



**GRANTED**

EFiled: Sep 5 2007 12:11PM EDT  
Transaction ID 16189763  
Case No. 18668-VCS



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
THE REHABILITATION OF ) C.A. No. 18668NC  
STATEWIDE INSURANCE COMPANY )

**ORDER TO SHOW CAUSE WHY THE “RECEIVER’S  
PETITION FOR ENTRY OF ORDER OF LIQUIDATION  
WITHOUT A FINDING OF INSOLVENCY, APPROVAL  
OF THE FINAL REPORT OF THE RECEIVERSHIP, AUTHORIZATION  
FOR DOCUMENT DESTRUCTION, RELEASE AND DISCHARGE OF  
THE RECEIVER, DEPUTY RECEIVER AND ASSISTANTS, AND  
DISSOLUTION OF STATEWIDE INSURANCE COMPANY  
PURSUANT TO 18 DEL. C. §5911(b)” SHOULD NOT BE GRANTED**

The Honorable Matthew Denn, in his capacity as the Receiver of Statewide Insurance Company in Rehabilitation ("Statewide") has filed the "Receiver's Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 *Del. C.* §5911(b)" (the "Petition") seeking an Order:

- (1) declaring that Statewide Insurance Company should be liquidated without a finding of insolvency on the grounds set forth in the Petition;
- (2) approving the Final Report of the Receivership, filed contemporaneously with the Petition;
- (3) approving the Final Accounting of the estate and all prior accountings;

(4) approving the Receiver's Claim Recommendation Report and Distribution Plan, authorizing and ordering distribution to the allowed claims pursuant to the Receiver's recommendation, and disallowing the claims of John Dobry and the South Dakota Department of Insurance;

(5) authorizing the Receiver to require, if the Receiver in his sole discretion deems it necessary to resolve potential tax liability of Statewide, that any payments to its parent, Statewide Insurance Holding Company ("SIHC") be contingent upon SIHC's execution of an appropriate indemnity agreement whereby SIHC agrees to indemnify and hold harmless the Statewide estate, and the Receiver and Deputy Receiver and their Assistants, from and against any and all potential tax liability resulting from the payment. In the event that the expense reserve is insufficient to pay all final expenses of this estate, the Receiver requests the authority to decrease accordingly the payment to SIHC to cover any deficiency in the expense reserve. Otherwise, the Receiver seeks authority to pay an initial distribution of \$41,748.00 to SIHC after the distribution to the allowed general creditor claims, and a subsequent distribution to SIHC of any funds remaining after all administrative expenses have been paid in full, all tax liabilities resolved as set forth in the Petition, and after the conclusion of all steps to terminate the Statewide estate.

(6) authorizing the Receiver to destroy all of the estate's records upon the discharge and release, but providing that in order to avoid wasting the remaining assets of the estate, upon completion of the distribution according to the Claim Recommendation Report and Distribution Plan, the Receiver may destroy such Statewide records as are deemed unnecessary to discharge his remaining duties;

(7) releasing and discharging the Receiver, his Deputy Receiver, their predecessors, and their Assistants upon the completion of the distribution according to the Claim Recommendation Report and Distribution Plan, the filing of the tax returns and the acceptance of such returns by the Internal Revenue Service through its expedited determination process unless the Receiver deems the expedited determination process to not be necessary for a particular tax year, the payment of all administrative expenses of the estate, and the distribution of any remaining assets to SIHC;

(8) dissolving the corporate charter of Statewide Insurance Company pursuant to 18 *Del. C.* §5911(b) upon the entry of the form of Liquidation Order submitted with the Petition, and ordering the Delaware Secretary of State, Division of Corporations, to accept the filing of the Order as a Certificate of Dissolution, effective immediately upon filing with no winding up period, without the payment of any filing fees pursuant to 18 *Del. C.* §5922;

(9) amending the caption in this matter to reflect the entry of an order to liquidate Statewide, so that the caption hereafter reads “In the Matter of Statewide Insurance Company in Liquidation”; and

(10) granting such other relief relating to the termination of the Receivership as may be just, equitable, necessary and proper in light of the Final Report.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

**HEARING**

A hearing on the Receiver's Petition has been scheduled to be held before this Court on **Monday, November 5, 2007, at 2:00 p.m.**, in the Court of Chancery, 500 North King Street, Wilmington, Delaware.

PLEASE NOTE THAT the Receiver's Petition and the relief sought therein shall be granted unless any interested party complies with the following procedural requirements set forth in this Order to Show Cause and provides the Court with cause to deny the Receiver's Petition and the relief sought therein.

**HEARING PROCEDURE**

IT IS HEREBY FURTHER ORDERED that any interested party who objects to the Receiver's Petition shall file the specific grounds for such objection, in writing, at least ten (10) calendar days before the hearing date.

IT IS HEREBY FURTHER ORDERED that within three (3) business days of receipt of this Order to Show Cause, the Receiver shall serve a copy of this Order to Show Cause, a copy of the Petition, a copy of the Final Report of the Receivership and the exhibits thereto, a copy of the Affidavit of Nicholas J. Marfia in support of the Petition, and the form of "Order Granting the Receiver's Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 *Del. C.* §5911(b)," by United States certified mail, postage prepaid, to all creditors which filed proofs of claim with the estate, all creditors with

deemed allowed and unpaid claims, Statewide Insurance Holding Company, and the Delaware Insurance Guaranty Association, and by United States first class mail, postage prepaid to all State Insurance Commissioners, and the National Association of Insurance Commissioners.

IT IS HEREBY FURTHER ORDERED that within ten (10) business days of receipt of this Order to Show Cause, the Receiver shall publish once in a newspaper of general circulation in the State of Delaware a notice, substantially in the form appended to the Petition as Exhibit 1, a notice of the hearing on the Receiver’s Petition.

**ANY INTERESTED PARTY WHO OBJECTS TO THE RECEIVER’S PETITION IS HEREBY REQUIRED TO FILE A WRITTEN OBJECTION, WITH SPECIFIC GROUNDS STATED IN SUPPORT OF THEIR OBJECTION, AT LEAST TEN (10) CALENDAR DAYS BEFORE THE SCHEDULED HEARING DATE. IF THE CLAIMANT FAILS TO TIMELY FILE THEIR WRITTEN OBJECTION TO THE PETITION, THEIR OBJECTION SHALL BE CONSIDERED ABANDONED AND THE RECEIVER’S PETITION SHALL BE GRANTED.** The Objection must include the following information:

- a. The caption of these proceedings:

“IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE  
IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
THE REHABILITATION OF ) C.A. No. 18668NC  
STATEWIDE INSURANCE COMPANY )”

- b. the nature of the document being filed (i.e., [Name of Party Filing Objection]’s Objection to Receiver’s Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 *Del. C.* §5911(b));

- c. the name of the party on whose behalf such document is being filed. Individuals may represent themselves *pro se*, but corporations and other entities must be represented by Delaware counsel;
- d. the name, address and telephone number of the person filing the document; and
- e. the date the document is being filed.

and shall be sent to:

Register in Chancery  
Court of Chancery of the State  
Of Delaware in and for New Castle County  
500 North King Street  
Wilmington, Delaware 19801

A copy of the Objection or other responsive pleading must also be mailed to the Receiver's counsel at the address set forth in the Petition.

**IT IS FURTHER ORDERED THAT ANY INTERESTED PARTY WHO WISHES TO OBJECT TO THE RECEIVER'S PETITION SHALL BE REQUIRED TO APPEAR IN PERSON AT THE HEARING TO PRESENT THEIR OBJECTIONS.** The Delaware Uniform Rules of Evidence shall govern the presentation of evidence at the hearing. If an interested party who files a timely written objection to the Petition fails to appear at the hearing without having been granted a continuance by the Court, the Court shall grant the Receiver's Petition and the relief requested therein.

IT IS SO ORDERED as of the date this Order is docketed.

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The Honorable Leo E. Strine  
Vice-Chancellor

This document constitutes a ruling of the court and should be treated as such.

**Court:** DE Court of Chancery

**Judge:** Leo E Strine

**File & Serve**

**Transaction ID:** 16188961

**Current Date:** Sep 05, 2007

**Case Number:** 18668-VCS

**Case Name:** I/M of Rehabilitation of Statewide Insurance Co

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/s/ **Judge Leo E Strine**



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
STATEWIDE INSURANCE COMPANY ) C.A. No. 18668NC  
IN REHABILITATION )

**RECEIVER'S PETITION FOR ENTRY OF ORDER OF  
LIQUIDATION WITHOUT A FINDING OF INSOLVENCY,  
APPROVAL OF THE FINAL REPORT OF THE RECEIVERSHIP,  
AUTHORIZATION FOR DOCUMENT DESTRUCTION, RELEASE  
AND DISCHARGE OF THE RECEIVER, DEPUTY RECEIVER  
AND ASSISTANTS, AND DISSOLUTION OF STATEWIDE  
INSURANCE COMPANY PURSUANT TO 18 DEL. C. §5911(b)**

The Honorable Matthew Denn, Insurance Commissioner of the State of Delaware, in his capacity as the Receiver (the Receiver") of Statewide Insurance Company in Rehabilitation ("Statewide"), a Delaware corporation, by and through his undersigned attorney, hereby petitions this Honorable Court, pursuant to 18 Del. C. §5902, for an Order (1) declaring that Statewide Insurance Company should be liquidated as a insurer which has not conducted business for over five years and for which renewal of such Certificate of Authority is deemed to be hazardous to future policyholders and the public; (2) for approval of the Final Report of the Receivership (the "Final Report"), filed contemporaneously with this Petition; (3) for authorization to destroy the estate's records to avoid

waste of the estate's assets; (4) for release and discharge of the Receiver, his Deputy Receiver, George J. Piccoli (the "Deputy Receiver"), their predecessors, and their assistants, employees, consultants, accountants, attorneys and other authorized professionals and agents, including but not limited to employees of the Delaware Insurance Department who have assisted the Receiver concerning the receivership (the "Assistants"); (5) for dissolution of Statewide Insurance Company pursuant to 18 Del. C. §5911(b); and (6) granting such other relief relating to the termination of the Receivership as may be necessary and proper in light of the Final Report. In support of this Petition, the Receiver states the following:

Background of the Receivership

Statewide was licensed to issue property and casualty insurance policies only in Delaware. The company issued primarily personal automobile insurance policies with the minimum limits required by law.

By early 2001, Statewide had insufficient capital and surplus to meet the minimum regulatory requirements in the Delaware Insurance Code. Therefore, with the consent of Statewide, on February 6, 2001, the Insurance

Commissioner's predecessor petitioned this Court for the entry of a Stipulated Rehabilitation and Injunction Order. On February 8, 2001, pursuant to 18 *Del. C.* §5905, a Stipulated Rehabilitation and Injunction Order (the "Rehabilitation Order") was entered against and concerning Statewide. The Insurance Commissioner was appointed as the Receiver to take steps to attempt to rehabilitate Statewide's impaired financial condition. (Dkt. No. 3).

The Commissioner, as the Receiver of Statewide, was directed to immediately take possession and control of the property, assets, business and affairs of Statewide and to attempt to rehabilitate the same pursuant to the provisions of Chapter 59 of the Delaware Insurance Code, 18 *Del. C.* ch. 59. The Receiver was authorized by the Rehabilitation Order to take such actions as the nature of this cause and the interests of the policyholders, creditors and stockholders of Statewide and the public may require. The Receiver was vested by the Rehabilitation Order with title to all property, contracts and rights of action of Statewide and was authorized to deal with the property, business and affairs of Statewide and to sue and defend for the Company or for the benefit of Statewide's policyholders, shareholders and creditors in courts and

tribunals, agencies or arbitration panels for this State and other states in the name of the Insurance Commissioner of the State of Delaware, or in the name of Statewide.

The Rehabilitation Order vested the Commissioner with the right, title and interest in and to all funds recoverable under treaties and agreements of reinsurance heretofore entered into by Statewide as the ceding insurer, and all reinsurance companies involved with Statewide were enjoined and restrained from making any settlements with any claimant or policyholder of Statewide other than through the Commissioner as Receiver, except as permitted by certain cut-through agreements or endorsements, as specified in the Rehabilitation Order.

The Rehabilitation Plan and Bar Date

Subsequent to the entry of the Rehabilitation Order, the Receiver's staff proceeded to resolve most of the estate's claims. After the passage of most of the statutes of limitations periods and after most of the open claims had been resolved, the Receiver prepared a plan for winding up the receivership. On November 17, 2005, the Receiver submitted the Receiver's "Petition for Approval of the Plan of Rehabilitation of Statewide Insurance Company" (the

"Rehabilitation Plan Petition"; Electronic Dkt. No. 7; EFile No. 7464966).

After notice to interested parties and a hearing on January 13, 2006, on the Rehabilitation Plan Petition, this Court approved the Plan of Rehabilitation of Statewide Insurance Company (the "Rehabilitation Plan") by Order dated January 13, 2006 (Electronic Dkt. No. 11; EFile No. 10252605). The Rehabilitation Plan provided, *inter alia*, for a Bar Date of February 28, 2006 (the "Bar Date") for the submission of all claims against Statewide.

Status of Statewide's Assets

Prior to the entry of the Rehabilitation Order, Statewide entered into certain reinsurance contracts under which Statewide ceded to SCOR and SCOR agreed to assume and reinsure Statewide for certain losses arising out of insurance written by or on behalf of Statewide. On January 28, 2002, this Court approved a reinsurance commutation agreement (the "Stop Loss Commutation Agreement") between the Receiver and SCOR under which the parties' rights and obligations under four (4) Stop Loss Reinsurance Contracts between the parties were fully and finally settled. (Dkt. No. 6). On September 6, 2005, this Court approved a second reinsurance commutation agreement (the "Automobile Quota

Share Commutation Agreement"), under which all remaining rights and obligations between Statewide and SCOR were settled. (Electronic Dkt. No. 6; EFile No. 6616986). As a result of the two commutation agreements, Statewide no longer has any reinsurance to collect.

Statewide's reinsurance recoverables constituted Statewide's major assets. Statewide also had certain subrogation recoveries to which it was entitled from other insurers. The Receiver has resolved all of those subrogation matters. Therefore, the estate has now liquidated all of its assets.

From inception of the Receivership to the filing of this Petition, the Receiver has collected \$2,264,470 in reinsurance recoveries, \$382,088 in subrogation recoveries, and \$28,609 from the liquidation of other assets.

#### Status of Statewide's Liabilities

All of Statewide's policyholder claims, third party tort claims, and subrogation claims by other insurers against Statewide have now been resolved by the Receiver, either by settlement, through the entry of judgments, or by waiver by the claimants through their failure to file a timely proof of claim by the Bar Date, which is discussed further below. The total paid for all such claim

resolutions from the inception of the Receivership to the filing of this Petition was \$2,171,147.00.

All such policy claims which were resolved through December 31, 2005, were deemed allowed as claims against Statewide and were not required to file a proof of claim by the Bar Date. Although the estate received one inquiry from a policyholder, John Dobry, Proof of Claim Number 103, that claim was determined to have been resolved. The Receiver sent Mr. Dobry a Notice of Determination indicating that his claim had already been resolved and that the Receiver was recommending that the claim be disallowed in its entirety. Mr. Dobry did not file a timely objection to the Receiver's determination. Therefore, the Receiver is recommending that that sole proof of claim in the policyholder level class be disallowed in its entirety because it has been fully resolved. That claim is set forth on the Receiver's Claim Recommendation Report in Exhibit 2 to the Receiver's Final Report, filed contemporaneously with this Petition.

Certain other claimants, particularly vendors and other creditors had claims or potential claims against Statewide which would have qualified as general creditor claims of Statewide if Statewide were in liquidation

proceedings. Pursuant to the Rehabilitation Plan, a general creditor class was created for this rehabilitation proceeding. The claim of one general creditor, Zutz Management, Inc. ("Zutz"), had already been resolved through a Court-approved settlement. Pursuant to that settlement, the Zutz Claim was deemed allowed as a general creditor claim in the amount of \$39,362.26. Only three other general creditors filed timely proofs of claim on or before the Bar Date: the Delaware Insurance Department for amounts due to the Department prior to entry of the Rehabilitation Order, the Insurance Services Office for pre-rehabilitation expenses, and the South Dakota Division of Insurance for a claim against another entity but mistakenly filed as a claim against this estate. The Receiver issued a Notice of Determination to the South Dakota Division of Insurance that the Receiver would recommend disallowance of that claim as it was not a claim against this estate, but instead was a claim against a similarly named entity in another jurisdiction. The South Dakota Division of Insurance did not file a timely objection to that determination.

The total amount of the claims in the general creditor class for which the Receiver is recommending allowance is \$58,828.33, as set forth in the Claim Allowance and Distribution Report included as Exhibit 2 to the Final Report filed contemporaneously with this Petition.

Statewide's Current Financial Condition

At the time the Receiver filed the Rehabilitation Plan Petition, there were not sufficient assets to pay all of the policyholder, third party tort, subrogation and other claims or potential claims in full. However, as a result of the settlement of numerous policy claims and the waiver of certain other policy or general creditor claims or potential claims by various claimants through their failure to file a proof of claim on or before the Bar Date, Statewide's assets now currently exceed its liabilities. Therefore, Statewide is technically solvent. However, Statewide does not have sufficient funds to meet the minimum capital and surplus requirements to conduct business as an insurer in Delaware.

It is the Receiver's understanding that Statewide's sole stockholder, Statewide Insurance Holding Company ("SIHC") has no desire to resume control of Statewide and has no plans to provide additional capital to the insurer.

Statewide has also not written any insurance in over five (5) years. Therefore, the Receiver believes that continuation of Statewide as an insurance company in Delaware would be hazardous to and not in the best interests of the prospective policyholders and the public.

Contemporaneously with the filing of this Petition, the Receiver has filed the Final Accounting of the estate. The Final Accounting indicates that the insurer has no open policy level claims, will have sufficient assets available to pay all of its allowed general creditor claims in full, will have paid or reserved funds for payment of all of the estate's administrative expenses, and will have sufficient assets remaining to remit some funds to the sole stockholder, SIHC, upon closure of the estate.

#### Basis for Liquidation

The Delaware Insurance Code, in 18 *Del. C.* §5906, provides that the Commissioner may apply to the Court for an order liquidating an insurer based upon any of the grounds set forth in 18 *Del. C.* §5905 (grounds for rehabilitation; domestic insurers), or if the insurer has ceased transacting business for a period of one year or is insolvent and has sought to voluntarily wind up its affairs. The grounds for rehabilitation in 18 *Del. C.*

§5905(1) include impairment of the insurer, unsound condition, or such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders. A finding of insolvency is not a prerequisite to the entry of an order of liquidation against an insurer.

As set forth above, it appears that SIHC has no desire to resume control of Statewide. The purpose of the receivership has been fulfilled. In order to properly conclude the company's existence, the Receiver is seeking to dissolve the corporate existence of Statewide at the conclusion of the receivership.

A Delaware domiciled insurer may be dissolved under the Delaware Corporate Law or under the Delaware Insurance Code. Under the Delaware Corporate Law, the dissolution takes place upon the filing of a certificate of dissolution pursuant to 8 Del. C. §275(f). However, pursuant to 8 Del. C. §278, the corporation's existence would continue for a period of three years from such dissolution for the purpose of winding up the corporation's affairs. As all claims properly filed by the Bar Date have been resolved or ascertained through the proof of claim process, the winding up period under the Delaware Corporate Law would have

little or no effect other than to deplete the assets remaining for distribution to the sole stockholder, SIHC. Statewide's estate also does not have sufficient assets to remain open for another three years.

The Delaware Insurance Code provides a separate provision for dissolving the corporate existence of an insurer. That statute, 18 DeL. C. §5911, provides, in pertinent part:

Order of liquidation; domestic insurers;  
insolvent insurer's assets

\* \* \*

(b) The Commissioner may apply for and secure an order dissolving the corporate existence of a domestic insurer... upon the Commissioner's application for an order of liquidation of such insurer or at any time after such order has been granted. The court may order dissolution of the corporation upon petition by the Commissioner upon or after the granting of a liquidation order. If the dissolution has not previously been ordered, it shall be effected by operation of law upon the discharge of the liquidator if the insurer is insolvent. *However, dissolution may be ordered by the court upon the discharge of the liquidator if the insurer is under a liquidation order for some other reason...*

(Emphasis supplied). By its terms, the statute applies to insurers for which an order of liquidation has been

entered. For such insurers, the Court may order the dissolution of the insurer at any time during the receivership proceedings. There is no provision in the statute for such an expedited dissolution of the corporate existence of an insurer in rehabilitation proceedings.

Although Statewide is technically solvent, sufficient other grounds exist for Statewide to be liquidated. Therefore, the Receiver is seeking the entry of an Order of Liquidation without a finding of insolvency. A finding of insolvency is neither necessary nor appropriate at this point. Statewide has sufficient assets to pay the remaining claims which the Receiver is recommending be allowed by the Court. Further, a finding of insolvency would unnecessarily trigger the involvement of the Delaware Insurance Guaranty Association ("DIGA").

Impact upon the Delaware Insurance Guaranty Association

At the time the Rehabilitation Plan Petition was filed, the Receiver sought to avoid invoking the participation of DIGA in this estate. Involvement of DIGA in an estate that was nearly completed would have added an additional layer of administrative expense which the Receiver deemed unnecessary at that time. Now that all of the policy claims have been resolved, there is even less

reason to trigger DIGA's involvement. Participation by DIGA at this point would merely add to the estate's administrative expenses without any measurable benefit.

DIGA's enabling statute expressly provides that DIGA's involvement will not be triggered unless the Court enters a liquidation order with a finding of insolvency. That statute, at 18 *Del. C.* ch. 42, specifically defines a "covered claim" as certain specified claims against an "insolvent insurer" (18 *Del. C.* §4205(6)) and further defines an "insolvent insurer" as one governed by that statute "against whom an order of liquidation with a finding of insolvency has been entered" (emphasis supplied; 18 *Del. C.* §4205(7)).

As noted above, Statewide is technically solvent. Other grounds exist to have the insurer liquidated. By the entry of an Order of Liquidation without a finding of insolvency, DIGA's involvement in this estate would not be unnecessarily triggered. DIGA would have no liability for any Statewide claims, whether presently existing or arising in the future.

Final Report

Contemporaneously with the filing of this Petition, the Receiver has filed the Final Report. The Final Report contains the Receiver's recommendations for closing the estate, including:

(a) the issuance of an Order of Liquidation without a finding of insolvency, with adoption of the Bar Date which has already expired, and a waiver of the statutory requirement to file an early access plan for guaranty associations;

(b) approval of the prior accountings and the Final Accounting of the estate;

(c) the approval of a plan of allowance of claims and distribution of the assets of the estate, as set forth in the Final Report, subject to the Receiver's discretion to require the sole shareholder to provide the estate with a tax indemnification agreement prior to any initial or partial distribution to the shareholder if the Receiver deems such agreement necessary;

(d) authorization for the Receiver to destroy all of the records of the estate upon the successful conclusion of the winding up process or upon completion of the distributions to the general creditors if the records are

not required to be maintained for winding up or tax purposes;

(e) the revocation of the corporate charter of Statewide and the dissolution of Statewide pursuant to 18 Del. C. §5911(b) upon the entry of the Court's Order granting the Petition;

(f) the allowance of a reserve of \$75,000 for the final administrative expenses anticipated to be incurred in connection with the termination of the estate, with any excess funds remaining after completion of the estate closure being remitted to the sole stockholder, SIHC, provided that if the Receiver is not satisfied that all potential tax liability of the estate has been resolved, the Receiver seeks authority from the Court, to require or not, in the Receiver's sole discretion, that such final payment to SIHC be subject to an indemnity agreement whereby SIHC agrees to indemnify and hold harmless the Statewide estate, and the Receiver and Deputy Receiver and their Assistants, from and against any and all potential tax liabilities of the estate;

(g) release and discharge of the Receiver, the Deputy Receiver, and their Assistants;

(h) dismissal of the above-captioned matter; and

(i) such other relief relating to the termination of the Receivership as may be necessary and proper in light of the Final Report.

The Receiver believes that the proposed entry of the Order of Liquidation without a finding of insolvency, approval of the Final Report of the Receivership, release and discharge of the Receiver, Deputy Receiver and their authorized Assistants, and the dissolution of Statewide pursuant to 18 Del. C. §5911(b) are in the best interests of the estate, the policyholders, the other creditors of the estate, and the general public.

WHEREFORE, the undersigned attorney, on behalf of the Honorable Matthew Denn, Insurance Commissioner of the State of Delaware, in his capacity as Receiver and on behalf of Statewide, respectfully requests that this Honorable Court issue an Order to Show Cause in the form filed contemporaneously with this Petition and, after notice to all interested parties and pursuant to notice published once in a newspaper of general circulation in Delaware, substantially in the form of notice appended hereto as Exhibit 1, and after a hearing on the Petition, grant the Receiver's Petition for Entry of an Order of Liquidation of Statewide without a finding of insolvency, Approval of the Final Report of the Receiver, Release and Discharge of the Receiver, Deputy Receiver, and Assistants, and Dissolution of Statewide Insurance Company, through the entry of an Order:

(1) declaring that Statewide Insurance Company should be liquidated without a finding of insolvency on the grounds set forth herein;

(2) approving the Final Report of the Receivership, filed contemporaneously with this Petition;

(3) approving the Final Accounting of the estate and all prior accountings;

(4) approving the Receiver's Claim Recommendation Report and Distribution Plan and authorizing and ordering distribution to the allowed claims pursuant to the Receiver's recommendation;

(5) authorizing the Receiver to require, if the Receiver in his sole discretion deems it necessary to resolve potential tax liability of Statewide or its estate, that any payments to SIHC be contingent upon SIHC's execution of an appropriate indemnity agreement whereby SIHC agrees to indemnify and hold harmless the Statewide estate, and the Receiver and Deputy Receiver and their Assistants, from and against any and all potential tax liability resulting from the initial distribution, the final distribution or any other payments from the estate. In the event that the expense reserve is insufficient to pay all final expenses of this estate, the Receiver requests the authority to decrease accordingly the payment to SIHC to cover any deficiency in the expense reserve. Otherwise, the Receiver seeks authority to pay all assets remaining after distribution to all creditors in full and payment in full of all administrative expenses of any remaining assets to SIHC after the conclusion of all steps to terminate the Statewide estate.

(6) authorizing the Receiver to destroy all of the estate's records upon the completion of the winding up of the estate and discharge of the Receiver, unless the Receiver determines that the records need not be retained for winding up or tax purposes, in which event the records may be destroyed after completion of the distribution to the general creditors;

(7) releasing and discharging the Receiver, his Deputy Receiver, their predecessors, and their Assistants upon the completion of the distribution according to the Claim Recommendation Report and Distribution Plan, the filing of the tax returns and, if deemed necessary by the Receiver in his sole discretion, the acceptance of such returns by the Internal Revenue Service through its expedited determination, the payment of all administrative expenses of the estate, and the distribution of any remaining assets to SIHC;

(8) dissolving Statewide Insurance Company pursuant to 18 Del. C. §5911(b) upon the entry of the Order granting the Petition, and ordering the Delaware Secretary of State, Division of Corporations, to accept the filing of the Order as a Certificate of Dissolution, effective immediately upon

filing with no winding up period, without the payment of any filing fees pursuant to 18 Del. C. §5922;

(9) amending the caption in this matter to reflect the entry of an order to liquidate Statewide, so that the caption hereafter reads "In the Matter of Statewide Insurance Company in Liquidation"; and

(10) granting such other relief relating to the termination of the Receivership as may be just, equitable, necessary and proper in light of the Final Report.

Respectfully submitted,

DIANE J. BARTELS, ESQUIRE

BY:



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Wilmington, Delaware  
19802-4810  
Telephone: (302) 656-7207  
Attorney for the  
Honorable Matthew Denn,  
in his capacity as  
Receiver of and on behalf  
of Statewide Insurance  
Company in Rehabilitation

Dated: August 31, 2007



Exhibit 1

**NOTICE OF ORDER TO SHOW CAUSE**

Delaware Insurance Commissioner  
Matthew Denn, as Receiver of  
**Statewide Insurance Co. in  
Rehabilitation** filed a Petition  
in the Court of Chancery in  
Delaware seeking approval to liquidate the  
company and close the estate. **THE  
PETITION MAY AFFECT YOUR RIGHTS.**

The Petition and related documents  
provide for the payment of certain  
outstanding general creditor claims and,  
after administrative expenses have been  
satisfied in full, for the payment of  
any remaining funds to the sole  
shareholder, Statewide Insurance  
Holding Company. The Petition also  
requests the immediate dissolution of  
the corporate charter of the Statewide  
Insurance Company. The Petition  
would adopt the prior February 28,  
2006, Bar Date for filing claims  
against the estate. The Petition and  
related documents can be  
downloaded from [www.state.de.us/  
incom/stwdinsco.shtml](http://www.state.de.us/incom/stwdinsco.shtml) or obtained from  
the estate: 841 Silver Lake Blvd.,  
Ste. 205, Dover, DE 19904, Tel.  
(302) 735-1800, Fax (302) 735-5565.  
The Court entered an Order to Show  
Cause setting the hearing on the  
Petition for \_\_\_\_\_, \_\_\_\_\_, 2007,  
at \_\_\_\_\_m., New Castle County  
Courthouse, 500 N. King St,  
Wilmington, Delaware. Objections  
are due \_\_\_\_\_, \_\_\_\_\_, 2007.



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
STATEWIDE INSURANCE COMPANY ) C.A. No. 18668NC  
IN REHABILITATION )

**FINAL REPORT OF THE RECEIVERSHIP**

THE HONORABLE MATTHEW DENN,  
Insurance Commissioner of the  
State of Delaware, in his  
capacity as Receiver, and  
George J. Piccoli, CFE, in  
his capacity as Deputy Receiver  
Delaware Department of Insurance  
Rehabilitation and Liquidation Bureau  
841 Silver Lake Blvd., Suite 205  
Dover, DE 19904  
(302) 735-1800

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The Honorable Matthew Denn, Insurance Commissioner of the State of Delaware, in his capacity as the Receiver (the Receiver") of Statewide Insurance Company in Rehabilitation ("Statewide"), in support of his application for approval of the final accounting and discharge of the Receiver in the above-captioned matter, reports to the Court by and through George J. Piccoli, CFE, his deputy for this proceeding appointed pursuant to 18 Del. C. §5913(f), as follows:

I. HISTORY OF THE RECEIVERSHIP

Statewide was licensed to issue property and casualty insurance policies only in Delaware. The company issued primarily personal automobile insurance policies with the minimum limits required by law.

By early 2001, Statewide had insufficient capital and surplus to meet the minimum regulatory requirements in the Delaware Insurance Code. Therefore, with the consent of Statewide, on February 6, 2001, the Insurance Commissioner's predecessor, Donna Lee H. Williams, petitioned this Court for the entry of a Stipulated Rehabilitation and Injunction Order. On February 8, 2001, pursuant to 18 *Del. C.* §5905, a Stipulated Rehabilitation and Injunction Order (the "Rehabilitation Order") was entered against and concerning Statewide. The Insurance Commissioner was appointed as the Receiver to take steps to attempt to rehabilitate Statewide's impaired financial condition. (Dkt. No. 3). Former Insurance Commissioner Williams was succeeded by the Honorable Matthew Denn as Insurance Commissioner and as Receiver of Statewide. George J. Piccoli, CFE was appointed as the Deputy Receiver of Statewide at the inception of the receivership and continues to serve in that capacity.

The Commissioner, as the Receiver of Statewide, was directed to immediately take possession and control of the property, assets, business and affairs of Statewide and to attempt to rehabilitate Statewide pursuant to the provisions of Chapter 59 of the Delaware Insurance Code, 18 *Del. C.* ch. 59. The Receiver was authorized by the Rehabilitation Order to take such actions as the nature of this cause and the interests of the policyholders, creditors and stockholders of Statewide and the public may require. The Receiver was vested by the Rehabilitation Order with title to all property, contracts and rights of action of Statewide and was authorized to deal with the property, business and affairs of Statewide and to sue and defend for the Company or for the benefit of Statewide's policyholders, shareholders and creditors in courts and tribunals, agencies or arbitration panels for this State and other states in the name of the Insurance Commissioner of the State of Delaware, or in the name of Statewide.

The Rehabilitation Order vested the Commissioner with the right, title and interest in and to all funds recoverable under treaties and agreements of reinsurance heretofore entered into by Statewide as the ceding insurer, and all reinsurance companies involved with Statewide were enjoined and restrained from making any settlements with any claimant or policyholder of Statewide other than through the Commissioner as Receiver, except as permitted by certain cut-through agreements or endorsements, as specified in the Rehabilitation Order.

## II. SIGNIFICANT EVENTS DURING THE RECEIVERSHIP

### A. Resolution of Litigation with Third Party Claims Adjuster

Prior to the inception of the Receivership, Statewide was engaged in litigation with a former third party claims adjuster, Zutz Management, Inc. ("Zutz") in the Superior Court of the State of Delaware in and for New Castle County. The litigation involved certain disputes concerning the parties contractual relationship under which Zutz had adjusted claims for

Statewide while Statewide was an ongoing entity. During the Receivership, Statewide and Zutz settled all claims in a settlement approved by this Court. Pursuant to that settlement, Zutz was deemed to have a timely filed, general creditor claim in the amount of \$39,362.26. The nature of the litigation and the details of the parties' settlement are described more fully in the Receiver's petition seeking approval of that settlement.

B. Resolution of All Other Claims

The Receiver has resolved all of Statewide's outstanding policy claims during the rehabilitation proceedings. Therefore, no policy claims remain to be paid.

In addition to the Zutz's allowed claim, several other general creditors also filed claims with the Receiver on or before the Bar Date. The Receiver has reviewed and, where appropriate, adjusted those claims. The Receiver is recommending that certain general creditor claims be allowed as claims against the estate as set forth in the Proposed First and Final Distribution.

C. Commutation of All Reinsurance Treaties

By Orders of this Court entered at various times during the Receivership, certain commutation agreements with Statewide's sole reinsurer, Scor Reinsurance Company, were commuted. Therefore, Statewide no longer has any reinsurance recoverables to collect. The Receiver believes that substantially all reinsurance recoveries due to Statewide were collected as a result of these commutation agreements.

D. Resolution of All Subrogation Matters

The Receiver has also resolved all outstanding subrogation matters for which recoveries were due to or from Statewide to other insurers.

E. Enactment of Rehabilitation Plan and Resolution of Underinsured Insurance Statute of Limitations Issue

After the passage of most of the statutes of limitations periods and after most of the open claims had been resolved, the Receiver prepared a plan for winding up the receivership. On November 17, 2005, the Receiver submitted the Receiver's "Petition for Approval of the Plan of Rehabilitation of Statewide Insurance Company" (the "Rehabilitation Plan Petition"), which the Court approved on January 13, 2006.

The Rehabilitation Plan provided, *inter alia*, for a Bar Date of February 28, 2006 (the "Bar Date") for the submission of all claims against Statewide. The Rehabilitation Plan and Bar Date also confirmed that any outstanding claims, regardless of whether notice was given to the Receiver of such claims, for underinsured motorist coverage were barred forever if not filed with the Receiver on or before the Bar Date. The Rehabilitation Plan further enjoined all persons or entities from making any claim against a Statewide insured if such claim should have been filed against Statewide. Finally, the Rehabilitation Plan established classes of claims so that the Receiver could conclude the protection of the policyholder claims, including any subrogation claims by other insurers against Statewide's policyholders, prior to addressing general creditor claims.

III. FEDERAL INCOME TAXES

Statewide Insurance Holding Company ("SIHC") was the sole stockholder and immediate corporate parent of Statewide. Prior to the receivership, SIHC and Statewide filed their corporate income tax returns on a consolidated basis. Upon information and belief, Statewide was the main asset of SIHC. Subsequent to the receivership, SIHC ceased filing its Federal income tax and state income tax returns, and failed to cooperate with Statewide in the

filing of such returns. Therefore, the Receiver filed Statewide's tax returns solely on behalf of Statewide, rather than on a consolidated basis.

The United States Department of the Treasury, Internal Revenue Service, has enacted a protocol for insolvent companies, particularly those in Federal bankruptcy proceedings, to receive prompt determinations of their tax liabilities, if any. Under that protocol, the Receiver sought and obtained prompt determinations that Statewide did not have any Federal tax liability for its 2003, 2004 and 2005 tax years. The Receiver is currently assessing whether the estate needs to prepare requests to receive prompt determinations of Statewide's 2006 and 2007 tax years, for which years the Receiver has determined that Statewide has no Federal tax liability. The Receiver has also determined that Statewide has no other outstanding state or local tax liabilities, other than one allowed claim to the Delaware Department of Insurance for certain assessments.

#### IV. ACCOUNTING AND APPROVAL OF ADMINISTRATIVE EXPENSES

##### A. Accounting

The Receiver has filed accountings with the Court from time to time throughout the Receivership. The most recently filed accounting was the Eleventh Accounting of the Receiver for the period from January 1, 2006, through June 30, 2006, which was filed on November 29, 2006. Attached hereto as Exhibit 1, and made part of this Final Report is the Twelfth and Final Accounting of the Receiver, as prepared by the Receiver's accounting staff. Filed contemporaneously with this Final Report is the Affidavit of Nicholas J. Marfia, CPA, CFE, attesting to the fact that the Final Accounting, this Final Report, and the Receiver's Petition to liquidation the company and close the estate (the "Closing Petition") are just and true and correct to the best of his knowledge, information and belief.

B. Administrative Expenses

As provided in the Rehabilitation Plan and, if a liquidation order were to be entered, as provided in 18 Del. C. §5918(c), the costs of administration of this estate are entitled to the highest priority in the distribution of the assets of the estate. The Receiver requests that payment of the costs of administration of the estate, as set forth in the Twelfth and Final Accounting, be allowed by the Court as necessary and reasonable.

V. REQUEST FOR APPROVAL OF EXPENSE RESERVES AND OF PROPOSED DISTRIBUTION TO CLAIMANTS AND STOCKHOLDER

A. Expense Reserve

Subject to the condition stated in paragraph V(C) below, the Receiver recommends, and requests approval of, a reserve of \$75,000.00 to cover legal, accounting, and administrative costs which will be incurred in the proceedings to terminate this estate, as referenced in the Twelfth and Final Accounting. Upon the completion of all steps required to terminate this estate, any balance remaining, if any, of this reserve will be paid to the sole stockholder, SIHC.

B. Proposed Distribution to Claimants

The Receiver further recommends, and requests approval for, a first and final distribution to allowed general creditor claimants of 100% of their adjusted Proof of Claim amounts, as set forth in the Proposed First and Final Distribution schedule, which is attached hereto as Exhibit 2. The proposed distribution to claimants will total \$58,828.33, comprising payments to general creditor claimants. As noted above and in accordance with the Rehabilitation Plan, all policyholder level claims which were resolved prior to December 31, 2005, or which were timely filed on or before the Bar Date have already been resolved and paid in the full amount as determined by the Receiver.

The Receiver is also seeking a final determination from the Court disallowing two proofs of claim for which the Receiver issued recommended determinations that the claims were zero, for John Dobry and the South Dakota Division of Insurance. These two disallowed claims would not participate in any distributions of the estate's assets.

C. Proposed Distribution to Stockholder

After the establishment of the expense reserve, as requested in paragraph V(A) above, and payment of the proposed first and final distribution to claimants, as requested in paragraph V(B) above and as specified in the Proposed First and Final Distribution schedule attached as Exhibit 2, approximately \$41,748.00 will remain as the assets of this estate. The Receiver recommends, and requests approval that, following the Proposed First and Final Distribution to all general creditors, the Receiver be authorized to disburse \$41,748.00 to SIHC, subject to the Receiver's right in his sole discretion to require an appropriate tax indemnification agreement from SIHC before such distribution.

Further, after all of the Receiver's duties in closing the estate have been discharged and all administrative expenses have been paid, the Receiver seeks authorization to disburse any funds remaining in the estate, to SIHC, as the sole stockholder and corporate parent of Statewide at the conclusion of all steps required to terminate the estate and payment of all outstanding administrative expenses, subject to the Receiver's right in his sole discretion to require an appropriate tax indemnification agreement from SIHC before such distribution. In the event that the expense reserve is insufficient to pay all final expenses of this estate, the Receiver requests the authority to decrease accordingly the payment to SIHC to cover any deficiency in the expense reserve.

VI. REQUEST FOR DISCHARGE OF THE RECEIVER  
CONCERNING CERTAIN ITEMS

Without limiting the generality of the Receiver's prayer for discharge, the Receiver requests to be discharged, and requests the discharge of former Commissioner Williams, Deputy Receiver Piccoli, and all present and former assistants, consultants, auditors, attorneys, accountants, and other professionals providing services to the Receiver and Deputy Receiver in this proceeding, with respect to the following claims:

1. Any and all claims arising out of Statewide's insurance policies;
2. Any and all subrogation claims against Statewide and/or its policyholders;
3. Any and all reinsurance premium claims or other claims arising out of the reinsurance treaties between Statewide and its reinsurers;
4. Any and all general creditor claims
5. Any and all other claims against Statewide, the Receiver, the Deputy Receiver, and/or all present and former assistants, consultants, auditors, attorneys, accountants, and other professionals retained by the Receiver and Deputy Receiver of whatever nature arising out of the operation of Statewide or the conduct of the Receivership.

VII. DESTRUCTION OF RECORDS OF THE ESTATE

To avoid waste the Receiver requests the Court's approval to destroy the records of the estate upon the Receiver's discharge or earlier if the records are not required to be maintained to discharge his duties or for tax purposes. Given the passage of time since the inception of the Receivership and the Bar Date, the fact that the estate has received prompt determinations of its Federal tax liabilities through December 31, 2005, and the Receiver's determination that there

are no Federal tax liabilities for 2006 and 2007, there is no reason to continue the expense of maintaining these records, and to do so would constitute waste.

#### VIII. DISPOSITION OF ASSETS RECEIVED SUBSEQUENT TO DISCHARGE

The Receiver does not anticipate that there will be any further assets of Statewide subsequent to the distributions set forth herein and in the Proposed First and Final Distribution. However, in the event that any unexpected assets are identified or received after the date of discharge of the Receiver, the Receiver recommends, and requests approval, that any such assets be disbursed, net of any expenses incurred, to SIHC, as the sole stockholder and corporate parent of Statewide, until such time as SIHC no longer exists, subject to the Receiver's right in his sole discretion to require an appropriate tax indemnification agreement from SIHC before any such distribution. Should SIHC no longer exist at the time such assets are identified or received, the Receiver recommends that any such assets be disposed of as directed by this Court.

#### IX. DISSOLUTION OF THE CORPORATE CHARTER

After the entry of the Rehabilitation Order by this Court on February 8, 2001, Statewide has done no business other than winding up the company's affairs. No application has been filed on behalf of the stockholder or management of Statewide to continue its corporate existence. Accordingly, pursuant to his statutory responsibility to protect the public, the Receiver is seeking to dissolve the corporate existence of Statewide. In order to avoid waste of the remaining assets and to expedite the dissolution without invoking the involvement of the Delaware Insurance Guaranty Association, the Receiver is seeking to have an order of liquidation entered without a finding of insolvency. Thereafter, the Receiver is recommending and requesting that Statewide be dissolved pursuant to 18 Del. C. §5911(b).

## CONCLUSION

WHEREFORE, the Receiver respectfully requests that this Honorable Court:

1. Approve the costs of administration of this estate, as stated in paragraph IV above, and as set forth in the Final Accounting in Exhibit 1 attached hereto, and all prior accountings filed by the Receiver;
2. Approve the expense reserve, as stated in paragraph V(A) above;
3. Approve the Proposed First and Final Distribution, as stated in paragraph V(B) above, and as set forth in Exhibit 2 attached hereto;
4. Approve the proposed distribution to Statewide Insurance Holding Company, as the sole stockholder of Statewide, as stated in paragraph V(C) above, subject to the Receiver's discretion to require a tax indemnity agreement referenced herein and in the Closing Petition;
5. Approve the discharge of the Receiver, the Deputy Receiver, and the professionals and assistants who have provided services to the Receiver for this estate, as stated in paragraph VI above;
6. Approve the destruction of the records of this estate, as stated in paragraph VII above;
7. Approve the proposed distribution of any assets received by this estate subsequent to the discharge of the Receiver, as stated in paragraph VIII above;
8. Enter an order of liquidation without a finding of insolvency, on the grounds set forth in the "Receiver's Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and

Dissolution of Statewide Insurance Company Pursuant to 18 Del. C. §5911(b),” filed contemporaneously with this report;

9. Approve the dissolution of the corporate charter of Statewide, as stated in paragraph IX above; and

10. Grant the Receiver such other and further relief as this Court deems just and equitable.

THE HONORABLE MATTHEW DENN,  
Insurance Commissioner of the State  
of Delaware, in his capacity as the  
Receiver of Statewide Insurance  
Company in Rehabilitation

By: 

Diane J. Bartels, Esquire  
Counsel to the Receiver  
DE Bar No. 2530  
Brandywine Village  
1807 North Market St.  
Wilmington, DE 19802-4810  
(302) 656-7207  
Email: DBartelsDE@aol.com

Dated: August 31, 2007

EXHIBIT 1 TO THE FINAL REPORT OF THE RECEIVERSHIP  
IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

EFiled: Aug 31 2007 4:53PM EDT  
Transaction ID 16164903  
Case No. 18668-VCS



IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
STATEWIDE INSURANCE ) C.A. No. 18668NC  
COMPANY IN REHABILITATION )

THE TWELFTH AND FINAL ACCOUNTING OF THE RECEIVER,  
THE HONORABLE MATTHEW DENN

FOR THE PERIOD JULY 01, 2006 THROUGH JANUARY 31, 2007

DIANE J. BARTELS, ESQUIRE

By: 

DIANE J. BARTELS

Delaware Bar No. 2530  
Brandywine Village  
1807 North Market Street  
Wilmington, DE 19802-4810  
(302) 656-7207

Attorney for Matthew Denn, Insurance  
Commissioner of the State of Delaware,  
in his Capacity as the Receiver of  
Statewide Insurance Company

Dated: August 30, 2007

## **INTRODUCTION**

This report presents the summary of transactions for the period July 01, 2006 through January 31, 2007; the principal balance of the Estate as of January 31, 2007; and the funds available for distribution.

The Court of Chancery approved the Receiver's Plan of Rehabilitation (Plan) for Statewide on January 13, 2006, establishing the bar date of February 28, 2006, for filing claims against the estate.

The Plan provided that all claims not resolved on or before December 31, 2005, were required to file a proof of claim (POC) by February 28, 2006, unless the claim was already deemed filed. There is one unpaid general creditor claim which is deemed filed. The remaining "deemed filed" claims have been fully paid. (The Plan establishes classes of claims for priority insureds and claimants and for general creditors.) The estate has accepted, subject to Court approval of the recommendations, two other general creditor proofs of claim. Therefore, there are now only three general creditor claims, with an aggregate value of \$58,828 eligible for distributions to that class. Subject to Court approval, the stockholder will receive an initial distribution of \$41,748 plus any remaining funds that are in excess of the \$75,000 being held for final expenses in closing the estate.

**SUMMARY OF RECEIPTS AND DISBURSEMENTS**

Page(s)

Total Assets as of June 31, 2006	\$ 200,063	
Less: Disbursements for 7 month period	<u>24,487</u>	(3)
Total Assets as of Jan 31, 2007	\$ 175,576	

Less Reserve For:

Legal Fees	\$20,000	
Accounting and Consulting	20,000	
Administrative	20,000	
Record Destruction\Mailing	<u>15,000</u>	
Total Reserves		<u>75,000</u>
Available for Distribution		<u>\$ 100,576</u>

Distribution awaiting Court Approval

Priority #4 (General Creditors)	\$ 58,828
Stockholders	<u>41,748</u>
Total	<u>\$ 100,576</u>

**COMPOSITION OF NET BALANCES**

**PRINCIPAL**

**1/31/07**

Cash	\$174,576
Deposit with Bureau	<u>1,000</u>
Total	<u>\$ 175,576</u>

**DISBURSEMENTS**

Adjusting and Consulting Expenses (See Note 1)	\$ 12,272
Legal & Accounting Expenses (See Note 2)	8,881
Taxes	3,310
Miscellaneous	<u>24</u>
 Total Disbursements	 <u>\$ 24,487</u>

## **NOTES**

1. Adjusting and consulting expenses consisted of payments to INS Consultants, Inc., who managed the estate and who reconstructed the records and provided litigation support.

2. Legal services were provided by Diane J. Bartels, Esquire, who served as general counsel to the Receiver during this reporting period. Accounting services were provided by Cunningham, Porter and Phillips.

**VERIFICATION**

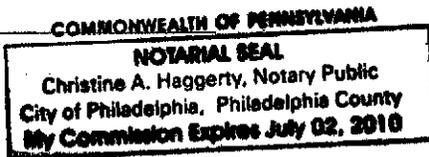
I, George J. Piccoli, being duly sworn according to law, deposes and says that the attached Twelfth Accounting of the Receiver of Statewide Insurance Company in Rehabilitation, for the period July 01, 2006 through January 31, 2007 is true and correct to the best of my knowledge and belief.

  
George J. Piccoli  
Deputy Receiver

SWORN TO AND SUBSCRIBED Before me this 26<sup>th</sup> day of February, 2007

  
Notary Public

My Commission Expires:





STATEWIDE INSURANCE COMPANY IN REHABILITATION

EXHIBIT 2 TO FINAL REPORT OF THE RECEIVERSHIP

<u>POC Number</u>	<u>Proof of Claim Filer and Address</u>	<u>Recommended Value</u>	<u>Priority</u>
<b><u>Policyholder Claims</u></b>			
103	John Dobry 440 Aspen Dr. Dover, DE 19901-1958	\$ 0.00	DENIED
<b>PRIORITY 2 TOTAL</b>		<b>\$ 0.00</b>	

**General Creditors**

101	Delaware Dept. of Insurance 841 Silver Lake Blvd. Dover, DE 19904	\$ 4,551.00	4
102	S.D. Division of Insurance 445 E. Capitol Ave. Pierre, SD 57504	0.00	DENIED
104	Insurance Services Office, Inc. 545 Washington Blvd. Jersey City, NJ 07310	\$ 14,915.07	4
105*	Zutz Risk Management, Inc. 300 Delaware Ave. Wilmington, DE 19801	\$ 39,362.26	4
<b>PRIORITY 4 TOTAL</b>		<b>\$ 58,828.33</b>	

\* Deemed Filed and Allowed under "Settlement Agreement and Release" dated April 26, 2002

EFiled: Aug 31 2007 4:53PM EDT  
Transaction ID 16164903  
Case No. 18668-VCS



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
STATEWIDE INSURANCE COMPANY ) C.A. No. 18668NC  
IN REHABILITATION )

AFFIDAVIT OF NICHOLAS J. MARFIA, CPA, CFE

STATE OF DELAWARE )  
 ) ss:  
COUNTY OF KENT )

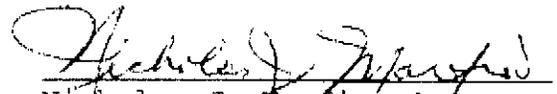
AND NOW, TO WIT, this 30th day of August, 2007, there came before the undersigned, a Notary Public in and for the State and County aforesaid, Nicholas J. Marfia, who, being personally known by me to be such and duly sworn according to law, did depose and say that:

1. He is the Assistant to the Deputy Receiver of Statewide Insurance Company in Rehabilitation in the above-captioned matter, having been appointed as such by the Deputy Receiver pursuant to 18 Del. C. §5913(f).

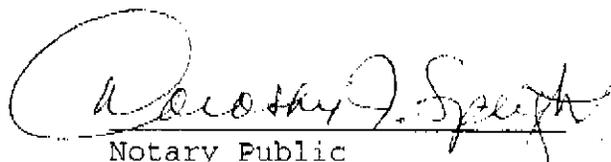
2. The facts set forth in the foregoing "Final Report of the Receivership" (the "Final Report") are true and correct to

the best of his knowledge, information and belief, and the accounting submitted with the Final Report is just and true.

3. He has examined the foregoing "Receiver's Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 Del. C. §5911(b)" (the "Petition") and states that the facts set forth in the Petition are true and correct to the best of his knowledge, information and belief.

  
Nicholas J. Marfia, CPA, CFE  
Assistant to the  
Deputy Receiver of Statewide  
Insurance Company in  
Rehabilitation

SWORN TO AND SUBSCRIBED before me the date and year aforesaid:

  
Notary Public  
My commission expires:

DOROTHY J. SPEIGHT  
NOTARY PUBLIC, STATE OF DELAWARE  
My Commission Expires April 22, 2008



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

IN THE MATTER OF )  
THE REHABILITATION OF ) C.A. No. 18668NC  
STATEWIDE INSURANCE COMPANY )

**ORDER GRANTING THE RECEIVER'S PETITION FOR ENTRY OF ORDER OF LIQUIDATION WITHOUT A FINDING OF INSOLVENCY, APPROVAL OF THE FINAL REPORT OF THE RECEIVERSHIP, AUTHORIZATION FOR DOCUMENT DESTRUCTION, RELEASE AND DISCHARGE OF THE RECEIVER, DEPUTY RECEIVER AND ASSISTANTS, AND DISSOLUTION OF STATEWIDE INSURANCE COMPANY PURSUANT TO 18 DEL. C. §5911(b)**

The Honorable Matthew Denn, in his capacity as the Receiver of Statewide Insurance Company in Rehabilitation ("Statewide") has petitioned the Court for an Order (1) declaring that Statewide Insurance Company should be liquidated without a finding of insolvency on the grounds set forth in the "Receiver's Petition for Entry of Order of Liquidation Without Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 *Del. C.* §5911(b)" (the "Petition"); (2) approving the Final Report of the Receivership (the "Final Report"), filed contemporaneously with the Petition; (3) approving the Final Accounting of the estate and all prior accountings; (4) approving the Receiver's Claim Recommendation Report and Distribution Plan and authorizing and ordering distribution to the allowed claims pursuant to the Receiver's recommendation, and disallowing two other claims; (5) authorizing the Receiver to require, if the Receiver in his sole discretion deems it necessary to resolve potential tax liability of Statewide or its estate, that any payments to SIHC be contingent upon SIHC's execution of an appropriate indemnity agreement

whereby SIHC agrees to indemnify and hold harmless the Statewide estate, and the Receiver and Deputy Receiver and their Assistants, from and against any and all potential tax liability resulting from the initial distribution, the final distribution or any other payments from the estate. In the event that the expense reserve is insufficient to pay all final expenses of this estate, the Receiver requests the authority to decrease accordingly the payment to SIHC to cover any deficiency in the expense reserve. Otherwise, the Receiver seeks authority to pay all assets remaining after distribution to all creditors in full and payment in full of all administrative expenses of any remaining assets to SIHC after the conclusion of all steps to terminate the Statewide estate; (6) authorizing the Receiver to destroy all of the estate's records upon the discharge of the Receiver or, if the records are deemed unnecessary for winding up or tax purposes, then upon the completion of the distribution according to the Claim Recommendation Report and Distribution Plan; (7) releasing and discharging the Receiver, his Deputy Receiver, their predecessors, and their Assistants upon the completion of the distribution according to the Claim Recommendation Report and Distribution Plan, the filing of the tax returns and the acceptance of such returns by the Internal Revenue Service through its expedited determination process unless the Receiver determines that an early determination is not necessary for a particular tax year, the payment of all administrative expenses of the estate, and the distribution of any remaining assets to SIHC; (8) dissolving Statewide Insurance Company pursuant to 18 *Del. C.* §5911(b) upon the entry of this Order, and ordering the Delaware Secretary of State, Division of Corporations, to accept the filing of this Order as the Certificate of Dissolution, effective immediately upon filing with no winding up period, without the payment of any filing fees pursuant to 18 *Del. C.* §5922; (9) amending the caption in this matter to reflect the entry of an order to liquidate Statewide, so that the caption hereafter reads "In the Matter of Statewide

Insurance Company in Liquidation”]; and (10) granting such other relief relating to the termination of the Receivership as may be just, equitable, necessary and proper in light of the Final Report.

In support thereof the Receiver has supplied the Court with information supporting the conclusion that the relief sought in the Petition is in the best interests of the estate, the policyholders, other creditors, the sole stockholder, and the public. Having considered the matter and concluding that the relief sought in the Petition is in the best interests of the estate, the policyholders, other creditors, the sole stockholder, and the public,

NOW, THEREFORE, IT IS HEREBY ORDERED as of the date this Order is docketed in the above-captioned matter that:

1. The Petition is hereby GRANTED;
2. The Court finds that Statewide is impaired, in unsound condition, or in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, as those terms are defined in 19 *Del. C.* §5901. The Court finds that sufficient grounds exist pursuant to 18 *Del. C.* §5911(b) to Order Statewide liquidated without a finding of insolvency, and therefore, the Receiver is hereby ordered to liquidate Statewide.
3. The Court further finds that Statewide is currently solvent and, therefore, nothing in this Order shall be deemed to be a finding of insolvency against Statewide. Further, as this Court is not issuing a finding of insolvency against Statewide, the involvement of the Delaware Insurance Guaranty Association (“DIGA”) is not being triggered by the entry of this Order and DIGA shall have no duties or obligations concerning Statewide’s receivership proceedings. Further, nothing in this Order shall be construed to trigger the involvement of any other state insurance guaranty association.

4. The Insurance Commissioner of the State of Delaware shall continue in his capacity as the Receiver of Statewide Insurance Company until discharged pursuant to the terms of this Order. Until discharged, the Receiver is hereby directed to continue in his exclusive possession and control of, and continue to be vested with all right, title and interest in, of or to the property of Statewide, including, without limitation, all of Statewide's assets, contracts, rights of action, funds recoverable under treaties and agreements of reinsurance heretofore entered into by Statewide as the ceding insurer, books, records, bank accounts, certificates of deposit, collateral securing obligations to, or for the benefit of, Statewide or any trustee, bailee or any agent acting for, or on behalf of, Statewide (collectively, the "Trustees"), securities or other funds, and all real or personal property of any nature of Statewide including, without limitation, furniture, fixtures and office supplies, wherever located, and including such property of Statewide or collateral securing obligations to, or for the benefit of, Statewide or any Trustee thereof that may be discovered hereafter, and all proceeds of or accessions to any of the foregoing, wherever located, in the possession, custody or control of Statewide or any Trustee therefore (collectively, the "Assets"), and to liquidate Statewide pursuant to the provisions of Chapter 59 of Title 18 of the *Delaware Code*, and the Receiver is further authorized to take such actions as the nature of this cause and interests of the policyholders, creditors and stockholders of Statewide and the public may require.

5. The Receiver's is hereby continued to be vested with title to all property, contracts, and rights of action of Statewide and is hereby authorized to continue to deal with the Assets, business and affairs of Statewide, including, without limitation, the right to sue for, defend for or continue suits already commenced by Statewide, or for the benefit of Statewide's

policyholders, stockholders and creditors, in the courts and tribunals, agencies or arbitration panels in this State and other states in his name as the Insurance Commissioner of the State of Delaware, or in the name of Statewide. However, nothing herein shall be construed to vacate this Court's Order Approving Plan of Rehabilitation of Statewide Insurance Company and Establishing Bar Date of February 28, 2006 for Filing Claim, dated January 13, 2006 (the "Rehabilitation Plan/Bar Date Order"), which set February 28, 2006, as the date by which all claims against Statewide were required to be filed with the Receiver or be barred from the estate and not receive any distributions from the general assets of the estate of Statewide. The February 28, 2006, Bar Date shall remain in effect and shall continue to supersede any applicable statutes of limitations, as set forth in paragraph 6 of the Rehabilitation Plan/Bar Date Order. Any claim not already deemed allowed or filed with the Receiver by the Bar Date is hereby barred from sharing in any distribution of the estate's assets. All persons and entities shall also continue to be specifically enjoined and restrained from proceeding with a claim against an insured or other person or entity to whom Statewide owed a defense or indemnification under an insurance policy or contract issued by Statewide to the extent of the limits of liability of the Statewide policy. Nothing herein is intended to revive an expired statute of limitations as to any claims.

6. The filing or recording of this Order or a certified copy hereof with the Clerk of this Court and, in the case of real estate, with the recorder of deeds of the jurisdictions where the property is located, shall impart the same notice as would be imparted by a deed, bill of sale or other evidence of title duly filed or recorded with that recorder of deeds.

7. Except as otherwise indicated elsewhere in this Order, and upon notice provided by the Receiver, all agents and brokers, officers, directors, stockholders and all other persons or entities now or prospectively holding Assets of, or on behalf of, Statewide shall continue in their

obligation to provide an accounting of any Assets in their possession, and to turn over such Assets to the Receiver immediately without any deduction for unearned premium, unearned commission, claims or any other deduction not authorized by the Receiver.

8. The Receiver is also hereby authorized to employ or continue the employment of such deputies, counsel, clerks, employees, accountants, actuaries, consultants, assistants, and other personnel as are necessary to wind up this estate pursuant to 18 Del. C. §5913(f). Such persons or entities shall serve at the pleasure of the Receiver, and shall qualify as Designees and Indemnitees, as those terms are defined in paragraphs 8 and 9 of the February 8, 2001, Stipulated Rehabilitation and Injunction Order entered in this matter (hereinafter the “Rehabilitation Order”). Each and every Designee shall be deemed to have submitted to the jurisdiction of this Court for the resolution of any disputes between the Receiver and such Designee concerning such Designee’s rights, obligations and compensation. While authorized by the Receiver, the Deputy Receiver shall continue to be entitled to exercise all of the powers and authorities vested in the Receiver pursuant to this Order and applicable law. The compensation and expenses of the Deputy Receiver(s) and the Designees and of liquidating Statewide shall be paid out of the funds and assets of Statewide as administrative expenses under 18 *Del. C.* §5913(f), pursuant to the terms of this Order.

9. The Receiver, the Deputy Receivers and the Designees (collectively, the “Indemnitees”) shall have no personal liability for their acts or omissions in connection with their duties during the liquidation proceedings, provided that such acts or omissions are or were undertaken in good faith and without willful misconduct, gross negligence or criminal intent. All expenses, costs and attorney’s fees incurred by the Indemnitees in connection with any lawsuit brought against them in their representative capacities shall be subject to the approval of the

Receiver and shall be exclusively paid out of the funds and assets of Statewide. The Indemnitees shall not be deemed to be employees of the State of Delaware.

10. The Receiver's right, title and interest in and to all funds recoverable under treaties and agreements of reinsurance heretofore entered into by Statewide as the ceding insurer, is hereby continued until such time as the Receiver is discharged pursuant to the terms of this Order. All reinsurance companies involved with Statewide are enjoined and restrained from making any settlements with any claimant or policyholder of Statewide other than the Commissioner as Receiver, except as permitted by cut-through agreements or endorsements which were issued to the policyholder, which were properly executed before the date of the Rehabilitation Order, and which comply in all respects with 18 Del. C. §914, as amended by 72 Del. Laws c. 405. The amounts recoverable by the Receiver from any reinsurer of Statewide shall not be reduced by reason of Statewide's impairment, as a result of this liquidation proceeding, or by reason of any partial payment or distribution on a reinsured policy, contract or claim, and each such reinsurer of Statewide is hereby enjoined and restrained from terminating, canceling, failing to extend or renew, or reducing or changing coverage under any reinsurance policy or contract with Statewide. The Receiver may terminate or rescind any reinsurance policy or contract that is contrary to the best interests of the estate in liquidation. Nothing in this Order shall be construed as vacating any order in the rehabilitation proceedings approving any reinsurance commutation agreement and shall not be construed to affect any such reinsurance commutation agreement entered into by the Receiver and any Statewide reinsurer during the rehabilitation proceedings.

11. The Receiver may change to his own name the name of any of Statewide's accounts, funds or other property or assets held with any bank, savings and loan association or other financial institution, and may withdraw such funds, accounts and other property or assets from such institutions or take any lesser action necessary for the proper conduct of this liquidation proceeding.

12. The Receiver may reject any executory contract to which Statewide was a party prior to the entry of the Rehabilitation Order that the Receiver in his discretion determines is burdensome to Statewide or is otherwise not in its best interest.

13. Statewide, its officers, directors, stockholders, agents, servants and employees and all other persons having notice of these proceedings or of this Order are hereby prohibited from transacting any business of, or on behalf of Statewide or selling, transferring, destroying, wasting, encumbering or disposing of any of the Assets, without the prior written permission of the Receiver or until further Order of this Court.

14. All banks, brokerage houses, agents, reinsurers, or other companies or persons, either having in their possession Assets or possible Assets (including, without limitation, books or records) of Statewide, or having notice of these proceedings or of this Order, are hereby enjoined and restrained from disposing of, selling, wasting, encumbering, transferring or destroying any such Assets or possible Assets (including, without limitation, books or records of Statewide). This prohibition includes, without limitation, Assets, possible Assets, books or records pertaining to any business transaction between Statewide and any of said parties. ANo actions concerning, involving, or relating to such Assets, possible Assets, books or records may be taken by an of the aforesaid persons or entities enumerated herein, without the prior written consent of the Receiver, or until further Order of this Court.

15. All officers, directors, stockholders, agents, servants and employees of Statewide, and all other persons and companies having notice of these proceedings or of this Order, are hereby enjoined and restrained from instituting or further prosecuting any action at law or in equity or in other proceedings against Statewide, the Commissioner as Receiver, the Deputy Receiver(s) or the Designees in connection with their duties as such, or from obtaining preferences, judgments, attachments or other like liens or encumbrances, or foreclosing upon or making of any levy against Statewide or the Assets, or exercising any right adverse to the right of Statewide to or in the Assets, or in any way interfering with the Receiver, the Deputy Receiver(s) or the Designees either in their possession and control of the Assets, books, and records of Statewide or in the discharge of their duties hereunder.

16. All persons and companies are hereby enjoined and restrained from asserting any claim against the Commissioner as Receiver of Statewide, or against the Deputy Receiver(s) or the Designees in connection with their duties as such, or against the Assets, except insofar as such claims are authorized by the Rehabilitation Plan/Bar Date Order or this Order and only if such claims are brought in the liquidation proceedings of Statewide.

17. All parties to lawsuits in this State and all other states and territories of the United States, are hereby enjoined and restrained from proceeding with any pretrial conference, trial, application for judgment or proceedings on judgment or settlements and any such action at law, in equity, special or other proceedings in which Statewide is or was obligated to defend a party insured or any other person it is or was legally obligated to defend by virtue of its insurance contract, to the extent of the coverage afforded by such insurance policy or contract.

18. The Receiver is hereby relieved of his obligation pursuant to 18 *Del. C.* §5911(c) to file an early access plan for the applicable guaranty associations on the ground that involvement of DIGA, the only affected guaranty association, has not been triggered and all policy claims against Statewide have already been resolved in the rehabilitation proceedings.

19. The Final Report is hereby APPROVED in its entirety;

20. The accounting of the Receiver as stated in his Twelfth and Final Accounting and all prior accountings filed by the Receiver in the rehabilitation proceedings are hereby approved, and the expenses and reserves set forth therein are allowed.

21. The Receiver's Claim Recommendation Report and Distribution Plan set forth in Exhibit 1 to the Final Report is hereby approved in its entirety. The Receiver is directed to pay the Adjusted Proofs of Claim against the estate in the amounts set forth in the Receiver's Claim Recommendation Report and Distribution Plan in Exhibit 1 to the Final Report. All payments made to a claimant pursuant to this Order shall constitute a full and final settlement of Statewide's obligations on the underlying claim, and a full and complete release and discharge of Statewide, the Receiver, the Deputy Receiver and the Designees or any and all claims, of any kind or description whatsoever, whether arising at law or in equity, known and unknown, arising out of or relating to the underlying claim. The Receiver is authorized to require such Claimants to provide any information necessary for the Receiver to comply with tax laws concerning such distributions before making payment to such Claimants. The claims filed by John Dobry and the South Dakota Division of Insurance are hereby DISALLOWED in their entirety and shall not share in any distribution of the estate's assets.

22. The Receiver is authorized to pay from an expense reserve of \$75,000 the administrative expenses associated with the termination of the estate. In the event that the expense reserve proves insufficient to pay all final expenses, the Receiver may make application to this Court to increase the reserve or make a claim pursuant to an indemnification agreement between the Receiver and SIHC in order to cover any such deficiency. Any such application shall be made prior to any disbursement to and upon notice to Statewide Insurance Holding Company, Statewide's sole shareholder, as provided for in paragraph 23 of this Order, and any approved increase in the expense reserve will be funded by a corresponding decrease in the amount of such disbursement.

23. The Receiver is directed and authorized to pay to Statewide Insurance Holding Company ("SIHC"), which is the sole shareholder of Statewide Insurance Company, the remaining balance of the expense reserve, after all final administrative expenses are paid, together with the balance of any other funds remaining in the estate after final distribution of the assets of the estate in accordance with the approved plan of distribution. The Receiver is authorized to require, if the Receiver in his sole discretion deems it necessary to resolve potential tax liability of Statewide or its estate, that any payments to SIHC be contingent upon SIHC's execution of an appropriate indemnity agreement whereby SIHC agrees to indemnify and hold harmless the Statewide estate, and the Receiver, the Deputy Receiver and the Designees, from and against any and all potential tax liability resulting from the initial distribution, the final distribution or any other payments from the estate. In the event that the expense reserve is insufficient to pay all final expenses of this estate, the Receiver is hereby authorized to decrease accordingly the payment to SIHC to cover any deficiency in the expense reserve prior to the

distribution to SIHC. The Receiver is authorized to require from SIHC prior to any distribution any information Statewide requires to comply with any applicable tax law.

24. The corporate charter of Statewide Insurance Company is hereby revoked pursuant to 18 *Del. C.* §5911(b). A copy of this Order shall be filed by the Receiver with the Delaware Secretary of State. Pursuant to 18 *Del. C.* §5922, the Receiver is exempt from and shall not be required to pay any fee to the Delaware Secretary of State for the filing, recording, or issuing a transcript or certificate authenticating this Order.

25. Upon the filing of evidence of the completion of all acts directed or authorized by this Order, Matthew Denn, Insurance Commissioner of the State of Delaware, in his capacity as Receiver, George J. Piccoli, in his capacity as Deputy Receiver, their predecessors, and their Assistants (as that term is defined in the Petition) and other Designees shall be RELEASED and DISCHARGED from any and all claims or demands relating in any way to the above-captioned proceeding, including but not limited to any and all claims: (i) against or on behalf of any policyholder of Statewide Insurance Company, or by or on behalf of any person or entity asserting a claim against any policyholder of or directly against Statewide Insurance Company; (ii) for the payment or reimbursement of expenses incurred by, on behalf of, or in the defense of the policyholders of Statewide Insurance Company or on behalf of the estate; (iii) for reinsurance premium or reinsurance recoverables owed or allegedly owed by Statewide Insurance Company or the estate; or (iv) relating to any reinsurance proceeds that may be due to or from the estate but which have not been collected. Furthermore, upon the filing of such evidence of completion, the within proceeding shall be dismissed, without further notice, upon application to this Court.

26. Upon his discharge and release in accordance with paragraph 12 of this Order, the Receiver shall destroy the records of the estate, provided, however, that in order to avoid wasting the remaining assets of the estate, upon the completion of the distribution according to the Claim Recommendation Report and Distribution Plan, the Receiver may destroy such Statewide records as are deemed not necessary to discharge his remaining duties hereunder.

27. Any assets of this estate received after the discharge and release of the Receiver shall be disbursed to Statewide Insurance Holding Company, with any unpaid costs of collection being paid from the proceeds of the assets or Statewide Insurance Holding Company.

28. The caption in this matter is hereby amended to reflect the entry of an order of liquidation, so that the caption hereafter shall read “In the Matter of Statewide Insurance Company in Liquidation.”

29. This Court shall retain jurisdiction in this cause for the purpose of granting such other and further relief as this cause, the interests of Statewide’s policyholders, creditors, and stockholders, and the public, may require.

30. There is no just reason for delay, and this Order, pursuant to Chancery Court Rule 54(b), is entered as a final judgment.

IT IS SO ORDERED as of the date this Order is docketed in the above-captioned matter.

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Vice Chancellor



DIANE J. BARTELS, ESQUIRE  
BRANDYWINE VILLAGE  
1807 NORTH MARKET STREET  
WILMINGTON, DELAWARE  
19802-4810

TELEPHONE: 302-656-7207

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August 31, 2007

The Honorable Leo E. Strine, Jr.  
Court of Chancery of the State of  
Delaware in and for New Castle County  
500 North King Street, Suite 11400  
Wilmington, Delaware 19801

By Hand

Re: In the Matter of the Rehabilitation  
of Statewide Insurance Company  
Civil Action No. 18668NC

Dear Vice Chancellor Strine:

Pursuant to Your Honor's request for an update on the status of and delay in closing the above-referenced matter, the Receiver and the undersigned have been preparing a draft Petition to close the estate and have been working to resolve any outstanding issues concerning tax issues. Toward that end, the Receiver has filed today the following pleadings and related documents, copies of which are enclosed with this letter:

Receiver's Petition for Entry of Order of Liquidation Without a Finding of Insolvency, Approval of the Final Report of the Receivership, Authorization for Document Destruction, Release and Discharge of the Receiver, Deputy Receiver and Assistants, and Dissolution of Statewide Insurance Company Pursuant to 18 Del. C. §5911(b);

Exhibit 1 to the Petition:  
Form of notice of the hearing for publication;

Final Report of the Receivership;

Exhibit 1 to the Final Report:  
The Twelfth and Final Accounting of the Receiver, The Honorable Matthew Denn, for the Period July 1, 2006, Through January 31, 2007;

The Honorable Leo E. Strine, Jr.  
August 31, 2007  
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Exhibit 2 to the Final Report:  
Proposed First and Final Distribution to all  
General Creditors in the Claim Recommendation Report and  
Distribution Plan;

Affidavit of Nicholas J. Marfia, CPA, CFE;

Proposed form of Order to Show Cause Why the "Receiver's  
Petition for Entry of Order of Liquidation Without a Finding  
of Insolvency, Approval of the Final Report of the  
Receivership, Authorization for Document Destruction,  
Release and Discharge of the Receiver, Deputy Receiver and  
Assistants, and Dissolution of Statewide Insurance Company  
Pursuant to 18 Del. C. §5911(b)" Should Not Be Granted;

Proposed form of Order Granting the Receiver's Petition for  
Entry of Order of Liquidation Without a Finding of  
Insolvency, Approval of the Final Report of the  
Receivership, Authorization for Document Destruction,  
Release and Discharge of the Receiver, Deputy Receiver and  
Assistants, and Dissolution of Statewide Insurance Company  
Pursuant to 18 Del. C. §5911(b); and

the Electronic filing receipt.

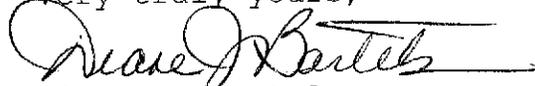
The Petition to close the estate and related pleadings  
contemplate the issuance of an Order to Show Cause to interested  
parties why the estate should not be closed pursuant to the  
provisions set forth in the Petition, the Final Report of the  
Receiver, the Claim Recommendation Report and Distribution Plan,  
and the proposed form of Final Order to close the estate.

The Order to Show Cause provides for the Receiver to mail  
notice to interested parties within three (3) business days of  
issuance of the Order to Show Cause, and publication of notice as  
well within ten (10) business days. In addition, the Order to  
Show Cause requires interested parties to file any objections to  
the Petition within ten (10) calendar days of the hearing. The  
Receiver requests that interested parties be given approximately  
thirty (30) days notice of the hearing date before their  
objections would be due. A hearing date on or after October 22,  
2007, would accommodate that time frame.

The Honorable Leo E. Strine, Jr.  
August 31, 2007  
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The undersigned is available should Your Honor have any questions regarding this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Diane J. Bartels", with a horizontal line extending from the end of the signature.

Diane J. Bartels  
Del. Bar No. 2530

DJB/db  
Enclosures  
cc: Mr. Nicholas J. Marfia