

MANHATTAN RE-INSURANCE COMPANY IN REHABILITATION

**NOTICE OF RECEIVER'S PETITION FOR
APPROVAL OF PLAN OF REHABILITATION**

ATTENTION POLICYHOLDERS, OTHER CREDITORS, AND INTERESTED PARTIES

Enclosed are important legal documents concerning the Receiver's Petition for Approval of a Plan of Rehabilitation for Manhattan Re-Insurance Company. The Plan of Rehabilitation may affect your rights. Please read all of the enclosed documents carefully.

PLEASE NOTE THE OBJECTION DEADLINE OF TUESDAY, MARCH 22, 2011, AND THE HEARING DATE OF TUESDAY, MARCH 29, 2011, AT 10:00 A.M., AT THE COURT OF CHANCERY, 500 N. KING ST., WILMINGTON, DE 19801.

PLEASE CONSULT THE ENCLOSED ORDER TO SHOW CAUSE, PETITION AND PLAN OF REHABILITATION FOR DETAILS CONCERNING THE OBJECTION DEADLINE AND THE HEARING. YOU MUST FILE A TIMELY OBJECTION AND ATTEND THE HEARING FOR YOUR OBJECTION TO BE HEARD BY THE COURT.

Please also note that The Honorable Donald F. Parsons, Jr., Vice Chancellor, of the Court of Chancery of the State of Delaware, has electronically signed the Order to Show Cause. Therefore, despite the lack of a traditional signature on the Order, it is a binding Order of the Court.

Questions concerning these documents should be directed to the Deputy Receiver's staff:

*Scott C. Riley, Esquire
Fredric Marro and Associates, P.C.
25 Chestnut Street, Suite 105
Haddonfield, NJ 08033*

*Telephone: (856) 216-0220
Facsimile: (856) 215-0303
Email: Scott@westmontlaw.com*



GRANTED

**EFiled: Feb 11 2011 4:43PM EST
Transaction ID 35908785
Case No. 2844-VCP**



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE)
REHABILITATION OF MANHATTAN) C.A. No. 2844-VCP
RE-INSURANCE COMPANY)

**ORDER TO SHOW CAUSE CONCERNING
THE RECEIVER'S PETITION FOR APPROVAL OF THE
PLAN OF REHABILITATION OF MANHATTAN RE-INSURANCE COMPANY**

WHEREAS, the Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, in her capacity as the Receiver (the "Receiver") of Manhattan Re-Insurance Company in Rehabilitation ("Manhattan Re") has filed the Receiver's Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company (the "Petition"), pursuant to 18 *Del. C.* §5902, seeking the Court's approval of a Plan of Rehabilitation of Manhattan Re, establishment of a deadline for objections to the Plan of Rehabilitation, and scheduling of a hearing for interested parties to present their objections to the proposed Plan of Rehabilitation;

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

HEARING

A hearing on the Petition has been scheduled to be held before this Court on **TUESDAY, MARCH 29, 2011, at 10:00 a.m.** in the Court of Chancery, New Castle County Courthouse, 500 North King Street, Wilmington, Delaware.

the name of the party on whose behalf such document is being filed;

c. the name, address and telephone number of the person filing the document;

d. the Bar identification number of the Delaware counsel filing the document; and

e. the date the document is being filed.

Delaware counsel shall file and serve upon the Receiver's counsel such objections electronically in accordance with the Court's electronic filing procedures. All corporate entities must be represented by Delaware counsel.

Any other interested party wishing to object to the Petition or the Plan of Rehabilitation shall submit such objection in writing by the deadline set forth above to:

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

Unless the objection is filed electronically by the interested party's Delaware counsel and served electronically upon the Receiver's counsel, copies of any objections shall also be mailed at the same time that the original is filed with the Court to the Receiver's counsel as follows:

Diane J. Bartels, Esquire
Brandywine Village
1807 North Market Street
Wilmington, Delaware 19802-4810

Each objecting party shall be required to appear in person at the hearing. If an objecting party fails to appear at the hearing without having been granted a continuance by the Court, the Court may overrule or disregard such party's objections and grant the relief sought by the Receiver in the Petition, based upon the objecting party's failure to pursue the objection.

REPRESENTATION OF INTERESTED PARTIES BY COUNSEL

If an interested party intends to be represented by an attorney at the hearing, the interested party must provide the Court of Chancery with the name of the attorney admitted to practice law in Delaware who is representing the interested party, at least five calendar days before the scheduled hearing date. Under Delaware procedure, corporate parties are required to be represented by Delaware counsel.

NOTICE OF PETITION, PLAN OF REHABILITATION, AND RELATED DOCUMENTS

IT IS HEREBY FURTHER ORDERED that the Receiver shall provide notice of the Petition, the Plan of Rehabilitation

and the form of Order Approving the Plan of Rehabilitation as follows:

NOTICE BY MAIL TO OPEN OR KNOWN POTENTIAL CLAIMS AND DIGA

Within five business days of receipt of this Order to Show Cause, the Receiver shall mail, by United States first class mail, postage prepaid, with proof of service by United States Postal Service, a copy of each of the following to all creditors with open or known potential claims as of the filing of the Petition for Approval of this Plan of Rehabilitation, and to the Delaware Insurance Guaranty Association: The Order to Show Cause; the Petition with all Exhibits thereto, including the proposed Plan of Rehabilitation, and the form of Order Approving the Plan of Rehabilitation.

NOTICE BY MAIL TO OTHER INTERESTED PARTIES

Within five business days of receipt of this Order to Show Cause, the Receiver shall also mail, by United States first class mail, postage prepaid, with proof of service by United States Postal Service, a copy of the summary notice substantially in the form appended to the Petition as Exhibit A (1), to all known creditors with open claims as of the entry of the Rehabilitation Order and to all affected State Insurance Departments.

ADJOURNMENT OF HEARING

The Court reserves the right to adjourn the hearing, without further notice other than by Order of the Court.

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

The Honorable Donald F. Parsons, Jr.
Vice Chancellor

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

Court: DE Court of Chancery Civil Action

Judge: Donald F Parsons

File & Serve

Transaction ID: 35752893

Current Date: Feb 11, 2011

Case Number: 2844-VCP

Case Name: In the Matter of the Rehabilitation of Manhattan Re Insurance Co

Court Authorizer: Donald F Parsons

/s/ Judge Donald F Parsons

MANHATTAN RE-INSURANCE COMPANY IN REHABILITATION

To: *Potential Creditors of Manhattan Re-Insurance Company
and Other Interested Parties*

From: *The Honorable Karen Weldin Stewart, Insurance Commissioner of
the State of Delaware, in her capacity as Receiver of Manhattan
Re-Insurance Co., through her Deputy Receiver, Fredric Marro*

SUMMARY OF PLAN OF REHABILITATION

On February 3, 2011, the Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, in her capacity as Receiver (the "Receiver") of Manhattan Re-Insurance Company in Rehabilitation ("Manhattan Re") filed a Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company (the "Petition") in the Court of Chancery of the State of Delaware (the "Court") in the matter captioned as "In the Matter of the Rehabilitation of Manhattan Re- Insurance Company ," No. 2844-VCP. The Court has issued to all interested parties an Order to Show Cause why the Plan of Rehabilitation should not be approved.

OBJECTIONS TO THE PLAN OF REHABILITATION MUST BE RECEIVED BY THE COURT OF CHANCERY ON OR BEFORE TUESDAY, MARCH 22, 2011. A HEARING ON THE PLAN OF REHABILITATION WILL BE HELD ON TUESDAY, MARCH 29, 2011, AT 10:00 A.M., AT THE COURT OF CHANCERY, 500 N. KING ST., WILMINGTON, DE 19801.

YOU MUST FILE A TIMELY OBJECTION AND ATTEND THE HEARING FOR YOUR OBJECTION TO BE HEARD BY THE COURT. UNDER THE PLAN, DIRECT ACTIONS AGAINST MANHATTAN RE'S INSUREDS UP TO THE LIMITS OF THEIR POLICIES WOULD ALSO BE ENJOINED.

This Notice is being sent to you to advise you of the Receiver's Petition and the Plan of Rehabilitation because you were either a former policyholder, reinsurer or former creditor of Manhattan Re or other interested party. If not already enclosed, copies of the Order to Show Cause, the Receiver's Petition, with the attached Plan of Rehabilitation, and the form of Order Approving the Plan, may be obtained in the following manner:

1. Downloaded from the web site of the State of Delaware, Department of Insurance, Bureau of Examination, Rehabilitation and Guaranty at:
<http://www.delawareinsurance.gov/departments/berg/DelawareRehabilitation-SITE-Open-ManhattRe.pdf>.
2. Requested in writing by mail from the Receiver's staff at the following address: Manhattan Re-Insurance Company in Rehabilitation, 25 Chestnut Street, Suite 105, Haddonfield, N.J. 08033. Please provide your full name and address on your request. The documents will be mailed to you by first class mail.
3. The documents may be requested in writing by facsimile from the Receiver's staff at the following Facsimile Number: (856) 216-0303. Please provide your full name and address on your request. Please note that the documents will be mailed to you by first class mail.
4. The documents will also be available at the office of the Register in Chancery, New Castle County Courthouse, 500 N. King Street, Wilmington, Delaware. Please be sure to reference the case caption to gain access to the pleadings: IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE IN AND FOR NEW CASTLE COUNTY, IN THE MATTER OF THE REHABILITATION OF MANHATTAN RE-INSURANCE COMPANY, C.A. No. 2844-VCP. There may be a charge by the Court.

The following is a brief summary of the Plan of Rehabilitation. This summary is not intended to replace the entire Plan of Rehabilitation. If you believe your rights are affected by the Plan of Rehabilitation, you should review the entire Plan of Rehabilitation and related pleadings.

The Receiver has collected and liquidated almost all of the assets. Almost all of the liabilities have been established and accounted for. Only nine open policy claims, a claim for assessments due under the 8F Insurance Fund administered by the Department of Labor and any potential general creditor claims remain to be resolved. The Receiver continues to make payments on all of the remaining policy claims and the Department of Labor assessments, but has not paid any general creditor claims. The Receiver has determined that there will likely be sufficient funds to pay the policy claims and Department of Labor assessments in full, but that it does not appear that sufficient assets will be available to pay general creditor claims in full. Therefore, Manhattan Re is insolvent. Two options are available: have the company declared insolvent and liquidated, or run-off the company under a Plan of Rehabilitation. Under the liquidation approach, the involvement of the Delaware Insurance Guaranty Association ("DIGA") would be triggered and the handling of all of the policyholder claims would be assumed by DIGA. DIGA's involvement would increase the estate's expenses and might disrupt payments to policyholders for a brief period of time, which would likely decrease the recovery for the general creditors. Therefore, the Receiver has determined that the better approach would be to run-off the company under a Plan of Rehabilitation.

Although the Receiver believes that all claims should already have been reported to the Receiver, the Plan of Rehabilitation does provide for potential creditors to continue to file their claims with the Receiver in a timely fashion and in a form acceptable to the Receiver.

The Plan of Rehabilitation also continues the injunctive relief in the Rehabilitation Order and includes additional injunctive relief concerning Manhattan Re's insureds. **Under the Plan of Rehabilitation, all claims against either Manhattan Re or its insureds for benefits under Manhattan Re's policies would be required to be brought in the Rehabilitation Proceedings. Therefore, the Plan of Rehabilitation further provides that all persons are enjoined and restrained from pursuing any claim for policy benefits directly against an insured of Manhattan Re up to the amount of such insured's policy limits.** This relief is designed to protect Manhattan Re's policyholders from any third party's attempt to circumvent the Rehabilitation Proceedings by pursuing their claim directly against the policyholder rather than filing a claim against Manhattan Re in the Rehabilitation Proceedings. Any final payment made to a Claimant on an Claim pursuant to the Plan of Rehabilitation shall be deemed payment in full, without diminution, of Manhattan Re's obligation to such Claimant, and shall constitute a full and final settlement of Manhattan Re's obligations on the underlying Claim, and a full and complete release and discharge of Manhattan Re, the Receiver, the Deputy Receiver, and all assistants, clerks, attorneys, accountants and consultants employed by any of them, of any and all claims, of any kind or description whatsoever, whether arising at law or in equity, known or unknown, arising out of or relating to the underlying Claim, these Rehabilitation Proceedings and this Plan of Rehabilitation. **Nothing in the Plan is intended to revive an expired statute of limitations as to any such claims.**

Under the Plan, Manhattan Re would discontinue the defense and indemnification of its policyholders outside of the Rehabilitation Proceedings, except to the extent necessary to secure a dismissal of any claims against Manhattan Re or its insureds (up to the policy limits for the latter) outside the Rehabilitation Proceedings.

The Plan of Rehabilitation proposed by the Receiver establishes priority classes for administrative expenses of the estate and claims against Manhattan Re as follows. The priority of distribution of Manhattan Re's General Assets under the Plan shall be in the following order, with every claim in each class required to be paid in full or adequate funds retained for such payment before the members of the next class shall receive any payment:

A. **Class 1: Receiver's Administrative Expenses:** the Receiver's actual and necessary costs of taking possession of the insurer, preserving or recovering the assets of the insurer, and otherwise complying with Chapter 59 of the Delaware Insurance Code; reasonable compensation for all services rendered at the request of and on behalf of the Receiver, or her appointed Deputy Receiver, in the Rehabilitation Proceedings by the receivership's employees and its retained attorneys, accountants, actuaries, claims adjusters, expert witnesses and other consultants; and all expenses incurred by the Delaware Insurance Department in supervising the Rehabilitation Proceedings of Manhattan Re.

B. Class 2: Policy Claims: Claims by policyholders, beneficiaries and insureds, including the federal or any state or local government if such government is a named policyholder, beneficiary or insured under the policy, arising from and within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company; liability claims, including liability claims of the federal or any state or local government, against insureds which claims are within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company, including claims for reasonable attorney's fees incurred by the policyholder to defend against the liability claim if such attorney's fees are covered under the policy, but only to the extent covered; assessments by the U.S. Department of Labor arising as the result of its payment of benefits to Manhattan Re policyholders under the 8F Insurance Fund; policyholder's claims for refunds of unearned premium, and claims of insurers, insurance pools or underwriting associations for contribution, indemnity or subrogation, equitable or otherwise; provided, however, that this Class shall not apply to claims arising under reinsurance contracts, including any claims for reinsurance premiums due. Under the Plan, subrogation, contribution or indemnity claims of other insurers or their insureds against Manhattan Re are specifically included in Class 2, "Policy Claims" to protect the Manhattan Re insureds from direct suit by such other insurers. Claims alleging tortious conduct, such as a breach of the duty of good faith and fair dealing, or other claims alleging extra-contractual remedies are expressly excluded from this Class, and such claims, if any, would be considered claims in Class 4 ("general creditors") under this Plan of Rehabilitation. Under the Plan, interest shall not be allowed or paid on Class 2 claims, except that the value assigned to Class 2 claims arising from valid judgments entered on or before February 28, 2011, other than judgments by default or collusion, may include pre-judgment and post-judgment interest through February 28, 2011 if such interest is required by law or contract.

C. Class 3: Federal Government Priority Claims: Taxes owed to the United States and other debts owed to the United States which by the laws of the United States are entitled to priority over the claims in Classes 4 and 5 below and which claims of the United States are not already included in Class 2 above. The Receiver does not anticipate that there will be any claims which qualify for this class. However, as a precautionary measure, the Receiver has included this class of claims to conform this Rehabilitation Plan to the ruling of the United States Supreme Court in *United States Department of Treasury v. Fabe*, 508 U.S. 491 (1993), and the ensuing related cases.

D. Class 4: General Creditor Claims: Claims of general creditors including, but not limited to, claims of ceding and assuming insurers in their capacity as such. This class shall include any Claims of the federal or any state or local government to the extent such claims are not otherwise included in Classes 2 or 3 above.

E. Class 5: Stockholder Claims: The following claims shall be included in Class 5, "Stockholder Claims,": The claims of shareholders or other owners arising out of such capacity.



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE)
REHABILITATION OF MANHATTAN) C.A. No. 2844-VCP
RE-INSURANCE COMPANY)

**VERIFIED PETITION FOR APPROVAL OF THE PLAN OF
REHABILITATION OF MANHATTAN RE-INSURANCE COMPANY**

The Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, in her capacity as the Receiver (the "Receiver") of Manhattan Re-Insurance Company in Rehabilitation ("Manhattan Re"), by and through her attorney, hereby petitions this Honorable Court, pursuant to 18 Del. C. §5902, for an Order approving the proposed Plan of Rehabilitation of Manhattan Re-Insurance Company, which is attached hereto as Exhibit A. In support of this Petition, the Receiver states the following:

On April 2, 2007, pursuant to 18 Del. C. §5901, a stipulated Rehabilitation and Injunction Order (the "Rehabilitation Order") was entered against and concerning Manhattan Re. The Insurance Commissioner was appointed as the Receiver to take steps to attempt to rehabilitate Manhattan Re's impaired financial condition.

The Receiver was directed to immediately take possession and control of the property, assets, business and affairs of Manhattan Re 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 Manhattan Re and the public may require.

The Receiver was vested by the Rehabilitation Order with title to all property, contracts and rights of action of Manhattan Re and was authorized to deal with the property, business and affairs of Manhattan Re and to sue and defend for the Company or for the benefit of Manhattan Re's policyholders, shareholders and creditors in courts and tribunals, agencies or arbitration panels of this State and other states in the name of the Insurance Commissioner of the State of Delaware, or in the name of Manhattan Re.

The Rehabilitation Order vested the Receiver with the right, title and interest in and to all funds recoverable under treaties and agreements of reinsurance entered into

by Manhattan Re as the ceding insurer, and all reinsurance companies involved with Manhattan Re were enjoined and restrained from making any settlements with any claimant or policyholder of Manhattan Re other than through the Receiver, except as permitted by certain cut-through agreements or endorsements, as specified in the Rehabilitation Order.

Prior to the entry of the Rehabilitation Order, Manhattan Re entered into certain reinsurance contracts under which Manhattan Re ceded to various reinsurers ("Reinsurers") and the Reinsurers agreed to assume and reinsure Manhattan Re for certain losses arising out of insurance written by or on behalf of Manhattan Re. Manhattan Re's reinsurance recoverables constitute Manhattan Re's major asset.

The Receiver has resolved two of Manhattan Re's policyholder claims. At the current time, the Receiver is aware of approximately nine open policyholder claims against Manhattan Re.

The Receiver is also aware of other claims against Manhattan Re, in particular claims of the United States

Department of Labor ("DOL") for assessments due under the 8(f) Special Fund administered by the DOL ("Fund Claims"). The Receiver is also aware of a potential claim or claims by third parties which may require litigation.

At this time, there are not sufficient assets to pay all of Manhattan Re's debts in full, although the Receiver has determined that there are sufficient funds to satisfy the policyholder and Fund Claims. One option available to the Receiver is to seek to have the Court declare Manhattan Re insolvent and order the company liquidated. That option would not only invoke the priority statute found at 18 Del. C. §5918(e), but it would necessarily invoke the participation of the Delaware Insurance Guaranty Association ("DIGA") and similar state guaranty associations in other jurisdictions in which Manhattan Re was licensed to transact insurance business.

Involvement of DIGA and other state guaranty associations for an estate of this size would add an additional layer of administrative expense that the Receiver deems unnecessary at this stage. If DIGA's involvement and the other guaranty associations'

involvements were triggered by the entry of a liquidation order, it is likely that those creditors that would qualify as general creditors would receive a smaller distribution than under the Receiver's proposed Plan of Rehabilitation. The Fund Claims would not be "covered claims" under DIGA's enabling statute or the enabling statutes of other state guaranty associations.

Additionally, as all remaining Claims involve claims for workers compensation benefits, medical care costs, survivor benefits or a combination thereof, which will necessarily be paid out over the lifetime of each individual claimant, a liquidation proceeding would force those individual claimants to have to actuarially prove the current value of their future claims for benefits and medical care which might prove difficult and unduly costly. The Estate would also incur additional costs and expenses in attempting to assess and value those potential future claims.

The essential difference between the proposed Plan of Rehabilitation and a liquidation order would be the involvement of DIGA and other state guaranty associations

and the additional expense necessitated by their involvement as well as the burden and costs to both policyholders and the Estate in attempting to actuarially assess and value future claims for benefits due under the policies.

The Plan of Rehabilitation adopts the priority statute for insurer liquidations at 18 Del. C. §5918(e) with some modification. The Plan of Rehabilitation treats insurer subrogation cases and the Fund Claims as Class 2 claims in order to protect Manhattan Re's policyholders from direct suit by such other insurers. The Plan of Rehabilitation also eliminates some priority classifications that are not applicable to this estate, such as wage claims and late-filed claims.

The Plan of Rehabilitation provides for a potential Bar Date to be set in the future if necessary, by which date all claimants not exempted from the requirement must file a proof of claim. In the absence of a timely-filed proof of claim those claims will be barred forever from sharing in any ultimate distribution of Manhattan Re's assets. The Plan of Rehabilitation further provides for

the continued payment of all Class 2 policyholder benefits and Fund Claim assessments in the ordinary course of business until such time that all claims against the Estate have been settled and paid or, alternatively, until such time that the Receiver determines that there are insufficient funds in the Estate to continue making payments and a Bar Date and Claims Process are put in place.

Certain statutes of limitations may not yet have expired as to claims against Manhattan Re. It is necessary that any future Bar Date supersede any unexpired statutes of limitations for the Plan of Rehabilitation to be effective. Therefore, the Plan of Rehabilitation provides that any future Bar Date will override any unexpired statutes of limitations.

In order to prevent claimants from circumventing the Plan of Rehabilitation and bringing an action directly against a Manhattan Re insured, the Plan of Rehabilitation also provides for injunctive relief to prevent a creditor from directly pursuing a Manhattan Re insured up to the Manhattan Re policy limits.

The other injunctive relief already in place through the Rehabilitation Order would continue in effect. Therefore, claims directly against Manhattan Re, the Receiver, the Deputy Receiver or any of their agents are still required to be brought in the Rehabilitation Proceedings.

The Receiver seeks the entry of an Order to Show Cause giving notice to interested parties, as specified in the form of Order to Show Cause, of the proposed Plan of Rehabilitation, establishing a deadline at least a week before a hearing date for objections to be filed by interested parties; and establishing a date for a hearing on the Receiver's Petition. The Receiver further seeks, after notice and an opportunity for interested parties to be heard, the entry of an Order approving the Plan of Rehabilitation in substantially the form submitted with this Petition.

The Receiver further intends that this Petition serve as notice to all interested parties that the Plan of Rehabilitation, the exhibits thereto, or the form of Order approving the Plan of Rehabilitation may be altered,

amended or modified at any time prior to, during or after the hearing, subject to Court approval of such alterations, amendments or modifications, with notice of such changes being given to all interested parties only if the Court deems such changes to be material and requires notice of such changes to be given.

The Receiver seeks to have the Court order that interested parties who do not file objections or comments on or before the deadline for objections and who do not attend the hearing on the Receiver's Petition shall be precluded from having such objections or comments considered by the Court at the hearing and shall not receive notice of subsequent changes to the Plan of Rehabilitation, the exhibits thereto, or the form of Order approving the Plan of Rehabilitation unless the Court orders that such notice be provided.

WHEREFORE, the undersigned attorney, on behalf of the Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware in her capacity as Receiver and on behalf of Manhattan Re, respectfully requests that this Honorable Court:

(1) enter an Order to Show Cause substantially in the form filed with this Petition approving the Receiver's proposal for providing notice to interested parties, establishing a deadline for the filing of objections or comments concerning the Plan of Rehabilitation, with such deadline being approximately five business days prior to the hearing date, and establishing a hearing date in March 2011, or at such other time as the Court deems reasonable and practicable;

(2) grant the Receiver's Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company;

(3) approve the Plan of Rehabilitation and exhibits thereto, substantially in the form filed with this Petition;

(4) after notice and an opportunity to be heard has been given to all interested parties, enter an Order approving the Plan of Rehabilitation substantially in the form filed with this Petition; and

(5) grant such other relief as the Court deems just.

Respectfully submitted,

DIANE J. BARTELS, ESQUIRE

BY:



Diane J. Bartels
Del. Bar No. 2530
Brandywine Village
1807 North Market Street
Wilmington, Delaware
19802-4810
(302) 656-7207
Attorney for the Honorable
Karen Weldin Stewart,
Insurance Commissioner of the
State of Delaware in her
capacity as Receiver of and
on behalf of Manhattan
Re-Insurance Company in
Rehabilitation

Dated: February 3, 2011

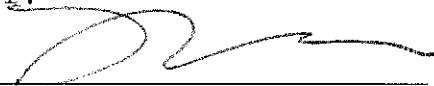


IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE)
REHABILITATION OF MANHATTAN) C.A. No. 2844-VCP
RE-INSURANCE COMPANY)


**VERIFICATION OF FREDRIC MARRO,
IN HIS CAPACITY AS THE DEPUTY RECEIVER OF THE
MANHATTAN RE-INSURANCE COMPANY IN REHABILITATION**

I, Fredric Marro, in my capacity as the Deputy Receiver of the Manhattan Re-Insurance Company in Rehabilitation, having read the attached *Verified Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company*, and the Exhibits thereto, including the proposed *Plan of Rehabilitation of Manhattan Re-Insurance Company*, in the above-captioned matter, do hereby verify that the factual statements set forth therein are true and correct to the best of my knowledge, information and belief.



Fredric Marro, in his
Capacity as the Deputy
Receiver of the
Manhattan Re-Insurance
Company in Rehabilitation

SWORN TO AND SUBSCRIBED before me this 2nd day of
February, 2011.



Scott C. Riley, Esquire
New Jersey Attorney
Notarized pursuant to
N.J.S.A. 41:2-1 and
46:14-6.1



EXHIBIT A

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE)
REHABILITATION OF MANHATTAN) C.A. No. 2844-VCP
RE-INSURANCE COMPANY)

PLAN OF REHABILITATION OF MANHATTAN RE-INSURANCE COMPANY

Receiver:

The Honorable Karen Weldin
Stewart, Insurance Commissioner
of the State of Delaware, in her
capacity as Receiver of
Manhattan Re-Insurance
Company in Rehabilitation

Deputy Receiver:

Fredric Marro

Counsel to the Receiver:

Diane J. Bartels,
Del. Bar No. 2530
Brandywine Village
1807 North Market Street
Wilmington, Delaware 19802-4810
Telephone: (302) 656-7207
Facsimile: (302) 656-7208
E-Mail: DBartelsDE@aol.com

Dated: February 3, 2011

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Exhibit 3: Accounting of the Receiver for the
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I. **Summary of Rehabilitation**

With the consent of its Board of Directors, Manhattan Re-Insurance Company ("Manhattan Re"), formerly known as Martin Reinsurance Corporation, a Delaware domiciled insurer, was declared in hazardous financial condition and placed into rehabilitation proceedings on April 2, 2007, by the Court of Chancery of the State of Delaware in the proceedings docketed at *In the Matter of The Rehabilitation of Manhattan Re-Insurance Company*, C.A. No. 2844-VCP, pursuant to 18 *Del. C.* §5905.

The Insurance Commissioner was appointed as the Receiver to take steps to attempt to rehabilitate Manhattan Re's impaired financial condition. The Receiver appointed Mr. Fredric Marro to act as the Deputy Receiver of Manhattan Re.

Pursuant to the Rehabilitation Order, the Receiver was directed to immediately take possession and control of the property, assets, business and affairs of Manhattan Re 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 conduct the business of Manhattan Re pursuant to the terms of the Rehabilitation Order.

The Receiver was vested by the Rehabilitation Order with title to all property, contracts and rights of action of Manhattan Re and was authorized to deal with the property, business and affairs of Manhattan Re and to sue and defend for the Company or for the benefit of Manhattan Re's policyholders, shareholders and creditors in courts and tribunals, agencies or arbitration panels of this State and other states in the name of the Insurance Commissioner of the State of Delaware, or in the name of Manhattan Re.

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

through agreements or endorsements, as specified in the Rehabilitation Order.

Prior to the entry of the Rehabilitation Order, Manhattan Re entered into certain reinsurance contracts under which Manhattan Re ceded to Hanseatic Eastern Insurance Company, subsequently known as Eagle Pacific Insurance Company ("Eagle Pacific") and Eagle Pacific agreed to assume and reinsure Manhattan Re for certain losses arising out of insurance written by or on behalf of Manhattan Re. In addition to the reinsurance agreements with Eagle Pacific, Manhattan Re entered into certain excess of loss reinsurance contracts with Safety Mutual Casualty Corporation, Pacific Mutual Marine Office, Inc., General Reinsurance Corporation, International Surplus Lines Insurance Company, and Underwriters at Lloyd's London. To the best of the Receiver's knowledge, all of these reinsurance agreements remain in force. Manhattan Re's reinsurance recoverables constitute its major asset.

At this time, there may not be sufficient assets to pay all of Manhattan Re's debts in full. One option available to the Receiver is to seek to have the Court declare Manhattan Re insolvent and order the company liquidated. That option would

not only invoke the priority statute found at 18 *Del. C.* §5918(e), but it would likely invoke the participation of the Delaware Insurance Guaranty Association ("DIGA") and similarly situated state guaranty associations in other jurisdictions in which Manhattan Re was licensed to conduct insurance business.

Involvement of DIGA and other guaranty associations for an estate that has few remaining policyholder claims and debts would add an additional layer of administrative expense that the Receiver deems unnecessary and burdensome to this small estate at this stage. If DIGA's and other guaranty associations' involvement was triggered by the entry of a liquidation order, it is likely that those creditors that would qualify as general creditors would receive a smaller distribution than under the Receiver's proposal.

Additionally, as all remaining Claims involve claims for workers compensation benefits, medical costs, survivor benefits or a combination thereof, which will be paid out over the lifetime of each individual claimant, a liquidation proceeding would force those individual claimants to have to actuarially prove the value of their future claims for benefits and medical care which might prove difficult and

unduly costly for those claimants. The Estate would also incur additional actuarial costs and expenses which may not be recoverable from its reinsurers.

The Receiver anticipates that the estate will have sufficient assets, either under the proposed Plan of Rehabilitation or under a liquidation order, to pay the approved policyholder, third party tort/subrogation claims and government assessments for the Fund Claims in full. Therefore, the essential difference between the proposed Plan of Rehabilitation and a liquidation order would be the involvement of DIGA and other state guaranty associations and the additional expense necessitated by their involvement as well as the burden and costs which both policyholders and the estate would incur in attempting to place a value on future benefits and medical costs.

The priority statute at 18 *Del. C.* §5918(e) specifically applies to liquidation proceedings. Not all of the priorities in that statute are expressly applicable to a rehabilitation proceeding. Although the priority statute provides guidance for rehabilitation proceedings, there are situations where it is appropriate to deviate from those priorities. For

instance, the purpose of the priority statute is to protect an insurer's policyholders. In liquidation, policyholders have protection from subrogation, contribution and indemnity claims through the guaranty statute. In a rehabilitation, the guaranty fund is not available to pay policyholder claims.

Therefore, the Receiver has proposed that claims for subrogation, contribution and indemnity against a Manhattan Re insured will be classified with the Policy Claims (Class 2) under the Plan of Rehabilitation. Further, there are priority classes that are not applicable to Manhattan Re, such as employee wage claims, surplus note claims, and late-filed claims. Therefore, the Receiver is proposing a modified distribution priority plan for this estate.

II. **Definitions**

"Bar Date" shall mean the date by which all Claims must be asserted against Manhattan Re, by filing with the Receiver a Proof of Claim and supporting documentation. For this Plan of Rehabilitation, it is anticipated that a Bar Date may not be necessary, however, the Receiver reserves the right to set a Bar Date at a later time should it become necessary.

"Claim" shall mean an assertion of a right to share in a distribution of Manhattan Re's General Assets.

"Claimant" shall mean any person or entity asserting a Claim.

"Court" shall mean the Court of Chancery of the State of Delaware.

"Deputy Receiver" shall mean Mr. Fredric Marro, in his official capacity as the Deputy Receiver of Manhattan Re, appointed by the Receiver, and his successors, if any, in that official capacity.

"File with the Receiver," "filed with the Receiver," or **"filing with the Receiver"** with respect to any Claim, notice, objection or other document shall mean actual receipt by the Receiver.

"General Assets" shall mean all of Manhattan Re's real property or personal property, regardless of whether such property has been mortgaged, pledged, deposited as security or otherwise encumbered.

"General Creditors" shall mean any person or entity to whom Manhattan Re is or may be indebted for any obligation, other than an obligation arising out of the terms and

conditions of an insurance policy or contract issued by Manhattan Re.

"Insurance Code" shall mean the Delaware Insurance Code, title 18 of the *Delaware Code*.

"Plan of Rehabilitation" shall mean this Plan as approved by the Court in the Rehabilitation Proceedings for Manhattan Re.

"Receiver" shall mean the Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, in her official capacity as the Court-appointed receiver of Manhattan Re, and her predecessor and successors in office. No action taken by the Receiver, her Deputy or any assistant, consultant, attorney or other agent of the Receiver under this Plan of Rehabilitation shall constitute an action of the State of Delaware, Department of Insurance. The Receiver may act through an appointed deputy receiver or other authorized agents.

"Rehabilitation Order" shall mean the Rehabilitation and Injunction Order entered by the Court on April 2, 2007.

"Rehabilitation Proceedings" shall mean the proceedings docketed as *In the Matter of The Rehabilitation of Manhattan Re-Insurance Company*, C.A. No. 2844-VCP, in the Court of Chancery of the State of Delaware.

"Manhattan Re" shall mean Manhattan Re-Insurance Company formerly Martin Reinsurance Corporation; a Delaware domiciled insurance company, which is the subject of the Rehabilitation Proceedings.

III. Background

A. **Company History**

Manhattan Re was incorporated in the State of Delaware in January of 1962. Manhattan Re was licensed by the Delaware Insurance Department to transact property and casualty insurance business. Manhattan Re primarily issued workers compensation insurance policies written under the United States Longshoreman & Harbor Workers Act.

Prior to the entry of the Rehabilitation Order, Manhattan Re had ceased issuing insurance policies, and has not issued or renewed any policies since that time. Manhattan Re was under the supervision of the Delaware Department of Insurance for approximately three years prior to the entry of the

Rehabilitation Order. At the time of the entry of the Rehabilitation Order, Manhattan Re had approximately 13 open direct policyholder claims and approximately 28 additional insureds who were receiving benefits directly from the 8(f) Special Fund ("Fund Claims") administered by the United States Department of Labor ("the Fund"). No additional claims were filed during the rehabilitation.

B. Current Financial Condition

As of June 30, 2010, Manhattan Re had assets of \$7,069,377. Manhattan Re's reserves on the open and potential policyholder, subrogation and Fund Claims are confidential, to avoid prejudice to the estate's ability to negotiate and settle or litigate those claims. The Receiver is aware of a potential claim or claims by third parties which may require litigation. In addition, the Receiver needs to reserve funds to pay for the remaining administrative expenses of the estate. Therefore, the Receiver has determined that Manhattan Re's assets are likely to be sufficient to pay all of the policyholder and other insurers' subrogation claims as well as all Fund Claims in full, but may not be sufficient to pay the general creditors in full.

C. **Rehabilitation Efforts to Date**

The Receiver believes that all of the claims of policyholders and third parties against insurance policies issued by Manhattan Re have been received and reserved. There are currently nine open direct policyholder claims under the insurance policies issued by Manhattan Re of which the Receiver is aware. In addition, there are currently twenty-two insureds receiving benefits under the Fund administered by the United States Department of Labor for which Manhattan Re receives an assessment twice per year.

Since the inception of the receivership, the Receiver has closed two policyholder claims under the insurance policies issued by Manhattan Re. The Receiver has gathered and reviewed all of Manhattan Re's files and records and worked closely with the former stockholders and officers of Manhattan Re to insure proper accounting for all assets and liabilities of the Estate. During the rehabilitation, the Receiver has continued to make certain that all claim payments are made to the policyholders of Manhattan Re in a timely fashion by a third party administrator.

Manhattan Re continues to collect and account for the reinsurance due on each of these claims. In addition, Manhattan Re continues to monitor the insureds covered by the Fund, make payments of all assessments from the United States Department of Labor pertaining to those insureds and file all necessary reports and paperwork as required by the United States Department of Labor.

IV. **Run-Off as Alternative to Liquidation**

Based upon the Receiver's projections, Manhattan Re will likely have sufficient assets to pay the policyholder claims against insurance policies and Fund Claims in full. However, Manhattan Re is not projected to have sufficient assets to pay any other claims in full. Therefore, Manhattan Re is insolvent.

One option available to the Receiver is to petition the Court for an Order of Liquidation. However, the Receiver has not elected to pursue that option at this time for the reasons set forth herein. It is not the Receiver's intention to continue the operations of Manhattan Re after the conclusion of the Rehabilitation Proceedings. In most such cases, it would be appropriate to place the company into liquidation

proceedings. However, due to the small size of the Manhattan Re estate, the fact that all of the remaining claims are claims for workers compensation benefits, medical costs or survivors benefits which will continue to be paid to each Claimant throughout his or her lifetime and which are not, therefore, easily susceptible to settlement or precise valuation, the fact that Manhattan Re still has reinsurance to cover most of its claim payments and the fact that Manhattan Re still has twenty-two insureds receiving benefits from the Fund for which Manhattan Re will continue to be assessed monies until the last of those insureds is deceased, the Receiver believes that a more appropriate approach would be to run-off Manhattan Re in the Rehabilitation Proceedings using a Plan of Rehabilitation that includes continuing payments of policy benefits and assessments to all Class 2 Claimants hereunder until such time that the Receiver may determine that there are no longer sufficient funds in the Estate to continue those payments, there are no longer any valid Claims against the Estate or that the remaining claims are easily susceptible to actuarial valuation due to their age, with the potential

for a Bar Date for filing all remaining claims against the estate at that time.

V. **Role of Delaware Insurance Guaranty Association**

A liquidation would likely trigger the involvement of the Delaware Insurance Guaranty Association ("DIGA") and possibly similar state guaranty associations in other jurisdictions in which Manhattan Re was licensed to conduct insurance business. DIGA would be required to take possession of the open policy claim files for which coverage under DIGA's enabling statute might be available and adjust those claims to their conclusion, as well as to handle other potential policy claims filed in the estate. DIGA would also be required to expend funds collected from other insurers and, where necessary, assess other insurers for the costs of claim payments and loss adjustment expenses. DIGA would have a claim against the estate for its reasonable, approved administrative expenses. DIGA would also be subrogated against the estate to the extent of claim payments made by DIGA. The same would be true for other guaranty associations under their enabling statutes.

DIGA is not obligated to cover subrogation claims or other claims by insurers. 18 *Del. C.* §4205(6)(b)(3). Therefore, DIGA would not have any involvement with the Fund Claims. Some of DIGA's administrative expenses would duplicate the administrative expenses of the Receiver. Further, if additional claims were filed, DIGA would take possession of the claim files concerning the claims of policyholders and third parties against the Manhattan Re policies, and may retain its own claims adjusters and attorneys to adjust and settle or litigate the policy claims. A stay of up to one hundred and twenty (120) days pursuant to 18 *Del. C.* §4218 would likely be required to allow DIGA time to take possession of the files, become familiar with the files, and prepare for a defense or other resolution of the claims. This could potentially inconvenience and cause undue hardship to many of these policyholder claimants who receive monthly benefits and medical payments.

Currently, there are only nine known potential policyholder claims. The Receiver estimates that, if necessary, the estate would be able to resolve these policy

claims without adding the additional administrative expense of the guaranty association to the estate's expenses.

The Manhattan Re estate is a small estate and even a small amount of duplication in the administrative expenses could have a significant effect on the amount of assets available to pay policy claims and Fund assessments or, particularly, general creditor claims.

DIGA and the other guaranty associations would not have any involvement with or obligation to pay the subrogation, Fund or general creditor Claims in a liquidation proceeding. Therefore, the subrogation, Fund and general creditor Claimants would not benefit from DIGA's involvement at this stage. In fact, DIGA's administrative expenses are likely to only decrease the amount of funds available to pay general creditor claims after the policy and Fund claims are satisfied.

VI. **Bar Date in Rehabilitation**

While the Receiver does not believe that it is appropriate at this time to place Manhattan Re into liquidation proceedings, in order to move toward the eventual closure of the Rehabilitation Proceedings, the Receiver

believes that it may become necessary, at some point in the future, to have the Court order a deadline for the submission of Claims against the estate.

Bar dates are authorized in insurer liquidations in Delaware pursuant to 18 *Del. C.* §§5917 and 5929. Bar dates are not specifically prohibited in rehabilitation proceedings by the Delaware Insurance Code. In fact, the provisions of 18 *Del. C.* §5917, which applies to all delinquency proceedings under Chapter 59 of Title 18 of the *Delaware Code*, specifically provides for the filing of claims with the Receiver "on or before the last date for filing as specified in this chapter." Therefore, the statute contemplates the use of bar dates in rehabilitation proceedings where it is deemed appropriate. A Bar Date has been established by this Court in at least one prior rehabilitation proceeding.

The provisions of 18 *Del. C.* §5929(b) do require that a bar date in a liquidation proceeding shall not be less than six months after the entry of the order of insolvency. However, no specific limitations are placed on rehabilitation proceedings. The Court does have the authority pursuant to 18 *Del. C.* §5902(a) to "make all necessary or proper orders to

carry out the purposes of" Chapter 59 of Title 18 of the *Delaware Code*. Therefore, the imposition of a bar date in a rehabilitation proceeding is left to the sound discretion of the Court, upon the recommendation of the Receiver.

Despite the lack of specific time limitations on bar dates in rehabilitation proceedings, the Receiver's request here would be consistent with the statute. Any Bar Date which might be imposed under the Plan of Rehabilitation would be well after the first six months of the receivership. Manhattan Re was placed into its Rehabilitation Proceedings on April 2, 2007. More than ample time has already elapsed for Claimants to have disclosed their Claims to the Receiver. However, to provide any remaining Claimants with an additional opportunity to submit their Claims to the Receiver, this Plan of Rehabilitation provides an additional period of time, until a final Bar Date is set for Claimants to file Proofs of Claim with the Receiver. Should the Receiver believe it prudent and necessary at some later point in time, to put in place a final Bar Date, the Receiver would petition the Court for the amendment of this Plan of Rehabilitation and for the entry of

a Bar Date upon proper notice to all claimants and potential claimants.

VII. **Injunction and Release**

Pursuant to 18 *Del. C.* §5904, the Court has the authority to grant injunctive or other relief necessary to "prevent interference with the Commissioner or the proceeding or waste of the assets of the insurer or the commencement or prosecution of any actions or the obtaining of preferences, judgments, attachments or other liens or the making of any levy against the insurer or against its assets or any part thereof."

The Plan of Rehabilitation continues the injunctions contained in the Rehabilitation Order in paragraphs 8, 10, 11 and 12. Paragraph 8 of the Rehabilitation Order concerning the transaction of Manhattan Re's business and the disposition of Manhattan Re's Assets provides:

Manhattan Re, its officers, directors, agents, servants and employees and all other persons or entities, including but not limited to banks, brokerage houses, reinsurers and cedants having in their possession Assets or possible Assets and/or having notice of these proceedings or of this Order are hereby enjoined and restrained from transacting any business of, or on behalf of, Manhattan Re or

selling, transferring, destroying, wasting, encumbering or disposing of any of the Assets, without the prior written permission of the Commissioner or until further Order of this Court. This prohibition includes, without limitation, Assets or possible Assets pertaining to any business transaction between Manhattan Re and any of said parties. No actions concerning, involving or relating to such Assets or possible Assets may be taken by any of the aforesaid persons or entities enumerated herein, without the express written consent of the Receiver, or until further Order of this Court.

Paragraphs 10, 11 and 12 of the Rehabilitation Order address litigation or other claims against Manhattan Re. Paragraph 10 provides:

All officers, directors, agents, servants and employees of Manhattan Re, and all other persons and entities having notice of these proceedings or of this Order, are hereby prohibited from instituting or further prosecuting any action at law or in equity or in other proceedings against Manhattan Re, 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 Manhattan Re or the Assets, or exercising any right adverse to the right of Manhattan Re 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 or in the discharge of their duties hereunder.

Paragraph 12 specifically requires that any claim against the Receiver, Deputy Receiver or Assets be brought in the Rehabilitation Proceedings:

All persons and entities are hereby enjoined and restrained from asserting any claim against the Commissioner as Receiver of Manhattan Re, 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 Manhattan Re.

With respect to proceedings against Manhattan Re's insureds, Paragraph 11 of the Rehabilitation Order contained a 180 day stay:

All officers, directors, agents, servants and employees of Manhattan Re, and all other persons or entities 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 proceeding with any pretrial conference, trial, application for judgment or proceedings on judgment or settlements and such action at law, in equity, special or other proceedings in which Manhattan Re 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.

The Rehabilitation Order did not specifically enjoin litigation directly against Manhattan Re's insureds.

However, under the Plan of Rehabilitation, all claims against either Manhattan Re or its insureds for benefits under Manhattan Re's policies would be required to be brought in the Rehabilitation Proceedings. Therefore, the Plan of Rehabilitation further provides that all persons are enjoined and restrained from pursuing any claim for policy benefits directly against an insured of Manhattan Re up to the amount of such insured's policy limits. That relief is designed to protect Manhattan Re's policyholders from a third party's attempt to circumvent the Rehabilitation Proceedings by pursuing a claim directly against the policyholder rather than filing a claim against Manhattan Re in the Manhattan Re Rehabilitation Proceedings. That relief is also consistent with the defense and indemnification protections which might be afforded to the policyholders in liquidation proceedings under the Delaware Insurance Guaranty Association Act, 18 Del. C. ch. 42.

Any payment designated as a final distribution made to a Claimant pursuant to this Plan of Rehabilitation shall be deemed payment in full, without diminution, of Manhattan Re's obligation to such Claimant, and shall constitute a full and final settlement of Manhattan Re's obligations on the underlying Claim, and a full and complete release and discharge of Manhattan Re, the Receiver, the Deputy Receiver, and all assistants, clerks, attorneys, accountants and consultants employed by any of them, of any and all claims, of any kind or description whatsoever, whether arising at law or in equity, known or unknown, arising out of or relating to the underlying Claim, these Rehabilitation Proceedings and this Plan of Rehabilitation. Any partial payment made to a claimant from the inception of the Rehabilitation Proceedings shall be credited toward the Estate's satisfaction of such claimant's Claim against the Estate.

To avoid a person or entity from obtaining a preference by filing an action directly against an insured or other person or entity to whom Manhattan Re owes a defense or indemnification under an insurance policy or contract, this Plan of Rehabilitation specifically enjoins and restrains all

persons and entities from proceeding with a claim against an insured or other person or entity to whom Manhattan Re owes a defense or indemnification under an insurance policy or contract issued by Manhattan Re to the extent of the limits of liability of the Manhattan Re policy. Nothing herein is intended to revive an expired statute of limitations as to any such claims.

VIII. Defense and Indemnification of Policyholders

Pursuant to both the Rehabilitation Order and the Plan of Rehabilitation, actions against Manhattan Re, the Receiver, the Deputy Receiver and their assistants, attorneys, accountants and consultants are barred except to the extent such claims are brought in the Rehabilitation Proceedings. Actions directly against the policyholder for the policy benefits will be enjoined upon the entry of the Court's Order approving the Plan of Rehabilitation.

Upon the Court's approval of the Plan of Rehabilitation, all actions directly against Manhattan Re's insureds for benefits under a Manhattan Re policy in a court proceeding, arbitration or other proceeding outside of the Rehabilitation Proceedings shall be dismissed and the underlying claims are

to be pursued in the Rehabilitation Proceedings. Manhattan Re's obligation to provide a defense or indemnification to its insureds in matters outside of the Rehabilitation Proceedings will cease upon the entry of the Court's Order approving the Plan of Rehabilitation. The Receiver shall continue to retain counsel to represent the policyholder in matters outside of the Rehabilitation Proceedings for the purpose of obtaining a dismissal of such matters as to Manhattan Re and its insured, as appropriate. The Receiver shall continue to provide to its insureds a defense and indemnification, where appropriate, as to claims for policy benefits filed in the Rehabilitation Proceedings.

IX. **Statute of Limitations**

In contrast to the statutes of limitations, the Court of Chancery has jurisdiction in insurer delinquency proceedings to establish a bar date, as is noted above. Without such a bar date, the Receiver's ability to close the estate could be hindered by the delay in submission of some claims. An unreasonably lengthy delay in resolving such claims would delay the Receiver's distributions to other creditors.

Therefore, this Plan provides that any future Bar Date agreed to and sanctioned by the Court shall supersede any applicable statutes of limitations for any claims for which the statutes of limitations have not already expired, including but not limited to the statute of limitations set forth in 10 Del. C. §8106 for contract claims. While any proposed future Bar Date will also supersede other statutes of limitations due to the fact that Manhattan Re's policies all expired prior to the entry of the Rehabilitation Order, the Receiver does not anticipate that the statute of limitations for any third party claim will be affected by any future Bar Date. However, if there are third-party or other claims for which applicable statutes of limitations have not yet expired, any future Bar Date will supersede those statutes of limitations as well.

X. **Priority Classes in Rehabilitation**

The priority of distribution of Manhattan Re's General Assets under this Plan of Rehabilitation shall be in accordance with the order in which each class of claims is herein set forth. Every claim in each class shall be paid in full or adequate funds retained for such payment before the

members of the next class shall receive any payment. No subclasses shall be established within any class. No claim by a shareholder, policyholder or other creditor shall be permitted to circumvent the priority classes through the use of equitable remedies. The order of distributions shall be:

A. **Class 1: Receiver's Administrative Expenses**

The Receiver shall pay out of the General Assets all costs and expenses of Manhattan Re's administration. The Receiver shall report all disbursements to the Court in an Accounting on a semi-annual basis in a format consistent with the format used for filing the accounting submitted herewith. These costs and expenses, which must be expressly approved or authorized by the Receiver or Deputy Receiver(s), shall include but not be limited to:

1. the Receiver's actual and necessary costs of taking possession of the insurer, preserving or recovering the assets of the insurer, and otherwise complying with Chapter 59 of the Delaware Insurance Code;

2. reasonable compensation for all services rendered at the request of and on behalf of the Receiver, or his appointed Deputy Receiver, in the Rehabilitation Proceedings by the

receivership's employees and its retained attorneys, accountants, actuaries, claims adjusters, expert witnesses and other consultants; and

3. all expenses incurred by the Delaware Insurance Department in supervising the Rehabilitation Proceedings of Manhattan Re.

Consistent with Chapter 59 of the Delaware Insurance Code and the Rehabilitation Order, the Receiver and Deputy Receiver may appoint or employ, or continue the appointment and employment of, consultants, assistants, accountants, and attorneys to assist the Receiver and Deputy Receiver in the rehabilitation of Manhattan Re and the implementation and effectuation of this Plan of Rehabilitation. The Receiver shall pay the compensation of all such consultants, assistants, accountants and attorneys, including the compensation of the Deputy Receiver and his staff, out of the General Assets, and shall report such payments to the Court in the semi-annual Accounting. The Designees shall continue to be entitled to the immunity established under the Rehabilitation Order.

B. Class 2: Policy Claims

The following claims shall be included in Class 2, "Policy Claims": Claims by policyholders, beneficiaries, insureds and any claims for assessments by the United States Department of Labor on behalf of those insureds receiving benefits under the 8(f) Special Fund, including the federal or any state or local government if such government is a named policyholder, beneficiary or insured under the policy, arising from and within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company; liability claims, including liability claims of the federal or any state or local government, against insureds which claims are within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company, including claims for reasonable attorney's fees incurred by the policyholder to defend against the liability claim if such attorney's fees are covered under the policy, but only to the extent covered; policyholder's claims for refunds of unearned premium, and claims of insurers, insurance pools or underwriting associations for contribution, indemnity

or subrogation, equitable or otherwise; provided, however, that this Class shall not include claims arising under reinsurance contracts, including any claims for reinsurance premiums due. Under this Plan of Rehabilitation, subrogation, contribution or indemnity claims of other insurers or their insureds against Manhattan Re are specifically included in Class 2, "Policy Claims," to protect the Manhattan Re insureds from direct suit by such other insurers. Claims alleging tortious conduct, such as a breach of the duty of good faith and fair dealing, or other claims alleging extra-contractual remedies are expressly excluded from this Class, and such claims, if any, would be considered claims in Class 4 ("general creditors") under this Plan of Rehabilitation.

Under this Plan of Rehabilitation, interest shall not be allowed or paid on Class 2 claims, except that the value assigned to Class 2 claims arising from valid judgments entered on or before February 28, 2011, other than judgments by default or collusion, may include pre-judgment and post-judgment interest through February 28, 2011, if such interest is required by law or contract.

C. Class 3: Federal Government Priority Claims

The following claims shall be included in Class 3, "Federal Government Priority Claims": taxes owed to the United States and other debts owed to the United States which by the laws of the United States are entitled to priority over the claims in Classes 4 and 5 below and which claims of the United States are not already included in Class 2 above.

The Receiver does not anticipate that there will be any claims that qualify for this class. However, as a precautionary measure, the Receiver has included this class of claims to conform this Rehabilitation Plan to the ruling of the Supreme Court of the United States in *U.S. Dep't of Treas. v. Fabe*, 508 U.S. 491 (1993), and the ensuing related cases.

D. Class 4: General Creditor Claims

The following claims shall be included in Class 4, "General Creditor Claims": Claims of general creditors including, but not limited to, claims of ceding and assuming insurers in their capacity as such. This class shall include any Claims of the federal or any state or local government to the extent such claims are not otherwise included in Classes 2 or 3 above.

E. Class 5: Stockholder Claims

The following claims shall be included in Class 5, "Stockholder Claims": The claims of shareholders or other owners arising out of such capacity.

XI. Notice of Plan

The Receiver shall have mailed copies of the Petition for Approval of this Plan, the Plan of Rehabilitation, the Order to Show Cause and the form of Order Approving Plan of Rehabilitation to all creditors with open or known potential claims as of the filing of the Petition for Approval of this Plan of Rehabilitation, all reinsurers and to the Delaware Insurance Guaranty Association. Proof of mailing shall be confirmed by United States Postal Service Receipt.

A summary notice, substantially in the form appended hereto as Exhibit 1, concerning the Petition for Approval of the Plan of Rehabilitation and the Plan of Rehabilitation shall also have been mailed by first class mail, with proof of mailing on United States Postal Receipt, to all applicable State Insurance Departments and any other interested parties known to the Receiver.

XII. **Claim Determination Process**

A. **Settlements with Claimants**

Whenever possible, the Receiver and/or Deputy Receiver will negotiate settlements of Claims. Such settlements shall take into account the amount of the policy limits already exhausted on a particular policy so that the aggregate limits of a given policy are not exceeded.

B. **Claims Not Amenable to Settlement**

As all of the pending Claims involve workers compensation benefits, medical care benefits or survivor's benefits, they are not easily amenable to settlement. In that case, the receiver shall continue to pay those claims in accordance with the policy terms and conditions and collect reinsurance due until such time that there are no Claimants remaining, the Receiver determines that there are no longer sufficient funds in the Estate to continue those payments or the remaining Claims are easily susceptible to actuarial valuation due to their age and therefore a Bar Date and Proof of Claim procedure is put in place.

XIII. Distribution of Assets and Estate Closure

A. Availability of Assets

All settlements of claims between a Creditor and the Receiver or other allowance of Claims by the Court are subject to the availability of assets. Claims filed pursuant to this Plan of Rehabilitation will not share in any distribution of assets unless and until all administrative expenses and claims of a higher priority under this Plan of Rehabilitation are paid and a sufficient reserve established for the payment of future reasonable administrative expenses necessary to conclude the estate. The stockholders or shareholders of Manhattan Re will not share in any distribution of the assets unless and until all administrative expenses and higher priority claims are satisfied in full. The Receiver does not anticipate that any distribution will be made to stockholders.

B. Distribution Plan and Closure Plan

If a Bar Date and Proof of Claim procedure is put in place in the future and the value of the remaining claims against the Estate has been actuarially established, the Receiver will provide the Court with a distribution plan. The plan or plans of distribution will identify the value assigned to each claim,

by each level of priority. The Receiver will also determine the amount of assets available for distribution after deducting the claims and assessments already paid and the administrative expenses already incurred and taking into account the reasonable administrative expenses estimated to be incurred by the estate. The amount available after deducting the incurred and anticipated administrative expenses, the incurred taxes and the paid claims and assessments will be referred to as the "Net Assets Available."

The Receiver will then determine the amount to be distributed to the creditors pursuant to this Plan of Rehabilitation in the distribution. Allowed claims will not be entitled to any distribution of assets from the estate unless and until all incurred and estimated administrative expenses have been or will be paid, and the full value of all allowed higher priority claims have been satisfied in full. Upon the completion of the collection and liquidation of the assets and the distribution of all available assets, the Receiver shall submit a petition to close the estate and discharge the Receiver and Deputy Receiver from any further duties.

XIV. **Powers of the Receiver**

Pursuant to the Rehabilitation Order and this Plan of Rehabilitation, the Receiver and any Deputy Receiver shall have the power to exercise, pursue or avail herself or himself of any lawful right, power or remedy as is necessary or proper to implement this Plan of Rehabilitation, including but not limited to the power:

(1) to reserve or utilize General Assets to:

(a) pay the administrative costs and expenses of Manhattan Re's receivership;

(b) meet Manhattan Re's obligations under this Plan of Rehabilitation;

(c) make investments as the Receiver deems appropriate and prudent;

(2) to acquire, sell, transfer, abandon or otherwise dispose of or deal with the General Assets upon such terms and conditions as are reasonable;

(3) to execute, acknowledge and deliver any documents or instruments necessary or proper to effectuate any transaction;

(4) to enter into such contracts as the Receiver or Deputy Receiver deems necessary or proper to implement this

Plan of Rehabilitation, and to affirm, modify or disavow any contracts to which Manhattan Re is or may be a party; and

(5) to institute and pursue, either in Manhattan Re's name or in the Receiver's name, any and all suits and other legal proceedings and remedies before the Court or in any other jurisdiction, and to assert all available claims and defenses.

XV. **Ban on Issuance of New Policies of Insurance**

Upon the entry of this Plan of Rehabilitation, and throughout the Rehabilitation Proceedings, Manhattan Re shall neither issue nor renew any policies or contracts of insurance, nor assume any reinsurance risks, liabilities or obligations.

XVI. **Possibility of Future Liquidation Proceedings**

The Receiver recognizes that this Plan of Rehabilitation is contingent upon the Court's approval, and is based upon certain assumptions and estimates concerning the available funds to distribute to the classes of creditors. While the Receiver does not anticipate the need for the entry of an Order of Liquidation, the circumstances that the Receiver believes warrant the implementation of this Plan of

Rehabilitation could change. Therefore, nothing herein shall preclude the Receiver from subsequently seeking to have the Court enter an appropriate Order of Liquidation.

XVII. **Conflicts with Rehabilitation Order**

If the Plan of Rehabilitation is deemed in any respect to be in conflict with the Rehabilitation Order, the terms of the Plan of Rehabilitation shall prevail. If any matter covered in the Rehabilitation Order is not covered herein, the Rehabilitation Order shall apply.

XVIII. **Effect of Delaware Insurance Code**

To the extent not inconsistent with the terms of this Plan of Rehabilitation and the Rehabilitation Order, the provisions of the Delaware Insurance Code shall apply to this Plan of Rehabilitation.

XIX. **Jurisdiction over Enforcement**

The Court shall retain exclusive original jurisdiction to enforce the terms and provisions of this Plan of Rehabilitation, as well as the provisions of the Rehabilitation Order.

XX. **Contact Information**

The address, telephone number, and facsimile number of
the Receiver and Deputy Receiver are:

Manhattan Re-Insurance Company in Rehabilitation
Delaware Bureau of Rehabilitation & Liquidation
704 King Street, Suite 602
Wilmington, DE 19801
Telephone Number: (302) 577-1211
Facsimile Number: (302) 577-1212



EXHIBIT 1

MANHATTAN RE-INSURANCE COMPANY IN REHABILITATION

To: *Potential Creditors of Manhattan Re-Insurance Company
and Other Interested Parties*

From: *The Honorable Karen Weldin Stewart, Insurance Commissioner of
the State of Delaware, in her capacity as Receiver of Manhattan
Re-Insurance Co., through her Deputy Receiver, Fredric Marro*

SUMMARY OF PLAN OF REHABILITATION

On February 3, 2011, the Honorable Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, in her capacity as Receiver (the "Receiver") of Manhattan Re-Insurance Company in Rehabilitation ("Manhattan Re") filed a Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company (the "Petition") in the Court of Chancery of the State of Delaware (the "Court") in the matter captioned as "In the Matter of the Rehabilitation of Manhattan Re- Insurance Company ," No. 2844-VCP. The Court has issued to all interested parties an Order to Show Cause why the Plan of Rehabilitation should not be approved.

OBJECTIONS TO THE PLAN OF REHABILITATION MUST BE RECEIVED BY THE COURT OF CHANCERY ON OR BEFORE TUESDAY, MARCH 22, 2011. A HEARING ON THE PLAN OF REHABILITATION WILL BE HELD ON TUESDAY, MARCH 29, 2011, AT 10:00 A.M., AT THE COURT OF CHANCERY, 500 N. KING ST., WILMINGTON, DE 19801.

YOU MUST FILE A TIMELY OBJECTION AND ATTEND THE HEARING FOR YOUR OBJECTION TO BE HEARD BY THE COURT. UNDER THE PLAN, DIRECT ACTIONS AGAINST MANHATTAN RE'S INSUREDS UP TO THE LIMITS OF THEIR POLICIES WOULD ALSO BE ENJOINED.

This Notice is being sent to you to advise you of the Receiver's Petition and the Plan of Rehabilitation because you were either a former policyholder, reinsurer or former creditor of Manhattan Re or other interested party. If not already enclosed, copies of the Order to Show Cause, the Receiver's Petition, with the attached Plan of Rehabilitation, and the form of Order Approving the Plan, may be obtained in the following manner:

1. Downloaded from the web site of the State of Delaware, Department of Insurance, Bureau of Examination, Rehabilitation and Guaranty at:
<http://www.delawareinsurance.gov/departments/berg/DelawareRehabilitation-SITE-Open-ManhattRe.pdf>.
2. Requested in writing by mail from the Receiver's staff at the following address: Manhattan Re-Insurance Company in Rehabilitation, 25 Chestnut Street, Suite 105, Haddonfield, N.J. 08033. Please provide your full name and address on your request. The documents will be mailed to you by first class mail.
3. The documents may be requested in writing by facsimile from the Receiver's staff at the following Facsimile Number: (856) 216-0303. Please provide your full name and address on your request. Please note that the documents will be mailed to you by first class mail.
4. The documents will also be available at the office of the Register in Chancery, New Castle County Courthouse, 500 N. King Street, Wilmington, Delaware. Please be sure to reference the case caption to gain access to the pleadings: IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE IN AND FOR NEW CASTLE COUNTY, IN THE MATTER OF THE REHABILITATION OF MANHATTAN RE-INSURANCE COMPANY, C.A. No. 2844-VCP. There may be a charge by the Court.

The following is a brief summary of the Plan of Rehabilitation. This summary is not intended to replace the entire Plan of Rehabilitation. If you believe your rights are affected by the Plan of Rehabilitation, you should review the entire Plan of Rehabilitation and related pleadings.

The Receiver has collected and liquidated almost all of the assets. Almost all of the liabilities have been established and accounted for. Only nine open policy claims, a claim for assessments due under the 8F Insurance Fund administered by the Department of Labor and any potential general creditor claims remain to be resolved. The Receiver continues to make payments on all of the remaining policy claims and the Department of Labor assessments, but has not paid any general creditor claims. The Receiver has determined that there will likely be sufficient funds to pay the policy claims and Department of Labor assessments in full, but that it does not appear that sufficient assets will be available to pay general creditor claims in full. Therefore, Manhattan Re is insolvent. Two options are available: have the company declared insolvent and liquidated, or run-off the company under a Plan of Rehabilitation. Under the liquidation approach, the involvement of the Delaware Insurance Guaranty Association ("DIGA") would be triggered and the handling of all of the policyholder claims would be assumed by DIGA. DIGA's involvement would increase the estate's expenses and might disrupt payments to policyholders for a brief period of time, which would likely decrease the recovery for the general creditors. Therefore, the Receiver has determined that the better approach would be to run-off the company under a Plan of Rehabilitation.

Although the Receiver believes that all claims should already have been reported to the Receiver, the Plan of Rehabilitation does provide for potential creditors to continue to file their claims with the Receiver in a timely fashion and in a form acceptable to the Receiver.

The Plan of Rehabilitation also continues the injunctive relief in the Rehabilitation Order and includes additional injunctive relief concerning Manhattan Re's insureds. **Under the Plan of Rehabilitation, all claims against either Manhattan Re or its insureds for benefits under Manhattan Re's policies would be required to be brought in the Rehabilitation Proceedings. Therefore, the Plan of Rehabilitation further provides that all persons are enjoined and restrained from pursuing any claim for policy benefits directly against an insured of Manhattan Re up to the amount of such insured's policy limits.** This relief is designed to protect Manhattan Re's policyholders from any third party's attempt to circumvent the Rehabilitation Proceedings by pursuing their claim directly against the policyholder rather than filing a claim against Manhattan Re in the Rehabilitation Proceedings. Any final payment made to a Claimant on an Claim pursuant to the Plan of Rehabilitation shall be deemed payment in full, without diminution, of Manhattan Re's obligation to such Claimant, and shall constitute a full and final settlement of Manhattan Re's obligations on the underlying Claim, and a full and complete release and discharge of Manhattan Re, the Receiver, the Deputy Receiver, and all assistants, clerks, attorneys, accountants and consultants employed by any of them, of any and all claims, of any kind or description whatsoever, whether arising at law or in equity, known or unknown, arising out of or relating to the underlying Claim, these Rehabilitation Proceedings and this Plan of Rehabilitation. **Nothing in the Plan is intended to revive an expired statute of limitations as to any such claims.**

Under the Plan, Manhattan Re would discontinue the defense and indemnification of its policyholders outside of the Rehabilitation Proceedings, except to the extent necessary to secure a dismissal of any claims against Manhattan Re or its insureds (up to the policy limits for the latter) outside the Rehabilitation Proceedings.

The Plan of Rehabilitation proposed by the Receiver establishes priority classes for administrative expenses of the estate and claims against Manhattan Re as follows. The priority of distribution of Manhattan Re's General Assets under the Plan shall be in the following order, with every claim in each class required to be paid in full or adequate funds retained for such payment before the members of the next class shall receive any payment:

A. **Class 1: Receiver's Administrative Expenses:** the Receiver's actual and necessary costs of taking possession of the insurer, preserving or recovering the assets of the insurer, and otherwise complying with Chapter 59 of the Delaware Insurance Code; reasonable compensation for all services rendered at the request of and on behalf of the Receiver, or her appointed Deputy Receiver, in the Rehabilitation Proceedings by the receivership's employees and its retained attorneys, accountants, actuaries, claims adjusters, expert witnesses and other consultants; and all expenses incurred by the Delaware Insurance Department in supervising the Rehabilitation Proceedings of Manhattan Re.

B. Class 2: Policy Claims: Claims by policyholders, beneficiaries and insureds, including the federal or any state or local government if such government is a named policyholder, beneficiary or insured under the policy, arising from and within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company; liability claims, including liability claims of the federal or any state or local government, against insureds which claims are within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company, including claims for reasonable attorney's fees incurred by the policyholder to defend against the liability claim if such attorney's fees are covered under the policy, but only to the extent covered; assessments by the U.S. Department of Labor arising as the result of its payment of benefits to Manhattan Re policyholders under the 8F Insurance Fund; policyholder's claims for refunds of unearned premium, and claims of insurers, insurance pools or underwriting associations for contribution, indemnity or subrogation, equitable or otherwise; provided, however, that this Class shall not apply to claims arising under reinsurance contracts, including any claims for reinsurance premiums due. Under the Plan, subrogation, contribution or indemnity claims of other insurers or their insureds against Manhattan Re are specifically included in Class 2, "Policy Claims" to protect the Manhattan Re insureds from direct suit by such other insurers. Claims alleging tortious conduct, such as a breach of the duty of good faith and fair dealing, or other claims alleging extra-contractual remedies are expressly excluded from this Class, and such claims, if any, would be considered claims in Class 4 ("general creditors") under this Plan of Rehabilitation. Under the Plan, interest shall not be allowed or paid on Class 2 claims, except that the value assigned to Class 2 claims arising from valid judgments entered on or before February 28, 2011, other than judgments by default or collusion, may include pre-judgment and post-judgment interest through February 28, 2011 if such interest is required by law or contract.

C. Class 3: Federal Government Priority Claims: Taxes owed to the United States and other debts owed to the United States which by the laws of the United States are entitled to priority over the claims in Classes 4 and 5 below and which claims of the United States are not already included in Class 2 above. The Receiver does not anticipate that there will be any claims which qualify for this class. However, as a precautionary measure, the Receiver has included this class of claims to conform this Rehabilitation Plan to the ruling of the United States Supreme Court in *United States Department of Treasury v. Fabe*, 508 U.S. 491 (1993), and the ensuing related cases.

D. Class 4: General Creditor Claims: Claims of general creditors including, but not limited to, claims of ceding and assuming insurers in their capacity as such. This class shall include any Claims of the federal or any state or local government to the extent such claims are not otherwise included in Classes 2 or 3 above.

E. Class 5: Stockholder Claims: The following claims shall be included in Class 5, "Stockholder Claims,": The claims of shareholders or other owners arising out of such capacity.



EXHIBIT 2

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE REHABILITATION)
OF MANHATTAN RE-INSURANCE)
COMPANY)

C.A. No. 2844 - VCP
)

**ACCOUNTING OF THE RECEIVER,
THE HONORABLE KAREN WELDIN STEWART,
FOR THE PERIOD APRIL 1, 2007, THROUGH DECEMBER 31, 2008**

DIANE J. BARTELS, ESQUIRE

BY: 

DIANE J. BARTELS
Delaware Bar No. 2530
Brandywine Village
1807 N. Market Street
Wilmington, Delaware 19802-4810
(302) 656-7207

Attorney for Karen Weldin Stewart,
Insurance Commissioner of the
State of Delaware, in her capacity
as the Receiver of Consumers
United Insurance Company
in Liquidation

DATED: February 3, 2011

Manhattan Re-Insurance Company in Rehabilitation

INTRODUCTION

This report represents the transactions for the period April 1, 2007, through December 31, 2008. In addition, the principal balance of the estate is presented as of December 31, 2008.

The admitted assets of the Estate total \$7,701,050 as of December 31, 2008.

Manhattan Re-Insurance Company in Rehabilitation

Summary of Receipts and Disbursements

		Page(s)
Total Cash and Cash Equivalents – April 1, 2007	\$ 7,412,870	
Add: Receipts for period	<u>1,170,291</u>	(4)
Less: Disbursements for period	<u>882,110</u>	(4)
Total Cash and Cash Equivalents – December 31, 2008	\$ <u>7,701,050</u>	(3)

Manhattan Re-Insurance Company in Rehabilitation

Composition of Net Balances

Principal

December 31, 2008

	<u>Ledger Assets</u>	<u>Less Non-Admitted</u>	<u>Net Admitted Assets</u>
Cash and Cash Equivalents	\$ 7,701,050	0	\$7,701,050
Early Access Funds (Note 5)	0		0
Other Assets (Note 2)	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$7,701,050</u>	<u>\$ 0</u>	<u>\$7,701,050</u>

Manhattan Re-Insurance Company in Rehabilitation

RECEIPTS

Interest and Dividend Income	\$ 467,750
Reinsurance recovered	3,000
Net proceeds from investments sold	<u>699,541</u>
Total Receipts	<u>\$1,170,291</u>

DISBURSEMENTS

Adjusting and Consulting Expenses (Note 1)	\$ 223,243
Compensation and Benefits	0
Payments to Department of Labor	453,801
Legal Expense (Note 2)	142,857
Actuarial	11,309
Accounting & Computing Expense	2,963
Rental Expense	0
Paid Claims	3,000
Administrative Expenses	1,949
Bank Charges	1,769
Expenses paid to Parent Company	<u>41,220</u>
Total Disbursements	<u>\$ 882,110</u>

Manhattan Re-Insurance Company in Rehabilitation

NOTES

1. Adjusting and consulting expenses included reconstructing records, gathering and analyzing various agreements, investigating tax matters, pursuing reinsurance recoveries and assisting in the implementation of a Rehabilitation Plan.
2. Legal services were provided by various attorneys who represented the estate in assorted matters.
3. To date, \$ 0 in early access funds for Class III claims have been paid.

Manhattan Re-Insurance Company in Rehabilitation


VERIFICATION

I, Fredric Marro, being duly sworn according to law, depose and say that the attached Accounting of Manhattan Re-Insurance Company in Rehabilitation, for the period April 1, 2007, through December 31, 2008, is true and correct to the best of my knowledge and belief.



Fredric Marro
Deputy Receiver

SWORN TO AND SUBSCRIBED before me this 2nd day of February, 2011.



Scott C. Riley
Attorney at Law of The State of New
Jersey
Notary pursuant to N.J.S.A.
41:2-1 and 46:14-6.1



EXHIBIT 3

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF THE REHABILITATION)
OF MANHATTAN RE-INSURANCE)
COMPANY)

C.A. No. 2844 - VCP
)

**ACCOUNTING OF THE RECEIVER,
THE HONORABLE KAREN WELDIN STEWART,
FOR THE PERIOD JANUARY 1 THROUGH DECEMBER 31, 2009**

DIANE J. BARTELS, ESQUIRE

BY: 

DIANE J. BARTELS
Delaware Bar No. 2530
Brandywine Village
1807 N. Market Street
Wilmington, Delaware 19802-4810
(302) 656-7207

Attorney for Karen Weldin Stewart,
Insurance Commissioner of the
State of Delaware, in her capacity
as the Receiver of Consumers
United Insurance Company
in Liquidation

DATED: February 3, 2011

Manhattan Re-Insurance Company in Rehabilitation

INTRODUCTION

This report represents the transactions for the period January 1, 2009 through December 31, 2009. In addition, the principal balance of the estate is presented as of December 31, 2009.

The admitted assets of the Estate total \$7,206,490 as of December 31, 2009

Manhattan Re-Insurance Company in Rehabilitation

Summary of Receipts and Disbursements

		Page(s)
Total Cash and Cash Equivalents – December 31, 2008	\$ 7,701,050	
Add: Receipts for period	<u>118,534</u>	(4)
Less: Disbursements for period	<u>613,904</u>	(4)
Total Cash and Cash Equivalents – December 31, 2009	\$ <u>7,206,490</u>	(3)

Manhattan Re-Insurance Company in Rehabilitation

Composition of Net Balances

Principal

December 31, 2009

	<u>Ledger Assets</u>	<u>Less Non-Admitted</u>	<u>Net Admitted Assets</u>
Cash and Cash Equivalents	\$ 7,206,490	0	\$7,206,490
Early Access Funds (Note 5)	0		0
Other Assets (Note 2)	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$7,206,490</u>	<u>\$ 0</u>	<u>\$7,206,490</u>

Manhattan Re-Insurance Company in Rehabilitation

RECEIPTS

Interest and Dividend Income	\$ 20,550
Reinsurance collected	97,984
Total Receipts	<u>\$118,534</u>

DISBURSEMENTS

Adjusting and Consulting Expenses (Note 1)	\$ 119,721
Compensation and Benefits	0
Payments to Department of Labor	289,354
Reinsurance claims paid	97,984
Legal Expense (Note 2)	101,773
Actuarial	0
Accounting & Computing Expense	1,935
Rental Expense	0
Paid Claims	750
Administrative Expenses	1,230
Bank Charges	348
Expenses paid to Parent Company	<u>0</u>
Total Disbursements	<u>\$ 613,904</u>

Manhattan Re-Insurance Company in Rehabilitation

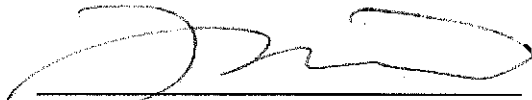
NOTES

1. Adjusting and consulting expenses included reconstructing records, gathering and analyzing various agreements, reviewing and investigating tax issues, pursuing reinsurance recoveries and assisting in the implementation of a Rehabilitation Plan.
2. Legal services were provided by various attorneys who represented the estate in assorted matters.
3. To date, \$ 0 in early access funds for Class III claims have been paid.

Manhattan Re-Insurance Company in Rehabilitation

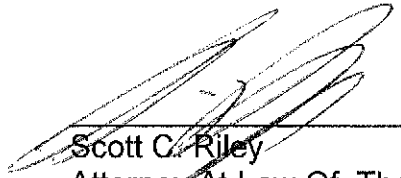
VERIFICATION

I, Fredric Marro, being duly sworn according to law, depose and say that the attached Accounting of Manhattan Re-Insurance Company in Rehabilitation, for the period January 1, 2009, through December 31, 2009, is true and correct to the best of my knowledge and belief.



Fredric Marro
Deputy Receiver

SWORN TO AND SUBSCRIBED before me this *2nd* day of *February*, 2011.



Scott C. Riley
Attorney At Law Of The State of New
Jersey
Notary pursuant to N.J.S.A.
41:2-1 and 46:14-6.1



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF)
THE REHABILITATION OF) C.A. No. 2844-VCP
MANHATTAN RE-INSURANCE COMPANY)

**ORDER APPROVING PLAN OF REHABILITATION OF
MANHATTAN RE-INSURANCE COMPANY**

The Receiver of Manhattan Re-Insurance Company in Rehabilitation ("Manhattan Re") has moved the Court for an Order approving a Plan of Rehabilitation of Manhattan Re.

In support thereof Manhattan Re has supplied the Court with information supporting the conclusion that the proposed Plan of Rehabilitation of Manhattan Re is in the best interests of Manhattan Re, its policyholders, its general creditors and the public. Having considered the matter and concluding that the Plan of Rehabilitation of Manhattan Re appears to be in the best interests of Manhattan Re, its policyholders, its general creditors and the public,

NOW, THEREFORE, this _____ day of _____, 2011, IT IS HEREBY ORDERED that:

1. The Plan of Rehabilitation of Manhattan Re is hereby approved in its entirety.

2. The Receiver is authorized to do all other acts, including but not limited to the negotiation, settlement and payment of valid Claims, in whole or in part, pursuant to the terms of the Plan of Rehabilitation.

3. To the extent they are consistent with the Plan of Rehabilitation, all provisions of the Rehabilitation Order shall remain in effect.

4. In addition to the injunctive relief contained in the Rehabilitation Order, any and all partial payments made to a Claimant from the inception of the Rehabilitation Proceedings and/or under the Plan of Rehabilitation shall be credited, without diminution, toward the Estates' satisfaction of such Claimants' Claim against the Estate.

5. ALL PERSONS AND ENTITIES ARE SPECIFICALLY ENJOINED AND RESTRAINED FROM PROCEEDING WITH A CLAIM AGAINST AN INSURED OR OTHER PERSON OR ENTITY TO WHOM MANHATTAN RE OWES A DEFENSE OR INDEMNIFICATION UNDER AN INSURANCE POLICY OR CONTRACT ISSUED BY MANHATTAN RE TO THE EXTENT OF THE LIMITS OF LIABILITY OF THE MANHATTAN RE POLICY. Nothing herein is intended to revive an expired statute of limitations as to any claims.

6. The Receiver shall be authorized to continue the payment of all valid Class (2) Claims in accordance with the Plan of Rehabilitation until such time that there are no longer sufficient funds in the Estate to continue those payments, there are no valid Claims remaining against the Estate, or the Receiver deems it necessary to petition the Court for the entry of a Bar Date and Claim Payment Process in accordance with the terms of the Plan of Rehabilitation.

7. Within five business days of receipt of this Order, the Receiver or the Receiver's counsel shall serve, by United States certified mail, with proof of mailing, to the last known address in the Receiver's files, a copy of this Order to all persons or entities to whom the Order to Show Cause in this matter was mailed.

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

The Honorable Donald F. Parsons, Jr.
Vice Chancellor



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

TELEPHONE: 302-656-7207

FACSIMILE: 302-656-7208

February 3, 2011

The Honorable Donald F. Parsons, Jr.
Court of Chancery of the State of Delaware
New Castle County Courthouse
500 North King Street, Suite 11400
Wilmington, Delaware 19801

By Hand

Re: In the Matter of the Rehabilitation
of Manhattan Re-Insurance Company
Civil Action No. 2844-VCP

Dear Vice Chancellor Parsons:

Enclosed please find courtesy copies of the following pleading and related documents, which were filed today in the above-referenced matter:

1. Verified Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company, with Verification of Fredric Marro in support thereof, Exhibit A (proposed Plan of Rehabilitation of Manhattan Re-Insurance Company, and Exhibits 1 through 3 thereto);
2. Proposed form of Order to Show Cause Concerning the Receiver's Petition for Approval of the Plan of Rehabilitation of Manhattan Re-Insurance Company;
3. Proposed form of Order Approving Plan of Rehabilitation of Manhattan Re-Insurance Company; and
4. Receipt for electronic filing.

The Honorable Donald F. Parsons, Jr.
February 3, 2011
Page 2

The Receiver respectfully requests that Your Honor enter the enclosed Order to Show Cause at the Court's earliest convenience for the hearing pre-scheduled by the Court for **Tuesday, March 29, 2011, at 10:00 a.m.**, or such other time as the Court directs.

The undersigned is available should Your Honor have any questions regarding this matter.

Very truly yours,



Diane J. Bartels
Del. Bar No. 2530

DJB/db
Enclosures