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24 *as Conservator of California Insurance Company*

25 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
26 FOR THE COUNTY OF SAN MATEO – UNLIMITED JURISDICTION

27 INSURANCE COMMISSIONER OF THE  
28 STATE OF CALIFORNIA,  
Applicant,  
v.  
CALIFORNIA INSURANCE COMPANY, a  
California corporation,  
Respondents.

Case No. 19-CIV-06531

DECLARATION OF LARRY J.  
LICHTENEGGER

Date: March 4, 2021  
Time: 2:00 p.m.  
Dept.: 28, Hon. George A. Miram

Exempt from filing fees pursuant to  
Government Code section 6103

Electronically  
FILED

by Superior Court of California, County of San Mateo

ON 10/19/2020

By /s/ Una Finau  
Deputy Clerk



1 an additional 50 business clients to pursue claims against the Affiliates. Since then, of the 20  
2 remaining cases, I have either settled pre-trial, tried to judgment, settled post-judgment and one I  
3 referred to a lawyer in another state before the order establishing the conservation of CIC was put  
4 in place. At that time, I had the majority of the remaining 30 cases set for trial. All of these cases,  
5 except for the Randazzo case which was tried in September 2015, were litigated after the Shasta  
6 Linen decision came down in June 2016 and in each case the Affiliates continued to claim that the  
7 insurance program was legal.

8 4. Other than the Randazzo case<sup>1</sup>, of the cases fully completed, 4 of those went to  
9 trial<sup>2</sup> and judgment. In each of these cases, cases, all of which were litigated after the Shasta  
10 Linen Decision in June 2016, the underlying issue as to the legality of the program was resolved  
11 against the Affiliates. Of the remaining cases, two of the claims of the Affiliates were dismissed  
12 before trial, and the remainder were resolved by settlement just before or after a trial. Even  
13 though the Affiliates continued to argue the legality of the RPA, in many cases the insurance  
14 program had already been declared illegal by motions for summary adjudication before trial. So,  
15 there was not much to litigate except the amount of the damages, a fact that usually led to  
16 settlement.

17 5. In addition to the clients listed above, my remaining clients are:

- 18 • All Seasons Roofing & Waterproofing, Inc., ADCO Roofing, Inc., A-1 Roof and  
19 Construction of the South, Inc., A-1 Roofing Management Construction, Inc., and Alta  
20 Roofing & Waterproofing, Inc.,
- 21 • Alpine Builders, LLC, a Utah limited liability company, and Grove Creek, LLC, a Utah  
22 limited liability company,
- 23 • Bayless Engineering, Inc., a California corporation,
- 24 • Cal-Am Properties, Inc., a California corporation,
- 25 • Creekside Logging, Inc., a California corporation, and Blue Ridge Forest Management,  
26 Inc., a California corporation,
- EM Pizza, Inc., a California Corporation, dba Domino's Pizza,

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27 <sup>1</sup> Randazzo pre-dated the Commissioner's Decision in Shasta Linen and resulted in a finding that  
the EquityComp program was fraudulent and unconscionable.

28 <sup>2</sup> Barker Management, Inc., Bayless Engineering, Inc., Mark Crawford Logging, LLC, American  
Etc., Inc.

- 1 • Forrest Machining, Inc., a California corporation,
- 2 • Hennessey's Tavern, Inc., a California corporation,
- 3 • Jackpot Harvesting, Inc., a California corporation, Blacky Trucking Company, Inc., a
- 4 California corporation, and L & J Farms, a California corporation,
- 5 • Shims Bargain, Inc., a California corporation, dba JC Sales, and The, Inc., a California
- 6 corporation,
- 7 • Liberman Broadcasting, Inc., Empire Burbank Studios, LLC, KRCA License, LLC,
- 8 KRCA Television, LLC, KZJL License, LLC, LBI Media Holdings, Inc., LBI Media, Inc.,
- 9 LBI Radio License, LLC, Liberman Broadcasting of California, LLC, Liberman
- 10 Broadcasting of Dallas License, LLC, Liberman Broadcasting of Dallas, LLC, Liberman
- 11 Broadcasting of Houston License, LLC, Liberman Broadcasting of Houston, LLC,
- 12 Liberman Television of Dallas License, LLC, Liberman Television of Dallas, LLC,
- 13 Liberman Television of Houston, LLC, Liberman Television, LLC
- 14 • Low Desert Empire Pizza, Inc., a California corporation, Hi Desert Empire Pizza, Inc., a
- 15 California corporation, Ten Cap, Inc., a California corporation and Capten, Inc., a
- 16 California corporation,
- 17 • Mariani Nut Company, a General Partnership, Mariani Nut Co., Inc., a California
- 18 corporation, M&L Fruit Co., Inc., a California corporation, and Monticello Farming, LLC,
- 19 a California limited liability company,
- 20 • Abel Mendoza, Inc., a California corporation,
- 21 • Mountain F. Express, Inc., a California corporation and Mountain G. Enterprises, Inc., a
- 22 California corporation,
- 23 • Nielsen Contracting, Inc., a California corporation and T & M Framing, Inc., a California
- 24 corporation,
- 25 • Oceanside Laundry, LLC, a California limited liability company, dba Campus Laundry,
- 26 • O'Connell Landscape Maintenance, Inc., a California corporation,
- 27 • Paris Baguette U.S.A., Inc., Paris Baguette America, Inc., Paris Baguette Bon Doux, Inc.
- 28 and Paris Baguette Family, Inc., all Delaware corporations,
- RDR Builders, Inc., a California corporation, Dos Reis, Ronald and Barbieri, Mark, d/b/a
- RDR Builders, Inc. and RDR Production Builders, Inc., a California corporation,
- Roadrunner Management Services, Inc., a California corporation and Airport Connection,
- Inc., a California corporation,
- Royal Custom Designs, Inc., a California corporation and Royal Custom Designs, LLC, a
- California limited liability company,

- 1 • Saddle Ranch Holdings, LLC, a California limited liability company, Saddle Ranch  
2 Sunset, LLC, a California limited liability company, Saddle Ranch Costa Mesa, LLC, a  
3 California limited liability company, Saddle Ranch Management, LLC, a California  
4 limited liability company, and Sunset Conglomerate Restaurant, Inc., a California  
5 corporation, Saddle Ranch Glendale, LLC, a California limited liability company, Saddle  
6 Ranch Orange, LLC, a California limited liability company,
- 7 • San Francisco Independent Taxi Association,
- 8 • Stovall’s Inn, LLC, a California limited liability company, Anaheim Inn, LLC, a  
9 California limited liability company and Best Western Pavilions Inn, LLC, DBA Best  
10 Western Pavilions Inn, a California limited liability company,
- 11 • Sweaney, Inc., a California corporation, dba Sweaney Painting & Drywall,
- 12 • Van De Pol Enterprises, Inc., a California corporation and Fuel Delivery Services, Inc., a  
13 California corporation,
- 14 • Warwick Amusements Corp., a Delaware corporation, Warwick California Corporation, a  
15 California corporation, Warwick Denver Corporation, a Delaware corporation, WSF  
16 Beverage Corporation, a California corporation, Warwick Melrose Dallas Corporation, a  
17 Delaware corporation, Silver Autumn Hotel (NY) Corporation, Ltd., a Delaware  
18 corporation,
- 19 • Western Packing, Inc., a California corporation, and
- 20 • Steve Wills Trucking & Logging, LLC, a California Limited Liability Company.

21 6. In each and every one of the cases listed above as remaining, not only have I filed  
22 a demand in arbitration or a state court complaint initiating the action, but Applied Underwriters,  
23 Inc., AUCRA and CIC have filed cross complaints against my clients either seeking to enforce  
24 the illegal contracts which are the subject of the action against them or, if the RPA is found to be  
25 illegal, for enforcement of the CIC Policies. Often as not, the Affiliates also initiate a parallel  
26 action in the Nebraska courts or before the American Arbitration Association. As can be seen  
27 below, the Affiliates also file separate complaints for enforcement of Promissory Notes which are  
28 executed by insureds who have received invoices for premium payments so high they can’t afford  
and execute these Promissory Notes as an alternative to cancellation of their policies. In these  
cases and in spite of the significant body of decisions declaring the insurance program illegal, the  
Affiliates continue to litigate this already resolved issue. By way of example and not by  
limitation, attached hereto as Exhibit A is a typical cross complaint filed in *Jackpot Harvesting*,

1 *Inc., et. al. vs. Applied Underwriters, Inc.*, Monterey County Superior Court Case No.  
2 17CV000703, although the Affiliates often also include a cause of action for CIC in *quantum*  
3 *meruit*. This cross-complaint seeks enforcement of the RPA by AUCRA and, alternatively if the  
4 RPA is found unenforceable, alleges causes of action by CIC for enforcement of the CIC policies  
5 which, by the way, the insured never agreed to pay as their promises were made under the RPA.

6 7. This declaration will address the issue of litigation tactics engaged in by the  
7 Affiliates and their counsel. Since I have been practicing law, I have never previously  
8 encountered opposing counsel so determined to bury my clients in multiple litigation in California  
9 and other jurisdictions over the same issues, voluminous discovery paperwork and motions,  
10 repeatedly litigating issues that have already been resolved against them (such as the illegality of  
11 the RPA), and generally expending more on lawyering than policyholders can usually afford to  
12 spend to defend themselves. The only way they can afford this is that much of my work benefits  
13 all of my clients and I spread that cost between them on a pro-rata basis. While in my initial cases  
14 the Affiliates were being represented by a different law firm, after a series of setbacks the  
15 Affiliates brought in DLA/Piper to represent them. I can only describe DLA/Piper's litigation  
16 tactics as scorched earth.

17 8. As these cases involve claims for injuries by policyholders' employees and  
18 handled by CIC, the issue of CIC's mishandling of claims for the Affiliates' financial benefit has  
19 been a frequent problem in resolving the cases. As explained below, CIC asserts that its claim  
20 files are confidential information of the injured employees under HIPAA and cannot be released  
21 without consent. This generally occurs when the insured employer cannot talk to the injured  
22 employee because he/she has left that employment and the employer no longer has contact. Thus,  
23 this consent would have to be obtained from former employees who are not cooperative. CIC's  
24 conduct in this regard results in substantial disputes between CIC and the policyholder which  
25 must be resolved.

26 9. In order to understand the conduct of CIC and its Affiliates, I believe I must first  
27 describe the structure of the workers compensation insurance plan before I detail the abuses in  
28 claims handling tactics and litigation abuses engaged in by these parties.

## THE STRUCTURE OF THE PLAN

1  
2           10.     The “EquityComp” program at issue here is sold as a retrospective rating plan  
3 structured as a “captive”, but as will be discussed *infra*, it is not typical in either regard. Both  
4 retrospective rating plans and the use of captives to manage the claims are very standard in the  
5 workers’ compensation insurance industry. They are used throughout the country and follow very  
6 standard formulas, and because they must be approved by the insurance commissioners in each  
7 state they generally follow a pre-drafted format already approved by that state’s insurance  
8 commissioner. California has such a pre-drafted retrospective rating plan called the “Cal-Retro”,  
9 and most California insurers follow that draft with their own modifications to meet the company’s  
10 internal accounting needs.

11           11.     A standard retrospective rating plan is one in which the policyholder pays for the  
12 insurance pursuant to the rates in a filed and approved guaranteed cost policy but is modified by a  
13 filed and approved “endorsement” altering the payment obligations of the policyholder at the end  
14 of the insurance term by returning to the policyholder excess payments which are not used to pay  
15 claims. In other words, if a policyholder has low losses, in the typical retrospective rating plan a  
16 portion of the payments made during the policy term are returned to the policyholder if losses are  
17 below a certain minimum. Alternatively, if the losses exceed a certain maximum, the policyholder  
18 pays the insurer for the amount in excess of that maximum. The review of claims and the return  
19 of payment or additional funding in a standard retrospective plan is normally made six months  
20 after the end of the one-year insurance term and annually thereafter. Thus, the insurer does not  
21 keep excess payments for very long.

22           12.     A “captive” insurance plan is normally one in which a portion of the  
23 policyholder’s payments are placed with a company, typically owned by the insured, called the  
24 “captive”. The captive manages the claims and makes the payments on the claims. Normally, the  
25 captive is managed by a captive manager hired by the insured who is responsible both to the  
26 policyholder and the insurer and normally consults with both on claims handling. Excess funds  
27 are invested by the manager and returned to the policyholder if not used to pay claims. The  
28 insurer is involved to make sure that claim losses do not exceed the maximum as thereafter the

1 guaranteed cost policy insurer, rather than the policyholder, must pay for those claims. So, it has  
2 an interest to protect in claims handling. But the insured also has an interest in making sure that  
3 claims are properly handled so it will receive a refund at the end of the program if its claims are  
4 lower than the maximum.

5 13. The EquityComp program is sold and managed by Applied Underwriters, Inc.  
6 which sets up one of AUI's affiliates, here CIC, as the guaranteed cost insurer. Then AUI has the  
7 policyholder also execute a Reinsurance Participation Agreement (herein "RPA") with another  
8 affiliate, AUCRA. Different from most captives, AUCRA, as its name suggests, is the captive but  
9 is owned by AUI and not the policyholder. Here, AUCRA is responsible only to AUI and does  
10 not allow the policyholder to be involved with claims handling nor does it invest excess funding  
11 for the benefit of the policyholder, but the Affiliates keep it for themselves.

12 14. In 2016, the California Department of Insurance held that the RPA was void and  
13 unenforceable as a matter of law in its Decision & Order in *In the Matter of the Appeal of Shasta*  
14 *Linen Supply, Inc. From the Decision of the California Insurance Company*, File AHB-WCA-  
15 14-31, a decision which the Commissioner made precedential under Government Code,  
16 § 11425.60(b) and thus applicable to all EquityComp programs. The same conclusion was  
17 reached by two appellate courts in *Neilsen Contracting, Inc. v Applied Underwriters, Inc., et. al.*,  
18 (May 3, 2018) 22 Cal.App.5th 1096, 232 Cal.Rptr.3d 282 as well as in *Luxor Cabs, Inc. v.*  
19 *Applied Underwriters Captive Risk Assurance Co.*, 30 Cal.App.5th 970 (Cal. Ct. App. 2018). The  
20 specific ruling in *Neilsen* is found on page 1118 (emphasis added):

21 "Section 11658, subdivision (b) expressly states it is 'unlawful' for an insurer to issue any  
22 policy or endorsement or form that is not approved by the Insurance Commissioner, and  
23 the regulations implementing this law made clear that collateral agreements must be filed  
24 to be effective. (See Regs., §2268.) *These prohibitions would have no meaning if the*  
25 *insurer could enforce contracts despite having violated the disclosure and approval*  
26 *requirements. Allowing the insurer to make material modifications to the filed and*  
27 *approved dispute resolution mechanism without the knowledge of the Rating Bureau or*  
28 *the Insurance Commissioner would effectively remove any regulatory oversight of this*  
*process."*

15. As laid out in the *Shasta Linen Decision and Order*, the Affiliates' EquityComp  
program does not follow either a standard retrospective rating plan formatting nor a standard  
captive, and all of my clients entered the EquityComp program under the RPA which was

1 declared illegal by the Decision. That Decision found that while the CIC policies are filed and  
2 approved, the EquityComp program does not require the policyholder to pay the premiums under  
3 these policies as is standard, but requires the policyholder to made payments pursuant to the  
4 requirements of the RPA. The Decision also found that while the CIC policies are filed and  
5 approved, each of the RPAs of my clients, all of which pre-date the Shasta Linen Decision, alter  
6 the payment requirements for the policyholder and was neither filed nor approved as an  
7 endorsement by the Insurance Commissioner under California Insurance Code §11658.

8 16. Neither AUI nor AUCRA filed the RPA with the Commissioner nor, under AUI's  
9 Patent, did it have any intention to do so (a fact discussed in Shasta Linen). In my Randazzo case  
10 tried in 2015 before the Shasta Linen Decision came out, the arbitrator ruled that the terms of the  
11 RPA were unconscionable and fraudulent. In fact, after the arbitrator's decision in my *Randazzo*  
12 case and the Commissioner's initial adoption in the *Shasta Linen* case in January 2016, AUI filed  
13 the RPA for approval, once on April 16, 2016 and again on May 19, 2016, but it was twice  
14 rejected by the Commissioner on June 16, 2016. (See the Commissioner's OSC of that date  
15 attached as Exhibit B.) And, by way of example and not by way of limitation, the RPA's  
16 Schedule 1, paragraph 5 contained an unconscionable term relating to AUI's obligation to return  
17 overpaid premium (See, Exhibit C attached hereto). That section, included in all of my clients'  
18 RPAs states:

19 5. Notwithstanding anything to the contrary in the Agreement, the Company may  
20 terminate the Agreement and liquidate the cell *in its sole discretion* if i) all claims under  
21 the Policies are closed and three years have elapsed since the expiration of all of the  
22 Policies; or ii) the Participant's maximum liability has been reached and three years have  
23 elapsed since the expiration of all of the Policies; or iii) the amount of paid losses  
24 allocated to the cell under the Policies has exceeded the Participant's maximum liability;  
25 or iv) seven years have elapsed since the expiration of all of the Policies; or v) the  
26 Company deems itself insecure with respect to Participant's ability or willingness to fulfill  
27 its obligations under this Agreement. [Emphasis in italics added]

28 17. The Affiliates take advantage of the "in its sole discretion" clause to refuse to  
return the overpayments to the insured. In fact, in my review of not only my 51 clients but a  
review of probably 50 other policyholders that I did not end up representing, I have never known  
the Affiliates to voluntarily terminate a plan and refund the full amount due the policyholder.  
While some of my clients initiate litigation when they receive large invoices during the Plan

1 period which the Affiliates are unable or unwilling to explain, a large number of my clients  
2 initiate litigation because they are not receiving the refund when they have been led to believe it  
3 will be made.

4 18. An example of this is my case of *West Coast Welding, Inc. vs. Applied*  
5 *Underwriters, Inc., et. al.*, Costa Contra County Superior Court Case No. C16-00321. West Coast  
6 was an early participant in EquityComp, entering the program on January 1, 2008 to last until  
7 December 31, 2010. During the period of the program, West Coast suffered \$2,327.00 in two  
8 claims, or an actual loss ratio of less than 1% of the Loss Pick Containment Amount by which the  
9 Affiliates calculate the loss ratio. As well, these two claims closed before the end of the Plan. As  
10 West Coast had been told that it would receive its refund of overpayments, which it calculated at  
11 \$105,000, at the three-year mark at the beginning of 2014 it started inquiring of the Affiliates of  
12 when it would receive its refund. They were referred to Jeffry Silver, the Affiliates General  
13 Counsel. I have seen e-mails from Mr. Silver that lasted for another three years each on putting  
14 off West Coast for reason amounting to “we are looking in to it”. In spite of the fact that the  
15 calculation was simply made, the Affiliates continued to ignore West Coast. In February 2016,  
16 West Coast retained me to file an action against the Affiliates for recovery of their overpayments.

17 19. The Affiliates put West Coast through a motion to compel arbitration called for  
18 under the RPA, a demurrer, a motion to strike, all of which were denied by the Court below. So,  
19 the Affiliates appealed the decision denying arbitration and put West Coast through the cost of  
20 that in spite of the small amount due under the RPA. Finally, on April 26, 2017, more than seven  
21 years after its Plan ended and with the Affiliates threatening to go to trial, West Coast ended up  
22 agreeing to a discounted settlement amount of \$95,000. Finally on May 25, 2017 West Coast  
23 received it settlement funds.

24 20. The RPA also contains terms that are based on several proprietary formulas to  
25 calculate the insured’s payments under the RPA. Most important of the two formulas, the  
26 Affiliates use an undisclosed formula to determine an insured’s monthly premium. While it is  
27 usually important for an insured to know how to figure out its payment requirements as a  
28 budgeting matter, because there is no disclosure of how the monthly premiums is calculated in the

1 contract documents, and because the Affiliates are not willing to disclose that information even  
2 later, an insured is unable to know or calculate in advance what the next month's premium  
3 payment requirement is going to be (explained in detail, *infra*, at paragraphs 28-29).

4 21. As my clients' history of cases with the Affiliates shows, I have also had a lot of  
5 experience with the Affiliates' use of their Loss Development Factors (LDF). I have also litigated  
6 the use of LDFs against other insurers and have become familiar with the general use of LDFs in  
7 the workers' compensation insurance industry. However, the benefits to the Affiliates are buried  
8 in the details of their unique program, contained in its use of the LDFs as are set forth in Table A  
9 of Exhibit C and their "at its sole discretion" control over the return of excess funds paid because  
10 of the LDFs. These LDFs are generally used in the industry as a safeguard against the initial  
11 appraisal of the injury by the claims adjustor and the assignment of an incurred claim being too  
12 low ("Incurred" includes both paid and reserve amounts before the addition of an LDF). LDFs are  
13 used as a multiplier to the incurred amount of a claim that is set by the insurer's claims adjustor  
14 anticipating what the claim will eventually cost based on the known history to cover this type of  
15 claim. Insuranceopedia explains a LDF as follows:

16 "To understand how loss development factors work, imagine that a company has a loss  
17 development factor of 1.4. This means that \$1.4 dollars will ultimately have to be paid out  
18 for every \$1 reported in a loss development period because more claims will be reported  
19 later. So, if the insurer's loss development factor is 1.4, and if it experiences \$100,000 in  
current claims filed, then when the loss development factor is applied, the insurance  
company knows that it will more likely have to pay out \$140,000 in claims ( $100,000 \times$   
1.4)."

20 If the claims cost is no more than the claims adjustor's evaluation, the excess money paid  
21 to cover the LDF is returned to the policyholder at, under standard retrospective rating plans, six  
22 months after the plan ends. However, the Affiliates' insurance plan operates differently.

23 22. Exhibit C is a true and correct copy of an RPA from one of my clients, O'Connell  
24 Landscape Maintenance, Inc. One page 9, Table A's columns refer to the claim's age (time from  
25 when the injury occurred to the present), and the values to the right are LDFs. The Weekly  
26 columns relating to open and closed claims are not used by the EquityComp program. The  
27  
28

1 Monthly columns govern the LDFs during the Active Term<sup>3</sup> of the Plan and the Run Off columns  
2 are invoked as a penalty if the insured does not renew the Plan after the Active Term is over. For  
3 example, an open claim of age 20 months (between 19 and 21 months) while the plan is open  
4 would have a Monthly LDF of 2.532. If, during the period of the plan, the claim is for \$100,000,  
5 that incurred number is immediately assigned an LDF from the Open Monthly column of Table B  
6 of 2.532. The Affiliates require the insured to post \$253,200 ( $\$100,000 \times 2.532$ ) to cover the cost  
7 of the claim. Let's say this injury occurs during the last six months of the third year of the plan  
8 and the claim remains open at the end of the plan. The LDF jumps from the Monthly column to  
9 the Open Run Off column and the LDF of 4.115 is assigned requiring the insured to increase its  
10 deposit to \$411,500. Then, if during the month after the Active Term ends the claim closes for  
11 \$100,000, even though Table B reduced the LDF to the Closed Run Off LDF of 1.201, the  
12 Affiliates still keep the excess of \$311,500 after paying the claim, even when the Plan now shows  
13 a credit balance to the insured on the Affiliates' monthly Statements. In theory the policyholder  
14 would get back this excess of \$311,500 when the plan closes. Since the Affiliate gets to decide,  
15 "at its sole discretion", when the plan closes, they keep the money and invest it for their own  
16 benefit. And if the policyholder is able to persuade the Affiliate to close the plan, the Affiliate is  
17 in a position to negotiate over how much of the \$311,500 will actually be returned.

18 23. On August 25, 2016, AUI and the CDI entered into a Consent Decree in which  
19 AUI agreed not to sell the RPA in the form it was sold to my clients. Because my clients' policies  
20 and RPAs predated the Consent Decree, they have not benefitted from the new terms, and we are  
21 litigating claims under the original RPA that the Commissioner found to be illegal.

22 24. It is within this background that the policyholders have initiated their litigation  
23 with CIC and its affiliates.

## 24 **CONTRACT & LITIGATION ABUSES**

25 25. Generally, a policyholder gets involved in litigation with the Affiliates for one of  
26 two reasons: (1) it is misled by the promotional materials and is upset by the Affiliate's secret

27 <sup>3</sup> The "Active Term" of the Plan refers to the three-year period when the insured is covered by the  
28 Affiliates' insurance. In other words, if the Plan starts insuring the policyholder on January 1,  
2013, the Active Term ends on December 31, 2015. Thereafter the Affiliates refer to the  
subsequent period as the "Run Off Term" when the Run Off LDFs apply.

1 billing formulas which prevent it from knowing in advance how much it will be invoiced from  
2 one month to the next, eventually leading to an invoice so high it cannot pay it, or (2) it has  
3 completed the program and is waiting for its refund of overfunding which never seems to come.

4 26. My policyholder clients have initiated litigation because AUI, AUCRA and CIC  
5 not only have misled them in their promotional materials but do not abide by their own contracts  
6 in the first instance, even had they been legal. For instance, a potential policyholder usually only  
7 sees two marketing documents from the Affiliates before signing into the program and paying its  
8 initial deposit: the “Workers Compensation Proposal and Rate Quotation” (“Proposal”) and the  
9 “Workers Compensation Summary & Scenarios” (“Scenarios”). In fact, it is seldom that a  
10 potential policy holder even sees the basic contract documents, the “Reinsurance Participation  
11 Agreement” and the CIC Policies, until after it has bound into the program and paid its deposit.

12 27. However, it is these promotional materials that mislead a potential policyholder  
13 and eventually lead to litigation. In the Proposal (attached hereto as Exhibit D, page entitled  
14 “Billing Terms”), the Affiliates represent that an insured will start out with only having to pay  
15 0.70 of what it would otherwise have to pay in premium, called the “Pay-In-Factor”. The Pay-In-  
16 Factor is supposed to be based on one’s loss ratio and the lower the loss ratio the lower the  
17 premium (until one gets as low as the minimum premium, usually 0.35). So, an insured believes  
18 that if it keeps its claims low, its premium will go down from 0.70.

19 28. But that is not how the system works. While premium payments may start at 0.70,  
20 I have never seen one go down much below that, if at all. Instead and what the Affiliates do not  
21 tell the insured is that no matter how low its losses are, it will eventually have to pay 100% of the  
22 contracted premium. This is so as the Pay-In-Factor seems to only operate for the first two years.  
23 During the third year of the program, the Affiliates begin to recover the unpaid contract amount  
24 so that by the end of the third year, the insured has paid the full amount. By way of a typical  
25 example, an insured has been paying an average of \$100,000 a month in premium, in one month  
26 during the third year it receives an invoice for \$400,000 as part of the Affiliates effort to catch up  
27 the insured past payments with what the unreduced contract amount is. This difference between  
28 what an insured’s contract amount and what it is being invoiced for is obvious from a review of a

1 typical Plan Analysis' page for "Analysis of Program Costs", a copy of which is attached hereto  
2 as Exhibit E.

3 29. The result is that the insured was not prepared for this large invoice, in part  
4 because the method by which the Affiliates calculate the amount an insured is to be invoiced is  
5 based on a proprietary and secret formula. Since the secret formula is not disclosed in any of the  
6 contract documents, an insured can never know in advance what it is going to be invoiced. A  
7 simple review of Exhibit E shows a lot of calculations which lead to the line item "Total Pay-In  
8 Amount Due Under Your Contract", but there is nothing to show how the "Total Pay-In We are  
9 Requiring" is determined. An insured is in the dark until it received an invoice which closes the  
10 gap between these two amounts. Often, an insured does not have the ready cash flow to pay the  
11 dramatically larger amount.

12 30. One of two things then happens. The Affiliates offer to allow the insured to pay  
13 the large amount in installments by the execution of a Promissory Note, or the insured finds a  
14 new carrier for its insurance, in which case it gets sued by the Affiliates in Nebraska for breach of  
15 contract. Eventually, the insured has reached the point where it is still paying the Promissory Note  
16 and is anticipating that its contract obligations have already lowered to a point where he has  
17 overpaid the contract amount in the Promissory Note. He objects, the Affiliates refuse to  
18 recalculate the amount due, and a lawsuit begins.

19 31. In this instance, even though the insured has now overpaid the amount due under  
20 the RPA by virtue of lowering loss claims, the Affiliates insist that the Promissory Note is an  
21 independent obligation and even if the RPA is illegal, the insured continues to be obligated on the  
22 Promissory Note. The Affiliates claim the Promissory Note, being an independent contract, is not  
23 affected by the illegality of the contracts which form the basis of the obligation owed and there is  
24 no defense to it. This is just another way the Affiliates take advantage of its insureds.

25 32. I said there were two reasons why an insured gets into litigation with the Affiliates,  
26 and the second one is based upon another misrepresentation in the promotional materials,  
27  
28

1 specifically the “Workers Compensation Summary & Scenarios”<sup>4</sup> (attached hereto as Exhibit F),  
2 page 2, bullet point 4. While the Scenarios purport during the negotiation process to inform the  
3 potential policyholder of how the EquityComp program works, they actually mislead the potential  
4 insured into believing that he would not have to wait the normal time for a return of its over-  
5 funding. It says:

6 “• Based on your individual claims experience, this program can provide  
7 immediate cash flow benefits and financial reward unlike other plans that require  
8 waiting for cumbersome retrospective or uncertain dividend calculations that can  
run for years beyond policy expiration.”

9 33. Even though the insured binds into the program based solely on the marketing  
10 documents and have usually never seen the RPA until later, these misrepresentations, according  
11 to the Affiliates, are trumped by the RPA’s provision (recited in paragraph 16, *supra*) which calls  
12 for the “review” of claims and the termination of the “cell” held by AUCRA containing the  
13 employer’s deposits to occur at the Affiliate’s “sole discretion”, at the earliest of three years after  
14 the end of the program and all claims are closed. However, the Affiliates claim that they don’t  
15 have to abide by the three-year timeline either because of the “in its sole discretion” language. So,  
16 some employers initiate litigation to force the Affiliates to return the overpayments to them in a  
17 more timely manner on the basis that the “sole discretion” provision is not only contained in an  
18 illegal agreement but is unconscionable. That was actually the result in my Randazzo case.

19 34. An example is my case of Picar Farm vs. Applied Underwriters, Inc., Tulare  
20 County Superior Court Case No. VCU 267085. After years of litigation, Picar Farm agreed to a  
21 settlement in that case in which the return was to be calculated under the terms of the RPA  
22 without a discount. However, after execution of the settlement agreement, the Affiliates  
23 contended that the settlement agreement was ambiguous and refused to comply with the  
24 agreement. So, Picar Farm had to file another action for declaratory relief (Picar Farm Labor vs.

25 <sup>4</sup> The EquityComp insurance program is solicited by AUI solely by two documents: (1) the  
26 Workers Compensation Proposal and Rate Quotation and (2) the Workers Compensation  
27 Summary and Scenarios. These solicitation documents are usually the only documents the  
28 employer has seen to determine whether to engage the Plan. If he does, he signs a Request to  
Bind which binds him into the program. The employer then writes a deposit check and only after  
that does AUI require the employer to sign the RPA, notably after he is bound to the insurance.  
Then, a month or so later the employer is sent the first CIC policy and it is the first time he sees  
the rates in the policies. But, since the employer is paying under the RPA, the CIC policies mean  
nothing to them.

1 Applied Underwriters, Inc., Tulare County Superior Court Case No. 274989), to have the  
2 agreement declared not ambiguous and force compliance. Of course, the Affiliates got their  
3 haircut in a second settlement because Picar could not afford the continued litigation and the  
4 threat of appeal.

5 35. Another example of refusal to follow agreements occurred with Steve Wills  
6 Trucking & Logging, a logging company in Fortuna, California. Wills was nearing the end of his  
7 three-year term when an employee was badly injured. While the employer had been floating  
8 along with a rather low loss ratio, his insurance broker advised him of the consequences of a late  
9 injury of that size. At Wills' request, the broker contacted Jeff Silver, CIC's general counsel, to  
10 find relief. Silver offered Wills a promissory note to cover the extraordinary increase in payments  
11 required by the new incurred claim and its Open Monthly LDF in Wills' RPA's Table A. Wills  
12 wanted to cancel out of the program but finally agreed to sign the note but was concerned about  
13 any additional increase in payment amount if and when he did not renew the Plan for another  
14 year. In an e-mail exchange (in writing), Silver promised that if Wills paid the terms of the RPA  
15 through the end of the Plan, that the Affiliates would not invoke the Open Run Off LDF  
16 provisions of the RPA. Since the Run Off provisions would not be invoked, the simple promise  
17 meant that invoking the Run Off provisions of the RPA would not occur if Wills did not renew.

18 36. Wills obeyed and paid through December 2015, but then received several e-mails  
19 on January 12 and 13, 2016 just before Wills was going to pay the January 15, 2016 invoice for  
20 December 2015. Those e-mails established the Affiliates' refusal to honor the agreement and said  
21 they were going to invoke the Run Off LDFs in spite of the agreement. Wills refused any further  
22 payment and the Affiliates sued him in Nebraska (Applied Underwriters, Inc., et. al. vs Steve  
23 Wills Trucking & Logging, LLC, Douglas County Nebraska Case No. CI 15-4916). That  
24 Nebraska case was eventually dismissed based on a lack of Nebraska jurisdiction over Wills.  
25 Rather than file a court action first, Wills then filed an appeal with the CDI to have the insurance  
26 program declared illegal. His appeal is still pending, held up by CIC' challenges by Writ in other  
27 cases.

28

1           37.     In each and every case on behalf of my client policyholders, AUI, AUCRA and  
2     CIC have insisted on relitigating the illegality of the EquityComp program both before the courts  
3     as well in appeals to the CDI. Except for the *Randazzo* case which I tried in 2015 and in which  
4     AUI paid the damages awarded without objection, these Affiliates have appealed each and every  
5     judgment I have obtained, and when the case is still in the litigation phase, make it very clear that  
6     no matter what the outcome, they will delay any payment to the insured for years while they  
7     pursue further appeals. Thus, it is not surprising that many of my clients have taken less money  
8     than they were entitled to in order to receive something today rather than wait through the appeals  
9     process.

10           38.     Several examples make this clear. In both *Barker Management, Inc. vs Applied*  
11     *Underwriters Captive Risk Assurance Company, Inc.* (JAMS Case No. 1100084170) and *Bayless*  
12     *Engineering, Inc. vs. Applied Underwriters Captive Risk Assurance Company, Inc.* (JAMS Case  
13     No. 1100084166), the policyholders agreed to resolve their disputes by arbitration. Both cases  
14     went to hearing and resulted in a substantial Award from their respective Arbitrators. Bayless  
15     Engineering filed an action in the Superior Court of Los Angeles County, Case No. to confirm the  
16     Award, but AUCRA immediately removed that to the United States District Court for the Central  
17     District of California, Case No. 2:17CV-07734. Rather than accept the Award in Barker, AUCRA  
18     also filed an action the same court before the same judge as in Bayless, Case No. 8:17-cv-01529,  
19     to vacate the Awards. In both instances, the court denied AUCRA's motions to vacate and  
20     granted the policyholders motions to confirm the Awards. AUCRA then filed appeals in both  
21     cases to the Ninth Circuit (Barker Case No. 17-56856 and Bayless Case No. 18-55249). The  
22     grounds for the appeals were the same, that the arbitrators had no basis to declare the RPA void.  
23     Of course, that claimed basis for the appeal was meritless at the time it was made in light of the  
24     earlier *Shasta Linen* and *Neilsen Contracting* decisions and it was no wonder that the 9<sup>th</sup> Circuit  
25     denied the appeals by memorandum decision without oral argument. Two years passed before the  
26     cases were final, all the while the Affiliates were keeping the insured's money for their own  
27     investments. Barker was able to collect on its Award because CIC had filed a Supersedeas Bond  
28     to prevent enforcement of the Award during the appeal.

1           39.     In *Bayless*, collection was another matter. In the period following the confirmation  
2 of Bayless' Award and the filing of the affiliates' appeal, AUCRA served Bayless with a Notice  
3 of Posting Supersedeas Bond just as they had done in Barker. But, without the knowledge of  
4 Bayless, CIC did not actually post the bond with the court. After the appeal was final, Bayless  
5 searched the court's website looking for the bond but did not find it. Numerous e-mails were sent  
6 to Amanda Morgan of DLA/Piper, AUCRA's counsel, requesting she file the bond or just pay off  
7 the judgment. Each and every one of those communications was ignored by Ms. Morgan, forcing  
8 Bayless to retain counsel in Nebraska, AUCRA's principal place of business, to pursue collection  
9 action there. That is still ongoing with no responses from Ms. Morgan or the affiliates.

10           40.     In O'Connell Landscape Maintenance, a company out of Santa Margarita,  
11 California, the litigation tactics were even more onerous. Each EquityComp program contains an  
12 arbitration clause for resolving all disputes between the parties. O'Connell elected to enforce that  
13 provision in a JAMS arbitration and the Affiliates appeared to agree. On June 1, 2016, the  
14 arbitration was initiated with O'Connell filing its claim with JAMS, Case No. 1100084561.  
15 Strangely and in spite of the agreement's provision for all disputes between the parties being  
16 resolved in arbitration, the Affiliates did not file a counter-claim and the matter went to hearing  
17 on O'Connell's claim only. At the hearing, the Affiliates contended that only the Insurance  
18 Commissioner could declare the RPA void, and over the objection of O'Connell, on December 4,  
19 2017, the arbitrator agreed and sent O'Connell to file an appeal with the CDI. This is the only  
20 arbitration, among all the cases I have handled, where such a ruling was made.

21           41.     However, even before the arbitrator's decision, on October 31, 2017, O'Connell  
22 filed an appeal with the CDI to have the EquityComp program declared illegal, CDI File No.  
23 AHB-WCA-17-31. First, the affiliates filed a motion to stay the appeal contending that the JAMS  
24 arbitration was dispositive of the issue, claiming it was a finding on the merits. However, the only  
25 finding in the JAMS arbitration was that O'Connell did not have standing to bring the claim, and  
26 the stay motion was properly denied. Then, on July 19, 2018 the parties engaged in a contested  
27 hearing in which the affiliates attempted to re-litigate the *Shasta Linen Decision*. On December  
28 21, 2018, the Commissioner approved the recommendation of the ALJ finding the RPA illegal.

1           42.     Not to be done with costing O’Connell lots of money in litigation, on April 16,  
2 2019, CIC filed a Petition for Writ of Mandate with the Los Angeles County Superior Court, Case  
3 No. 19STCPO1323<sup>5</sup> seeking to void the CDI ruling in favor of O’Connell based on the contention  
4 that the Commissioner did not have the power to declare an unfiled agreement illegal, a typically  
5 self-contradictory position for CIC to take since they took the position in the JAMS arbitration  
6 that only the Commissioner had the power to do that. However, O’Connell case was not the only  
7 Petition for Writ of Mandate that the Affiliates had filed. The LA Court decided to make its  
8 decision under only one companion case because CIC’s contentions were the same in the dozen  
9 or so cases before the court, choosing one involving Travelers and not CIC (*Travelers Property*  
10 *Casualty Company of America vs. Davidson Hotel Company, LLC*. Los Angeles Superior Court  
11 Case No. 19STCP00866). The court made its ruling in in the Travelers case on December 17,  
12 2019, finding that the Commissioner had the authority to void the RPA. That ruling has not yet  
13 been applied to O’Connell’s case because of the restraining order of this proceeding.

14           43.     However, back while the O’Connell’s JAMS arbitration was pending and contrary  
15 to the arbitration clause in the agreements which required all disputes to be resolved by arbitration  
16 and the mandatory cross-claim requirements for disputes arising out of the same transaction<sup>6</sup>, on  
17 November 7, 2016, AUI filed an action in the District Court for Douglas County, Nebraska  
18 seeking damages from O’Connell (*Applied Underwriters, Inc. vs. O’Connell Landscape*  
19 *Maintenance, Inc.*, Douglas County Nebraska Case No. CI16-9260). However, the Affiliates  
20 never got that summons served and on May 16, 2017 filed another action of the same caption in  
21 Douglas County Nebraska, Case No. CI17-0004068. O’Connell has had to fight that case for  
22 years based on a lack of personal jurisdiction of the State of Nebraska over it, and was finally  
23 resolved by the court’s dismissal for lack of jurisdiction. This ruling was consistent with  
24 numerous Nebraska cases filed against my clients which have reached the appeals courts of the  
25 State of Nebraska, each resulting in the same result. Undaunted, AUI filed a second case in the

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26 <sup>5</sup> Because the original filing was against the number of insureds who had received similar result  
27 to O’Connell, the court reassigned new case numbers to each real party in interest. O’Connell’s  
28 case was given Case No. 19STCP03474.

<sup>6</sup> See, Civil Code §1264 (“[s]everal contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together.”)

1 Douglas County, Nebraska District Court on September 7, 2018 seeking the same relief (*Applied*  
2 *Underwriters, Inc. vs. O'Connell Landscape Maintenance, Inc.*, Douglas County Nebraska Case  
3 No. CI18-7935). This case was also dismissed with finality after appeal for lack of personal  
4 jurisdiction by the Nebraska Court of Appeals on December 12, 2019 (Nebraska Court of Appeals  
5 Case No. A18-000709). However, in spite of consistently losing these cases, AUI continues to  
6 file them and continues to chase losing appeals at tremendous costs to the policyholders, all the  
7 while enjoying the investment income on my clients' money [See, paragraph 50, *infra* .]

8 44. But the Affiliates were not done with O'Connell. On November 20, 2017,  
9 AUCRA filed a claim with the American Arbitration Association over what it should have filed in  
10 the JAMS arbitration (AAA File No. 01-16-0005-0136). After months of litigation, the demand  
11 was dismissed because the demand was made under a Nebraska statute which forbids arbitration  
12 of insurance disputes. Many states, including Nebraska, have similar statutes and AUCRA chose  
13 to ignore Nebraska's clear statute denying that right to an insurance carrier at great cost to  
14 O'Connell.

15 45. The Affiliates were still not finished. They filed another case in the USDC for the  
16 State of Nebraska, which was eventually voluntarily dismissed by AUI because of a lack of  
17 personal jurisdiction.

18 46. Last (so far), and apparently undaunted and after this court's restraining order of  
19 November 4, 2019 forbidding litigation by or against the Affiliates, on March 5, 2020, AUI  
20 initiated an action against O'Connell in the USDC for Central California, Case No. 8:20-cv-  
21 00441-DOC-ADS. Months of litigation have resulted in discovery demands made by AUI seeking  
22 to obtain the same information it has received in previous courts, arbitrations and the CDI appeal.  
23 However, a motion to stay the action filed by O'Connell based on this court's restraining order  
24 was granted just recently on September 10, 2020.

25 47. The Affiliates' practice of forcing the insureds to litigate in multiple forums is not  
26 unusual for CIC, AUI and AUCRA. In many of the cases in which an insured is hit with an  
27 extremely high payment demand because of the LDFs, the Affiliates offer and the insured signs  
28 an installment promissory note because it keeps their insurance from being cancelled for non-

1 payment. (Cancellation of their workers' compensation insurance would put them out of  
2 business.) However, many times after I file an action in California seeking to have the RPA  
3 declared illegal, the Affiliates respond with filing an action in Nebraska against that insured  
4 attempting to either enforce the RPA itself or to enforce the promissory note – the obligations for  
5 which flow from the amounts due under the RPA (See paragraph 50 below for a list of those  
6 cases). In the promissory note cases the Affiliates file, they do so even when the refund under the  
7 RPA is known and would result in a payback even under the terms of the RPA. Thus, nothing  
8 should be due under the promissory note. In spite of that, the Affiliates claim the promissory  
9 notes are independent obligations of the insured and seek enforcement in Nebraska because the  
10 promissory notes include a forum selection of Nebraska.

11 48. The following cases were filed by the Affiliates in Nebraska in spite of the fact  
12 that generally at the time there was already a case pending in California.

13 49. Of the cases already resolved in California, the following cases in Nebraska were  
14 dismissed after judgment or settlement of the California action: Goodwill Industries of San  
15 Joaquin Valley, Inc. and Goodwill Service Connection, Inc.; Picar Farm Labor, Inc.;

16 50. The following cases were dismissed in Nebraska for lack of personal jurisdiction  
17 over the policyholder when retained Nebraska counsel filed a motion to dismiss. All of these are  
18 filed in the District Court for Douglas County, Nebraska:

19 Steve Wills Trucking & Logging, LLC; Case No. CI15-4916;

20 Abel Mendoza, Inc.; Case No. CI16-416;

21 EM Pizza, Inc.; Case No. CI16-9385;

22 Van De Pol Enterprises, Inc. and Fuel Delivery Services, Inc.; Case No. CI17-17;

23 Warwick Amusements, Inc., Warwick Denver Corporation, Warwick Melrose Dallas  
24 Corporation and Silver Autumn Hotel (N.Y.) Corporation, LTD; Case No. CI17-743;

25 Relton Corporation; CI17-0800;

26 American Tire, Inc.; Case No. 10430;

27 Oceanside Laundry, LLC, dba Campus Laundry; Case No. 16-10275

28 RDR Builders, LLC.; Case No. CI17-5424;

1 Ramar Productions, Inc.; Case No. CI17-3924;  
2 Goodwill Industries, Inc.; Case No. CI16-1634;  
3 Picar Farm Labor, Inc.; Case No. CI16-8192;  
4 O'Connell Landscape Maintenance, Inc.; Case Nos. CI17-0004068 & CI18-7935;  
5 All Seasons Roofing & Waterproofing, Inc.; Case No. CI17-2458;

6 In spite of a repeated history of dismissals, the Affiliates have continually filed appeals  
7 which have been routinely denied by the Nebraska appeals courts. To my knowledge, there are no  
8 active cases remaining in Nebraska.

9 51. As well, CIC continues to challenge the Commissioner's Decisions in each and  
10 every case I have taken to an appeal before the CDI to have the Commissioner's Decision in each  
11 case that the RPA is an illegal insurance document. These challenges take place as Petitions for  
12 Writ of Mandate just like that in O'Connell (described in paragraph 42)

13 52. Many of my policyholders are well beyond the three-year term of the EquityComp  
14 program, and all claims have been closed. When I prod the affiliates for a settlement offer, I  
15 usually receive what the Affiliates call a "Plan Closure Proposal". These Proposals always offer  
16 far below the amount the policyholder is entitled to receive and would require them to accept a  
17 large discount from what they would be entitled to even if the RPA was legal. My clients have  
18 received these many times before the Restraining Order came into effect, and I can easily say that  
19 the Proposals are so offensive that every one of my clients has rejected them.

20 53. However, that is not true with one Proposal since the Restraining Order came into  
21 being on November 4, 2019, and that has to be because of the pandemic and its effect on business  
22 income. One client, Central Valley Trailers out of Fresno (here "CVT") was so short of cash that  
23 they agreed to accept the Proposal in spite of the fact that they were in good shape in litigation. In  
24 fact, CVT is typical of what the EquityComp program does to its insureds.

25 54. CVT had performed well under the program. Its minimum cost was 0.35 of what  
26 the Affiliates call the Loss Pick Containment Amount (herein "LPCA") and its loss ratio was an  
27 extremely low 11% of the LPCA. You would think their refund under the program would be  
28 large. But, the Affiliates calculations used an EGAF factor of 1.9017 to raise the minimum cost

1 by that factor to 0.67 of LPCA, and then when CVT had overpaid the contract amount by  
2 \$55,000, a calculation that should have netted CVT a return of \$379,264, only offered a  
3 settlement refund in its Proposal of \$203,684. CVT took it because it was short of cash during the  
4 pandemic.

### 5 **CLAIMS MISHANDLING EXAMPLES**

6 55. The Affiliates' claims handling is an issue in all of my cases with them. There are  
7 three claims handling issues that recur with frequency: (1) Is the claim being handled in a timely  
8 manner? (2) Has the claim been properly incurred for its future costs? And (3) is a proper loss  
9 development factor being applied to the incurred claim? Each of these is important to an insured  
10 because it is interested in how the claim is handled and how it affects its possible return of excess  
11 deposits.

12 56. A good example of CIC's manipulation is found in the case of Savers, a company  
13 which owned several subsidiaries located in Illinois and which entered into the EquityComp  
14 program in 2010. Savers contacted me in April, 2016 because it was long past the end of its  
15 program and CIC continued to keep one claim open and refused to close the claim and the plan.  
16 Closure would have resulted in a return to Savers. The one claim was incurred, that its paid  
17 claims plus reserves, for \$255,000, \$57,814 were still unpaid and scheduled as reserves. Savers  
18 informed me that the injured employee had offered to settle the claim for \$200,000. Savers, the  
19 employer, wanted CIC to accept the offer and close the claim, and even though it was Savers'  
20 money, it wanted to pay it to get the benefit of closure and its refund. CIC refused to accept the  
21 offer and was insisting that it, and it alone, controlled the outcome of claims. I interceded with  
22 CIC but failed to get its agreement to close the claim for \$200,000 and end the plan. All efforts on  
23 my behalf failed. Savors wound up going to Illinois to enforce its rights. I don't know the  
24 outcome of that.

25 57. The benefit to the affiliates in keeping claims open, regardless of the incurred  
26 amount, flows from the loss development factors the affiliates use to compute the obligations of  
27 the insured under the plan. For a hypothetical example that is typical of the cases I have handled  
28 against CIC and the Affiliates, if a claim was made for an injury, and CIC decided to set up a

1 \$500,000 reserve on the claim, under the RPA the policyholder has no right to contest that  
2 valuation. With the \$500,000 incurred amount, the loss development factors come into play.  
3 During the period of the plan, an LDF of 2.674 is assigned to the claim, so the insured has to post  
4 \$1,337,000 to support the claim. CIC also has a provision that if you do not continue the plan  
5 after its initial period, it imposes as a penalty for non-renewal, an LDF of 4.115 on the incurred  
6 amount. The amount the policyholder then must post increases to \$2,057,500. Under the plan, this  
7 amount CIC gets to keep in its coffers until the Affiliates decide, in their sole discretion, when to  
8 terminate the plan (which, to my knowledge, never voluntarily happens). The benefit to the  
9 Affiliates is that it is they that get it gets to invest this amount and keep the investment profits.  
10 The insured never sees the investment benefit of its retained funds, and of course, this is the  
11 benefit that the affiliates gain by their ability to solely control the amount of the incurred, their  
12 LDFs and the timing of paying off the claim because they retain the investment benefit as a result  
13 of holding onto the policyholders' excess funds.

14 58. Another example of potential claims mishandling is found with, again, O'Connell  
15 Landscape Maintenance, who has suffered through considerable litigation expense already. There  
16 is one open claim outstanding for O'Connell. It is claim No. 105115 for a pelvis fracture that  
17 occurred on September 18, 2015. As of August 31, 2020, the claim remains incurred at  
18 \$656,333.33. In the five years since the injury, CIC has paid out only \$360,775.45 and continues  
19 to hold \$295,557.88 in reserves. O'Connell has attempted to learn (1) why the injury incurred at  
20 such a high level (since fractures heal), (2) why CIC continues to maintain the excess when it  
21 does not appear that the excess is any longer needed, and what efforts CIC has made to resolve  
22 the claim. None of this information is available to O'Connell, and someone with authority must  
23 investigate these questionable claims handling practices. And it should go without saying that  
24 CIC applies its LDF to the incurred claim although O'Connell has justifiably refused to pay it.

25 59. Another example is that of Lazy Dog Restaurants vs. Applied Underwriters, Inc.,  
26 et. al., Orange County Superior Court Case No. 30-2017-00929335. Lazy Dog also had one claim  
27 open just before trial was to begin in November 2018 for an employee that had left the company.  
28 At some point in time, Lazy Dog discovered that the injured employee was working for another

1 company engaging in similar work to which she had been doing for Lazy Dog. Yet, as will be  
2 seen below, CIC was still paying her weekly indemnity payments to compensate her for not  
3 working because of the injury, and keeping the claim open. In other words, she was committing  
4 fraud by accepting compensation for not working while she was actually working.

5 60. Lazy Dog reported that to CIC and asked for an investigation. Lazy Dog then  
6 learned that CIC had known this for over 17 months but continued to pay her and keep the claim  
7 open after learning the claim was fraudulent. All the while, I was also seeking a copy of the claim  
8 file, but CIC refused to provide it, again claiming it could not release the file without the consent  
9 of the former employee. Obviously, the former employee would not give that consent since it  
10 would expose that her claim was fraudulent. Eventually under threat of a court motion to compel  
11 the files production, CIC agreed to provide a summary of the claim file to me. It did disclose that  
12 CIC had taken a video of the former employee working at a similar vocation and the investigator  
13 had labeled the claim as fraudulent. Yet, in spite of this, CIC was paying the employee and  
14 continued to pay her even *after* the fraud claim was pointed out by me.

15 61. Clearly, the affiliates did not want to go to trial with this evidence pending against  
16 them, and agreed to a settlement which although it only returned 90% of what Lazy Dog would  
17 otherwise get in trial, Lazy Dog agreed because the affiliates continued to throw the prospect of  
18 appeal and further delay at them.

19 62. Another example is Low Dessert Empire Pizza out of Palm Desert, California.  
20 Two claims are illustrative. Both claims involve vehicle accidents in which the driver of the other  
21 car was at fault. In spite of Low Dessert's repeated demands, CIC refused to pursue recovery on  
22 the claim from the at-fault driver because it alleged that it was too expensive to do. Low Dessert's  
23 demand for a recover fell on deaf ears.

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I declare the foregoing to be true and correct under penalty of perjury, executed on the date hereafter stated in Napa, California.

Dated: October 19, 2020



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Larry J. Lichtenegger

Index of Exhibits to Declaration of Larry J. Lichtenegger in Support of  
 Conservator’s Application for Approval of Rehabilitation Plan

<b>Exhibit</b>	<b>Description</b>	<b>Page Number</b>
A	Cross-Complaint, <i>Jackpot Harvesting, Inc., et. al. vs. Applied Underwriters, Inc.</i> , (Super. Ct. Monterey County, Sept. 19, 2018, No. 17CV000703)	28
B	California Department of Insurance’s- Notice of Hearing and Order to Cease and Desist from Issuance or Renewal or Worker’s Compensation Insurance Policies and Collateral/Ancillary Agreements, <i>In the Matter of the Certificates of Authority of California Insurance Company and Applied Underwriters Captive Risk Assurance Company, Inc.</i>	163
C	Reinsurance Participation Agreement entered into by and between AUCRA and O’Connell Landscape Maintenance, Inc.	172
D	EquityComp Workers’ Compensation Program Proposal and Rate Quotation	183
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# EXHIBIT A

SEP 19 2016

Sherri R. Carter, Executive Officer/Clerk  
By Maria Ceballos, Deputy

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Underwriters Captive Risk Assurance Company, Inc., California Insurance Company  
7

8 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**  
9 **FOR THE COUNTY OF LOS ANGELES, SOUTHEAST DISTRICT**

10  
11 SHIMS BARGAIN, INC. a California  
corporation, dba JC SALES, and THE, INC., a  
12 California corporation,

13 Plaintiffs,

14 vs.

15 APPLIED UNDERWRITERS, INC., a  
Nebraska corporation, APPLIED  
16 UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., an Iowa  
17 corporation, CALIFORNIA INSURANCE  
COMPANY, a California corporation, and  
18 DOES 1 through 50, inclusive,

19 Defendants.

20 APPLIED UNDERWRITERS, INC., a  
Nebraska corporation, APPLIED  
21 UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., an Iowa  
22 corporation, CALIFORNIA INSURANCE  
COMPANY, a California corporation,

23 Cross-Complainants,

24 vs.

25 SHIMS BARGAIN, INC. a California  
corporation, dba JC SALES, and THE, INC., a  
26 California corporation,

27 Cross-Defendants.  
28

Case No. VC065738

Assigned for all purposes to:  
Hon. Margaret M. Bernal  
Dept. F

**CROSS-COMPLAINT AGAINST  
PLAINTIFFS FOR BREACH OF  
CONTRACT AND QUASI-CONTRACT**

Complaint Filed: 8/9/16  
Trial Date: TBD

1 Cross-Complainants Applied Underwriters, Inc., Applied Underwriters Captive Risk  
2 Assurance Company, Inc. ("AUCRA") and California Insurance Company ("CIC") (collectively,  
3 "Applied") by their undersigned attorneys, allege as follows against Plaintiffs and Cross-  
4 Defendants Shims Bargain, Inc. dba JC Sales, and The Inc., ("Cross-Defendants" or "Shims").

### 6 THE PARTIES

7 1. Cross-Complainant AUCRA is an Iowa corporation with its principal place of  
8 business in Omaha, Nebraska. AUCRA is a licensed insurer only acting as a reinsurer and is  
9 authorized to transact business in California.

10 2. Cross-Complainant CIC is a California insurance company. CIC is a licensed  
11 insurer and is authorized to transact business in California.

12 4. On information and belief, Cross-Defendants are California corporations with  
13 their principal place of business at 2600 S. Soto Street, Los Angeles, Los Angeles County,  
14 California 90058.

15 5. Venue is proper in this judicial district because Shims' claims are venued here  
16 and a substantial part of the events giving rise to claims in this action occurred in this district.

### 18 GENERAL ALLEGATIONS

19 6. EquityComp® is a loss sensitive workers' compensation insurance program  
20 through which participants can obtain workers' compensation insurance coverage – which  
21 employers must carry as a matter of law in California – while also providing those same  
22 employers with the ability to share in underwriting results based on their claims experience.

23 7. EquityComp® is structured as a rent-a-captive-insurance type program and it  
24 provides the same benefits from that type of program to participants who may not otherwise have  
25 the resources or inclination to establish a traditional captive program.

26 8. EquityComp® has three components: (1) standard workers' compensation  
27 insurance policies issued by licensed insurers, such as CIC; (2) a reinsurance agreement; and (3)  
28 a separate risk-retention and profit sharing arrangement between the participant and a third-party

1 segregated cell captive reinsurer (i.e., AUCRA) via an agreement called the Reinsurance  
2 Participation Agreement (the "RPA").

3 9. In April 2012, Shims began its process of obtaining workers' compensation quotes  
4 for the insurance year beginning April 30, 2012.

5 11. After being provided with the pertinent employee classification and payroll  
6 information, Shims received an EquityComp® Workers' Compensation Quote and Proposal  
7 ("Proposal"). The Proposal provided all of the details of the program and its costs, including but  
8 not limited to: (1) that the EquityComp® program was a three-year contractual commitment; (2)  
9 if Shims chose to cancel its participation in the EquityComp® program before the end of the  
10 three year term, there would be significant cancellation penalties; (3) that separate insurers,  
11 namely CIC would issue one year workers' compensation insurance policies that would renew  
12 on an annual basis during the three year term; (4) that premiums due under the CIC policies  
13 would be one component of the amounts due under the EquityComp® program; and (5) that  
14 there was a reinsurance component of the program facilitated by AUCRA and the RPA. A true  
15 and correct copy of a Proposal provided to Shims and its broker is attached hereto as Exhibit A.

16 13. After having the opportunity to review the Proposal, Shims, voluntarily and after  
17 consultation with its experienced insurance broker, opted to participate in the EquityComp®  
18 Program effective April 15, 2013.

19 14. On or around April 27, 2013, Shims executed the RPA with AUCRA. A true and  
20 correct copy of the RPA is attached hereto as Exhibit B. Thereafter, as discussed in the RPA,  
21 CIC issued a one-year standard workers' compensation insurance policy to Shims effective April  
22 30, 2012 to cover Shims' employees. Over the following two years, CIC issued further  
23 guaranteed workers' compensation insurance policies to Shims (collectively the "CIC Policies").  
24 True and correct copies of all of the CIC Policies that were issued to Shims are attached hereto as  
25 Exhibit C.

26  
27 **FIRST CAUSE OF ACTION**

28 (Breach of Contract, AUCRA against Shims)

1 15. AUCRA realleges and incorporates by reference paragraphs 1 through 14.  
2 16. AUCRA entered into the RPA with Shims.  
3 17. AUCRA has complied with all material terms of the RPA.  
4 18. Shims has failed to pay all program charges, fees, taxes, cancellation charges and  
5 assessments due under the RPA.

6 19. Shims is liable to AUCRA for amounts owed under the RPA plus prejudgment  
7 interest.

8 20. Wherefore, AUCRA prays for judgment against Shims as hereinafter set forth.  
9

10 **SECOND CAUSE OF ACTION**

11 (Breach of Contract, CIC against Shims)

12 21. CIC realleges and incorporates by reference paragraphs 1 through 20.

13 22. CIC pleads this claim for relief, in the alternative, if it is determined that RPA is  
14 not enforceable.

15 23. CIC issued the CIC Policies to Shims and Shims remains liable to CIC a for  
16 unpaid premiums, taxes and assessments owed under the CIC Policies.

17 24. Copies of the of the CIC Policies were provided to Shims on the CIC Policies'  
18 anniversary date.

19 25. The Proposal specifically identified that CIC would issue these CIC Policies to  
20 Shims in connection with the EquityComp® program.

21 26. Pursuant to the terms of the CIC Policies, CIC reviewed, evaluated, administered  
22 and paid workers' compensation claims submitted by Shims' employees.

23 27. Shims was required to have in-force workers' compensation policies. For the  
24 years of their issue (2012-2014), the CIC Polices satisfied Shims' requirement.

25 28. CIC complied with all material terms and conditions of the CIC Policies.

26 29. Shims has failed to pay all premiums, taxes, and assessments due under the CIC  
27 Policies.

28 30. Shims is liable to CIC for that balance due plus prejudgment interest.



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- 3. For costs of suit herein, including reasonable attorney fees; and
- 4. For such other and further relief by this Court as may be deemed just and proper.

Third Cause of Action (CIC against Cross-Defendants Shims)

- 1. For damages according to proof;
- 2. For prejudgment interest;
- 3. For costs of suit herein, including reasonable attorney fees; and
- 4. For such other and further relief by this Court as may be deemed just and proper

DATED: September 19, 2018

HINSHAW & CULBERTSON LLP

By:   
 SPENCER Y. KOOK  
 JAMES C. CASTLE  
 Attorneys for Defendants and Cross-Complainants Applied Underwriters, Inc., Applied Underwriters Captive Risk Assurance Company, Inc., California Insurance Company

# **EXHIBIT A**

**Prepared for:**

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

**Presented by:**

Lyeng Ia  
Millennium Corporate Solutions



# Workers' Compensation Program Proposal & Rate Quotation

**This proposal expires on 05/28/12 at 12:01AM local time.  
This proposal supersedes and voids any and all written or  
oral proposals previously issued.**

This quotation does not authorize any business services or bind any insurance coverage. Marketing representatives, agents, and brokers do not have the authority to bind insurance coverage or enter into contracts on our behalf or on behalf of our affiliates. Initiation of business services and insurance coverages is subject to our final review and formal acceptance. Insurance coverage will be bound only after: 1) we issue a written quotation; 2) all conditions precedent have been satisfied; 3) we grant the proposal final approval; 4) we have received payment of the deposit and initial charges; and 5) we issue written notice that insurance coverage is bound.

EquityComp® is a registered trademark of Applied Underwriters, Inc.  
©2007 Applied Underwriters, Inc.

This proposal was prepared by Applied Risk Services.  
California: AU Insurance Services, Lic. # 0D78336

FKJ  
Ver. ppc\_2070\_2a

**Prepared for:**

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

**Presented by:**

Lyeng Ia  
Millennium Corporate Solutions

# EquityComp

FROM APPLIED UNDERWRITERS

EquityComp™ is a seamlessly integrated package providing nationwide workers' compensation coverage and sophisticated risk financing solutions. EquityComp provides the best long term, cost effective workers' compensation solution available for middle market insureds in a broad range of industries in all states.



Applied Underwriters is a premier financial services group of companies with leading expertise in the casualty insurance, reinsurance, and business services disciplines. We were founded in 1994 with the mission to provide creative insurance and business services solutions for employers countrywide. Applied Underwriters' business philosophy has always been rooted in the needs of the business owner. We think like an owner and deliver solutions to the business owner accordingly.

As a member of Berkshire Hathaway Inc. we have the resources and experience that make us the industry leader in our field. Our insurance companies, The North American Casualty Group, maintain an excellent financial standing as recognized by industry rating organizations. This excellent financial standing is based on delivering best practices in underwriting and claims, including medical management operations, in every geographic trading area.

Our service commitment is built on the concept of high customer touch leading to superior service in all aspects of our business. We achieve one of the highest customer satisfaction and retention rates in both the insurance and business service industries. Applied Underwriters' employees are simply the best in the business. We maintain the highest competency level in every discipline, and these standards make us the best, providing competitive products and unparalleled service to those we serve.

The North American Casualty Group®, California Insurance Company®, Continental Indemnity Company®, and Promesa Health® are registered trademarks of Applied Underwriters, Inc.

**Prepared for:**

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

**Presented by:**

Lyeng Ia  
Millennium Corporate Solutions

## Policy Rating Information

Guaranteed cost workers' compensation insurance policies will be issued by admitted companies in conjunction with this program, and the rating factors for these policies are listed below. All issuing companies are part of the North American Casualty Group, rated A by A.M. Best, and are affiliates of Applied Underwriters Inc. a member of Berkshire Hathaway Inc. A Profit Sharing Plan, effected through a reinsurance transaction that is separate from the guaranteed cost policies and independently rated, also applies.

State	Carrier	Exp Mod	Freq Mod	Sched Rating	Prem Disc	Exp Const	Terrorism		Other1	Other2	Other3	Other4	Net Factor
							Foreign	Dom					
CA	A	1.910		0.98			.000	.000					1.872

A = California Insurance Company  
E.L. Limits \$1MM/\$1MM/\$1MM

Est. Taxes and Assessments \$64,687

## Profit Sharing Plan

This Profit Sharing Plan is a reinsurance transaction separate from the guaranteed cost policies. Your risk retention is created by your participation in, and cession of allocated premiums and losses to our facultative reinsurance facility, Applied Underwriters Captive Risk Assurance Company (AUCRA). AUCRA is a subsidiary of Applied Underwriters Inc., a member of Berkshire Hathaway Inc. Your retention is held in a segregated, protected cell which is not liable for the debts and liabilities of any other AUCRA cell. This Profit Sharing Plan is not a filed retrospective rating plan or dividend plan, and nothing contained herein is to be so construed. This Profit Sharing Plan requires a minimum three year contractual commitment from you with significant penalties for early cancellation.

Based upon the annual payroll by class code information you provided, if you have no claims, your total net, three-year cost will be \$1,636,425. If you have claims, your final, net three-year cost will vary between this minimum cost and a three-year, maximum possible cost of \$6,371,055.

	Estimated Net Cost	
	Minimum	Maximum
Single Year	\$545,475	\$2,123,685
Three Years	\$1,636,425	\$6,371,055

Your actual, final net cost will be determined using the ultimate costs of your claims along with the factors and tables set forth in your Reinsurance Participation Agreement (Final Agreement) which specifies how a portion of the premiums and losses occurring under the guaranteed cost policies are ceded to AUCRA for further credit to your cell account.

You are required to maintain capital deposits in your cell account equal to the sum of 1) the estimated annual loss pick containment amount multiplied by 10% during the first year, 10% during the second year, or 10% thereafter; and 2) outstanding reserves limited so to not exceed the maximum permissible cost. The estimated annual loss pick containment amount is \$1,527,941, determined using estimated annual payroll and the rates listed under Billing Terms, and is subject to revision if actual payroll varies from estimates made as of the date of this proposal. Since the ultimate cost of claims can not be known in advance with certainty, loss development factors as set forth in the Final Agreement will be applied to all claims to estimate their ultimate cost. Your capital deposits will be calculated and billed each month. At the end of the active term of the Profit Sharing Plan, calculations will continue to be performed annually thereafter in accordance with the Final Agreement.

**Prepared for:**

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

**Presented by:**

Lyeng Ia  
Millennium Corporate Solutions

## Billing Terms

The rates below are per \$100 of compensable payroll subject to all customary limitations and caps. The Pay-In Factor listed is based on your expected loss experience and will vary as actual losses occur. A Net Pay-In Amount will be billed with each payroll cycle and will include workers' compensation premium, fees for services, and capital deposits due to your cell account (where applicable, all under a premium finance agreement with Applied Premium Finance, Inc.) Applied Risk Services, Inc. (see attached proposal for the license number in your state) will act as billing agent on behalf of all of the companies involved in this program. You will be provided with a quarterly reconciliation of all amounts collected and disbursed. Experience modifiers and other guaranteed cost policy modification or differential factors are not components of the Profit Sharing Plan, and any subsequent change in such factors will not affect the rates stated. Premium taxes, assessments, certain account fees, waivers of subrogation, and certain surcharges are not included in these composite rates, and will be billed separately. These charges are due as billed subject to adjustment at final audit and include, but are not limited to: CA CIGA California Domiciled Insureds 0.0229, CA Fraud Surcharge 0.0026, CA Labor Enforcement 0.0024, CA Regulatory Surcharge 0.0024, CA Subsequent Injury Fund 0.0013, CA Uninsured Employers Fund 0.0014.

<u>Employee Classification</u>	<u>Code</u>	<u>Loss Pick Containment Rate</u>	<u>Pay-In Factor</u>	<u>Net Pay-In Rate</u>	<u>Estimated Payroll</u>	<u>Est. Annual Pay-In Amt.</u>
Store:Wholesale	CA 8018	23.26	0.70	16.29	\$ 6,360,000	\$ 1,036,044
Clerical Office Employ	CA 8810	1.55	0.70	1.09	3,150,000	34,335
TOTAL				11.26	\$ 9,510,000	\$ 1,070,379

**Prepared for:**

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

**Presented by:**

Lyeng Ia  
Millennium Corporate Solutions

## Coverages



*The North American Casualty Group is rated A (Excellent) VIII by A. M. Best.*

**Workers' Compensation and  
Employer's Liability Insurance**

Your coverage is fully integrated into the package: all premium is paid in full each billing cycle, and risk management products are provided to further mitigate risk. Stop Gap coverage is not provided in monopolistic states unless explicitly quoted. See the Policy Rating Information section for terms and carriers affording coverage.

## Services



*All services are provided exclusively by Applied Underwriters and its affiliates.*

**Integrated Billing System**

We make it easy: each month, you will receive one convenient, integrated statement for all charges for all coverages and services. Even your Profit Sharing Plan will be calculated each month.

**Occupational Medical Care**

We will provide access to exclusive medical care facilities and a network of physicians dedicated to occupational medicine. Where available, you will be automatically enrolled in our closed medical network; participation is mandatory.

**Cell Captive Facility**

We will establish an account for you in our segregated, protected cell captive which was designed specifically for our small and mid-sized insureds. You are responsible solely for your own risk retention. Cell accounts are segregated and protected with additional solvency and liability warranties underwritten by Continental Indemnity Company.

# **EXHIBIT B**

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.  
PARTICIPANT NO. 853940  
REINSURANCE PARTICIPATION AGREEMENT**

This reinsurance participation agreement (this "Agreement") is made and entered into by and between Applied Underwriters Captive Risk Assurance Company, Inc., a company organized and existing under the laws of the British Virgin Islands ("Company") as of April 30, 2012 and Shims Bargain, Inc., and The, Inc. (collectively, "Participant").

Whereas, Participant is desirous of participating in the Company's segregated protected cell reinsurance program designated Segregated Account No. 853940 ("Participation"); and

Whereas, the Company has entered into a Reinsurance Treaty (hereinafter referred to as the "Treaty") with California Insurance Company (NAIC No. 0031-38865) and, through its pooling arrangement, with other affiliates of Applied Underwriters, Inc., including, but not limited to Continental Indemnity Company (NAIC No. 0031-28258) (collectively the "Issuing Insurers"); and

Whereas, the Participant desires the Company to establish a segregated protected cell whereby the Participant may share in the underwriting results of the Workers' Compensation policies of insurance issued for the benefit of the Participant by the Issuing Insurers (the "Policies"); and

Whereas the Company will allocate a portion of the premium and losses under this Agreement to the Participant's segregated protected cell,

Now, therefore, in consideration of the mutual promises and undertakings set forth herein the parties do hereby agree as follows:

1. Participant agrees to participate in the Company's segregated protected cell reinsurance program in accordance with Schedule 1 attached hereto and incorporated herein by reference and additional Schedules as may be executed from time to time on a prospective basis only by the parties ("Additional Schedules").

2. Participant's interest in the Company is solely as a segregated protected "cell" with segregation of the Company's assets and liabilities among the segregated accounts (known as "cells") established by the Company. There is no "joint and several" liability. The cells of the Company are not liable for the debts and obligations and are not bound with respect to contracts entered into by another cell. Participant further acknowledges and agrees that Participant: (1) will look solely to the assets of Participant's cell for satisfaction of the Company's liabilities hereunder; (2) has consulted with legal counsel and other insurance advisers as to the applicability and effect of this Agreement; (3) irrevocably waives any right, substantive or procedural, which Participant may have to challenge the effectiveness and the Company's ability and right to segregate assets among the cells; and (4) covenants not to sue, attach, pursue or make any claim against or with respect to any asset, property or right of the Company which is not an asset, property or right of Participant's segregated protected cell.

3. Participant is participating in this Agreement for purposes of investment only. The Participation has not been registered under the United States Securities Act of 1933, as amended or any state securities laws. The Participation shall not be sold, transferred, hypothecated, pledged or otherwise assigned or encumbered and Participant acknowledges the following:

"This Participation has not been registered under the Securities Act of 1933, as amended or qualified under any state securities law. This Participation has been acquired for investment and may not be sold, transferred, hypothecated, pledged or otherwise assigned or encumbered in the absence of registration or an exemption therefrom under such act and such laws."

4. This Agreement and any Schedules hereto may not be modified, amended or supplemented in any manner except in writing signed by the parties hereto and represents the entire understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations, proposals, letters of intent, correspondence and understandings relating to the subject matter hereof. The initial term of this Agreement (the "Active Term") is for three (3) years and may be extended from time to time by the parties. All existing obligations from each party to the other or to third parties shall remain in force as of the expiration of the Active Term until this Agreement is terminated (the "Run-Off Term") as set forth in Schedule 1 or any Additional Schedules.

During the Active Term of this Agreement, Workers' Compensation Insurance coverage will be provided to Participant by one or more of the Issuing Insurers. If Participant elects to cancel this Agreement, or if any of the Policies are cancelled or non-renewed prior to the end of the Active Term ("Early Cancellation"), the Participant shall abide by the Early Cancellation terms set forth in Schedule 1 or any Additional Schedules.

If the Issuing Insurer is required to provide Workers' Compensation Insurance coverage on behalf of the Participant outside of the Active Term (the "Extension Period"), special extension terms ("Extension Terms") will apply during the Extension Period. The Extension Terms are: (1) Participant through their cell will be liable for all losses occurring during the Extension Period without limitation on any Policies issued by the Issuing Insurers on behalf of Participant; (2) the Company will allocate to Participant's cell an amount equal to 45% of premium earned during the Extension Period under any Policies issued by the Issuing Insurers on behalf of Participant; (3) Participant will immediately pay to the Company a cash deposit equal to 55% of the premium anticipated, as determined exclusively by the Company, during the Extension Period under any Policies issued by the Issuing Insurers on behalf of Participant; (4) Participant will maintain at all times a cash deposit with the Company sufficient to cover outstanding losses occurring during the Extension Period plus incurred but not reserved and/or reported losses (IBNR) as determined exclusively by the Company; and (5) Participant will immediately pay to the Company an Early Cancellation fee equal to 20% of the premium anticipated, as determined exclusively by the Company, during the Extension Period under Policies issued by the Issuing Insurers on behalf of Participant.

5. Participant acknowledges that under the laws of some states, Participant may have the option to choose from various deductible amounts as a part of its Policies, but that opting for a deductible would preclude Participant from entering into this Agreement. Applicant, being fully advised, knowingly waives and relinquishes its right to choose a deductible on the Policies under applicable law as further consideration for this Agreement.

6. Participant may not assign or transfer its rights under this Agreement to any third party without the written consent of the Company which consent may be withheld in the Company's absolute discretion.

7. The parties' obligations under this Agreement shall survive the Active Term of this Agreement, and shall be extinguished only when the Company no longer has any potential or actual liability to the Issuing Insurers with respect to the Policies reinsured by the Company under the Treaty.

8. Applied Risk Services, Inc. (Applied Risk Services of New York, Inc. in New York State) has been appointed the billing agent for the Company and the Issuing Insurers and is authorized by the Company, Issuing Insurers, and Participant to account for offset and true up any and all amounts due each of the parties. Participant will allow the Company to audit Participant's records on reasonable notice and during normal business hours that relate to the Policies. These records include, but are not limited to ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. Information developed by audit will be used to assign worker classifications, determine the compensability of payroll and claims, and determine final premium and cession amounts.

9. In the event the Participant is in default of any obligations to the Company under this Agreement or under any other agreement with any affiliate of the Company (Affiliated Agreements), the Company may take all reasonable steps to protect its and its affiliates' interests. The parties hereto shall have the right to the fullest extent provided by law to offset or recoup any balances due from one to the other under this Agreement or any Affiliated Agreements.

10. In consideration of the mutual benefits arising under this Agreement, Participant hereby grants to Company, effective from and after the date hereof, a lien and security interest in all assets of Participant's cell to secure payment of any amounts owed by Participant under this Agreement. The provisions of this section shall create a security agreement under the Uniform Commercial Code (the "Code") in the state of Participant's domiciliary jurisdiction so that Company shall have and may enforce a security interest on all of Participant's assets in Participant's cell. Participant agrees to execute as debtor any financing statement Company may reasonably request in order that Company's security interest be protected pursuant to the Code, or Company is authorized to file a copy of this Agreement for such purpose.

11. Participant hereby represents and warrants to the Company as follows:

(A) Participant (i) is duly organized, validly existing and in good standing under the laws of its domiciliary jurisdiction, (if a corporation, partnership, or limited liability company), and (ii) has adequate power and authority and full legal right to carry on the businesses in which it is presently engaged and presently proposes to engage.

(B) Participant has adequate power and authority and has full legal right (i) to enter into this Agreement and (ii) to perform all of its agreements and obligations under this Agreement.

(C) The execution and delivery by Participant of this Agreement and the performance by Participant of all of its undertakings and obligations under this Agreement, including any payments required to be made by Participant to the Company under this Agreement, have been duly and properly authorized by all necessary action on the part of Participant, and do not and will not (a) contravene any provision of the charter or by-laws of Participant (if a corporation, partnership or limited liability company) or other constitutional or governing documentation of Participant (each as in effect on the date hereof), (b) conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, or (except as otherwise contemplated and required or permitted by this Agreement) result in the creation of any mortgage, lien, pledge, charge, security interest or other encumbrance upon any of the property of Participant under any agreement, trust deed, indenture, mortgage or other instrument to which Participant is a party or by which Participant or its respective property is bound or affected on the date hereof, (c) violate or contravene any provision of any law or published regulation or any published order, ruling or interpretation thereunder or any decree, order or judgment of any court or governmental or regulatory authority, bureau, agency or official (all as in effect on the date hereof and applicable to Participant), (d) require any waivers, consents or approvals by any of the creditors or trustees for creditors of record of Participant, or (e) require any consents or approvals by any Participant (except such as have been duly obtained and are in full force and effect on the date hereof).

(D) This Agreement, when executed and delivered, shall have been duly and properly executed and delivered by Participant.

(E) The agreements and obligations of Participant contained in this Agreement constitute legal, valid and binding obligations of Participant, enforceable against Participant in accordance with their terms.

(F) The information that has been and/or will be supplied to the Company by Participant or on Participant's behalf with respect to this Agreement is accurate and complete, and with respect to financial information, comports with generally accepted accounting principles.

12. Participant acknowledges that the Company has not made, and does not make, any oral, written or other representations, whether explicit, implied or otherwise, upon which Participant may rely concerning any possible tax benefits that may be derived from this Agreement. Participant further acknowledges that any tax liability resulting from this Agreement, including but not limited to any tax assessments or related examinations conducted by the Internal Revenue Service or other taxing authority, will be the sole responsibility of Participant.

13. Nothing in this section shall be deemed to amend or alter the due date of any obligation under this Agreement. Rather, this section is only intended to provide a mechanism for resolving accounting disputes in good faith.

(A) It is the express intention of the parties to resolve any disputes arising under this Agreement without resort to litigation in order to protect the confidentiality of their relationship and their respective

businesses and affairs. Any dispute or controversy that is not resolved informally pursuant to sub-paragraph (B) of Paragraph 13 arising out of or related to this Agreement shall be fully determined in the British Virgin Islands under the provisions of the American Arbitration Association.

(B) All disputes between the parties relating in any way to (1) the execution and delivery, construction or enforceability of this Agreement, (2) the management or operations of the Company, or (3) any other breach or claimed breach of this Agreement or the transactions contemplated herein shall be settled amicably by good faith discussion among all of the parties hereto, and, failing such amicable settlement, finally determined exclusively by binding arbitration in accordance with the procedures provided herein. The reference to this arbitration clause in any specific provision of this Agreement is for emphasis only, and is not intended to limit the scope, extent or intent of this arbitration clause, or to mean that any other provision of this Agreement shall not be fully subject to the terms of this arbitration clause. All disputes arising with respect to any provision of this Agreement shall be fully subject to the terms of this arbitration clause.

(C) Either party may initiate arbitration by serving written demand upon the other party or parties. The demand shall state in summary form the issues in dispute in a manner that reasonably may be expected to apprise the other party of the nature of the controversy and the particular damage or injury claimed. The party receiving the demand shall answer in writing within 30 days and include in such answer a summary of any additional issues known or believed to be in dispute by such party described in a manner that reasonably may be expected to apprise the other party of the nature of the controversy and the particular damage or injury claimed. Failure to answer will be construed as a denial of the issues in demand.

(D) The parties shall select a mutually acceptable arbitrator within 30 days of the demand for arbitration. If the parties are unable to agree on an arbitrator within the 30 days, then each party shall appoint an arbitrator within 30 days thereof. If a party fails to appoint its arbitrator within such 30 day period, the party shall thereby waive its right to do so, and the other party's selected arbitrator shall act as the sole arbitrator. All arbitrators shall be active or retired, disinterested officials of insurance or reinsurance companies not under the control or management of either party to this Agreement and will not have personal or financial interests in the result of the arbitration.

(E) If two party-appointed arbitrators have been selected, the selected arbitrators shall then choose an umpire within 30 days from the date thereof. If the two arbitrators are unable to agree upon an umpire within 30 days after the appointment of the party-appointed arbitrators, the two party-appointed arbitrators shall each exchange a list of three (3) umpire candidates. Within ten (10) days thereafter, each party-appointed arbitrator shall strike two names from the other's list. The umpire shall be selected from the remaining two names by the drawing of lots no later than ten (10) days thereafter.

(F) If more than one arbitrator shall be appointed, the arbitrators shall cooperate to avoid unnecessary expense and to accomplish the speedy, effective and fair disposition of the disputes at issue. The arbitrator or arbitrators shall have the authority to conduct conferences and hearings, hear arguments of the parties and take the testimony of witnesses. All witnesses will be made available for cross-examination by the parties. The arbitrators may order the parties to exchange information or make witnesses available to the opposing party prior to any arbitration hearing.

(G) The arbitrator or arbitrators shall render a written decision (by majority determination if more than one arbitrator) and award within 30 days of the close of the arbitration proceeding. Judgment upon the award rendered by the arbitrator or arbitrators may be entered by any court of competent jurisdiction in Nebraska or application may be made in such court for judicial acceptance of the award and an order of enforcement as the law of Nebraska may require or allow.

(H) The award of the arbitrator or arbitrators shall be binding and conclusive on the parties, and shall be kept confidential by the parties to the greatest extent possible. No disclosure of the award shall be made except as required by the law or as necessary or appropriate to effect the enforcement thereof.

(I) All arbitration proceedings shall be conducted in the English language in accordance with the rules of the American Arbitration Association and shall take place in Tortola, British Virgin Islands or at some other location agreed to by the parties.

(J) The arbitrator or arbitrators shall be advised of all the provisions of this arbitration clause.

(K) This arbitration clause shall survive the termination of this Agreement and be deemed to be an obligation of the parties which is independent of, and without regard to, the validity of this Agreement.

(L) Punitive damages will not be awarded. The arbitrator(s) may, however, in their discretion award such other costs and expenses as they deem appropriate, including, but not limited to, attorneys' fees, the costs of arbitration and arbitrators' fees.

(M) Participant acknowledges and agrees that it will benefit from this Agreement and that a breach of the covenants herein would cause Company irreparable damage that could not adequately be compensated by monetary compensation. Accordingly, it is understood and agreed that in the event of any such breach or threatened breach, Company may apply to a court of competent jurisdiction for, and shall be entitled to, injunctive relief from such court, without the requirement of posting a bond or proof of damages, designed to cure existing breaches and to prevent a future occurrence or threatened future occurrence of like breaches on the part of Participant. It is further understood and agreed that the remedies and recourses herein provided shall be in addition to, and not in lieu of any other remedy or recourse which is available to Company either at law or in equity in the absence of this Paragraph including without limitation the right to damages.

14. Participant hereby irrevocably and unconditionally submits to the exclusive jurisdiction of the Courts of Nebraska for the purpose of enforcing any arbitration award rendered hereunder and all other purposes related to this Agreement, and agrees to accept service of process in any case instituted in Nebraska related to this Agreement and further agrees not to challenge venue in Nebraska provided such process is delivered in accordance with the applicable rules for service of process then in effect in Nebraska. To the extent necessary, this consent shall be construed as a limited waiver of sovereign immunity only with respect to this Agreement.

15. All notices, requests, demands or other communications to the Company provided for herein shall be in writing, shall be delivered by hand, by first-class mail, postage prepaid, or by any form of commercial overnight courier, and shall be addressed to the parties hereto at their respective addresses listed below or to such other persons or addresses as the relevant party shall designate as to itself from time to time in a writing delivered in like manner to Applied Underwriters Captive Risk Assurance Company, P.O. Box 3646, Omaha, NE 68103-0646 and to Participant at:

Shims Bargain, Inc.  
2600 S Soto St  
Los Angeles, CA 90058

Either party may designate a new address for notices by providing written notice to the other party as provided in this paragraph, or in the absence of such notification from Participant, at the address to which Participant's last billing statement was sent.

16. This Agreement shall be exclusively governed by and construed in accordance with the laws of Nebraska and any matter concerning this Agreement that is not subject to the dispute resolution provisions of Paragraph 13 hereof shall be resolved exclusively by the courts of Nebraska without reference to its conflict of laws.

17. All amounts referred to herein are expressed in United States Dollars and all payments shall be made in such dollars.

18. Waiver. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of the performance of such provision on any other instance. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver unless expressed in writing and signed by all parties.

19. Participation by Participant in this Agreement is subject to the prior written consent of the Company. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto and their affiliates, successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

IN WITNESS WHEREOF, the parties have set their hand.

PARTICIPANT

APPLIED UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., SOLELY FOR AND  
ON BEHALF OF PROTECTED CELL NO. 853940

By: [Signature]  
Name: K. Kenneth Sah  
Title: President, CEO  
Date: 04/30/12



**Robert Stafford**  
Vice President

[Signature]

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.**  
**PARTICIPANT NO. 853940**  
**REINSURANCE PARTICIPATION AGREEMENT**  
**SCHEDULE 1**  
**EFFECTIVE DATE: APRIL 30, 2012**

This Schedule 1 applies as of the Effective Date to all payroll, premium, and losses occurring under the Policies notwithstanding any Extension Terms which may apply ("Effective Period"). For purposes of this Schedule 1, unless otherwise noted, capitalized terms shall have the meaning set forth in the Agreement.

**1. Calculation of Premium and Loss Amounts.**

(a) Policy Payroll is defined as compensable payroll occurring during the Effective Period under the Policies subject to all customary limitations and caps. The Loss Pick Containment Amount is defined as the amount equal to the product of Policy Payroll and the respective Loss Pick Containment Rates listed in Table C. These rates are per \$100 of Policy Payroll and are fixed for the Effective Period. Changes in experience modifiers and other modification or differential factors of the Policies will not affect these rates. If Policy Payroll occurs under a classification not listed herein, the Company shall, in its sole discretion, determine a rate for that classification commensurate with the rates otherwise listed and with the filed and approved rates of the Issuing Insurers.

(b) The Company will calculate loss development factors ("LDF's") for each loss under the Policies directly from the loss development factors published by the government rating bureau in the state where the exposure occurred. LDF's are subject to change without notice. The LDF's in effect as of the date of this Schedule 1 are listed in Table A (a composite using Policy Payroll by state is shown). If during the Active Term the Participant: i) is processing payroll with an affiliate of the Company, the LDF's titled "Weekly" will be used; or ii) is not processing payroll with an affiliate of the Company, the LDF's titled "Monthly" will be used. Unless an agreement for renewal is offered by an affiliate of the Company and then accepted by the Participant within six (6) months of the end of the Active Term, the LDF's titled "Run-Off" will be used. In determining the age of a claim, the Company in its sole discretion will use either the date of occurrence or the date the claim was reported. For so long as the Participant provides a claimant with modified duty employment that accommodates medical work restrictions, at a wage sufficient to make the claimant ineligible for workers' compensation disability benefits, the amount of the LDF for that claim in excess of one (1) shall be reduced by the Modified Duty Reduction Factor shown below Table A.

(c) Ultimate Loss is defined as aggregate incurred losses under the Policies multiplied by the applicable LDF. The Loss Ratio equals Ultimate Loss divided by the Loss Pick Containment Amount.

(d) The Exposure Group Adjustment Factor is determined from Table B using the Loss Ratio with intermediate values to be interpolated. The Exposure Group Adjustment Factor has been determined using NCCI Expected Unlimited Loss Group 26 and is subject to change without notice if Policy Payroll varies from estimates made in preparing this Schedule 1 or if NCCI Table M is revised.

**2. Allocation of Premium and Losses.**

An amount, equal to the premium earned under the Policies in excess of the Loss Pick Containment Amount multiplied by the applicable Exposure Group Adjustment Factor multiplied by the Allocation Factor listed in Table B, will be allocated to the Participant's cell. Fees for services charged by any affiliate of the Company are not considered premium under the Policies.

The Participant, through its cell account, will be responsible for an amount equal to all losses under the Policies in aggregate up to the Cumulative Aggregate Limit which equals 1.0300 multiplied by the Loss Pick Containment Amount. During the Active Term, Participant's liability limits will be estimated quarterly in advance.

**3. Capital Deposits.** Participant agrees to make and maintain a capital deposit in its cell equal to the Estimated Annual Loss Pick Containment Amount shown in Table C multiplied by 10% during year 1; 10% during year 2; or 10% thereafter. The Estimated Annual Loss Pick Containment Amount and the resulting capital deposit are subject to change in the Company's sole discretion if Policy Payroll varies from estimates made as of the

Effective Date of this Schedule 1.

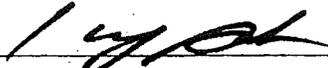
4. Additional Capital Deposits. Participant further agrees to make and maintain in its cell account an additional capital deposit equal to the lesser of Ultimate Loss or the Cumulative Aggregate Limit. For the purposes of calculating the additional capital deposit, a Loss Ratio of no less than 65% will be used in year 1, 40% in year 2, and 30% thereafter. During the Run-Off Term, capital deposits will be calculated using the LDF's titled "Run-Off" at a schedule determined by the Company but no less frequently than annually beginning nine months after the expiration of all Policies.

5. Notwithstanding anything to the contrary in the Agreement, the Company may terminate the Agreement and liquidate the cell in its sole discretion if i) all claims under the Policies are closed and three years have elapsed since the expiration of all of the Policies; or ii) the Participant's maximum liability has been reached and three years have elapsed since the expiration of all of the Policies; or iii) the amount of paid losses allocated to the cell under the Policies has exceeded the Participant's maximum liability; or iv) seven years have elapsed since the expiration of all of the Policies; or v) the Company deems itself insecure with respect to Participant's ability or willingness to fulfill its obligations under this Agreement.

6. In the event of Early Cancellation whether by the Participant or by the Company (limited to non-pay or a material change in risk): (a) the Exposure Group Adjustment Factor will be multiplied by 1.25; (b) the Cumulative Aggregate Limit will be determined using Policy Payroll annualized to reflect the full term of the Agreement; and (c) the following amounts will be immediately due and payable to the Company: i) any remaining premium, including short rate penalties, due under the Policies; ii) a capital deposit equal to the cell's maximum liability; and iii) a Cancellation Fee equal to 8% of the Estimated Annual Loss Pick Containment Amount.

7. In the event of any conflict between the Agreement and this Schedule 1, this Schedule 1 shall control.

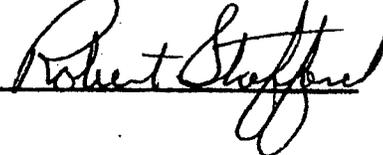
PARTICIPANT

By:   
Name: K. Kenneth Suh  
Title: President, CEO  
Date: 04/30/12

APPLIED UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., SOLELY FOR  
AND ON BEHALF OF PROTECTED CELL NO. 853940



**Robert Stafford**  
Vice President



**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.**  
**PARTICIPANT NO. 853940**  
**REINSURANCE PARTICIPATION AGREEMENT**  
**SCHEDULE 1 TABLES**  
**EFFECTIVE DATE: APRIL 30, 2012**

**TABLE A**  
**Loss Development Factors**

<u>Claim Age</u>		<u>Weekly</u>		<u>Monthly</u>		<u>Run-Off</u>	
<u>Month From</u>	<u>Month To</u>	<u>Open Claims</u>	<u>Closed Claims</u>	<u>Open Claims</u>	<u>Closed Claims</u>	<u>Open Claims</u>	<u>Closed Claims</u>
00	06	2.621	1.232	2.674	1.257	4.115	1.201
07	09	2.583	1.151	2.635	1.175	4.115	1.201
10	12	2.558	1.101	2.609	1.123	4.115	1.201
13	15	2.533	1.084	2.583	1.106	3.915	1.111
16	18	2.508	1.078	2.558	1.099	3.915	1.111
19	21	2.483	1.069	2.532	1.090	3.915	1.111
22	24	2.458	1.055	2.507	1.077	3.915	1.111
25	27	2.433	1.046	2.481	1.067	3.715	1.064
28	30	2.408	1.044	2.456	1.065	3.715	1.064
31	33	2.383	1.040	2.431	1.060	3.715	1.064
34	36	2.357	1.032	2.405	1.053	3.715	1.064

The Modified Duty Reduction Factor is 25%.

**TABLE B**  
**Exposure Group Adjustment Factors**

<u>Loss Ratio</u>	<u>Adjustment Factor</u>	<u>Loss Ratio</u>	<u>Adjustment Factor</u>
0.00	1.0000	1.00	1.0475
0.10	1.4978	1.10	0.9639
0.20	1.4618	1.20	0.9821
0.30	1.3719	1.30	0.9821
0.40	1.2636	1.40	0.9821
0.50	1.1376	1.50	0.9821
0.60	1.0296	1.60	0.9821
0.70	0.9935	1.70	0.9821
0.80	1.3656	1.80	0.9821
0.90	1.3178	1.90	0.9821

The Allocation Factor is 0.36.

APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.  
PARTICIPANT NO. 853940  
REINSURANCE PARTICIPATION AGREEMENT  
SCHEDULE 1 TABLES  
EFFECTIVE DATE: APRIL 30, 2012

TABLE C  
Loss Pick Containment Rates and Estimated Annual Amounts

<u>Class Code</u>	<u>Loss Pick Containment Rate</u>	<u>Estimated Annual Payroll</u>
CA8018	23.26	6,360,000
CA8810	1.55	3,150,000

The Total Estimated Annual Loss Pick Containment Amount is \$1,527,941.

# **EXHIBIT C**



# CALIFORNIA INSURANCE COMPANY

NAIC No. 38865

10825 Old Mill Road, Omaha, Nebraska 68154

877-234-4420

## WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY INSURANCE POLICY

### INFORMATION PAGE

Policy No. 73-853940-01-01

1. Insured	<b>Shims Bargain, Inc.</b>	Producer	<b>AU Insurance Services</b>
and	<b>DBA JC Sales</b>	and	<b>10825 Old Mill Rd</b>
Mailing	<b>2600 S Soto St</b>	Mailing	<b>Omaha, NE 68154</b>
Address	<b>Vernon, CA 90058-8015</b>	Address	

Entity: **Corporation**  
 FEIN: **954446696**  
 State No.

Agent No.  
 Billing: **DIRECT BILL**

Renewal of Policy No.

See Additional Named Insured Endorsement and Locations Endorsement if attached.

2. The policy period is from **04/30/12** to **04/30/13 12:01 A.M.** Standard Time at the insured's mailing address.
3. A. Workers Compensation Insurance: Part One of the policy applies to the Workers Compensation Law of the states listed here:  
**CA**
- B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in item 3.A. The limits of our liability under Part Two are:
 

Bodily Injury by Accident	<b>\$1,000,000</b>	each accident
Bodily Injury by Disease	<b>\$1,000,000</b>	policy limit
Bodily Injury by Disease	<b>\$1,000,000</b>	each employee
- C. Other States Insurance: Part Three of the policy applies to all states except the states listed in item 3.A and the states of North Dakota, Ohio, Washington, and Wyoming.
- D. See attached list for endorsements and schedules.
4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plans. All information listed on the Extension of Information page is subject to verification and change by audit.

See Extension of Information Page for premium rating schedule.

Minimum Premium	\$	<b>5,000</b>
Total Estimated Annual Premium	\$	<b>1,323,324</b>
Estimated Taxes and Assessments	\$	<b>56,260</b>

Issuing Office: **OMAHA, NE**

Countersigned by:

California Insurance Company  
**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**  
 LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-01

Form Number	Endorsement Number	Name
WC000001A		California Declaration Page
WC990401		List of Endorsements And Schedules
WC000174		Extension of Information Page
AIL590		Additional Named Insured and/or Locations
WC040360A	1	Employers' Liability Coverage Amendatory Endorsement
WC040601A	2	California Cancellation Endorsement
WC040421	3	California Optional Premium Increase Endorsement
WC040301B	4	Policy Amendatory Endorsement - California
WC040422	5	California Short Rate Cancelation Endorsement
WC000422A	6	Terrorism Risk Insurance Program Reauthorization Act Disclosure
WC000421C	7	Catastrophe
WC040303	8	Officers And Directors Coverage / Exclusion Endorsement - Califo
WC890600B	9	Change Endorsement
WC890600B	10	Change Endorsement
WC890600B	11	Change Endorsement
WC890600B	12	Change Endorsement
WC890600B	13	Change Endorsement
PNAU9905	100	Policyholder Notice Loss Control Endorsement
PN049902B	101	Policyholder Notice California Workers' Compensation Insurance R
PN049904	102	California CIGA Policyholder Notice

California Insurance Company  
WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-01

Form Number	Endorsement Number	Name
PN000001	103	Short Rate Cancelation Policyholder Notice
PN049901	104	Policyholder Notice Your Right To Rating And Dividend Info
WC000000B_CIC		Workers Compensation and Employers Liability Insurance Policy

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
EXTENSION OF INFORMATION PAGE**

Policy Number 73-853940-01-01

4. Premium

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium
Stores wholesale-N.O.C.	8018	5,581,320	12.3700	690,409.00
Salespersons-outside	8742	329,947	1.0200	3,365.00
Clerical Office Employees-N.O.C.	8810	2,492,393	0.8300	20,687.00
Experience Modification			1.8900	1,350,331.00
Schedule Modification	9887		0.9800	1,323,324.00
Terrorism	9740		0.0000	0.00
Catastrophe	9741		0.0000	0.00
Estimated Annual Premium - California				1,323,324.00
CIGA California Domiciled Insureds	----		2.2850	30,237.95
Workers Comp. Fraud Surcharge	----		0.2648	3,504.16
User Funding Rate	----		0.9669	12,795.22
Uninsured Employers Fund	----		0.1362	1,802.37
Subsequent Injuries Benefit Fund	----		0.1255	1,660.77
Occupational Safety & Health Fund	----		0.2350	3,109.81
Labor Enforcement & Compliance Fund	----		0.2380	3,149.51
CA				
Total Estimated Annual Premium \$				1,379,583.79

Policy Number: 73-853940-01-01

**CALIFORNIA INSURANCE COMPANY**  
**Additional Named Insured and/or Locations**

Item (1) Insured of the Information page is amended to include the following:

Shims Bargain, Inc.  
DBA JC Sales FEIN: 954446696  
2700 S Soto St  
Vernon CA 90058-8027 ENTITY: Corporation  
From: 04/30/12 To: 04/30/13

Shims Bargain, Inc.  
DBA JC Sales FEIN: 954446696  
2840 E 26th St  
Vernon CA 90058-8005 ENTITY: Corporation  
From: 04/30/12 To: 04/30/13

Shims Bargain, Inc.  
DBA JC Sales FEIN: 954446696  
7026 - 7030 E Slauson Ave  
Commerce CA 90040 ENTITY: Corporation  
From: 04/30/12 To: 04/30/13

The, Inc.  
DBA International Distributors FEIN: 202590398  
6600 Bandini Blvd  
Commerce CA 90040 ENTITY: Corporation  
From: 04/30/12 To: 01/01/13

This endorsement is part of your policy and takes effect on the effective date of your policy, unless another effective date is shown below.

Endorsement Effective  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No.  
Premium

Insurance Company California Insurance Company

Countersigned by \_\_\_\_\_

All other terms and conditions of this policy remain unchanged.  
AIL590

Policy Number: 73-853940-01-01

**CALIFORNIA INSURANCE COMPANY**  
**Additional Named Insured and/or Locations**

**Item (1) Insured of the Information page is amended to include the following:**

Karis, Inc.  
DBA International Distributors  
6600 Bandini Blvd  
Commerce CA 90040-3302  
From: 01/01/13 To: 04/30/13

**FEIN: 364717833**

**ENTITY: Corporation**

This endorsement is part of your policy and takes effect on the effective date of your policy, unless another effective date is shown below.

Endorsement Effective  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No.  
Premium

Insurance Company California Insurance Company

Countersigned by \_\_\_\_\_

All other terms and conditions of this policy remain unchanged.  
AIL590

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

EMPLOYERS' LIABILITY COVERAGE AMENDATORY ENDORSEMENT-CALIFORNIA

The Insurance afforded by Part Two (Employers' Liability Insurance) by reason of designation of California in item 3 of the information page is subject to the following provisions:

A. "How This Insurance Applies," is amended to read as follows:

A. How This Insurance Applies

This employers' liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury means a physical injury, including resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in California.
3. Bodily injury by accident must occur during policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

C. The "Exclusions" section is modified as follows (all other exclusions in the "Exclusions" section remain as is):

1. Exclusion 1 is amended to read as follows:
  1. liability assumed under a contract.
2. Exclusion 2 is deleted.
3. Exclusion 7 is amended to read as follows:
  7. damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, termination of employment, or any personnel practices, policies, acts or omissions.
4. The following exclusions are added:
  1. bodily injury to any member of the flying crew of any aircraft.
  2. bodily injury to an employee when you are deprived of statutory or common law defenses or are subject to penalty because of your failure to secure your obligations under the workers' compensation law(s) applicable to you or otherwise fail to comply with that law.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No. 1  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA CANCELLATION ENDORSEMENT**

This endorsement applies only to the insurance provided by the policy because California is shown in Item 3.A. of the information page.

The cancellation condition in Part Six (Conditions) of the policy is replaced by these conditions:

**Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy for one or more of the following reasons:
  - a. Non-payment of premium;
  - b. Failure to report payroll;
  - c. Failure to permit us to audit payroll as required by the terms of this policy or of a previous policy issued by us;
  - d. Failure to pay any additional premium resulting from an audit of payroll required by the terms of this policy or any previous policy issued by us;
  - e. Material misrepresentation made by you or your agent;
  - f. Failure to cooperate with us in the investigation of a claim;
  - g. Failure to comply with Federal or State safety orders;
  - h. Failure to comply with written recommendations of our designated loss control representatives;
  - i. The occurrence of a material change in the ownership of your business;
  - j. The occurrence of any change in your business or operations that materially increases the hazard for frequency or severity of loss;
  - k. The occurrence of any change in your business or operation that requires additional or different classification for premium calculation;
  - l. The occurrence of any change in your business or operation which contemplates an activity excluded by our reinsurance treaties.
3. If we cancel your policy for any of the reasons listed in (a) through (f), we will give you 10 days advance written notice, stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in item 1 of the Information Page will be sufficient to prove notice. If we cancel your policy for any of the reasons listed in items (g) through (l), we will give you 30 days advance written notice; however, we agree that in the event of cancellation and reissuance of a policy effective upon a material change in ownership or operations, notice will not be provided.
4. The policy period will end on the day and hour stated in the cancellation notice.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No. 2  
Premium

Insurance Company  
California Insurance Company  
(Ed. 12-93)

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**OPTIONAL PREMIUM INCREASE ENDORSEMENT - CALIFORNIA**

You must provide us, or our authorized representative, access to records necessary to perform a payroll verification audit. If you fail to provide access within 90 days after expiration of the policy, you are liable to pay a total premium equal to 3 times our current estimate of the annual premium for your policy. In addition, if you fail to provide access after our third request within a 90 day or longer period, you are also liable for our costs in attempting to perform the audit unless you provide a compelling business reason for your failure.

We will contact you to schedule appointments during normal business hours.

We will notify you of your failure to provide access by mailing a certified, return-receipt document stating the increased premium and the total amount of our costs incurred in our attempt(s) to perform an audit. In addition to any other obligations under this contract, 30 days after you receive the notification, you will be obligated to pay the total premium and costs referenced above. If, thereafter, you provide access to your records within three years after the policy expires, or within another mutually agreed upon time, and we succeed in performing the audit to our satisfaction, we will revise your total premium and the costs due to reflect the results of the audit.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No. 3  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY AMENDATORY ENDORSEMENT - CALIFORNIA**

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

- 1. **Minors Illegally Employed - Not Insured.** This policy does not cover liability for additional compensation imposed on you under Section 4557, Division IV, Labor Code of the State of California, by reason of injury to an employee under sixteen years of age and illegally employed at the time of injury.
- 2. **Punitive or Exemplary Damages - Uninsurable.** This policy does not cover punitive or exemplary damages where insurance of liability therefore is prohibited by law or contrary to public policy.
- 3. **Increase in Indemnity Payment - Reimbursement.** You are obligated to reimburse us for the amount of increase in indemnity payments made pursuant to Subdivision (d) of Section 4650 of the California Labor Code, if the late indemnity payment which gives rise to the increase in the amount of payment is due less than seven (7) days after we receive the completed claim form from you. You are obligated to reimburse us for any increase in indemnity payment not covered under this policy and will reimburse us for any increase in indemnity payment not covered under the policy when the aggregate total amount of the reimbursement payments paid in a policy year exceeds one hundred dollars (\$100).

If we notify you in writing, within 30 days of the payment, that you are obligated to reimburse us, we will bill you for the amount of increase in indemnity payment and collect it no later than the final audit. You will have 60 days, following notice of the obligation to reimburse, to appeal the decision of the insurer to the Department of Insurance.

- 4. **Application of Policy.** Part One, "Workers Compensation Insurance", A, "How This Insurance Applies", is amended to read as follows:  
This workers compensation insurance applies to bodily injury by accident or disease, including death resulting therefrom. Bodily injury by accident must occur during the policy period. Bodily injury by disease must be caused or aggravated by the conditions of your employment. Your employee's exposure to those conditions causing or aggravating such bodily injury by disease must occur during the policy period.

- 5. **Rate Changes.** The premium and rates with respect to the insurance provided by this policy by reason of the designation of California in Item 3 of the Information Page are subject to change if ordered by the Insurance Commissioner of the State of California pursuant to Section 11737 of the California Insurance Code.

- 6. **Long Term Policy.** If this policy is written for a period longer than one year, all the provisions of this policy shall apply separately to each consecutive twelve-month period or, if the first or last consecutive period is less than twelve months, to such period of less than twelve months, in the same manner as if a separate policy had been written for each consecutive period.

- 7. **Statutory Provision.** Your employer has a first lien upon any amount which becomes owing to you by us on account of this policy, and in the case of your legal incapacity or inability to receive the money and pay it to the claimant, we will pay it directly to the claimant.

- 8. Part Five, "Premium", E, "Final Premium", is amended to read as follows:

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

- a. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium
- b. If you cancel, final premium may be more than pro rata; it will be based on the time this policy was in force, and may be increased by our short-rate cancellation table and procedure. Final premium will not be less than the pro rata share of the minimum premium.

It is further agreed that this policy, including all endorsements forming a part thereof, constitutes the entire contract of insurance. No condition, provision, agreement, or understanding not set forth in this policy or such endorsements shall affect such contract or any rights, duties, or privileges arising therefrom.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective **04/30/12**  
Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **4**  
Premium

Insurance Company  
**California Insurance Company**  
(Ed. 01-12)

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT**

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

If you cancel the policy and a disclosure was provided in accordance with Section 481(c) of the California Insurance Code, final premium will be based on the time this policy was in force and increased by the short-rate cancellation table below:

Short Rate Cancellation Table

The premium for the canceled policy will be calculated using the Short Rate Cancellation Table. We will use the short-rate percentage as follows:

1. Determine the payroll developed during the period the policy was in effect.
2. Determine the full policy payroll by using the following formula:

$$\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \text{Actual Payroll}$$

3. Apply authorized rates to such payroll
4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect:

$$\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$$

5. Based on the extended number of days, apply the short rate percentage shown in the Short Rate Cancellation Table to the full policy premium calculated in step 3. This result is the short-rate portion of the premium.
6. If applicable:
  - \* Apply any pricing programs
  - \* Apply any experience rating modification
  - \* Apply any premium discount based on the final earned total standard premium
  - \* Add the short rate portion of the expense constant but not less than \$15
  - \* Apply catastrophe provisions based on the earned manual premium
7. The total earned premium for the short-rate canceled policy will not be less than the annual minimum premium applicable to the policy.

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
1	5%	46	23%	91	35%	136	48%	181	60%
2	6	47	23	92	36	137	48	182	60
3	7	48	24	93	36	138	48	183	61
4	7	49	24	94	36	139	49	184	61
5	8	50	24	95	37	140	49	185	61
6	8	51	24	96	37	141	49	186	61
7	9	52	25	97	37	142	49	187	61
8	9	53	25	98	37	143	50	188	62
9	10	54	25	99	38	144	50	189	62
10	10	55	26	100	38	145	50	190	62
11	11	56	26	101	38	146	50	191	62
12	11	57	26	102	38	147	51	192	63
13	12	58	26	103	39	148	51	193	63
14	12	59	27	104	39	149	51	194	63
15	13	60	27	105	39	150	52	195	63
16	13	61	27	106	40	151	52	196	63
17	14	62	27	107	40	152	52	197	64
18	14	63	28	108	40	153	52	198	64
19	15	64	28	109	40	154	53	199	64
20	15	65	28	110	41	155	53	200	64
21	16	66	29	111	41	156	53	201	65
22	16	67	29	112	41	157	54	202	65
23	17	68	29	113	41	158	54	203	65
24	17	69	29	114	42	159	54	204	65
25	17	70	30	115	42	160	54	205	65
26	18	71	30	116	42	161	55	206	66
27	18	72	30	117	43	162	55	207	66
28	18	73	30	118	43	163	55	208	66
29	18	74	31	119	43	164	55	209	66
30	19	75	31	120	43	165	56	210	67
31	19	76	31	121	44	166	56	211	67
32	19	77	32	122	44	167	56	212	67
33	20	78	32	123	44	168	57	213	67
34	20	79	32	124	44	169	57	214	67
35	20	80	32	125	45	170	57	215	68
36	20	81	33	126	45	171	57	216	68
37	21	82	33	127	45	172	58	217	68
38	21	83	33	128	46	173	58	218	68
39	21	84	34	129	46	174	58	219	69
40	21	85	34	130	46	175	58	220	69
41	22	86	34	131	46	176	59	221	69
42	22	87	34	132	47	177	59	222	69
43	22	88	35	133	47	178	59	223	69
44	23	89	35	134	47	179	60	224	70
45	23	90	35	135	47	180	60	225	70

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
226	70%	254	76%	282	82%	310	88%	338	95%
227	70	255	76	283	83	311	89	339	95
228	70	256	77	284	83	312	89	340	95
229	71	257	77	285	83	313	89	341	95
230	71	258	77	286	83	314	89	342	95
231	71	259	77	287	83	315	90	343	96
232	71	260	77	288	84	316	90	344	96
233	72	261	78	289	84	317	90	345	96
234	72	262	78	290	84	318	90	346	96
235	72	263	78	291	84	319	90	347	97
236	72	264	78	292	85	320	91	348	97
237	72	265	79	293	85	321	91	349	97
238	73	266	79	294	85	322	91	350	97
239	73	267	79	295	85	323	91	351	97
240	73	268	79	296	85	324	92	352	98
241	73	269	79	297	86	325	92	353	98
242	74	270	80	298	86	326	92	354	98
243	74	271	80	299	86	327	92	355	98
244	74	272	80	300	86	328	92	356	99
245	74	273	80	301	86	329	93	357	99
246	74	274	81	302	87	330	93	358	99
247	75	275	81	303	87	331	93	359	99
248	75	276	81	304	87	332	93	360	99
249	75	277	81	305	87	333	94	361	100
250	75	278	81	306	88	334	94	362	100
251	76	279	82	307	88	335	94	363	100
252	76	280	82	308	88	336	94	364	100
253	76	281	82	309	88	337	94	365	100

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No. 5

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY****TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT DISCLOSURE ENDORSEMENT**

This endorsement addresses the requirements of the Terrorism Risk Insurance Act of 2002 as amended and extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007. It serves to notify you of certain limitations under the Act, and that your insurance carrier is charging premium for losses that may occur in the event of an Act of Terrorism.

Your policy provides coverage for workers compensation losses caused by Acts of Terrorism, including workers compensation benefit obligations dictated by state law. Coverage for such losses is still subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations.

**Definitions**

The definitions provided in this endorsement are based on and have the same meaning as the definitions in the Act. If words or phrases not defined in this endorsement are defined in the Act, the definitions in the Act will apply.

“Act” means the Terrorism Risk Insurance Act of 2002, which took effect on November 26, 2002, and any amendments thereto resulting from the Terrorism Risk Insurance Program Reauthorization Act of 2007.

“Act of Terrorism” means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States as meeting all of the following requirements:

- a. The act is an act of terrorism.
- b. The act is violent or dangerous to human life, property or infrastructure.
- c. The act resulted in damage within the United States, or outside of the United States in the case of the premises of United States missions or certain air carriers or vessels.
- d. The act has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

“Insured Loss” means any loss resulting from an act of terrorism (and, except for Pennsylvania, including an act of war, in the case of workers compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if the loss occurs in the United States or at the premises of United States missions or to certain air carriers or vessels.

“Insurer Deductible” means for the period beginning on January 1, 2008, and ending on December 31, 2014, an amount equal to 20% of our direct earned premiums, over the calendar year immediately preceding the applicable Program Year.

“Program Year” refers to each calendar year between January 1, 2008 and December 31, 2014, as applicable.

**Limitation of Liability**

The Act limits our liability to you under this policy. If aggregate Insured Losses exceed \$100,000,000,000 in a Program Year and if we have met our Insurer Deductible, we are not liable for the payment of any portion of the amount of Insured Losses that exceeds \$100,000,000,000; and for aggregate Insured Losses up to \$100,000,000,000, we will pay only a pro rata share of such Insured Losses as determined by the Secretary of the Treasury.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**Policyholder Disclosure Notice**

1. Insured Losses would be partially reimbursed by the United States Government. If the aggregate industry Insured Losses exceeds \$100,000,000 in a Program Year, the United States Government would pay 85% of our Insured Losses that exceed our Insurer Deductible.
2. Notwithstanding item 1 above, the United States Government will not make any payment under the Act for any portion of Insured Losses that exceeds \$100,000,000,000.
3. The premium charge for the coverage your policy provides for Insured Losses is included in the amount shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

<b>State</b>	<b>Rate</b>	<b>Premium</b>
CA	0.000	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement 04/30/12  
Insured JC Sales

Effective Policy No. 73-853940-01-01

Endorsement No. 6  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)  
PREMIUM ENDORSEMENT**

This endorsement is notification that your insurance carrier is charging premium to cover the losses that may occur in the event of a Catastrophe (other than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism). This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement (WC 00 04 22 A), attached to this policy.

For purposes of this endorsement, the following definitions apply:

**Catastrophe (other than Certified Acts of Terrorism):** Any single event, resulting from an Earthquake, Noncertified Act of Terrorism, or Catastrophic Industrial Accident, which results in aggregate workers compensation losses in excess of \$50 million.

**Earthquake:** The shaking and vibration at the surface of the earth resulting from underground movement along a fault plane or from volcanic activity.

**Noncertified Act of Terrorism:** An event that is not certified as an Act of Terrorism by the Secretary of Treasury pursuant to the Terrorism Risk Insurance Act of 2002 (as amended) but that meets all of the following criteria:

- a. It is an act that is violent or dangerous to human life, property, or infrastructure;
- b. The act results in damage within the United States, or outside of the United States in the case of the premises of United States missions or air carriers or vessels as those terms are defined in the Terrorism Risk Insurance Act of 2002 (as amended); and
- c. It is an act that has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

**Catastrophic Industrial Accident:** A chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

<b>State</b>	<b>Schedule</b>	<b>Rate</b>	<b>Premium</b>
CA		0.00	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement 04/30/12  
Insured JC Sales

Effective Policy No. 73-853940-01-01

Endorsement No. 7  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**OFFICERS AND DIRECTORS COVERAGE / EXCLUSION ENDORSEMENT-CALIFORNIA**

If the employer named in item 1 of the Information Page is a private corporation whose officers and directors are the sole shareholders, this policy applies to all such officers and directors, as employees, except those excluded below or named as excluded in item 4 of the Information Page.

**Officers and Directors Excluded**

James Shim  
K. Kenneth Suh

**Title**

Chairman - 80% ownership  
President - 20% ownership

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured JC Sales

Policy No. 73-853940-01-01

Endorsement No. 8  
Premium 0.00

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 1-85)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |   |  |
|---|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                     | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                      | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                     | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                    | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)          | <input type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)   |
| <input checked="" type="checkbox"/> Experience Modification (WC 89 04 06) | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                    | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input type="checkbox"/> Change in Workplace of Insured (WC 89 06 08)     | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)             | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|   | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

CA Experience Modification: 1.9700 effective 04/30/12 - 04/29/13

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/12**

Endorsement Effective **04/30/12**

Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **9**

Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |   |  |
|---|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                 | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                  | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                 | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)      | <input checked="" type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)  |
| <input type="checkbox"/> Experience Modification (WC 89 04 06)        | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input type="checkbox"/> Change in Workplace of Insured (WC 89 06 08) | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)         | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|   | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

Add Code: CA8742

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/12**

Endorsement Effective **04/30/12**

Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **10**  
Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |  |  |
|--|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                            | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                             | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                            | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                           | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)                 | <input type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)   |
| <input type="checkbox"/> Experience Modification (WC 89 04 06)                   | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                           | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input checked="" type="checkbox"/> Change in Workplace of Insured (WC 89 06 08) | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)                    | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|  | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

Remove Workplace of Insured: The, Inc.

6600 Bandini Blvd, Commerce, CA 90

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/12**

Endorsement Effective **01/01/13**

Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **11**

Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Insured's Name (WC 89 06 01)                 | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                             | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                            | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                           | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)                 | <input checked="" type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)  |
| <input type="checkbox"/> Experience Modification (WC 89 04 06)                   | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                           | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input checked="" type="checkbox"/> Change in Workplace of Insured (WC 89 06 08) | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input checked="" type="checkbox"/> Insured's Legal Status (WC 89 06 10)         | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|  | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

Add Insured Operating Name: International Distributors  
 Add Insured Legal Name: Karis, Inc.  
 Add Workplace of Insured: 6600 Bandini Blvd , Commerce, CA 90040-3302  
 Legal Status: Corporation  
 Add Insured FEIN: 364717833

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/12**

Endorsement Effective **01/01/13**

Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **12**  
 Premium **0.00**

Insurance Company **California Insurance Company**  
 NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- Insured's Name (WC 89 06 01)
- Policy Number (WC 89 06 02)
- Effective Date (WC 89 06 03)
- Expiration Date (WC 89 06 04)
- Insured's Mailing Address (WC 89 06 05)
- Experience Modification (WC 89 04 06)
- Producer's Name (WC 89 06 07)
- Change in Workplace of Insured (WC 89 06 08)
- Insured's Legal Status (WC 89 06 10)
- Item 3.A. States (WC 89 06 11)
- Item 3.B. Limits (WC 89 06 12)
- Item 3.C. States (WC 89 06 13)
- Item 3.D. Endorsement Numbers (WC 89 06 14)
- Item 4.\* Class, Rate, Other (WC 89 04 15)
- Interim Adjustment of Premium (WC 89 04 16)
- Carrier Servicing Office (WC 89 06 17)
- Interstate/Intrastate Risk I.D. Number (WC 89 06 18)
- Carrier Number (WC 89 06 19)
- Issuing Agency/Producer Office Address (WC 89 06 25)  
(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only)

**IS CHANGED TO READ:**

CA Experience Modification: 1.8900 effective 04/30/12 - 04/29/13

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/12**

Endorsement Effective **04/30/12**

Insured **JC Sales**

Policy No. **73-853940-01-01**

Endorsement No. **13**

Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**NOTICE TO POLICYHOLDER**  
**Loss Control Consultation Services**

PN AU 99 05

California law (Labor Code Section 6354.5) requires workers' compensation insurers to maintain and provide occupational safety and health loss control consultation services to insured policyholder places of employment that may pose hazards. We are committed to helping our California employers provide safe and healthy workplaces for their employees through loss control services appropriate to their individual businesses. This notice is provided to you as one of our policyholders and describes our loss control consultation services which are available upon request at no additional cost to you.

**WORKPLACE SURVEY**

We can conduct a survey of your operations to identify safety and health hazards, and existing physical and management controls of those hazards, that have the potential to affect the frequency and severity of workplace injuries and illnesses. When hazards are noted, we will provide you with written training materials addressing them. Included with the survey is an evaluation of your loss control management program including discussions with management and where appropriate non-management personnel with permission of the employer.

**REVIEW OF INJURY RECORDS**

We can assist you by analyzing employee accidents and previous loss experience to identify underlying accident causes. A review of loss records with appropriate personnel can help identify those factors most related to the specific loss you have experienced.

**DEVELOPMENT OF PLAN**

We can assist you in developing a comprehensive safety and health program to minimize workplace accidents, including, where appropriate, modifications to your Section 3203 Employer Injury and Illness Prevention Program if needed to address concerns in the plan to improve your loss control experience.

**ADDITIONAL SERVICES**

We make additional Loss Control services available that are not required under California law to assist you with your loss prevention efforts. Some of those services and materials are described below.

OSHA Training Materials

Sample Safety Programs

On-Site Audit

Sample Drug Testing Program

Recordkeeping Forms

Safety Meetings

To obtain these services please send a request in writing to:

Applied Underwriters

P.O. Box 3646

Omaha, Nebraska 68103

Workers' compensation insurance policy holders may direct questions or complaints about the insurer's loss control consultation services by contacting : State of California, Department of Industrial Relations, Loss Control Services Coordinator, The Commission on Health, Safety & Workers' Compensation, 1515 Clay Street, Room 901, Oakland, CA 94612 (510) 622-3959.

## POLICYHOLDER NOTICE

### California Workers' Compensation Insurance Rating Laws

Pursuant to Section 11752.8 of the California Insurance Code, we are providing you with an explanation of the California workers' compensation rating laws.

1. We establish our own rates for workers' compensation. Our rates, rating plans, and related information are filed with the insurance commissioner and are open for public inspection.
2. The insurance commissioner can disapprove our rates, rating plans, or classification only if he or she has determined after public hearing that our rates might jeopardize our ability to pay claims or might create a monopoly in the market. A monopoly is defined by law as a market where one insurer writes 20% or more of that part of the California workers' compensation insurance that is not written by the State Compensation Insurance Fund. If the insurance commissioner disapproves our rates, rating plans, or classifications, he or she may order an increase in the rates applicable to outstanding policies.
3. Rating organizations may develop pure premium rates that are subject to the insurance commissioner's approval. A pure premium rate reflects the anticipated cost and expenses of claims per \$100 of payroll for a given classification. Pure premium rates are advisory only, as we are not required to use the pure premium rates developed by any rating organization in establishing our own rates.
4. We must adhere to a single, uniform experience rating plan. If you are eligible for experience rating under the plan, we will be required to adjust your premium to reflect your claim history. A better claim history generally results in a lower experience rating modification; more claims, or more expensive claims, generally result in a higher experience rating modification. The uniform experience rating plan, which is developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner.
5. A standard classification system, developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner. The standard classification system is a method of recognizing and separating policyholders into industry or occupational groups according to their similarities and/or differences. We can adopt and apply the standard classification system or develop and apply our own classification system, provided we can report the payroll, expenses, and other costs of claims in a way that is consistent with the uniform statistical plan or the standard classification system.
6. Our rates and classifications may not violate the Unruh Civil Rights Act or be unfairly discriminatory.
7. We will provide an appeal process for you to appeal the way we rate your insurance policy. The process requires us to respond to your written appeal within 30 days. If you are not satisfied with the result of your appeal, you may appeal our decision to the insurance commissioner.

### CALIFORNIA WORKERS' COMPENSATION INSURANCE NOTICE OF NONRENEWAL

Section 11664 of the California Insurance Code required us, in most instances, to provide you with a notice of nonrenewal. Except as specified in paragraphs 1 through 6 below, if we elect to nonrenew your policy, we are required to deliver or mail to you a written notice stating that reason or reasons for the nonrenewal of the policy. The notice is required to be sent to you no earlier than 120 days before the end of the policy period and no later than 30 days before the end of the policy period. If we fail to provide you the required notice, we are required to continue the coverage under the policy with no change in the premium rate until 60 days after we provide you with the required notice.

We are not required to provide you with a notice of nonrenewal in any of the following situations:

1. Your policy was transferred or renewed without a change in its terms or conditions or the rate on which the premium is based to another insurer or other insurers who are members of the same insurance group as us.
2. The policy was extended for 90 days or less and the required notice was given prior to the extension.
3. You obtained replacement coverage or agreed, in writing, within 60 days of the termination of the policy, to obtain that coverage.
4. The policy is for a period of no more than 60 days and you were notified at the time of the issuance that it may not be renewed.
5. You requested a change in the terms or conditions or risks covered by the policy within 60 days prior to the end of the policy period.
6. We made a written offer to you to renew the policy at a premium rate increase of less than 25 percent.

(A) If the premium rate in your governing classification is to be increased 25 percent or greater and we intend to renew the policy, we shall provide a written notice of a renewal offer not less than 30 days prior to the policy renewal date. The governing classification shall be determined by the rules and regulations established in accordance with California Insurance Code Section 11750.3(c).

(B) For purposes of this Notice, "premium rate" means the cost of insurance per unit of exposure prior to the application of individual risk variations based on loss or expense considerations such as scheduled rating and experience rating.

This notice does not change the policy to which it is attached.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**POLICYHOLDER NOTICE**

**CALIFORNIA INSURANCE GUARANTEE ASSOCIATION (CIGA) SURCHARGE**

Companies writing property and casualty insurance business in California are required to participate in the California Insurance Guarantee Association. If a company becomes insolvent, the California Insurance Guarantee Association settles unpaid claims and assesses each insurance company for its fair share.

California law requires all companies to surcharge policies to recover these assessments. If your policy is surcharged, "CA Surcharge" or "CA Surcharge (CIGA Surcharge)" with an amount will be displayed on your premium notice.

This notice does not change the policy to which it is attached.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/12  
Insured **JC Sales**

Policy No. 73-853940-01-01

Endorsement No. 102  
Premium

Insurance Company  
**California Insurance Company**

Countersigned by \_\_\_\_\_

(Ed 12-01)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY****SHORT RATE CANCELATION POLICYHOLDER NOTICE**

Subject to individual State Regulations, the cancellation condition in the Standard Policy WC 00 00 00 A-Part Five Premium, E. Final Premium, states that if this policy is canceled by you, the final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short rate cancellation table and procedure. Final premium will not be less than the minimum premium.

In applicable States, the final premium will be calculated as follows based on the standard Short Rate Cancellation Table attached to this policyholder notice:

The premium for the canceled policy will be calculated using the Short Rate Cancellation Table. We will use the short-rate percentage as follows:

1. Determine the payroll developed during the period the policy was in effect.
2. Determine the full policy payroll by using the following formula:
 
$$\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \text{Actual Payroll}$$
3. Apply authorized rates to such payroll
4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect:

$$\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$$

5. Based on the extended number of days, apply the short rate percentage shown in the Short Rate Cancellation Table to the full policy premium calculated in step 3. This result is the short-rate portion of the premium.
6. If applicable:
  - \* Apply any pricing programs
  - \* Apply any experience rating modification
  - \* Apply any premium discount based on the final earned total standard premium
  - \* Add the short rate portion of the expense constant but not less than \$15
  - \* Apply catastrophe provisions based on the earned manual premium
7. The total earned premium for the short-rate canceled policy will not be less than the annual minimum premium applicable to the policy.

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

SHORT RATE CANCELTION POLICYHOLDER NOTICE

SHORT RATE CANCELTION TABLE

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
1	5%	46	23%	91	35%	136	48%	181	60%
2	6	47	23	92	36	137	48	182	60
3	7	48	24	93	36	138	48	183	61
4	7	49	24	94	36	139	49	184	61
5	8	50	24	95	37	140	49	185	61
6	8	51	24	96	37	141	49	186	61
7	9	52	25	97	37	142	49	187	61
8	9	53	25	98	37	143	50	188	62
9	10	54	25	99	38	144	50	189	62
10	10	55	26	100	38	145	50	190	62
11	11	56	26	101	38	146	50	191	62
12	11	57	26	102	38	147	51	192	63
13	12	58	26	103	39	148	51	193	63
14	12	59	27	104	39	149	51	194	63
15	13	60	27	105	39	150	52	195	63
16	13	61	27	106	40	151	52	196	63
17	14	62	27	107	40	152	52	197	64
18	14	63	28	108	40	153	52	198	64
19	15	64	28	109	40	154	53	199	64
20	15	65	28	110	41	155	53	200	64
21	16	66	29	111	41	156	53	201	65
22	16	67	29	112	41	157	54	202	65
23	17	68	29	113	41	158	54	203	65
24	17	69	29	114	42	159	54	204	65
25	17	70	30	115	42	160	54	205	65
26	18	71	30	116	42	161	55	206	66
27	18	72	30	117	43	162	55	207	66
28	18	73	30	118	43	163	55	208	66
29	18	74	31	119	43	164	55	209	66
30	19	75	31	120	43	165	56	210	67
31	19	76	31	121	44	166	56	211	67
32	19	77	32	122	44	167	56	212	67
33	20	78	32	123	44	168	57	213	67
34	20	79	32	124	44	169	57	214	67
35	20	80	32	125	45	170	57	215	68
36	20	81	33	126	45	171	57	216	68
37	21	82	33	127	45	172	58	217	68
38	21	83	33	128	46	173	58	218	68
39	21	84	34	129	46	174	58	219	69
40	21	85	34	130	46	175	58	220	69
41	22	86	34	131	46	176	59	221	69
42	22	87	34	132	47	177	59	222	69
43	22	88	35	133	47	178	59	223	69
44	23	89	35	134	47	179	60	224	70
45	23	90	35	135	47	180	60	225	70

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## SHORT RATE CANCELTATION POLICYHOLDER NOTICE

## SHORT RATE CANCELTATION TABLE

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
226	70%	254	76%	282	82%	310	88%	338	95%
227	70	255	76	283	83	311	89	339	95
228	70	256	77	284	83	312	89	340	95
229	71	257	77	285	83	313	89	341	95
230	71	258	77	286	83	314	89	342	95
231	71	259	77	287	83	315	90	343	96
232	71	260	77	288	84	316	90	344	96
233	72	261	78	289	84	317	90	345	96
234	72	262	78	290	84	318	90	346	96
235	72	263	78	291	84	319	90	347	97
236	72	264	78	292	85	320	91	348	97
237	72	265	79	293	85	321	91	349	97
238	73	266	79	294	85	322	91	350	97
239	73	267	79	295	85	323	91	351	97
240	73	268	79	296	85	324	92	352	98
241	73	269	79	297	86	325	92	353	98
242	74	270	80	298	86	326	92	354	98
243	74	271	80	299	86	327	92	355	98
244	74	272	80	300	86	328	92	356	99
245	74	273	80	301	86	329	93	357	99
246	74	274	81	302	87	330	93	358	99
247	75	275	81	303	87	331	93	359	99
248	75	276	81	304	87	332	93	360	99
249	75	277	81	305	87	333	94	361	100
250	75	278	81	306	88	334	94	362	100
251	76	279	82	307	88	335	94	363	100
252	76	280	82	308	88	336	94	364	100
253	76	281	82	309	88	337	94	365	100

Insured **JC Sales**Policy No. **73-853940-01-01**Insurance Company **California Insurance Company**

**POLICYHOLDER NOTICE**  
**YOUR RIGHT TO RATING AND DIVIDEND INFORMATION**

**I. INFORMATION AVAILABLE TO YOU**

**A. Information Available from Us - California Insurance Company**

- (1) General questions regarding your policy should be directed to California Insurance Company.
- (2) **DIVIDEND CALCULATION.** If this is a particular policy (a policy on which a dividend may be paid), upon payment or non-payment of a dividend, we shall provide a written explanation to you that sets forth the basis of the dividend calculation. The explanation will be in clear, understandable language and will express the dividend as a dollar amount and as a percentage of the earned premium for the policy year on which the dividend is calculated.
- (3) **CLAIMS INFORMATION.** Pursuant to Sections 3761 and 3762 of the California Labor Code, you are entitled to receive information in our claim files that affects your premium. Copies of documents will be supplied at your expense during reasonable business hours.

For claims covered under this policy, we will estimate the ultimate cost of unsettled claims for statistical purposes eighteen months after the policy becomes effective and will report those estimates to the Workers' Compensation Insurance Rating Bureau of California (WCIRB) no later than twenty months after the policy becomes effective. The cost of any settled claims will also be reported at that time. At twelve-month intervals thereafter, we will update and report to the WCIRB the estimated cost of any unsettled claims and the actual final cost of any claims settled in the interim. The amounts we report will be used by the WCIRB to compute your experience modification if you are eligible for experience rating.

**B. Information Available from the Workers' Compensation Insurance Rating Bureau of California**

- (1) The WCIRB is a licensed rating organization and the California Insurance Commissioner's designated statistical agent. As such, the WCIRB is responsible for administering the *California Workers' Compensation Uniform Statistical Reporting Plan -1995* (USRP) and the *California Workers' Compensation Experience Rating Plan-1995* (ERP). Contact information for the WCIRB is: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. You may also contact WCIRB Customer Service at 1-888-229-2472, by fax at 415-778-7272, or via the Internet at the WCIRB's website: <http://www.wcirb.org>. The regulations contained in the USRP and the ERP are available for public viewing through the WCIRB's website.
- (2) **POLICYHOLDER INFORMATION.** Pursuant to California Insurance Code (CIC) Section 11752.6, upon written request, you are entitled to information relating to loss experience, claims, classification assignments, and policy contracts as well as rating plans, rating systems, manual rules, or other information impacting your premium that is maintained in the records of the WCIRB. Complaints and Requests for Action requesting policyholder information should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Custodian of Records. The Custodian of Records can be reached by telephone at 415-777-0777 and by fax at 415-778-7272.
- (3) **EXPERIENCE RATING FORM.** Each experience rated risk may receive a single copy of its current Experience Rating Form free of charge by completing a Policyholder Rate Sheet Request Form on the WCIRB's website at <http://wcirb.org/ratesheet>. The Experience Rating Form will include a Loss-Free Rating, which is the experience modification that would have been calculated if \$0 (zero) actual losses were incurred during the experience period. This hypothetical rating calculation is provided for informational purposes only.

**II. DISPUTE PROCESS**

You may dispute our actions or the actions of the WCIRB pursuant to CIC Sections 11737 and 11753.1.

**A. Our Dispute Resolution Process.**

If you are aggrieved by our decision adopting a change in a classification assignment that results in increased premium, or by the application of our rating system to your workers' compensation insurance, you may dispute these matters with us. If you are dissatisfied with the outcome of the initial dispute with us, you may send us a written Complaint and Request for Action as outlined below.

You may send us a written Complaint and Request for Action requesting that we reconsider a change in a classification assignment that results in an increased premium and/or requesting that we review the manner in which our rating system has been applied in connection with the insurance afforded or offered you. Written Complaints and Requests for Action should be forwarded to: **California Insurance Company, P.O. Box 281900, San Francisco, CA 94128-1900, Phone No. (877) 234-4450; Fax No. (415) 508-0374.**

After you send your Complaint and Request for Action, we have 30 days to send you a written notice indicating whether or not your written request will be reviewed. If we agree to review your request, we must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If we decline to review your request, if you are dissatisfied with the decision upon review, or if we fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below.

- B. Disputing the Actions of the WCIRB.** If you have been aggrieved by any decision, action, or omission to act of the WCIRB, you may request, in writing, that the WCIRB reconsider its decision, action, or omission to act. You may also request, in writing, that the WCIRB review the manner in which its rating system has been applied in connection with the insurance afforded or offered you. For requests related to classification disputes, the reporting of experience, or coverage issues, your initial request for review must be received by the WCIRB within 12 months after the expiration date of the policy to which the request for review pertains, except if the request involves the application of the Revision of Losses rule. For requests related to your experience modification, your initial request for review must be received by the WCIRB within 6 months after the issuance, or 12 months after the expiration date, of the experience modification to which the request for review pertains, whichever is later, except if the request for review involves the application of the Revision of Losses rule. If the request involves the Revision of Losses rule, the time to state your appeal may be longer. (See Section VI, Rule 14 of the ERP).

You may commence the review process by sending the WCIRB a written Inquiry. Written Inquiries should be sent to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. Customer Service can be reached by telephone at 1-888-229-2472, and by fax at 415-778-7272.

If you are dissatisfied with the WCIRB's decision upon an Inquiry, or if the WCIRB fails to respond within 90 days after receipt of the Inquiry, you may pursue the subject of the Inquiry by sending the WCIRB a written Complaint and Request for Action. After you send your Complaint and Request for Action, the WCIRB has 30 days to send you written notice indicating whether or not your written request will be reviewed. If the WCIRB agrees to review your request, it must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If the WCIRB declines to review your request, if you are dissatisfied with the decision upon review, or if the WCIRB fails to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below. Written Complaints and Requests for Action should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Complaints and Reconsiderations. The WCIRB's telephone number is 1-888-229-2472, and the fax number is 415-371-5204.

- C. California Department of Insurance - Appeals to the Insurance Commissioner.** If, after you follow the appropriate dispute resolution process described above, we or the WCIRB decline to review your request, if you are dissatisfied with the decision upon review, or if we or the WCIRB fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner pursuant to CIC Sections 11737, 11752.6, 11753.1 and Title 10, California Code of Regulations, Section 2509.40 et seq. You must file your appeal within 30 days after we or the WCIRB send you the notice rejecting review of your Complaint and Request for Action or the decision upon your Complaint and Request for Action. If no written decision regarding your Complaint and Request for Action is sent, your appeal must be filed within 120 days after you sent your Complaint and Request for Action to us or to the WCIRB. The filing address for all appeals to the insurance commissioner is:

Administrative Hearing Bureau  
California Department of Insurance  
45 Fremont Street, 22nd Floor  
San Francisco, California 94105

You have the right to a hearing before the insurance commissioner, and our action, or the action of the WCIRB, may be affirmed, modified, or reversed.

### III. RESOURCES AVAILABLE TO YOU IN OBTAINING INFORMATION AND PURSUING DISPUTES

- A. Policyholder Ombudsman.** Pursuant to California Insurance Code Section 11752.6, a policyholder ombudsman is available at the WCIRB to assist you in obtaining and evaluating the rating, policy, and claims information referenced in I.A. and I.B., above. The ombudsman may advise you on any dispute with us, the WCIRB, or on an appeal to the insurance commissioner pursuant to Section 11737 of the Insurance Code. The address of the policyholder ombudsman is WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Policyholder Ombudsman. The policyholder ombudsman can be reached by telephone at 415-778-7159 and by fax at 415-371-5288.
- B. California Department of Insurance - Information and Assistance.** Information and assistance on policy questions can be obtained from the Department of Insurance Consumer HOTLINE, 1-800-927-HELP (4357) or <http://www.insurance.ca.gov>. For questions and correspondence regarding appeals to the Administrative Hearing Bureau, see the contact information in paragraph II.C.

This notice does not change the policy to which it is attached.



# California Insurance Company

10825 Old Mill Road  
Omaha, Nebraska 68154

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY QUICK REFERENCE

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# QUICK REFERENCE - CONTINUED

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**IMPORTANT:** This Quick Reference is **not** part of the Workers Compensation and Employers Liability Policy and does **not** provide coverage. Refer to the Workers Compensation and Employers Liability policy itself for actual contractual provisions.

Policyholders seeking information regarding coverage, or for assistance in resolving complaints can contact the Company by phone at 877-234-4420.

PLEASE READ THE WORKERS COMPENSATION AND EMPLOYERS LIABILITY POLICY CAREFULLY.

# WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

In return for the payment of the premium and subject to all terms of this policy, we agree with you as follows:

## GENERAL SECTION

### A. The Policy

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

### B. Who is Insured

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

### C. Workers Compensation Law

Workers Compensation Law means the workers or

workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

### D. State

State means any state of the United States of America, and the District of Columbia.

### E. Locations

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

## PART ONE - WORKERS COMPENSATION INSURANCE

### A. How This Insurance Applies

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

### B. We Will Pay

We will pay promptly when due the benefits required of you by the workers compensation law.

### C. We Will Defend

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

### D. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgement as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

### E. Other Insurance

We will not pay more than our share of benefits and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

## F. Payments You Must Make

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

## G. Recovery From Others

We have your rights, and the rights of persons entitled to the benefits of this insurance, to recover our payments from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them.

## H. Statutory Provisions

These statements apply where they are required by law.

1. As between an injured worker and us, we have

notice of the injury when you have notice.

2. Your default or the bankruptcy or insolvency of you or your estate will not relieve us of our duties under this insurance after an injury occurs.
3. We are directly and primarily liable to any person entitled to the benefits payable by this insurance. Those persons may enforce our duties; so may an agency authorized by law. Enforcement may be against us or against you and us.
4. Jurisdiction over you is jurisdiction over us for purposes of the workers compensation law. We are bound by decisions against you under that law, subject to the provisions of this policy that are not in conflict with that law.
5. This insurance conforms to the parts of the workers compensation law that apply to:
  - a. benefits payable by this insurance;
  - b. special taxes, payments into security or other special funds, and assessments payable by us under that law.
6. Terms of this insurance that conflict with the workers compensation law are changed by this statement to conform to that law.

Nothing in these paragraphs relieves you of your duties under this policy.

## PART TWO - EMPLOYERS LIABILITY INSURANCE

### A. How This Insurance Applies

This employers liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in a state or territory listed in Item 3.A. of the Information Page.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

### B. We Will Pay

We will pay all sums that you legally must pay as damages because of bodily injury to your employees, provided the bodily injury is covered by this Employers Liability Insurance.

The damages we will pay, where recovery is permitted by law, include damages:

1. For which you are liable to a third party by reason of a claim or suit against you by that third party to recover the damages claimed against such third party as a result of injury to your employee;
2. For care and loss of services; and
3. For consequential bodily injury to a spouse, child, parent, brother or sister of the injured employee; provided that these damages are the direct consequence of bodily injury that arises out of and in the course of the injured employee's employment by you; and
4. Because of bodily injury to your employee that arises out of and in the course of employment, claimed against you in a capacity other than as employer.

## C. Exclusions

This insurance does not cover:

1. Liability assumed under a contract. This exclusion does not apply to a warranty that your work will be done in a workmanlike manner;
2. Punitive or exemplary damages because of bodily injury to an employee employed in violation of law;
3. Bodily injury to an employee while employed in violation of law with your actual knowledge or the actual knowledge of any of your executive officers;
4. Any obligation imposed by a workers compensation, occupational disease, unemployment compensation, or disability benefits law, or any similar law;
5. Bodily injury intentionally caused or aggravated by you;
6. Bodily injury occurring outside the United States of America, its territories or possessions, and Canada. This exclusion does not apply to bodily injury to a citizen or resident of the United States of America or Canada who is temporarily outside these countries;
7. Damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, or any personnel practices, policies, acts or omissions;
8. Bodily injury to any person in work subject to the Longshore and Harbor Workers' Compensation Act (33 USC Sections 901-950), the Nonappropriated Fund Instrumentalities Act (5 USC Sections 8171-8173), the Outer Continental Shelf Lands Act (43 USC Sections 1331-1356a.), the Defense Base Act (42 USC Sections 1651-1654), the Federal Coal Mine Safety and Health Act (30 USC Sections 801-945), any other federal workers or workmen's compensation law or other federal occupational disease law, or any amendments to these laws;
9. Bodily injury to any person in work subject to the Federal Employers' Liability Act (45 USC Sections 51-60), any other federal laws obligating an employer to pay damages to an employee due to bodily injury arising out of or in the course of employment, or any amendments to those laws;
10. Bodily injury to a master or member of the crew of any vessel;
11. Fines or penalties imposed for violation of federal or state law; and
12. Damages payable under the Migrant and Seasonal Agricultural Worker Protection Act (29 USC Sections 1801-1872) and under any other federal law awarding damages for violation of those laws or regulations issued there under, and any amendments to those laws.

## D. We Will Defend

We have the right and duty to defend, at our expense, any claim, proceeding or suit against you for damages payable by this insurance. We have the right to investigate and settle these claims, proceedings and suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance. We have no duty to defend or continue defending after we have paid our applicable limit of liability under this insurance.

## E. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding, or suit we defend:

1. Reasonable expenses incurred at our request, but not loss of earnings;
2. Premiums for bonds to release attachments and for appeal bonds in bond amounts up to the limit of our liability under this insurance;
3. Litigation costs taxed against you;
4. Interest on a judgement as required by law until we offer the amount due under this insurance; and
5. Expenses we incur.

## F. Other Insurance

We will not pay more than our share of damages and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

## G. Limits of Liability

Our liability to pay for damages is limited. Our limits of liability are shown in Item 3.B. of the Information Page. They apply as explained below.

1. **Bodily Injury by Accident.** The limit shown for "bodily injury by accident - each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.

A disease is not bodily injury by accident unless it results directly from bodily injury by accident.

2. Bodily Injury by Disease. The limit shown for "bodily injury by disease - policy limit" is the most we will pay for all damages covered by this insurance and arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease. The limit shown for "bodily injury by disease - each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee.

Bodily injury by disease does not include disease that results directly from a bodily injury by accident.

3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.

#### H. Recovery From Others

We have your rights to recover our payment from any-

one liable for an injury covered by this insurance. You will do everything necessary to protect those rights for us and to help us enforce them.

#### I. Actions Against Us

There will be no right of action against us under this insurance unless:

1. You have complied with all the terms of this policy; and
2. The amount you owe has been determined with our consent or by actual trial and final judgement.

This insurance does not give anyone the right to add us as a defendant in an action against you to determine your liability. The bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Part.

### PART THREE - OTHER STATES INSURANCE

#### A. How This Insurance Applies

1. This other states insurance applies only if one or more states are shown in Item 3.C. of the Information Page.
2. If you begin work in any one of those states after the effective date of this policy and are not insured or are not self-insured for such work, all provisions of the policy will apply as though that state were listed in Item 3.A. of the Information Page.
3. We will reimburse you for the benefits required

by the workers compensation law of that state if we are not permitted to pay the benefits directly to persons entitled to them.

4. If you have work on the effective date of this policy in any state not listed in item 3.A. of the Information Page, coverage will not be afforded for that state unless we are notified within thirty days.

#### B. Notice

Tell us at once if you begin work in any state listed in Item 3.C. of the Information Page.

### PART FOUR - YOUR DUTIES IF INJURY OCCURS

Tell us at once if injury occurs that may be covered by this policy. Your other duties are listed here.

1. Provide for immediate medical and other services required by the workers compensation law.
2. Give us or our agent the names and addresses of the injured persons and of witnesses, and other information we may need.
3. Promptly give us all notices, demands and legal pa-

pers related to the injury, claim, proceeding or suit.

4. Cooperate with us and assist us, as we may request, in the investigation, settlement or defense of any claim, proceeding or suit.
5. Do nothing after an injury occurs that would interfere with our right to recover from others.
6. Do not voluntarily make payments, assume obligations or incur expenses, except at your own cost.

### PART FIVE - PREMIUM

#### A. Our Manuals

All premium for this policy will be determined by our manuals of rules, rates, rating plans and classifications. We may change our manuals and apply the changes to this policy if authorized by law or a governmental agency regulating this insurance.

ing the policy period. If your actual exposures are not properly described by those classifications, we will assign proper classifications, rates and premium basis by endorsement to this policy.

#### B. Classifications

Item 4 of the Information Page shows the rate and premium basis for certain business or work classifications. These classifications were assigned based on an estimate of the exposures you would have dur-

#### C. Remuneration

Premium for each work classification is determined by multiplying a rate times a premium basis. Remuneration is the most common premium basis. This premium basis includes payroll and all other remuneration paid or payable during the policy period for the services of:

1. all your officers and employees engaged in work covered by this policy; and
2. all other persons engaged in work that could make us liable under Part One (Workers Compensation Insurance) of this policy. If you do not have payroll records for these persons, the contract price for their services and materials may be used as the premium basis. This paragraph 2 will not apply if you give us proof that the employers of these persons lawfully secured their workers compensation obligations.

**D. Premium Payments**

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid.

**E. Final Premium**

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

1. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
2. If you cancel, final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short-rate cancellation table and procedure. Final premium will not be less than the minimum premium.

**F. Records**

You will keep records of information needed to compute premium. You will provide us with copies of those records when we ask for them.

**G. Audit**

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.

**PART SIX - CONDITIONS**

**A. Inspection**

We have the right, but are not obliged to inspect your workplaces at any time. Our inspections are not safety inspections. They relate only to the insurability of the workplaces and the premiums to be charged. We may give you reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any person to provide for the health or safety of your employees or the public. We do not warrant that your workplaces are safe or healthful or that they comply with laws, regulations, codes or standards. Insurance rate service organizations have the same rights we have under this provision.

**B. Long Term Policy**

If the policy period is longer than one year and sixteen days, all provisions of this policy will apply as though a new policy were issued on each annual anniversary that this policy is in force.

**C. Transfer of Your Rights and Duties**

Your rights or duties under this policy may not be transferred without our written consent.

If you die and we receive notice within thirty days after

your death, we will cover your legal representative as insured.

**D. Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy. We must mail or deliver to you not less than ten days advance written notice stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice.
3. The policy period will end on the day and hour stated in the cancellation notice.
4. Any of these provisions that conflict with a law that controls the cancellation of the insurance in this policy is changed by this statement to comply with the law.

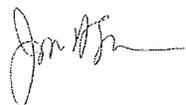
**E. Sole Representative**

The insured first named in Item 1 of the Information Page will act on behalf of all insureds to change this policy, receive return premium, and give or receive notice of cancellation.

In Witness Whereof, California Insurance Company has caused this policy to be executed and attested, and if required by state law, this policy shall not be valid unless countersigned by our authorized representative.



President



Secretary



# CALIFORNIA INSURANCE COMPANY

NAIC No. 38865

10825 Old Mill Road, Omaha, Nebraska 68154

877-234-4420

## WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY INSURANCE POLICY

### INFORMATION PAGE

Policy No. 73-853940-01-02

1. Insured	Shims Bargain, Inc.	Producer	AU Insurance Services
and	DBA JC Sales	and	10825 Old Mill Rd
Mailing	2600 S Soto St	Mailing	Omaha, NE 68154
Address	Vernon, CA 90058-8015	Address	

Entity: Corporation  
 FEIN: 954446696  
 State No.

Agent No.  
 Billing: DIRECT BILL

Renewal of Policy No. 73-853940-01-01

See Additional Named Insured Endorsement and Locations Endorsement if attached.

2. The policy period is from 04/30/13 to 04/30/14 12:01 A.M. Standard Time at the insured's mailing address.
3. A. Workers Compensation Insurance: Part One of the policy applies to the Workers Compensation Law of the states listed here:  
CA
- B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in item 3.A. The limits of our liability under Part Two are:
 

Bodily Injury by Accident	\$1,000,000	each accident
Bodily Injury by Disease	\$1,000,000	policy limit
Bodily Injury by Disease	\$1,000,000	each employee
- C. Other States Insurance: Part Three of the policy applies to all states except the states listed in item 3.A and the states of North Dakota, Ohio, Washington, and Wyoming.
- D. See attached list for endorsements and schedules.
4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plans. All information listed on the Extension of Information page is subject to verification and change by audit.

See Extension of Information Page for premium rating schedule.

Minimum Premium	\$	5,000
Total Estimated Annual Premium	\$	1,348,337
Estimated Taxes and Assessments	\$	65,135

Issuing Office: OMAHA, NE

Countersigned by:

California Insurance Company  
 WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
 LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-02

Form Number	Endorsement Number	Name
WC000001A		California Declaration Page
WC990401		List of Endorsements And Schedules
WC000174		Extension of Information Page
AIL590		Additional Named Insured and/or Locations
WC040360A	1	Employers' Liability Coverage Amendatory Endorsement
WC040601A	2	California Cancellation Endorsement
WC040421	3	California Optional Premium Increase Endorsement
WC040301B	4	Policy Amendatory Endorsement - California
WC040422	5	California Short Rate Cancelation Endorsement
WC000422A	6	Terrorism Risk Insurance Program Reauthorization Act Disclosure
WC000421C	7	Catastrophe
WC040303	8	Officers And Directors Coverage / Exclusion Endorsement - Califo
WC890600B	9	Change Endorsement
WC890600B	10	Change Endorsement
WC890600B	11	Change Endorsement
WC890600B	12	Change Endorsement
PNAU9905	100	Policyholder Notice Loss Control Endorsement
PN049902B	101	Policyholder Notice California Workers' Compensation Insurance R
PN049904	102	California CIGA Policyholder Notice
PN000001	103	Short Rate Cancelation Policyholder Notice

California Insurance Company  
WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-02

Form Number	Endorsement Number	Name
PN049901	104	Policyholder Notice Your Right To Rating And Dividend Info
WC000000B_CIC		Workers Compensation and Employers Liability Insurance Policy

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
EXTENSION OF INFORMATION PAGE**

Policy Number 73-853940-01-02

4. Premium

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium
Stores wholesale-N.O.C.	8018	5,604,566	11.5900	649,569.00
Salespersons-outside	8742	353,358	1.0700	3,781.00
Clerical Office Employees-N.O.C.	8810	2,228,491	0.8000	17,828.00
Experience Modification			2.1200	1,422,897.00
Loss Rating Factor	9724		1.0300	1,465,584.00
Schedule Modification	9887		0.9200	1,348,337.00
Terrorism	9740		0.0000	0.00
Catastrophe	9741		0.0000	0.00
Estimated Annual Premium - California				1,348,337.00
CIGA California Domiciled Insureds	----		2.0000	26,966.74
Workers Comp. Fraud Surcharge	----		0.3881	5,232.90
User Funding Rate	----		1.3704	18,477.61
Uninsured Employers Fund	----		0.3410	4,597.83
Subsequent Injuries Benefit Fund	----		0.1707	2,301.61
Occupational Safety & Health Fund	----		0.2859	3,854.90
Labor Enforcement & Compliance Fund	----		0.2747	3,703.88
CA				
Total Estimated Annual Premium \$				1,413,472.47

Policy Number: 73-853940-01-02

**CALIFORNIA INSURANCE COMPANY**  
**Additional Named Insured and/or Locations**

**Item (1) Insured of the Information page is amended to include the following:**

Shims Bargain, Inc.  
DBA JC Sales  
2700 S Soto St  
Vernon CA 90058-8027  
From: 04/30/13 To: 04/30/14  
FEIN: 954446696  
ENTITY: Corporation

Shims Bargain, Inc.  
DBA JC Sales  
2840 E 26th St  
Vernon CA 90058-8005  
From: 04/30/13 To: 04/30/14  
FEIN: 954446696  
ENTITY: Corporation

Shims Bargain, Inc.  
DBA JC Sales  
7026 - 7030 E Slauson Ave  
Commerce CA 90040  
From: 04/30/13 To: 04/30/14  
FEIN: 954446696  
ENTITY: Corporation

Karis, Inc.  
DBA International Distributors  
6600 Bandini Blvd  
Commerce CA 90040-3302  
From: 04/30/13 To: 04/30/14  
FEIN: 364717833  
ENTITY: Corporation

This endorsement is part of your policy and takes effect on the effective date of your policy, unless another effective date is shown below.

Endorsement Effective  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No.  
Premium

Insurance Company California Insurance Company

Countersigned by \_\_\_\_\_

All other terms and conditions of this policy remain unchanged.  
AIL590

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**EMPLOYERS' LIABILITY COVERAGE AMENDATORY ENDORSEMENT-CALIFORNIA**

The Insurance afforded by Part Two (Employers' Liability Insurance) by reason of designation of California in item 3 of the information page is subject to the following provisions:

A. "How This Insurance Applies," is amended to read as follows:

A. How This Insurance Applies

This employers' liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury means a physical injury, including resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in California.
3. Bodily injury by accident must occur during policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

C. The "Exclusions" section is modified as follows (all other exclusions in the "Exclusions" section remain as is):

1. Exclusion 1 is amended to read as follows:

1. liability assumed under a contract.

2. Exclusion 2 is deleted.

3. Exclusion 7 is amended to read as follows:

7. damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, termination of employment, or any personnel practices, policies, acts or omissions.

4. The following exclusions are added:

1. bodily injury to any member of the flying crew of any aircraft.
2. bodily injury to an employee when you are deprived of statutory or common law defenses or are subject to penalty because of your failure to secure your obligations under the workers' compensation law(s) applicable to you or otherwise fail to comply with that law.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 1  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 11-99)

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## CALIFORNIA CANCELLATION ENDORSEMENT

This endorsement applies only to the insurance provided by the policy because California is shown in Item 3.A. of the information page.

The cancellation condition in Part Six (Conditions) of the policy is replaced by these conditions:

**Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy for one or more of the following reasons:
  - a. Non-payment of premium;
  - b. Failure to report payroll;
  - c. Failure to permit us to audit payroll as required by the terms of this policy or of a previous policy issued by us;
  - d. Failure to pay any additional premium resulting from an audit of payroll required by the terms of this policy or any previous policy issued by us;
  - e. Material misrepresentation made by you or your agent;
  - f. Failure to cooperate with us in the investigation of a claim;
  - g. Failure to comply with Federal or State safety orders;
  - h. Failure to comply with written recommendations of our designated loss control representatives;
  - i. The occurrence of a material change in the ownership of your business;
  - j. The occurrence of any change in your business or operations that materially increases the hazard for frequency or severity of loss;
  - k. The occurrence of any change in your business or operation that requires additional or different classification for premium calculation;
  - l. The occurrence of any change in your business or operation which contemplates an activity excluded by our reinsurance treaties.
3. If we cancel your policy for any of the reasons listed in (a) through (f), we will give you 10 days advance written notice, stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in item 1 of the Information Page will be sufficient to prove notice. If we cancel your policy for any of the reasons listed in items (g) through (l), we will give you 30 days advance written notice; however, we agree that in the event of cancellation and reissuance of a policy effective upon a material change in ownership or operations, notice will not be provided.
4. The policy period will end on the day and hour stated in the cancellation notice.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 2  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 12-93)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**OPTIONAL PREMIUM INCREASE ENDORSEMENT - CALIFORNIA**

You must provide us, or our authorized representative, access to records necessary to perform a payroll verification audit. If you fail to provide access within 90 days after expiration of the policy, you are liable to pay a total premium equal to 3 times our current estimate of the annual premium for your policy. In addition, if you fail to provide access after our third request within a 90 day or longer period, you are also liable for our costs in attempting to perform the audit unless you provide a compelling business reason for your failure.

We will contact you to schedule appointments during normal business hours.

We will notify you of your failure to provide access by mailing a certified, return-receipt document stating the increased premium and the total amount of our costs incurred in our attempt(s) to perform an audit. In addition to any other obligations under this contract, 30 days after you receive the notification, you will be obligated to pay the total premium and costs referenced above. If, thereafter, you provide access to your records within three years after the policy expires, or within another mutually agreed upon time, and we succeed in performing the audit to our satisfaction, we will revise your total premium and the costs due to reflect the results of the audit.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 3  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

POLICY AMENDATORY ENDORSEMENT - CALIFORNIA

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

- 1. Minors Illegally Employed - Not Insured. This policy does not cover liability for additional compensation imposed on you under Section 4557, Division IV, Labor Code of the State of California, by reason of injury to an employee under sixteen years of age and illegally employed at the time of injury.
2. Punitive or Exemplary Damages - Uninsurable. This policy does not cover punitive or exemplary damages where insurance of liability therefore is prohibited by law or contrary to public policy.
3. Increase in Indemnity Payment - Reimbursement. You are obligated to reimburse us for the amount of increase in indemnity payments made pursuant to Subdivision (d) of Section 4650 of the California Labor Code, if the late indemnity payment which gives rise to the increase in the amount of payment is due less than seven (7) days after we receive the completed claim form from you. You are obligated to reimburse us for any increase in indemnity payment not covered under this policy and will reimburse us for any increase in indemnity payment not covered under the policy when the aggregate total amount of the reimbursement payments paid in a policy year exceeds one hundred dollars (\$100).

If we notify you in writing, within 30 days of the payment, that you are obligated to reimburse us, we will bill you for the amount of increase in indemnity payment and collect it no later than the final audit. You will have 60 days, following notice of the obligation to reimburse, to appeal the decision of the insurer to the Department of Insurance.

- 4. Application of Policy. Part One, "Workers Compensation Insurance", A, "How This Insurance Applies", is amended to read as follows: This workers compensation insurance applies to bodily injury by accident or disease, including death resulting therefrom. Bodily injury by accident must occur during the policy period. Bodily injury by disease must be caused or aggravated by the conditions of your employment. Your employee's exposure to those conditions causing or aggravating such bodily injury by disease must occur during the policy period.

- 5. Rate Changes. The premium and rates with respect to the insurance provided by this policy by reason of the designation of California in Item 3 of the Information Page are subject to change if ordered by the Insurance Commissioner of the State of California pursuant to Section 11737 of the California Insurance Code.

- 6. Long Term Policy. If this policy is written for a period longer than one year, all the provisions of this policy shall apply separately to each consecutive twelve-month period or, if the first or last consecutive period is less than twelve months, to such period of less than twelve months, in the same manner as if a separate policy had been written for each consecutive period.

- 7. Statutory Provision. Your employer has a first lien upon any amount which becomes owing to you by us on account of this policy, and in the case of your legal incapacity or inability to receive the money and pay it to the claimant, we will pay it directly to the claimant.

- 8. Part Five, "Premium", E, "Final Premium", is amended to read as follows:

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

- a. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium
b. If you cancel, final premium may be more than pro rata; it will be based on the time this policy was in force, and may be increased by our short-rate cancellation table and procedure. Final premium will not be less than the pro rata share of the minimum premium.

It is further agreed that this policy, including all endorsements forming a part thereof, constitutes the entire contract of insurance. No condition, provision, agreement, or understanding not set forth in this policy or such endorsements shall affect such contract or any rights, duties, or privileges arising therefrom.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 4
Premium

Insurance Company
California Insurance Company
(Ed. 01-12)

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY****CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT**

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

If you cancel the policy and a disclosure was provided in accordance with Section 481(c) of the California Insurance Code, final premium will be based on the time this policy was in force and increased by the short-rate cancellation table below:

## Short Rate Cancellation Table

The premium for the canceled policy will be calculated using the Short Rate Cancellation Table. We will use the short-rate percentage as follows:

1. Determine the payroll developed during the period the policy was in effect.
2. Determine the full policy payroll by using the following formula:

$$\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \text{Actual Payroll}$$

3. Apply authorized rates to such payroll
4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect:

$$\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$$

5. Based on the extended number of days, apply the short rate percentage shown in the Short Rate Cancellation Table to the full policy premium calculated in step 3. This result is the short-rate portion of the premium.
6. If applicable:
  - \* Apply any pricing programs
  - \* Apply any experience rating modification
  - \* Apply any premium discount based on the final earned total standard premium
  - \* Add the short rate portion of the expense constant but not less than \$15
  - \* Apply catastrophe provisions based on the earned manual premium
7. The total earned premium for the short-rate canceled policy will not be less than the annual minimum premium applicable to the policy.

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
1	5%	46	23%	91	35%	136	48%	181	60%
2	6	47	23	92	36	137	48	182	60
3	7	48	24	93	36	138	48	183	61
4	7	49	24	94	36	139	49	184	61
5	8	50	24	95	37	140	49	185	61
6	8	51	24	96	37	141	49	186	61
7	9	52	25	97	37	142	49	187	61
8	9	53	25	98	37	143	50	188	62
9	10	54	25	99	38	144	50	189	62
10	10	55	26	100	38	145	50	190	62
11	11	56	26	101	38	146	50	191	62
12	11	57	26	102	38	147	51	192	63
13	12	58	26	103	39	148	51	193	63
14	12	59	27	104	39	149	51	194	63
15	13	60	27	105	39	150	52	195	63
16	13	61	27	106	40	151	52	196	63
17	14	62	27	107	40	152	52	197	64
18	14	63	28	108	40	153	52	198	64
19	15	64	28	109	40	154	53	199	64
20	15	65	28	110	41	155	53	200	64
21	16	66	29	111	41	156	53	201	65
22	16	67	29	112	41	157	54	202	65
23	17	68	29	113	41	158	54	203	65
24	17	69	29	114	42	159	54	204	65
25	17	70	30	115	42	160	54	205	65
26	18	71	30	116	42	161	55	206	66
27	18	72	30	117	43	162	55	207	66
28	18	73	30	118	43	163	55	208	66
29	18	74	31	119	43	164	55	209	66
30	19	75	31	120	43	165	56	210	67
31	19	76	31	121	44	166	56	211	67
32	19	77	32	122	44	167	56	212	67
33	20	78	32	123	44	168	57	213	67
34	20	79	32	124	44	169	57	214	67
35	20	80	32	125	45	170	57	215	68
36	20	81	33	126	45	171	57	216	68
37	21	82	33	127	45	172	58	217	68
38	21	83	33	128	46	173	58	218	68
39	21	84	34	129	46	174	58	219	69
40	21	85	34	130	46	175	58	220	69
41	22	86	34	131	46	176	59	221	69
42	22	87	34	132	47	177	59	222	69
43	22	88	35	133	47	178	59	223	69
44	23	89	35	134	47	179	60	224	70
45	23	90	35	135	47	180	60	225	70

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT**

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
226	70%	254	76%	282	82%	310	88%	338	95%
227	70	255	76	283	83	311	89	339	95
228	70	256	77	284	83	312	89	340	95
229	71	257	77	285	83	313	89	341	95
230	71	258	77	286	83	314	89	342	95
231	71	259	77	287	83	315	90	343	96
232	71	260	77	288	84	316	90	344	96
233	72	261	78	289	84	317	90	345	96
234	72	262	78	290	84	318	90	346	96
235	72	263	78	291	84	319	90	347	97
236	72	264	78	292	85	320	91	348	97
237	72	265	79	293	85	321	91	349	97
238	73	266	79	294	85	322	91	350	97
239	73	267	79	295	85	323	91	351	97
240	73	268	79	296	85	324	92	352	98
241	73	269	79	297	86	325	92	353	98
242	74	270	80	298	86	326	92	354	98
243	74	271	80	299	86	327	92	355	98
244	74	272	80	300	86	328	92	356	99
245	74	273	80	301	86	329	93	357	99
246	74	274	81	302	87	330	93	358	99
247	75	275	81	303	87	331	93	359	99
248	75	276	81	304	87	332	93	360	99
249	75	277	81	305	87	333	94	361	100
250	75	278	81	306	88	334	94	362	100
251	76	279	82	307	88	335	94	363	100
252	76	280	82	308	88	336	94	364	100
253	76	281	82	309	88	337	94	365	100

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 5

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY****TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT DISCLOSURE ENDORSEMENT**

This endorsement addresses the requirements of the Terrorism Risk Insurance Act of 2002 as amended and extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007. It serves to notify you of certain limitations under the Act, and that your insurance carrier is charging premium for losses that may occur in the event of an Act of Terrorism.

Your policy provides coverage for workers compensation losses caused by Acts of Terrorism, including workers compensation benefit obligations dictated by state law. Coverage for such losses is still subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations.

**Definitions**

The definitions provided in this endorsement are based on and have the same meaning as the definitions in the Act. If words or phrases not defined in this endorsement are defined in the Act, the definitions in the Act will apply.

“Act” means the Terrorism Risk Insurance Act of 2002, which took effect on November 26, 2002, and any amendments thereto resulting from the Terrorism Risk Insurance Program Reauthorization Act of 2007.

“Act of Terrorism” means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States as meeting all of the following requirements:

- a. The act is an act of terrorism.
- b. The act is violent or dangerous to human life, property or infrastructure.
- c. The act resulted in damage within the United States, or outside of the United States in the case of the premises of United States missions or certain air carriers or vessels.
- d. The act has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

“Insured Loss” means any loss resulting from an act of terrorism (and, except for Pennsylvania, including an act of war, in the case of workers compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if the loss occurs in the United States or at the premises of United States missions or to certain air carriers or vessels.

“Insurer Deductible” means for the period beginning on January 1, 2008, and ending on December 31, 2014, an amount equal to 20% of our direct earned premiums, over the calendar year immediately preceding the applicable Program Year.

“Program Year” refers to each calendar year between January 1, 2008 and December 31, 2014, as applicable.

**Limitation of Liability**

The Act limits our liability to you under this policy. If aggregate Insured Losses exceed \$100,000,000,000 in a Program Year and if we have met our Insurer Deductible, we are not liable for the payment of any portion of the amount of Insured Losses that exceeds \$100,000,000,000; and for aggregate Insured Losses up to \$100,000,000,000, we will pay only a pro rata share of such Insured Losses as determined by the Secretary of the Treasury.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**Policyholder Disclosure Notice**

1. Insured Losses would be partially reimbursed by the United States Government. If the aggregate industry Insured Losses exceeds \$100,000,000 in a Program Year, the United States Government would pay 85% of our Insured Losses that exceed our Insurer Deductible.
2. Notwithstanding item 1 above, the United States Government will not make any payment under the Act for any portion of Insured Losses that exceeds \$100,000,000,000.
3. The premium charge for the coverage your policy provides for Insured Losses is included in the amount shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

<b>State</b>	<b>Rate</b>	<b>Premium</b>
CA	0.000	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement 04/30/13  
Insured JC Sales

Effective Policy No. 73-853940-01-02

Endorsement No. 6  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)  
PREMIUM ENDORSEMENT**

This endorsement is notification that your insurance carrier is charging premium to cover the losses that may occur in the event of a Catastrophe (other than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism). This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement (WC 00 04 22 A), attached to this policy.

For purposes of this endorsement, the following definitions apply:

**Catastrophe (other than Certified Acts of Terrorism):** Any single event, resulting from an Earthquake, Noncertified Act of Terrorism, or Catastrophic Industrial Accident, which results in aggregate workers compensation losses in excess of \$50 million.

**Earthquake:** The shaking and vibration at the surface of the earth resulting from underground movement along a fault plane or from volcanic activity.

**Noncertified Act of Terrorism:** An event that is not certified as an Act of Terrorism by the Secretary of Treasury pursuant to the Terrorism Risk Insurance Act of 2002 (as amended) but that meets all of the following criteria:

- a. It is an act that is violent or dangerous to human life, property, or infrastructure;
- b. The act results in damage within the United States, or outside of the United States in the case of the premises of United States missions or air carriers or vessels as those terms are defined in the Terrorism Risk Insurance Act of 2002 (as amended); and
- c. It is an act that has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

**Catastrophic Industrial Accident:** A chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

	<b>Schedule</b>	
<b>State</b>	<b>Rate</b>	<b>Premium</b>
CA	0.00	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement 04/30/13  
Insured **JC Sales**

Effective Policy No. 73-853940-01-02

Endorsement No. 7  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**OFFICERS AND DIRECTORS COVERAGE / EXCLUSION ENDORSEMENT - CALIFORNIA**

If the employer named in item 1 of the Information Page is a private corporation whose officers and directors are the sole shareholders, this policy applies to all such officers and directors, as employees, except those excluded below or named as excluded in item 4 of the Information Page.

**Officers and Directors Excluded**

James Shim  
K. Kenneth Suh  
Bongjin Chang

**Title**

Chairman - 80% ownership  
President - 20% ownership  
Owner (Karis, Inc) - 20% Ownership

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/13  
Insured JC Sales

Policy No. 73-853940-01-02

Endorsement No. 8  
Premium 0.00

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 1-85)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- Insured's Name (WC 89 06 01)
- Policy Number (WC 89 06 02)
- Effective Date (WC 89 06 03)
- Expiration Date (WC 89 06 04)
- Insured's Mailing Address (WC 89 06 05)
- Experience Modification (WC 89 04 06)
- Producer's Name (WC 89 06 07)
- Change in Workplace of Insured (WC 89 06 08)
- Insured's Legal Status (WC 89 06 10)
- Item 3.A. States (WC 89 06 11)
- Item 3.B. Limits (WC 89 06 12)
- Item 3.C. States (WC 89 06 13)
- Item 3.D. Endorsement Numbers (WC 89 06 14)
- Item 4.\* Class, Rate, Other (WC 89 04 15)
- Interim Adjustment of Premium (WC 89 04 16)
- Carrier Servicing Office (WC 89 06 17)
- Interstate/Intrastate Risk I.D. Number (WC 89 06 18)
- Carrier Number (WC 89 06 19)
- Issuing Agency/Producer Office Address (WC 89 06 25)  
(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only)

**IS CHANGED TO READ:**

CA Loss Rating Factor: 2.00 effective 04/30/13 - 04/29/14

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/13**

Endorsement Effective **04/30/13**

Insured **JC Sales**

Policy No. **73-853940-01-02**

Endorsement No. **9**

Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |   |  |
|---|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                 | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                  | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                 | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)      | <input checked="" type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)  |
| <input type="checkbox"/> Experience Modification (WC 89 04 06)        | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input type="checkbox"/> Change in Workplace of Insured (WC 89 06 08) | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)         | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|   | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

CA Schedule Mod: 0.9200 effective 04/30/13

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/13**

Endorsement Effective **04/30/13**

Insured **JC Sales**

Policy No. **73-853940-01-02**

Endorsement No. **10**

Premium **0.00**

Insurance Company **California Insurance Company**  
NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |   |  |
|---|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                 | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                  | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                 | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)      | <input checked="" type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)  |
| <input type="checkbox"/> Experience Modification (WC 89 04 06)        | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input type="checkbox"/> Change in Workplace of Insured (WC 89 06 08) | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)         | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|   | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

CA Loss Rating Factor: 1.02 effective 04/30/13 - 04/29/14

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/13**

Endorsement Effective **04/30/13**

Insured **JC Sales**

Policy No. **73-853940-01-02**

Endorsement No. **11**

Premium **0.00**

Insurance Company **California Insurance Company**

NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- |   |  |
|---|--|
| <input type="checkbox"/> Insured's Name (WC 89 06 01)                     | <input type="checkbox"/> Item 3.A. States (WC 89 06 11)  |
| <input type="checkbox"/> Policy Number (WC 89 06 02)                      | <input type="checkbox"/> Item 3.B. Limits (WC 89 06 12)  |
| <input type="checkbox"/> Effective Date (WC 89 06 03)                     | <input type="checkbox"/> Item 3.C. States (WC 89 06 13)  |
| <input type="checkbox"/> Expiration Date (WC 89 06 04)                    | <input type="checkbox"/> Item 3.D. Endorsement Numbers (WC 89 06 14)   |
| <input type="checkbox"/> Insured's Mailing Address (WC 89 06 05)          | <input checked="" type="checkbox"/> Item 4.* Class, Rate, Other (WC 89 04 15)  |
| <input checked="" type="checkbox"/> Experience Modification (WC 89 04 06) | <input type="checkbox"/> Interim Adjustment of Premium (WC 89 04 16)   |
| <input type="checkbox"/> Producer's Name (WC 89 06 07)                    | <input type="checkbox"/> Carrier Servicing Office (WC 89 06 17)  |
| <input type="checkbox"/> Change in Workplace of Insured (WC 89 06 08)     | <input type="checkbox"/> Interstate/Intrastate Risk I.D. Number (WC 89 06 18)  |
| <input type="checkbox"/> Insured's Legal Status (WC 89 06 10)             | <input type="checkbox"/> Carrier Number (WC 89 06 19)  |
|   | <input type="checkbox"/> Issuing Agency/Producer Office Address (WC 89 06 25)<br>(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only) |

**IS CHANGED TO READ:**

CA Experience Modification: 2.1200 effective 04/30/13 - 04/29/14  
 CA Loss Rating Factor: 1.03 effective 04/30/13 - 04/29/14

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/13**

Endorsement Effective **04/30/13**

Insured **JC Sales**

Policy No. **73 - 853940 - 01 - 02**

Endorsement No. **12**

Premium **0.00**

Insurance Company **California Insurance Company**  
 NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**NOTICE TO POLICYHOLDER**  
**Loss Control Consultation Services**

PN AU 99 05

California law (Labor Code Section 6354.5) requires workers' compensation insurers to maintain and provide occupational safety and health loss control consultation services to insured policyholder places of employment that may pose hazards. We are committed to helping our California employers provide safe and healthy workplaces for their employees through loss control services appropriate to their individual businesses. This notice is provided to you as one of our policyholders and describes our loss control consultation services which are available upon request at no additional cost to you.

**WORKPLACE SURVEY**

We can conduct a survey of your operations to identify safety and health hazards, and existing physical and management controls of those hazards, that have the potential to affect the frequency and severity of workplace injuries and illnesses. When hazards are noted, we will provide you with written training materials addressing them. Included with the survey is an evaluation of your loss control management program including discussions with management and where appropriate non-management personnel with permission of the employer.

**REVIEW OF INJURY RECORDS**

We can assist you by analyzing employee accidents and previous loss experience to identify underlying accident causes. A review of loss records with appropriate personnel can help identify those factors most related to the specific loss you have experienced.

**DEVELOPMENT OF PLAN**

We can assist you in developing a comprehensive safety and health program to minimize workplace accidents, including, where appropriate, modifications to your Section 3203 Employer Injury and Illness Prevention Program if needed to address concerns in the plan to improve your loss control experience.

**ADDITIONAL SERVICES**

We make additional Loss Control services available that are not required under California law to assist you with your loss prevention efforts. Some of those services and materials are described below.

OSHA Training Materials

Sample Safety Programs

On-Site Audit

Sample Drug Testing Program

Recordkeeping Forms

Safety Meetings

To obtain these services please send a request in writing to:

Applied Underwriters

P.O. Box 3646

Omaha, Nebraska 68103

Workers' compensation insurance policy holders may direct questions or complaints about the insurer's loss control consultation services by contacting : State of California, Department of Industrial Relations, Loss Control Services Coordinator, The Commission on Health, Safety & Workers' Compensation, 1515 Clay Street, Room 901, Oakland, CA 94612 (510) 622-3959.

## POLICYHOLDER NOTICE

### California Workers' Compensation Insurance Rating Laws

Pursuant to Section 11752.8 of the California Insurance Code, we are providing you with an explanation of the California workers' compensation rating laws.

1. We establish our own rates for workers' compensation. Our rates, rating plans, and related information are filed with the insurance commissioner and are open for public inspection.
2. The insurance commissioner can disapprove our rates, rating plans, or classification only if he or she has determined after public hearing that our rates might jeopardize our ability to pay claims or might create a monopoly in the market. A monopoly is defined by law as a market where one insurer writes 20% or more of that part of the California workers' compensation insurance that is not written by the State Compensation Insurance Fund. If the insurance commissioner disapproves our rates, rating plans, or classifications, he or she may order an increase in the rates applicable to outstanding policies.
3. Rating organizations may develop pure premium rates that are subject to the insurance commissioner's approval. A pure premium rate reflects the anticipated cost and expenses of claims per \$100 of payroll for a given classification. Pure premium rates are advisory only, as we are not required to use the pure premium rates developed by any rating organization in establishing our own rates.
4. We must adhere to a single, uniform experience rating plan. If you are eligible for experience rating under the plan, we will be required to adjust your premium to reflect your claim history. A better claim history generally results in a lower experience rating modification; more claims, or more expensive claims, generally result in a higher experience rating modification. The uniform experience rating plan, which is developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner.
5. A standard classification system, developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner. The standard classification system is a method of recognizing and separating policyholders into industry or occupational groups according to their similarities and/or differences. We can adopt and apply the standard classification system or develop and apply our own classification system, provided we can report the payroll, expenses, and other costs of claims in a way that is consistent with the uniform statistical plan or the standard classification system.
6. Our rates and classifications may not violate the Unruh Civil Rights Act or be unfairly discriminatory.
7. We will provide an appeal process for you to appeal the way we rate your insurance policy. The process requires us to respond to your written appeal within 30 days. If you are not satisfied with the result of your appeal, you may appeal our decision to the insurance commissioner.

### CALIFORNIA WORKERS' COMPENSATION INSURANCE NOTICE OF NONRENEWAL

Section 11664 of the California Insurance Code required us, in most instances, to provide you with a notice of nonrenewal. Except as specified in paragraphs 1 through 6 below, if we elect to nonrenew your policy, we are required to deliver or mail to you a written notice stating that reason or reasons for the nonrenewal of the policy. The notice is required to be sent to you no earlier than 120 days before the end of the policy period and no later than 30 days before the end of the policy period. If we fail to provide you the required notice, we are required to continue the coverage under the policy with no change in the premium rate until 60 days after we provide you with the required notice.

We are not required to provide you with a notice of nonrenewal in any of the following situations:

1. Your policy was transferred or renewed without a change in its terms or conditions or the rate on which the premium is based to another insurer or other insurers who are members of the same insurance group as us.
2. The policy was extended for 90 days or less and the required notice was given prior to the extension.
3. You obtained replacement coverage or agreed, in writing, within 60 days of the termination of the policy, to obtain that coverage.
4. The policy is for a period of no more than 60 days and you were notified at the time of the issuance that it may not be renewed.
5. You requested a change in the terms or conditions or risks covered by the policy within 60 days prior to the end of the policy period.
6. We made a written offer to you to renew the policy at a premium rate increase of less than 25 percent.

(A) If the premium rate in your governing classification is to be increased 25 percent or greater and we intend to renew the policy, we shall provide a written notice of a renewal offer not less than 30 days prior to the policy renewal date. The governing classification shall be determined by the rules and regulations established in accordance with California Insurance Code Section 11750.3(c).

(B) For purposes of this Notice, "premium rate" means the cost of insurance per unit of exposure prior to the application of individual risk variations based on loss or expense considerations such as scheduled rating and experience rating.

This notice does not change the policy to which it is attached.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**POLICYHOLDER NOTICE**

**CALIFORNIA INSURANCE GUARANTEE ASSOCIATION (CIGA) SURCHARGE**

Companies writing property and casualty insurance business in California are required to participate in the California Insurance Guarantee Association. If a company becomes insolvent, the California Insurance Guarantee Association settles unpaid claims and assesses each insurance company for its fair share.

California law requires all companies to surcharge policies to recover these assessments. If your policy is surcharged, "CA Surcharge" or "CA Surcharge (CIGA Surcharge)" with an amount will be displayed on your premium notice.

This notice does not change the policy to which it is attached.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective **04/30/13**  
Insured **JC Sales**

Policy No. **73-853940-01-02**

Endorsement No. **102**  
Premium

Insurance Company  
**California Insurance Company**

Countersigned by \_\_\_\_\_

(Ed 12-01)

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

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### SHORT RATE CANCELTION POLICYHOLDER NOTICE

Subject to individual State Regulations, the cancelation condition in the Standard Policy WC 00 00 00 A-Part Five Premium, E. Final Premium, states that if this policy is canceled by you, the final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short rate cancelation table and procedure. Final premium will not be less than the minimum premium.

In applicable States, the final premium will be calculated as follows based on the standard Short Rate Cancelation Table attached to this policyholder notice:

The premium for the canceled policy will be calculated using the Short Rate Cancelation Table. We will use the short-rate percentage as follows:

1. Determine the payroll developed during the period the policy was in effect.
2. Determine the full policy payroll by using the following formula:
 
$$\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \text{Actual Payroll}$$
3. Apply authorized rates to such payroll
4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect:

$$\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$$

5. Based on the extended number of days, apply the short rate percentage shown in the Short Rate Cancelation Table to the full policy premium calculated in step 3. This result is the short-rate portion of the premium.
6. If applicable:
  - \* Apply any pricing programs
  - \* Apply any experience rating modification
  - \* Apply any premium discount based on the final earned total standard premium
  - \* Add the short rate portion of the expense constant but not less than \$15
  - \* Apply catastrophe provisions based on the earned manual premium
7. The total earned premium for the short-rate canceled policy will not be less than the annual minimum premium applicable to the policy.

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## SHORT RATE CANCELTION POLICYHOLDER NOTICE

## SHORT RATE CANCELTION TABLE

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
1	5%	46	23%	91	35%	136	48%	181	60%
2	6	47	23	92	36	137	48	182	60
3	7	48	24	93	36	138	48	183	61
4	7	49	24	94	36	139	49	184	61
5	8	50	24	95	37	140	49	185	61
6	8	51	24	96	37	141	49	186	61
7	9	52	25	97	37	142	49	187	61
8	9	53	25	98	37	143	50	188	62
9	10	54	25	99	38	144	50	189	62
10	10	55	26	100	38	145	50	190	62
11	11	56	26	101	38	146	50	191	62
12	11	57	26	102	38	147	51	192	63
13	12	58	26	103	39	148	51	193	63
14	12	59	27	104	39	149	51	194	63
15	13	60	27	105	39	150	52	195	63
16	13	61	27	106	40	151	52	196	63
17	14	62	27	107	40	152	52	197	64
18	14	63	28	108	40	153	52	198	64
19	15	64	28	109	40	154	53	199	64
20	15	65	28	110	41	155	53	200	64
21	16	66	29	111	41	156	53	201	65
22	16	67	29	112	41	157	54	202	65
23	17	68	29	113	41	158	54	203	65
24	17	69	29	114	42	159	54	204	65
25	17	70	30	115	42	160	54	205	65
26	18	71	30	116	42	161	55	206	66
27	18	72	30	117	43	162	55	207	66
28	18	73	30	118	43	163	55	208	66
29	18	74	31	119	43	164	55	209	66
30	19	75	31	120	43	165	56	210	67
31	19	76	31	121	44	166	56	211	67
32	19	77	32	122	44	167	56	212	67
33	20	78	32	123	44	168	57	213	67
34	20	79	32	124	44	169	57	214	67
35	20	80	32	125	45	170	57	215	68
36	20	81	33	126	45	171	57	216	68
37	21	82	33	127	45	172	58	217	68
38	21	83	33	128	46	173	58	218	68
39	21	84	34	129	46	174	58	219	69
40	21	85	34	130	46	175	58	220	69
41	22	86	34	131	46	176	59	221	69
42	22	87	34	132	47	177	59	222	69
43	22	88	35	133	47	178	59	223	69
44	23	89	35	134	47	179	60	224	70
45	23	90	35	135	47	180	60	225	70

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**SHORT RATE CANCELTATION POLICYHOLDER NOTICE**

**SHORT RATE CANCELTATION TABLE**

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
226	70%	254	76%	282	82%	310	88%	338	95%
227	70	255	76	283	83	311	89	339	95
228	70	256	77	284	83	312	89	340	95
229	71	257	77	285	83	313	89	341	95
230	71	258	77	286	83	314	89	342	95
231	71	259	77	287	83	315	90	343	96
232	71	260	77	288	84	316	90	344	96
233	72	261	78	289	84	317	90	345	96
234	72	262	78	290	84	318	90	346	96
235	72	263	78	291	84	319	90	347	97
236	72	264	78	292	85	320	91	348	97
237	72	265	79	293	85	321	91	349	97
238	73	266	79	294	85	322	91	350	97
239	73	267	79	295	85	323	91	351	97
240	73	268	79	296	85	324	92	352	98
241	73	269	79	297	86	325	92	353	98
242	74	270	80	298	86	326	92	354	98
243	74	271	80	299	86	327	92	355	98
244	74	272	80	300	86	328	92	356	99
245	74	273	80	301	86	329	93	357	99
246	74	274	81	302	87	330	93	358	99
247	75	275	81	303	87	331	93	359	99
248	75	276	81	304	87	332	93	360	99
249	75	277	81	305	87	333	94	361	100
250	75	278	81	306	88	334	94	362	100
251	76	279	82	307	88	335	94	363	100
252	76	280	82	308	88	336	94	364	100
253	76	281	82	309	88	337	94	365	100

Insured **JC Sales**

Policy No. **73-853940-01-02**

Insurance Company **California Insurance Company**

**POLICYHOLDER NOTICE**  
**YOUR RIGHT TO RATING AND DIVIDEND INFORMATION**

**I. INFORMATION AVAILABLE TO YOU**

**A. Information Available from Us - California Insurance Company**

- (1) **General questions regarding your policy should be directed to California Insurance Company.**

California Insurance Company  
P.O. Box 281900  
San Francisco, CA 94128-1900  
Telephone: 877-234-4450  
Fax: 415-508-0374  
www.auw.com

- (2) **DIVIDEND CALCULATION.** If this is a particular policy (a policy on which a dividend may be paid), upon payment or non-payment of a dividend, we shall provide a written explanation to you that sets forth the basis of the dividend calculation. The explanation will be in clear, understandable language and will express the dividend as a dollar amount and as a percentage of the earned premium for the policy year on which the dividend is calculated.
- (3) **CLAIMS INFORMATION.** Pursuant to Sections 3761 and 3762 of the California Labor Code, you are entitled to receive information in our claim files that affects your premium. Copies of documents will be supplied at your expense during reasonable business hours.

For claims covered under this policy, we will estimate the ultimate cost of unsettled claims for statistical purposes eighteen months after the policy becomes effective and will report those estimates to the Workers' Compensation Insurance Rating Bureau of California (WCIRB) no later than twenty months after the policy becomes effective. The cost of any settled claims will also be reported at that time. At twelve-month intervals thereafter, we will update and report to the WCIRB the estimated cost of any unsettled claims and the actual final cost of any claims settled in the interim. The amounts we report will be used by the WCIRB to compute your experience modification if you are eligible for experience rating.

**B. Information Available from the Workers' Compensation Insurance Rating Bureau of California**

- (1) The WCIRB is a licensed rating organization and the California Insurance Commissioner's designated statistical agent. As such, the WCIRB is responsible for administering the *California Workers' Compensation Uniform Statistical Reporting Plan -1995* (USRP) and the *California Workers' Compensation Experience Rating Plan-1995* (ERP). Contact information for the WCIRB is: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. You may also contact WCIRB Customer Service at 1-888-229-2472, by fax at 415-778-7272, or via the Internet at the WCIRB's website: <http://www.wcirb.com>. The regulations contained in the USRP and the ERP are available for public viewing through the WCIRB's website.
- (2) **POLICYHOLDER INFORMATION.** Pursuant to California Insurance Code (CIC) Section 11752.6, upon written request, you are entitled to information relating to loss experience, claims, classification assignments, and policy contracts as well as rating plans, rating systems, manual rules, or other information impacting your premium that is maintained in the records of the WCIRB. Complaints and Requests for Action requesting policyholder information should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Custodian of Records. The Custodian of Records can be reached by telephone at 415-777-0777 and by fax at 415-778-7272.
- (3) **EXPERIENCE RATING FORM.** Each experience rated risk may receive a single copy of its current Experience Rating Form free of charge by completing a Policyholder Rate Sheet Request Form on the WCIRB's website at <http://www.wcirb.com/ratesheet>. The Experience Rating Form will include a Loss-Free Rating, which is the experience modification that would have been calculated if \$0 (zero) actual losses were incurred during the experience period. This hypothetical rating calculation is provided for informational purposes only.

**II. DISPUTE PROCESS**

You may dispute our actions or the actions of the WCIRB pursuant to CIC Sections 11737 and 11753.1.

**A. Our Dispute Resolution Process.**

If you are aggrieved by our decision adopting a change in a classification assignment that results in increased premium, or by the application of our rating system to your workers' compensation insurance, you may dispute these matters with us. If you are dissatisfied with the outcome of the initial dispute with us, you may send us a written Complaint and Request for Action as outlined below.

You may send us a written Complaint and Request for Action requesting that we reconsider a change in a classification assignment that results in an increased premium and/or requesting that we review the manner in which our rating system has been applied in connection with the insurance afforded or offered you. Written Complaints and Requests for Action should be forwarded to: **California Insurance Company, P.O. Box 281900, San Francisco, CA 94128-1900, Phone No. (877) 234-4450; Fax No. (415) 508-0374.**

After you send your Complaint and Request for Action, we have 30 days to send you a written notice indicating whether or not your written request will be reviewed. If we agree to review your request, we must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If we decline to review your request, if you are dissatisfied with the decision upon review, or if we fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below.

- B. Disputing the Actions of the WCIRB.** If you have been aggrieved by any decision, action, or omission to act of the WCIRB, you may request, in writing, that the WCIRB reconsider its decision, action, or omission to act. You may also request, in writing, that the WCIRB review the manner in which its rating system has been applied in connection with the insurance afforded or offered you. For requests related to classification disputes, the reporting of experience, or coverage issues, your initial request for review must be received by the WCIRB within 12 months after the expiration date of the policy to which the request for review pertains, except if the request involves the application of the Revision of Losses rule. For requests related to your experience modification, your initial request for review must be received by the WCIRB within 6 months after the issuance, or 12 months after the expiration date, of the experience modification to which the request for review pertains, whichever is later, except if the request for review involves the application of the Revision of Losses rule. If the request involves the Revision of Losses rule, the time to state your appeal may be longer. (See Section VI, Rule 14 of the ERP).

You may commence the review process by sending the WCIRB a written Inquiry. Written Inquiries should be sent to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. Customer Service can be reached by telephone at 1-888-229-2472, and by fax at 415-778-7272.

If you are dissatisfied with the WCIRB's decision upon an Inquiry, or if the WCIRB fails to respond within 90 days after receipt of the Inquiry, you may pursue the subject of the Inquiry by sending the WCIRB a written Complaint and Request for Action. After you send your Complaint and Request for Action, the WCIRB has 30 days to send you written notice indicating whether or not your written request will be reviewed. If the WCIRB agrees to review your request, it must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If the WCIRB declines to review your request, if you are dissatisfied with the decision upon review, or if the WCIRB fails to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below. Written Complaints and Requests for Action should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Complaints and Reconsiderations. The WCIRB's telephone number is 1-888-229-2472, and the fax number is 415-371-5204.

- C. California Department of Insurance - Appeals to the Insurance Commissioner.** If, after you follow the appropriate dispute resolution process described above, we or the WCIRB decline to review your request, if you are dissatisfied with the decision upon review, or if we or the WCIRB fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner pursuant to CIC Sections 11737, 11752.6, 11753.1 and Title 10, California Code of Regulations, Section 2509.40 et seq. You must file your appeal within 30 days after we or the WCIRB send you the notice rejecting review of your Complaint and Request for Action or the decision upon your Complaint and Request for Action. If no written decision regarding your Complaint and Request for Action is sent, your appeal must be filed within 120 days after you sent your Complaint and Request for Action to us or to the WCIRB. The filing address for all appeals to the insurance commissioner is:

Administrative Hearing Bureau  
California Department of Insurance  
45 Fremont Street, 22nd Floor  
San Francisco, California 94105

You have the right to a hearing before the insurance commissioner, and our action, or the action of the WCIRB, may be affirmed, modified, or reversed.

### III. RESOURCES AVAILABLE TO YOU IN OBTAINING INFORMATION AND PURSUING DISPUTES

- A. Policyholder Ombudsman.** Pursuant to California Insurance Code Section 11752.6, a policyholder ombudsman is available at the WCIRB to assist you in obtaining and evaluating the rating, policy, and claims information referenced in I.A. and I.B., above. The ombudsman may advise you on any dispute with us, the WCIRB, or on an appeal to the insurance commissioner pursuant to Section 11737 of the Insurance Code. The address of the policyholder ombudsman is WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Policyholder Ombudsman. The policyholder ombudsman can be reached by telephone at 415-778-7159 and by fax at 415-371-5288.
- B. California Department of Insurance - Information and Assistance.** Information and assistance on policy questions can be obtained from the Department of Insurance Consumer HOTLINE, 1-800-927-HELP (4357) or <http://www.insurance.ca.gov>. For questions and correspondence regarding appeals to the Administrative Hearing Bureau, see the contact information in paragraph II.C.

This notice does not change the policy to which it is attached.



# California Insurance Company

10825 Old Mill Road  
Omaha, Nebraska 68154

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY QUICK REFERENCE

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**IMPORTANT:** This Quick Reference is **not** part of the Workers Compensation and Employers Liability Policy and does **not** provide coverage. Refer to the Workers Compensation and Employers Liability policy itself for actual contractual provisions.

Policyholders seeking information regarding coverage, or for assistance in resolving complaints can contact the Company by phone at 877-234-4420.

PLEASE READ THE WORKERS COMPENSATION AND EMPLOYERS LIABILITY POLICY CAREFULLY.

# WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

In return for the payment of the premium and subject to all terms of this policy, we agree with you as follows:

## GENERAL SECTION

### A. The Policy

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

### B. Who is Insured

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

### C. Workers Compensation Law

Workers Compensation Law means the workers or

workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

### D. State

State means any state of the United States of America, and the District of Columbia.

### E. Locations

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

## PART ONE - WORKERS COMPENSATION INSURANCE

### A. How This Insurance Applies

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

### B. We Will Pay

We will pay promptly when due the benefits required of you by the workers compensation law.

### C. We Will Defend

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

### D. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgement as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

### E. Other Insurance

We will not pay more than our share of benefits and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

## F. Payments You Must Make

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

## G. Recovery From Others

We have your rights, and the rights of persons entitled to the benefits of this insurance, to recover our payments from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them.

## H. Statutory Provisions

These statements apply where they are required by law.

1. As between an injured worker and us, we have

notice of the injury when you have notice.

2. Your default or the bankruptcy or insolvency of you or your estate will not relieve us of our duties under this insurance after an injury occurs.
3. We are directly and primarily liable to any person entitled to the benefits payable by this insurance. Those persons may enforce our duties; so may an agency authorized by law. Enforcement may be against us or against you and us.
4. Jurisdiction over you is jurisdiction over us for purposes of the workers compensation law. We are bound by decisions against you under that law, subject to the provisions of this policy that are not in conflict with that law.
5. This insurance conforms to the parts of the workers compensation law that apply to:
  - a. benefits payable by this insurance;
  - b. special taxes, payments into security or other special funds, and assessments payable by us under that law.
6. Terms of this insurance that conflict with the workers compensation law are changed by this statement to conform to that law.

Nothing in these paragraphs relieves you of your duties under this policy.

## PART TWO - EMPLOYERS LIABILITY INSURANCE

### A. How This Insurance Applies

This employers liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in a state or territory listed in Item 3.A. of the Information Page.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

### B. We Will Pay

We will pay all sums that you legally must pay as damages because of bodily injury to your employees, provided the bodily injury is covered by this Employers Liability Insurance.

The damages we will pay, where recovery is permitted by law, include damages:

1. For which you are liable to a third party by reason of a claim or suit against you by that third party to recover the damages claimed against such third party as a result of injury to your employee;
2. For care and loss of services; and
3. For consequential bodily injury to a spouse, child, parent, brother or sister of the injured employee; provided that these damages are the direct consequence of bodily injury that arises out of and in the course of the injured employee's employment by you; and
4. Because of bodily injury to your employee that arises out of and in the course of employment, claimed against you in a capacity other than as employer.

### C. Exclusions

This insurance does not cover:

1. Liability assumed under a contract. This exclusion does not apply to a warranty that your work will be done in a workmanlike manner;
2. Punitive or exemplary damages because of bodily injury to an employee employed in violation of law;
3. Bodily injury to an employee while employed in violation of law with your actual knowledge or the actual knowledge of any of your executive officers;
4. Any obligation imposed by a workers compensation, occupational disease, unemployment compensation, or disability benefits law, or any similar law;
5. Bodily injury intentionally caused or aggravated by you;
6. Bodily injury occurring outside the United States of America, its territories or possessions, and Canada. This exclusion does not apply to bodily injury to a citizen or resident of the United States of America or Canada who is temporarily outside these countries;
7. Damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, or any personnel practices, policies, acts or omissions;
8. Bodily injury to any person in work subject to the Longshore and Harbor Workers' Compensation Act (33 USC Sections 901-950), the Nonappropriated Fund Instrumentalities Act (5 USC Sections 8171-8173), the Outer Continental Shelf Lands Act (43 USC Sections 1331-1356a.), the Defense Base Act (42 USC Sections 1651-1654), the Federal Coal Mine Safety and Health Act (30 USC Sections 801-945), any other federal workers or workmen's compensation law or other federal occupational disease law, or any amendments to these laws;
9. Bodily injury to any person in work subject to the Federal Employers' Liability Act (45 USC Sections 51-60), any other federal laws obligating an employer to pay damages to an employee due to bodily injury arising out of or in the course of employment, or any amendments to those laws;
10. Bodily injury to a master or member of the crew of any vessel;
11. Fines or penalties imposed for violation of federal or state law; and

12. Damages payable under the Migrant and Seasonal Agricultural Worker Protection Act (29 USC Sections 1801-1872) and under any other federal law awarding damages for violation of those laws or regulations issued there under, and any amendments to those laws.

### D. We Will Defend

We have the right and duty to defend, at our expense, any claim, proceeding or suit against you for damages payable by this insurance. We have the right to investigate and settle these claims, proceedings and suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance. We have no duty to defend or continue defending after we have paid our applicable limit of liability under this insurance.

### E. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding, or suit we defend:

1. Reasonable expenses incurred at our request, but not loss of earnings;
2. Premiums for bonds to release attachments and for appeal bonds in bond amounts up to the limit of our liability under this insurance;
3. Litigation costs taxed against you;
4. Interest on a judgement as required by law until we offer the amount due under this insurance; and
5. Expenses we incur.

### F. Other Insurance

We will not pay more than our share of damages and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

### G. Limits of Liability

Our liability to pay for damages is limited. Our limits of liability are shown in Item 3.B. of the Information Page. They apply as explained below.

1. **Bodily Injury by Accident.** The limit shown for "bodily injury by accident - each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.

A disease is not bodily injury by accident unless it results directly from bodily injury by accident.

2. Bodily Injury by Disease. The limit shown for "bodily injury by disease - policy limit" is the most we will pay for all damages covered by this insurance and arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease. The limit shown for "bodily injury by disease - each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee.

Bodily injury by disease does not include disease that results directly from a bodily injury by accident.

3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.

#### H. Recovery From Others

We have your rights to recover our payment from any-

one liable for an injury covered by this insurance. You will do everything necessary to protect those rights for us and to help us enforce them.

#### I. Actions Against Us

There will be no right of action against us under this insurance unless:

1. You have complied with all the terms of this policy; and
2. The amount you owe has been determined with our consent or by actual trial and final judgement.

This insurance does not give anyone the right to add us as a defendant in an action against you to determine your liability. The bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Part.

### PART THREE - OTHER STATES INSURANCE

#### A. How This Insurance Applies

1. This other states insurance applies only if one or more states are shown in Item 3.C. of the Information Page.
2. If you begin work in any one of those states after the effective date of this policy and are not insured or are not self-insured for such work, all provisions of the policy will apply as though that state were listed in Item 3.A. of the Information Page.
3. We will reimburse you for the benefits required

by the workers compensation law of that state if we are not permitted to pay the benefits directly to persons entitled to them.

4. If you have work on the effective date of this policy in any state not listed in item 3.A. of the Information Page, coverage will not be afforded for that state unless we are notified within thirty days.

#### B. Notice

Tell us at once if you begin work in any state listed in Item 3.C. of the Information Page.

### PART FOUR - YOUR DUTIES IF INJURY OCCURS

Tell us at once if injury occurs that may be covered by this policy. Your other duties are listed here.

1. Provide for immediate medical and other services required by the workers compensation law.
2. Give us or our agent the names and addresses of the injured persons and of witnesses, and other information we may need.
3. Promptly give us all notices, demands and legal pa-

pers related to the injury, claim, proceeding or suit.

4. Cooperate with us and assist us, as we may request, in the investigation, settlement or defense of any claim, proceeding or suit.
5. Do nothing after an injury occurs that would interfere with our right to recover from others.
6. Do not voluntarily make payments, assume obligations or incur expenses, except at your own cost.

### PART FIVE - PREMIUM

#### A. Our Manuals

All premium for this policy will be determined by our manuals of rules, rates, rating plans and classifications. We may change our manuals and apply the changes to this policy if authorized by law or a governmental agency regulating this insurance.

#### B. Classifications

Item 4 of the Information Page shows the rate and premium basis for certain business or work classifications. These classifications were assigned based on an estimate of the exposures you would have dur-

ing the policy period. If your actual exposures are not properly described by those classifications, we will assign proper classifications, rates and premium basis by endorsement to this policy.

#### C. Remuneration

Premium for each work classification is determined by multiplying a rate times a premium basis. Remuneration is the most common premium basis. This premium basis includes payroll and all other remuneration paid or payable during the policy period for the services of:

1. all your officers and employees engaged in work covered by this policy; and
2. all other persons engaged in work that could make us liable under Part One (Workers Compensation Insurance) of this policy. If you do not have payroll records for these persons, the contract price for their services and materials may be used as the premium basis. This paragraph 2 will not apply if you give us proof that the employers of these persons lawfully secured their workers compensation obligations.

**D. Premium Payments**

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid.

**E. Final Premium**

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

1. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
2. If you cancel, final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short-rate cancellation table and procedure. Final premium will not be less than the minimum premium.

**F. Records**

You will keep records of information needed to compute premium. You will provide us with copies of those records when we ask for them.

**G. Audit**

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.

**PART SIX - CONDITIONS**

**A. Inspection**

We have the right, but are not obliged to inspect your workplaces at any time. Our inspections are not safety inspections. They relate only to the insurability of the workplaces and the premiums to be charged. We may give you reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any person to provide for the health or safety of your employees or the public. We do not warrant that your workplaces are safe or healthful or that they comply with laws, regulations, codes or standards. Insurance rate service organizations have the same rights we have under this provision.

**B. Long Term Policy**

If the policy period is longer than one year and sixteen days, all provisions of this policy will apply as though a new policy were issued on each annual anniversary that this policy is in force.

**C. Transfer of Your Rights and Duties**

Your rights or duties under this policy may not be transferred without our written consent.

If you die and we receive notice within thirty days after

your death, we will cover your legal representative as insured.

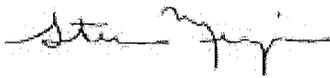
**D. Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy. We must mail or deliver to you not less than ten days advance written notice stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice.
3. The policy period will end on the day and hour stated in the cancellation notice.
4. Any of these provisions that conflict with a law that controls the cancellation of the insurance in this policy is changed by this statement to comply with the law.

**E. Sole Representative**

The insured first named in Item 1 of the Information Page will act on behalf of all insureds to change this policy, receive return premium, and give or receive notice of cancellation.

In Witness Whereof, California Insurance Company has caused this policy to be executed and attested, and if required by state law, this policy shall not be valid unless countersigned by our authorized representative.



President



Secretary



# CALIFORNIA INSURANCE COMPANY

NAIC No. 38865

10825 Old Mill Road, Omaha, Nebraska 68154

877-234-4420

## WORKERS' COMPENSATION AND EMPLOYER'S LIABILITY INSURANCE POLICY

### INFORMATION PAGE

Policy No. 73-853940-01-03

1. Insured	<b>Shims Bargain, Inc.</b>	Producer	<b>AU Insurance Services</b>
and	<b>DBA JC Sales</b>	and	<b>10825 Old Mill Rd</b>
Mailing	<b>2600 S Soto St</b>	Mailing	<b>Omaha, NE 68154</b>
Address	<b>Vernon, CA 90058-8015</b>	Address	

Entity: **Corporation**  
 FEIN: **954446696**  
 State No.

Agent No.  
 Billing: **DIRECT BILL**  
 Renewal of Policy No. **73-853940-01-02**

See Additional Named Insured Endorsement and Locations Endorsement if attached.

2. The policy period is from **04/30/14** to **04/30/15** 12:01 A.M. Standard Time at the insured's mailing address.
3. A. Workers Compensation Insurance: Part One of the policy applies to the Workers Compensation Law of the states listed here:  
**CA**
- B. Employers Liability Insurance: Part Two of the policy applies to work in each state listed in item 3.A. The limits of our liability under Part Two are:
 

Bodily Injury by Accident	\$1,000,000	each accident
Bodily Injury by Disease	\$1,000,000	policy limit
Bodily Injury by Disease	\$1,000,000	each employee
- C. Other States Insurance: Part Three of the policy applies to all states except the states listed in item 3.A and the states of North Dakota, Ohio, Washington, and Wyoming.
- D. See attached list for endorsements and schedules.
4. The premium for this policy will be determined by our Manuals of Rules, Classifications, Rates and Rating Plans. All information listed on the Extension of Information page is subject to verification and change by audit.

See Extension of Information Page for premium rating schedule.

Minimum Premium	\$	<b>5,000</b>
Total Estimated Annual Premium	\$	<b>1,393,739</b>
Estimated Taxes and Assessments	\$	<b>62,444</b>

Issuing Office: **OMAHA, NE**

Countersigned by:

California Insurance Company  
 WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
 LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-03

Form Number	Endorsement Number	Name
WC000001A		California Declaration Page
WC990401		List of Endorsements And Schedules
WC000174		Extension of Information Page
AIL590		Additional Named Insured and/or Locations
WC040360A	1	Employers' Liability Coverage Amendatory Endorsement
WC040601A	2	California Cancellation Endorsement
WC040421	3	California Optional Premium Increase Endorsement
WC040301B	4	Policy Amendatory Endorsement - California
WC040422	5	California Short Rate Cancelation Endorsement
WC000422A	6	Terrorism Risk Insurance Program Reauthorization Act Disclosure
WC000421C	7	Catastrophe
WC040303	8	Officers And Directors Coverage / Exclusion Endorsement - Califo
WC010303	9	Waiver Of Our Right To Recover From Others Endorsement
WC890600B	10	Change Endorsement
WC890609C	11	Termination / Cancellation / Reinstatement Notice
PNAU9905	100	Policyholder Notice Loss Control Endorsement
PN049901	101	Policyholder Notice Your Right To Rating And Dividend Info
PN049902B	102	Policyholder Notice California Workers' Compensation Insurance R
PN049904	103	California CIGA Policyholder Notice

California Insurance Company  
WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
LIST OF ENDORSEMENTS AND SCHEDULES

WC990401

Endorsements on Policy: 73-853940-01-03

Form Number

Endorsement Number

Name

WC000000B\_CIC

Workers Compensation and Employers  
Liability Insurance Policy

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY  
EXTENSION OF INFORMATION PAGE

Policy Number 73-853940-01-03

4. Premium

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium
Stores wholesale-N.O.C.	8018	5,800,094	12.8400	744,732.00
Salespersons-outside	8742	392,142	1.0500	4,117.00
Clerical Office Employees-N.O.C.	8810	2,545,639	0.8400	21,383.00
Experience Modification			1.1500	885,767.00
Loss Rating Factor	9724		1.7100	1,514,662.00
Schedule Modification	9887		0.9200	1,393,489.00
Waiver of Subrogation	0930		250.0000	250.00
Terrorism	9740		0.0000	0.00
Catastrophe	9741		0.0000	0.00
Estimated Annual Premium - California				1,393,739.00
CIGA California Domiciled Insureds	----		2.2500	31,359.13
Workers Comp. Fraud Surcharge	----		0.2544	3,545.67
User Funding Rate	----		1.2247	17,069.12
Uninsured Employers Fund	----		0.1603	2,234.16
Subsequent Injuries Benefit Fund	----		0.1291	1,799.32
Occupational Safety & Health Fund	----		0.2166	3,018.84
Labor Enforcement & Compliance Fund	----		0.2452	3,417.45
CA				
Total Estimated Annual Premium \$				1,456,182.69

Policy Number: 73-853940-01-03

**CALIFORNIA INSURANCE COMPANY**  
**Additional Named Insured and/or Locations**

Item (1) Insured of the Information page is amended to include the following:

Shims Bargain, Inc.  
DBA JC Sales  
2700 S Soto St  
Vernon CA 90058-8027  
From: 04/30/14 To: 04/30/15  
FEIN: 954446696  
ENTITY: Corporation

Shims Bargain, Inc.  
DBA JC Sales  
2840 E 26th St  
Vernon CA 90058-8005  
From: 04/30/14 To: 04/30/15  
FEIN: 954446696  
ENTITY: Corporation

Shims Bargain, Inc.  
DBA JC Sales  
7026 - 7030 E Slauson Ave  
Commerce CA 90040  
From: 04/30/14 To: 04/30/15  
FEIN: 954446696  
ENTITY: Corporation

Karis, Inc.  
DBA International Distributors  
6600 Bandini Blvd  
Commerce CA 90040-3302  
From: 04/30/14 To: 04/30/15  
FEIN: 364717833  
ENTITY: Corporation

This endorsement is part of your policy and takes effect on the effective date of your policy, unless another effective date is shown below.

Endorsement Effective  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No.  
Premium

Insurance Company California Insurance Company

Countersigned by \_\_\_\_\_

All other terms and conditions of this policy remain unchanged.  
AIL590

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**EMPLOYERS' LIABILITY COVERAGE AMENDATORY ENDORSEMENT-CALIFORNIA**

The Insurance afforded by Part Two (Employers' Liability Insurance) by reason of designation of California in item 3 of the information page is subject to the following provisions:

A. "How This Insurance Applies," is amended to read as follows:

A. How This Insurance Applies

This employers' liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury means a physical injury, including resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in California.
3. Bodily injury by accident must occur during policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

C. The "Exclusions" section is modified as follows (all other exclusions in the "Exclusions" section remain as is):

1. Exclusion 1 is amended to read as follows:
  1. liability assumed under a contract.
2. Exclusion 2 is deleted.
3. Exclusion 7 is amended to read as follows:
  7. damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, termination of employment, or any personnel practices, policies, acts or omissions.
4. The following exclusions are added:
  1. bodily injury to any member of the flying crew of any aircraft.
  2. bodily injury to an employee when you are deprived of statutory or common law defenses or are subject to penalty because of your failure to secure your obligations under the workers' compensation law(s) applicable to you or otherwise fail to comply with that law.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No. 1  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 11-99)

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA CANCELLATION ENDORSEMENT**

This endorsement applies only to the insurance provided by the policy because California is shown in Item 3.A. of the information page.

The cancellation condition in Part Six (Conditions) of the policy is replaced by these conditions:

**Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy for one or more of the following reasons:
  - a. Non-payment of premium;
  - b. Failure to report payroll;
  - c. Failure to permit us to audit payroll as required by the terms of this policy or of a previous policy issued by us;
  - d. Failure to pay any additional premium resulting from an audit of payroll required by the terms of this policy or any previous policy issued by us;
  - e. Material misrepresentation made by you or your agent;
  - f. Failure to cooperate with us in the investigation of a claim;
  - g. Failure to comply with Federal or State safety orders;
  - h. Failure to comply with written recommendations of our designated loss control representatives;
  - i. The occurrence of a material change in the ownership of your business;
  - j. The occurrence of any change in your business or operations that materially increases the hazard for frequency or severity of loss;
  - k. The occurrence of any change in your business or operation that requires additional or different classification for premium calculation;
  - l. The occurrence of any change in your business or operation which contemplates an activity excluded by our reinsurance treaties.
3. If we cancel your policy for any of the reasons listed in (a) through (f), we will give you 10 days advance written notice, stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in item 1 of the Information Page will be sufficient to prove notice. If we cancel your policy for any of the reasons listed in items (g) through (l), we will give you 30 days advance written notice; however, we agree that in the event of cancellation and reissuance of a policy effective upon a material change in ownership or operations, notice will not be provided.
4. The policy period will end on the day and hour stated in the cancellation notice.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No. 2  
Premium

Insurance Company  
California Insurance Company  
(Ed. 12-93)

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**OPTIONAL PREMIUM INCREASE ENDORSEMENT - CALIFORNIA**

You must provide us, or our authorized representative, access to records necessary to perform a payroll verification audit. If you fail to provide access within 90 days after expiration of the policy, you are liable to pay a total premium equal to 3 times our current estimate of the annual premium for your policy. In addition, if you fail to provide access after our third request within a 90 day or longer period, you are also liable for our costs in attempting to perform the audit unless you provide a compelling business reason for your failure.

We will contact you to schedule appointments during normal business hours.

We will notify you of your failure to provide access by mailing a certified, return-receipt document stating the increased premium and the total amount of our costs incurred in our attempt(s) to perform an audit. In addition to any other obligations under this contract, 30 days after you receive the notification, you will be obligated to pay the total premium and costs referenced above. If, thereafter, you provide access to your records within three years after the policy expires, or within another mutually agreed upon time, and we succeed in performing the audit to our satisfaction, we will revise your total premium and the costs due to reflect the results of the audit.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No. 3  
Premium

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY AMENDATORY ENDORSEMENT - CALIFORNIA**

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

1. **Minors Illegally Employed - Not Insured.** This policy does not cover liability for additional compensation imposed on you under Section 4557, Division IV, Labor Code of the State of California, by reason of injury to an employee under sixteen years of age and illegally employed at the time of injury.
2. **Punitive or Exemplary Damages - Uninsurable.** This policy does not cover punitive or exemplary damages where insurance of liability therefore is prohibited by law or contrary to public policy.
3. **Increase in Indemnity Payment - Reimbursement.** You are obligated to reimburse us for the amount of increase in indemnity payments made pursuant to Subdivision (d) of Section 4650 of the California Labor Code, if the late indemnity payment which gives rise to the increase in the amount of payment is due less than seven (7) days after we receive the completed claim form from you. You are obligated to reimburse us for any increase in indemnity payment not covered under this policy and will reimburse us for any increase in indemnity payment not covered under the policy when the aggregate total amount of the reimbursement payments paid in a policy year exceeds one hundred dollars (\$100).

If we notify you in writing, within 30 days of the payment, that you are obligated to reimburse us, we will bill you for the amount of increase in indemnity payment and collect it no later than the final audit. You will have 60 days, following notice of the obligation to reimburse, to appeal the decision of the insurer to the Department of Insurance.

4. **Application of Policy.** Part One, "Workers Compensation Insurance", A, "How This Insurance Applies", is amended to read as follows:  
This workers compensation insurance applies to bodily injury by accident or disease, including death resulting therefrom. Bodily injury by accident must occur during the policy period. Bodily injury by disease must be caused or aggravated by the conditions of your employment. Your employee's exposure to those conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. **Rate Changes.** The premium and rates with respect to the insurance provided by this policy by reason of the designation of California in Item 3 of the Information Page are subject to change if ordered by the Insurance Commissioner of the State of California pursuant to Section 11737 of the California Insurance Code.
6. **Long Term Policy.** If this policy is written for a period longer than one year, all the provisions of this policy shall apply separately to each consecutive twelve-month period or, if the first or last consecutive period is less than twelve months, to such period of less than twelve months, in the same manner as if a separate policy had been written for each consecutive period.
7. **Statutory Provision.** Your employer has a first lien upon any amount which becomes owing to you by us on account of this policy, and in the case of your legal incapacity or inability to receive the money and pay it to the claimant, we will pay it directly to the claimant.
8. Part Five, "Premium", E, "Final Premium", is amended to read as follows:

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

- a. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium
- b. If you cancel, final premium may be more than pro rata; it will be based on the time this policy was in force, and may be increased by our short-rate cancellation table and procedure. Final premium will not be less than the pro rata share of the minimum premium.

It is further agreed that this policy, including all endorsements forming a part thereof, constitutes the entire contract of insurance. No condition, provision, agreement, or understanding not set forth in this policy or such endorsements shall affect such contract or any rights, duties, or privileges arising therefrom.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective **04/30/14**  
Insured **JC Sales**

Policy No. **73-853940-01-03**

Endorsement No. **4**  
Premium

Insurance Company  
**California Insurance Company**  
(Ed. 01-12)

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT**

It is agreed that, anything in the policy to the contrary notwithstanding, such insurance as is afforded by this policy by reason of the designation of California in Item 3 of the Information Page is subject to the following provisions:

If you cancel the policy and a disclosure was provided in accordance with Section 481(c) of the California Insurance Code, final premium will be based on the time this policy was in force and increased by the short-rate cancellation table below:

Short Rate Cancellation Table

The premium for the canceled policy will be calculated using the Short Rate Cancellation Table. We will use the short-rate percentage as follows:

1. Determine the payroll developed during the period the policy was in effect.
2. Determine the full policy payroll by using the following formula:
 
$$\frac{\text{number of days for which the policy was written}}{\text{number of days the policy was in effect}} \times \text{Actual Payroll}$$
3. Apply authorized rates to such payroll
4. Calculate the extended number of days by using the following formula. If the policy was written for a one-year period, the extended number of days is the number of days the policy was in effect:
 
$$\frac{\text{number of days the policy was in effect}}{\text{number of days for which the policy was written}} \times 365$$
5. Based on the extended number of days, apply the short rate percentage shown in the Short Rate Cancellation Table to the full policy premium calculated in step 3. This result is the short-rate portion of the premium.
6. If applicable:
  - \* Apply any pricing programs
  - \* Apply any experience rating modification
  - \* Apply any premium discount based on the final earned total standard premium
  - \* Add the short rate portion of the expense constant but not less than \$15
  - \* Apply catastrophe provisions based on the earned manual premium
7. The total earned premium for the short-rate canceled policy will not be less than the annual minimum premium applicable to the policy.

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

## CALIFORNIA SHORT-RATE CANCELTION ENDORSEMENT

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
1	5%	46	23%	91	35%	136	48%	181	60%
2	6	47	23	92	36	137	48	182	60
3	7	48	24	93	36	138	48	183	61
4	7	49	24	94	36	139	49	184	61
5	8	50	24	95	37	140	49	185	61
6	8	51	24	96	37	141	49	186	61
7	9	52	25	97	37	142	49	187	61
8	9	53	25	98	37	143	50	188	62
9	10	54	25	99	38	144	50	189	62
10	10	55	26	100	38	145	50	190	62
11	11	56	26	101	38	146	50	191	62
12	11	57	26	102	38	147	51	192	63
13	12	58	26	103	39	148	51	193	63
14	12	59	27	104	39	149	51	194	63
15	13	60	27	105	39	150	52	195	63
16	13	61	27	106	40	151	52	196	63
17	14	62	27	107	40	152	52	197	64
18	14	63	28	108	40	153	52	198	64
19	15	64	28	109	40	154	53	199	64
20	15	65	28	110	41	155	53	200	64
21	16	66	29	111	41	156	53	201	65
22	16	67	29	112	41	157	54	202	65
23	17	68	29	113	41	158	54	203	65
24	17	69	29	114	42	159	54	204	65
25	17	70	30	115	42	160	54	205	65
26	18	71	30	116	42	161	55	206	66
27	18	72	30	117	43	162	55	207	66
28	18	73	30	118	43	163	55	208	66
29	18	74	31	119	43	164	55	209	66
30	19	75	31	120	43	165	56	210	67
31	19	76	31	121	44	166	56	211	67
32	19	77	32	122	44	167	56	212	67
33	20	78	32	123	44	168	57	213	67
34	20	79	32	124	44	169	57	214	67
35	20	80	32	125	45	170	57	215	68
36	20	81	33	126	45	171	57	216	68
37	21	82	33	127	45	172	58	217	68
38	21	83	33	128	46	173	58	218	68
39	21	84	34	129	46	174	58	219	69
40	21	85	34	130	46	175	58	220	69
41	22	86	34	131	46	176	59	221	69
42	22	87	34	132	47	177	59	222	69
43	22	88	35	133	47	178	59	223	69
44	23	89	35	134	47	179	60	224	70
45	23	90	35	135	47	180	60	225	70

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CALIFORNIA SHORT-RATE CANCELATION ENDORSEMENT**

Short Rate Cancellation Table (cont.)

Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages	Days in Policy Period	Short Rate Percentages
226	70%	254	76%	282	82%	310	88%	338	95%
227	70	255	76	283	83	311	89	339	95
228	70	256	77	284	83	312	89	340	95
229	71	257	77	285	83	313	89	341	95
230	71	258	77	286	83	314	89	342	95
231	71	259	77	287	83	315	90	343	96
232	71	260	77	288	84	316	90	344	96
233	72	261	78	289	84	317	90	345	96
234	72	262	78	290	84	318	90	346	96
235	72	263	78	291	84	319	90	347	97
236	72	264	78	292	85	320	91	348	97
237	72	265	79	293	85	321	91	349	97
238	73	266	79	294	85	322	91	350	97
239	73	267	79	295	85	323	91	351	97
240	73	268	79	296	85	324	92	352	98
241	73	269	79	297	86	325	92	353	98
242	74	270	80	298	86	326	92	354	98
243	74	271	80	299	86	327	92	355	98
244	74	272	80	300	86	328	92	356	99
245	74	273	80	301	86	329	93	357	99
246	74	274	81	302	87	330	93	358	99
247	75	275	81	303	87	331	93	359	99
248	75	276	81	304	87	332	93	360	99
249	75	277	81	305	87	333	94	361	100
250	75	278	81	306	88	334	94	362	100
251	76	279	82	307	88	335	94	363	100
252	76	280	82	308	88	336	94	364	100
253	76	281	82	309	88	337	94	365	100

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No. 5

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY****TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT DISCLOSURE ENDORSEMENT**

This endorsement addresses the requirements of the Terrorism Risk Insurance Act of 2002 as amended and extended by the Terrorism Risk Insurance Program Reauthorization Act of 2007. It serves to notify you of certain limitations under the Act, and that your insurance carrier is charging premium for losses that may occur in the event of an Act of Terrorism.

Your policy provides coverage for workers compensation losses caused by Acts of Terrorism, including workers compensation benefit obligations dictated by state law. Coverage for such losses is still subject to all terms, definitions, exclusions, and conditions in your policy, and any applicable federal and/or state laws, rules, or regulations.

**Definitions**

The definitions provided in this endorsement are based on and have the same meaning as the definitions in the Act. If words or phrases not defined in this endorsement are defined in the Act, the definitions in the Act will apply.

“Act” means the Terrorism Risk Insurance Act of 2002, which took effect on November 26, 2002, and any amendments thereto resulting from the Terrorism Risk Insurance Program Reauthorization Act of 2007.

“Act of Terrorism” means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States as meeting all of the following requirements:

- a. The act is an act of terrorism.
- b. The act is violent or dangerous to human life, property or infrastructure.
- c. The act resulted in damage within the United States, or outside of the United States in the case of the premises of United States missions or certain air carriers or vessels.
- d. The act has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

“Insured Loss” means any loss resulting from an act of terrorism (and, except for Pennsylvania, including an act of war, in the case of workers compensation) that is covered by primary or excess property and casualty insurance issued by an insurer if the loss occurs in the United States or at the premises of United States missions or to certain air carriers or vessels.

“Insurer Deductible” means for the period beginning on January 1, 2008, and ending on December 31, 2014, an amount equal to 20% of our direct earned premiums, over the calendar year immediately preceding the applicable Program Year.

“Program Year” refers to each calendar year between January 1, 2008 and December 31, 2014, as applicable.

**Limitation of Liability**

The Act limits our liability to you under this policy. If aggregate Insured Losses exceed \$100,000,000,000 in a Program Year and if we have met our Insurer Deductible, we are not liable for the payment of any portion of the amount of Insured Losses that exceeds \$100,000,000,000; and for aggregate Insured Losses up to \$100,000,000,000, we will pay only a pro rata share of such Insured Losses as determined by the Secretary of the Treasury.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**Policyholder Disclosure Notice**

1. Insured Losses would be partially reimbursed by the United States Government. If the aggregate industry Insured Losses exceeds \$100,000,000 in a Program Year, the United States Government would pay 85% of our Insured Losses that exceed our Insurer Deductible.
2. Notwithstanding item 1 above, the United States Government will not make any payment under the Act for any portion of Insured Losses that exceeds \$100,000,000,000.
3. The premium charge for the coverage your policy provides for Insured Losses is included in the amount shown in Item 4 of the Information Page or in the Schedule below.

**Schedule**

<b>State</b>	<b>Rate</b>	<b>Premium</b>
CA	0.000	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement 04/30/14  
Insured JC Sales

Effective Policy No. 73-853940-01-03

Endorsement No. 6  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**CATASTROPHE (OTHER THAN CERTIFIED ACTS OF TERRORISM)  
PREMIUM ENDORSEMENT**

This endorsement is notification that your insurance carrier is charging premium to cover the losses that may occur in the event of a Catastrophe (other than Certified Acts of Terrorism) as that term is defined below. Your policy provides coverage for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism). This premium charge does not provide funding for Certified Acts of Terrorism contemplated under the Terrorism Risk Insurance Program Reauthorization Act Disclosure Endorsement (WC 00 04 22 A), attached to this policy.

For purposes of this endorsement, the following definitions apply:

**Catastrophe (other than Certified Acts of Terrorism):** Any single event, resulting from an Earthquake, Noncertified Act of Terrorism, or Catastrophic Industrial Accident, which results in aggregate workers compensation losses in excess of \$50 million.

**Earthquake:** The shaking and vibration at the surface of the earth resulting from underground movement along a fault plane or from volcanic activity.

**Noncertified Act of Terrorism:** An event that is not certified as an Act of Terrorism by the Secretary of Treasury pursuant to the Terrorism Risk Insurance Act of 2002 (as amended) but that meets all of the following criteria:

- a. It is an act that is violent or dangerous to human life, property, or infrastructure;
- b. The act results in damage within the United States, or outside of the United States in the case of the premises of United States missions or air carriers or vessels as those terms are defined in the Terrorism Risk Insurance Act of 2002 (as amended); and
- c. It is an act that has been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

**Catastrophic Industrial Accident:** A chemical release, large explosion, or small blast that is localized in nature and affects workers in a small perimeter the size of a building.

The premium charge for the coverage your policy provides for workers compensation losses caused by a Catastrophe (other than Certified Acts of Terrorism) is shown in Item 4 of the Information Page or in the Schedule below.

<b>State</b>	<b>Schedule</b>	<b>Rate</b>	<b>Premium</b>
CA		0.00	0.00

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement **04/30/14**  
Insured **JC Sales**

Effective Policy No. **73-853940-01-03**

Endorsement No. **7**  
Premium \$

Insurance Company **California Insurance Company** Countersigned by \_\_\_\_\_

WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

OFFICERS AND DIRECTORS COVERAGE / EXCLUSION ENDORSEMENT-CALIFORNIA

If the employer named in item 1 of the Information Page is a private corporation whose officers and directors are the sole shareholders, this policy applies to all such officers and directors, as employees, except those excluded below or named as excluded in item 4 of the Information Page.

Officers and Directors Excluded

James Shim  
K. Kenneth Suh  
Bongjin Chang

Title

Chairman - 80% ownership  
President - 20% ownership  
Owner (Karis, Inc) - 20% ownership

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14  
Insured JC Sales

Policy No. 73-853940-01-03

Endorsement No. 8  
Premium 0.00

Insurance Company  
California Insurance Company

Countersigned by \_\_\_\_\_

(Ed. 1-85)

### WAIVER OF OUR RIGHT TO RECOVER FROM OTHERS ENDORSEMENT

We have the right to recover our payments from anyone liable for an injury covered by this policy. We will not enforce our right against the person or organization named in the Schedule, but this waiver applies only with respect to bodily injury arising out of the operations described in the Schedule where you are required by a written contract to obtain this waiver from us.

This endorsement shall not operate directly or indirectly to benefit anyone not named in the Schedule.

The premium for this endorsement is shown in the Schedule.

#### Schedule

1.  Specific Waiver

Name of person or organization:

Prologis L.P. and its affiliates  
Prologis USLV Operating Partnership, LP  
17777 Center Court Drive N. , Suite 100  
Cerritos, CA 90703

Blanket Waiver

Any person or organization for whom the Named Insured has agreed by written contract to furnish this waiver.

2. Operations:

6195 Randolph Street  
Commerce, CA 90058

3. Premium 250

The premium charge for this endorsement shall be of the premium developed on payroll in connection with work performed for the above person(s) or organization(s) arising out of the operations described.

4. Minimum Premium

5. Advance Premium

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective 04/30/14

Policy No. 73-853940-01-03

Endorsement No. 9

Insured JC Sales

Premium \$ 250.00

Insurance Company California Insurance Company

Countersigned by

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

**POLICY INFORMATION PAGE ENDORSEMENT**

The following item(s)

- Insured's Name (WC 89 06 01)
- Policy Number (WC 89 06 02)
- Effective Date (WC 89 06 03)
- Expiration Date (WC 89 06 04)
- Insured's Mailing Address (WC 89 06 05)
- Experience Modification (WC 89 04 06)
- Producer's Name (WC 89 06 07)
- Change in Workplace of Insured (WC 89 06 08)
- Insured's Legal Status (WC 89 06 10)
- Item 3.A. States (WC 89 06 11)
- Item 3.B. Limits (WC 89 06 12)
- Item 3.C. States (WC 89 06 13)
- Item 3.D. Endorsement Numbers (WC 89 06 14)
- Item 4.\* Class, Rate, Other (WC 89 04 15)
- Interim Adjustment of Premium (WC 89 04 16)
- Carrier Servicing Office (WC 89 06 17)
- Interstate/Intrastate Risk I.D. Number (WC 89 06 18)
- Carrier Number (WC 89 06 19)
- Issuing Agency/Producer Office Address (WC 89 06 25)  
(AL, AZ, AR, DC, FL, ID, IL, KS, MD, NH, TN, UT - only)

**IS CHANGED TO READ:**

CA Experience Modification: 1.1500 effective 04/30/14 - 04/29/15  
 CA Loss Rating Factor: 1.71 effective 04/30/14 - 04/29/15

\*Item 4. Change to: **PER ENDORSEMENT 2 FORM WC174**

Classifications	Code No.	Premium Basis Total Estimated Annual Remuneration	Rate Per \$100 of Remuneration	Estimated Annual Premium

**Total Estimated Annual Premium \$**

Minimum Premium \$

Deposit Premium \$

All other items and conditions of this policy remain unchanged.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Policy Effective **04/30/14**

Endorsement Effective **04/30/14**

Insured **JC Sales**

Policy No. **73-853940-01-03**

Endorsement No. **1.0**

Premium **0.00**

Insurance Company **California Insurance Company**  
 NCCI Carrier Code **22358**

Countersigned by \_\_\_\_\_

(Ed. 7-87)

**POLICY TERMINATION/CANCELLATION/REINSTATEMENT NOTICE**

Carrier Name/NCCI Carrier Code California Insurance Company/22358  
 Insured's Name JC Sales  
 Federal ID No. 954446696  
 Insured's Address 2600 S Soto St  
Vernon, CA 90058-8015

Policy Number	Policy Effective Date	Policy Expiration Date
<u>73-853940-01-03</u>	<u>04/30/14</u>	<u>04/30/15</u>

**Termination/Cancellation/Nonrenewal**  
 The coverage provided by the policy number shown above is being  nonrenewed or \_\_\_\_\_  
 terminated/cancelled,  flat,  pro rata, or  short rate, effective 04/30/15 12:01 a.m. standard  
 time at the insured's mailing address for the following reason(s):  
Client Elect

**Reinstatement**  
 The coverage provided by the policy number shown above and previously nonrenewed, canceled or  
 scheduled for cancellation is being reinstated effective \_\_\_\_\_ 12:01 a.m. standard time  
 at the insured's mailing address.

Issue Date 05/06/15

Issuing Office Omaha, NE

Producer's Name AU Insurance Services

Date Stamp  
 (For NCCI use only):

**NOTICE TO POLICYHOLDER**  
**Loss Control Consultation Services**

PN AU 99 05

California law (Labor Code Section 6354.5) requires workers' compensation insurers to maintain and provide occupational safety and health loss control consultation services to insured policyholder places of employment that may pose hazards. We are committed to helping our California employers provide safe and healthy workplaces for their employees through loss control services appropriate to their individual businesses. This notice is provided to you as one of our policyholders and describes our loss control consultation services which are available upon request at no additional cost to you.

**WORKPLACE SURVEY**

We can conduct a survey of your operations to identify safety and health hazards, and existing physical and management controls of those hazards, that have the potential to affect the frequency and severity of workplace injuries and illnesses. When hazards are noted, we will provide you with written training materials addressing them. Included with the survey is an evaluation of your loss control management program including discussions with management and where appropriate non-management personnel with permission of the employer.

**REVIEW OF INJURY RECORDS**

We can assist you by analyzing employee accidents and previous loss experience to identify underlying accident causes. A review of loss records with appropriate personnel can help identify those factors most related to the specific loss you have experienced.

**DEVELOPMENT OF PLAN**

We can assist you in developing a comprehensive safety and health program to minimize workplace accidents, including, where appropriate, modifications to your Section 3203 Employer Injury and Illness Prevention Program if needed to address concerns in the plan to improve your loss control experience.

**ADDITIONAL SERVICES**

We make additional Loss Control services available that are not required under California law to assist you with your loss prevention efforts. Some of those services and materials are described below.

OSHA Training Materials

Sample Safety Programs

On-Site Audit

Sample Drug Testing Program

Recordkeeping Forms

Safety Meetings

To obtain these services please send a request in writing to:

Applied Underwriters  
P.O. Box 3646  
Omaha, Nebraska 68103

Workers' compensation insurance policy holders may direct questions or complaints about the insurer's loss control consultation services by contacting : State of California, Department of Industrial Relations, Loss Control Services Coordinator, The Commission on Health, Safety & Workers' Compensation, 1515 Clay Street, Room 901, Oakland, CA 94612 (510) 622-3959.

**POLICYHOLDER NOTICE**  
**YOUR RIGHT TO RATING AND DIVIDEND INFORMATION**

**I. INFORMATION AVAILABLE TO YOU**

**A. Information Available from Us - California Insurance Company**

- (1) **General questions regarding your policy should be directed to California Insurance Company.**

California Insurance Company  
P.O. Box 281900  
San Francisco, CA 94128-1900  
Telephone: 877-234-4450  
Fax: 415-508-0374  
www.auw.com

- (2) **DIVIDEND CALCULATION.** If this is a particular policy (a policy on which a dividend may be paid), upon payment or non-payment of a dividend, we shall provide a written explanation to you that sets forth the basis of the dividend calculation. The explanation will be in clear, understandable language and will express the dividend as a dollar amount and as a percentage of the earned premium for the policy year on which the dividend is calculated.
- (3) **CLAIMS INFORMATION.** Pursuant to Sections 3761 and 3762 of the California Labor Code, you are entitled to receive information in our claim files that affects your premium. Copies of documents will be supplied at your expense during reasonable business hours.

For claims covered under this policy, we will estimate the ultimate cost of unsettled claims for statistical purposes eighteen months after the policy becomes effective and will report those estimates to the Workers' Compensation Insurance Rating Bureau of California (WCIRB) no later than twenty months after the policy becomes effective. The cost of any settled claims will also be reported at that time. At twelve-month intervals thereafter, we will update and report to the WCIRB the estimated cost of any unsettled claims and the actual final cost of any claims settled in the interim. The amounts we report will be used by the WCIRB to compute your experience modification if you are eligible for experience rating.

**B. Information Available from the Workers' Compensation Insurance Rating Bureau of California**

- (1) The WCIRB is a licensed rating organization and the California Insurance Commissioner's designated statistical agent. As such, the WCIRB is responsible for administering the *California Workers' Compensation Uniform Statistical Reporting Plan -1995* (USRP) and the *California Workers' Compensation Experience Rating Plan-1995* (ERP). Contact information for the WCIRB is: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. You may also contact WCIRB Customer Service at 1-888-229-2472, by fax at 415-778-7272, or via the Internet at the WCIRB's website: <http://www.wcirb.com>. The regulations contained in the USRP and the ERP are available for public viewing through the WCIRB's website.
- (2) **POLICYHOLDER INFORMATION.** Pursuant to California Insurance Code (CIC) Section 11752.6, upon written request, you are entitled to information relating to loss experience, claims, classification assignments, and policy contracts as well as rating plans, rating systems, manual rules, or other information impacting your premium that is maintained in the records of the WCIRB. Complaints and Requests for Action requesting policyholder information should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Custodian of Records. The Custodian of Records can be reached by telephone at 415-777-0777 and by fax at 415-778-7272.
- (3) **EXPERIENCE RATING FORM.** Each experience rated risk may receive a single copy of its current Experience Rating Form free of charge by completing a Policyholder Rate Sheet Request Form on the WCIRB's website at <http://www.wcirb.com/ratesheet>. The Experience Rating Form will include a Loss-Free Rating, which is the experience modification that would have been calculated if \$0 (zero) actual losses were incurred during the experience period. This hypothetical rating calculation is provided for informational purposes only.

**II. DISPUTE PROCESS**

You may dispute our actions or the actions of the WCIRB pursuant to CIC Sections 11737 and 11753.1.

**A. Our Dispute Resolution Process.**

If you are aggrieved by our decision adopting a change in a classification assignment that results in increased premium, or by the application of our rating system to your workers' compensation insurance, you may dispute these matters with us. If you are dissatisfied with the outcome of the initial dispute with us, you may send us a written Complaint and Request for Action as outlined below.

You may send us a written Complaint and Request for Action requesting that we reconsider a change in a classification assignment that results in an increased premium and/or requesting that we review the manner in which our rating system has been applied in connection with the insurance afforded or offered you. Written Complaints and Requests for Action should be forwarded to: **California Insurance Company, P.O. Box 281900, San Francisco, CA 94128-1900, Phone No. (877) 234-4450; Fax No. (415) 508-0374.**

After you send your Complaint and Request for Action, we have 30 days to send you a written notice indicating whether or not your written request will be reviewed. If we agree to review your request, we must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If we decline to review your request, if you are dissatisfied with the decision upon review, or if we fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below.

- B. Disputing the Actions of the WCIRB.** If you have been aggrieved by any decision, action, or omission to act of the WCIRB, you may request, in writing, that the WCIRB reconsider its decision, action, or omission to act. You may also request, in writing, that the WCIRB review the manner in which its rating system has been applied in connection with the insurance afforded or offered you. For requests related to classification disputes, the reporting of experience, or coverage issues, your initial request for review must be received by the WCIRB within 12 months after the expiration date of the policy to which the request for review pertains, except if the request involves the application of the Revision of Losses rule. For requests related to your experience modification, your initial request for review must be received by the WCIRB within 6 months after the issuance, or 12 months after the expiration date, of the experience modification to which the request for review pertains, whichever is later, except if the request for review involves the application of the Revision of Losses rule. If the request involves the Revision of Losses rule, the time to state your appeal may be longer. (See Section VI, Rule 14 of the ERP).

You may commence the review process by sending the WCIRB a written Inquiry. Written Inquiries should be sent to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Customer Service. Customer Service can be reached by telephone at 1-888-229-2472, and by fax at 415-778-7272.

If you are dissatisfied with the WCIRB's decision upon an Inquiry, or if the WCIRB fails to respond within 90 days after receipt of the Inquiry, you may pursue the subject of the Inquiry by sending the WCIRB a written Complaint and Request for Action. After you send your Complaint and Request for Action, the WCIRB has 30 days to send you written notice indicating whether or not your written request will be reviewed. If the WCIRB agrees to review your request, it must conduct the review and issue a decision granting or rejecting your request within 60 days after sending you the written notice granting review. If the WCIRB declines to review your request, if you are dissatisfied with the decision upon review, or if the WCIRB fails to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner as described in paragraph II.C., below. Written Complaints and Requests for Action should be forwarded to: WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Complaints and Reconsiderations. The WCIRB's telephone number is 1-888-229-2472, and the fax number is 415-371-5204.

- C. California Department of Insurance - Appeals to the Insurance Commissioner.** If, after you follow the appropriate dispute resolution process described above, we or the WCIRB decline to review your request, if you are dissatisfied with the decision upon review, or if we or the WCIRB fail to grant or reject your request or issue a decision upon review, you may appeal to the insurance commissioner pursuant to CIC Sections 11737, 11752.6, 11753.1 and Title 10, California Code of Regulations, Section 2509.40 et seq. You must file your appeal within 30 days after we or the WCIRB send you the notice rejecting review of your Complaint and Request for Action or the decision upon your Complaint and Request for Action. If no written decision regarding your Complaint and Request for Action is sent, your appeal must be filed within 120 days after you sent your Complaint and Request for Action to us or to the WCIRB. The filing address for all appeals to the insurance commissioner is:

Administrative Hearing Bureau  
California Department of Insurance  
45 Fremont Street, 22nd Floor  
San Francisco, California 94105

You have the right to a hearing before the insurance commissioner, and our action, or the action of the WCIRB, may be affirmed, modified, or reversed.

### III. RESOURCES AVAILABLE TO YOU IN OBTAINING INFORMATION AND PURSUING DISPUTES

- A. Policyholder Ombudsman.** Pursuant to California Insurance Code Section 11752.6, a policyholder ombudsman is available at the WCIRB to assist you in obtaining and evaluating the rating, policy, and claims information referenced in I.A. and I.B., above. The ombudsman may advise you on any dispute with us, the WCIRB, or on an appeal to the insurance commissioner pursuant to Section 11737 of the Insurance Code. The address of the policyholder ombudsman is WCIRB, 525 Market Street, Suite 800, San Francisco, California 94105-2767, Attention: Policyholder Ombudsman. The policyholder ombudsman can be reached by telephone at 415-778-7159 and by fax at 415-371-5288.
- B. California Department of Insurance - Information and Assistance.** Information and assistance on policy questions can be obtained from the Department of Insurance Consumer HOTLINE, 1-800-927-HELP (4357) or <http://www.insurance.ca.gov>. For questions and correspondence regarding appeals to the Administrative Hearing Bureau, see the contact information in paragraph II.C.

This notice does not change the policy to which it is attached.

## POLICYHOLDER NOTICE

### California Workers' Compensation Insurance Rating Laws

Pursuant to Section 11752.8 of the California Insurance Code, we are providing you with an explanation of the California workers' compensation rating laws.

1. We establish our own rates for workers' compensation. Our rates, rating plans, and related information are filed with the insurance commissioner and are open for public inspection.
2. The insurance commissioner can disapprove our rates, rating plans, or classification only if he or she has determined after public hearing that our rates might jeopardize our ability to pay claims or might create a monopoly in the market. A monopoly is defined by law as a market where one insurer writes 20% or more of that part of the California workers' compensation insurance that is not written by the State Compensation Insurance Fund. If the insurance commissioner disapproves our rates, rating plans, or classifications, he or she may order an increase in the rates applicable to outstanding policies.
3. Rating organizations may develop pure premium rates that are subject to the insurance commissioner's approval. A pure premium rate reflects the anticipated cost and expenses of claims per \$100 of payroll for a given classification. Pure premium rates are advisory only, as we are not required to use the pure premium rates developed by any rating organization in establishing our own rates.
4. We must adhere to a single, uniform experience rating plan. If you are eligible for experience rating under the plan, we will be required to adjust your premium to reflect your claim history. A better claim history generally results in a lower experience rating modification; more claims, or more expensive claims, generally result in a higher experience rating modification. The uniform experience rating plan, which is developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner.
5. A standard classification system, developed by the insurance rating organization designated by the insurance commissioner, is subject to approval by the insurance commissioner. The standard classification system is a method of recognizing and separating policyholders into industry or occupational groups according to their similarities and/or differences. We can adopt and apply the standard classification system or develop and apply our own classification system, provided we can report the payroll, expenses, and other costs of claims in a way that is consistent with the uniform statistical plan or the standard classification system.
6. Our rates and classifications may not violate the Unruh Civil Rights Act or be unfairly discriminatory.
7. We will provide an appeal process for you to appeal the way we rate your insurance policy. The process requires us to respond to your written appeal within 30 days. If you are not satisfied with the result of your appeal, you may appeal our decision to the insurance commissioner.

### CALIFORNIA WORKERS' COMPENSATION INSURANCE NOTICE OF NONRENEWAL

Section 11664 of the California Insurance Code required us, in most instances, to provide you with a notice of nonrenewal. Except as specified in paragraphs 1 through 6 below, if we elect to nonrenew your policy, we are required to deliver or mail to you a written notice stating that reason or reasons for the nonrenewal of the policy. The notice is required to be sent to you no earlier than 120 days before the end of the policy period and no later than 30 days before the end of the policy period. If we fail to provide you the required notice, we are required to continue the coverage under the policy with no change in the premium rate until 60 days after we provide you with the required notice.

We are not required to provide you with a notice of nonrenewal in any of the following situations:

1. Your policy was transferred or renewed without a change in its terms or conditions or the rate on which the premium is based to another insurer or other insurers who are members of the same insurance group as us.
2. The policy was extended for 90 days or less and the required notice was given prior to the extension.
3. You obtained replacement coverage or agreed, in writing, within 60 days of the termination of the policy, to obtain that coverage.
4. The policy is for a period of no more than 60 days and you were notified at the time of the issuance that it may not be renewed.
5. You requested a change in the terms or conditions or risks covered by the policy within 60 days prior to the end of the policy period.
6. We made a written offer to you to renew the policy at a premium rate increase of less than 25 percent.

(A) If the premium rate in your governing classification is to be increased 25 percent or greater and we intend to renew the policy, we shall provide a written notice of a renewal offer not less than 30 days prior to the policy renewal date. The governing classification shall be determined by the rules and regulations established in accordance with California Insurance Code Section 11750.3(c).

(B) For purposes of this Notice, "premium rate" means the cost of insurance per unit of exposure prior to the application of individual risk variations based on loss or expense considerations such as scheduled rating and experience rating.

This notice does not change the policy to which it is attached.

**WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY**

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**POLICYHOLDER NOTICE**

**CALIFORNIA INSURANCE GUARANTEE ASSOCIATION (CIGA) SURCHARGE**

Companies writing property and casualty insurance business in California are required to participate in the California Insurance Guarantee Association. If a company becomes insolvent, the California Insurance Guarantee Association settles unpaid claims and assesses each insurance company for its fair share.

California law requires all companies to surcharge policies to recover these assessments. If your policy is surcharged, "CA Surcharge" or "CA Surcharge (CIGA Surcharge)" with an amount will be displayed on your premium notice.

This notice does not change the policy to which it is attached.

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

Endorsement Effective **04/30/14**  
Insured **JC Sales**

Policy No. **73-853940-01-03**

Endorsement No. **103**  
Premium

Insurance Company  
**California Insurance Company**

Countersigned by \_\_\_\_\_

(Ed 12-01)



# California Insurance Company

10825 Old Mill Road  
Omaha, Nebraska 68154

## WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

### WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY QUICK REFERENCE

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**IMPORTANT:** This Quick Reference is **not** part of the Workers Compensation and Employers Liability Policy and does **not** provide coverage. Refer to the Workers Compensation and Employers Liability policy itself for actual contractual provisions.

Policyholders seeking information regarding coverage, or for assistance in resolving complaints can contact the Company by phone at 877-234-4420.

PLEASE READ THE WORKERS COMPENSATION AND EMPLOYERS LIABILITY POLICY CAREFULLY.

# WORKERS COMPENSATION AND EMPLOYERS LIABILITY INSURANCE POLICY

In return for the payment of the premium and subject to all terms of this policy, we agree with you as follows:

## GENERAL SECTION

### A. The Policy

This policy includes at its effective date the Information Page and all endorsements and schedules listed there. It is a contract of insurance between you (the employer named in Item 1 of the Information Page) and us (the insurer named on the Information Page). The only agreements relating to this insurance are stated in this policy. The terms of this policy may not be changed or waived except by endorsement issued by us to be part of this policy.

### B. Who is Insured

You are insured if you are an employer named in Item 1 of the Information Page. If that employer is a partnership, and if you are one of its partners, you are insured, but only in your capacity as an employer of the partnership's employees.

### C. Workers Compensation Law

Workers Compensation Law means the workers or

workmen's compensation law and occupational disease law of each state or territory named in Item 3.A. of the Information Page. It includes any amendments to that law which are in effect during the policy period. It does not include any federal workers or workmen's compensation law, any federal occupational disease law or the provisions of any law that provide nonoccupational disability benefits.

### D. State

State means any state of the United States of America, and the District of Columbia.

### E. Locations

This policy covers all of your workplaces listed in Items 1 or 4 of the Information Page; and it covers all other workplaces in Item 3.A. states unless you have other insurance or are self-insured for such workplaces.

## PART ONE - WORKERS COMPENSATION INSURANCE

### A. How This Insurance Applies

This workers compensation insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. Bodily injury by accident must occur during the policy period.
2. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.

### B. We Will Pay

We will pay promptly when due the benefits required of you by the workers compensation law.

### C. We Will Defend

We have the right and duty to defend at our expense any claim, proceeding or suit against you for benefits payable by this insurance. We have the right to investigate and settle these claims, proceedings or suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance.

### D. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding or suit we defend:

1. reasonable expenses incurred at our request, but not loss of earnings;
2. premiums for bonds to release attachments and for appeal bonds in bond amounts up to the amount payable under this insurance;
3. litigation costs taxed against you;
4. interest on a judgement as required by law until we offer the amount due under this insurance; and
5. expenses we incur.

### E. Other Insurance

We will not pay more than our share of benefits and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that may apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance will be equal until the loss is paid.

## F. Payments You Must Make

You are responsible for any payments in excess of the benefits regularly provided by the workers compensation law including those required because:

1. of your serious and willful misconduct;
2. you knowingly employ an employee in violation of law;
3. you fail to comply with a health or safety law or regulation; or
4. you discharge, coerce or otherwise discriminate against any employee in violation of the workers compensation law.

If we make any payments in excess of the benefits regularly provided by the workers compensation law on your behalf, you will reimburse us promptly.

## G. Recovery From Others

We have your rights, and the rights of persons entitled to the benefits of this insurance, to recover our payments from anyone liable for the injury. You will do everything necessary to protect those rights for us and to help us enforce them.

## H. Statutory Provisions

These statements apply where they are required by law.

1. As between an injured worker and us, we have

notice of the injury when you have notice.

2. Your default or the bankruptcy or insolvency of you or your estate will not relieve us of our duties under this insurance after an injury occurs.
3. We are directly and primarily liable to any person entitled to the benefits payable by this insurance. Those persons may enforce our duties; so may an agency authorized by law. Enforcement may be against us or against you and us.
4. Jurisdiction over you is jurisdiction over us for purposes of the workers compensation law. We are bound by decisions against you under that law, subject to the provisions of this policy that are not in conflict with that law.
5. This insurance conforms to the parts of the workers compensation law that apply to:
  - a. benefits payable by this insurance;
  - b. special taxes, payments into security or other special funds, and assessments payable by us under that law.
6. Terms of this insurance that conflict with the workers compensation law are changed by this statement to conform to that law.

Nothing in these paragraphs relieves you of your duties under this policy.

## PART TWO - EMPLOYERS LIABILITY INSURANCE

### A. How This Insurance Applies

This employers liability insurance applies to bodily injury by accident or bodily injury by disease. Bodily injury includes resulting death.

1. The bodily injury must arise out of and in the course of the injured employee's employment by you.
2. The employment must be necessary or incidental to your work in a state or territory listed in Item 3.A. of the Information Page.
3. Bodily injury by accident must occur during the policy period.
4. Bodily injury by disease must be caused or aggravated by the conditions of your employment. The employee's last day of last exposure to the conditions causing or aggravating such bodily injury by disease must occur during the policy period.
5. If you are sued, the original suit and any related legal actions for damages for bodily injury by accident or by disease must be brought in the United States of America, its territories or possessions, or Canada.

### B. We Will Pay

We will pay all sums that you legally must pay as damages because of bodily injury to your employees, provided the bodily injury is covered by this Employers Liability Insurance.

The damages we will pay, where recovery is permitted by law, include damages:

1. For which you are liable to a third party by reason of a claim or suit against you by that third party to recover the damages claimed against such third party as a result of injury to your employee;
2. For care and loss of services; and
3. For consequential bodily injury to a spouse, child, parent, brother or sister of the injured employee; provided that these damages are the direct consequence of bodily injury that arises out of and in the course of the injured employee's employment by you; and
4. Because of bodily injury to your employee that arises out of and in the course of employment, claimed against you in a capacity other than as employer.

### C. Exclusions

This insurance does not cover:

1. Liability assumed under a contract. This exclusion does not apply to a warranty that your work will be done in a workmanlike manner;
2. Punitive or exemplary damages because of bodily injury to an employee employed in violation of law;
3. Bodily injury to an employee while employed in violation of law with your actual knowledge or the actual knowledge of any of your executive officers;
4. Any obligation imposed by a workers compensation, occupational disease, unemployment compensation, or disability benefits law, or any similar law;
5. Bodily injury intentionally caused or aggravated by you;
6. Bodily injury occurring outside the United States of America, its territories or possessions, and Canada. This exclusion does not apply to bodily injury to a citizen or resident of the United States of America or Canada who is temporarily outside these countries;
7. Damages arising out of coercion, criticism, demotion, evaluation, reassignment, discipline, defamation, harassment, humiliation, discrimination against or termination of any employee, or any personnel practices, policies, acts or omissions;
8. Bodily injury to any person in work subject to the Longshore and Harbor Workers' Compensation Act (33 USC Sections 901-950), the Nonappropriated Fund Instrumentalities Act (5 USC Sections 8171-8173), the Outer Continental Shelf Lands Act (43 USC Sections 1331-1356a.), the Defense Base Act (42 USC Sections 1651-1654), the Federal Coal Mine Safety and Health Act (30 USC Sections 801-945), any other federal workers or workmen's compensation law or other federal occupational disease law, or any amendments to these laws;
9. Bodily injury to any person in work subject to the Federal Employers' Liability Act (45 USC Sections 51-60), any other federal laws obligating an employer to pay damages to an employee due to bodily injury arising out of or in the course of employment, or any amendments to those laws;
10. Bodily injury to a master or member of the crew of any vessel;
11. Fines or penalties imposed for violation of federal or state law; and
12. Damages payable under the Migrant and Seasonal Agricultural Worker Protection Act (29 USC Sections 1801-1872) and under any other federal law awarding damages for violation of those laws or regulations issued there under, and any amendments to those laws.

### D. We Will Defend

We have the right and duty to defend, at our expense, any claim, proceeding or suit against you for damages payable by this insurance. We have the right to investigate and settle these claims, proceedings and suits.

We have no duty to defend a claim, proceeding or suit that is not covered by this insurance. We have no duty to defend or continue defending after we have paid our applicable limit of liability under this insurance.

### E. We Will Also Pay

We will also pay these costs, in addition to other amounts payable under this insurance, as part of any claim, proceeding, or suit we defend:

1. Reasonable expenses incurred at our request, but not loss of earnings;
2. Premiums for bonds to release attachments and for appeal bonds in bond amounts up to the limit of our liability under this insurance;
3. Litigation costs taxed against you;
4. Interest on a judgement as required by law until we offer the amount due under this insurance; and
5. Expenses we incur.

### F. Other Insurance

We will not pay more than our share of damages and costs covered by this insurance and other insurance or self-insurance. Subject to any limits of liability that apply, all shares will be equal until the loss is paid. If any insurance or self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

### G. Limits of Liability

Our liability to pay for damages is limited. Our limits of liability are shown in Item 3.B. of the Information Page. They apply as explained below.

1. **Bodily Injury by Accident.** The limit shown for "bodily injury by accident - each accident" is the most we will pay for all damages covered by this insurance because of bodily injury to one or more employees in any one accident.

A disease is not bodily injury by accident unless it results directly from bodily injury by accident.

2. Bodily Injury by Disease. The limit shown for "bodily injury by disease - policy limit" is the most we will pay for all damages covered by this insurance and arising out of bodily injury by disease, regardless of the number of employees who sustain bodily injury by disease. The limit shown for "bodily injury by disease - each employee" is the most we will pay for all damages because of bodily injury by disease to any one employee.

Bodily injury by disease does not include disease that results directly from a bodily injury by accident.

3. We will not pay any claims for damages after we have paid the applicable limit of our liability under this insurance.

#### H. Recovery From Others

We have your rights to recover our payment from any-

one liable for an injury covered by this insurance. You will do everything necessary to protect those rights for us and to help us enforce them.

#### I. Actions Against Us

There will be no right of action against us under this insurance unless:

1. You have complied with all the terms of this policy; and
2. The amount you owe has been determined with our consent or by actual trial and final judgement.

This insurance does not give anyone the right to add us as a defendant in an action against you to determine your liability. The bankruptcy or insolvency of you or your estate will not relieve us of our obligations under this Part.

### PART THREE - OTHER STATES INSURANCE

#### A. How This Insurance Applies

1. This other states insurance applies only if one or more states are shown in Item 3.C. of the Information Page.
2. If you begin work in any one of those states after the effective date of this policy and are not insured or are not self-insured for such work, all provisions of the policy will apply as though that state were listed in Item 3.A. of the Information Page.
3. We will reimburse you for the benefits required

by the workers compensation law of that state if we are not permitted to pay the benefits directly to persons entitled to them.

4. If you have work on the effective date of this policy in any state not listed in item 3.A. of the Information Page, coverage will not be afforded for that state unless we are notified within thirty days.

#### B. Notice

Tell us at once if you begin work in any state listed in Item 3.C. of the Information Page.

### PART FOUR - YOUR DUTIES IF INJURY OCCURS

Tell us at once if injury occurs that may be covered by this policy. Your other duties are listed here.

1. Provide for immediate medical and other services required by the workers compensation law.
2. Give us or our agent the names and addresses of the injured persons and of witnesses, and other information we may need.
3. Promptly give us all notices, demands and legal pa-

pers related to the injury, claim, proceeding or suit.

4. Cooperate with us and assist us, as we may request, in the investigation, settlement or defense of any claim, proceeding or suit.
5. Do nothing after an injury occurs that would interfere with our right to recover from others.
6. Do not voluntarily make payments, assume obligations or incur expenses, except at your own cost.

### PART FIVE - PREMIUM

#### A. Our Manuals

All premium for this policy will be determined by our manuals of rules, rates, rating plans and classifications. We may change our manuals and apply the changes to this policy if authorized by law or a governmental agency regulating this insurance.

#### B. Classifications

Item 4 of the Information Page shows the rate and premium basis for certain business or work classifications. These classifications were assigned based on an estimate of the exposures you would have dur-

ing the policy period. If your actual exposures are not properly described by those classifications, we will assign proper classifications, rates and premium basis by endorsement to this policy.

#### C. Remuneration

Premium for each work classification is determined by multiplying a rate times a premium basis. Remuneration is the most common premium basis. This premium basis includes payroll and all other remuneration paid or payable during the policy period for the services of:

1. all your officers and employees engaged in work covered by this policy; and
2. all other persons engaged in work that could make us liable under Part One (Workers Compensation Insurance) of this policy. If you do not have payroll records for these persons, the contract price for their services and materials may be used as the premium basis. This paragraph 2 will not apply if you give us proof that the employers of these persons lawfully secured their workers compensation obligations.

**D. Premium Payments**

You will pay all premium when due. You will pay the premium even if part or all of a workers compensation law is not valid.

**E. Final Premium**

The premium shown on the Information Page, schedules, and endorsements is an estimate. The final premium will be determined after this policy ends by using the actual, not the estimated, premium basis and the proper classifications and rates that lawfully apply to the business and work covered by this policy. If the final premium is more than the premium you paid to us, you must pay us the balance. If it is less, we will refund the balance to you. The final premium will not be less than the highest minimum premium for the classifications covered by this policy.

If this policy is canceled, final premium will be determined in the following way unless our manuals provide otherwise:

1. If we cancel, final premium will be calculated pro rata based on the time this policy was in force. Final premium will not be less than the pro rata share of the minimum premium.
2. If you cancel, final premium will be more than pro rata; it will be based on the time this policy was in force, and increased by our short-rate cancellation table and procedure. Final premium will not be less than the minimum premium.

**F. Records**

You will keep records of information needed to compute premium. You will provide us with copies of those records when we ask for them.

**G. Audit**

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.

**PART SIX - CONDITIONS**

**A. Inspection**

We have the right, but are not obliged to inspect your workplaces at any time. Our inspections are not safety inspections. They relate only to the insurability of the workplaces and the premiums to be charged. We may give you reports on the conditions we find. We may also recommend changes. While they may help reduce losses, we do not undertake to perform the duty of any person to provide for the health or safety of your employees or the public. We do not warrant that your workplaces are safe or healthful or that they comply with laws, regulations, codes or standards. Insurance rate service organizations have the same rights we have under this provision.

**B. Long Term Policy**

If the policy period is longer than one year and sixteen days, all provisions of this policy will apply as though a new policy were issued on each annual anniversary that this policy is in force.

**C. Transfer of Your Rights and Duties**

Your rights or duties under this policy may not be transferred without our written consent.

If you die and we receive notice within thirty days after

your death, we will cover your legal representative as insured.

**D. Cancellation**

1. You may cancel this policy. You must mail or deliver advance written notice to us stating when the cancellation is to take effect.
2. We may cancel this policy. We must mail or deliver to you not less than ten days advance written notice stating when the cancellation is to take effect. Mailing that notice to you at your mailing address shown in Item 1 of the Information Page will be sufficient to prove notice.
3. The policy period will end on the day and hour stated in the cancellation notice.
4. Any of these provisions that conflict with a law that controls the cancellation of the insurance in this policy is changed by this statement to comply with the law.

**E. Sole Representative**

The insured first named in Item 1 of the Information Page will act on behalf of all insureds to change this policy, receive return premium, and give or receive notice of cancellation.

In Witness Whereof, California Insurance Company has caused this policy to be executed and attested, and if required by state law, this policy shall not be valid unless countersigned by our authorized representative.



President



Secretary

1 **PROOF OF SERVICE**

2 *Shims Bargain, Inc., et al. v. Applied Underwriters, Inc., et al.*

3 **Case No. VC065738**

4 STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

5 I am employed in the County of Los Angeles, State of California. I am over the age of  
6 18 and not a party to the within actions; my business address is 633 West 5th Street, Los Angeles, CA 90071-2800.

7 On **September 19, 2018**, I served the document(s) entitled **CROSS-COMPLAINT**  
8 **AGAINST PLAINTIFFS FOR BREACH OF CONTRACT AND QUASI-CONTRACT** on the interested parties in this action by placing true copies thereof enclosed in a sealed envelope(s) addressed as stated below:

9 Larry J. Lichtenegger, Esq.  
10 **The Lichtenegger Law Office**  
11 3850 Rio Road, #58  
12 Carmel, California 93923  
13 Phone: 831-626-2801  
14 Fax: 831-886-1639  
15 E-Mail: larry@ljllaw.com

16  **(BY MAIL)**: I placed the envelope for collection and mailing at Los Angeles, California. The envelope was mailed with postage fully prepaid. I am readily familiar with this firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. postal service on that same day with postage thereon fully prepaid at Los Angeles, California, in the ordinary course of business. I am aware that on motion of party served, service is presumed invalid if postal cancellation date or postage meter date is more than 1 day after date of deposit for mailing in affidavit.

17  **(BY E-MAIL OR ELECTRONIC TRANSMISSION)**: Based on a court order or an agreement of the parties to accept service by e-mail or electronic transmission, I caused the document(s) to be sent to the person[s] at the e-mail address[es] set forth herein. I did not receive, within a reasonable time after the transmission, any electronic message or other indication that the transmission was unsuccessful. See Cal.R.Ct.R. 2060.

18  **(BY PERSONAL SERVICE)**: I caused such envelope to be delivered to a commercial messenger service with instructions to personally deliver same to the offices of the addressee as shown on the attached mailing list on this date.

19 I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

20 Executed on **September 19, 2018**, at Los Angeles, California.

21 

22 

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Anita Varela

## EXHIBIT B

1 CALIFORNIA DEPARTMENT OF INSURANCE  
LEGAL DIVISION

2 Michael J. Levy, Bar No. 154290  
Harry J. LeVine, Bar No. 105972  
3 Christina Carroll, Bar No. 263713  
45 Fremont Street, 21st Floor  
4 San Francisco, CA 94105  
Telephone: (415) 538-4109  
5 Facsimile: (415) 904-5490  
[harry.levine@insurance.ca.gov](mailto:harry.levine@insurance.ca.gov)

6 Attorneys for the California Department of Insurance

7  
8 BEFORE THE INSURANCE COMMISSIONER  
9 OF THE STATE OF CALIFORNIA  
10

11 In the Matter of the Certificates of  
12 Authority of

13 CALIFORNIA INSURANCE COMPANY  
and APPLIED UNDERWRITERS  
14 CAPTIVE RISK ASSURANCE  
COMPANY, INC.

15 Respondents.  
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File No.: MI-2015-00064

NOTICE OF HEARING AND ORDER TO  
CEASE AND DESIST FROM ISSUANCE OR  
RENEWAL OF WORKERS'  
COMPENSATION INSURANCE POLICIES  
AND COLLATERAL/ANCILLARY  
AGREEMENTS IN VIOLATION OF  
INSURANCE CODE SECTIONS 11658 AND  
11735 AND CALIFORNIA CODE OF  
REGULATIONS, TITLE 10, SECTIONS 2251  
AND 2268; NOTICE OF INTENT TO SEEK  
RECOVERY OF COSTS

(Ins. Code §§1065.1 and 1065.3)

22 The California Department of Insurance (CDI) brings this matter against Respondent  
23 California Insurance Company (CIC) pursuant to Insurance Code §1065.1 and §1065.3 to require  
24 it to cease and desist from issuing or renewing any workers' compensation insurance policy that  
25 is amended, supplemented, endorsed or modified by, or which includes, incorporates, attaches or  
26 uses in any manner, any form of ancillary or collateral agreement referred to as a "Reinsurance  
27 Participation Agreement" or referred to by any other name (hereafter, an "RPA") that was held by  
28 the Insurance Commissioner's Decision & Order in *In the Matter of the Appeal of Shasta Linen*

1 *Supply, Inc.*, CDI File No. AHB-WCA-14-31 (*Shasta Linen*), to be the use of an unfiled and  
2 unapproved collateral agreement in violation of Insurance Code §§11658 and 11735 and  
3 California Code of Regulations, Title 10, §2268 and former §2218.

4 The CDI brings this matter against Respondent Applied Underwriters Captive Risk  
5 Assurance Company, Inc. (AUCRA) pursuant to Insurance Code §1065.1 and §1065.3 to require  
6 it to cease and desist from issuing or renewing any RPA that is ancillary or collateral to a  
7 workers' compensation insurance policy issued to a California employer.

8 I

9 PARTIES AND ENTITIES

10 A. Respondent CIC is an insurance company domiciled in California that holds, and at all  
11 times relevant hereto held, a Certificate of Authority issued by the Insurance Commissioner to  
12 transact various classes of insurance, including workers' compensation insurance. CIC is a  
13 person subject to examination and is subject to the provisions of Insurance Code Article 1.4  
14 (commencing with Insurance Code §1010.)

15 B. Respondent AUCRA is an insurance company domiciled in Iowa that holds a  
16 Certificate of Authority issued by the Insurance Commissioner to transact workers' compensation  
17 insurance in California.

18 C. CIC is a wholly-owned subsidiary of North American Casualty Company, which is an  
19 insurer domiciled in Iowa and which holds a Certificate of Authority issued by the Insurance  
20 Commissioner to transact various classes of insurance. North American Casualty Company and  
21 AUCRA are subsidiaries of Applied Underwriters, Inc. Applied Underwriters, Inc. is a  
22 subsidiary of Berkshire Hathaway, Inc.

23 II

24 USE OF UNAPPROVED FORM AND UNFILED RATE

25 A. CIC sold and currently has in effect, is liable on or administers workers' compensation  
26 insurance policies that were issued to California employers. CIC is authorized pursuant to its  
27 Certificate of Authority to issue new workers' compensation insurance policies to California  
28 employers.

1 B. CIC's workers' compensation insurance policies specify rates that were filed with the  
2 Insurance Commissioner by CIC pursuant to Insurance Code §11735. The filed rates are based  
3 on rate information and supplementary information submitted by CIC to the Insurance  
4 Commissioner as required by Insurance Code §11735. The workers' compensation insurance  
5 policies are written on forms that were submitted to the Insurance Commissioner and to the  
6 Workers' Compensation Insurance Rating Bureau of California (WCIRB) for review in  
7 compliance with Insurance Code §11658, and if applicable, Regulation §2268.

8 C. The rates under CIC's workers' compensation insurance policies, as described in  
9 Paragraphs A and B above, are fixed (subject to variation by payroll amounts and permissible  
10 factors, such as experience modification factors.) The policies do not contain retrospective rating  
11 factors, large deductibles, or terms that place a substantial cost of workers' compensation claims  
12 (including loss adjustment expenses) on the employer. CIC's approved workers' compensation  
13 insurance policies are hereafter referred to as the "Guaranteed Cost Policies." The Guaranteed  
14 Cost Policies are effective for one year.

15 D. CIC sold, has in effect, is liable on and administers Guaranteed Cost Policies that it  
16 issued as part of a workers' compensation insurance program that is titled "EquityComp."  
17 EquityComp contains the following components and operates as follows:

18 i. CIC entered into a reinsurance treaty with AUCRA pursuant to which it cedes a portion  
19 of the liabilities and premiums on the Guaranteed Cost Policies to AUCRA;

20 ii. When CIC sells a Guaranteed Cost Policy to a California employer, it requires the  
21 employer to enter into an RPA with AUCRA, which is a three-year contract. The RPA requires  
22 the employer to fund reimbursement to CIC of a substantial part of the workers' compensation  
23 claim payments that CIC will make under the Guaranteed Cost Policy. The RPA also requires the  
24 employer to fund reimbursement (or payment) of loss reserves. Finally, the RPA requires the  
25 employer to fund reimbursement of loss adjustment expenses that CIC incurs and will incur under  
26 the Guaranteed Cost Policy.

27 iii. The RPA requires the employer to fund reimbursement of the claims payments, loss  
28 reserves and expenses set forth in Subparagraph (ii) above by making periodic deposits into an

1 account that it calls a “single cell.” The “single cell” is for payment or reimbursement of claims,  
2 reserves and expenses pertaining only to the employer’s Guaranteed Cost Policy. The RPA states  
3 that an employer’s “single cell” is not liable for debts and obligations of other employers’ “single  
4 cells.” The RPA is not a contract of reinsurance.

5 iv. The RPA requires the use of rates other than the rates set forth in the Guaranteed Cost  
6 Policy and it supersedes the rates and premium provisions of the Guaranteed Cost Policy.

7 v. The RPA contains terms that are inconsistent with the Guaranteed Cost Policy, that  
8 supersede the terms of the Guaranteed Cost Policy, and are disadvantageous to the employer. The  
9 RPA contains different loss reserving factors, different loss adjustment expense factors, and  
10 different cancellation rates than the Guaranteed Cost Policy. The payments required by the RPA  
11 into the “single cell” are typically far in excess of the premiums required by the Guaranteed Cost  
12 Policy.

13 vi. By requiring the employer to fund the “single cell” and by using the “single cell” to  
14 reimburse CIC for claim costs, loss adjustment expenses, and other expenses, and providing that  
15 those provisions control over the Guaranteed Cost Policy, the RPA substitutes a retrospective  
16 rated policy for the terms of the Guaranteed Cost Policy.

17 vii. Neither CIC nor AUCRA filed the RPA rates or filed supplementary rate information  
18 with the Insurance Commissioner as required by Insurance Code §11735 prior to the issuance of  
19 the Equity Comp policies that are now in effect or are being administered.

20 viii. Neither CIC nor AUCRA filed or sought approval of the RPA with the WCIRB or  
21 the Insurance Commissioner as required by Insurance Code §11658, former Regulation §2218  
22 and Regulation §2268, prior to the issuance of the Equity Comp policies that are now in effect or  
23 are being administered. The RPA has never been approved for use.

24 ix. As a result of the terms of the RPA, the EquityComp premiums are based on rates  
25 other than the rates and factors that CIC filed with the Insurance Commissioner.

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III

SHASTA LINEN DECISION & ORDER

A. In 2010, Shasta Linen Supply, Inc. obtained an EquityComp policy from CIC. The policy included a Guaranteed Cost Policy and an RPA that it entered into with AUCRA.

B. Pursuant to Insurance Code §11737, sometime prior to August 2014, Shasta Linen disputed with CIC the amounts that CIC and/or AUCRA demanded that Shasta Linen deposit into its "single cell" under the EquityComp policy. CIC rejected Shasta Linen's dispute and on August 29, 2014, pursuant to Insurance Code §11737(f), Shasta Linen appealed CIC's rejection to the Insurance Commissioner in the matter identified above as *Shasta Linen*. The appeal was heard by the Insurance Commissioner's Administrative Hearing Bureau.

C. Among the issues in *Shasta Linen* were the following;

(i) whether the RPA was a collateral agreement to CIC's Guaranteed Cost Policy that was required to have been filed with the Insurance Commissioner and the WCIRB pursuant to Insurance Code §11658 and Regulation §§2218 (now §2251) and 2268;

(ii) whether CIC could charge Shasta Linen the rates required by the RPA and could enforce the terms of the RPA.

D. On June 20, 2015, the Insurance Commissioner issued his Decision & Order which held that RPA IS an unfiled collateral agreement and is an illegal contract. The Decision & Order provides, in pertinent part, as follows:

VIII. Conclusion

[T]he Insurance Commissioner finds by a preponderance of the evidence that Shasta Linen met its burden of proof in demonstrating that it is aggrieved by CIC's misapplication of its filed rates as a result of an unfiled and unapproved collateral agreement that modified the terms and conditions of the guaranteed cost policy, in violation of Insurance Code sections 11737 [sic] and 11658 and California Code of Regulations, title 10, section 2268.

Further, CIC's EquityComp program's Reinsurance Participation Agreement constitutes a collateral agreement modifying the rates and obligations of the insured and insurer, and is void as a matter of law since it was required to be filed with the Workers' Compensation Insurance Rating Bureau and filed with the Department of Insurance before its use in the State of California, pursuant to Insurance Code section 11658 and California Code of Regulations, title 10, sections 2268 and 2218.

E. Paragraph 2 of the Decision & Order provides that the Decision and Order is

1 precedential pursuant to Government Code section 11425, subdivision (b).

2 IV

3 CONDITIONS PRECEDENT FOR ISSUANCE OF ORDERS

4 PURSUANT TO INSURANCE CODE §§1065.1 AND 1065.3

5 CIC has worker's compensation insurance policies in force that have an RPA, or is  
6 continuing to administer policies that have an RPA, including EquityComp policies. AUCRA  
7 entered into RPAs that are in effect that were made part of Equity Comp policies issued by CIC.  
8 The *Shasta Linen* Decision & Order determined that the RPA is an unfiled collateral agreement in  
9 violation of Insurance Code §11658 and Regulation §2268 and is an illegal contract.

10 Neither the RPA that was at issue in *Shasta Linen* or any ancillary or collateral agreement  
11 that is substantially similar to that RPA has been approved by the Insurance Commissioner. On  
12 April 16, 2016 and May 19, 2016, AUCRA filed a modified RPA form with the WCIRB and the  
13 Insurance Commissioner, respectively. The Insurance Commissioner notified AUCRA on June  
14 16, 2016 that the modified form is not approved for use.

15 As of April 1, 2016, the requirement for filing and approval of collateral agreements (now  
16 referred to as ancillary agreements) is contained in Regulation §2251(a) and §2268(b).

17 The CDI has reasonable cause to believe that CIC, by issuing or renewing workers'  
18 compensation insurance policies with California employers that have the RPA form that was at  
19 issue in *Shasta Linen* or that have an ancillary or collateral agreement that is substantially similar  
20 to that RPA form, and AUCRA, by issuing or renewing the RPA form that was at issue in *Shasta*  
21 *Linen* or an ancillary or collateral agreement that is substantially similar to that RPA form, will  
22 commit or engage in acts, practices or transactions that would constitute grounds rendering each  
23 of them subject to conservation and liquidation proceedings as follows:

24 A. Insurance Code §1011(e); by violating "any law of the state"; to wit, Insurance Code  
25 §§11658 and 11735 and Regulation §§2251 and 2268 and former Regulation §2218;

26 B. Insurance Code §1011(h); by failing to comply with the requirements for issuance of a  
27 certificate of authority; to wit, Insurance Code §717, subpart (e) ("competency, character, and  
28 integrity of management") and subpart (h) ("fairness and honesty of methods of doing business.")

ORDERS TO BE ISSUED AFTER HEARING TO CEASE & DESIST

The CDI seeks issuance of the following orders upon proof of the matters alleged herein:

A. An order that CIC shall cease and desist from violating Insurance Code §§11658 and §11735 and Regulation §§2251 and 2268 and shall not issue any EquityComp policy, or any other workers' compensation insurance policy, that has an RPA, or has a substantially similar unfiled ancillary or collateral agreement, unless and until such time, if ever, that the RPA or a substantially similar ancillary or collateral agreement is approved by the Insurance Commissioner;

B. An order that CIC shall cease and desist from violating §11658 and §11735 and Regulation §§2251 and 2268, and former Regulation §2218, and shall not renew any EquityComp policy, or any other workers' compensation insurance policy, that has an RPA, or has a substantially similar unfiled ancillary or collateral agreement, unless and until such time, if ever, the RPA or a substantially similar ancillary or collateral agreement is approved by the Insurance Commissioner, such approval being on a prospective basis only and without prejudice to the rights and remedies of an employer as to whom an RPA was previously issued in violation of Insurance Code §§11658 and 11735 and Regulation §§2218, 2251 and 2268.

C. An order that AUCRA shall cease and desist from violating §11658 and §11735 and Regulation §§2251 and 2268 and shall not enter into an RPA or a substantially similar unfiled ancillary or collateral agreement that is to be attached to an EquityComp policy or attached to any other workers' compensation insurance policy, unless and until such time, if ever, the RPA or a substantially similar ancillary or collateral agreement is approved by the Insurance Commissioner;

D. An order that AUCRA shall cease and desist from violating §11658 and §11735 and Regulation §§2251 and 2268, and former Regulation §2218 and shall not renew an RPA or a substantially similar unfiled ancillary or collateral agreement that is attached to an EquityComp policy or is attached to any other workers' compensation insurance policy unless and until such time, if ever, the RPA or a substantially similar ancillary or collateral agreement is approved by

1 the Insurance Commissioner, such approval being on a prospective basis only and without  
2 prejudice to the rights and remedies of an employer as to whom an RPA was previously issued in  
3 violation of Insurance Code §§11658 and 11735 and Regulation §§2218, 2251 and 2268.

4 E. Such orders as may be reasonably necessary to correct, eliminate, or remedy the  
5 conduct, conditions or grounds set forth in this "Notice of Hearing and Order to Cease and Desist  
6 ..."

7 VI

8 NOTICE OF INTENT TO RECOVER COSTS

9 The CDI seeks an order to direct CIC and AUCRA to fully reimburse the Insurance  
10 Commissioner for the costs of investigating, examining, and prosecuting this matter, pursuant to  
11 Insurance Code §1065.3.

12 VII

13 NOTICE OF HEARING

14 Pursuant to Insurance Code §1065.1, CIC and AUCRA are notified that a hearing shall  
15 take place on a date and time to be set by the CDI, which unless otherwise agreed upon, shall be  
16 not less than 20 days and not more than 30 days from the date of service of this "Notice of  
17 Hearing and Order to Cease and Desist ..."

18 Date: June 28, 2016

CALIFORNIA DEPARTMENT OF INSURANCE

19  
20 By \_\_\_\_\_

  
Harry J. LeVine  
Attorney IV

# EXHIBIT C

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.  
PARTICIPANT NO. 860847  
REINSURANCE PARTICIPATION AGREEMENT**

This reinsurance participation agreement (this "Agreement") is made and entered into by and between Applied Underwriters Captive Risk Assurance Company, Inc., a company organized and existing under the laws of the British Virgin Islands ("Company") as of November 13, 2012 and O'Connell Landscape Maintenance, Inc. (collectively, "Participant").

Whereas, Participant is desirous of participating in the Company's segregated protected cell reinsurance program designated Segregated Account No. 860847 ("Participation"); and

Whereas, the Company has entered into a Reinsurance Treaty (hereinafter referred to as the "Treaty") with California Insurance Company (NAIC No. 0031-38865) and, through its pooling arrangement, with other affiliates of Applied Underwriters, Inc., including, but not limited to Continental Indemnity Company (NAIC No. 0031-28258) (collectively the "Issuing Insurers"); and

Whereas, the Participant desires the Company to establish a segregated protected cell whereby the Participant may share in the underwriting results of the Workers' Compensation policies of insurance issued for the benefit of the Participant by the Issuing Insurers (the "Policies"); and

Whereas the Company will allocate a portion of the premium and losses under this Agreement to the Participant's segregated protected cell,

Now, therefore, in consideration of the mutual promises and undertakings set forth herein the parties do hereby agree as follows:

1. Participant agrees to participate in the Company's segregated protected cell reinsurance program in accordance with Schedule 1 attached hereto and incorporated herein by reference and additional Schedules as may be executed from time to time on a prospective basis only by the parties ("Additional Schedules").

2. Participant's interest in the Company is solely as a segregated protected "cell" with segregation of the Company's assets and liabilities among the segregated accounts (known as "cells") established by the Company. There is no "joint and several" liability. The cells of the Company are not liable for the debts and obligations and are not bound with respect to contracts entered into by another cell. Participant further acknowledges and agrees that Participant: (1) will look solely to the assets of Participant's cell for satisfaction of the Company's liabilities hereunder; (2) has consulted with legal counsel and other insurance advisers as to the applicability and effect of this Agreement; (3) irrevocably waives any right, substantive or procedural, which Participant may have to challenge the effectiveness and the Company's ability and right to segregate assets among the cells; and (4) covenants not to sue, attach, pursue or make any claim against or with respect to any asset, property or right of the Company which is not an asset, property or right of Participant's segregated protected cell.

3. Participant is participating in this Agreement for purposes of investment only. The Participation has not been registered under the United States Securities Act of 1933, as amended or any state securities laws. The Participation shall not be sold, transferred, hypothecated, pledged or otherwise assigned or encumbered and Participant acknowledges the following:

"This Participation has not been registered under the Securities Act of 1933, as amended or qualified under any state securities law. This Participation has been acquired for investment and may not be sold, transferred, hypothecated, pledged or otherwise assigned or encumbered in the absence of registration or an exemption therefrom under such act and such laws."

4. This Agreement and any Schedules hereto may not be modified, amended or supplemented in any manner except in writing signed by the parties hereto and represents the entire understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations, proposals, letters of intent, correspondence and understandings relating to the subject matter hereof. The initial term of this Agreement (the "Active Term") is for three (3) years and may be extended from time to time by the parties. All existing obligations from each party to the other or to third parties shall remain in force as of the expiration of the Active Term until this Agreement is terminated (the "Run-Off Term") as set forth in Schedule 1 or any Additional Schedules.

During the Active Term of this Agreement, Workers' Compensation Insurance coverage will be provided to Participant by one or more of the Issuing Insurers. If Participant elects to cancel this Agreement, or if any of the Policies are cancelled or non-renewed prior to the end of the Active Term ("Early Cancellation"), the Participant shall abide by the Early Cancellation terms set forth in Schedule 1 or any Additional Schedules.

If the Issuing Insurer is required to provide Workers' Compensation Insurance coverage on behalf of the Participant outside of the Active Term (the "Extension Period"), special extension terms ("Extension Terms") will apply during the Extension Period. The Extension Terms are: (1) Participant through their cell will be liable for all losses occurring during the Extension Period without limitation on any Policies issued by the Issuing Insurers on behalf of Participant; (2) the Company will allocate to Participant's cell an amount equal to 45% of premium earned during the Extension Period under any Policies issued by the Issuing Insurers on behalf of Participant; (3) Participant will immediately pay to the Company a cash deposit equal to 55% of the premium anticipated, as determined exclusively by the Company, during the Extension Period under any Policies issued by the Issuing Insurers on behalf of Participant; (4) Participant will maintain at all times a cash deposit with the Company sufficient to cover outstanding losses occurring during the Extension Period plus incurred but not reserved and/or reported losses (IBNR) as determined exclusively by the Company; and (5) Participant will immediately pay to the Company an Early Cancellation fee equal to 20% of the premium anticipated, as determined exclusively by the Company, during the Extension Period under Policies issued by the Issuing Insurers on behalf of Participant.

5. Participant acknowledges that under the laws of some states, Participant may have the option to choose from various deductible amounts as a part of its Policies, but that opting for a deductible would preclude Participant from entering into this Agreement. Applicant, being fully advised, knowingly waives and relinquishes its right to choose a deductible on the Policies under applicable law as further consideration for this Agreement.

6. Participant may not assign or transfer its rights under this Agreement to any third party without the written consent of the Company which consent may be withheld in the Company's absolute discretion.

7. The parties' obligations under this Agreement shall survive the Active Term of this Agreement, and shall be extinguished only when the Company no longer has any potential or actual liability to the Issuing Insurers with respect to the Policies reinsured by the Company under the Treaty.

8. Applied Risk Services, Inc. (Applied Risk Services of New York, Inc. in New York State) has been appointed the billing agent for the Company and the Issuing Insurers and is authorized by the Company, Issuing Insurers, and Participant to account for offset and true up any and all amounts due each of the parties. Participant will allow the Company to audit Participant's records on reasonable notice and during normal business hours that relate to the Policies. These records include, but are not limited to ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. Information developed by audit will be used to assign worker classifications, determine the compensability of payroll and claims, and determine final premium and cession amounts.

9. In the event the Participant is in default of any obligations to the Company under this Agreement or under any other agreement with any affiliate of the Company (Affiliated Agreements), the Company may take all reasonable steps to protect its and its affiliates' interests. The parties hereto shall have the right to the fullest extent provided by law to offset or recoup any balances due from one to the other under this Agreement or any Affiliated Agreements.

10. In consideration of the mutual benefits arising under this Agreement, Participant hereby grants to Company, effective from and after the date hereof, a lien and security interest in all assets of Participant's cell to secure payment of any amounts owed by Participant under this Agreement. The provisions of this section shall create a security agreement under the Uniform Commercial Code (the "Code") in the state of Participant's domiciliary jurisdiction so that Company shall have and may enforce a security interest on all of Participant's assets in Participant's cell. Participant agrees to execute as debtor any financing statement Company may reasonably request in order that Company's security interest be protected pursuant to the Code, or Company is authorized to file a copy of this Agreement for such purpose.

11. Participant hereby represents and warrants to the Company as follows:

(A) Participant (i) is duly organized, validly existing and in good standing under the laws of its domiciliary jurisdiction, (if a corporation, partnership, or limited liability company), and (ii) has adequate power and authority and full legal right to carry on the businesses in which it is presently engaged and presently proposes to engage.

(B) Participant has adequate power and authority and has full legal right (i) to enter into this Agreement and (ii) to perform all of its agreements and obligations under this Agreement.

(C) The execution and delivery by Participant of this Agreement and the performance by Participant of all of its undertakings and obligations under this Agreement, including any payments required to be made by Participant to the Company under this Agreement, have been duly and properly authorized by all necessary action on the part of Participant, and do not and will not (a) contravene any provision of the charter or by-laws of Participant (if a corporation, partnership or limited liability company) or other constitutional or governing documentation of Participant (each as in effect on the date hereof), (b) conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, or (except as otherwise contemplated and required or permitted by this Agreement) result in the creation of any mortgage, lien, pledge, charge, security interest or other encumbrance upon any of the property of Participant under any agreement, trust deed, indenture, mortgage or other instrument to which Participant is a party or by which Participant or its respective property is bound or affected on the date hereof, (c) violate or contravene any provision of any law or published regulation or any published order, ruling or interpretation thereunder or any decree, order or judgment of any court or governmental or regulatory authority, bureau, agency or official (all as in effect on the date hereof and applicable to Participant), (d) require any waivers, consents or approvals by any of the creditors or trustees for creditors of record of Participant, or (e) require any consents or approvals by any Participant (except such as have been duly obtained and are in full force and effect on the date hereof).

(D) This Agreement, when executed and delivered, shall have been duly and properly executed and delivered by Participant.

(E) The agreements and obligations of Participant contained in this Agreement constitute legal, valid and binding obligations of Participant, enforceable against Participant in accordance with their terms.

(F) The information that has been and/or will be supplied to the Company by Participant or on Participant's behalf with respect to this Agreement is accurate and complete, and with respect to financial information, comports with generally accepted accounting principles.

12. Participant acknowledges that the Company has not made, and does not make, any oral, written or other representations, whether explicit, implied or otherwise, upon which Participant may rely concerning any possible tax benefits that may be derived from this Agreement. Participant further acknowledges that any tax liability resulting from this Agreement, including but not limited to any tax assessments or related examinations conducted by the Internal Revenue Service or other taxing authority, will be the sole responsibility of Participant.

13. Nothing in this section shall be deemed to amend or alter the due date of any obligation under this Agreement. Rather, this section is only intended to provide a mechanism for resolving accounting disputes in good faith.

(A) It is the express intention of the parties to resolve any disputes arising under this Agreement without resort to litigation in order to protect the confidentiality of their relationship and their respective

businesses and affairs. Any dispute or controversy that is not resolved informally pursuant to sub-paragraph (B) of Paragraph 13 arising out of or related to this Agreement shall be fully determined in the British Virgin Islands under the provisions of the American Arbitration Association.

(B) All disputes between the parties relating in any way to (1) the execution and delivery, construction or enforceability of this Agreement, (2) the management or operations of the Company, or (3) any other breach or claimed breach of this Agreement or the transactions contemplated herein shall be settled amicably by good faith discussion among all of the parties hereto, and, failing such amicable settlement, finally determined exclusively by binding arbitration in accordance with the procedures provided herein. The reference to this arbitration clause in any specific provision of this Agreement is for emphasis only, and is not intended to limit the scope, extent or intent of this arbitration clause, or to mean that any other provision of this Agreement shall not be fully subject to the terms of this arbitration clause. All disputes arising with respect to any provision of this Agreement shall be fully subject to the terms of this arbitration clause.

(C) Either party may initiate arbitration by serving written demand upon the other party or parties. The demand shall state in summary form the issues in dispute in a manner that reasonably may be expected to apprise the other party of the nature of the controversy and the particular damage or injury claimed. The party receiving the demand shall answer in writing within 30 days and include in such answer a summary of any additional issues known or believed to be in dispute by such party described in a manner that reasonably may be expected to apprise the other party of the nature of the controversy and the particular damage or injury claimed. Failure to answer will be construed as a denial of the issues in demand.

(D) The parties shall select a mutually acceptable arbitrator within 30 days of the demand for arbitration. If the parties are unable to agree on an arbitrator within the 30 days, then each party shall appoint an arbitrator within 30 days thereof. If a party fails to appoint its arbitrator within such 30 day period, the party shall thereby waive its right to do so, and the other party's selected arbitrator shall act as the sole arbitrator. All arbitrators shall be active or retired, disinterested officials of insurance or reinsurance companies not under the control or management of either party to this Agreement and will not have personal or financial interests in the result of the arbitration.

(E) If two party-appointed arbitrators have been selected, the selected arbitrators shall then choose an umpire within 30 days from the date thereof. If the two arbitrators are unable to agree upon an umpire within 30 days after the appointment of the party-appointed arbitrators, the two party-appointed arbitrators shall each exchange a list of three (3) umpire candidates. Within ten (10) days thereafter, each party-appointed arbitrator shall strike two names from the other's list. The umpire shall be selected from the remaining two names by the drawing of lots no later than ten (10) days thereafter.

(F) If more than one arbitrator shall be appointed, the arbitrators shall cooperate to avoid unnecessary expense and to accomplish the speedy, effective and fair disposition of the disputes at issue. The arbitrator or arbitrators shall have the authority to conduct conferences and hearings, hear arguments of the parties and take the testimony of witnesses. All witnesses will be made available for cross-examination by the parties. The arbitrators may order the parties to exchange information or make witnesses available to the opposing party prior to any arbitration hearing.

(G) The arbitrator or arbitrators shall render a written decision (by majority determination if more than one arbitrator) and award within 30 days of the close of the arbitration proceeding. Judgment upon the award rendered by the arbitrator or arbitrators may be entered by any court of competent jurisdiction in Nebraska or application may be made in such court for judicial acceptance of the award and an order of enforcement as the law of Nebraska may require or allow.

(H) The award of the arbitrator or arbitrators shall be binding and conclusive on the parties, and shall be kept confidential by the parties to the greatest extent possible. No disclosure of the award shall be made except as required by the law or as necessary or appropriate to effect the enforcement thereof.

(I) All arbitration proceedings shall be conducted in the English language in accordance with the rules of the American Arbitration Association and shall take place in Tortola, British Virgin Islands or at some other location agreed to by the parties.

(J) The arbitrator or arbitrators shall be advised of all the provisions of this arbitration clause.

(K) This arbitration clause shall survive the termination of this Agreement and be deemed to be an obligation of the parties which is independent of, and without regard to, the validity of this Agreement.

(L) Punitive damages will not be awarded. The arbitrator(s) may, however, in their discretion award such other costs and expenses as they deem appropriate, including, but not limited to, attorneys' fees, the costs of arbitration and arbitrators' fees.

(M) Participant acknowledges and agrees that it will benefit from this Agreement and that a breach of the covenants herein would cause Company irreparable damage that could not adequately be compensated by monetary compensation. Accordingly, it is understood and agreed that in the event of any such breach or threatened breach, Company may apply to a court of competent jurisdiction for, and shall be entitled to, injunctive relief from such court, without the requirement of posting a bond or proof of damages, designed to cure existing breaches and to prevent a future occurrence or threatened future occurrence of like breaches on the part of Participant. It is further understood and agreed that the remedies and recourses herein provided shall be in addition to, and not in lieu of any other remedy or recourse which is available to Company either at law or in equity in the absence of this Paragraph including without limitation the right to damages.

14. Participant hereby irrevocably and unconditionally submits to the exclusive jurisdiction of the Courts of Nebraska for the purpose of enforcing any arbitration award rendered hereunder and all other purposes related to this Agreement, and agrees to accept service of process in any case instituted in Nebraska related to this Agreement and further agrees not to challenge venue in Nebraska provided such process is delivered in accordance with the applicable rules for service of process then in effect in Nebraska. To the extent necessary, this consent shall be construed as a limited waiver of sovereign immunity only with respect to this Agreement.

15. All notices, requests, demands or other communications to the Company provided for herein shall be in writing, shall be delivered by hand, by first-class mail, postage prepaid, or by any form of commercial overnight courier, and shall be addressed to the parties hereto at their respective addresses listed below or to such other persons or addresses as the relevant party shall designate as to itself from time to time in a writing delivered in like manner to Applied Underwriters Captive Risk Assurance Company, P.O. Box 3646, Omaha, NE 68103-0646 and to Participant at:

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

Either party may designate a new address for notices by providing written notice to the other party as provided in this paragraph, or in the absence of such notification from Participant, at the address to which Participant's last billing statement was sent.

16. This Agreement shall be exclusively governed by and construed in accordance with the laws of Nebraska and any matter concerning this Agreement that is not subject to the dispute resolution provisions of Paragraph 13 hereof shall be resolved exclusively by the courts of Nebraska without reference to its conflict of laws.

17. All amounts referred to herein are expressed in United States Dollars and all payments shall be made in such dollars.

18. Waiver. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of the performance of such provision on any other instance. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver unless expressed in writing and signed by all parties.

19. Participation by Participant in this Agreement is subject to the prior written consent of the Company. Nothing in this Agreement, expressed or implied, is intended to confer upon any party, other than the parties hereto and their affiliates, successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided herein.

IN WITNESS WHEREOF, the parties have set their hand.

PARTICIPANT

By: *Darren Payne*  
Name: *Darren Payne*  
Title: *Vice President*  
Date: *11/12/12*

APPLIED UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., SOLELY FOR AND  
ON BEHALF OF PROTECTED CELL NO. 860847



**Robert Stafford**  
Vice President

*Robert Stafford*

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.**  
**PARTICIPANT NO. 860847**  
**REINSURANCE PARTICIPATION AGREEMENT**  
**SCHEDULE 1**  
**EFFECTIVE DATE: NOVEMBER 13, 2012**

This Schedule 1 applies as of the Effective Date to all payroll, premium, and losses occurring under the Policies notwithstanding any Extension Terms which may apply ("Effective Period"). For purposes of this Schedule 1, unless otherwise noted, capitalized terms shall have the meaning set forth in the Agreement.

**1. Calculation of Premium and Loss Amounts.**

(a) Policy Payroll is defined as compensable payroll occurring during the Effective Period under the Policies subject to all customary limitations and caps. The Loss Pick Containment Amount is defined as the amount equal to the product of Policy Payroll and the respective Loss Pick Containment Rates listed in Table C. These rates are per \$100 of Policy Payroll and are fixed for the Effective Period. Changes in experience modifiers and other modification or differential factors of the Policies will not affect these rates. If Policy Payroll occurs under a classification not listed herein, the Company shall, in its sole discretion, determine a rate for that classification commensurate with the rates otherwise listed and with the filed and approved rates of the Issuing Insurers.

(b) The Company will calculate loss development factors ("LDF's") for each loss under the Policies directly from the loss development factors published by the government rating bureau in the state where the exposure occurred. LDF's are subject to change without notice. The LDF's in effect as of the date of this Schedule 1 are listed in Table A (a composite using Policy Payroll by state is shown). If during the Active Term the Participant: i) is processing payroll with an affiliate of the Company, the LDF's titled "Weekly" will be used; or ii) is not processing payroll with an affiliate of the Company, the LDF's titled "Monthly" will be used. Unless an agreement for renewal is offered by an affiliate of the Company and then accepted by the Participant within six (6) months of the end of the Active Term, the LDF's titled "Run-Off" will be used. In determining the age of a claim, the Company in its sole discretion will use either the date of occurrence or the date the claim was reported. For so long as the Participant provides a claimant with modified duty employment that accommodates medical work restrictions, at a wage sufficient to make the claimant ineligible for workers' compensation disability benefits, the amount of the LDF for that claim in excess of one (1) shall be reduced by the Modified Duty Reduction Factor shown below Table A.

(c) Ultimate Loss is defined as aggregate incurred losses under the Policies multiplied by the applicable LDF. The Loss Ratio equals Ultimate Loss divided by the Loss Pick Containment Amount.

(d) The Exposure Group Adjustment Factor is determined from Table B using the Loss Ratio with intermediate values to be interpolated. The Exposure Group Adjustment Factor has been determined using NCCI Expected Unlimited Loss Group 26 and is subject to change without notice if Policy Payroll varies from estimates made in preparing this Schedule 1 or if NCCI Table M is revised.

**2. Allocation of Premium and Losses.**

An amount, equal to the premium earned under the Policies in excess of the Loss Pick Containment Amount multiplied by the applicable Exposure Group Adjustment Factor multiplied by the Allocation Factor listed in Table B, will be allocated to the Participant's cell. Fees for services charged by any affiliate of the Company are not considered premium under the Policies.

The Participant, through its cell account, will be responsible for an amount equal to all losses under the Policies in aggregate up to the Cumulative Aggregate Limit which equals 1.3100 multiplied by the Loss Pick Containment Amount. During the Active Term, Participant's liability limits will be estimated quarterly in advance.

**3. Capital Deposits.** Participant agrees to make and maintain a capital deposit in its cell equal to the Estimated Annual Loss Pick Containment Amount shown in Table C multiplied by 10% during year 1; 10% during year 2; or 10% thereafter. The Estimated Annual Loss Pick Containment Amount and the resulting capital deposit are subject to change in the Company's sole discretion if Policy Payroll varies from estimates made as of the

Effective Date of this Schedule 1.

4. Additional Capital Deposits. Participant further agrees to make and maintain in its cell account an additional capital deposit equal to the lesser of Ultimate Loss or the Cumulative Aggregate Limit. For the purposes of calculating the additional capital deposit, a Loss Ratio of no less than 65% will be used in year 1, 40% in year 2, and 30% thereafter. During the Run-Off Term, capital deposits will be calculated using the LDF's titled "Run-Off" at a schedule determined by the Company but no less frequently than annually beginning nine months after the expiration of all Policies.

5. Notwithstanding anything to the contrary in the Agreement, the Company may terminate the Agreement and liquidate the cell in its sole discretion if i) all claims under the Policies are closed and three years have elapsed since the expiration of all of the Policies; or ii) the Participant's maximum liability has been reached and three years have elapsed since the expiration of all of the Policies; or iii) the amount of paid losses allocated to the cell under the Policies has exceeded the Participant's maximum liability; or iv) seven years have elapsed since the expiration of all of the Policies; or v) the Company deems itself insecure with respect to Participant's ability or willingness to fulfill its obligations under this Agreement.

6. In the event of Early Cancellation whether by the Participant or by the Company (limited to non-pay or a material change in risk): (a) the Exposure Group Adjustment Factor will be multiplied by 1.25; (b) the Cumulative Aggregate Limit will be determined using Policy Payroll annualized to reflect the full term of the Agreement; and (c) the following amounts will be immediately due and payable to the Company: i) any remaining premium, including short rate penalties, due under the Policies; ii) a capital deposit equal to the cell's maximum liability; and iii) a Cancellation Fee equal to 8% of the Estimated Annual Loss Pick Containment Amount.

7. In the event of any conflict between the Agreement and this Schedule 1, this Schedule 1 shall control.

PARTICIPANT

By:

Darren Payne

Name:

Darren Payne

Title:

Vice President

Date:

11/12/12

APPLIED UNDERWRITERS CAPTIVE RISK  
ASSURANCE COMPANY, INC., SOLELY FOR  
AND ON BEHALF OF PROTECTED CELL NO. 860847



Robert Stafford  
Vice President

Robert Stafford

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.**  
**PARTICIPANT NO. 860847**  
**REINSURANCE PARTICIPATION AGREEMENT**  
**SCHEDULE 1 TABLES**  
**EFFECTIVE DATE: NOVEMBER 13, 2012**

TABLE A  
Loss Development Factors

<u>Claim Age</u>		<u>Weekly</u>		<u>Monthly</u>		<u>Run-Off</u>	
<u>Month From</u>	<u>Month To</u>	<u>Open Claims</u>	<u>Closed Claims</u>	<u>Open Claims</u>	<u>Closed Claims</u>	<u>Open Claims</u>	<u>Closed Claims</u>
00	06	2.621	1.232	2.674	1.257	4.115	1.201
07	09	2.583	1.151	2.635	1.175	4.115	1.201
10	12	2.558	1.101	2.609	1.123	4.115	1.201
13	15	2.533	1.084	2.583	1.106	3.915	1.111
16	18	2.508	1.078	2.558	1.099	3.915	1.111
19	21	2.483	1.069	2.532	1.090	3.915	1.111
22	24	2.458	1.055	2.507	1.076	3.915	1.111
25	27	2.433	1.046	2.481	1.067	3.715	1.064
28	30	2.408	1.044	2.456	1.065	3.715	1.064
31	33	2.383	1.040	2.430	1.060	3.715	1.064
34	36	2.357	1.032	2.405	1.053	3.715	1.064

The Modified Duty Reduction Factor is 25%.

TABLE B  
Exposure Group Adjustment Factors

<u>Loss Ratio</u>	<u>Adjustment Factor</u>	<u>Loss Ratio</u>	<u>Adjustment Factor</u>
0.00	1.0000	1.00	2.0262
0.10	1.2639	1.10	1.7214
0.20	1.2640	1.20	1.3656
0.30	1.2132	1.30	1.0354
0.40	1.1368	1.40	0.9693
0.50	1.0859	1.50	0.9693
0.60	0.9844	1.60	0.9693
0.70	0.9335	1.70	0.9693
0.80	1.0249	1.80	0.9693
0.90	1.9907	1.90	0.9693

The Allocation Factor is 0.28.

**APPLIED UNDERWRITERS CAPTIVE RISK ASSURANCE COMPANY, INC.**  
**PARTICIPANT NO. 860847**  
**REINSURANCE PARTICIPATION AGREEMENT**  
**SCHEDULE 1 TABLES**  
**EFFECTIVE DATE: NOVEMBER 13, 2012**

TABLE C  
 Loss Pick Containment Rates and Estimated Annual Amounts

<u>Class Code</u>	<u>Loss Pick Containment Rate</u>	<u>Estimated Annual Payroll</u>
CA 0042	6.63	19,550,000
CA 0106	17.69	1,350,000
CA 8810	0.48	1,140,000
CA 8742	0.59	930,000

The Total Estimated Annual Loss Pick Containment Amount is \$1,545,607.

# EXHIBIT D

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B-B & T Insurance Services of California Inc



# Workers' Compensation Program Proposal & Rate Quotation

This proposal expires on 12/10/12 at 12:01AM local time.  
This proposal supersedes and voids any and all written or oral proposals previously issued.

This quotation does not authorize any business services or bind any insurance coverage. Marketing representatives, agents, and brokers do not have the authority to bind insurance coverage or enter into contracts on our behalf or on behalf of our affiliates. Initiation of business services and insurance coverages is subject to our final review and formal acceptance. Insurance coverage will be bound only after: 1) we issue a written quotation; 2) all conditions precedent have been satisfied; 3) we grant the proposal final approval; 4) we have received payment of the deposit and initial charges; and 5) we issue written notice that insurance coverage is bound.

This proposal was prepared by Applied Risk Services.  
California: AU Insurance Services, Lic. # 0D78336

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Ver. ppo\_2010\_2a

HZT

Quote #025247-3 issued 11/09/12. Proposed Effective Date 11/13/12 at 12:01AM local time.

Page 1 of 5

APPLIED O'CONNELL 000019

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B B & T Insurance Services of California Inc

# Equity Comp

FROM APPLIED UNDERWRITERS

EquityComp™ is a seamlessly integrated package providing nationwide workers' compensation coverage and sophisticated risk financing solutions. EquityComp provides the best long term, cost effective workers' compensation solution available for middle market insureds in a broad range of industries in all states.



Applied Underwriters is a premier financial services group of companies with leading expertise in the casualty insurance, reinsurance, and business services disciplines. We were founded in 1994 with the mission to provide creative insurance and business services solutions for employers countrywide. Applied Underwriters' business philosophy has always been rooted in the needs of the business owner. We think like an owner and deliver solutions to the business owner accordingly.

As a member of Berkshire Hathaway Inc. we have the resources and experience that make us the industry leader in our field. Our insurance companies, The North American Casualty Group, maintain an excellent financial standing as recognized by industry rating organizations. This excellent financial standing is based on delivering best practices in underwriting and claims, including medical management operations, in every geographic trading area.

Our service commitment is built on the concept of high customer touch leading to superior service in all aspects of our business. We achieve one of the highest customer satisfaction and retention rates in both the insurance and business service industries. Applied Underwriters' employees are simply the best in the business. We maintain the highest competency level in every discipline, and these standards make us the best, providing competitive products and unparalleled service to those we serve.

The North American Casualty Group®, California Insurance Company®, Continental Indemnity Company®, and Promesa Health® are registered trademarks of Applied Underwriters, Inc.

Quote #025247-3 issued 11/09/12. Proposed Effective Date 11/13/12 at 12:01AM local time.

Page 2 of 5

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Ver. ppo\_2170\_2a

APPLIED O'CONNELL 000020

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B B & T Insurance Services of California Inc

### Policy Rating Information

Guaranteed cost workers' compensation insurance policies will be issued by admitted companies in conjunction with this program, and the rating factors for these policies are listed below. All issuing companies are part of the North American Casualty Group, rated A by A.M. Best, and are affiliates of Applied Underwriters Inc. a member of Berkshire Hathaway Inc. A Profit Sharing Plan, effected through a reinsurance transaction that is separate from the guaranteed cost policies and independently rated, also applies.

State	Carrier	Exp Mod	Freq Mod	Sched Rating	Prem Disc	Exp Const	Terrorism Foreign	Terrorism Dom	Other1	Other2	Other3	Other4	Net Factor
CA	A	1.060		0.90			.000	.000	0.610				0.582

A = California Insurance Company  
E.L. Limits \$1MM/\$1MM/\$1MM

Est. Taxes and Assessments \$66,060  
CA, Other1 = Loss Rating Factor

### Profit Sharing Plan

This Profit Sharing Plan is a reinsurance transaction separate from the guaranteed cost policies. Your risk retention is created by your participation in, and cession of allocated premiums and losses to our facultative reinsurance facility, Applied Underwriters Captive Risk Assurance Company (AUCRA): AUCRA is a subsidiary of Applied Underwriters Inc., a member of Berkshire Hathaway Inc. Your retention is held in a segregated, protected cell which is not liable for the debts and liabilities of any other AUCRA cell. This Profit Sharing Plan is not a filed retrospective rating plan or dividend plan, and nothing contained herein is to be so construed. This Profit Sharing Plan requires a minimum three year contractual commitment from you with significant penalties for early cancellation.

Based upon the annual payroll by class code information you provided, if you have no claims, your total net, three-year cost will be \$1,309,437. If you have claims, your final, net three-year cost will vary between this minimum cost and a three-year, maximum possible cost of \$7,418,451.

	Estimated Net Cost	
	Minimum	Maximum
Single Year	\$436,479	\$2,472,817
Three Years	\$1,309,437	\$7,418,451

Your actual, final net cost will be determined using the ultimate costs of your claims along with the factors and tables set forth in your Reinsurance Participation Agreement (Final Agreement) which specifies how a portion of the premiums and losses occurring under the guaranteed cost policies are ceded to AUCRA for further credit to your cell account.

You are required to maintain capital deposits in your cell account equal to the sum of 1) the estimated annual loss pick containment amount multiplied by 10% during the first year, 10% during the second year, or 10% thereafter; and 2) outstanding reserves limited so to not exceed the maximum permissible cost. The estimated annual loss pick containment amount is \$1,545,607, determined using estimated annual payroll and the rates listed under Billing Terms, and is subject to revision if actual payroll varies from estimates made as of the date of this proposal. Since the ultimate cost of claims can not be known in advance with certainty, loss development factors as set forth in the Final Agreement will be applied to all claims to estimate their ultimate cost. Your capital deposits will be calculated and billed each month. At the end of the active term of the Profit Sharing Plan, calculations will continue to be performed annually thereafter in accordance with the Final Agreement.

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H Z T

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B B & T Insurance Services of California Inc

### Billing Terms

The rates below are per \$100 of compensable payroll subject to all customary limitations and caps. The Pay-In Factor listed is based on your expected loss experience and will vary as actual losses occur. A Net Pay-In Amount will be billed with each payroll cycle and will include workers' compensation premium, fees for services, and capital deposits due to your cell account (where applicable, all under a premium finance agreement with Applied Premium Finance, Inc.) Applied Risk Services, Inc. (see attached proposal for the license number in your state) will act as billing agent on behalf of all of the companies involved in this program. You will be provided with a quarterly reconciliation of all amounts collected and disbursed. Experience modifiers and other guaranteed cost policy modification or differential factors are not components of the Profit Sharing Plan, and any subsequent change in such factors will not affect the rates stated. Premium taxes, assessments, certain account fees, waivers of subrogation, and certain surcharges are not included in these composite rates, and will be billed separately. These charges are due as billed subject to adjustment at final audit and include, but are not limited to: CA CIGA California Domiciled Insureds 0.0229, CA Fraud Surcharge 0.0026, CA Labor Enforcement 0.0024, CA Regulatory Surcharge 0.0024, CA Subsequent Injury Fund 0.0013, CA Uninsured Employers Fund 0.0014.

<u>Employee Classification</u>	<u>Code</u>	<u>Loss Pick</u> <u>Containment Rate</u>	<u>Pay-In</u> <u>Factor</u>	<u>Net Pay-In</u> <u>Rate</u>	<u>Estimated</u> <u>Payroll</u>	<u>Est. Annual</u> <u>Pay-In Amt.</u>
Landscape Gardening	CA 0042	6.63	0.70	4.64	\$ 19,550,000	\$ 907,120
Tree Pruning Spraying	CA 0106	17.69	0.70	12.39	1,350,000	167,265
Clerical Office Employ	CA 8810	0.48	0.70	0.34	1,140,000	3,876
Outside Salesperson	CA 8742	0.59	0.70	0.42	930,000	3,906
<b>TOTAL</b>				4.71	\$ 22,970,000	\$ 1,082,167

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HZT

Quote #025247-3 issued 11/09/12. Proposed Effective Date 11/13/12 at 12:01AM local time.

Page 4 of 5

APPLIED O'CONNELL 000022

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B B & T Insurance Services of California Inc

## Coverages



*The North American Casualty Group is rated A (Excellent) VIII by A. M. Best.*

**Workers' Compensation and Employer's Liability Insurance**

Your coverage is fully integrated into the package: all premium is paid in full each billing cycle, and risk management products are provided to further mitigate risk. Stop Gap coverage is not provided in monopolistic states unless explicitly quoted. See the Policy Rating Information section for terms and carriers affording coverage.

## Services



*All services are provided exclusively by Applied Underwriters and its affiliates.*

**Integrated Billing System**

We make it easy: each month, you will receive one convenient, integrated statement for all charges for all coverages and services. Even your Profit Sharing Plan will be calculated each month.

**Occupational Medical Care**

We will provide access to exclusive medical care facilities and a network of physicians dedicated to occupational medicine. Where available, you will be automatically enrolled in our closed medical network; participation is mandatory.

**Cell Captive Facility**

We will establish an account for you in our segregated, protected cell captive which was designed specifically for our small and mid-sized insureds. You are responsible solely for your own risk retention. Cell accounts are segregated and protected with additional solvency and liability warranties underwritten by Continental Indemnity Company.

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Quote #025247-3 issued 11/09/12. Proposed Effective Date 11/13/12 at 12:01AM local time.

Page 5 of 5

APPLIED O'CONNELL 000023

# EXHIBIT E

**Analysis of  
Program  
Costs,  
Continued**

**Total Deposit and Pay-In Requirements**

Description	Amounts as of 12/31/13	
Estimated Annualized Loss Pick Containment Amount	\$700,318	
Deposit Percentage	<u>10%</u>	
Fixed Portion of Deposit Requirement		\$70,032
Loss Pick Containment Amount to Date	1,380,911 (a)	
Presumed Loss Ratio for the Second Plan Year	40%	
Presumed Losses to Date	<u>552,364 (b)</u>	
Plan Losses to Date (from Reported Claims)	<u>294,089 (c)</u>	
Subject Losses to Date (greater of b and c)	552,364 (d)	
Aggregate Loss Limit for Entire Plan	<u>1,974,897 (e)</u>	
Retained Losses (lesser of d and e)		<u>552,364 (f)</u>
<b>Capital Deposit Requirement</b>		<b>622,396</b>
Loss Pick Containment Amount to Date	1,380,911 (a)	
Minimum Cost Factor	0.35 (h)	
Retained Loss Ratio (f / a)	40%	
Exposure Group Adjustment Factor	1.5073 (i)	
<b>Base Fees (a x h x i)</b>		<b><u>728,507</u></b>
<b>Total Pay-In Amount Due Under Your Contract</b>		<b>1,350,903</b>
<b>Total Pay-In We Are Requiring through 12/31/13</b>		<b>1,191,704</b>
Less: Total Pay-In We Required Prior to 12/31/13		<u>1,164,311</u>
Amount Due at 12/31/13 *		<u><u>\$27,393</u></u>

\* This is not a bill. The Amount Due reflects the Workers' Compensation Program charge on your last billing statement.

# EXHIBIT F

**Prepared for:**

O'Connell Landscape Maintenance, Inc.  
23091 Arroyo Vista  
Rancho Santa Margarita, CA 92688

**Presented by:**

Tim Mooney  
B B & T Insurance Services of California Inc  
(415)671-4560

# Workers' Compensation Program Summary & Scenarios



**Prepared on: 10/29/2012**  
**Proposed Effective Date: 11/13/2012**

This document does not authorize any business services or bind any insurance coverage. Insurance coverage will be bound only after: 1) we (Applied Risk Services) issue a written quotation; 2) all conditions precedent have been satisfied; 3) we grant the proposal final approval; 4) we have received payment of the deposit and initial charges; and 5) we issue written notice that insurance coverage is bound.

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These worksheets are for illustrative purposes only and are based on client provided historical claims data, and should not be construed to amend, modify, or otherwise change the terms of your final Reinsurance Participation Agreement. The amounts shown are estimates only. Actual amounts will vary depending upon your future payroll and claims, which cannot be determined now with certainty. Each prospective client should review their own information and calculations with their advisor to determine their individual selection of level of risk retention.

APPLIED O'CONNELL 000011

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## Proposal Summary

### Program Benefits

### Proposed Plan Runs 3-Years

This program is effected through a separate reinsurance transaction issued in conjunction with a fully insured, guaranteed cost, workers' compensation policy and only your own individual claims experience will be used in determining your final cost. This program is made possible by your participation in our reinsurance facility, Applied Underwriters Captive Risk Assurance Company.

Program benefits include:

- Available to both smaller and larger qualified employers.
- Only your own individual claims experience is used to determine your final cost and is independent of the claims experience of any other policy holder.
- Allows for the efficient use of collateral; risk funding is paid real time based on your individual developed loss experience.
- Based on your individual claims experience, this program can provide immediate cash flow benefits and financial reward unlike other plans that require waiting for cumbersome retrospective or uncertain dividend calculations that can run for years beyond policy expiration.
- Bare bones pricing for loss free accounts.



Applied Underwriters is a premier financial services group of companies with leading expertise in the casualty insurance, reinsurance and business services disciplines. As a member of Berkshire Hathaway Inc. we have the resources and experience that make us the industry leader in our field. Our insurance companies, The North American Casualty Group, maintain an excellent financial standing as recognized by industry rating organizations. This excellent financial standing is based on delivering best practices in underwriting and claims, including medical management operations, in every geographic trading area.

Our service commitment is built on the concept of high customer touch leading to superior service in all aspects of our business. We achieve one of the highest customer satisfaction and retention rates in both the insurance and business service industries. Applied Underwriters' employees are simply the best in the business. We maintain the highest competency level in every discipline, and these standards make us the best, providing competitive products and unparalleled service to those we serve.

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**Scenario Worksheet  
Presentation Highlights  
Proposed Plan Runs 3-Years**

- Minimum Cost \$ 436,479 (annualized), Maximum Cost \$ 2,472,817 (annualized).
- No use of Loss Conversion Factors.
- Premium taxes and assessments are calculated using the guaranteed cost premium.
- The program is a three year commitment.
- Rates and terms are fixed for 3 years.
- Low pay-in factors with monthly calculations provide up-front savings and easy cash flow.
- In-house claim adjusters with low caseloads ensures high-quality claims management.
- Use of our own medical networks and in-house medical bill review produces high-quality medical care at a low cost.
- All carriers are A rated. One unified program for your business needs across all states.

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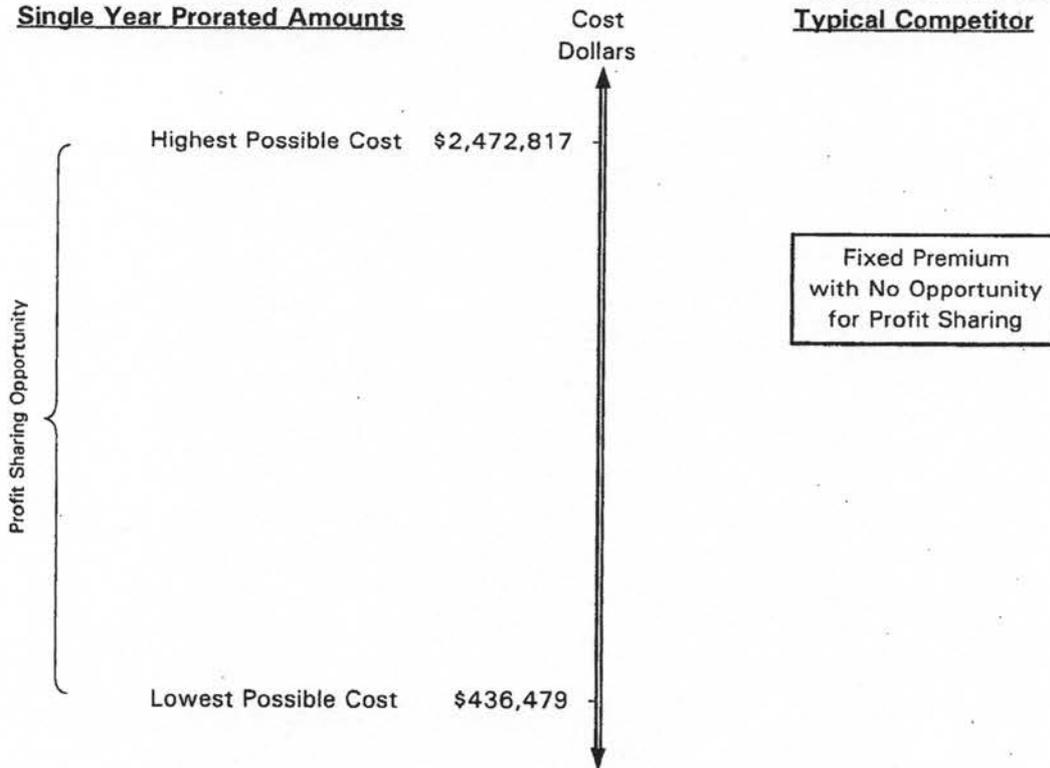
**Presented by:**

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**Scenario Worksheet**  
**Cost Comparison to a Single Year Program**  
**Proposed Plan Runs 3-Years**

**Profit Sharing Program**  
**Single Year Prorated Amounts**

**Guaranteed Cost Program**  
**Typical Competitor**



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**Scenario Worksheet**  
**Final Cost at Various Claims Cost Levels**  
 Proposed Plan Runs 3-Years

**Single Year Prorated Amounts**

Lowest  
Cost

\$436,479

Highest  
Cost

\$2,472,817

**Final Cost Scenarios**

Ultimate Claims Cost	Final Cost
\$50,000	\$496,294
\$100,000	\$602,632
\$150,000	\$706,961
\$200,000	\$753,483
\$250,000	\$806,807
\$300,000	\$851,166
\$350,000	\$906,653
\$400,000	\$942,047
\$450,000	\$984,243
\$500,000	\$1,028,601
\$550,000	\$1,072,960
\$600,000	\$1,106,191
\$650,000	\$1,150,704
\$700,000	\$1,195,063

**Final Cost Scenarios**

Ultimate Claims Cost	Final Cost
\$750,000	\$1,228,294
\$800,000	\$1,272,653
\$850,000	\$1,317,012
\$900,000	\$1,339,114
\$950,000	\$1,383,627
\$1,000,000	\$1,416,858
\$1,050,000	\$1,472,345
\$1,126,000	\$1,545,607
\$1,200,000	\$1,627,524
\$1,300,000	\$1,924,744
\$1,400,000	\$2,295,226
\$1,500,000	\$2,426,139
\$1,600,000	\$2,437,268
\$11,087,000	\$2,472,817

No Claims Cost	\$436,479
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**Scenario Worksheet**  
**Final Cost at Various Claims Cost Levels**  
**Proposed Plan Runs 3-Years**

**Cumulative 3-Year Program Amounts**

Lowest  
 Cost  
 -----  
 \$1,309,438

Highest  
 Cost  
 -----  
 \$7,418,450

**Final Cost Scenarios**

Ultimate Claims Cost	Final Cost
\$150,000	\$1,488,882
\$300,000	\$1,807,896
\$450,000	\$2,120,883
\$600,000	\$2,260,449
\$750,000	\$2,420,421
\$900,000	\$2,553,498
\$1,050,000	\$2,719,959
\$1,200,000	\$2,826,141
\$1,350,000	\$2,952,729
\$1,500,000	\$3,085,803
\$1,650,000	\$3,218,880
\$1,800,000	\$3,318,573
\$1,950,000	\$3,452,112
\$2,100,000	\$3,585,189

**Final Cost Scenarios**

Ultimate Claims Cost	Final Cost
\$2,250,000	\$3,684,882
\$2,400,000	\$3,817,959
\$2,550,000	\$3,951,036
\$2,700,000	\$4,017,342
\$2,850,000	\$4,150,881
\$3,000,000	\$4,250,574
\$3,150,000	\$4,417,035
\$3,378,000	\$4,636,821
\$3,600,000	\$4,882,572
\$3,900,000	\$5,774,232
\$4,200,000	\$6,885,678
\$4,500,000	\$7,278,417
\$4,800,000	\$7,311,804
\$33,261,000	\$7,418,451

No Claims Cost	\$1,309,438
----------------	-------------

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## Scenario: Your Selected Ultimate Losses #1

### Final Cost Scenario Proposed Plan Runs 3-Years

Estimated Ultimate Claims Cost by Year	Year 1	Year 2	Year 3
	764,000	764,000	764,000

**Estimated Final Cost - Cumulative**

	Year 1	Year 2	Year 3
Ultimate Claims Cost	764,000	1,528,000	2,292,000
Minimum Cost	436,479	872,959	1,309,438
Maximum Cost	2,472,817	4,945,633	7,418,450
<b>Estimated Final Cost</b>	<b>1,239,422</b>	<b>2,478,845</b>	<b>3,718,267</b>

	Year 1	Year 2	Year 3	3 -Year Total
Annual Estimated Final Cost	1,239,422	1,239,423	1,239,422	3,718,267

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## Scenario: Your Selected Ultimate Losses #2

### Final Cost Scenario Proposed Plan Runs 3-Years

	Year 1	Year 2	Year 3
Estimated Ultimate Claims Cost by Year	1,200,000	1,200,000	1,200,000

**Estimated Final Cost - Cumulative**

	Year 1	Year 2	Year 3
Ultimate Claims Cost	1,200,000	2,400,000	3,600,000
Minimum Cost	436,479	872,959	1,309,438
Maximum Cost	2,472,817	4,945,633	7,418,450
Estimated Final Cost	1,627,524	3,255,048	4,882,573

	Year 1	Year 2	Year 3	3 -Year Total
Annual Estimated Final Cost	1,627,524	1,627,524	1,627,525	4,882,573

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