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LOS ANGELES
SUPERIOR COURT

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF LOS ANGELES

**INSURANCE COMMISSIONER OF THE
STATE OF CALIFORNIA,**

Applicant,

v.

**PAULA INSURANCE COMPANY, a California
corporation,**

Respondent.

Case No.: BS 075685

**~~RESTRIC~~ ORDER APPOINTING
COMMISSIONER AS
LIQUIDATOR AND
RESTRAINING ORDERS**

Date: June 14, 2002
Time: 9:30 a.m.
Dept: 85

The verified Application of the Insurance Commissioner of the State of California
("Commissioner") for an Order Appointing Liquidator came on for hearing in Department 85 of
the Los Angeles County Superior Court on June 14, 2002, on an expedited basis.

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1 WHEREFORE, GOOD CAUSE APPEARING FROM THE
2 COMMISSIONER'S EX PARTE APPLICATION AND VERIFIED APPLICATION FOR
3 ORDER OF LIQUIDATION, THIS COURT MAKES THE FOLLOWING FINDINGS:
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- 5 1. Respondent is insolvent.
- 6 2. It would be futile for the Commissioner to continue to proceed as Conservator of
7 Respondent.
- 8 3. There exists sufficient factual and legal grounds for the Commissioner to liquidate and
9 wind up the business of Respondent in a manner consistent with the provisions of this Order.
10

11 WHEREFORE, GOOD CAUSE APPEARING, THIS COURT MAKES THE
12 FOLLOWING ORDERS:

- 13 1. The Commissioner's status as Conservator is terminated, and he is appointed as
14 Liquidator of Respondent, as set forth in Insurance Code §1016, and directed as Liquidator to
15 liquidate and wind up the business of Respondent and to act in all ways and exercise all powers
16 necessary for the purpose of carrying out such order.
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- 18 2. The Commissioner as Liquidator is authorized to take possession of all the assets of
19 Respondent including books, records and property, both real and personal, wheresoever situated.
20
- 21 3. The Commissioner as Liquidator or his successor in office is vested with title to all
22 property and assets of Respondent, both those presently in Respondent's possession and those
23 which may be discovered hereafter, wheresoever situated. All persons are enjoined from
24 interfering with the Commissioner's possession and title thereto.
- 25 4. The Commissioner as Liquidator is authorized to pay for his costs in bringing and
26 maintaining this action, and such other actions as are necessary to carry out his functions as
27 Liquidator, out of the funds and assets of Respondent; and if there are insufficient funds, to pay
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1 for his costs out of the Insurance Fund, pursuant to Insurance Code section 1035.

2 5. The Commissioner as Liquidator is authorized to initiate such equitable or legal
3 actions or proceedings in this or other states as may appear to him necessary to carry out his
4 functions as Liquidator.
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6 6. The Commissioner as Liquidator is authorized to appoint and employ special deputies,
7 estate managers, other professionals, clerks and assistants and to give each of them such power
8 and authority as he may deem necessary, and the Commissioner as Liquidator is authorized to
9 pay reasonable compensation to these persons from the assets of Respondent.
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11 7. The Commissioner as Liquidator is authorized to divert, take possession of and secure
12 all mail of Respondent, in order to screen such mail, and to effect a change in the rights to use
13 any and all post office boxes and other mail collection facilities used by Respondent.

14 8. The Commissioner as Liquidator is authorized to pay all reasonable costs of operating
15 Respondent (including direct and allocated direct costs, direct and allocated general and
16 administrative costs and overhead, and other allocated costs) out of funds and assets of
17 Respondent; and if there are insufficient funds, to pay for his costs out of the Insurance Fund,
18 pursuant to Insurance Code §1035.
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20 9. The Commissioner as Liquidator is authorized to invest Respondent's assets in such a
21 manner as to him may seem suitable for the best interest of Respondent's creditors which funds
22 are not immediately distributable to Respondent's creditors. No investment or reinvestment shall
23 be made which exceeds the sum of \$100,000 without first obtaining permission of the Court,
24 except the Commissioner may invest or reinvest in excess of \$100,000, but no more than the sum
25 of \$5,000,000 without prior approval if such investments are made pursuant to the investment
26 guidelines which are attached to the Application for Order of Liquidation as Exhibit "C". The
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1 Commissioner shall file quarterly notice of any investment or reinvestment exceeding \$100,000
2 with the Court and shall give notice thereof to all interested parties.

3
4 10. The Commissioner as Liquidator is authorized, pursuant to Insurance Code §1037,
5 subsection (g), to invest and reinvest all assets in a manner he deems to be in the best interest of
6 the creditors of the estate, including investing and reinvesting assets through an investment pool
7 consisting exclusively of assets from conserved estates. To the extent that the Commissioner as
8 Liquidator invests and reinvests through such an investment pool, such investments and re-
9 investments may exceed \$100,000.

10
11 11. The Commissioner as Liquidator is authorized to pay as expenses of administration
12 all expenses heretofore incurred by the Commissioner as Conservator which are presently
13 unpaid, and the Commissioner as Liquidator is authorized to pay, upon presentation, the full
14 amount of any checks or drafts which have been issued by him, in his capacity as Conservator,
15 and which are outstanding.

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17 12. The Commissioner as Liquidator is authorized, pursuant to Insurance Code §1037,
18 subsection (d), to dispose of any excess property of Respondent by any commercially reasonable
19 method, including, but not limited to, sales at public auctions and sales in bulk to the high bidder
20 (provided at least three (3) bids are obtained from independent dealers in the kind of property
21 sold).

22
23 13. The Commissioner as Liquidator is authorized to assume or reject, or to modify, any
24 executory contracts, including without limitation, any lease, rental or utilization contract or
25 agreement (including any schedule to any such contract or agreement), and any license or other
26 arrangement for the use of computer software or business information systems, to which
27 Respondent is a party or as to which Respondent agrees to accept an assignment of such contract;
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1 the Commissioner as Liquidator is directed to effect any such assumption or rejection or
2 modification of any executory contract not later than within 120 days after the entry of this order,
3 unless such date is extended by application to and further order of this Court; all executory
4 contracts that are not expressly assumed by the Commissioner as Liquidator shall be deemed
5 rejected; any party to a contract that is rejected by the Commissioner as Liquidator pursuant to
6 this order shall be permitted to file a proof of claim against the liquidation estate, which claim
7 shall be treated in accordance with Insurance Code §1010, *et seq.*

9
10 14. Respondent and all former and present officers, directors, agents, and employees of
11 Respondent are directed to deliver to the Commissioner as Liquidator all assets, books, records,
12 equipment, and other property of the Respondent wheresoever situated.

13 15. All funds and assets, including certificates of deposit, bank deposits and mutual fund
14 shares, of Respondent, in various financial depository institutions, including banks, savings and
15 loan associations, industrial loan companies, mutual funds or stock brokerages, wheresoever
16 situated, are directed to be vested in the Commissioner as Liquidator and subject to withdrawal
17 upon his order only.

18
19 16. All persons who maintain records for Respondent, pursuant to written contract or any
20 other agreement, are directed to maintain such records and to deliver them to the Commissioner
21 as Liquidator upon his request.

22
23 17. All agents of Respondent and all brokers who have done business with Respondent
24 are directed to make remittances of all funds collected by them or in their hands directly to the
25 Commissioner as Liquidator. This obligation to remit collected funds is continuing in nature.

26 18. All persons having possession of any lists of policyholders or escrow holders of
27 Respondent are directed to deliver all such lists to the Commissioner as Liquidator. All persons
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1 are enjoined from using any such lists or any information contained therein without the consent
2 of the Commissioner as Liquidator.

3 19. Respondent and its respective officers, directors, agents, servants, employees,
4 successors, assigns, affiliates, and other persons or entities under their control and all persons or
5 entities in active concert or participation with them, and each of them, are directed to turn over to
6 the Commissioner as Liquidator records, documentation, charts and/or descriptive material of all
7 funds, assets, property (owned beneficially or otherwise), and all other assets of Respondent
8 wherever situated, and all books and records of accounts, title documents and other documents in
9 their possession or under their control, which relate, directly or indirectly, to assets or property
10 owned by or held by Respondent or to the business or operations of Respondent.

13 20. All insurance policies issued by Respondent shall be terminated and canceled
14 effective thirty (30) days following the issuance of the order herein prayed for, and the
15 Commissioner as Liquidator shall notify promptly all policyholders of such policy termination
16 and cancellation by First Class Mail at the last known address of the policyholders; in addition,
17 the Commissioner as Liquidator, in his sole discretion, is authorized to terminate and cancel any
18 policies issued by Respondent that are not covered by the preceding sentence or that were issued
19 by a fronting insurer and reinsured, in whole or in part, by Respondent.

21 21. All prior injunctions and other orders of this Court, except to the extent expressly
22 modified herein, are reaffirmed and remain in full force and effect; all powers and authority
23 granted to the Commissioner as Liquidator under this order are in addition to and not in
24 limitation of the powers of the Commissioner as Liquidator under the Insurance Code and any
25 other statutory or applicable case law.

27 22. The rights and liabilities of claimants, creditors, shareholders, policyholders, escrow
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1 holders and all other persons interested in the assets of Respondent, including the State of
2 California, are fixed as of the date of the entry of this order.

3 23. All funds and accounts in the name of Respondent, or the Commissioner as
4 Conservator, in various banks or any other institutions wheresoever situated are vested in the
5 Commissioner as Liquidator and subject to withdrawal at his direction only. This order does not
6 convert funds held in a fiduciary capacity to general assets of the Liquidator.
7

8 24. All persons are enjoined, except with leave of this Court issued after a hearing in
9 which the Commissioner as Liquidator has received reasonable notice, from obtaining
10 preferences, judgments, attachments or other liens, or making any levy against Respondent or its
11 assets or property, and from executing or issuing or causing the execution or issuance of any
12 court attachment, subpoena, replevin, levy, execution, or other process for the purpose of
13 impounding or taking possession of or interfering with or creating or enforcing a lien upon any
14 property or assets owned or in the possession of Respondent or its affiliates, or the Liquidator
15 appointed herein, wheresoever situated and from doing any act interfering with the conduct of
16 said business by the Commissioner as Liquidator.
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18 25. All persons are enjoined, except by leave of this Court obtained after reasonable
19 notice to the Commissioner as Liquidator, from accelerating the due date of any obligation or
20 claimed obligation; exercising any right of set-off; taking, retaining, retaking or attempting to
21 retake possession of any real or personal property; withholding or diverting any rent or other
22 obligation; doing any act or other thing whatsoever to interfere with the possession of or
23 management by the Commissioner as Liquidator and of the property and assets, owned or
24 controlled by Respondent or in the possession of Respondent or to in any way interfere with said
25 Commissioner as Liquidator or to interfere in any manner during the pendency of this proceeding
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1 with the exclusive jurisdiction of this Court over Respondent.

2 26. Respondent, its officers, directors, governors, agents, and employees are enjoined
3 from transacting any of the business of Respondent, whether in the State of California or
4 elsewhere, or from disposing of, or assisting any person in the transfer or alienation of, the
5 property or assets of Respondent, until further order of this Court.
6

7 27. All persons are enjoined from instituting, prosecuting or maintaining any action at
8 law or suit in equity, including but not limited to actions or proceedings to compel discovery or
9 production of documents or testimony and matters in arbitration, against Respondent or against
10 the Commissioner as Liquidator of Respondent, and from attaching, executing foreclosure upon,
11 redeeming of or taking any other legal proceedings against, any of the property or assets of
12 Respondent, and from doing any act interfering with the conduct of said business by the
13 Commissioner as Liquidator, except upon order from this Court obtained after reasonable notice
14 to the Commissioner as Liquidator.
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17 28. Any and all provisions of any agreement entered into by and between any third party
18 and Respondent including, by way of illustration, but not limited to, the following types of
19 agreements (as well as any amendments, assignments, or modifications thereto): financial
20 guarantee bonds, promissory notes, loan agreements, security agreements, deeds of trust,
21 mortgages, indemnification agreements, subrogation agreements, subordination agreements,
22 pledge agreements, assignments of rents or other collateral, financial statements, letters of credit,
23 leases, insurance policies, guaranties, escrow agreements, management agreements, real estate
24 brokerage and rental agreements, servicing agreements, attorney agreements, consulting
25 agreements, easement agreements, license agreements, franchise agreements, or employment
26 contracts that provide in any manner that selection, appointment or retention of a conservator, or
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1 liquidator or trustee by any court, or entry of an order such as hereby made, shall be deemed to
2 be or otherwise operate as a breach, violation, event of default, termination, event of dissolution,
3 event of acceleration, insolvency, bankruptcy, or liquidation, shall be stayed, and the assertion of
4 any and all rights, remedies relating thereto shall also be stayed and barred, except as otherwise
5 ordered by this Court, and this Court shall retain jurisdiction over any cause of action that has
6 arisen or may otherwise arise under any such provision.

8 29. All persons are enjoined from interfering with the possession, title and rights of the
9 Commissioner as Liquidator, in and to the assets of Respondent, and from interfering with the
10 conduct of the Commissioner as Liquidator in the handling and disposition of assets of
11 Respondent, and from interfering with the conduct of the liquidation and the winding up of the
12 business of Respondent, except upon order of this Court obtained after reasonable notice to the
13 Commissioner as Liquidator.

15 30. All persons are enjoined from waste of assets of Respondent.

17 31. Any and all claims against Respondent (except those policyholder claims already
18 pending against Respondent, which are deemed filed), including those which in any way affect or
19 seek to affect any of the assets of Respondent, wherever or however such assets may be owned or
20 held, must be filed by no later than March 31, 2003, (the "Claims Bar Date"), together with
21 proper proof thereof, in accordance with the provisions of Insurance Code §1010, et seq.,
22 including, but not limited to §1023, and any claim not filed by the Claims Bar Date is
23 conclusively deemed forever waived.

25 DATED: 6-21-02

26 DEANTRA I. JANAVS

27 Judge of the Superior Court

28 Ex parte order of liq