. Until the conclusion of the English Proceeding, all persons and entities are required to:

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

(b) deliver to the Petitioners any books, papers or records of the Company of which they have possession, custody or control and all parties 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 or the English Proceeding shall preserve them and submit them to the Petitioners, or their designees, for examination at all reasonable times; and

(c) to the extent that any person or entity may have 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; and

9. Nothing in this Order shall prevent the continuance or commencement of proceedings against any insurer other than the Company, provided however, that if any third party shall reach a settlement with, or obtain a judgment against, any person or entity other than the Company, such settlement or judgment shall not be binding on or enforceable against the Company; and

10. This Court shall retain jurisdiction with respect to the enforcement, amendment or modification of this Order or requests for any additional relief in this case filed under chapter 15 of the Bankruptcy Code and all adversary proceedings in connection therewith properly commenced and within the jurisdiction of this Court; and

11. No action taken by the Petitioners, the Company, or their successors, agents, representatives or counsel in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the English Proceeding, this Order, this chapter 15 case, any further order for additional relief in this chapter 15 case or any adversary proceedings in connection therewith will be deemed to constitute a waiver of the immunity afforded to the Company, the Petitioners or their successors, agents, attorneys or representatives pursuant to section 1510 of the Bankruptcy Code;

12. Nothing herein limits the jurisdiction of, stays or enjoins the Receivership Proceeding to the extent that the Receivership Proceeding involves matters arising under, or

otherwise applies, Texas insurance law; provided, however, that the Foreign Representatives and the parties in the Receivership Proceeding reserve all rights with respect to the applicability of this Order and/or 15 U.S.C. § 1012(b) (the McCarran-Ferguson Act) with respect to any matter or issue not currently pending in connection with the Receivership Proceeding, after notice and opportunity to be heard; and

13. This Order shall be served:

(a) by United States mail, first class postage prepaid, upon all known potential creditors whose addresses are reasonably available to the Company (or their counsel, if known to the Company) on January 24, 2008; and

(b) by publication in (i) *Insurance Day* (ii) the worldwide edition of the *Financial Times*, and (iii) the national edition of the *Wall Street Journal*, on January 30, 2008 (or as soon as reasonably practicable thereafter);

(c) and such service will be good and sufficient service and adequate notice for all purposes; and

14. The Chapter 15 Pleadings shall be made available by the Foreign Representatives upon request to the Petitioners' U.S. counsel, Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019 (Attn: Sara M. Tapinekis).

Dated: New York, New York
January 22, 2008

/s/ Martin Glenn
United States Bankruptcy Judge