

**CENTAUR INSURANCE COMPANY
IN REHABILITATION
(87 CH 8615)**

Status Report

September 1, 2009

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TABLE OF CONTENTS

	Page
I INTRODUCTION	3
II DIRECT POLICYHOLDER CLAIMS	4
III CLAIMS CEDED BY CENTAUR TO ITS REINSURERS	9
IV REINSURANCE CLAIMS ASSUMED BY CENTAUR	11
V FINANCIAL INFORMATION	12
VI CONCLUSION	13

EXHIBIT A – SECOND REVISED PLAN OF REHABILITATION

EXHIBIT B – FIRST DIVIDEND DISTRIBUTION ORDER

EXHIBIT C – STATEMENT OF CHANGES IN CASH AND INVESTED ASSETS
(Second Quarter 2009)

CENTAUR INSURANCE COMPANY IN REHABILITATION

Status Report 87 CH 8615 (September 1, 2009)

NOW COMES Michael T. McRaith, Director of Insurance of the State of Illinois, in his capacity as the statutory and court-affirmed Rehabilitator (the "Director" or "Rehabilitator") of Centaur Insurance Company ("Centaur"), and for his report on the current status of the Centaur rehabilitation proceedings, states as follows:

I. INTRODUCTION

Centaur Insurance Company is a stock, property, fire and casualty insurance company incorporated in 1973 under the laws of the State of Illinois. Centaur was originally formed to provide reinsurance coverage in the marketplace, which included, *inter alia*, reinsuring risks related to the operations of Borg-Warner Corporation, Centaur's parent company at the time. In the years that followed, Centaur expanded its writings to include a wide variety of direct policies, with an emphasis on excess and umbrella liability coverage.

In 1984, Centaur ceased writing new and renewal business. The placement of high-risk business and the growing inability to collect substantial amounts of ceded reinsurance eventually led to Centaur's demise. By 1987, it appeared that Centaur would be unable to continue to meet minimum capital and surplus requirements under Illinois law. As a result, Centaur was placed into receivership pursuant to an Agreed Order of Rehabilitation entered by the Circuit Court of Cook County, Illinois (the "Supervising Court" or the "Court") on September 4, 1987. A Revised Plan of Rehabilitation, developed to help Centaur work its way out of this situation, was entered by the Supervising Court on May 13, 1988.

The principal objective of the Revised Plan of Rehabilitation was two-fold: (1) the continued run-off of Centaur's direct (primary and excess) policy obligations without the involvement of state insurance guaranty associations/guaranty funds; and (2) the consolidation of all assumed reinsurance claims, and any disputes related thereto, into a single forum [the Supervising Court] for purposes of validation, valuation and resolution.

Currently, Centaur is operating under a Second Revised Plan of Rehabilitation ("Second Revised Plan") which was approved by the Court on December 8, 2000. The objective of the Second Revised Plan, which supersedes all prior plans of rehabilitation, is the winding down and termination of the receivership proceedings. In furtherance of this goal, the Second Revised Plan provides for the setting of bar dates for the filing of claims against Centaur. Pursuant to the Second Revised Plan, and a separate order entered by the Court establishing claim filing procedures, the bar date for the filing of claims was March 30, 2001, and the date by which all timely filed contingent claims were to be liquidated and made certain was October 1, 2001.

The Rehabilitator's last formal Status Report was filed with the Clerk of the Circuit Court on November 18, 2008 and presented to the Supervising Court on November 20, 2008. This report is intended to supplement the November 2008 submission with updated information.

II. DIRECT POLICYHOLDER CLAIMS

The Revised Plan of Rehabilitation (1988) provided, *inter alia*, for the payment by Centaur of claims of insureds properly made under direct liability policies issued by Centaur. In accordance with the Revised Plan, Centaur did in fact, during the relevant time periods, provide defenses to its insureds with respect to claims and actions brought against them by third parties; paid all incurred loss adjustment expenses, including defense attorneys' fees; paid all settlements of such claims or actions, authorized by Centaur and by the Supervising Court when required; and paid all final judgments issued upon the merits of such claims or actions made by courts of competent jurisdiction. Over time, the property and casualty claims against Centaur insureds were run-off, with the exception of certain "long-tail" claims. These long-tail risks include

environmental pollution/hazardous waste claims and various mass tort/product liability claims such as injuries/illnesses relating to asbestos exposure.

In order to effectuate a closure of the Centaur rehabilitation proceedings, it became necessary to take some action, other than allowing the long-tail claims run-off in the normal course, to resolve Centaur's liability exposure and related policy obligations. In this regard, on August 16, 1999, the Rehabilitator presented to the Supervising Court a petition for the approval of a certain Policy Buy-Out Plan ("Buy-Out Plan"). By Order of the same date, the Court approved the Rehabilitator's Buy-Out Plan; authorized and directed the Rehabilitator to seek policy buy-out/buy-back agreements with Centaur's policyholders who had long-tail exposure claims; and granted the Rehabilitator one year from the date of the Order within which to exhaust all efforts to negotiate and effectuate any such policy buy-out/buy-back agreements; after which such time the Court would consider the further recommendations of the Rehabilitator relating to the winding down and termination of the rehabilitation proceedings.¹

In accordance with the Court's Order and the Buy-Out Plan, the Rehabilitator sent notices to policyholders, having actual or potential long-tail claims against Centaur, inviting the insureds to negotiate an early resolution of any such claims. Reaction to the Rehabilitator's solicitations was mixed. Several insureds showed immediate interest in exploring a settlement of their claims while many others either did not respond or expressly declined to negotiate a buy-out of their policies, choosing to let their claims continue to develop in the normal course, and to wait for payment until those claims mature.

The Rehabilitator's efforts resulted in agreed policy buy-outs with twenty (20) insureds who had reported claims under one or more Centaur policies. These settlements, approved by the Court when required under the Buy-Out Plan, resulted in the payment of \$12,076,099 to the participating insureds in return for a full release and cancellation of their policies. Upon conclusion of the Buy-Out Plan, the Rehabilitator's recommendation relating to the winding

¹ Policy "buy-outs" are accomplished by way of a settlement and release of all present and future claims which an insured has, or may have, against its insurer under one or more liability policies. In return for payment of an agreed upon amount, the insured forever releases the insurer from its policy obligations, in effect canceling any and all coverage under the policy.

down and termination of the rehabilitation proceedings was for the Court to set bar dates for: (a) the filing of any then remaining unresolved claims against Centaur, and (b) the liquidation of any contingent claims against Centaur. This recommendation was set forth in the Rehabilitator's Second Revised Plan of Rehabilitation. After notice and hearing, in accordance with 215 ILCS 5/192(4), the Court entered an order, on December 8, 2000, approving the Second Revised Plan. A copy of the Second Revised Plan is attached hereto as Exhibit "A" for reference. Also on December 8, 2000, the Court entered a separate order approving certain claim filing procedures ("Claim Procedure Order"). The Court's Claim Procedure Order specified March 30, 2001 as the last day by which a Proof of Claim may be filed by persons and/or entities who have, or may have, claims against Centaur, its property or assets, or against a Centaur insured or policyholder, for the purposes of participating in any distribution of Centaur's assets. The Court also set forth and approved the manner and form of notice to be given to such potential claimants.

In compliance with the Court's Claim Procedure Order, the Second Revised Plan of Rehabilitation and Section 208 of the Illinois Insurance Code, 215 ILCS 5/208, the Rehabilitator mailed notice and a Proof of Claim form to persons and entities which Centaur's books and records reveal have or may have a liability claim against Centaur, its property or assets, or against a Centaur insured or policyholder ("Loss Claims"). The Rehabilitator mailed notice and a Proof of Claim form to ceding insurance companies (companies that underwrote risk on policies to their insureds and then ceded (reinsured) a portion of that risk to Centaur) which Centaur's books and records reveal have or may have a claim against Centaur for reinsured losses ("Indemnity Claims"). The Rehabilitator mailed notice to former policyholders who may have a claim against Centaur relating to their insurance policy, such as a claim for unearned premium ("Policy Claims"). Finally, the Rehabilitator mailed notices to reinsurers of Centaur who may have a claim relating to their reinsurance contracts with Centaur ("Contract Claims"). Notice and Proof of Claim forms were only sent to those potential claimants with Loss Claims or Indemnity Claims because the Rehabilitator had actual knowledge that such claims either existed or were very likely to exist. As a cost saving measure, the other two categories of potential claimants received notice only, since it was highly unlikely that they might have a claim. In further compliance with the Court's Claim Procedure Order and Section 208 of the Illinois Insurance Code, *Id.*, the Rehabilitator also caused notice to be served by publication.

As of March 30, 2001, the claim filing deadline, the Rehabilitator had received 1,676 timely filed Proofs of Claim on Centaur direct policies (Loss Claims). Several insureds filed a single "Master" Proof of Claim which contains several, and in some cases hundreds, of individual sub-claims. An example is an insured manufacturer of products which may have contained asbestos who has been named as a defendant in multiple lawsuits involving hundreds of plaintiffs alleging asbestos exposure injuries, and that insured filed a single Proof of Claim covering all such claims against it. As was predicted at the time, the vast majority of the claims filed were contingent claims. A claim is contingent if, as of the filing of the claim, the liability of the insured had not been determined.

The evaluation of all direct (loss) claims has been completed. Notice of Determination letters were sent to all claimants notifying them as to the Rehabilitator's recommendation for the allowance or disallowance of their respective claims. The vast majority of the claims were recommended for denial. The basis for the Rehabilitator's denial of these claims include one or more of the following: (i) no coverage under the applicable Centaur policy; (ii) failure of the claimant to submit documentation supporting coverage, if any; (iii) no liability; (iv) failure to establish exhaustion of underlying policy limits; (v) the insured's failure to liquidate contingent claims and present proof of payment by the contingent claim bar date; and/or (vi) the insured's failure to prove its claim by estimation. With the exception of a few remaining claims which shall be addressed below, the Court has approved the recommended disallowance of these claims.

In response to the Notice of Determination letters, the Rehabilitator received three hundred nineteen (319) claim objections involving twenty one (21) different insureds.² The majority of those objections were resolved by the Rehabilitator's staff and, in a few instances, by the Rehabilitator's duly appointed attorneys.³ To date, the Rehabilitator has recommended the allowance of twenty-three (23) claims involving twelve (12) different Centaur insureds, in the approximate aggregate amount of \$53,000,000, at statutory priority levels (d) and (e), 215 ILCS 5/205(1)(d) and (1)(e).⁴ The Court has approved the allowance of those claims and, by its order dated November 13, 2006 (the "First Dividend Distribution Order"), the Court has approved the actual payment of the claims.⁵ A copy of the Court's November 13, 2006 order is attached hereto as Exhibit "B" for reference.

Since the inception of these receivership proceedings (September 4, 1987), the total amount paid by the Rehabilitator for loss liabilities and loss adjustment expenses is approximately One Hundred Eighteen Million Three Hundred Seventy-Six Thousand Dollars (\$118,376,000). This amount includes the claims and loss adjustment expenses which were previously paid by the Rehabilitator under the Revised Plan of Rehabilitation (approx. \$53,300,000), the amounts paid by the Rehabilitator to the insureds that participated in the Policy Buy-Out Plan (approx. \$12,076,000) and the amount recently paid under the Court's First Dividend and Distribution Order (approx. \$53,000,000).

² As discussed earlier, certain insureds filed multiple claims under one or more Centaur policies.

³ Five of the contested direct (loss) claims have been brought before the Court for hearing pursuant to 215 ILCS 5/209(11)(b). Three of those claims settled during the hearing process and the objections were withdrawn. The Court has approved those settlements. After briefing and oral argument, the Court entered judgment orders upholding the Rehabilitator's recommended disallowance of the two other claims.

⁴ Statutory priority level (d) claims, 215 ILCS 5/205(1)(d), are claims by policyholders and insureds covered under insurance policies issued by the company, and liability claims asserted against insureds by third-parties covered under insurance policies. Priority level (e) claims, 215 ILCS 5/205(1)(e), are [contingent] claims by policyholders and insureds, the allowed values of which were determined by estimation under paragraph (b) of subsection (4) of Section 209 [215 ILCS 5/209(4)(b)].

⁵ On November 13, 2006, the Court entered an order, upon the petition of the Rehabilitator, approving a one hundred percent (100%) first dividend on all claims allowed and approved by the Court for distribution at statutory priority levels 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e), and authorized the Rehabilitator to make payment on such claims.

Currently, there are six (6) pending objections involving two (2) Centaur insureds. Three claims were filed by Tyler Corporation, in the aggregate amount of Twenty Million Dollars (\$20,000,000), relating to hundreds of underlying asbestos exposure claims asserted against the insured. The other three claims were filed by General Dynamics Corporation, in the aggregate amount of Three Million Dollars (\$3,000,000), also related to underlying asbestos claims. The Rehabilitator has recommended that these claims be disallowed. The insureds have filed their respective objections to that determination. To date, the Rehabilitator and the insureds have not been able to resolve the objections. To state it more accurately, the claimants have been unable to alter the Rehabilitator's determination and recommendation that their claims be disallowed. Investigation and further examination of the claims continues. Unless these disputed claims can be resolved through further negotiation, they will have to be adjudicated through contested hearings before this Court in accordance with Section 209(11)(b) of the Illinois Insurance Code, 215 ILCS 5/209(11)(b).

III. CLAIMS CEDED BY CENTAUR TO ITS REINSURERS

Reinsurers generally continue to respond satisfactorily to their reinsurance obligations related to Centaur's payment of its underlying direct claims. Collection of reinsurance proceeds has been facilitated by numerous commutations entered into between Centaur and its reinsurers. Since the inception of the rehabilitation proceeding (September 4, 1987), the Centaur estate has recovered ceded reinsurance in the approximate amount of \$56,816,687.

Currently, there are six open accounts relating to recent direct (loss) claim settlements which have reinsurance coverage. Some of these recoverables are potentially significant, involving tens of millions of dollars. For example, the J.T. Thorpe claim settlement approved by the Court by order dated June 12, 2007 (\$31,950,000) is heavily reinsured as is the Kelly-Moore Paint Company claim settlement approved by the Court by order dated July 22, 2008 (\$18,750,000). The pending Tyler Corporation claim discussed above may involve significant reinsurance issues depending on the ultimate resolution of the claim. There has been some amounts collected on these accounts from participating reinsurers, while other reinsurers have either objected to the Rehabilitator's billings or have chosen to ignore them. In certain other cases, collectibility is an issue because of the financial condition of the reinsurer. It is quite

possible, if not probable, that some of these reinsurance collection disputes will have to be resolved by way of arbitration and/or litigation. The Rehabilitator has retained outside counsel to assist with these disputes.⁶

Some of Centaur's reinsurance collection efforts relate to claims ceded by Centaur to its retrocessionaires. In these cases, Centaur acted as the assuming reinsurer to underlying insurers [reinsureds] on policies those insurers had issued to their policyholders. Centaur, in turn, then reinsured [ceded] part of the risk it had assumed to other reinsurers [the retrocessionaires]. Collection efforts on some of these receivables are dependent on the resolution of the underlying assumed business.

Certain reinsurers of Centaur (U.S. domestic, Bermuda and European domiciled) have become insolvent, resulting in an accumulation of potentially uncollectible balances. Centaur currently has timely filed claims for reinsurance recoverables pending in approximately thirty insurer insolvency proceedings. The aggregate amount of Centaur's claims is \$8,468,157. Some portion of this balance may ultimately be realized, although the amount and timing of any such recovery cannot be projected at this time. Centaur continues to monitor developments in these liquidation proceedings and periodically updates its claims when appropriate and where permitted.

The current total amount of outstanding uncollected reinsurance recoverables in the Centaur estate is approximately \$20,332,958. Diligent efforts to collect these outstanding balances are ongoing and are a major focus of the rehabilitation proceeding. As mentioned, certain reinsurers have disputed and continue to dispute amounts which have been billed to them by the Rehabilitator. Other reinsurers may have offsets to assert which would affect their bottom line reinsurance obligations. Also mentioned, is the fact that certain reinsurers are subject to

⁶ One such multi-million dollar reinsurance collection dispute has, in fact, reached the stage of litigation. The Rehabilitator has initiated litigation seeking declaratory judgment against two reinsurers involved in the J.T. Thorpe claim settlement; *McRaith v. American Re-Insurance Company n/k/a Munich Reinsurance America, Inc. and INA Reinsurance n/k/a R&Q Reinsurance Company*, Case No. 09 Ch 18191, Circuit Court of Cook County, Illinois. The action has been removed by the Defendants to the USDC-Northern District of Illinois, Case No. 09 CV 04027. The Rehabilitator has filed an objection to the removal along with a motion to remand which is pending before the district court.

receivership proceedings, and may or may not have funds available to pay their liabilities to Centaur.

IV. REINSURANCE CLAIMS ASSUMED BY CENTAUR

For the past several years, a major portion of the Centaur assumed reinsurance activity has focused on a few large claims which account for the majority of Centaur's assumed liabilities. During that time, certain commutations (settlements) have been reached with a number of cedents. These commutations have resulted in a reduction of Centaur's ultimate liabilities.

In particular, commutations with Universal Reinsurance Corp. (1991), Central National/Protective National of Omaha (1992), Hartford Fire Insurance Company and its affiliates (1993), Imperial Casualty & Indemnity Company (1996), the Mission Insurance Companies (1999), and Continental Casualty Company [CNA] (2004) have had a significant positive impact on Centaur's assumed liabilities. Several of these claims were the subject of arbitration/litigation proceedings prior to settlement.

Forty-two reinsureds timely filed Proofs of Claim with the Rehabilitator (Indemnity Claims). The evaluation of these cedent claims has been completed in accordance with the Court's Claim Procedure Order and 215 ILCS 5/209. Some of the claims were denied, while others were recommended for approval in varying amounts. Notice of Determination letters were sent to all claimants. Several objections were received, but were ultimately resolved. All of the Rehabilitator's recommendations as to the assumed cedent claims have been approved by the Court. The total amount of approved cedent claims in the Centaur estate is \$107,142,487.⁷ This amount includes the commutations entered into under the Revised Plan of Rehabilitation and under the claim filing procedures established by the Second Revised Plan and the Claim Procedure Order. The cedent reinsurance claims are, by law, general creditor claims. For purposes of distribution of estate assets, these claims are deemed priority level (g) claims [215

⁷ There may be certain Centaur claims against its ceding reinsureds which will slightly reduce (offset) Centaur's total liability to the cedent claimants. It is currently projected that such offsets may reduce Centaur's reinsurance assumed liabilities by as much as \$3,938,133.

ILCS 5/205(1)(g)].⁸ These general creditor claims have not, to date, participated in any distribution of Centaur assets under the Revised Plan of Rehabilitation, the Second Revised Plan of Rehabilitation or the Court's First Dividend Distribution Order.

V. FINANCIAL INFORMATION

As of September 1, 2009, the Rehabilitator holds Centaur assets having a base market value of approximately \$80,560,000. The assets held are in the form of cash, cash equivalents and U.S. government obligations. In addition to this amount, Centaur has a statutory [special] account on deposit with the State of Missouri with an estimated balance of \$444,727. Statutory deposit were posted by Centaur prior to the commencement of these receivership proceedings to secure Centaur's obligations to residents of the states in which those deposits were made. If not needed to pay claim obligations in those states, the funds will be returned to the Rehabilitator to be used along with the general assets of the company for distribution to claimants with allowed and court approved claims.

The Rehabilitator has, since the inception of these rehabilitation proceedings, filed with the Court Centaur's *Quarterly Reports of Receipts and Disbursements*, now entitled *Statements of Changes in Cash and Invested Assets*, in accordance with Section 202(d)(1) of the Illinois Insurance Code, 215 ILCS 5/202(d)(1). A copy of the Rehabilitator's most recently filed *Statement of Changes in Cash and Invested Assets* (for the quarter ending June 30, 2009) is attached hereto as Exhibit "C" for reference. These required filings shall continue uninterrupted until Centaur's receivership proceeding has been terminated.

There are certain pending federal income tax issues of varying complexities which continue to be addressed. During the period of 1990 thru 2007, Centaur was considered a Tax Exempt Organization under Section 501(c)(15) of the Internal Revenue Code. Beginning in 2008, that provision no longer applies to Centaur. Prior to that time, Centaur was a part of a consolidated group tax filing with its former parent Borg-Warner Corporation. In 2008 and 2009

⁸ In the distribution of estate assets under Section 205, 215 ILCS 5/205, all claims in any given priority level must be satisfied in full (100%) before there is any distribution at the next (lower) priority level.

Centaur's tax returns are/will be filed as part of its current parent's [Securitas Holdings, Inc.] consolidated return. The Rehabilitator has engaged counsel with expertise in the tax field to assist him with the federal tax issues. There does not appear to be any significant issue with Illinois state taxes.

VI. CONCLUSION

The Rehabilitator continues to wind-down the business and affairs of Centaur in accordance with the provisions of Article XIII of the Illinois Insurance Code, 215 ILCS 5/187, *et seq.*, and the Second Revised Plan of Rehabilitation; subject to the supervision and orders of this Court. The Rehabilitator shall continue his diligent efforts to resolve the remaining direct claim liabilities which may involve contested hearings before the Supervising Court. The Rehabilitator shall continue to marshal all available assets for the benefit of the Centaur estate, which at this juncture appears to be limited to the previously discussed reinsurance recoverables and the return of the remaining statutory deposit.

The Rehabilitator has requested a release from the federal government (Dept. of Justice) relating to any "priority" claims the federal government might assert against Centaur. Once received, the Rehabilitator will be in a position to consider implementing a second distribution plan in regards to the priority level (g) claimants with allowed and court approved claims in the Centaur receivership proceeding. 215 ILCS 5/205(1)(g).

Respectfully submitted,

MICHAEL T. McRAITH

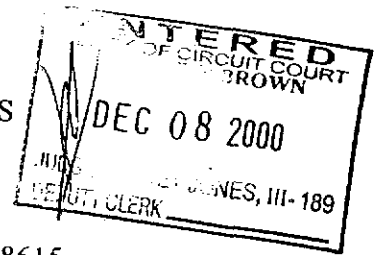
Director of Insurance of the State of Illinois,
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BY: 

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IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION



IN THE MATTER OF THE REHABILITATION OF)
CENTAUR INSURANCE COMPANY)

No. 87 CH 8615

CENTAUR INSURANCE COMPANY
SECOND REVISED PLAN OF REHABILITATION

In accordance with the applicable provisions of Article XIII of the Illinois Insurance Code (215 ILCS 5/187 et seq.), the following Second Revised Plan of Rehabilitation (“Plan”) shall govern the rehabilitation of Centaur Insurance Company (“Centaur”) and shall supersede all prior plans of rehabilitation for Centaur:

Part A. Definitions

- 1.01 The following definitions apply in this Plan:
- a) “Rehabilitator” shall mean Nathaniel S. Shapo, Director of Insurance of the State of Illinois, and his successors in office, acting in and only in his capacity as Rehabilitator of Centaur.
 - b) “Supervising Court” or “Supervising Judge” shall mean that judge of the Circuit Court of Cook County, Illinois, having jurisdiction over the rehabilitation proceedings of Centaur.
 - c) “Liability Insurance Policy” shall mean those direct policies of insurance that Centaur issued in the course of its operation as an insurance company and which are defined in the Class 2 and Class 3 subdivisions of Section 4 of the Illinois Insurance Code (215 ILCS 5/4), and of which such definitions are incorporated herein.

Part B. Administration

- 2.01 All costs and expenses of the administration of the Rehabilitation of Centaur shall be paid by Centaur and thereafter reported to the Supervising Court by the Rehabilitator in his periodic reports of receipts and disbursements of Centaur.

- 2.02 The Rehabilitator shall marshal the assets of Centaur during the pendency of this Plan to provide a maximum distribution or distributions to the policyholders and creditors of Centaur. The Rehabilitator shall be empowered to compromise and settle all doubtful, disputed, or uncollectible debts or claims owing to Centaur upon such terms and conditions as he may consider prudent. All such debts and claims so compromised and settled by the Rehabilitator shall be reported to the Supervising Court in the Rehabilitator's periodic reports of receipts and disbursements of Centaur. The Rehabilitator shall have all power and authority conferred upon rehabilitators in accordance with the Illinois Insurance Code, including but not limited to all power and authority conferred pursuant to 215 ILCS 5/192 and 215 ILCS 5/202.
- 2.03 The Rehabilitator shall sell any asset owned by Centaur, including stocks and bonds, as he may, from time to time, find necessary with which to pay the costs and expenses of the administration of the rehabilitation of Centaur, to pay the compensation of his attorneys, actuaries, accountants, consultants, and other persons, and/or to pay claims as provided in this Plan, upon such terms and conditions as he may consider prudent, and shall report his sale of the same to the Supervising Court in his periodic reports of receipts and disbursements of Centaur.
- 2.04 During the pendency of this Plan, the Rehabilitator shall continue to review the condition of Centaur and shall report the same to the Supervising Court from time to time, along with the report of his activities under the Plan. Should the Rehabilitator determine that Centaur is no longer rehabilitatable or that it is in the best interests of the policyholders and creditors of Centaur to seek an Order of Liquidation of Centaur, he shall proceed in accordance with the applicable provisions of the Illinois Insurance Code concerning the liquidation of domestic companies, without prior notice to the policyholders or creditors of Centaur. Upon the entry of an Order of Liquidation as, to and against Centaur, this Plan shall immediately terminate.
- 2.05 During the pendency of this Plan, Centaur shall not issue or renew direct policies of insurance. During the pendency of this Plan, Centaur shall not issue or renew any treaty, agreement, contract or certificate of reinsurance wherein Centaur assumes any new or additional liabilities or obligations.
- 2.06 In accordance with 215 ILCS 5/209(5), the obligation of Centaur, if any, to defend or continue the defense or fund the defense of any claim or suit under a Liability Insurance Policy shall terminate upon the approval of this Plan by the Supervising Court. Insureds of Centaur under liability insurance policies may include in contingent claims reasonable attorneys' fees for services rendered subsequent subsequent to the date of approval of this Plan in defense of claims or suits covered by the insured's policy provided such attorneys' fees have actually been paid by the insured and

evidence of such payment is presented in the manner required for insured's contingent claims.

- 2.07 With respect to any joint defense agreement, cost sharing agreement, or other agreement calling for Centaur to participate in the cost of defending and/or settling claims against an insured under a Liability Insurance Policy, Centaur shall not be obligated to continue making payments thereunder.
- 2.08 The Agreed Order of Rehabilitation respecting Centaur dated on or about September 4, 1987, and the injunction provisions therein shall continue in effect.
- 2.09 For the avoidance of doubt, Parts C, D, and E of Centaur's Revised Plan of Rehabilitation are amended and replaced by this Plan.

Part C. Filing of Claims and Bar Dates

- 3.01 The rights and liabilities of Centaur and of its creditors, policyholders, stockholders, and all other persons interested in its assets, except persons entitled to file contingent claims, shall be fixed as of the date of entry of the order approving this Plan. The rights and liabilities of persons entitled to file contingent claims shall be governed by § 209 of the Code (215 ILCS 5/209).
- 3.02 All persons who may have claims against Centaur must file a proof of claim with the Rehabilitator no later than **March 30, 2001**. This requirement applies to all persons who may have claims against Centaur, regardless of whether such persons have previously notified claims to Centaur or the Rehabilitator; however, notwithstanding this provision, claims previously fixed or settled as to amount by the Rehabilitator remain fixed or settled in such manner for purposes of any future distribution of assets, and claimants having claims previously fixed or settled as to amount by the Rehabilitator need not file a proof of claim respecting such claims.
- 3.03 In accordance with 215 ILCS 5/208, the place for the filing of such claims against Centaur shall be as specified in the Notice for Filing of Claims ("Notice") approved by the Supervising Court. The Supervising Court shall also determine and fix the manner in which the Notice shall be provided by the Rehabilitator to persons who may have claims against Centaur, as disclosed by Centaur's books and records.
- 3.04 In accordance with 215 ILCS 5/209(4), the final date for the liquidation of contingent and/or unliquidated claims against Centaur is **October 1, 2001**.

- 3.05 The Rehabilitator shall review all claims duly filed in the rehabilitation, make such further investigation as he considers necessary, compound, compromise or in any other manner negotiate the amount for which claims will be recommended to the Supervising Court, and report his recommendations to the Supervising Court, in accordance with 215 ILCS 5/209. When the Rehabilitator denies a claim or allows a claim for less than the amount requested by the claimant, written notice of the determination and the claimant's right to object shall be governed by 215 ILCS 5/209(11).
- 3.06 Any distribution of assets of Centaur on allowed claims shall be as authorized by further order of the Supervising Court, in accordance with 215 ILCS 5/210.
- 3.07 Should an Order of Liquidation be entered as to or against Centaur at any time, this Plan shall immediately terminate upon such date of entry of such Order of Liquidation and such Order of Liquidation and the provisions of the Illinois Insurance Code and of other foreign state statutes related thereto shall prevail and be paramount to this Plan.

Part D. Reinsurance and Other Obligations

- 4.01 During the pendency of this Plan, the Rehabilitator may attempt the voluntary commutation of all treaties, contracts, agreements and certificates of reinsurance wherein Centaur ceded a portion of its liability to reinsurers or retrocessionaires, upon such terms and conditions as he may consider prudent and with the approval of the Supervising Court.

Part E. Ancillary States

- 5.01 This Plan does not replace nor supersede any of the provisions of Article XIII 1/2 of the Illinois Insurance Code (215 ILCS 5/221.1 et seq.) or of any similar law enacted by any sister state of Illinois which is a "Reciprocal State" to Illinois as defined in 215 ILCS 5/221.1(1).

Part F. Secured Parties and Special Deposit Claims

- 6.01 Secured cedents to, and secured creditors of, Centaur may surrender their security and participate pro-rata with the unsecured cedents to, or unsecured creditors of Centaur in any distributions, by Special Dividend or otherwise of Centaur's assets made by the Rehabilitator pursuant to this Plan subsequent to the date of such surrender. Should any secured cedent to, or secured creditor of, Centaur discharge any obligations owed to it by Centaur by resort to the security pursuant to the express terms of the contract between it and Centaur or the express terms of a security trust

agreement, or like document, contemplating such security, any deficiency in the security as respects the obligations of Centaur to such cedent under such reinsurance contract or to such creditor shall be subject to this Plan, including but not limited to Part C hereof.

- 6.02 In those cases where a Special Deposit has been posted by Centaur prior to the date of the entry of an Order of Rehabilitation against Centaur, with the Director of Insurance of any state, or his equivalent in such state, which Special Deposit is not returned to Centaur in full, or net of any administrative expense chargeable against such deposit by a duly constituted Ancillary Receiver of Centaur in such state, creditors of Centaur who have, or may, participate in any distribution of such Special Deposit made by the Ancillary Receiver or Director of Insurance of such state, or his equivalent, in accordance with the provisions of the respective state's statutes requiring the creation and maintenance of such Special Deposits and the distribution therefrom, and whose obligations owed to it by Centaur are not fully discharged by such distribution, shall be entitled to file claims for any such deficiency, in accordance with Part C of this Plan.

Part G. Preferences Under This Plan

- 7.01 Any and all actions taken, or not taken, by the Rehabilitator under this Plan shall not be construed to be, nor be considered, a preference within the meaning of Section 204 of the Illinois Insurance Code (215 ILCS 5/204) notwithstanding the fact that any such action, or inaction, by the Rehabilitator under this Plan has, or may have, the effect that a creditor or creditors or a cedent or cedents or a policyholder or claimant against a policyholder of Centaur receives a greater percentage of his, its or their debt owed to them by Centaur than any other creditor or creditors or cedent or cedents or policyholder or claimant against a policyholder of Centaur in the same class.

Respectfully submitted,

Nathaniel S. Shapo,
Director of Insurance of the State of Illinois,
as Rehabilitator of Centaur Insurance Company

By: *Cathleen M. Travis*
Cathleen M. Travis, Special Deputy Receiver

D. Daniel Barr
Dale A. Coonrod
Counsel to the Receiver
Office of the Special Deputy Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, IL 60654
312-836-9500
Attorney Code # 16819

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION OF)
CENTAUR INSURANCE COMPANY) No. 87 CH 8615

ORDER APPROVING
SECOND REVISED PLAN OF REHABILITATION

This cause coming to be heard upon the petition of Nathaniel S. Shapo, Director of Insurance of the State of Illinois ("Rehabilitator" or "Director"), in his capacity as Rehabilitator of Centaur Insurance Company ("Centaur") to approve the Second Revised Plan of Rehabilitation for Centaur, due notice having been given, the Court having considered the objection(s), if any, to the Rehabilitator's proposed Second Revised Plan of Rehabilitation for Centaur, and the Court having been fully advised in the premises,

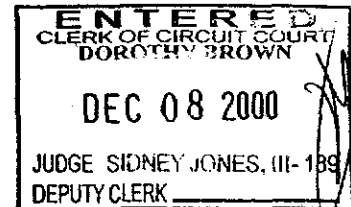
IT IS HEREBY ORDERED:

A. The Second Revised Plan of Rehabilitation for Centaur is entered and approved, pursuant to Section 192 of the Illinois Insurance Code, 215 ILCS 5/192.

ENTERED:

Judge Presiding

D. Daniel Barr
Dale A. Coonrod
Counsel to the Receiver
Office of the Special Deputy Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, IL 60654
312-836-9500
Attorney Code # 16819



IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION)
OF CENTAUR INSURANCE COMPANY) NO. 87 CH 8615

ORDER

THIS CAUSE HAVING COME BEFORE THE COURT upon the Petition of Michael T. McRaith, Director of Insurance of the State of Illinois (the "Rehabilitator"), in his capacity as Rehabilitator of Centaur Insurance Company ("Centaur"), for an order authorizing the Rehabilitator to declare and effectuate a first dividend on claims allowed, or to be allowed, for distribution at statutory priority levels 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e); due notice having been given; the Court having jurisdiction over the parties hereto and the subject matter hereof; the Court having reviewed the pleading filed herein and having heard the arguments of counsel for the Rehabilitator thereon, and the Court then being otherwise advised in the premises;

THE COURT FINDS:

- (i) The claim filing deadline for the submission of claims against Centaur or against a Centaur insured for purposes of participating in a distribution of Centaur's assets has passed.
- (ii) The Rehabilitator has represented that the evaluation of all direct (loss) claims has been completed. Further, that thirteen (13) claims have, to date, been recommended for allowance in the aggregate amount of \$2,099,922. All of these claim allowance recommendations have been approved by the orders of this Court in accordance with 215 ILCS 5/209.
- (iii) The Rehabilitator has represented that there remain twelve (12) claims, involving four(4) Centaur insureds, which have been recommended for disallowance with pending objections from the claimants. One additional claim has been recommended for allowance in an amount certain, but has not yet been approved by the Court due to pending objections filed by certain Centaur reinsurers. The potential exposure to Centaur in regards to the twelve pending disputed claim is approximately \$42.7 million.
- (iv) The Rehabilitator has represented that Centaur's total ultimate potential direct (loss) claim liability is approximately \$77.0 million. This figure is comprised of the allowed and court approved claims in the amount of \$2,099,922; the amount of the claim which has settled and is being recommended for allowance in the amount of \$31,950,000 pending court approval and; the amounts claimed by the four claimants with pending objections.

(v) The Rehabilitator's *Statement of Changes in Cash and Invested Assets* for the period April 1, 2006 through June 30, 2006, attached to the Rehabilitator's instant petition as Exhibit "E", reveals ending cash and invested assets as of June 30, 2006 in the amount of \$106,541,470. The statement further reveals that Centaur has additional assets on deposit with various state insurance departments in the amount of \$1,361,255.

(vi) Based upon an analysis of Centaur's current assets and potential liabilities, as set forth in the Rehabilitator's petition, the Rehabilitator has determined and represents that sufficient assets exist in the Centaur estate for payment of a one hundred percent (100%) first dividend on all claims presently allowed and approved by this Court, or to be allowed and approved in these proceedings, for distribution at statutory priority levels (d) and (e), 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e).

IT IS, THEREFORE, ORDERED:

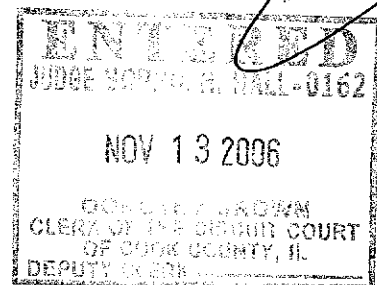
1. That the Rehabilitator's recommendation that a one hundred percent (100%) first dividend be declared on all claims allowed and approved by this Court for distribution at statutory priority levels 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e) is hereby approved;
2. That the Rehabilitator is hereby authorized to make a distribution, or distributions, of estate assets necessary to effectuate the first dividend on allowed and court approved claims; and
3. That the approved first dividend and distribution of estate assets shall apply to claims which have, to date, been allowed and approved in these proceedings as well as to claims which may in the future be allowed and approved at statutory levels 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e).

ENTERED:

Judge Presiding

D. Daniel Barr
Dale A. Coonrod
Counsel to the Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, Illinois 60654
(312) 836-9500
Attorney Code #16819

Page 2 of 2



IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

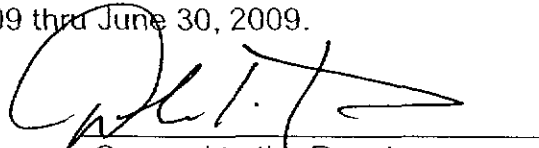
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2009 SEP 3 PM 1:28
CLERK OF THE CIRCUIT COURT
COUNTY DEPARTMENT
NO. 87 CH 8615

IN THE MATTER OF THE REHABILITATION OF)
CENTAUR INSURANCE COMPANY)

NOTICE OF FILING

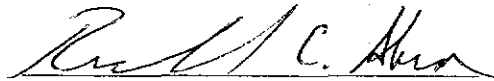
To: See Attached Service List

YOU ARE HEREBY NOTIFIED that on September 3, 2009, the Rehabilitator filed, pursuant to 215 ILCS 5/202(D)(1) (1998), with the Clerk of the Circuit Court of Cook County, Illinois, the attached Rehabilitator's REVISED Statement of Changes in Cash and Invested Assets for the period of April 1, 2009 thru June 30, 2009.

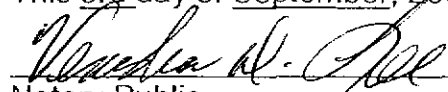

Counsel to the Receiver

CERTIFICATE OF SERVICE

I, Richard C. Abron, a non-attorney, on oath state, that I served a copy of this Notice and the Rehabilitator's Statement of Changes in Cash and Invested Assets to all persons on the attached service list by depositing the same in the U.S. Mail depository located at 222 Merchandise Mart Plaza, Chicago, Illinois, 60654 on September 3, 2009 with proper postage prepaid.



Subscribed and sworn to before me
This 3rd day of September, 2009


Notary Public

D. Daniel Barr
Dale A. Coonrod
Counsel to the Rehabilitator
222 Merchandise Mart Plaza, Suite 1450
Chicago, Illinois 60654
(312) 836-9500
Attorney Code #16819



SERVICE LIST

CENTAUR INSURANCE COMPANY

(No. 87 CH 08615)

ROBERT N. HERMES, ESQ.
BUTLER, RUBIN, NEWCOMER,
SALTARELLI & BOYD
THREE FIRST NATIONAL PLAZA
SUITE 1800
CHICAGO, ILLINOIS 60602

IRVING C. FABER, ESQ.
GRIPPO & ELDEN
111 SOUTH WACKER DRIVE
SUITE 5100
CHICAGO, ILLINOIS 60606

MARC J. CHALFEN, ESQ.
KELLY, OLSON, MICHOD,
DEHAAN & RICHTER, LLC
30 SOUTH WACKER DRIVE
SUITE 2300
CHICAGO, ILLINOIS 60606

MARY KATHERINE DONNELLY, ESQ
ALLSTATE INSURANCE COMPANY
51 WEST HIGGINS ROAD
SOUTH BARRINGTON, ILLINOIS 60010

BETTINA GETZ, ESQ
MAYER BROWN
71 SOUTH WACKER DRIVE
CHICAGO, ILLINOIS 60606

COURTESY COPY TO:

THE HONORABLE JUDGE SOPHIA H. HALL
ROOM 2301
THE RICHARD J. DALEY CENTER
50 WEST WASHINGTON STREET
CHICAGO, ILLINOIS 60602

CENTAUR INSURANCE COMPANY
REHABILITATION DATE SEPTEMBER 4, 1987
STATEMENT OF CHANGES IN CASH AND INVESTED ASSETS
APRIL 1 THROUGH JUNE 30, 2009 -REVISED

	CURRENT PERIOD	YEAR TO DATE
Beginning Cash & Invested Assets	\$ 70,314,198	\$ 70,150,404
Cash Receipts:		
Investment Income (Note 1)	\$ 195,488	\$ 450,845
Gain or Loss on Sale of Investment	-	282
Reinsurance Receipts (Note 2)	8,520,229	8,629,731
Tax Refunds (Note 3)	306,000	306,000
Total Cash Receipts	<u>\$ 9,021,717</u>	<u>\$ 9,386,858</u>
Cash Disbursements:		
Salaries	\$ 111,389	\$ 190,510
Professional Fees:		
Legal Fees & Expenses (Note 4)	63,933	117,956
Audit Fees (Note 5)	13,746	13,746
Consulting Fees (Note 6)	5,448	5,448
Compensation:		
Employee Benefits	39,608	71,317
Payroll and Other Taxes	6,392	13,270
Other Expenses of Administration of Company and its Property:		
Rent and Rent Items	8,906	30,189
Equipment Expenses	(129)	123
Travel and Travel Items	2,686	2,806
Postage and Freight	462	1,339
Office Expenses	1,798	3,228
Data Processing	430	1,878
Investment Expenses	4,001	7,741
Other Expenses	3,561	4,027
Total Cash Disbursements	<u>\$ 262,231</u>	<u>\$ 463,578</u>
Ending Cash & Invested Assets	<u>\$ 79,073,684</u>	<u>\$ 79,073,684</u>

CENTAUR INSURANCE COMPANY
REHABILITATION DATE SEPTEMBER 4, 1987
NOTES TO STATEMENT OF CHANGES IN CASH AND INVESTED ASSETS
APRIL 1 THROUGH JUNE 30, 2009 -REVISED

1. Investment Income

Investment Income includes \$346,049 income and an amortization adjustment of (\$150,561) for a net of \$195,488. The line item does not include \$315,576 accrued interest earned but not paid as of June 30, 2009.

2. Reinsurance Receipts

Reinsurance receipts totaling \$8,520,229 from various reinsurers.

3. Tax Refunds

Relates to a refund of tax payments made during the prior year totaling \$306,000.00.

4. Legal Fees & Expenses

Querrey & Harrow LTD	\$	44,330
Sanchez, Daniels & Hoffman LLP		14,272
Neal, Gerber & Eisenberg LLP		5,302
Schain, Burney, Ross & Citron LTD		29
Total Legal Fees & Expenses	\$	<u>63,933</u>

5. Audit Fees

Kerber, Eck & Braeckel LLP	\$	13,746
Total Audit Fees	\$	<u>13,746</u>

6. Consulting Fees

The Revere Group LTD	\$	2,852
Newmark Midwest Region LLC		2,200
Tenrox		396
Total Consulting Fees	\$	<u>5,448</u>

CENTAUR INSURANCE COMPANY
REHABILITATION DATE SEPTEMBER 4, 1987
STATEMENT OF CASH AND INVESTED ASSETS
JUNE 30, 2009-REVISED

	Market Value	Book Value
Unencumbered Cash and Invested Assets		
Cash	\$ 18,189	\$ 18,189
Money Market	4,148,594	4,148,594
U.S. Government Obligations	75,359,235	74,906,901
Total Unencumbered Cash and Invested Assets	<u>\$ 79,526,018</u>	<u>\$ 79,073,684</u>
Encumbered Cash and Invested Assets		
Statutory Deposit (1)		\$ 441,002
Total Encumbered Cash and Invested Assets		<u>\$ 441,002</u>
Total Cash and Invested Assets		<u>\$ 79,514,686</u>

1. Encumbered Cash and Invested Assets

Represents funds which are under the direct control of state insurance departments or related entities.

Missouri		\$ 441,002
Total		<u>\$ 441,002</u>

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

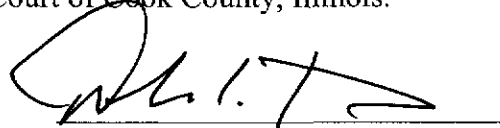
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IN THE MATTER OF THE REHABILITATION)
OF CENTAUR INSURANCE COMPANY) NO. 87 CH 8615

NOTICE OF FILING

To: See Attached Service List

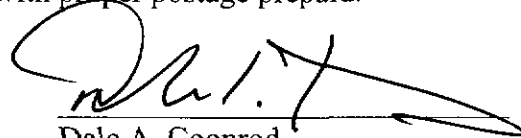
PLEASE TAKE NOTICE that on the 8th day of September, 2009, Michael T. McRaith, Director of Insurance of the State of Illinois, as Rehabilitator of Centaur Insurance Company, filed the attached Status Report setting forth the current status of the above-captioned rehabilitation proceeding with the Clerk of the Circuit Court of Cook County, Illinois.



Dale A. Coonrod
Counsel to the Receiver

CERTIFICATE OF SERVICE

I, Dale A. Coonrod, an attorney, hereby certify that I caused a true and correct copy of this Notice and a copy of the attached Status Report to be served upon all counsel of record, by depositing the same in the U.S. Mail at 222 Merchandise Mart Plaza, Chicago, Illinois 60654 at or before 4:30 p.m. on the 8th day of September, 2009, with proper postage prepaid.



Dale A. Coonrod

Dale A. Coonrod
Counsel to the Receiver
222 Merchandise Mart Plaza
Suite 1450
Chicago, Illinois 60654
(312) 836-9500
Attorney Code #16819

SERVICE LIST

CENTAUR INSURANCE COMPANY

(No. 87 CH 08615)

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ROOM 2301
THE RICHARD J. DALEY CENTER
50 WEST WASHINGTON STREET
CHICAGO, ILLINOIS 60602

Claypool, Marybeth

From: Claypool, Marybeth
Sent: Wednesday, September 09, 2009 7:58 AM
To: OSD Sr. Mgmt; Lee, Venesha
Cc: Coonrod, Dale
Subject: Centaur's Status Report
Attachments: Status Report.TIF

Attached please find Centaur's Status report as it was filed yesterday with the court.

*Marybeth S. Claypool
HR Supervisor/Administrative Support Specialist
Office of the Special Deputy Receiver
222 Merchandise Mart Plaza, Suite 1450
Chicago, IL 60654*

312.836.9515
312.836.1944 fax

It is recommended that you NOT save this email, due to the fact that it contains attachments that may be quite large. If you were to ever need to review these attachments again, I can always send you another copy. Thank you for your cooperation.