



COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT

Office of Chief Counsel

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June 12, 2007

Daniel Schuckers
Prothonotary
Commonwealth Court
628 South Office Building
Harrisburg, PA 17120-0001

RE: M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania v. Legion Insurance Company,
No. 183 M.D. 2002


Dear Mr. Schuckers:

Enclosed for filing please find the original and two hard copies of the Liquidator's Second Proposal to Distribute Assets to State Guaranty Associations Pursuant to 40 P.S. § 221.36.

As directed by the Court's Order we are also enclosing copies of the documents on a computer disk.

Thank you for your courtesies in filing the documents.

Very truly yours,


Amy L. Weber
Special Funds Counsel

ALW:mmm
Enclosure

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN, INSURANCE
COMMISSIONER OF THE
COMMONWEALTH OF
PENNSYLVANIA,

Plaintiff,

v.

LEGION INSURANCE COMPANY,

Defendant.

No. 183 M.D. 2002

ORDER

AND NOW, this ____ day of _____ 2007, upon consideration of the Petition to Approve the Liquidator's Second Proposal to Distribute Assets to State Insurance Guaranty Associations Pursuant to 40 P.S. §221.36 it is hereby ORDERED as follows:

1. The Liquidator's Proposal is approved and the Liquidator is authorized to make an early distribution of \$165.4 million to the various guaranty associations in accordance with the terms of the Liquidator's Proposal, as partial payment of claims for administrative expenses, loss adjustment expenses and claims payments incurred by the guaranty associations as a result of the liquidation of Legion Insurance Company (In Liquidation).

2. The Liquidator shall make no other early distributions without further written approval of the Court.

MARY HANNAH LEAVITT, J.

2. On July 25, 2003, the Court found that Legion and Villanova were insolvent and appointed the Commissioner to serve as Liquidator of Legion and as Liquidator of Villanova effective July 28, 2003 (the "Liquidation Orders").

3. The Department Act § 221.36(a) provides in part that,

... the liquidator shall make application to the Commonwealth Court for approval of a proposal to disburse assets out of such company's marshaled assets, from time to time as such assets become available, to any guaranty association in the Commonwealth or in any other state having substantially the same provision of law.

See 40 P.S. § 221.36(a).

4. The statute further provides that the proposal shall include (a) reserving amounts for the payment of administrative expenses and secured claims; (b) disbursement of assets marshaled to date and the prospect of future disbursements as assets become available; (c) equitable allocation of disbursements to each of the associations entitled thereto; (d) the securing by the Liquidator of an agreement from each SGA to return assets under certain circumstances to ensure *pro rata* distributions amongst members of the same class of creditors; and, (e) provides that the Liquidator may require reports to be made by the SGAs covering matters as the Liquidator determines. See 40 P.S. § 221.36(b)(1-5).

5. On November 9, 2005, after consultation with certain representatives of the SGAs, the Liquidator filed a Proposal to Distribute Assets to State Insurance Guaranty Associations and sought to make a first distribution totaling \$150 million from Legion and Villanova to the SGAs based on an equitable allocation formula set forth in the Proposal.

6. After a hearing on the Liquidator's Proposal on February 8, 2006, this Court by Orders dated February 10, 2006 authorized the Liquidator to make a

first distribution to the SGAs totaling \$150 million from Legion and Villanova in accordance with the equitable allocation formula set forth in the Liquidator's Proposal.

7. After the hearing and the Court's Order approving the Liquidator's Proposal, on April 21, 2006, the Oregon Insurance Guaranty Association ("OIGA") filed a Petition to Intervene with this Court alleging that the Liquidator had misapplied certain terms of the Refunding Agreement required to participate in the early distribution of Legion and Villanova's assets. The Court denied that application on June 10, 2006, subsequently granted reconsideration to OIGA, and held an oral argument at OIGA's request on November 28, 2006. By Order dated May 3, 2007, the Court granted OIGA's Petition to Intervene but denied its Application for Relief.

SECOND PROPOSAL FOR DISTRIBUTION

8. This early access distribution will be the second distribution to the SGAs in the Legion and Villanova liquidations. The purpose of this Proposal is to continue to provide the various SGAs with early access to the available funds of Legion and Villanova as an advance against the SGA's estimated administrative expenses, loss adjustment expenses and claims payments based on the equitable allocation formula in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

9. A current list of the SGAs who are eligible to receive a distribution providing they have executed the refunding agreements in accordance with the Liquidator's initial Proposal is attached hereto as Exhibit A; currently the only SGAs not participating are Massachusetts, New Hampshire, New Mexico and Oregon. The Liquidator proposes to make the second early access distributions described herein to the SGAs listed on Exhibit A that are current signatories to the refunding agreements, and early access distributions will not be made to SGAs that continue to elect not to participate in the refunding agreements.

10. In addition, and as a part of the early access Agreement, all of the SGAs will be required to report to the Liquidator their claim payment activity through June 30, 2007, including reporting the administrative expenses, loss adjustment expenses, and claim payments made and special/statutory deposits used before the Liquidation Orders. The Liquidator will, based on this information, be able to calculate the amount of the special/statutory deposits remaining, the amounts that the SGAs have paid in policyholders claims, and claims related expenses and have information necessary for reinsurance collection.

11. The Liquidator proposes this second distribution of \$165.4 million and \$26.8 million from the Legion and Villanova estates, respectively, to the various SGAs as follows: 50% of the total 2007 distribution to each SGA that has executed the Refunding Agreement provided that the SGA submits its claims report as of December 31, 2006 in a form acceptable to the Liquidator; and the remaining 50% of the total 2007 distribution to each SGA provided the SGA submits its claims report as of June 30, 2007 in a form acceptable to the Liquidator.

12. If the special/statutory deposits held by any state insurance department at the date of liquidation, or those deposits, if any, assigned to the SGAs for the state after the July 28, 2003 effective date of liquidation, have not been exhausted by application to the first early access distribution and exceed the amount to be distributed in the second distribution to the applicable SGA to pay claims and administrative expenses, then the excess funds shall be handled in accordance with the Refunding Agreement, which was approved by the Court on February 10, 2006.

PROPOSED DISTRIBUTION FROM THE LEGION ESTATE

13. As of March 31, 2007, the Legion estate had approximately \$631.3 million in liquid assets, and the estate continues to receive cash from reinsurance and other recoveries. From this amount, the Liquidator proposes to set aside a prudent reserved amount of \$465.9 million to cover the items listed in the Department Act

§ 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders. The Liquidator has set aside the reserved amount to ensure the proper and equitable administration of the estate and the protection of claimants. The Liquidator will advise the Court of future changes in the reserved amount at the time he files future proposals for early access distribution.

14. The Legion estate's liquid assets as of March 31, 2007, of approximately \$631.3 million, less the \$465.9 million reserved amount, now leaves an available amount of approximately \$165.4 million from which to make early access distributions to the SGAs. At any given time, the amount of liquid assets available will fluctuate as the aggregate amount of assets in the estate change and as adjustments are made to the reserved amount.

15. Based on the current amount of liquid assets, the Liquidator proposes initially to distribute from the Legion estate \$165.4 million in as yet unreimbursed SGA administrative expenses, loss adjustment expenses and claim payments.

PROPOSED DISTRIBUTION FROM THE VILLANOVA ESTATE

16. As of March 31, 2007, the Villanova estate had approximately \$66.5 million in liquid assets, and the estate continues to receive cash from reinsurance and other recoveries. From this amount, the Liquidator proposes to set aside a prudent reserved amount of \$39.7 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders. The Liquidator has set aside the reserved amount to ensure the proper and equitable administration of the estate and the protection of claimants. The Liquidator will advise the Court of future changes in the reserved amount at the time he files future proposals for early access distribution.

17. The Villanova estate's liquid assets as of March 31, 2007, of approximately \$66.5 million, less the \$39.7 million reserved amount, now leaves an available amount of approximately \$26.8 million from which to make early access

distributions to the SGAs. At any given time, the amount of liquid assets available will fluctuate as the aggregate amount of assets in the estate change and as adjustments are made to the reserved amount.

18. Based on the current amount of liquid assets, the Liquidator proposes initially to distribute from the Villanova estate \$26.8 million in as yet unreimbursed SGA administrative expenses, loss adjustment expenses and claim payments.

19. The purpose of this Proposal is to continue to provide the various SGAs with early access to the available funds of Legion and Villanova as an advance against the SGA's estimated administrative expenses, loss adjustment expenses and claims payments based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

20. The total 2007 distribution to each SGA is calculated pursuant to the following formula: amounts equal to the estimated respective SGA's administrative expenses, or class "a" claims (valued as of December 31, 2006), and, for purposes of the 2007 distributions, the percentage of the payments made for class "b" policyholder claims will be determined by dividing total paid claims as of December 31, 2006 attributable to each jurisdiction, by total paid claims for all jurisdictions, shall equal the percentage of the early access payment to be distributed to each SGA. Payments made to SGAs for administrative expenses, loss adjustment expenses and policyholder claims shall represent payments made on account and do not indicate the Liquidator's acceptance of the reported figures. Prior to the discharge of the estate, the Liquidator will make an evaluation of the claims of the SGAs. Any special or statutory deposits assigned to the SGAs as early access funds and remaining after the second early access distribution, will be set-off against the amount of any further early access distribution allocated to the individual SGA.

21. If any special/statutory deposits held by any state insurance department at the date of liquidation, or those deposits, if any, assigned to the SGAs for the state after the July 28, 2003 effective date of liquidation, were remaining after the first early access distribution and exceed the amount to be distributed in the second early access distribution to the applicable SGA to pay claims and administrative expenses, then the excess funds shall be handled in accordance with the Refunding Agreement.

NOTICE

22. Pursuant to 40 P.S. § 221.36 (j), not less than thirty (30) days prior to the filing of the proposal for the distribution to the SGAs, the Liquidator sent via certified mail, first class postage prepaid, a notice that he would submit to this Court a proposal for the distribution of assets from the estates to the SGAs. This notice was given on March 30 or April 4, 2007 to the various SGAs and to the insurance departments of the states and other jurisdictions in which Legion and Villanova were licensed to do insurance business, and on April 4, 2007 to NOHIGA, setting forth the approximate date on which the filing of the petition for distribution is to be made. No objection or other response has been received.

WHEREFORE, the Liquidator prays that this Proposal be heard and granted, and that this Court issue an Order as follows:

1. Approving the foregoing Second Proposal for early access distributions to the SGAs from the Legion and Villanova estates as set forth in paragraph 20 which is based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations;

2. Authorizing the Liquidator to make a second distribution of \$165.4 million from the Legion estate to the SGAs as set forth in paragraph 20 which is based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations;

3. Authorizing the Liquidator to make a second distribution of \$26.8 million from the Villanova estate to the SGAs as set forth in paragraph 20 which is based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations; and

4. Authorizing the Liquidator to take any and all actions necessary to accomplish the purposes of the Order prayed for herein and to carry out the distributions to the SGAs.

Respectfully submitted,



AMY L. WEBER (I.D. #45447)
Special Funds Counsel
Pennsylvania Insurance Department
Office of Chief Counsel
Capitol Associates Building
901 North 7th Street
Harrisburg, PA 17102
(717) 787-6009

Counsel for Randolph L. Rohrbaugh, Acting
Insurance Commissioner of the Commonwealth of
Pennsylvania acting in his official capacity as
Statutory Liquidator of Legion Insurance Company
and Villanova Insurance Company

DATE: 6/12/07

EXHIBIT

A

EXHIBIT A (Legion)

**GUARANTY ASSOCIATIONS ELIGIBLE TO PARTICIPATE IN PROPOSED
DISTRIBUTION**

Alaska Insurance Guaranty Association
Alabama Insurance Guaranty Association
Arizona Insurance Guaranty Funds
Arkansas Property & Casualty Guaranty Fund
SCF of Arizona
California Insurance Guarantee Association
Delaware Insurance Guaranty Association
Western Guaranty Fund Services - (Colorado, Montana, Idaho, Washington, Kansas and
Wyoming Insurance Guaranty Associations)
Guaranty Fund Management Services - (Connecticut, New Hampshire, District of Columbia,
Rhode Island, Maine, Vermont, Massachusetts and Virginia Insurance Guaranty Associations)
Florida Insurance Guaranty Association
Florida Workers' Compensation Insurance Guaranty Association
Georgia Insurers Insolvency Pool
Hawaii Insurance Guaranty Association
Iowa Insurance Guaranty Association
Illinois Insurance Guaranty Fund
Indiana Insurance Guaranty Association
Kentucky Insurance Guaranty Association
Louisiana Insurance Guaranty Association
Property & Casualty Insurance Guaranty Corp. - Maryland
Michigan Property & Casualty Guaranty Association
Minnesota Insurance Guaranty Association
Mississippi Insurance Guaranty Association
Missouri Property & Casualty Insurance Guaranty Association
Nebraska Property & Liability Insurance Guaranty Association
Nevada Insurance Guaranty Association
New Jersey Property - Liability Insurance Guaranty Association
New Jersey Workers' Compensation Security Fund
New Mexico Insurance Guaranty Association
New York State Insurance Department
North Carolina Insurance Guaranty Association
North Dakota Insurance Guaranty Association
Ohio/West Virginia Guaranty Funds
Oklahoma Property & Casualty Insurance Guaranty Association
Oregon Insurance Guaranty Association
Pennsylvania Property & Casualty Insurance Guaranty Association
Pennsylvania Workers' Compensation Fund

Puerto Rico Property & Casualty Insurance Guaranty Association
South Carolina Property & Casualty Insurance Guaranty Association
South Dakota Property & Casualty Insurance Guaranty Association
Tennessee Insurance Guaranty Association
Texas Property & Casualty Insurance Guaranty Association
Utah Property & Casualty Insurance Guaranty Association
Wisconsin Insurance Security Funds
Florida Workers Compensation Insurance Guaranty Association
Compensation Rating & Inspection Bureau

Alabama Life & Disability Insurance Guaranty Association
Alaska Life & Health Insurance Guaranty Association
Arizona Life & Disability Insurance Guaranty Fund
Arkansas Life & Health Insurance Guaranty Association
California Life & Health Insurance Guarantee Association
Colorado Life & Health Insurance Protection Association
Connecticut Life & Health Insurance Guaranty Association
Delaware Life & Health Insurance Guaranty Association
District of Columbia Life & Health Insurance Guaranty Association
Florida Life & Health Insurance Guaranty Association
Georgia Life & Health Insurance Guaranty Association
Hawaii Life & Disability Insurance Guaranty Association
Idaho Life & Health Insurance Guaranty Association
Illinois Life & Health Insurance Guaranty Association
Indiana Life & Health Insurance Guaranty Association
Iowa Life & Health Insurance Guaranty Association
Kentucky Life & Health Insurance Guaranty Association
Louisiana Life & Health Insurance Guaranty Association
Maine Life & Health Insurance Guaranty Association
Maryland Life & Health Insurance Guaranty Corporation
Massachusetts Life & Health Insurance Guaranty Association
Michigan Life & Health Insurance Guaranty Association
Minnesota Life & Health Insurance Guaranty Association
Mississippi Life & Health Insurance Guaranty Association
Missouri Life & Health Insurance Guaranty Association
Montana Life & Health Insurance Guaranty Association
Nebraska Life & Health Insurance Guaranty Association
Nevada Life & Health Insurance Guaranty Association
New Hampshire Life & Health Insurance Guaranty Association
New Jersey Life & Health Insurance Guaranty Association
New Mexico Life Insurance Guaranty Association
Life Insurance Company Guaranty Corporation of New York
North Dakota Life & Health Insurance Guaranty Association
Ohio Life & Health Insurance Guaranty Association
Oklahoma Life & Health Insurance Guaranty Association
Oregon Life & Health Insurance Guaranty Association

Pennsylvania Life & Health Insurance Guaranty Association
Asociación de Garantía de Seguros de Vida e Incapacidad de Puerto Rico
Rhode Island Life & Health Insurance Guaranty Association
South Carolina Life, Accident & Health Insurance Guaranty Association
South Dakota Life & Health Insurance Guaranty Association
Tennessee Life & Health Insurance Guaranty Association
Texas Life Accident Health & Hospital Service Insurance Guaranty Association
Utah Life & Health Insurance Guaranty Association
Vermont Life & Health Insurance Guaranty Association
Virginia Life Accident & Sickness Insurance Guaranty Association
Washington Life & Disability Insurance Guaranty Association
West Virginia Life & Health Insurance Guaranty Association
Wisconsin Insurance Security Fund
Wyoming Life & Health Insurance Guaranty Association

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. Diane Koken
Insurance Commissioner of the
Commonwealth of Pennsylvania

Plaintiff,

v.

Legion Insurance Company
One Logan Square, Suite 1400
Philadelphia, PA 19103

Defendant.

Docket No. 183 M.D. 2002

**AFFIDAVIT OF JOSEPH DIMEMMO IN SUPPORT OF THE LIQUIDATOR'S
SECOND PROPOSAL TO DISTRIBUTE ASSETS TO STATE INSURANCE
GUARANTY ASSOCIATIONS PURSUANT TO 40 P.S. §221.36**

I, JOSEPH DIMEMMO, hereby depose and state as follows:

1. I am Deputy Insurance Commissioner for the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds and have general oversight responsibility on behalf of the Department for the direction and policy for Legion and Villanova and for all of the estates in rehabilitation and liquidation in Pennsylvania.

2. I make this certification in support of the Liquidator's Second Proposal to Distribute Assets to State Insurance Guaranty Associations Pursuant to 40 P.S. §221.36, which proposes to continue to provide participating state guaranty associations with early access to the available funds of Legion and Villanova as an advance against their estimated administrative expenses, loss adjustment expenses and claims payments based on the equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

3. This early access distribution will be the second distribution to the state guaranty associations in the Legion and Villanova liquidations. The purpose of this proposal is to provide the various participating state guaranty associations with early access to the available funds of Legion and Villanova as an advance in payment of the associations' estimated administrative expenses, loss adjustment expenses and claims payments.

4. Prior to receiving any monies from the Statutory Liquidator of Legion in this Second Proposal to Distribute, participating state guaranty associations are required to have executed the refunding agreement thereby agreeing to reimburse the Liquidator any funds, including interest the association received, in excess of its share of the assets of the liquidated company. The Liquidator requires that for any state guaranty association that did not previously sign the refunding agreement, the refunding agreement must be executed prior to participation in this second early access distribution. Early access distributions will not be made to guaranty associations that have elected not to participate in the refunding agreement.

5. In addition, to be eligible for the early access distribution, the Liquidator requires the guaranty associations to periodically provide the Liquidator information in the standard UDS format regarding the claims that they have paid, administrative expenses and refund of premium information. In addition, states that triggered their guaranty associations prior to the Pennsylvania liquidation were required to provide an accounting of the claims liability as of 12/31/04.

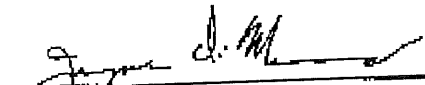
6. Payments made to state guaranty associations for administrative expenses and policyholder claims represent payments made on account and do not indicate Liquidator acceptance of the reported figures. The Liquidator, prior to the discharge of the estate, will make periodic evaluation of the claims of the state guaranty associations.

7. Pursuant to 40 P.S. §221.36 (d), notice of this proposal was given on

March 30, 2007 or April 4, 2007 to the various state guaranty associations, NOLHGA and to the state insurance departments of the states and the territories in which Legion was licensed.

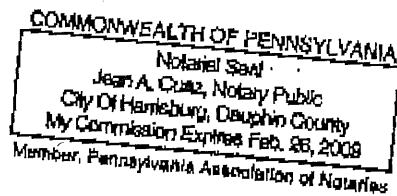
8. No objections have been received from any of the state guaranty associations or state insurance departments or other jurisdictions that received notice of this proposal as referenced in paragraph 7 above.

I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.


JOSEPH DIMEMMO

Sworn to and subscribed before me
this 12th day of JUNE, 2007.


NOTARY PUBLIC



IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. Diane Koken
Insurance Commissioner of the
Commonwealth of Pennsylvania

Plaintiff,

v.

Legion Insurance Company
One Logan Square, Suite 1400
Philadelphia, PA 19103

Defendant.

Docket No. 183 M.D. 2002

**AFFIDAVIT OF JOSEPH ZARANDONA IN SUPPORT OF THE
LIQUIDATOR'S SECOND PROPOSAL TO DISTRIBUTE ASSETS TO STATE
INSURANCE GUARANTY ASSOCIATIONS PURSUANT TO 40 P.S. §221.36**

I, JOSEPH ZARANDONA, hereby depose and state as follows:

1. I am Chief Liquidation Officer of Legion Insurance Company (In Liquidation) ("Legion") and Villanova Insurance Company (In Liquidation) ("Villanova"), and am responsible for overseeing their daily business operations.
2. I make this certification in support of the Liquidator's Second Proposal to Distribute Assets to State Insurance Guaranty Associations Pursuant to 40 P.S. §221.36, which proposes to continue to provide participating state guaranty associations with early access to the available funds of Legion and Villanova as an advance against their estimated administrative expenses, loss adjustment expenses and claims payments based on the same equitable allocation formula approved in the Liquidator's initial Proposal to Distribute Assets to State Insurance Guaranty Associations.

3. As of March 31, 2007, the Legion estate had approximately \$631.3 million in liquid assets, and Legion continues to receive cash from reinsurance and other recoveries.

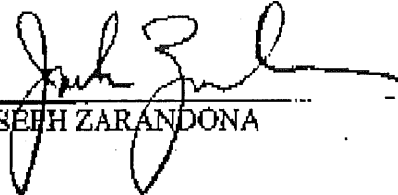
4. The Liquidator proposes to set aside a prudent reserved amount of \$465.9 million to cover the items listed in the Department Act § 221.36(b)(1) including anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders, which will be set aside to ensure the proper and equitable administration of the estate and the protection of claimants.

5. In my opinion as Chief Liquidation Officer of Legion, based on presently available information, the reserved amount of \$465.9 million is necessary and appropriate to cover anticipated administrative expenses, secured creditors and claims having a higher priority than policyholders and other items included in the Department Act § 221.36(b)(1).

6. Further, the amount of the reserve reflects my opinion, based on presently available information, as to the amount necessary to protect Legion's interests and obligations in light of current market conditions and external insurance industry factors that may affect Legion's ability to collect amounts owed.

7. My certification is made in reasonable reliance on the work of qualified staff and the Estates' internal procedures for financial operations.

I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.


JOSEPH ZARANDONA

Sworn to and subscribed before me
this 7 th day of June, 2007.


NOTARY PUBLIC


COMMONWEALTH OF PENNSYLVANIA

Notarial Seal
Maureen Greenfield, Notary Public
City Of Philadelphia, Philadelphia County
My Commission Expires Dec. 23, 2010

Member, Pennsylvania Association of Notaries

VERIFICATION

I, Joseph DiMemmo, Deputy Insurance Commissioner, of the Office of Liquidations, Rehabilitations and Special Funds, of the Pennsylvania Insurance Department, am duly authorized to make this Verification for and on behalf of Randolph L. Rohrbaugh, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Statutory Liquidator ("Liquidator") of Legion Insurance Company. I have read the Liquidator's Second Proposal to Distribute Assets to the State Guaranty Associations and verify that the matters stated therein are true and correct to the best of my knowledge, information and belief. I understand that this Verification is made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



Joseph DiMemmo
Deputy Insurance Commissioner

Dated: June 12, 2007