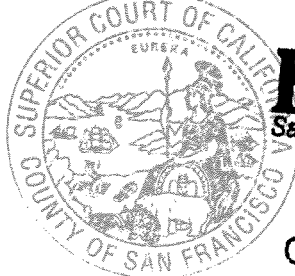


ORIGINAL



FILED
San Francisco County Superior Court

APR 21 2011

CLERK OF THE COURT

BY: *[Signature]*
Deputy Clerk

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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA
9 CITY AND COUNTY OF SAN FRANCISCO – UNLIMITED JURISDICTION

13 INSURANCE COMMISSIONER OF THE
STATE OF CALIFORNIA,
14 Applicant,
15
16 v.
17 MAJESTIC INSURANCE COMPANY, A
CALIFORNIA CORPORATION,
18 Respondent.

Case No.: CPF-11-511261

ORDER APPOINTING CONSERVATOR
AND RESTRAINING ORDERS
(PROPOSED)

Date: April 21, 2011
Time: 11:00 a.m.
Dept.: 301

THE ANNEXED INSTRUMENT IS A
CORRECT COPY OF THE ORIGINAL
ON FILE IN MY OFFICE.
ATTEST: CERTIFIED

APR 21 2011

BY: *[Signature]*
SUPERIOR COURT
DENNIS TOYALTY, CLERK

20 The verified Application of the Insurance Commissioner of the State of California (“the
21 Commissioner”) having been filed herein, it being shown to the Court’s satisfaction from said
22 Application that the Commissioner has (1) found Majestic Insurance Company (“Majestic”) to be
23 in such condition that its further transaction of business will be hazardous to its policyholders,
24 creditors, and the public; and (2) found that said insurer does not comply with the requirements
25 for the issuance to it of a certificate of authority, and good cause appearing;

26 IT IS HEREBY ORDERED that:

27 1. The Commissioner is hereby appointed as Conservator (hereinafter “Conservator”)
28 of Majestic and directed to conduct the business of Majestic or so much thereof as he may deem

1 appropriate; and the Conservator is authorized, in his discretion, to pay or defer payment of some
2 or all proper claims, expenses, liabilities and obligations of Majestic, in whole or in part,
3 accruing prior or subsequent to his appointment as Conservator;

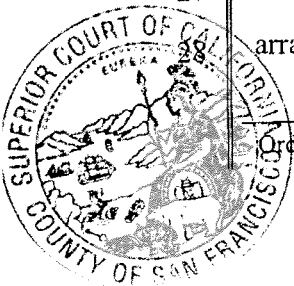
4 2. The Conservator is authorized to assume or reject, or to modify, any executory
5 contracts including without limitation, any lease, rental or utilization contract or agreement
6 (including any schedule to any such contract or agreement), and any license or other arrangement
7 for the use of computer software of business information systems, to which Majestic is a party or
8 as to which Majestic agrees to accept an assignment of such contract; the Conservator is directed
9 to effect any such assumption or rejection or modification of any executory contract not later than
10 120 days of the date of the Order Appointing Conservator, unless such date is extended by
11 application to and further order of this Court; all executory contracts that are not expressly
12 assumed by the Commissioner as Conservator shall be deemed rejected;

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

16 4. Title to all property and assets of Majestic, including deposits, securities, contracts,
17 rights of actions, books, records and other assets of every type and nature, and including both
18 those presently in Majestic's possession and those which may be discovered hereafter,
19 wheresoever situated, is vested in the Conservator or his successor in office, in his official
20 capacity as Conservator; the Conservator is authorized to deal with the same in his own name as
21 Conservator or in the name of Majestic, and all persons are enjoined from interfering with
22 Conservator's possession and title thereto;

23 5. The Conservator shall have all the powers of the directors, officers and managers
24 of Majestic, whose authorities are suspended except as such powers may be redelegated by the
25 Conservator;

26 6. The Conservator is authorized to terminate compensation arrangements with
27 employees, to enter into new compensation arrangements with employees, including
arrangements containing retention incentives, and the Conservator is authorized to hire employees



1 on such terms and conditions as he deems reasonable;

2 7. Except upon the express authorization of the Conservator, Majestic, its officers,
3 directors, agents and employees are enjoined from transacting any of the business of Majestic,
4 whether in the State of California or elsewhere, or from disposing of, using, transferring, selling,
5 assigning, canceling, alienating, hypothecating or concealing in any manner or any way, or
6 assisting any person in any of the foregoing, of the property or assets of Majestic or property or
7 assets in the possession of Majestic, of any nature or kind, including claims or causes of action,
8 until further order of this Court and further, such persons are enjoined from obstructing or
9 interfering with the Conservator's conduct of his or her duties as Conservator;

10 8. All persons are enjoined from instituting or prosecuting or maintaining any action
11 at law or suit in equity, including but not limited to actions or proceedings to compel discovery or
12 production of documents or testimony and matters in arbitration, except in matters before either
13 the California Workers Compensation Appeals Board or equivalent administrative boards or
14 organizations performing such functions in other States in which Majestic issued workers
15 compensation policies, against Majestic, or against Conservator and from attaching, executing
16 upon, redeeming of or taking any other legal proceedings against any of the property of Majestic,
17 and from doing any act interfering with the conduct of said business by Conservator, except after
18 an order from this Court obtained after reasonable notice to Conservator;

19 9. Majestic and all officers, directors, agents and employees of Majestic shall deliver
20 to, and immediately make available to, the Conservator all assets, books, records, accounts,
21 records, information, computers, tapes, discs, writings, other recordings of information,
22 equipment and other property of Majestic, wheresoever situated, in said persons custody or
23 control and further, the aforesaid persons shall disclose verbally, or in writing if requested by the
24 Conservator, the exact whereabouts of the foregoing items if such items are not in the possession
25 custody or control of said persons;

26 10. All officers, directors, trustees, employees or agents of Majestic, or any other
27 person, firm, association, partnership, corporate parent, holding company, affiliate or other entity
in charge of any aspect of Majestic's affairs, either in whole or in part, and including but not



1 limited to banks, savings and loan associations, financial or lending institutions, brokers, stock or
2 mutual associations, or any parent, holding company, subsidiary or affiliated corporation or any
3 other representative acting in concert with Majestic, shall cooperate with the Conservator in the
4 performance of his or her duties.

5 11. The Conservator is authorized to pay all reasonable costs of taking possession of
6 and conserving Majestic (including but not limited to the Conservator's pre-conservation costs in
7 examining Majestic's financial condition, and preparing to take possession and conserve
8 Majestic) out of the funds and assets of the Majestic;

9 12. The Conservator is authorized to pay all reasonable costs of operating Majestic as
10 Conservator (including direct and allocated direct costs, direct and allocated general and
11 administrative costs and overhead, and all other allocated costs) out of any and all funds and
12 assets of Majestic; and if there are insufficient funds, to pay for the costs out of the Insurance
13 Fund pursuant to Insurance Code section 1035;

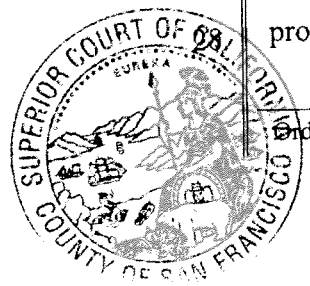
14 13. All funds and assets, including certificates of deposit, bank accounts, and mutual
15 fund shares of Majestic, in various financial depository institutions, including banks, savings and
16 loan associations, industrial loan companies, mutual funds or stock brokerages, wheresoever
17 situated, shall be vested in the Conservator and subject to withdrawal upon his order only;

18 14. All persons who maintain records for Majestic, pursuant to written contract or any
19 other agreement, shall maintain such records and deliver to the Conservator such records upon his
20 request;

21 15. All agents of Majestic, and all brokers who have done business with Majestic,
22 shall make all remittances of all funds collected by them or in their hands directly to the
23 Conservator;

24 16. All persons having possession of any lists of policyholders or escrow holders of
25 Majestic shall deliver such lists to the Conservator; and that all persons are enjoined from using
26 any such lists or any information contained therein without the consent of the Conservator;

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



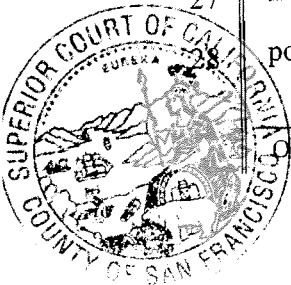
1 Conservator;

2 18. The Conservator is authorized to appoint and employ special deputies, estate
3 officers and managers, other professionals, clerks and assistants and to give each of them such
4 power and authority as may be deemed necessary by him, and the Conservator is authorized to
5 compensate these persons from the assets of Majestic as he shall deem appropriate. David E
6 Wilson, Special Deputy Commissioner, is hereby appointed as Deputy Conservator, empowered
7 to carry out any and all duties and exercise the authority of the Conservator granted herein and in
8 the Insurance Code. Joe Holloway is hereby appointed as Conservation Manager, empowered to
9 carry out any and all duties and exercise the authority of the Conservator or the Deputy
10 Conservator, as may be delegated in writing by the Conservator or Deputy Conservator;

11 19. The Conservator is authorized to divert, take possession of and secure all mail of
12 Majestic, in order to screen such mail, and to effect a change in the rights to use any and all post
13 office boxes and other mail collection facilities used by Majestic;

14 20. Majestic and its officers, directors, agents, servants, employees, successors,
15 assigns, affiliates, and other persons or entities under their control and all persons or entities in
16 concert or participation with Majestic, and each of them, shall turn over to the Conservator all
17 records, documentation, charts and/or descriptive materials of all funds, assets, property (owned
18 beneficially or otherwise), and all other assets of Majestic wherever situated, and all books and
19 records of accounts, title documents and other documents in their possession or under their
20 control, which relate, directly or indirectly to assets or property owned or held by Majestic or to
21 the business or operations of Majestic;

22 21. Except with leave of court issued after a hearing in which the Conservator has
23 received reasonable notice, all persons are enjoined from obtaining preferences, judgments,
24 attachments or other liens, or making any levy against Majestic or its assets or property, and from
25 executing or issuing or causing the execution or issuance of any court attachment, subpoena,
26 replevin, execution or other process for the purpose of impounding or taking possession of or
27 interfering with or creating or enforcing a lien upon any property or assets owned or in the
possession of Majestic or Conservator, wheresoever situated, and from doing any act interfering

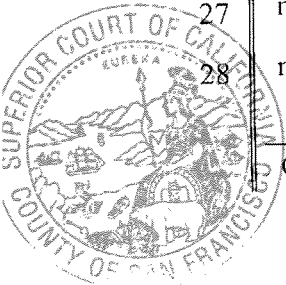


1 with the conduct of said business by Conservator;

2 22. Except with leave of court issued after a hearing in which Conservator has
3 received reasonable notice, all persons are enjoined from accelerating the due date of any
4 obligation or claimed obligation; exercising any right of set-off; taking, retaining, retaking or
5 attempting to retake possession of any real or personal property; withholding or diverting any rent
6 or other obligation; doing any act or other thing whatsoever to interfere with the possession of or
7 management by Conservator of the property and assets, owned or controlled by Majestic or in the
8 possession of Majestic or in any way interfering with Conservator or interfering in any manner
9 during the pendency of this proceeding with the exclusive jurisdiction of this Court over Majestic;

10 23. Any and all provisions of any agreement entered into by and between any third
11 party and Majestic, including by way of illustration, but not limited to, the following types of
12 agreements (as well as any amendments, assignments, or modifications thereto); financial
13 guarantee bonds, promissory notes, loan agreements, security agreements, deeds of trust,
14 mortgages, indemnification agreements, subrogation agreements, subordination agreements,
15 pledge agreements, assignments of rents or other collateral, financial statements, letters of credit,
16 leases, insurance policies, guaranties, escrow agreements, management agreements, real estate
17 brokerage and rental agreements, servicing agreements, attorney agreements, consulting
18 agreements, easement agreements, license agreements, franchise agreements, or employment
19 contracts that provide in any manner that selection, appointment or retention of a conservator,
20 receiver or trustee by any court, or entry of any order such as hereby made, shall be deemed to be,
21 or otherwise operate as, a breach, violation, event of default, termination, event of dissolution,
22 event of acceleration, insolvency, bankruptcy, or liquidation shall be stayed, and the assertion of
23 any and all rights and remedies relating thereto shall also be stayed and barred, except as
24 otherwise ordered by this Court, and this Court shall retain jurisdiction over any cause of action
25 that has arisen or may otherwise arise under any such provision;

26 24. The Conservator is authorized to invest Majestic's assets and funds in such a
27 manner as to him may seem suitable for the best interest of Majestic's creditors, which funds are
28 not immediately distributable to Majestic's creditors. However, no investment or reinvestment

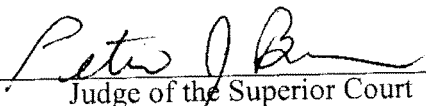


1 shall be made exceeding the sum of \$100,000 without first obtaining permission of this Court,
2 except the Conservator may make investments or reinvestments in excess of \$100,000 without
3 prior approval if such investments or reinvestments are made pursuant to the investment
4 guidelines of the Conservator's Conservation & Liquidation Office, a true and correct copy of
5 which is attached hereto as Exhibit A and incorporated herein by this reference. The Conservator
6 shall file quarterly reports of such investments in excess of \$100,000 with the Court, with notice
7 to all persons on the service list, such reports to be filed within 60 days of the end of each quarter;

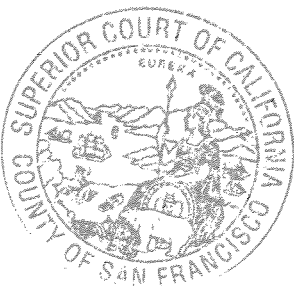
8 25. The Conservator is authorized to pay for his costs and fees in bringing and
9 maintaining this action, and such other actions as are necessary to carry out his functions as
10 Conservator, out of the funds and assets of Majestic; and

11 26. All persons are enjoined from the waste of the assets of Majestic.

12
13 Dated: 4/21/11



Judge of the Superior Court
PETER J. BUSCH



28

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.

1
EXHIBIT A

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 (+/-) twelve months of Barclays Capital US Government/Credit 1-3 Yr ex Baa (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 Barclays Capital US Government/Credit 1-3 Yr ex Baa 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.