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At IAS Part 6 of the Supreme Court of the State of New York, County of Nassau at the Courthouse, 100 Supreme Court Drive, Mineola, New York on the day of

NOV 13 2001, 2001.

P R E S E N T:

HON. UTE WOLFF LALLY,

JUSTICE.

----- X

In the Matter of

Index No. 2960/86

the Liquidation of

ORDER

AMERICAN FIDELITY FIRE INSURANCE COMPANY and AMERICAN CONSUMER INSURANCE COMPANY

----- X

UPON the petition of RICHARD S. KARPIN, Assistant Special Deputy Superintendent and Agent of GREGORY V. SERIO, Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of American Fidelity Fire Insurance Company ("AFF") and American Consumer Insurance Company ("ACI), duly verified the 9<sup>th</sup> day of July, 2001, for an order:

- Confirming and approving the Liquidator's Report on the Status of the Liquidation of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Report");
- Ratifying and approving the transactions described in the Report;
- Providing that only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;

- Providing that only claims for actual losses and loss adjustment expenses arising under direct policies issued by AFF and ACI which are reported through December 31, 2001 will be considered for allowance;
- Providing that all claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 be barred and discharged;
- Authorizing the Liquidator to make a pro rata distribution of assets to the general creditors of AFF and ACI for allowed claims to the extent that sufficient funds are available;
- Providing for such other relief as is just.

And upon the order of this Court entered August 6, 2001 directing the form and method of notice of filing of the petition on AFF's and ACI's creditors, the affidavits of service of the Notice to Creditors of Jeffrey Naimoli sworn to October 17, 2001 and Robert O'Loughlin sworn October 17, 2001, and without any opposition filed by any creditors of AFF and ACI, and upon due consideration;

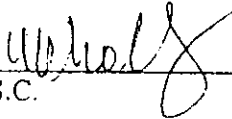
IT IS ORDERED THAT:

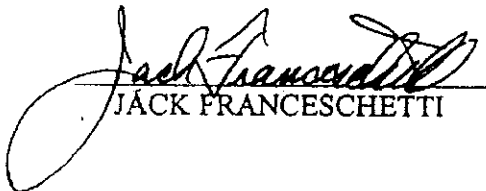
- The Liquidator's Report on the Status of the Liquidation of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Report") is confirmed and approved;
- The transactions described in the Report are ratified and approved;
- Only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;
- Only claims for actual losses and loss adjustment expenses arising under direct policies issued by AFF and ACI which are reported through

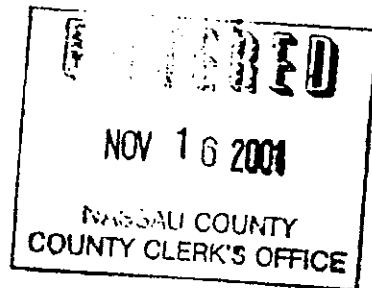
December 31, 2001 will be considered for allowance;

- All claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 will be barred and discharged; and
- The Liquidator is authorized to make a pro rata distribution of assets to the general creditors of AFF and ACI for allowed claims to the extent that sufficient funds are available;

ENTER

  
\_\_\_\_\_  
J.S.C.

  
\_\_\_\_\_  
JACK FRANCESCHETTI



SUPREME COURT OF THE STATE OF NEW YORK COUNTY OF NASSAU

In the Matter of

The Liquidation of

AMERICAN FIDELITY FIRE INSURANCE COMPANY AND  
AMERICAN FIDELITY FIRE INSURANCE COMPANY

ORDER

Steven R. Harris, Esq.

Attorney for the Petitioner

Office and Post Office Address, Telephone

123 William Street

New York, NY 10038-3889

(212) 341-6700

ATTORNEY CERTIFICATION

The undersigned, an attorney admitted to practice in the courts of New York State, certifies that upon information, belief and reasonable inquiry the contentions in the above referenced document(s) are not frivolous.

Dated: October 17, 2001

New York, New York

*Jack Franceschetti*  
JACK FRANCESCHETTI

Sir: Please take notice

UPON RECEIPT HEREOF

that the within is a true copy of the within named court or

IN NOTICE OF SETTLEMENT

thereunder

presented to the court for its review

10/17/01

2001

of which the within is a true copy will be  
one of the judges of the within named court, at

2001 at N.Y.

Yours, etc.

Steven R. Harris, Esq.

Attorneys for

Office and Post Office Address, Telephone

123 William Street

New York, NY 10038-3889

(212) 341-6700

10

Attorney(s) for

MASSACHUSETTS  
COUNTY CLERK OF NASSAU COUNTY  
NOV 16 2001  
FILED

At IAS Part of the Supreme Court of the  
State of New York, County of Nassau  
at the Courthouse, 100 Supreme Court  
Drive, Mineola, New York on the  
day of , 2001.

P R E S E N T:

HON. UTE WOLFF LALLY,

JUSTICE.

----- X

In the Matter of

Index No. 2960/86

the Liquidation of

**AMENDED  
ORDER TO SHOW CAUSE**

AMERICAN FIDELITY FIRE INSURANCE  
COMPANY and AMERICAN CONSUMER  
INSURANCE COMPANY

----- X

UPON the annexed petition of RICHARD S. KARPIN, Assistant Special Deputy Superintendent and Agent of GREGORY V. SERIO, Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of American Fidelity Fire Insurance Company ("AFF") and American Consumer Insurance Company ("ACI"), duly verified the 9<sup>th</sup> day of July, 2001 for an order in accordance with article seventy four of the Insurance Law that:

- confirms and approves the Liquidator's Report on the Status of the Liquidation of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Report");
- ratifies and approves the transactions described in the Report;

- provides that only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;
- provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by AFF and ACI which are reported through December 31, 2001 will be considered for allowance;
- provides that all claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 be barred and discharged;
- authorizes the Liquidator to make a pro rata distribution of assets to the general creditors of AFF and ACI for allowed claims to the extent that sufficient funds are available;
- provides for such other relief as is just.

LET all policyholders, guaranty associations, reinsureds, creditors, reinsurers and other interested parties or their attorneys show cause before this Court at IAS Part 17, 100 Supreme Court Drive, Mineola, New York 11501, on the 15<sup>th</sup> day of October, 2001 at 9:30 a.m. or as soon thereafter as counsel may be heard, why an order granting the relief sought in the petition should not be granted;

AND, sufficient cause having been alleged therefor, let service of notice of this order to show cause be made on the more than 5,000 policyholders, guaranty associations, reinsureds, creditors, reinsurers, and interested parties by mailing a notice in the form annexed hereto as exhibit 1, at least 45 days in advance of the above-scheduled return date; and it is further

ORDERED, that the form and method of notice specified herein is the best notice practicable and shall constitute due and sufficient notice of this Order to Show Cause and

the scheduled return date to all persons and entities entitled to receive such notice; and it is further

ORDERED, that the approved form of notice shall direct that all answering papers be served on the Liquidator at least 15 business days prior to the above-scheduled return date; and it is further

ORDERED, that no person or entity shall be entitled to object to the relief sought in the Petition or otherwise be heard, except pursuant to the service of answering papers as set forth herein; and it is further

ORDERED, any person or entity that fails to serve answering papers as provided herein shall be deemed to have waived any objections to the relief sought in the Petition and shall be barred from raising objections in this or any other proceeding.

E N T E R

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J.S.C.

  
JOSEPH A. DEMAURO

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NASSAU

-----X

In the Matter of  
  
the Liquidation of

Index No.: 2960/86

**AFFIRMATION**

AMERICAN FIDELITY FIRE INSURANCE  
COMPANY and AMERICAN CONSUMER  
INSURANCE COMPANY

-----X

JOSEPH A. DEMAURO, an attorney duly admitted to practice law before the Courts of the State of New York hereby affirms the following to be true under penalty of perjury:

1. I am an attorney with the New York State Insurance Department-Liquidation Bureau, the entity which carries out the duties of the Superintendent of Insurance of the State of New York as Liquidator of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Liquidator"). I make this affirmation upon information and belief, the source of which is the file maintained in this office.

2. I make this affirmation in support of the within application which seeks to amend the notice provision in a prior Order to Show Cause issued by this court in connection with a petition to approve the Liquidator's Report on the status of the Liquidation of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Report").

3. On July 16, 2001, this court issued an Order to Show Cause setting down a hearing date of October 15, 2001 on the Liquidator's Petition to approve the Report and

other enumerated relief. (A copy of the Order to Show Cause, together with the supporting petition and exhibits are annexed hereto as Exhibit 1.)

4. The Order to Show Cause further provided that notice be mailed to the more than 5,000 policyholders, guaranty associations, reinsureds, creditors, reinsurers and other interested parties at least 75 days in advance of the above scheduled return date, or August 1, 2001.

5. I am advised that the Liquidator has mailed out approximately 4,260 notices of the hearing date of October 15, 2001 as provided in the Order to Show Cause. However, approximately 1,000 additional notices have yet to be mailed.

6. In order to permit the mailing of the approximately 1,000 additional notices, it is respectfully requested that the provision in the prior Order to Show Cause requiring 75 days advance notice of the scheduled hearing date of October 15, 2001 be changed to read 45 days in accordance with the proposed Amended Order to Show Cause annexed hereto.

7. This single change to the notice provision of the prior Order to Show Cause will still allow 45 days advance notice of the hearing date which, it is respectfully submitted, is good and sufficient notice of the hearing while permitting the Liquidator sufficient time to mail the approximately 1,000 additional notices.

8. No previous application has been made for the relief herein requested to this or any Court.

WHEREFORE, it is respectfully requested that the accompanying Amended  
Order to Show Cause be granted.

Dated: New York, New York  
August 2, 2001

  
JOSEPH A. DEMAURO



At IAS Part of the Supreme Court of the  
State of New York, County of Nassau  
at the Courthouse, 100 Supreme Court  
Drive, Mineola, New York on the  
day of , 2001.

P R E S E N T:

HON. UTE WOLFF LALLY.

JUSTICE.

----- X

In the Matter of

Index No. 2960/86

the Liquidation of

**ORDER TO SHOW CAUSE**

AMERICAN FIDELITY FIRE INSURANCE  
COMPANY and AMERICAN CONSUMER  
INSURANCE COMPANY

----- X

UPON the annexed petition of RICHARD S. KARPIN, Assistant Special Deputy  
Superintendent and Agent of GREGORY V. SERIO, Superintendent of Insurance of the  
State of New York as Liquidator (the "Liquidator") of American Fidelity Fire Insurance  
Company ("AFF") and American Consumer Insurance Company ("ACI"), duly verified the  
*9<sup>th</sup>* day of *July*, 2001 for an order in accordance with article seventy four of the  
Insurance Law that:

- confirms and approves the Liquidator's Report on the Status of the Liquidation of American Fidelity Fire Insurance Company and American Consumer Insurance Company (the "Report");
- ratifies and approves the transactions described in the Report;

- provides that only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;
- provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by AFF and ACI which are reported through December 31, 2001 will be considered for allowance;
- provides that all claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 be barred and discharged;
- authorizes the Liquidator to make a pro rata distribution of assets to the general creditors of AFF and ACI for allowed claims to the extent that sufficient funds are available;
- provides for such other relief as is just.

LET all policyholders, guaranty associations, reinsureds, creditors, reinsurers and other interested parties or their attorneys show cause before this Court at IAS Part \_\_\_\_, 100 Supreme Court Drive, Mineola, New York 11501, on the \_\_\_\_ day of \_\_\_\_, 2001 at 9:30 a.m. or as soon thereafter as counsel may be heard, why an order granting the relief sought in the petition should not be granted;

AND, sufficient cause having been alleged therefor, let service of notice of this order to show cause be made on the more than 5,000 policyholders, guaranty associations, reinsureds, creditors, reinsurers, and interested parties by mailing a notice in the form annexed hereto as exhibit 1, at least 75 days in advance of the above-scheduled return date; and it is further

ORDERED, that the form and method of notice specified herein is the best notice practicable and shall constitute due and sufficient notice of this Order to Show Cause and

the scheduled return date to all persons and entities entitled to receive such notice; and it is further

ORDERED, that the approved form of notice shall direct that all answering papers be served on the Liquidator at least 15 business days prior to the above-scheduled return date; and it is further

ORDERED, that no person or entity shall be entitled to object to the relief sought in the Petition or otherwise be heard, except pursuant to the service of answering papers as set forth herein; and it is further

ORDERED, any person or entity that fails to serve answering papers as provided herein shall be deemed to have waived any objections to the relief sought in the Petition and shall be barred from raising objections in this or any other proceeding.

E N T E R

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J.S.C.

  
JOSEPH A. DEMAURO

## **EXHIBIT 1**

**IN THE MATTER OF THE LIQUIDATION OF  
AMERICAN FIDELITY FIRE INSURANCE COMPANY  
AND AMERICAN CONSUMER INSURANCE COMPANY  
Supreme Court County of Nassau  
Index No.: 2960/86**

TO: \_\_\_\_\_

**NOTICE**

The Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of American Fidelity Fire Insurance Company ("AFF") and American Consumer Insurance Company ("ACI") hereby gives you notice that he has presented the Supreme Court of the State of New York a petition for confirmation and approval ("Petition") of his report on the status of the AFF/ACI liquidation proceedings (the "Report") and the proposed December 31, 2001 claims cut-off date. A hearing is scheduled on the Petition on \_\_\_\_\_, 2001 at 9:30 A.M. at the Courthouse, 100 Supreme Court Drive, Mineola, New York, Courtroom \_\_\_\_\_. If you wish to object to the Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Liquidator and Clerk of the Court, at least fifteen (15) business days prior to the hearing. Service on the Liquidator shall be made by first class mail at the following address:

**Superintendent of Insurance of the State of New York as  
Liquidator of American Fidelity Fire Insurance Company and  
American Consumer Insurance Company  
123 William Street  
New York, New York 10038-3889  
Attention: Steven R. Harris, Legal Department**

The Petition and Report are available for inspection at the above address. The Report is summarized below. In the event of any discrepancy between the summary herein and the documents, the documents control.

**The Report**

**AFF**

As of September 30, 2000, allowed claims in the AFF proceeding totaled \$51,112,612. There were 83 open reinsurance claims and 32 open direct claims as of that date.

As of September 30, 2000, the Liquidator collected assets in the amount of \$26,509,814 against administrative expenses of \$17,891,670 and AFF's assets were \$23,426,293 and its liabilities totaled \$69,293,474.

### ACI

As of September 30, 2000, allowed claims in the ACI proceeding totaled \$18,980,519. There were 16 open reinsurance claims and 31 open direct claims as of that date.

As of September 30, 2000, the Liquidator collected assets in the amount of \$8,842,733 against administrative expenses of \$10,242,958 and ACI's assets were \$13,850,733 and its liabilities totaled \$27,803,960.

### Bar Date

In order to make a distribution of assets and wind-up the AFF/ACI liquidation, reinsurance claims asserted against the companies, which continue to develop despite the passage of 15 years, must be finally determined. The Liquidator proposes to fix all reinsurance claims in the amount of paid and outstanding losses reported through December 31, 2001. No losses reported after December 31, 2001 will be considered in this proceeding. The proposed bar date will also bar policyholders and other creditors who currently have the right to present claims from presenting any claims after December 31, 2001.

The bar date will enable the Liquidator to finalize AFF/ACI's liabilities, pay dividends to the creditors and wind-up the AFF/ACI liquidation.

Requests for further information should be directed to the New York Liquidation Bureau, Creditor Claims Department, at (212) 341-6816.

GREGORY V. SERIO  
Superintendent of Insurance of the State of  
New York as Liquidator of American  
Fidelity Fire Insurance and American  
Consumer Insurance Company

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NASSAU

-----X

In The Matter of  
  
the Liquidation of

Index No. 2960/86

**PETITION**

AMERICAN FIDELITY FIRE INSURANCE COMPANY  
and AMERICAN CONSUMER INSURANCE COMPANY

-----X

RICHARD S. KARPIN, Assistant Special Deputy Superintendent of Insurance and Agent of GREGORY V. SERIO, Superintendent of Insurance of the State of New York as Liquidator (the "Liquidator") of American Fidelity Fire Insurance Company ("AFF") and American Consumer Insurance Company ("ACI") (AFF and ACI collectively referred to as the "Companies") hereby petitions this court, pursuant to Article 74 of the New York Insurance Law, for an order (the "Order") confirming and approving the Liquidator's Report on the Status of the Liquidation of AFF/ACI and the transactions set forth therein, authorizing the Liquidator to establish a bar date for the development of claims and authorizing the distribution of assets to AFF/ACI's general creditors to the extent that sufficient funds are available.

1. By order (the "Liquidation Order") entered March 26, 1986, AFF and ACI, New York-domiciled casualty insurers, were adjudged insolvent and placed into liquidation. A copy of the liquidation order is annexed hereto as Exhibit "A".

2. The Liquidation Order appointed then Superintendent of Insurance James P. Corcoran and his successors in office to act as Liquidators.

3. The Liquidation Order charged the Liquidator with, among other things, responsibility for:

- a. taking possession of the Companies' property and assets;
- b. providing notice to the Companies' creditors, as disclosed by the Companies' books and records, to present proofs of claim;
- c. marshalling the Companies' assets; and
- d. adjudicating the claims presented and otherwise liquidating the Companies' business pursuant to Article 74 of the New York Insurance Law.

4. Annexed hereto as Exhibit "B" is the Liquidator's Report on the Status of the Liquidation of AFF and ACI (the "Report"). The Report sets forth the results, to date, of the Liquidator's efforts to identify creditors, adjudicate claims and collect assets.

5. As of September 30, 2000, the Liquidator adjudicated 12,342 claims against AFF. As of that date, there remained eighty three (83) open reinsurance claims, and thirty two (32) open direct claims. As of September 30, 2000, the Liquidator adjudicated 8,535 claims against ACI. As of that date, there remained sixteen (16) open reinsurance claims and thirty one (31) open direct claims.

6. As of September 30, 2000, the Liquidator collected assets in the amount of \$26,509,814 for AFF and \$8,842,733 for ACI.

7. As of September 30, 2000, AFF's assets totaled \$23,426,293 and its liabilities totaled \$69,293,474, leaving AFF insolvent in the amount of \$45,867,181. As of that date, ACI's assets totaled \$13,850,733 and its liabilities totaled \$27,803,960 leaving ACI insolvent in the amount of \$13,953,227.

8. For the reasons stated below, the Liquidator has determined that the best interests of the Companies will be served by barring claim development as of December 31, 2001.

9. Approval of this bar date will enable the Liquidator to recommend the net amount due to the Companies' reinsurance creditors for allowance and thereafter to make a pro rata dividend distribution of assets to the Companies' creditors to the extent that sufficient assets are available.

10. As of September 30, 2000, there were one hundred fifteen (115) pending claims in the AFF proceeding and forty seven (47) pending claims in the ACI proceeding. Of these claims, eighty three (83) fall into the category of reinsurance for AFF and sixteen (16) are reinsurance claims in ACI.

11. As of September 30, 2000, reinsurance creditors have reported losses and expenses paid in the amount of \$2,483,534 against AFF and \$4,060,538 against ACI.

12. The bar date is necessary in order to quantify the Companies' liabilities and distribute the Companies' assets. Without a bar date, reinsurance claims against the Companies will continue to develop for the foreseeable future, making it impossible to complete the liquidation.

13. Approval of the bar date will have the beneficial effect of dramatically speeding up the distribution of assets. It will enable the Liquidator to quantify and finalize the Companies' liabilities. The final determination of the amount due reinsurance creditors will enable the Liquidator to pay a dividend to those creditors and to wind up the proceeding. At this late date, the cut-off of further development will not have a material impact on the reinsurance creditors' claims. The bar date will also allow the Liquidator for finalize claims

arising under direct policies issued by the Companies by barring the presentation of further claims under these policies. Although it is increasingly unlikely that additional claims will be reported on these policies, the possibility that additional policy claims may be reported does not justify keeping the proceeding open any longer.

14. For the reasons set forth above, I respectfully request that the Court grant the annexed Order to Show Cause, which provides for service of notice on over 5,000 interested parties and requests that the hearing on the petition be made returnable in 75 days to afford the Liquidator sufficient time to issue the required notices.

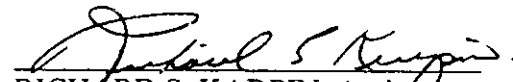
15. The Liquidator further requests that the court, following the hearing, issue an order that:

- a. confirms and approves the Report;
- b. ratifies and approves the transactions described in the Report;
- c. provides that only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;
- d. provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by the Companies reported through December 31, 2001 will be considered for allowance;
- e. provides that all claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 be barred and discharged;
- f. authorizes the Liquidator to make a pro rata distribution of assets to the Companies' general creditors for allowed claims to the extent that sufficient funds are available;
- g. provides for such other relief as is just.

16. No previous application has been made for the relief requested herein.

WHEREFORE, Petitioner respectfully requests that the accompanying Order to Show Cause be granted and that a hearing be scheduled sufficiently far in the future for the provision of notice as provided for therein and that, upon the hearing, the court issue an order granting the relief sought in this petition.

Dated: New York, New York  
July 9, 2001


  
RICHARD S. KARPIN, Assistant  
Special Deputy Superintendent and  
Agent of Gregory V. Serio,  
Superintendent of Insurance of the  
State of New York as Liquidator of  
American Fidelity Fire Insurance  
Company and American Consumer  
Insurance Company

STATE OF NEW YORK )  
 ) ss.:  
COUNTY OF NEW YORK)

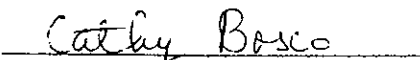
RICHARD S. KARPIN, being duly sworn, deposes and says:

That he has read the foregoing Verified Petition and knows the contents thereof, and that the same is true to his own knowledge except as to the matters therein stated to be alleged upon information and belief, and as to those matters he believes it to be true; that the reason this petition is verified by this deponent rather than by the Superintendent of Insurance is that deponent is the duly appointed Assistant Special Deputy Superintendent of Insurance to take possession of the property of and liquidate the business of American Fidelity Fire Insurance Company and American Consumer Insurance Company and as such is acquainted with the facts alleged therein.

Deponent further says that the sources of his information and the grounds of his belief as to the matters stated in said Verified Petition to be alleged upon information and belief are records, books and papers of said company in the possession of the Liquidator and communications made to deponent by employees and attorneys of the Liquidator.

  
RICHARD S. KARPIN

Sworn to before me this  
9<sup>th</sup> day of July, 2001

  
Notary Public

**CATHY BOSCO**  
Notary Public, State Of New York  
No. 01BO6019788  
Qualified In Kings County  
Commission Expires 02/16/2003



At the 127 Part 25 of the Supreme  
Court of the State of New York,  
held in and for the County of  
Nassau, at the Courthouse, 100  
Supreme Court Drive, Mineola,  
New York, on the 26<sup>th</sup> day of  
October 1936.

P R E S E N T :

HON. KENNETH D. MOLLOY

JUSTICE.

-----x

In the Matter of  
the Application of

Index No. 2960/1936  
ORDER OF LIQUIDATION

JAMES P. CORCORAN, as Superintendent of  
Insurance of the State of New York, for  
an order to take possession of the  
property and liquidate the business and  
affairs of

AMERICAN FIDELITY FIRE INSURANCE COMPANY  
and AMERICAN CONSUMER INSURANCE COMPANY

-----x

Petitioner, JAMES P. CORCORAN, Superintendent of Insur-  
ance of the State of New York (the "Superintendent"), having  
moved this Court by Order to Show Cause for an Order pursuant to  
Section 7417 of the Insurance Law to take possession of and  
liquidate the business and affairs of AMERICAN FIDELITY FIRE  
INSURANCE COMPANY and AMERICAN CONSUMER INSURANCE COMPANY,  
("AFF" and "ACI").

NOW, upon reading and filing the Order to Show Cause signed February 24, 1936 (per KENNETH D. McILROY, J.) the Petition of JAMES P. CORCORAN, the Superintendent, sworn to the 20th day of February, 1936 (the "Petition"), and the exhibits annexed thereto, with proof of due service thereof, in support of the motion; and it appearing to my satisfaction (i) that AFF was incorporated under the laws of the State of New York on December 1, 1923 and licensed as a stock casualty insurer in the State of New York on December 14, 1923; that ACI was incorporated under the laws of the State of New York on October 2, 1946 and licensed as a stock casualty insurer in the State of New York on April 1, 1950; (ii) that they are amenable to the Insurance Law of the State of New York and particularly to Article 74 thereof; (iii) that it is impossible to reinsure in whole or in part the existing policy obligations of AFF and ACI pursuant to Section 7405 (c) of the Insurance Law; (iv) that the corporate charters as well as any rights and interest in licenses or certificates of authority to write insurance be vested in the Superintendent of Insurance; (v) that AFF and ACI are insolvent, that they are in such condition that their further transaction of business would be hazardous to their policyholders, creditors or to the public, that it is to their best interests that this application should be granted and AFF and ACI liquidated under and pursuant to Article 74 of the Insurance Law; and petitioner having appeared by Hon. ROBERT ABRAMS, Attorney General of the State of New York in support of

of said motion and AFF and ACI having appeared by Esqs. in opposition thereto, and after oral argument and hearing before this Court and after due deliberation having been made thereon and the duly recorded decision of this Court; (or) and no one appearing in opposition thereto;

NOW, on motion of Hon. ROBERT ABRAMS, Attorney General of the State of New York, it is

ORDERED AND ADJUDGED, that the petition of the Superintendent is granted; and it is further

ORDERED AND ADJUDGED, that AFF and ACI are insolvent; and it is further

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent, or any successor in office as Superintendent, is hereby appointed Liquidator of AFF and ACI, and is hereby authorized and directed forthwith to take possession of the property and liquidate the business and affairs of AFF and ACI pursuant to Article 74 of the Insurance Law and to deal with the property and business affairs of AFF and ACI in his name as Superintendent, and is vested with title to all of the property, licenses, corporate charters, contracts and rights of action of AFF and ACI pursuant to Section 7405 of the Insurance Law; and it is further

ORDERED AND ADJUDGED, that the notice of the aforesaid be given by publication in the national editions of the New York

Times and The Journal of Commerce, commencing on or about the 31<sup>st</sup> day of March, 1936, and thereafter once a week for two successive weeks; and it is further

ORDERED AND ADJUDGED, that notice of liquidation be given by publication of such notice in one newspaper in Washington, D.C. and San Juan, Puerto Rico, and in all the Capital Cities of the States in the United States except Colorado, Hawaii, Nebraska and New Hampshire and in the newspapers in other cities to be selected by the Liquidator in his discretion, by publication of such notice once a week for two successive weeks within the period allowed for the filing of claims; and it is further

ORDERED AND ADJUDGED, that the notice prescribed is sufficient notice to all persons interested in the assets of A and ACI; and it is further

ORDERED AND ADJUDGED, that notice of the making and entry of this order be given by the Superintendent, as Liquidator, to the extent it can be reasonably ascertained, by mail to all policyholders, creditors and all other persons having any unsatisfied claims or demands of any character against the corporations in the possession of the Superintendent, as Liquidator at the last known address of such persons as disclosed by said records and in such other manner and form as he in his discretion may find desirable, demanding that all persons indebted to A and

ISC.  
K. III

and ACI render accounts of their indebtedness and pay any sums due to the Superintendent, as Liquidator; and giving notice to present proofs of claim with the Superintendent, as Liquidator, at a place specified in such notice within twelve months from the date of the entry of this Order ~~and no later than the~~ <sup>unless Further Extended</sup> ~~by order of this Court~~ and that such notice may contain such other rules, regulations and information as the Superintendent, as Liquidator, may deem necessary for the purpose of this proceeding in fixing and determining all lawful and valid claims and demands against the corporations; and it is further

ORDERED AND ADJUDGED, that in the event one or more Insurance Departments and/or Guaranty Funds or Associations of foreign States that have adopted the Uniform Insurers Liquidation Act in which respondent was licensed to do business, desire to give formal notice to policyholders and creditors in their respective states to present proofs of claim to the respective State Insurance Department or Guaranty Fund or Association, the Superintendent, as Liquidator, may permit the giving of such notice as he in his discretion may find desirable; and it is further

ORDERED AND ADJUDGED, that all outstanding policy and other insurance obligations as well as surety bonds and obligations thereunder of AFF and ACI terminate and all liability thereunder cease and be fixed as of 12:01 A.M. Eastern Standard time or Daylight Savings Time, if such be the case, 45 days after

the signing of this Order, or prior thereto upon the procurement by policyholders of new insurance covering their risks insured thereby, as well as procurement by principals of new surety bonds covering the obligations thereunder and notice thereof shall be given as hereinabove set forth; and it is further

ORDERED AND ADJUDGED, that all other subsisting contracts, leases, tax sharing agreements, individual labor contracts and other obligations of AFF and ACI and all liability thereunder cease and be fixed as of the date of the entry of this Order; and it is further

ORDERED AND ADJUDGED, that the Superintendent, as Liquidator, is relieved of the provisions set forth in Section 7405 (c) of the Insurance Law, to wit: to reinsure in whole or in part the policy obligations of AFF and ACI; and it is further

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent or any successor in office as Superintendent, is hereby authorized, permitted and allowed to sell, assign and transfer any and all stocks, bonds and securities in his possession or which may hereafter come into his possession belonging to AFF and ACI, in liquidation, at market price or better, or ~~when there is no market price, at the best price obtainable, at private sale and at such times and upon such terms and conditions as in his discretion he deems for the best interests of the creditors of AFF and ACI, in liquidation, and that he be authorized, permitted and allowed to take such~~

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~~execute such agreements and other papers as may be necessary to effect and carry out such sales, transfers and assignments, and it is further~~

ORDERED AND ADJUDGED, that JAMES P. CORCORAN, the Superintendent or any successor in office as Superintendent, is hereby authorized, permitted and allowed to sell, assign and transfer the Corporate Charters of AFF and ACI and any and all insurance licenses or certificates of authority to write insurance in such a method and manner as is to be approved by the Court; and it is further

ORDERED AND ADJUDGED, that AFF and ACI, their officers, directors, trustees, policyholders, agents and employees and all other persons having any property or records belonging to AFF or ACI, are hereby directed to assign, transfer and deliver to the Superintendent, as Liquidator, all of such property in whomsoever the same may be, and that any persons, firms or corporations having any books, papers or records relating to the business of said corporations shall preserve the same and submit them to the Superintendent, as Liquidator, for examination at all reasonable times; and it is further

ORDERED AND ADJUDGED, that the officers, directors, trustees, policyholders, agents and employees of AFF and ACI, and all other persons are enjoined and restrained from the further transaction of business or from dealing with or disposing of the

property or assets of said corporations, or doing or permitting to be done any act or thing which might waste its property or assets or allow or suffer the obtaining of preferences, judgments, attachments or other liens, or the making of any levy against said corporations, or its estates while in the possession and control of the Superintendent, as Liquidator; and it is further

ORDERED AND ADJUDGED, that the officers, directors, trustees, policyholders, agents and employees of AFF and ACI, and all other persons, including but not limited to claimants, plaintiffs and petitioners who have claims against AFF and ACI, are permanently enjoined and restrained from bringing or further prosecuting any action at law, suit in equity, special or other proceeding against the said corporations or its estates, or the Superintendent and his successors in office, as Liquidator thereof, or from making or executing any levy upon the property or estate of said corporations, or from in any way interfering with the Superintendent, or any successor in office, in his possession or in the discharge of his duties as Liquidator thereof, or in the liquidation of the business of said corporations; and it is further

ORDERED AND ADJUDGED, that all parties to law suits in this State and all other states and territories of the United States, are hereby enjoined and restrained from proceeding with any pre-trial conference, trial, application for judgment, or

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proceeding on judgments or settlements in such actions at law, suits in equity, special or other proceedings in which AFF and ACI is obligated to defend a party insured or any other person it is legally obligated to defend by virtue of its insurance contract for a period of <sup>90</sup> ~~100~~ days from the date hereof; and it is further

ORDERED AND ADJUDGED, that those persons who may have first party or New York Comprehensive Automobile Insurance Regulations Act (No-Fault) policyholder loss claims against AFF and ACI coming within the purview of Article 76 of the Insurance Law are enjoined for 90 days from the date hereof from presenting a filing such formal claims in this proceeding pursuant to Section 7432 of the Insurance Law; and it is further

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~~ORDERED AND ADJUDGED, that all parties to Administrative Hearings before the Workers' Compensation Board coming within the purview of Article 76 of the Insurance Law (Property and Casualty Security Fund) and Section 107 of the Workers' Compensation Law (Stock Workers' Compensation Security Fund) are hereby enjoined and restrained from proceeding with conferences, hearings, applications for judgments or proceedings on said judgments or other proceedings in which AFF and ACI are legally obligated to defend as insured employer or any other person by virtue of their Workers' Compensation Contract for a period of 90 days from the date hereof; and it is further~~

~~ORDERED AND ADJUDGED, that the venue of these proceed-~~

~~ings be transferred to the County of New York and all papers  
filed herein be filed with the Clerk of New York County, and it  
is ORDERED~~

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~~ORDERED AND ADJUDGED, that all further papers in this  
proceeding shall bear the caption and be entitled:~~

~~"SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK~~

~~In the Matter of~~

~~the Liquidation of~~

~~AMERICAN FIDELITY FIRE INSURANCE COMPANY  
AND AMERICAN CONSUMER INSURANCE COMPANY"~~

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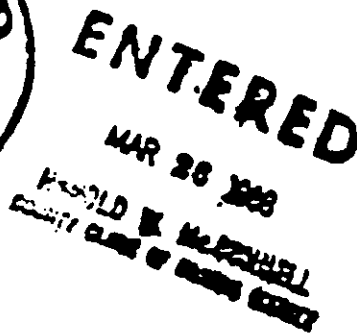
~~in place and stead of the caption as heretofore used, and it is  
further~~

ORDERED AND ADJUDGED, that the Superintendent, as  
Liquidator, may at any time make further application for such  
further and different relief as he sees fit.

ENTER

*Kenneth D. Weller*

J. S. C.





**REPORT ON THE STATUS OF  
THE LIQUIDATION OF**

**AMERICAN FIDELITY FIRE INSURANCE COMPANY  
AND  
AMERICAN CONSUMER INSURANCE COMPANY  
AND  
PROPOSAL FOR ESTABLISHMENT OF A BAR DATE**

**INTRODUCTION**

Richard S. Karpin, Assistant Special Deputy Superintendent of Insurance and Agent of Gregory V. Serio, Superintendent of Insurance of the State of New York, as liquidator (the "Liquidator") of American Fidelity Fire Insurance Company ("AFF"), and American Consumer Insurance Company ("ACI"), hereby reports on the status of the AFF and ACI liquidation proceeding.

By order (the "Liquidation Order") of the Supreme Court of the State of New York, County of Nassau entered on March 26, 1986, AFF and ACI were adjudged to be insolvent and placed into liquidation. The Liquidation Order appointed then Superintendent of Insurance James P. Corcoran and his successors in office to be the liquidator of AFF and ACI. (AFF and ACI collectively the "Companies").

Pursuant to the Liquidation Order, the Liquidator was charged with the responsibility of:

1. identifying the Companies' policyholders and creditors and notifying them to present their claims;
2. marshaling the assets of the Companies;
3. adjudicating the claims presented by the policyholders and creditors of the Companies and determining the total liabilities of the Companies; and
4. distributing the Companies' assets to creditors.

## **I. HISTORY**

AFF was incorporated in the State of New York as the Lincoln Fire Insurance Company on December 14, 1923 and licensed as a stock casualty company on the same date. The present name was adopted in 1943.

ACI was incorporated in the State of New York as the Eastern Casualty and Surety Company on October 2, 1946 and licensed as a stock casualty company on April 1, 1950. In May 1960, the present name was adopted. A holding company known as The American Plan Corporation ("APC") acquired 90% of the outstanding capital stock of AFF on November 1, 1963 and on that date AFF obtained 100% ownership of ACI.

AFF was authorized to transact business in Puerto Rico, the District of Columbia and every state except Colorado, Hawaii, Nebraska and New Hampshire.

ACI was authorized to transact business in the states of New York, Alaska, Arizona, Delaware, Florida, Maine, Michigan, New Jersey, Ohio, Oklahoma, Pennsylvania and Vermont.

In accordance with the Insurance Law, the Insurance Department conducted examinations of both companies.

On June 4, 1984, the Insurance Department's report on examination showed AFF's capital of \$2,500,000 to be impaired by \$2,318,907 and its minimum required surplus to policyholders of \$2,200,000 to be impaired by \$2,018,907.

On June 4, 1984, the Insurance Department's report on examination showed ACI to be insolvent in the amount of \$3,993,573 with the outstanding capital of \$2,358,752 impaired by \$6,352,325 and its minimum required surplus to policyholders of \$1,450,000 to be impaired by \$5,443,573.

Based on the foregoing reports on examination, the Superintendent of Insurance sought and received an Order of Rehabilitation made on September 6, 1985 and duly amended on September 20, 1985 by Justice Kenneth D. Molloy, directing the Superintendent of Insurance to take possession of their property and rehabilitate their affairs.

Upon commencement of the proceeding, the Superintendent, acting as Rehabilitator, determined that the Companies had significantly understated the amount of their insolvencies. The Rehabilitator retained an independent auditor to report on the Companies financial condition.

The independent auditor's report on AFF dated February 10, 1986 found, as of September 6, 1985, AFF's insolvency was approximately \$16,529,000 indicating a total impairment of capital of \$18,729,000. The independent auditor's report on ACI also dated February 10, 1986 found, as of September 6, 1985, ACI's insolvency to be approximately \$16,159,000 with a total impairment of capital of \$17,609,000. Based on the independent auditor's reports, the Superintendent, as Rehabilitator, determined that further efforts to rehabilitate the companies would be futile. Thus, the Superintendent petitioned the court for the Liquidation Order, which Order was entered on March 26, 1986.

## **II. THE COMPANIES' FINANCIAL CONDITION AS OF THE DATE OF LIQUIDATION**

A further audit of the financial condition of the Companies was conducted by an independent accounting firm as of March 26, 1986 the entry date of the Liquidation Order. The audit results dated February 29, 1988 for AFF and January 29, 1988 for ACI are as follows:

a) **AFF**

On March 26, 1986, the entry date of the Liquidation Order, AFF's total admitted assets were \$16,072,287 and its total liabilities were \$38,539,298 making it insolvent in the amount of \$22,467,011.

i) **Assets**

AFF's assets on March 26, 1986 were comprised of cash and securities in the amount of \$10,134,351, premiums and agents' balances in the course of collection (net of return premiums payable of \$1,244,354) of \$2,323,450, reinsurance recoverable on loss payments (net of allowance for uncollectible accounts of \$335,802) of \$2,728,660, miscellaneous assets of \$885,826 (consisting of electronic data processing equipment of \$648,896, accrued interest of \$129,363 and other receivables of \$107,567) for total admitted assets of \$16,072,287.

ii) **Liabilities**

AFF's liabilities included reserves (net of reinsurance recoverable on outstanding losses and loss adjustment expenses) of \$23,595,510. AFF's gross loss reserves totaled \$46,450,433 and gross loss adjustment expenses totaled \$5,763,444. Reinsurance on unpaid losses was \$27,168,183<sup>1</sup> and reinsurance on loss adjustment expenses was \$1,450,184. Insurers take credit for reinsurance recoverable on unpaid losses and loss adjustment expenses by deducting the amount recoverable from their gross reserves and liabilities. Thus, reserves were reported net of recoverable reinsurance. AFF's net loss reserves after deduction for reinsurance were \$19,282,250 and its net loss adjustment expense reserves were \$4,313,260.

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<sup>1</sup> This amount included \$19,509,494 in reinsurance due from ACI which was ultimately deemed uncollectible by the Liquidator.

The balance of AFF's liabilities consisted of amounts due to the New York State Property/Casualty Insurance Security Fund of \$557,789, unearned premiums of \$2,502,051, taxes, licenses and fees payable of \$683,289, funds held under reinsurance treaties of \$33,282, reserve for unauthorized reinsurance of \$1,181,578, ceded reinsurance balances payable of \$3,912,175, amounts due to Small Business Administrations of \$916,472, expenses payable of \$208,275, amounts payable to an affiliate of \$4,913,822 (i.e. ACI)<sup>2</sup> and miscellaneous liabilities of \$35,055 for total liabilities of \$38,539,298.

**b) ACI**

Upon entry of the Liquidation Order on March 26, 1986, ACI's total admitted assets were \$13,087,867 and total liabilities were \$37,601,245, making it insolvent in the amount of \$24,513,378.

**i) Assets**

ACI's assets on March 26, 1986 were comprised of cash and securities in the amount of \$3,848,019, premiums agents' balances in the course of collection of \$3,414,874, reinsurance recoverable on loss payments (net of allowance for uncollectible accounts of \$232,563) of \$413,020, receivable from affiliate (i.e. AFF) of \$4,913,822 miscellaneous assets of \$498,132 consisting of electronic data processing equipment of \$225,311, accrued interest of \$2,125, and other receivables of \$270,696 for total admitted assets of \$13,087,867.

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<sup>2</sup> This amount reflects the net balance due from AFF to ACI pursuant to three (3) inter-company pooling agreements.

ii) **Liabilities**

ACI's gross loss reserves totaled \$28,955,959 and gross loss adjustment expense reserves totaled \$5,596,427. Reinsurance on unpaid losses was \$3,152,059<sup>3</sup>. Reinsurance on loss adjustment expenses totaled \$562,026. As was the case with AFF, credit was taken for reinsurance recoverable on unpaid losses and loss adjustment expenses and reserve liabilities were reported net of recoverable reinsurance. Thus, ACI's net loss reserves were reported as \$25,803,900 and its net loss adjustment expense reserves were \$5,034,401.

The balance of ACI's liabilities consisted of taxes, license and fees payable of \$404,164, unearned premiums of \$3,714,102, funds held under reinsurance treaties in the amount of \$95,141, unauthorized reinsurance of \$735,720, ceded reinsurance balances payable of \$1,163,876, amounts due to New York State Property/Casualty Insurance Security Fund of \$616,576 and expenses payable of \$33,365 for total liabilities of \$37,601,245.

### **III. LIQUIDATION PROCEEDING**

#### **A. Proof of Claims Presented**

The Liquidator, in accordance with Insurance Law §7432(b), was obligated to notify all persons who may have had claims against the Companies at the date of liquidation, as disclosed by the Companies' books and records, to present their claims in this proceeding. The Liquidation Order provides that the last day for filing claims in the proceeding was March 26, 1987.

The Liquidator mailed proof of claim forms to known policyholders, claimants

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<sup>3</sup> This amount included \$868,234 in reinsurance due from AFF which was ultimately deemed uncollectible by the Liquidator.

against policyholders and other creditors disclosed by the Companies' books and records. The proof of claim form provided notice of the Companies' liquidation and of the creditor's obligation to present all claims by the proof of claim filing deadline. The Liquidator did not, however, identify every creditor or potential creditor of the estate prior to the filing deadline. Upon becoming aware of such a creditor or potential creditor, the Liquidator mails the creditor a proof of claim form. Provided that the proof of claim is completed and returned within four months from the date of the Liquidator's mailing, the proof of claim will be deemed timely filed.

### **1. Proofs of Claim Filed**

As of September 30, 2000, 14,810 AFF and 8,844 ACI proofs of claim were filed timely or had been deemed timely-filed in this proceeding.

Of the 14,810 timely filed proofs of claim in the AFF proceeding, 53 were withdrawn. 2,300 proofs of claim were filed for policyholder protection, not actual claims.<sup>4</sup> 108 claims were classified as "deferred".<sup>5</sup> As of September 30, 2000, 12,342 proofs of claim have been adjudicated and 115 proofs of claim remained open, which include one shareholder claim.

Of the 8,844 timely filed proofs of claim in the ACI proceeding, eight (8) were withdrawn. 254 proofs of claim were filed for policyholder protection, not actual claims. Fifty two (52) claims were classified as "deferred". As of September 30, 2000, 8,535 proofs of claim have been adjudicated and forty seven (47) proofs of claim remained open.

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<sup>4</sup> Policyholders were entitled to file proofs of claim for "policyholder protection". A policyholder protection proof of claim does not seek payment of a particular claim. Rather, it provides the policyholder with the right to present claims covered by policies issued by the Companies that were made after the claim filing deadline.

<sup>5</sup> A deferred claim is a claim filed after the claim filing deadline that is not allowed to share in the distribution of assets until all timely-filed claims are paid in full with interest. The Liquidator will not make any distributions on deferred claims in this proceeding. Therefore, the deferred claims will not be considered.

Proofs of claim filed in the proceeding include claims of the New York state security funds and sister state guaranty associations ("Guaranty Associations"). The New York state security funds and sister state Guaranty Associations were created for the purpose of paying claims in their respective states, which are covered by policies issued by insurers that were licensed to do business in their states and are unable, due to insolvency, to meet their insurance obligations. Upon payment of a claim against the Companies, the New York state security funds and Guaranty Associations are entitled to make claims in this proceeding for reimbursement of their loss payments and related expenses. They are, in essence, subrogated to the rights of the claimants who they have paid. The New York state security funds and Guaranty Associations each file a single claim in the proceeding, which represents the total of all the individual claims paid to the Companies' policyholders and related expenses.

There were six (6) Guaranty Association claims filed in the ACI proceeding and thirty-two (32) Guaranty Association claims filed in the AFF proceeding. Three New York state security funds were triggered by AFF's insolvency:

- i) the New York Property/Casualty Insurance Security Fund (the "P & C Security Fund");
- ii) the New York Public Motor Vehicle Liability Security Fund (the "PMV Security Fund"); and
- iii) the New York Workers Compensation Security Fund (the "WC Security Fund").

These funds have a claim in the AFF proceeding for losses and loss adjustment expenses paid pursuant to policies issued by AFF (the "P & C Security Fund", the "PMV Security Fund" and the "WC Security Fund" collectively referred to herein as the "New York Security Funds"). ACI's insolvency triggered only the P & C Security Fund.

## **B. Adjudication of Proofs of Claim**

A proof of claim is “adjudicated” upon the Liquidator's recommendation to the court that it either be “allowed” or “disallowed”. An “allowed” claim is a claim that has been approved by the liquidation court and is allowed to share in the distributions of assets. Subject to statutory limits, “allowed” claims that meet the requirements for New York Security Fund coverage are paid by the New York Security Funds. A “disallowed” claim is a claim that has been rejected and will not share in any payment out of the estate’s assets. The Liquidator recommends the allowance or disallowance of claims in accordance with procedures approved by the liquidation court. Claimants who object to the Liquidator’s recommendation are entitled to a hearing before the court or a court appointed referee.

The adjudication of a proof of claim may reflect the resolution of a single claim or of several claims covered by one or more policies. In order to determine the status of the resolution of claims in this proceeding, it is useful to break down proofs of claim into the following categories: Guaranty Association claims, New York Security Fund claims, Non-Fund covered claims (i.e., claims against the Companies which are not covered by a Guaranty Association or a New York Security Fund), and reinsurance claims.

### **AFF**

For AFF, of the 14,810 timely filed claims in this proceeding as of September 30, 2000, 12,342 claims have been either allowed or disallowed and 115 proofs of claim remain open.

1. **Guaranty Association Claims - AFF**

Thirty-two (32) sister state Guaranty Associations other than the New York Security Funds have made claims for reimbursement of payments made on behalf of AFF. As of September 30, 2000, the Guaranty Associations have paid losses and expenses totaling \$14,973,532 and posted reserves in the amount of \$1,335,689. As of September 30, 2000, \$8,903,653 of the total paid has been allowed in the proceeding. The thirty-two (32) Guaranty Association claims encompass over 3,500 individual claims against AFF. Twenty-eight (28) of the Guaranty Association claims have been fully adjudicated, leaving four (4) Guaranty Association proofs of claim which remain open.

2. **New York Security Fund Claims - AFF**

i) **The P & C Security Fund**

As of September 30, 2000, the P & C Security Fund has a claim in the total amount of \$35,262,042 for reimbursement of policy related claims paid in the amount of \$25,196,495 and expenses incurred in the amount of \$10,065,547 on behalf of AFF policyholders located in the State of New York.<sup>6</sup>

The P & C Security Fund claim for reimbursement for policy related claims paid in the amount of \$25,196,495 is deemed allowed based on the allowance of the individual claims that are covered by the P & C Security Fund. As of September 30, 2000, the P & C Security Fund's claim for reimbursement of expenses incurred in handling and defending claims has been approved in the amount of \$10,033,475 by court order. A reserve in the amount of \$95,606 has

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<sup>6</sup> The P&C Security Fund's ultimate claim in the AFF proceeding will be reduced by \$79,047 representing AFF's pre-liquidation payment of assessments to this fund.

been established for 15 open policy claims that are covered and will, if allowed, be paid by the P & C Security Fund.

ii) **The PMV Security Fund**

As of September 30, 2000, the PMV Security Fund has a claim in the total amount of \$4,234,482 for reimbursement of policy related claims paid in the amount of \$2,768,977 and expenses incurred in the amount of \$1,465,505<sup>7</sup>. The PMV Security Fund claim for reimbursement of claims paid in the amount of \$2,768,977 is also deemed allowed based on allowance of individual claims paid by the PMV Security Fund. The PMV Security Fund's claim for reimbursement of expenses incurred through September 30, 2000 in handling and defending claims has been approved in the amount of \$1,465,505 by court order. A reserve in the amount of \$415 has been established for one open PMV claim.

iii) **The WC Security Fund**

Finally, as of September 30, 2000, the WC Security Fund has a claim in the total amount of \$1,456,439 for reimbursement of policy claims paid in the amount of \$1,075,591 and expenses incurred in the amount of \$380,848. Pursuant to an assumption agreement approved by order of this court entered on October 19, 1999, the State Insurance Fund assumed AFF's obligation to pay benefits on all open Workers Compensation claims. As a result, AFF's liability to the WC Security Fund claim has been fixed at \$1,456,439.

3. **Non-Fund Covered Claims - AFF**

With the exception of reinsurance claims, Non-Fund covered claims include all claims arising under insurance policies that are not covered by the New York Security Funds or

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<sup>7</sup> The PMV Security Fund's ultimate claim in the AFF proceeding will be reduced by \$68,407 representing AFF's pre-liquidation payment of assessments to this fund.

sister state Guaranty Associations and all claims that do not arise under insurance policies, such as claims for goods and services, state and local taxes and assessments, and various miscellaneous matters ("Non-Fund Claims"). The coverage provided by the Security Funds and Guaranty Associations is limited in both scope and amount. Claims under certain policies are not covered by any Security Funds or Guaranty Associations. In other cases, the coverage provided by the Companies' policies may exceed the limits provided by the New York Security Funds or Guaranty Associations and the excess amounts represent a claim in the proceeding.

As of September 30, 2000, a total of 2,000 proofs of claim for Non-Fund Claims in the total amount of \$1,288,068 have been allowed in the AFF proceeding. As of September 30, 2000, 4,056 proofs of claim in the amount of \$116,155,322 have been disallowed or recommended for disallowance. The Liquidator has also closed proofs of claim for claims that have been handled by sister-state Guaranty Associations and are part of their claims in this proceeding.

There are nine (9) open Non-Fund covered Claims which include eight (8) objections to disallowances and one (1) shareholder claim.

#### **4. Reinsurance Claims - AFF**

For AFF, ninety three (93) reinsurance claims have been presented in this proceeding. As of September 30, 2000, ten (10) claims were withdrawn and eighty-three (83) of the claims remain open. Cedents reinsured by AFF have reported losses and expenses paid in the amount of \$2,483,534 and \$988,274 in outstanding reserves. Losses covered by the policies reinsured by AFF continue to be reported.

## ACI

For ACI, of the 8,844 timely filed proofs of claim in this proceeding as of September 30, 2000, 8,535 proofs of claim have been either allowed or disallowed and 47 remain open.

### 1. Guaranty Association Claims - ACI

Six (6) Guaranty Associations have made claims arising from ACI policies. As of September 30, 2000, the Guaranty Associations have paid losses and expenses totaling \$2,896,385 and posted reserves in the amount of \$148,278. As of September 30, 2000, \$1,528,393 of the total paid has been allowed in the proceeding. The six (6) Guaranty Association claims encompass over 500 individual claims against ACI. Five (5) Guaranty Association claims have been fully adjudicated, leaving one (1) Guaranty Association proof of claim which remains open.

### 2. New York Security Fund Claims - ACI

As of September 30, 2000, the P & C Security Fund has a claim in the total amount of \$17,301,301 for reimbursement of claims paid in the amount of \$13,028,277 and expenses incurred in the amount of \$4,273,074 on behalf of ACI policyholders located in the State of New York.<sup>8</sup>

As with AFF, the P & C The Security Fund's claim for reimbursement for policyholder claims paid in the amount of \$13,028,277 is deemed allowed based on the allowance of the individual claims that are covered by the P & C Security Fund. As of

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<sup>8</sup> The P&C Security Fund's ultimate claim in the ACI proceeding will be reduced by \$25,932 representing ACI's pre-liquidation payment of assessments to this fund.

September 30, 2000, the P & C Security Fund's claim for reimbursement of expenses in handling and defending claims has been approved in the amount of \$4,254,224 by court order. A reserve in the amount of \$11,222 has been established for two open policy claims that are covered and will, if allowed, be paid by the P & C Security Fund. Additionally, there are twenty six (26) open policy-related proofs of claim with no current reserves.

The PMV Security Fund and the WC Security Fund were not triggered by ACI's insolvency.

3. **Non-Fund Covered Claims - ACI**

As of September 30, 2000, 220 proofs of claim for Non-Fund Claims in the total amount of \$169,675 have been allowed in the ACI proceeding. As of September 30, 2000, 1,457 proofs of claim in the amount of \$20,521,183 have been disallowed or recommended for disallowance.

The Liquidator has also closed proofs of claim for claims that have been handled by Guaranty Associations and are part of their claims in this proceeding.

4. **Reinsurance Claims - ACI**

For ACI, sixteen (16) reinsurance claims have been presented in this proceeding. As of September 30, 2000, the claims remain open. Cedents reinsured by ACI have reported losses and expenses paid in the amount of \$4,060,538 and \$1,549,575 in outstanding reserves. Losses covered by the policies reinsured by ACI continue to be reported.

### **C. Collection of Assets**

#### **i) AFF**

The Liquidator has collected assets in the total amount of \$26,509,814 through September 30, 2000. This amount does not include claim and expense reimbursement received from the New York Security Funds. The collections consist of investment income, reinsurance recoveries, premium collected, salvage and subrogation, collateral and other litigation awards and miscellaneous receipts. The collections are described in more detail below. AFF's comparative balance sheet and statement of cash receipts and disbursements for the period ending September 30, 2000 are annexed hereto as Exhibit "A".

#### **ii) ACI**

The Liquidator has collected assets in the total amount of \$8,842,733 through September 30, 2000. This amount does not include claim and expense reimbursements received from the New York Security Funds. The collections consist of investment income, reinsurance recoveries, salvage and subrogation, litigation awards, collateral and other miscellaneous collections. The collections are described in more detail below. ACI's comparative balance sheet and statement of cash receipts and disbursements for the period ending September 30, 2000 are annexed hereto as Exhibit "B".

## **1. Investment Income**

### **i) AFF**

As of September 30, 2000, the Liquidator earned \$9,752,215 on AFF's invested assets. AFF's assets are invested in United States Treasury Bills.

### **ii) ACI**

As of September 30, 2000, the Liquidator earned \$3,937,437 on ACI's invested assets. ACI's assets are invested in United States Treasury Bills.

## **2. Reinsurance**

### **i) AFF**

As of September 30, 2000, the Liquidator collected the total amount of \$7,859,305 from AFF's reinsurers. The reinsurance collected includes amounts collected pursuant to commutation agreements. A commutation agreement is the final settlement of amounts recoverable under a reinsurance contract for an agreed upon amount. The commutation agreements entered into by the Liquidator and reinsurers have been approved by the Court.

As of September 30, 2000, there were balances due from solvent reinsurers in the amount of \$1,964,378 on paid losses and expenses.

### **ii) ACI**

As of September 30, 2000, the Liquidator collected the total amount of \$2,291,014 from ACI's reinsurers. The reinsurance collected includes amounts collected pursuant to commutation agreements with reinsurers.

As of September 30, 2000, there were balances due from solvent reinsurers in the amount of \$1,982,912 on paid losses and expenses.

### **3. Premium Collected**

As of September 30, 2000, the Liquidator collected premiums in the amount of \$2,017,244 for AFF and \$971,704 for ACI.

### **4. Salvage and Subrogation**

#### **i) AFF**

As of September 30, 2000, the Liquidator has made salvage and subrogation recoveries in the total amount of \$2,230,675 for AFF and \$406,172 for ACI.

### **5. Litigation Awards**

As of September 30, 2000, the total amount received in litigation awards was \$3,458,508 for AFF and \$1,203,153 for ACI.

### **6. Miscellaneous Receipts**

This category includes interest earned on special deposits held by ancillary receivers. AFF had \$1,191,867 in such receipts and ACI had \$33,253.

#### **D. Expenses**

##### **i) AFF**

The Liquidator has paid administrative expenses in the amount of \$24,072,908 from March 26, 1986 through September 30, 2000.<sup>9</sup> The expenses include salaries for the Liquidator's staff in the total amount of \$10,495,012, employee benefits in the amount of \$1,939,980, rent and rent items in the amount of \$3,901,932, office and communication expenses in the amount of \$2,061,110 and other disbursements of \$448,237.

In addition, the Liquidator has incurred expenses in the amount of \$2,956,688 for legal services and \$2,269,949 for accounting and other consulting services.

The expenses listed above total \$24,072,908. However, the amount of \$6,181,238 has been allocated to and paid by the New York Security Funds. Thus, the Liquidator's administrative expenses are \$17,891,670. The expenses allocated to the New York Security Funds are part of the New York Security Funds' claim in this proceeding.

##### **ii) ACI**

The Liquidator has paid administrative expenses in the amount of \$13,338,114 from March 26, 1986 through September 30, 2000.<sup>10</sup> The expenses include salaries for the Liquidator's staff in the total amount of \$6,060,817, employee benefits in the amount of

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<sup>9</sup> This amount does not include the first three disbursement items appearing on AFF's statement of receipts and disbursements totaling \$450,498 (see Exhibit "A"), as these items are not properly classified as administrative expenses of the proceeding.

<sup>10</sup> This amount does not include the first two disbursement items appearing on ACI's statement of cash receipts and disbursements totaling \$209,707 (see Exhibit "B"), as these items are not properly classified as administrative expenses of the proceeding.

\$1,102,189, rent and rent items in the amount of \$2,341,080, office and communication expenses in the amount of \$1,109,584 and other expenses in the amount of \$759,700.

The Liquidator has incurred expenses in the amount of \$832,550 for legal services and accounting and other consultant services in the amount of \$1,132,194.

The expenses listed above total \$13,338,114. However, the amount of \$3,095,156 has been allocated to and paid by the P & C Security Fund. Thus, the Liquidator's administrative expenses are \$10,242,958. The expenses allocated to the Security Fund are part of the Security Fund's claim in this proceeding.

#### **IV. CURRENT STATUS**

##### **A. Assets and Liabilities**

###### **i) AFF**

As of September 30, 2000, AFF had total assets in the amount of \$23,426,293 and total liabilities in the amount of \$69,293,474, leaving AFF insolvent in the amount of \$45,867,181 (see Exhibit A). The insolvency reported at the liquidation date of March 26, 1986 was \$22,467,011. The insolvency has proven to be significantly larger than first reported because the actual development of losses has been more than double the estimated reserve at the date of liquidation. The September 30, 2000 balance sheet reflects the sum of the transactions described above.

###### **ii) ACI**

As of September 30, 2000, ACI had total assets in the amount of \$13,850,733 and total liabilities in the amount of \$27,803,960, leaving ACI insolvent in the amount of

\$13,953,227 (see Exhibit B). The insolvency at the liquidation date of March 26, 1986 was \$24,513,378. The September 30, 2000 balance sheet reflects the sum of the transactions described above.

### **B. Bar Date and Distribution of Assets**

The Liquidator's ultimate duty is to distribute the Companies' assets, pro-rata, to creditors with allowed claims. In order to make a final distribution of assets, the collection of assets must be completed and all claims must be adjudicated. For AFF, there are thirty-two (32) open creditor claims (including four (4) Guaranty Association claims and three (3) New York Security Fund claims) and eighty-three (83) open reinsurance claims that are reserved, in total, at over \$15.2 million. For ACI, there are thirty-one (31) open creditor claims (including one (1) Guaranty Association claim and one (1) New York Security Fund claim) and sixteen (16) open reinsurance claims that are reserved, in total, at over \$8.9 million.

The Liquidator respectfully requests that this Court enter an order providing that all claims that are not reported by December 31, 2001 be barred and discharged. This provision is necessary to enable the Liquidator to determine, with finality, the amount due to the Companies' reinsurance creditors and to finalize claims covered by policyholder protection proofs of claim. Although the Companies have been in liquidation since 1986, reinsurance creditors who filed timely proofs of claim continue to report the payment of claims and expenses and the establishment of reserves on outstanding claims covered by reinsurance contracts entered into prior to liquidation. Without a bar date, reinsurance claims will continue to develop for many years and the Liquidator will be unable to finalize the Companies' liability or make a final distribution of assets. Similarly, claims arising under direct policies issued by the Companies

that are covered by policyholder protection proofs of claim may continue to be reported. Although it is possible that incurred claims may yet be reported under these policies after fifteen years, it is unlikely. Nevertheless, the possibility that an unreported claim can come to light does not justify keeping the proceeding open any longer.

Approval of the bar date will have the beneficial effect of dramatically accelerating the distribution of assets. It will enable the Liquidator to quantify and finalize the Companies' liabilities, particularly, reinsurance liabilities.

Without a bar date, creditors may actually receive a smaller absolute distribution. Distributions certainly will be delayed. Even if the Companies' assets increase in value, that increase may not cover the cost to creditors inherent in the delay required to finalize the Companies' liabilities.

Based on the assets currently available, the Liquidator will consider and intends to make an interim pro-rata distribution to creditors whose claims have been allowed to date. In order to calculate a feasible distribution percentage, the Liquidator must determine the Companies' distributable assets and make a conservative estimate of the Companies' outstanding liabilities. This approach is necessary to insure that there will be sufficient assets to pay all creditors, including creditors whose claims have yet to be adjudicated or even reported, their pro-rata shares of the Companies assets.

AFF's distributable assets consist of its cash and invested assets less a reserve for administrative expenses. As of September 30, 2000, AFF's distributable assets totaled \$20,351,084. AFF's total liabilities as of that date were \$69,293,474. ACI's distributable assets consist of its cash and invested assets. As of September 30, 2000, ACI's distributable assets totaled \$6,122,412. ACI's total liabilities as of that date were \$27,803,960.

## V. COURT APPROVAL

The Liquidator shall move, on notice to the Companies' creditors, for an order that:

- a. confirms and approves this Report on the Status of the Liquidation of AFF and ACI (the "Report");
- b. ratifies and approves the transactions described in the Report;
- c. provides that only the amounts of paid and outstanding losses reported by reinsurance claimants through December 31, 2001 will be considered for allowance;
- d. provides that only claims for actual losses and loss adjustment expenses arising under direct policies issued by the Companies reported through December 31, 2001 will be considered for allowance;
- e. provides that all claims for losses and loss adjustment expenses including, without limitation, reinsurance claims and direct policy claims reported after December 31, 2001 be barred and discharged;
- f. authorizes the Liquidator to make a pro rata distribution of assets to the Companies' general creditors for allowed claims to the extent that sufficient funds are available;
- g. provides for such other relief as is just.

## CONCLUSION

### **a) AFF**

The Liquidator has, as of September 30, 2000, adjudicated 12,342 claims, and allowed 8,286 claims (including New York Security Funds and Guaranty Association claims) in the amount of \$51,112,612.

As of September 30, 2000, the Liquidator collected assets in the amount of \$26,509,814 and incurred administrative expenses in the amount of \$17,891,670.

b) ACI

The Liquidator has, as of September 30, 2000, adjudicated 8,535 claims, and allowed 7,079 claims (including P & C Security Fund and Guaranty Association claims) in the amount of \$18,980,519.

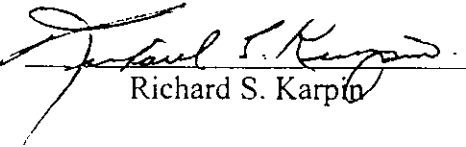
As of September 30, 2000, the Liquidator collected assets in the amount of \$8,842,733 and incurred administrative expenses in the amount of \$10,242,958.

Pursuant to the accompanying petition, the Liquidator is requesting that the Court schedule a hearing on the Liquidator's proposal and approve the form of notice attached to the petition. If the proposal is approved, the Liquidator will submit an appropriate order as directed by the Court.

Thereupon, the Liquidator will:

1. Fix the Companies' reinsurance liabilities;
2. Finalize all open claims against the estate;
3. Collect all remaining collectible receivables owing to the estate;
4. Make pro rata distribution of assets to the extent that such distribution is feasible.

Dated: New York, New York  
July 9, 2001

  
Richard S. Karpin



**AMERICAN FIDELITY FIRE INSURANCE COMPANY IN LIQUIDATION  
COMPARATIVE BALANCE SHEET AT**

	SEPT. 30, 2000	MAR. 26, 1986
<b>ASSETS</b>		
<b>INVESTED ASSETS</b>		
<b>FREE ASSETS</b>		
Cash & equivalents	\$2,522,113	\$1,156,282
Bonds	18,084,043	8,978,069
<b>Total free assets</b>	<b>20,606,156</b>	<b>10,134,351</b>
<b>RESTRICTED ASSETS</b>		
Central disbursement account-advance	250,000	0
Segregated funds account	57,715	0
Security funds	219,746	0
Ancillary Funds	208,715	0
<b>Total restricted assets</b>	<b>736,176</b>	<b>0</b>
<b>Total invested assets</b>	<b>21,342,332</b>	<b>10,134,351</b>
<b>OTHER ASSETS</b>		
Premiums in the course of collection (less \$0 Res for uncollectible)	0	2,323,450
Reins recoverables on paid losses (less \$2,848,228 Res for uncollectible)	1,152,583	2,728,660
Reins recoverables on unpaid losses (less \$4,635 Res for uncollectible)	901,170	0
Security funds recoverable	30,208	0
Miscellaneous assets	0	885,826
<b>Total other assets</b>	<b>2,083,961</b>	<b>5,937,936</b>
<b>TOTAL ASSETS</b>	<b>\$23,426,293</b>	<b>\$16,072,287</b>

AMERICAN FIDELITY FIRE INSURANCE COMPANY IN LIQUIDATION  
COMPARATIVE BALANCE SHEET AT

	SEPT. 30, 2000	MAR. 26, 1986
<b>LIABILITIES</b>		
<b>CLAIM LIABILITIES</b>		
Due : New York security funds	\$28,893,608	\$557,789
Ancillary security funds	6,661,123	0
Reserve : New York	96,021	19,282,250
Ancillaries	5,216,801	0
General creditors	1,276,459	0
<b>Total claim liabilities</b>	<b>42,144,012</b>	<b>19,840,039</b>
<b>CLAIM EXPENSE LIABILITIES</b>		
Due : New York security fund	11,913,720	0
Ancillary security funds	1,500,057	0
Reserve : New York	39,369	4,313,260
Ancillaries	451,878	0
General creditors	0	0
<b>Total claim expense liabilities</b>	<b>13,905,024</b>	<b>4,313,260</b>
<b>REINSURANCE LIABILITIES</b>		
Claim reserves - assumed	988,274	0
Balances payable	6,185,256	3,912,175
Funds held for reinsurance treaties	0	33,282
Reserve for unauthorized reinsurance	0	1,181,578
<b>Total reinsurance liabilities</b>	<b>7,173,530</b>	<b>5,127,035</b>
Due: Unearned premiums	0	2,502,051
Ancillaries for admin expenses	1,076,355	0
Escheatable funds	0	0
Taxes, licenses and fees payable	0	683,289
Expenses payable	23,016	208,275
SBA	0	916,472
Miscellaneous	0	35,055
Payable : Collateral	57,715	0
Affiliates - ACI	4,913,822	4,913,822
<b>TOTAL LIABILITIES</b>	<b>69,293,474</b>	<b>38,539,298</b>
<b>LIQUIDATOR'S DEFICIT</b>	<b>(45,867,181)</b>	<b>(22,467,011)</b>
<b>TOTAL LIABILITIES, LESS LIQUIDATOR'S DEFICIT</b>	<b>\$23,426,293</b>	<b>\$16,072,287</b>

AMERICAN FIDELITY FIRE INSURANCE COMPANY IN LIQUIDATION  
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
 FROM MARCH 26, 1986 TO SEPTEMBER 30, 2000

<b>BEGINNING CASH AND INVESTED ASSETS - MARCH 26, 1986</b>		<b>\$10,134,351</b>
Receipts	Net investment income	9,752,215
	Reinsurance recovered	7,859,305
	Premium	2,017,244
	Salvage and subrogation	2,230,675
	Litigation awards	3,458,508
	Collateral	1,191,867
<b>Total Receipts</b>		<b>26,509,814</b>
Disbursements:	Release of reinsurance funds	67,160
	Claims \ expenses paid by ancillary assoc.	179,626
	Commissions	203,712
	Salaries	10,495,012
	Employee relations & welfare	1,939,980
	Rent & Rent Items	3,901,932
	Consultants - Legal	2,956,688
	Consultants - Accountants & Other	2,269,949
	Office & communications expenses	2,061,110
	Other	448,237
<b>Sub Total Disbursement</b>		<b>24,523,406</b>
less: NYSF expense reimbursement		6,181,238
<b>Total Disbursements</b>		<b>18,342,168</b>
<b>Total Estate Activity - Increase(Decrease)</b>		<b>8,167,646</b>
<b>SECURITY FUND ACTIVITY</b>		
Receipts	Claims reimb from NYSF	29,041,063
	Claims adj exp reimb from NYSF	5,732,481
<b>Total Receipts</b>		<b>34,773,544</b>
Disbursement	Claimants	25,773,245
	Claims adjustment expense	5,732,481
<b>Total Disbursement</b>		<b>31,505,726</b>
<b>Total Security Fund Activity - Increase(Decrease)</b>		<b>3,267,818</b>
<b>Net Central Disbursement Transactions</b>		<b>(227,483)</b>
<b>Net Increase(Decrease)</b>		<b>11,207,981</b>
<b>ENDING CASH AND INVESTED ASSETS - SEPTEMBER 30, 2000</b>		<b>\$21,342,332</b>



AMERICAN CONSUMER INSURANCE COMPANY IN LIQUIDATION  
COMPARATIVE BALANCE SHEET AT

	SEPT. 30, 2000	MAR. 26, 1986
<b>ASSETS</b>		
<b>INVESTED ASSETS</b>		
<b>FREE ASSETS</b>		
Cash & equivalents	\$2,576,316	\$480,946
Bonds	3,690,000	3,367,073
Total free assets	6,266,316	3,848,019
<b>RESTRICTED ASSETS</b>		
Central disbursement account-advance	160,000	0
Security funds	7,244	0
Total restricted assets	167,244	0
<b>Total invested assets</b>	<b>6,433,560</b>	<b>3,848,019</b>
<b>OTHER ASSETS</b>		
Premiums in the course of collection (less \$ 0 Res for uncollectible)	0	3,414,874
Reins recoverables on paid losses (less \$2,017,649 Res for uncollectible)	1,486,412	413,020
Reins recoverables on unpaid losses (less \$73,569 Res for uncollectible)	1,007,885	0
Due from American Fidelity Fire	4,913,822	4,913,822
Security funds recoverable	9,054	0
Miscellaneous assets	0	498,132
Total other assets	7,417,173	9,239,848
<b>TOTAL ASSETS</b>	<b>\$13,850,733</b>	<b>\$13,087,867</b>

AMERICAN CONSUMER INSURANCE COMPANY IN LIQUIDATION  
COMPARATIVE BALANCE SHEET AT

	SEPT. 30, 2000	MAR. 26, 1986
<b>LIABILITIES</b>		
<b>CLAIM LIABILITIES</b>		
Due : New York security funds	\$13,002,295	\$616,576
Ancillary security funds	1,007,094	0
Reserves : New York	11,222	25,803,900
Ancillaries	1,149,671	0
General creditors	169,675	0
<b>Total claim liabilities</b>	<b>15,339,957</b>	<b>26,420,476</b>
<b>CLAIM EXPENSE LIABILITIES</b>		
Due : New York security fund	4,273,074	0
Ancillary security funds	440,920	0
Reserves : New York	3,703	5,034,401
Ancillaries	216,708	0
General creditors	0	0
<b>Total claim expense liabilities</b>	<b>4,934,405</b>	<b>5,034,401</b>
<b>REINSURANCE LIABILITIES</b>		
Claim reserves - assumed	1,549,575	0
Balances payable	5,825,199	1,163,876
Funds held under reinsurance treaties	0	95,141
Reserve for unauthorized reinsurance	0	735,720
<b>Total reinsurance liabilities</b>	<b>7,374,774</b>	<b>1,994,737</b>
Due: Unearned premiums	0	3,714,102
Ancillaries for admin expenses	149,891	0
Escheatable funds	0	0
Taxes, licenses, and fees payable	0	404,164
Expenses payable	4,933	33,365
<b>TOTAL LIABILITIES</b>	<b>27,803,960</b>	<b>37,601,245</b>
<b>LIQUIDATOR'S DEFICIT</b>	<b>(13,953,227)</b>	<b>(24,513,378)</b>
<b>TOTAL LIABILITIES, LESS LIQUIDATOR'S DEFICIT</b>	<b>\$13,850,733</b>	<b>\$13,087,867</b>

**AMERICAN CONSUMER INSURANCE COMPANY IN LIQUIDATION**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FROM MARCH 26, 1986 TO SEPTEMBER 30, 2000**

<b>BEGINNING CASH AND INVESTED ASSETS - MARCH 26, 1986</b>		<b>\$3,848,019</b>
Receipts	Net investment income	3,937,437
	Reinsurance recovered	2,291,014
	Premiums	971,704
	Salvage and subrogation	406,172
	Litigation awards	1,203,153
	Miscellaneous	33,253
<b>Total Receipts</b>		<b>8,842,733</b>
Disbursements	Loss on Sale of Stock	156,331
	Commissions	53,376
	Salaries	6,060,817
	Employee Relations & Welfare	1,102,189
	Rent & Rent Items	2,341,080
	Consultants - Legal	832,550
	Consultants - Accountants & Other	1,132,194
	Office & communication expenses	1,109,584
	Other	759,700
<b>Sub Total Disbursement</b>		<b>13,547,821</b>
less: NYSF expense reimbursement		3,095,156
<b>Total Disbursements</b>		<b>10,452,665</b>
<b>Total Estate Activity - Increase(Decrease)</b>		<b>(1,609,932)</b>
<b>SECURITY FUND ACTIVITY</b>		
Receipts	Claim reimb from NYSF	13,028,227
	Claims adj expm reimb from NYSF	1,177,919
<b>Total Receipts</b>		<b>14,206,146</b>
Disbursements	Claimants	8,790,570
	Claim adjustment expense	1,177,919
<b>Total Disbursements</b>		<b>9,968,489</b>
<b>Total Security Fund Activity - Increase(Decrease)</b>		<b>4,237,657</b>
<b>Net Central Disbursement Transaction</b>		<b>(42,184)</b>
<b>Net Increase(Decease)</b>		<b>2,585,541</b>
<b>ENDING CASH AND INVESTED ASSETS - SEPTEMBER 30, 2000</b>		<b>\$6,433,560</b>

SUPREME COURT OF THE STATE OF NEW YORK: COUNTY OF NASSAU

In the Matter of

The Liquidation

AMERICAN FIDELITY FIRE INSURANCE COMPANY  
and  
AMERICAN CONSUMER INSURANCE COMPANY

ORDER TO SHOW CAUSE, PETITION  
AND  
REPORT ON STATUS OF THE LIQUIDATION OF AFF AND ACI AND  
PROPOSAL FOR ESTABLISHMENT OF A BAR DATE

**Steven R. Harris**

Attorney for the Petitioner

*Office and Post Office Address, Telephone*  
123 William Street  
New York, NY 10038-3889  
(212) 341-6720

**ATTORNEY CERTIFICATION**

The undersigned, an attorney admitted to practice in the courts of New York state, certifies that, upon information, belief and reasonable inquiry, the contentions in the above referenced document(s) are not frivolous.

Dated: New York, New York  
July 12, 2000

\_\_\_\_\_  
Joseph A. DeMauro

Sir: Please take notice

NOTICE OF ENTRY

that the within is a (*certified*) true copy of a  
duly entered in the office of the clerk of the within named court on

2001

NOTICE OF SETTLEMENT

that an order  
presented for settlement to the HON.

of which the within is a true copy will be  
one of the judges of the within named court, at  
2001 at M.

Dated:

, on

Yours, etc.

**STEVEN R. HARRIS**

Attorney for the Petitioner  
*Office and Post Office Address, Telephone*  
123 William Street  
New York, NY 10038-3889  
(212) 341-6720

To

Attorney(s) for

