

ORIGINAL #3

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

THE HONORABLE DONNA LEE H.)
WILLIAMS, Insurance)
Commissioner of)
the State of Delaware,)
)
Petitioner,)
)
v.)
)
STATEWIDE INSURANCE COMPANY,)
a Delaware Domestic Insurance)
Company,)
)
Respondent.)

C.A. No. 18668 NC

DELAWARE CHANCERY
CLERK

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STIPULATED REHABILITATION AND INJUNCTION ORDER

WHEREAS, the Honorable Donna Lee H. Williams, in her capacity as the Insurance Commissioner of the State of Delaware (the "Commissioner"), has filed with the Court a petition seeking a Rehabilitation and Injunction Order concerning Statewide Insurance Company, a Delaware domiciled stock property and casualty insurer ("Statewide") pursuant to 18 Del. C. § 5901, et seq.;

WHEREAS, Statewide's Board of Directors has consented to the entry of such an Order; and

WHEREAS, the Commissioner and Statewide hereby stipulate that, Statewide is impaired or insolvent or in unsound condition or in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, in that as of September 30, 2000, Statewide failed to have the minimum capital and surplus required by statute and was, thus, impaired,

and that, presently, Statewide continues to be impaired or insolvent or in unsound condition or in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders.

NOW THEREFORE, the Court finds and IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

1. Statewide is impaired or insolvent or 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 18 Del. C. § 5901.

2. Sufficient cause exists for the rehabilitation of the respondent, Statewide, pursuant to 18 Del. C. §§ 5905 and 5910 and a Rehabilitation and Injunction Order is hereby entered against Statewide.

3. The Honorable Donna Lee H. Williams, Insurance Commissioner of the State of Delaware, and her successors in office, are hereby appointed as the Receiver of Statewide. The Receiver is hereby directed to immediately take exclusive possession and control of and 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 attempt to rehabilitate Statewide pursuant to the provisions of Chapter 59 of Title 18 of the Delaware Code, and to take such steps toward removal of the causes and conditions which have made rehabilitation necessary, 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.

4. The Receiver is hereby vested with title to all property, contracts, and rights of action of Statewide and is hereby authorized 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 her name as the Insurance Commissioner of the State of Delaware, or in the name of Statewide.

5. 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. Without limiting the foregoing, the filing of this Order with the Clerk of this Court also constitutes notice to all sureties and fidelity bondholders of Statewide of all potential claims against Statewide under such policies and shall constitute the perfection of a lien in favor of Statewide under the Uniform Commercial Code or any like Federal or state law, regulation or order dealing with the priority of claims.

6. 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 forthwith file an accounting of those Assets with the Receiver and shall within ten (10) days of the entry of this Order, turn those Assets over to the Receiver without any deduction for unearned premium, unearned commission, claims or any other deduction not authorized by the Receiver.

7. The Receiver may, in her discretion, appoint a consultant or other person or persons to serve as Deputy Receiver(s) to assist the Receiver in accomplishing the directives of this Order. The Deputy Receivers shall serve at the pleasure of the Receiver and,

subject to the approval of the Receiver, shall be entitled to exercise all of the powers and authorities vested in the Receiver pursuant to this Order and applicable law.

8. The Receiver may employ or continue to employ and fix the compensation of such deputies, counsel, clerks, employees, accountants, actuaries, consultants, assistants and other personnel (collectively, the "Designees") as considered necessary, and all compensation and expenses of the Deputy Receiver(s) and the Designees and of taking possession of Statewide and conducting this proceeding shall be paid out of the funds and assets of Statewide as administrative expenses under Title 18 Del. C. § 5913(f). 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.

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 rehabilitation 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 is hereby vested 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 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 this Petition, 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 or insolvency, as a result of this rehabilitation 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 rehabilitation.

11. The Receiver may change to her 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 rehabilitation.

12. The Receiver may reject any executory contract to which Statewide is a party that the Receiver may in her discretion determine 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. No actions concerning, involving, or relating to such Assets, possible Assets, books or records may be taken by any 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 brought in the rehabilitation 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 obligated to defend a party insured or any other person it is legally obligated to defend by virtue of its insurance contract for a period of 180 days from the date hereof.

18. The Receiver shall provide semiannual reports on the financial condition of Statewide and on the actions of the Receiver pursuant to this Order.

19. Hereafter the caption of this cause and all pleadings in this matter shall read as:

"IN THE MATTER OF THE REHABILITATION OF STATEWIDE INSURANCE COMPANY"

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~~20. 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.~~

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stays as written, ignore 2/8/01 strike-on

[Signature]
F.L. Peter Stone
Deputy Attorney General
DE Bar No. 0489
Delaware Insurance Department
841 Silver Lake Boulevard
Dover, Delaware 19904
(302) 739-4251

[Signature]
Michael K. Tighe
DE Bar No. 0029
Tighe, Cottrell & Logan, P.A.
First Federal Plaza, Suite 500
Wilmington, Delaware 19801
(302) 658-6400

Attorney for Petitioner

Attorney for Respondent

SO ORDERED this 8th day of February, 2001.

[Signature]

VERIFIED
AS A TRUE COPY:
ATTEST:
DIANE M. KEMPSKI
REGISTER IN CHANCERY
[Signature]
Deputy II