

1 BILL LOCKYER  
 Attorney General  
 2 W. DEAN FREEMAN  
 Lead Supervising Deputy Attorney General  
 3 MARK P. RICHELSON  
 Supervising Deputy Attorney General  
 4 RAYMOND B. JUE, State Bar No. 061656  
 Deputy Attorney General  
 5 LISA W. CHAO,  
 Deputy Attorney General, State Bar No. 198536  
 6 300 South Spring Street, Room 1702  
 Los Angeles, California 90013  
 7 Telephone: (213) 897-2480  
 Fax: (213) 897-5775  
 8  
 Attorneys for Applicant Insurance Commissioner  
 9 of the State of California

**ORIGINAL FILED**  
 JUL 02 2003  
 LOS ANGELES  
 SUPERIOR COURT

10  
 11 **IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA**  
 12 **FOR THE COUNTY OF LOS ANGELES**

13  
 14 **INSURANCE COMMISSIONER OF THE**  
**STATE OF CALIFORNIA,**  
 15  
 Applicant,  
 16  
 v.  
 17 **FREMONT INDEMNITY COMPANY, a**  
 California corporation,  
 18  
 Respondent.

Case No.: BS083582

**[PROPOSED] ORDER APPOINTING**  
**INSURANCE COMMISSIONER AS**  
**LIQUIDATOR AND RESTRAINING**  
**ORDERS**

Date: July 2, 2003  
 Time: 9:30 a.m.  
 Dept.: 86

21 The verified Application of the Insurance Commissioner of the State of California  
 22 ("Commissioner") for an Order Appointing Commissioner as Liquidator of Fremont Indemnity  
 23 Company ("Respondent") came on regularly for hearing in Department 86 of the Los Angeles  
 24 County Superior Court.

25 **GOOD CAUSE APPEARING FROM THE COMMISSIONER'S VERIFIED**  
 26 **APPLICATION, THIS COURT MAKES THE FOLLOWING FINDINGS:**

- 27 1. Respondent is insolvent.
- 28 2. It would be futile for the Commissioner to continue to proceed as Conservator of

1 Respondent.

2 3. Respondent does not meet the requirements for issuance to it of a Certificate of  
3 Authority.

4 4. There exist sufficient factual and legal grounds for the Commissioner to liquidate  
5 and wind up the business of Respondent in a manner consistent with the provisions of this Order.

6 **WHEREFORE, GOOD CAUSE APPEARING, THIS COURT MAKES THE**  
7 **FOLLOWING ORDERS** (for all purposes in this order, the term "Respondent," wherever used  
8 and used in whatever context or reference, shall mean Respondent Fremont Indemnity Company  
9 and shall mean for all purposes, wherever used and in whatever context or reference, all the  
10 following entities: the former Fremont Indemnity Company, Comstock Insurance Company,  
11 Fremont Industrial Indemnity Insurance Company, Fremont Compensation Insurance Company,  
12 Fremont Casualty Company, and Fremont Pacific Insurance Company):

13 1. The Commissioner's status as Conservator is terminated, and he is appointed as  
14 Liquidator of Respondent, as set forth in Insurance Code §1016, and directed as Liquidator to  
15 liquidate and wind up the affairs of Respondent, to conduct the business of Respondent, or so  
16 much as thereof may seem appropriate, to pay or defer payment of all proper claims and  
17 obligations against Respondent accruing prior to or subsequent to his appointment as Liquidator  
18 of Respondent and to act in all ways and exercise all powers necessary for the purpose of  
19 carrying out such order;

20 2. The Liquidator is authorized to assume or reject, or to modify, any executory  
21 contracts, including without limitation, any lease, rental or utilization contract or agreement  
22 (including any schedule to any such contract or agreement), and any license or other arrangement  
23 for the use of computer software of business information systems, to which Respondent is a party  
24 or as to which Respondent agrees to accept an assignment of such contract; the Liquidator is  
25 directed to effect any such assumption or rejection or modification of any executory contract not  
26 later than 120 days of the date of the Order Appointing Conservator, unless such date is extended  
27 by application to and further order of this Court; all executory contracts that are not expressly  
28 assumed by the Liquidator shall be deemed rejected; any party to a contract that is rejected by the

1 Liquidator pursuant to this order shall be permitted to file a proof of claim against the liquidation  
2 estate, which claim shall be treated in accordance with Insurance Code §1010, et seq.;

3 3. The Liquidator is authorized to take possession of all the assets of Respondent  
4 including books, records and property, both real and personal, accounts, safe deposit boxes,  
5 rights of action, and all such assets as may be in the name of Respondent, wheresoever situated;

6 4. The Liquidator is vested with title to all property and assets of Respondent,  
7 including deposits, securities, contracts, rights of actions, books, records and other assets of  
8 every type and nature, and including both those presently in Respondent's possession and those  
9 which may be discovered hereafter, wheresoever situated, and the Liquidator is authorized to  
10 deal with the same in his own name as Liquidator or in the name of Respondent, and all persons  
11 are enjoined from interfering with Liquidator's possession and title thereto;

12 5. The Liquidator shall have all the powers of the directors, officers and managers of  
13 Respondent, whose authorities are suspended except as such powers may be redelegated by the  
14 Liquidator;

15 6. The Liquidator is authorized to terminate compensation arrangements with  
16 employees, to enter into new compensation arrangements with employees, including  
17 arrangements containing retention incentives, and the Liquidator is authorized to hire employees  
18 on such terms and conditions as he deems reasonable;

19 7. Except upon the express authorization of the Liquidator, Respondent, its officers,  
20 directors, agents and employees are enjoined from transacting any of the business of Respondent,  
21 whether in the State of California or elsewhere, or from disposing of, using, transferring, selling,  
22 assigning, canceling, alienating, hypothecating or concealing in any manner or any way, or  
23 assisting any person in any of the foregoing, of the property or assets of Respondent or property  
24 or assets in the possession of Respondent, of any nature or kind, including claims or causes of  
25 action, until further order of this Court and further, such persons are enjoined from obstructing or  
26 interfering with the Liquidator's conduct of his or her duties as Liquidator;

27 8. All persons are enjoined from instituting or prosecuting or maintaining any action  
28 at law or suit in equity, including but not limited to actions or proceedings to compel discovery

1 or production of documents or testimony and matters in arbitration, except in matters before  
2 either the California Workers Compensation Appeals Board or equivalent administrative boards  
3 or organizations performing such functions in other states in which Respondent issued workers  
4 compensation policies, against Respondent or against the Liquidator, and from attaching,  
5 executing upon, redeeming of or taking any other legal proceedings against any of the property  
6 or assets of Respondent, and from doing any act interfering with the conduct of said business by  
7 the Liquidator, except upon order from this Court obtained after reasonable notice to the  
8 Liquidator;

9         9. Respondent and all officers, directors, agents and employees of Respondent are  
10 directed to deliver to, and immediately make available to, the Liquidator all assets, books,  
11 records, accounts, records, information, computers, tapes, discs, writings, other recordings of  
12 information, equipment and other property of Respondent, wheresoever situated, in said persons  
13 custody or control and further, the aforesaid persons shall disclose verbally, or in writing if  
14 requested by the Liquidator, the exact whereabouts of the foregoing items if such items are not in  
15 the possession custody or control of said persons;

16         10. All officers, directors, trustees, employees or agents of Respondent, or any other  
17 person, firm, association, partnership, corporate parent, holding company, affiliate or other entity  
18 in charge of any aspect of Respondent's affairs, either in whole or in part, and including but not  
19 limited to banks, savings and loan associations, financial or lending institutions, brokers, stock or  
20 mutual associations, or any parent, holding company, subsidiary or affiliated corporation or any  
21 other representative acting in concert with Respondent, are directed to cooperate with the  
22 Liquidator in the performance of his or her duties;

23         11. The Liquidator is authorized to pay for his costs in bringing and maintaining this  
24 action, and such other actions as are necessary to carry out his functions as Liquidator (including  
25 reasonable costs of operating Respondent such as direct and allocated direct costs, direct and  
26 allocated general and administrative costs and overhead, and all other allocated costs), out of the  
27 funds and assets of Respondent; and if there are insufficient funds, to pay for his costs out of the  
28 Insurance Fund, pursuant to Insurance Code section 1035;

1           12.     All funds, assets, and accounts, including certificates of deposit, bank accounts,  
2 and mutual fund shares, of Respondent, in various financial depository institutions, including  
3 banks, savings and loan associations, industrial loan companies, mutual funds or stock  
4 brokerages, wheresoever situated, shall be vested in the Liquidator and subject to withdrawal  
5 upon his order only. This order does not convert funds held in a fiduciary capacity to general  
6 assets of the Liquidator;

7           13.     All persons who maintain records for Respondent, pursuant to written contract or  
8 any other agreement, shall maintain such records and shall deliver to the Liquidator such records  
9 upon his request;

10          14.     All agents of Respondent and all brokers who have done business with  
11 Respondent, are directed to make all remittances of all funds collected by them or in their hands  
12 directly to the Liquidator. This obligation to remit collected funds is continuing in nature;

13          15.     All persons having possession of any lists of policyholders or escrow holders of  
14 Respondent shall deliver all such lists to the Liquidator; and that all persons are enjoined from  
15 using any such lists or any information contained therein without the consent of the Liquidator;

16          16.     The Liquidator is authorized to initiate such equitable or legal actions or  
17 proceedings in this or other states as may appear to him necessary to carry out his functions as  
18 Liquidator;

19          17.     The Liquidator is authorized to appoint and employ special deputies, estate  
20 managers, other professionals, clerks and assistants and to give each of them such power and  
21 authority as he may deem necessary, and the Liquidator is authorized to compensate these  
22 persons from the assets of Respondent as he may deem appropriate;

23          18.     The Liquidator is authorized to divert, take possession of and secure all mail of  
24 Respondent, in order to screen such mail, and to effect a change in the rights to use any and all  
25 post office boxes and other mail collection facilities used by Respondent;

26          19.     Respondent and its officers, directors, agents, servants, employees, successors,  
27 assigns, affiliates, and other persons or entities under their control and all persons or entities in  
28 concert or participation with Respondent, and each of them, are directed to turn over to the

1 Liquidator all records, documentation, charts and/or descriptive materials of all funds, assets,  
2 property (owned beneficially or otherwise), and all other assets of Respondent wherever situated,  
3 and all books and records of accounts, title documents and other documents in their possession or  
4 under their control, which relate, directly or indirectly to assets or property owned or held by  
5 Respondent or to the business or operations of Respondent;

6         20.     Except with leave of court issued after a hearing in which the Liquidator has  
7 received reasonable notice, all persons are enjoined from obtaining preferences, judgments,  
8 attachments or other liens, or making any levy against Respondent or its assets or property, and  
9 from executing or issuing or causing the execution or issuance of any court attachment,  
10 subpoena, replevin, execution or other process for the purpose of impounding or taking  
11 possession of or interfering with or creating or enforcing a lien upon any property or assets  
12 owned or in the possession of Respondent or the Liquidator, wheresoever situated, and from  
13 doing any act interfering with the conduct of said business by the Liquidator;

14         21.     Except with leave of court issued after a hearing in which the Liquidator has  
15 received reasonable notice, all persons are enjoined from accelerating the due date of any  
16 obligation or claimed obligation; exercising any right of set-off; taking, retaining, retaking or  
17 attempting to retake possession of any real or personal property; withholding or diverting any  
18 rent or other obligation; doing any act or other thing whatsoever to interfere with the possession  
19 of or management by the Liquidator of the property and assets, owned or controlled by  
20 Respondent or in the possession of Respondent or in any way interfering with the Liquidator or  
21 to interfere in any manner during the pendency of this proceeding with the exclusive jurisdiction  
22 of this Court over Respondent;

23         22.     All persons are enjoined from waste of assets of Respondent;

24         23.     Any and all provisions of any agreement entered into by and between any third  
25 party and Respondent, including by way of illustration, but not limited to, the following types of  
26 agreements (as well as any amendments, assignments, or modifications thereto): financial  
27 guarantee bonds, promissory notes, loan agreements, security agreements, deeds of trust,  
28 mortgages, indemnification agreements, subrogation agreements, subordination agreements,

1 pledge agreements, assignments of rents or other collateral, financial statements, letters of credit,  
2 leases, insurance policies, guaranties, escrow agreements, management agreements, real estate  
3 brokerage and rental agreements, servicing agreements, attorney agreements, consulting  
4 agreements, easement agreements, license agreements, franchise agreements, or employment  
5 contracts that provide in any manner that selection, appointment or retention of a conservator,  
6 liquidator, receiver or trustee by any court, or entry of any order such as hereby made, shall be  
7 deemed to be, or otherwise operate as a breach, violation, event of default, termination, event of  
8 dissolution, event of acceleration, insolvency, bankruptcy, or liquidation shall be stayed, and the  
9 assertion of any and all rights and remedies relating thereto shall also be stayed and barred,  
10 except as otherwise ordered by this Court, and this Court shall retain jurisdiction over any cause  
11 of action that has arisen or may otherwise arise under any such provision;

12         24. The Liquidator is authorized, pursuant to Insurance Code §1037, subsection (g),  
13 to invest and reinvest all assets in a manner he deems to be in the best interest of the creditors of  
14 the estate, including investing and reinvesting assets through an investment pool consisting  
15 exclusively of assets from other estates for which the Insurance Commissioner is the liquidator.  
16 To the extent that the Liquidator invests and reinvests through such an investment pool, such  
17 investments and re-investments may exceed \$100,000. Further, the Liquidator may make  
18 investments or reinvestments in excess of \$100,000, but not exceeding \$5,000,000 per  
19 investment or reinvestment, without prior approval if such investments or reinvestments are  
20 made pursuant to the investment guidelines of the Liquidator's Conservation & Liquidation  
21 Office, a true and correct copy of which is attached hereto as Exhibit A and incorporated herein  
22 by this reference. The Liquidator shall file quarterly reports of such investments in excess of  
23 \$100,000 (other than investments or reinvestments in an investment pool) with the Court, with  
24 notice to all persons on the service list, such reports to be filed within 60 days of the end of each  
25 quarter;

26         25. The Liquidator is authorized to pay as expenses of administration all expenses  
27 heretofore incurred by the Commissioner as Conservator which are presently unpaid, and the  
28 Liquidator is authorized to pay, upon presentation, the full amount of any checks or drafts which





**INSURANCE COMMISSIONER of the**  
**STATE of CALIFORNIA**  
**CONSERVATION & LIQUIDATION OFFICE**  
**INVESTMENT GUIDELINES**

**Objectives**

To maintain safety of principal and to maximize available yield while assuming a minimum of risk through a balance of quality and diversification within the investment portfolio.

**A. Safety**

*Quality*

None of the Portfolio will be invested in fixed income securities rated below investment grade quality by Standard & Poor's, Moody's or by another nationally recognized statistical rating organization. Unrated securities may not be held. The minimum average market value weighted credit quality of securities in the Portfolio will be AA- by Standard & Poor's and Aa3 by Moody's or their equivalent.

Commercial Paper will be rated no less than A1 by Standard & Poor's or P1 by Moody's.

*Sectors*

Permitted investments for the Portfolio shall include:

1. Fixed income securities and other fixed income obligations of any type which may be issued or guaranteed by (i) the U.S. and the agencies, instrumentalities, and political sub-divisions of the U.S., and (ii) U.S. corporations, trusts and special purpose entities. Such securities must be traded on exchanges or in over the counter markets in the U.S.. No emerging markets' securities are allowed.
2. Repurchase agreements.

### *Restrictions on permitted investments*

None of the Portfolio may be invested in foreign securities and in securities not denominated in U.S. dollars. Manager may not elect to hedge currency and/or interest rate exposure. No speculative currency positions are permitted.

All repurchase agreements will be transacted with counterparties approved by the Manager in accordance with its policies and procedures and terms and conditions set forth in the applicable Investment Management Agreement and any applicable Master Repurchase Agreement(s).

No investment in interest only ("IO"), principal only ("PO"), or inverse floater CMOs are permitted. The manager should only accept reasonable prepayment risk, consistent with the stated objectives of their respective funds.

Derivatives, or financial investments containing derivatives, are not permitted, defined as options, forwards, futures and swaps.

Investment transactions (i) which result in leverage or short sales and/or (ii) with affiliates of the Manager, are not permitted.

### *Diversification*

No more than 5 % of the Portfolio will be invested in the securities of any one issuer, other than those securities issued or guaranteed by the U.S. government, its agencies, and instrumentalities and refunded municipal issues (all of which may be held without limit). For the purposes of this guideline, asset backed and mortgage-related securities (not issued by the U.S. Government, its agencies or instrumentalities), issued by trusts and other special purpose entities, will be limited to no more than 5 percent per issue, in addition to a common originator limit of no more than 20 percent.

## **B. Maturity**

Portfolio duration will be maintained within a range of (+/-) six months of the index under normal market conditions. There will be no restriction on the duration of any single security. Duration will be calculated adjusting for

any optionality in securities as well as adjusting for the expected prepayment level of mortgage-backed security pools.

### C. Calculation of Returns

Returns will be calculated in compliance with the Association for Investment Management and Research standards.

### D. General

All percentage restrictions on Portfolio holdings will initially be evaluated at the time of purchase. At any time thereafter, concentrations in eligible portfolio investments will not exceed the prescribed limit by more than one percent.

Notwithstanding any provision to the contrary, Manager will not be required to sell any particular holding because a rating of a security is downgraded subsequent to purchase. However, Manager is required to notify the client in the event of a downgrade below investment grade. In the event a security is split rated, the lower rating will apply with respect to all portfolio percentage and quality restrictions.

Investment personnel who will have input into or control over any investment decision on behalf of the Commissioner are required, if they have a beneficial interest in that security, to disclose in writing their beneficial interest and receive written authority from the Commissioner before an investment decision is made.

### E. Benchmark

The benchmark for the Portfolio will be the Lehman 1-3 Gov/Credit A or better, (the "Index"). The objective of the Portfolio will be to maintain safety of principal and maximize available yield while assuming a minimum of risk through a balance of quality and diversification within the portfolio.