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LOS ANGELES SUPERIOR COURT

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

INSURANCE COMMISSIONER OF THE STATE  
OF CALIFORNIA,  
  
Applicant,  
  
v.  
  
SUPERIOR NATIONAL INSURANCE COMPANY,  
  
Respondent;  
  
AND CONSOLIDATED PROCEEDINGS.

Case No.: BS 061974  
Consolidated with: BS 061975  
BS 062171  
BS 062173  
BS 063746

**ORDER APPOINTING  
LIQUIDATOR FOR SUPERIOR  
NATIONAL INSURANCE  
COMPANY, SUPERIOR  
PACIFIC CASUALTY  
COMPANY, COMBINED  
BENEFITS INSURANCE  
COMPANY, CALIFORNIA  
COMPENSATION INSURANCE  
COMPANY, and COMMERCIAL  
COMPENSATION CASUALTY  
COMPANY AND RELATED  
RESTRAINING ORDERS**

The Verified Application of the Insurance Commissioner, Applicant herein, for  
Order Appointing Liquidators and Restraining Orders came on regularly for hearing on  
September 25, 2000 in the above entitled court, the Honorable Frances Rothschild presiding.  
The Applicant was represented by his counsel, Bill Lockyer, Attorney General by Mark P.

1 Richelson and Elisa B. Wolfe, Deputy Attorneys General. Lumbermens Mutual Casualty  
2 Company (hereinafter referred to as "Kemper") was represented by Sidley and Austin by Thomas  
3 Patterson, Esq. Superior National Insurance Group and Business Insurance Group, Inc. were  
4 represented by Pachulski, Stang, Ziehl, Young & Jones, P.C. by Iain A. W. Nasatir, Esq. The  
5 California Insurance Guarantee Association was represented by Lord Bissel and Brook by C.  
6 Guerry Collins. The other appearances were noted on the record.

7           The Court after reviewing the Verified Applications for Orders Appointing  
8 Liquidator, the papers and pleadings filed in opposition and reply and good cause appearing finds  
9 that:

10           1. Superior National Insurance Company, Superior Pacific Casualty Company,  
11 Combined Benefits Insurance Company, California Compensation Insurance Company, and  
12 Commercial Compensation Casualty Company is each insolvent;

13           2. It would be futile for the Insurance Commissioner to proceed as conservator  
14 with the conduct of the business of these five insurance companies; and,

15           3. It is appropriate for the Insurance Commissioner to liquidate and wind up the  
16 business of these five insurance companies in a manner consistent with this Order, the Court's  
17 Final Order Approving and Adopting Rehabilitation Plan, and the Order Approving and  
18 Adopting Settlement Agreement.

19  
20           **WHEREFORE IT IS ORDERED THAT:**

21  
22           **ADMINISTRATION AND OPERATION**

23           1. Applicant's status as Conservator is terminated, and he is appointed Liquidator of the  
24 five Respondents named above, as set forth in section 1016 of the Insurance Code, and directed  
25 as Liquidator to liquidate and wind up the business of Respondents and to act in all ways and  
26 exercise all powers necessary for the purpose of carrying out such order.

27           2. Applicant, as Liquidator of Respondents, is vested in and to all of the records,  
28 property (real and personal, whether owned, leased, rented or utilized by Respondents under any

1 contract or assignment) and assets (including rights under any license or other arrangement for  
2 the use of computer software and/or business information systems) of Respondents then in the  
3 possession of Applicant as Conservator, as well as any records, property and assets of  
4 Respondents discovered or obtained hereafter wheresoever such assets may be situated.

5 3. Applicant, as Liquidator of Respondents, is authorized to honor as expenses of  
6 administration all expenses heretofore incurred by the Conservator and presently unpaid.

7 4. Funds and accounts in the name of Respondents, or Applicant as Conservator, in  
8 various banks or any other institutions wheresoever situated shall be vested in Applicant as  
9 Liquidator and subject to withdrawal at his direction only, and this Order does not convert funds  
10 held in a fiduciary capacity to general assets of the Liquidator.

11 5. The Applicant as Liquidator is authorized to appoint and employ estate managers,  
12 special deputies, clerks and assistants and to give each of them such power and authority as he  
13 deems necessary and authorizing Applicant to compensate them from the assets of Respondents,  
14 or from such other non-conservatorship funds as are lawfully available, which as to him shall be  
15 determined to be appropriate.

16 6. The Applicant, as Liquidator, is authorized to invest Respondents' assets as he deems  
17 to be in the best interests of this liquidation estate, and to pay for his costs in bringing and  
18 maintaining this and other actions necessary to carry out his functions as Liquidator of  
19 Respondents from the assets of Respondents, and if there are insufficient assets, is authorized to  
20 pay for his costs out of the Insurance Fund, pursuant to Insurance Code § 1035.

21 7. The Liquidator is authorized to divert, take possession of and secure all mail of  
22 Respondents in order to screen such mail, and to effect a change in the rights to use any and all  
23 post office boxes and other mail collection facilities used by Respondents.

24 8. The Applicant is authorized to pay for his costs in bringing and maintaining this  
25 action, and such other actions as are necessary to carry out his functions as Liquidator, out of the  
26 funds and assets of Respondents.

27 9. The Liquidator is authorized pursuant to Insurance Code section 1037(g), to invest and  
28 reinvest all assets in a manner he deems to be in the best interest of the creditors of the estate,

1 including investing and reinvesting assets through an investment pool consisting exclusively of  
2 assets from conserved estates. To the extent that the Liquidator invests and reinvents through  
3 such an investment pool, such investments and reinvestments may exceed \$100,000.

4 10. The Liquidator is hereby authorized to assume or reject, or to modify, any executory  
5 contracts, including without limitation, any lease, rental or utilization contract or agreement  
6 (including any schedule to any such contract or agreement), and any license or other arrangement  
7 for the use of computer software or business information systems, to which Respondents, or any  
8 of them, is a party or as to which Respondent(s) agrees to accept an assignment of such contract  
9 pursuant to the terms of the Settlement Agreement (which is being heard concurrently herewith);  
10 provided, however, that in connection with the BancBoston/Citizens' Master Lease Finance  
11 Agreements, as amended and assigned, and the agreements with Risk Enterprise Management  
12 Limited ("REM") filed with REM's objections to the Settlement Agreement, no such action shall  
13 be taken without the approval of this Court, upon notice to BancBoston/ Citizens and REM,  
14 respectively. Any such assumption or rejection or modification of any executory contract shall  
15 be effected by the Liquidator not later than within 120 days after the entry of this Order, unless  
16 such date is extended by application to and further order of the Court. All executory contracts  
17 that are not expressly assumed by the Liquidator shall be deemed rejected. Any party to a  
18 contract that is rejected by the Liquidator pursuant to this Order, shall be permitted to file a proof  
19 of claim against the liquidation estate, which claim shall be treated in accordance with Insurance  
20 Code section 1010, et seq.

21 11. Pursuant to Insurance Code section 1037(d), the Liquidation may dispose of any  
22 excess property of Respondents by any commercially reasonable method, including, but not  
23 limited to, sales at public auctions, sales in bulk to the high bidder (provided at least three (3)  
24 bids are obtained from independent dealers in the kind of property sold).

1 **CREDITORS, POLICYHOLDERS ETC.**

2 12. The rights and liabilities of claimants, creditors, and all other persons interested in  
3 the assets of Respondents, including the State of California, be fixed as of the date of entry of  
4 this order.

5 13. All insurance policies issued by the Respondents prior to April 6, 2000 or issued  
6 thereafter but issued without a Kemper "cut-through reinsurance" endorsement, shall be  
7 terminated and canceled effective no later than thirty (30) days after the entry of this Order. The  
8 Liquidator shall promptly notify all policyholders of such policy termination and cancellation by  
9 First Class Mail at the last known address of the policyholders. In addition, the Liquidator is  
10 authorized to and may, in his sole discretion, terminate and cancel any policies issued by  
11 Respondents that are not covered by the preceding sentence or that were issued by a fronting  
12 insurer and reinsured, in whole or in part, to Respondents.

13 14. This order is not intended to modify the Stipulation and Order entered by this Court  
14 on August 17, 2000 between the Conservator and Centre Insurance Company, and that  
15 Stipulation and Order continues in full force and effect.

16  
17 **INJUNCTIONS AND OTHER ORDERS**

18 15. All prior injunctions and other orders of this Court, except to the extent expressly  
19 modified herein, are reaffirmed and remain in full force and effect. All powers and authority  
20 granted to the Liquidator under this Order are in addition to and not in limitation of the powers of  
21 the Liquidator under the California Insurance Code and any other statutory or applicable case  
22 law.

23 16. Each Respondent, its officers, directors, agents and employees and all other persons  
24 are enjoined from transacting the business of Respondents and from disposing of any of its  
25 California assets or property or any other assets or property of Respondents wheresoever  
26 situated.

27 17. All persons are enjoined from interfering with the possession, title and rights of  
28 Applicant, as Liquidator, in and to the property and assets of Respondents vested in the

1 Liquidator by this Order, and from interfering with the conduct of the liquidation and the  
2 winding up of the business of Respondents.

3 18. All persons are enjoined from waste of assets of Respondents.

4 19. All persons are enjoined from instituting or prosecuting or maintaining any action or  
5 proceeding at law or suit in equity, including but not limited to matters in arbitration, against  
6 Respondents or Applicant as Liquidator of Respondents, and from attaching or executing upon,  
7 or taking, any legal action against the real and personal property held by Respondents without the  
8 consent of this Court obtained after reasonable notice to said Liquidator.

9 20. All persons are enjoined from obtaining or attempting to obtain preferences,  
10 judgments, attachments or other license, or from making any levy against Respondents or its  
11 property and assets without the consent of this Court obtained after reasonable notice to said  
12 Liquidator.

13 21. All former or present officers, directors, agents and employees of Respondents, and  
14 all other persons are ordered to deliver all books, records, real and personal property, equipment  
15 and other assets of Respondents wheresoever situated to Liquidator.

16 22. The Respondents and its respective officers, directors, agents, servants, employees,  
17 successors, assigns, affiliates, and other persons or entities under their control and all persons or  
18 entities in active concert or participation with them, and each of them, are ordered to turn over to  
19 the Liquidator records, documentation, charts and/or descriptive material of all funds, assets, real  
20 and personal property owned beneficially, leased, rented or utilized or otherwise, and all other  
21 assets of Respondents wherever situated, and all books and records of accounts, title documents,  
22 leases rental and utilization agreements, and other documents in their possession or under their  
23 control, which relate to assets or property of Respondents.

#### 24 25 LITIGATION AND LEGAL PROCESS

26 23. The Applicant as Liquidator is authorized to initiate such equitable or legal actions or  
27 proceedings in this or other states as may appear to him necessary to carry out his functions as  
28 Liquidator.

1           24. Except with leave of court issued after a hearing in which the Liquidator has  
2 received reasonable notice all persons are enjoined from executing or issuing or causing the  
3 execution or issuance of any court attachment, subpoena, replevin, execution or other process for  
4 the purpose of impounding or taking possession of or interfering with or creating or enforcing a  
5 lien upon any real or personal property owned or in the possession of Respondents or its  
6 affiliates, or the Liquidator appointed herein, wheresoever situated.

7           25. Except by leave of court, obtained after reasonable notice to the Liquidator all  
8 persons are enjoined from accelerating the due date of any obligation or claimed obligation;  
9 retaking or attempting to retake possession of any real or personal property; ~~withholding or~~ *JK*  
10 diverting any rent or other obligation; doing any act or other thing whatsoever to interfere with  
11 the possession or use of, or management by the Liquidator herein and of the property and assets,  
12 owned or controlled by Respondents or in the possession of Respondents or in any way to  
13 interfere with said Liquidator or to interfere in any manner during the pendency of this  
14 proceeding with the exclusive jurisdiction of this Court over Respondents.

15           26. Any and all provisions of any agreement entered into by and between any third party  
16 and Respondents including, by way of illustration, but not limited to, the following types of  
17 agreements (as well as any amendments, assignments, or modifications thereto): financial  
18 guarantee bonds, promissory notes, loan agreements, security agreements, deeds of trust,  
19 mortgages, indemnification agreements, subrogation agreements, subordination agreements,  
20 pledge agreements, assignments of rents or other collateral, financial statements, letters of credit,  
21 leases, rental or utilization agreements insurance policies, guaranties, escrow agreements,  
22 management agreements, real estate brokerage and rental agreements, servicing agreements,  
23 attornment agreements, consulting agreements, easement agreements, license agreements,  
24 franchise agreements, or employment contracts that provide in any manner that selection,  
25 appointment or retention of a Liquidator, or trustee by any court, or entry of an order such as  
26 hereby made, shall be deemed to be, otherwise operate as a breach, violation, event of default,  
27 termination, event of dissolution, event of acceleration, insolvency, bankruptcy, or liquidation,  
28 shall be stayed, and the assertion of any and all rights, remedies relating thereto shall also be



1 stayed, except as otherwise ordered by the Court, and the Court shall retain jurisdiction over any  
2 cause of action that has arisen or may otherwise arise under any such provision.

3  
4 **EFFECT ON OTHER ORDERS**

5 27. This order is not intended to modify the Stipulation and Order entered by this Court  
6 on August 17, 2000 between the Conservator and Centre Insurance Company, and that  
7 Stipulation and Order continues in full force and effect.

8 28. This order is not intended to affect or, and shall not affect the rights and obligations  
9 of the Kemper Insurance Companies under the Rehabilitation Plan, except to the extent provided  
10 for in the Rehabilitation Plan. This order of liquidation also is not intended to affect, and shall  
11 not affect, the rights and obligations under the Interim Cut-Through Reinsurance Agreement with  
12 the Kemper Insurance Companies, as amended, modified, and extended, all as approved by this  
13 Court, except to the extent provided in the Reinsurance Agreement.

14 29. Notwithstanding the foregoing, the Liquidator did not and does not intend this  
15 Liquidation Order to: (A) result in any conflict with the performance of its Settlement Agreement  
16 with Kemper and Superior National Insurance Group, Inc., and its affiliates; (B) result in a  
17 violation of any provision of said Settlement Agreement; (C) result in the material impairment of  
18 the ownership or value of the net operating losses ("NOLs") incurred in conjunction with the  
19 operation of the Superior National Insurance companies; (D) address any obligation of Superior  
20 National Insurance Group, Inc., and/or its affiliates, (if any such obligation does exist) to any  
21 surety. The Liquidator has not taken any action that he knew or knows would materially impair  
22 the ownership or value of the NOLs, or would result in an conflict with or violation of any  
23 provision of the Settlement Agreement, and will take no such action without the prior approval  
24 of a court of competent jurisdiction. If it were subsequently discovered that there is any  
25 provision in the Rehabilitation Plan that is intended to or does result in (a), (b), (c), or (d) above,  
26 then the Liquidator shall take all reasonable steps to correct and cure the same provided that he  
27 shall not be required to perform any act which adversely affects the rights of Kemper as  
28 contained in the Rehabilitation Plan.



1 30. The provisions of Applicant's Settlement Agreement with Kemper and Superior  
 2 National Insurance Group, Inc., et al., shall survive the entry of ~~an~~<sup>This</sup> Order of liquidation and shall  
 3 be fully enforceable notwithstanding any subsequent order, including the ~~order~~<sup>of liquidation</sup> of liquidation ~~or~~<sup>or</sup>  
 4 Further, with respect to the Settlement Agreement, extant obligations of respondent Companies ~~or~~<sup>or</sup> ~~apparently a~~  
 5 (such as indemnities) that exist as of the date of entry of a liquidation order shall survive  
 6 liquidation and shall be treated as an expense of administration accorded "class one" priority  
 7 under Insurance Code Section 1033(a).

8 31. This Order is not intended to affect, and shall not affect, the rights of the parties  
 9 under that certain Stipulation and Order relating to Liquidation of Conserved Insurers,  
 10 Rehabilitation Transactions, Settlement Agreement, and Cancellation of Centre Insurance  
 11 Company and ZC Insurance Company Policies.

12 32. This Order is not intended to affect, and shall not affect, the rights and obligations  
 13 of Risk Enterprise Management Limited under the March 1998 Agreement for Services between  
 14 REM and Superior National Insurance Company, as amended, and/or the December 1998  
 15 Agreement for Services between REM and Superior National Insurance Company, as amended.

16  
 17 **OTHER PROVISIONS**

18 33. Any and all claims against Respondents (except those policyholder claims already  
 19 pending against Respondents, which are deemed filed), including those which in any way affect  
 20 or seek to affect any of the assets of Respondents, wherever or however such assets may be  
 21 owned or held, must be filed no later than May 25, 2001 (the "Claims Bar Date"), together with  
 22 proper proof thereof, in accordance with the provisions of California Insurance Code sections  
 23 1010 et seq. including but not limited to Section 1023. Any claims not filed by the Claims Bar  
 24 Date shall be conclusively deemed forever waived.

25 34. Nothing in this Order or in the Orders Approving and Adopting Rehabilitation Plan  
 26 and Approving and Adopting Settlement Agreement is intended to affect, modify or otherwise  
 27 alter the jurisdiction of this court.

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HEADINGS

35. Headings contained herein shall not be deemed to govern, limit, modify, or in any manner affect the scope, meaning, or intent of the provisions of any part or section of this order.

Dated: 9-26-00

  
THE HONORABLE FRANCES ROTHSCHILD  
JUDGE OF THE SUPERIOR COURT

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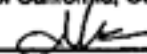
THE DOCUMENT TO WHICH THIS CERTIFICATE IS ATTACHED IS A FULL, TRUE, AND CORRECT COPY OF THE ORIGINAL ON FILE AND OF RECORD IN MY OFFICE.

OCT 13 2000



ATTEST \_\_\_\_\_  
JOHN A. CLARKE

Executive Officer / Clerk of the Superior Court of California, County of Los Angeles.

By  \_\_\_\_\_, Deputy

D. KNOWLES