



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN THE MATTER OF
THE REHABILITATION OF FREESTONE
INSURANCE COMPANY

:
: C.A. No. 9574-VCL
:

LIQUIDATION AND INJUNCTION ORDER WITH BAR DATE

WHEREAS, the Honorable Karen Weldin Stewart, CIR-ML, in her capacity as Insurance Commissioner of the State of Delaware and as the Receiver (the "Receiver") of Freestone Insurance Company, in Rehabilitation ("FREESTONE"), has filed a petition (the "Petition") seeking the entry of a Liquidation and Injunction Order with Bar Date concerning FREESTONE pursuant to 18 *Del. C.* §5901, et seq.;

WHEREAS, the Receiver was appointed as such by this Court's Rehabilitation and Injunction Order dated April 28, 2014;

WHEREAS, the Receiver has provided the Court with evidence sufficient to support the conclusion that: (a) FREESTONE is insolvent and remains impaired, in unsound condition, and in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders and that further efforts to rehabilitate FREESTONE would be useless; and (b) liquidation is in the best interests of the FREESTONE

policyholders, principals, obligees, other FREESTONE creditors, and the general public; and

WHEREAS, this Court finds that sufficient cause exists for the liquidation of FREESTONE pursuant to 18 *Del. C.* §§5905, 5906, and 5910(b) and for the entry of a Liquidation and Injunction Order with Bar Date concerning FREESTONE.

NOW, THEREFORE, IT IS HEREBY ORDERED BY THE COURT, effective August 15, 2014, as follows:

1. By this Court's April 28, 2014, Rehabilitation and Injunction Order, FREESTONE was declared impaired, in unsound condition, and in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, and this Court finds that the impairment, insolvency, unsound condition, and hazardous condition continues to exist. This Court also finds that FREESTONE is insolvent, that further efforts to rehabilitate FREESTONE would be useless, and that an order of liquidation is appropriate pursuant to 18 *Del. C.* §§5905, 5906, and 5910(b).

2. Pursuant to 18 *Del. C.* §5911, the appointment of the Commissioner and her successors in office as the Receiver of FREESTONE is hereby continued.

3. Pursuant to 18 *Del. C.* §5911, the Receiver shall forthwith take and continue possession of the property of FREESTONE, liquidate its business, and deal with FREESTONE's property and business in the name of the Commissioner or in the name of FREESTONE. Further, the Receiver shall take and continue to control and be vested and continue to be vested with all right, title, and interest in, of, and to the property of FREESTONE including, without limitation, all of FREESTONE's assets, contracts, rights of action, books, records, bank accounts, certificates of deposits, collateral and rights to collateral of FREESTONE, securities or other funds, and all real or personal property of any nature of FREESTONE, including, without limitation, all proceeds or accessions to any of the foregoing, wherever located, in the possession, custody, or control of FREESTONE or any trustee, bailee, or any agent acting for or on behalf of FREESTONE (collectively, the "Assets").

4. If the Receiver has not already done so, the Receiver may change to her own name as Receiver, the name of any of FREESTONE's accounts, funds, or other Assets held with any bank, savings and loan association, or other financial institution, and may withdraw such funds, accounts, and other Assets from such institutions or take any lesser action necessary for the proper conduct of this liquidation.

5. The Receiver is further authorized to take such actions as the nature of this cause and interests of the policyholders, principals, obligees, claimants, creditors, and stockholder of FREESTONE and the public may require in accordance with 18 *Del. C.* ch. 59.

6. The Receiver is hereby authorized to continue to deal with the Assets, business, and affairs of FREESTONE including, without limitation, the right to sue, defend, and continue to prosecute suits or actions already commenced by or for FREESTONE, or for the benefit of FREESTONE's policyholders, principals, obligees, claimants, cedants, creditors, and stockholders in the courts, tribunals, agencies, or arbitration panels for this State and other states and jurisdictions in her name as the Insurance Commissioner of the State of Delaware in her capacity as the Receiver of FREESTONE or in the name of FREESTONE.

7. Pursuant to the April 28, 2014, Rehabilitation and Injunction Order and continuing through this Liquidation and Injunction Order, the Receiver is vested with the right, title, and interest in and to all funds recoverable under treaties and agreements of reinsurance heretofore entered into by FREESTONE as the ceding insurer or as the assuming insurer, and all reinsurance companies involved with FREESTONE are enjoined and restrained from making any settlements with any claimant or policyholder of FREESTONE other than with the express written consent of the Commissioner as Receiver, except as permitted by cut-through agreements or endorsements which were issued to the policyholder, which were properly executed before the date of this Petition, which comply in all respects with 18 *Del. C.* §914, as amended by 72 *Del. Laws c.* 405, and which were approved by the Delaware Insurance Department if such approval was required. The amounts recoverable by the Receiver from any reinsurer of FREESTONE shall not be reduced or diminished as a result of this receivership proceeding or by reason of any partial payment or distribution on a reinsured policy, contract, or claim, and each such reinsurer of FREESTONE is hereby enjoined and restrained from terminating, canceling, failing to extend or renew, or reducing or changing coverage under any

reinsurance policy, reinsurance contract, or letter of credit. The Receiver may terminate, cancel, or rescind any reinsurance policy or contract that is contrary to the best interests of the receivership.

8. All persons or entities that have in their possession Assets or possible Assets and/or that have notice of these proceedings or of this Order are, and continue to be, enjoined and restrained from transacting any business of, or on behalf of, FREESTONE or selling, transferring, destroying, wasting, encumbering, or disposing of any of the Assets, without the prior written permission of the Receiver or until further Order of this Court. This prohibition includes, without limitation, Assets or possible Assets pertaining to any business transaction between FREESTONE and any of said parties. No actions concerning, involving, or relating to such Assets or possible Assets may be taken by any of the aforesaid persons or entities enumerated herein, without the express written consent of the Receiver, or until further Order of this Court.

9. Except as otherwise indicated elsewhere in this Order or except as excluded by express written notice provided by the Receiver, all persons or entities holding Assets of, or on behalf of, FREESTONE shall file with the Receiver within ten (10) calendar days of the effective date of this Order

an accounting of those Assets, regardless of whether such persons or entities dispute the Receiver's entitlement to such Assets.

10. Except as otherwise indicated elsewhere in this Order or except as excluded by express written notice provided by the Receiver, all persons or entities holding Assets of, or on behalf of, FREESTONE shall within ten (10) calendar days of the effective date of this Order, turn those Assets over to the Receiver.

11. All persons and entities that have notice of these proceedings or of this Order are hereby prohibited from instituting or further prosecuting any action at law or in equity, including but not limited to any arbitration or mediation, or other proceedings against FREESTONE, the Commissioner as Receiver, the Deputy Receiver(s), or the Designees in connection with their duties as such, or from obtaining preferences, judgments, attachments, or other like liens or encumbrances, or foreclosing upon or making any levy against FREESTONE or the Assets, or exercising any right adverse to the right of FREESTONE to or in the Assets, or in any way interfering with the Receiver, the Deputy Receiver(s), or the Designees either in their possession and control of the Assets or in the discharge of their duties hereunder.

12. All persons or entities that have notice of these proceedings or of this Order, are hereby enjoined and restrained from instituting or further prosecuting any action at law or in equity, including but not limited to any arbitration or mediation, or other proceeding with any pretrial conference, trial, application for judgment, or proceedings on judgment or settlements and such action at law, in equity, special, or other proceedings in which FREESTONE is obligated to defend a party insured or any other person it is legally obligated to defend by virtue of its insurance contract for a period of 180 days from the date hereof.

13. All persons and entities are hereby enjoined and restrained from asserting any claim against the Commissioner as Receiver of FREESTONE, the Deputy Receiver(s), or the Designees in connection with their duties as such, or against the Assets, except insofar as such claims are brought in the liquidation proceedings of FREESTONE.

14. (a) All insurance policies, surety bonds, and contracts of insurance issued by FREESTONE, whether issued in the State of Delaware or elsewhere, in effect as of the effective date of this Liquidation and Injunction Order with Bar Date shall only continue in force until the earlier of the following events: (i) the stated expiration or termination date and

time of the insurance policy, surety bond, or contract of insurance; (ii) the effective date and time of a replacement insurance policy, surety bond, or contract of insurance of the same type issued by another insurer regardless of whether the coverage is identical coverage; (iii) the effective date and time that the FREESTONE insurance policy, surety bond, or contract of insurance obligation is transferred to another insurer or entity authorized by law to assume such obligation; or (iv) the cancellation and termination for all purposes of the insurance policy, surety bond, or contract of insurance at 12:01 a.m. on the thirtieth (30th) calendar day from the effective date of this Order pursuant to subparagraph 14(b) below.

(b) Except for those insurance policies, surety bonds, or contracts of insurance which expire or are cancelled, terminated, or transferred earlier as set forth in subparagraph 14(a)(i) through (iii) above, all insurance policies, surety bonds, or contracts of insurance issued by FREESTONE, whether issued in the State of Delaware or elsewhere, in effect as of the effective date of this Liquidation and Injunction Order with Bar Date, are hereby cancelled and terminated for all purposes as of 12:01 a.m. on the thirtieth (30th) calendar day following the effective date of this Liquidation and Injunction Order with Bar Date. For purposes of this paragraph 14, even

if the thirtieth (30th) calendar day following the effective date of this Liquidation and Injunction Order with Bar Date is a Saturday, Sunday, or holiday, the insurance policy, surety bond, or contract of insurance shall be cancelled and terminated as of 12:01 a.m. on the thirtieth (30th) calendar day following the effective date of this Liquidation and Injunction Order with Bar Date. The Receiver shall notify promptly all policyholders, principals, or obligees as applicable of such policy, surety bond, or contract cancellation and termination by United States first class mail at the last known address of such policyholders, principals or obligees.

15. Pursuant to 18 *Del. C.* §5924, the rights and liabilities of FREESTONE and of its creditors, policyholders, principals, obligees, claimants, stockholders, members, subscribers, and all other persons interested in its estate shall, unless otherwise directed by the Court, be fixed as of the effective date of this Liquidation and Injunction Order with Bar Date, subject to the provisions of Chapter 59 of Title 18 of the Delaware Code with respect to the rights of claimants holding contingent claims.

16. ANY AND ALL CLAIMS NOT FILED WITH THE RECEIVER ON OR BEFORE THE CLOSE OF BUSINESS ON **DECEMBER 31, 2015** (THE "BAR DATE") SHALL BE BARRED FROM

CLASSES II THROUGH VI AS THOSE CLASSES ARE DEFINED IN 18 *DEL. C. §5918(e)(2) THROUGH (e)(6)* AND SHALL NOT RECEIVE ANY DISTRIBUTIONS FROM THE GENERAL ASSETS OF THE ESTATE OF FREESTONE UNLESS AND UNTIL ASSETS BECOME AVAILABLE FOR A DISTRIBUTION TO CLASS VII CLAIMANTS AS DEFINED IN 18 *DEL. C. §5918(e)(7)*. THIS BAR DATE SHALL SUPERSEDE ANY APPLICABLE STATUTES OF LIMITATIONS OR OTHER STATUTORY OR CONTRACTUAL TIME LIMITS WHICH HAVE NOT YET EXPIRED WHETHER ARISING UNDER DELAWARE LAW, UNDER THE APPLICABLE LAWS OF ANY OTHER JURISDICTION, OR UNDER A CONTRACT WITH FREESTONE BUT SHALL ONLY APPLY TO CLAIMS AGAINST FREESTONE IN THE LIQUIDATION PROCEEDINGS AND DOES NOT APPLY TO, AND EXCLUDES, CLAIMS BROUGHT BY FREESTONE. ALL CLAIMANTS SHALL ATTACH TO SUCH PROOF OF CLAIM DOCUMENTATION SUFFICIENT TO SUPPORT SUCH CLAIM. THE FILED CLAIMS SHALL NOT BE REQUIRED TO BE LIQUIDATED AND ABSOLUTE ON OR BEFORE THE BAR DATE SET FORTH HEREIN.

17. CONTINGENT AND UNLIQUIDATED CLAIMS THAT ARE PROPERLY FILED WITH THE RECEIVER IN ACCORDANCE WITH THIS ORDER SHALL ONLY BE ELIGIBLE TO SHARE IN A DISTRIBUTION OF THE ASSETS OF FREESTONE IN ACCORDANCE WITH 18 *DEL. C.* §5928.

18. Within thirty (30) calendar days after the effective date of this Order, or as soon as possible after an interested party or potential creditor subsequently becomes known to the Receiver, the Receiver shall serve a copy of this Liquidation and Injunction Order With Bar Date, a notice substantially in the form of the revised Exhibit A to the Petition, a proof of claim form substantially in the form of the revised Exhibit B to the Petition, and the instructions for the proof of claim form substantially in the form of the revised Exhibit C to the Petition, on all interested parties, all known potential creditors, all current and former stockholders of FREESTONE, all former Board members of FREESTONE, its third party adjusters, its managing general underwriters, its brokers, its agents, its reinsurer(s), and any reinsurance intermediaries, all other known vendors, all state insurance guaranty associations providing coverage for the lines of business written by FREESTONE, and all State Insurance Commissioners by United States first

class mail, postage prepaid, provided that in the Receiver's discretion such notice may be mailed instead by United States first class certified mail, return receipt requested, or other United States mail providing proof of mailing, to such interested party or potential creditor's last known address in the company's files.

19. Within thirty (30) calendar days after the effective date of this Order, the Receiver shall also publish a legal notice concerning the entry of the Liquidation and Injunction Order with Bar Date, the December 31, 2015, Bar Date, and the proof of claim requirements one time in the New York Times, and such other news publications of general circulation as the Receiver in her discretion deems appropriate to provide notice to such parties.

20. Within thirty (30) calendar days after the effective date of this Order, the Receiver shall also publish this Liquidation and Injunction Order with Bar Date, the proof of claim form, and the instructions to the proof of claim form on the Delaware Department of Insurance website.

21. Pursuant to the provisions of 18 *Del. C.* §§5904(b) and 5928(c), no judgment against FREESTONE and/or one or more of its insureds taken after the effective date of this Liquidation and Injunction Order with Bar

Date shall be considered in the liquidation proceedings as evidence of liability or of the amount of damages, and no judgment against FREESTONE and/or one or more of its insureds taken by default or by collusion prior to the effective date of the Liquidation and Injunction Order with Bar Date shall be considered as conclusive evidence in the liquidation proceedings, either of the liability of FREESTONE and/or one or more of its insureds to such person or entity upon such cause of action or of the amount of damages to which such person or entity is therein entitled.

22. The Receiver shall submit claim Recommendation Reports to the Court within a reasonable time after the Receiver's investigation concerning all claims submitted by a particular claimant has been completed.

23. The filing or recording of this Order or a certified copy hereof with the Register in Chancery and with the recorder of deeds of the jurisdiction in which FREESTONE's corporate and administrative offices are located or, in the case of real estate or other recorded property interests, with the recorder of deeds of the jurisdictions where the property is located, shall impart the same notice as would be imparted by a deed, bill of sale, or other evidence of title duly filed or recorded with that recorder of deeds. Without limiting the foregoing, the filing of this Order with the Register in

Chancery also constitutes notice to all sureties and fidelity bondholders of FREESTONE of all potential claims against FREESTONE under such policies and shall constitute the perfection of a lien in favor of FREESTONE under the Uniform Commercial Code or any like Federal or state law, regulation, or order dealing with the priority of claims.

24. The Receiver is hereby authorized to transfer some or all of FREESTONE's Assets and liabilities to a separate affiliate or subsidiary for the overall benefit of FREESTONE's policyholders, principals, obligees, creditors, and stockholder, subject to approval by this Court.

25. The Receiver may, in her discretion, reject any executory contract to which FREESTONE is a party.

26. The Receiver may, in her discretion, appoint one or more consultants or other persons to serve as Deputy Receiver to assist the Receiver in accomplishing the directives of this Order. The Deputy Receiver(s) shall serve at the pleasure of the Receiver and, subject to the approval of the Receiver, shall be entitled to exercise all of the powers and authorities vested in the Receiver pursuant to this Order and applicable law.

27. The Receiver may employ or continue to employ and fix the compensation of such deputies, counsel, clerks, employees, accountants, actuaries, consultants, assistants, and other personnel (collectively, the “Designees”) as considered necessary, and all compensation and expenses of the Receiver, the Deputy Receiver(s), and the Designees and of taking possession of FREESTONE and conducting this proceeding shall be paid out of the funds and assets of FREESTONE as administrative expenses under 18 Del. C. §5913(f). The Receiver may also retain those of FREESTONE’s current management personnel and other employees as Designees as she in her discretion determines would facilitate the liquidation of FREESTONE. All such Designees shall be deemed to have agreed to submit disputes concerning their rights, obligations, and compensation in their capacity as Designees to this Court.

28. The Receiver, the Deputy Receiver(s), and the Designees (collectively, the “Indemnitees”) shall have no personal liability for their acts or omissions in connection with their duties, provided that such acts or omissions are or were undertaken in good faith and without willful misconduct, gross negligence, or criminal intent. All expenses, costs, and attorneys’ fees incurred by the Indemnitees in connection with any lawsuit

brought against them in their representative capacities shall be subject to the approval of the Receiver, except that in the event that the Receiver is the Indemnitee this Court's approval shall be required, and such expenses, costs, and attorneys' fees shall be exclusively paid out of the funds and assets of FREESTONE. The Indemnitees in their capacities as such shall not be deemed to be employees of the State of Delaware.

29. Hereafter the caption of this cause and all pleadings in this matter shall read as:

"IN THE MATTER OF THE LIQUIDATION
OF FREESTONE INSURANCE COMPANY"

30. This Court shall retain jurisdiction in this cause for the purpose of granting such other and further relief as this cause, the interests of the policyholders, principals, obligees, claimants, creditors, stockholders of FREESTONE, and the public may require. The Receiver, or any interested party upon notice to the Receiver, may at any time make application for such other and further relief as either sees fit.

SO ORDERED this 22nd day of July, 2014.


Vice Chancellor