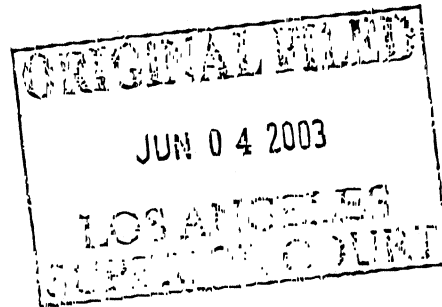


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RECEIVED IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA  
FOR THE COUNTY OF LOS ANGELES

INSURANCE COMMISSIONER OF  
THE STATE OF CALIFORNIA,

Applicant,

v.

FREMONT INDEMNITY COMPANY,  
a California corporation,

Respondent.

Case No.:

BS083582

ORDER APPOINTING  
CONSERVATOR AND  
RESTRAINING ORDERS

The verified Application of the Insurance Commissioner of the State of California having been filed herein and it appearing to this Court from said Application that said Commissioner has (1) found Fremont Indemnity Company to be in such condition that its further transaction of business will be hazardous to its policyholders, creditors, and the public; (2) determined that said insurer does not comply with the requirements for the issuance to it of a certificate of authority; and (3) found that the last report of examination of said insurer shows it to be insolvent within the meaning of the Insurance Code,

IT IS HEREBY ORDERED (for all purposes in this order, the term "Fremont,"

1 wherever used and used in whatever context or reference, shall mean Fremont Indemnity  
2 Company and shall mean for all purposes, wherever used and in whatever context or  
3 reference, all the following entities: the former Fremont Indemnity Company, Comstock  
4 Insurance Company, Fremont Industrial Indemnity Insurance Company, Fremont  
5 Compensation Insurance Company, Fremont Casualty Company, and Fremont Pacific  
6 Insurance Company) that:

7 1. The Commissioner is hereby appointed as Conservator (hereinafter  
8 "Conservator") of Fremont and directed to conduct the business of Fremont or so much  
9 thereof as he may deem appropriate; and the Conservator is authorized, in his discretion,  
10 to pay or defer payment of some or all proper claims, expenses, liabilities and obligations  
11 of Fremont, in whole or in part, accruing prior or subsequent to his appointment as  
12 Conservator;

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

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

27 4. Title to all property and assets of Fremont, including deposits, securities,  
28 contracts, rights of actions, books, records and other assets of every type and nature, and

1 including both those presently in Fremont's possession and those which may be  
2 discovered hereafter, wheresoever situated, is vested in the Conservator or his successor  
3 in office, in his official capacity as Conservator; the Conservator is authorized to deal  
4 with the same in his own name as Conservator or in the name of Fremont, and all persons  
5 are enjoined from interfering with Conservator's possession and title thereto;

6       5.     The Conservator shall have all the powers of the directors, officers and  
7 managers of Fremont, whose authorities are suspended except as such powers may be  
8 redelegated by the Conservator;

9       6.     The Conservator is authorized to terminate compensation arrangements  
10 with employees, to enter into new compensation arrangements with employees, including  
11 arrangements containing retention incentives, and the Conservator is authorized to hire  
12 employees on such terms and conditions as he deems reasonable;

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

22       8.     All persons are enjoined from instituting or prosecuting or maintaining any  
23 action at law or suit in equity, including but not limited to actions or proceedings to  
24 compel discovery or production of documents or testimony and matters in arbitration,  
25 except in matters before either the California Workers Compensation Appeals Board or  
26 equivalent administrative boards or organizations performing such functions in other  
27 states in which Fremont issued workers compensation policies, against Fremont, or  
28 against Conservator and from attaching, executing upon, redeeming of or taking any other

1 legal proceedings against any of the property of Fremont, and from doing any act  
2 interfering with the conduct of said business by Conservator, except after an order from  
3 this Court obtained after reasonable notice to Conservator;

4 9. Fremont and all officers, directors, agents and employees of Fremont shall  
5 deliver to, and immediately make available to, Conservator all assets, books, records,  
6 accounts, records, information, computers, tapes, discs, writings, other recordings of  
7 information, equipment and other property of Fremont, wheresoever situated, in said  
8 persons custody or control and further, the aforesaid persons shall disclose verbally, or in  
9 writing if requested by the Conservator, the exact whereabouts of the foregoing items if  
10 such items are not in the possession custody or control of said persons;

11 10. All officers, directors, trustees, employees or agents of Fremont, or any  
12 other person, firm, association, partnership, corporate parent, holding company, affiliate  
13 or other entity in charge of any aspect of Fremont's affairs, either in whole or in part, and  
14 including but not limited to banks, savings and loan associations, financial or lending  
15 institutions, brokers, stock or mutual associations, or any parent, holding company,  
16 subsidiary or affiliated corporation or any other representative acting in concert with  
17 Fremont, shall cooperate with the Conservator in the performance of his or her duties.

18 11. The Conservator is authorized to pay all reasonable costs of taking  
19 possession of and conserving Fremont (including but not limited to Commissioner's  
20 pre-conservation costs in examining Fremont's financial condition, and preparing to take  
21 possession and conserve Fremont) out of the funds and assets of the Fremont;

22 12. The Conservator is authorized to pay all reasonable costs of operating  
23 Fremont as Conservator (including direct and allocated direct costs, direct and allocated  
24 general and administrative costs and overhead, and all other allocated costs) out of any  
25 and all funds and assets of Fremont; and if there are insufficient funds, to pay for the costs  
26 out of the Insurance Fund pursuant to Insurance Code section 1035;

27 13. All funds and assets, including certificates of deposit, bank accounts, and  
28 mutual fund shares of Fremont, in various financial depository institutions, including

1 banks, savings and loan associations, industrial loan companies, mutual funds or stock  
2 brokerages, wheresoever situated, shall be vested in the Conservator and subject to  
3 withdrawal upon his order only;

4 14. All persons who maintain records for Fremont, pursuant to written contract  
5 or any other agreement, shall maintain such records and deliver to the Conservator such  
6 records upon his request;

7 15. All agents of Fremont, and all brokers who have done business with  
8 Fremont, shall make all remittances of all funds collected by them or in their hands  
9 directly to the Conservator;

10 16. All persons having possession of any lists of policyholders or escrow  
11 holders of Fremont shall deliver such lists to Conservator; and that all persons are  
12 enjoined from using any such lists or any information contained therein without the  
13 consent of Conservator;

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

17 18. The Conservator is authorized to appoint and employ special deputies,  
18 estate officers and managers, other professionals, clerks and assistants and to give each of  
19 them such power and authority as may be deemed necessary by him and the Conservator  
20 is authorized to compensate these persons from the assets of Fremont as he shall deem  
21 appropriate;

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

25 20. Fremont and its officers, directors, agents, servants, employees, successors,  
26 assigns, affiliates, and other persons or entities under their control and all persons or  
27 entities in concert or participation with Fremont, and each of them, shall turn over to  
28 Conservator all records, documentation, charts and/or descriptive materials of all funds,

assets, property (owned beneficially or otherwise), and all other assets of Fremont wherever situated, and all books and records of accounts, title documents and other documents in their possession or under their control, which relate, directly or indirectly to assets or property owned or held by Fremont or to the business or operations of Fremont;

21. Except with leave of court issued after a hearing in which Conservator has received reasonable notice, all persons are enjoined from obtaining preferences, judgments, attachments or other liens, or making any levy against Fremont or its assets or property, and from executing or issuing or causing the execution or issuance of any court attachment, subpoena, replevin, execution or other process for the purpose of impounding or taking possession of or interfering with or creating or enforcing a lien upon any property or assets owned or in the possession of Fremont or Conservator, ~~wherever~~ situated, and from doing any act interfering with the conduct of said business by Conservator;

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

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

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

12         24.     The Conservator is authorized to invest Fremont's assets and funds in such  
13 a manner as to him may seem suitable for the best interest of Fremont's creditors, which  
14 funds are not immediately distributable to Fremont's. However, no investment or  
15 reinvestment shall be made exceeding the sum of \$100,000 without first obtaining  
16 permission of this Court, except the Conservator may make investments or reinvestments  
17 in excess of \$100,000, but not exceeding \$5,000,000 per investment or reinvestment,  
18 without prior approval if such investments or reinvestments are made pursuant to the  
19 investment guidelines of the Conservator's Conservation & Liquidation Office, a true  
20 and correct copy of which is attached hereto as Exhibit A and incorporated herein by this  
21 reference. The Conservator shall file quarterly reports of such investments in excess of  
22 \$100,000 with the Court, with notice to all persons on the service list, such reports to be  
23 filed within 60 days of the end of each quarter;

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

4        26. All persons are enjoined from the waste of the assets of Fremont.

5        DATED: JUN 04 2003  
6

7                                David P. Yaffe  
8                                JUDGE OF THE SUPERIOR COURT

9        27. *Nothing herein is intended to modify any of the*  
10 *provisions of the letter agreement dated July 2,*  
11 *2002, executed by Commissioner Love.*  
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**INSURANCE COMMISSIONER of the**  
**STATE of CALIFORNIA**  
**CONSERVATION & LIQUIDATION OFFICE**  
**INVESTMENT GUIDELINES**

**Objectives**

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

**A. Safety**

*Quality*

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

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

*Sectors*

Permitted investments for the Portfolio shall include:

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

### *Restrictions on permitted investments*

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

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

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

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

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

### *Diversification*

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

## **B. Maturity**

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

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

### C. Calculation of Returns

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

### D. General

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

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

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

### E. Benchmark

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