EFiled: Apr 28 2014 12:51PM EDT
Transaction ID 55359360
Case No. 9574-VCL
EFiled: Apr 24 2014 05:33PM
Transaction ID 55349566
Case No. 9574-

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

STATE OF DELAWARE ex rel. THE HONORABLE KAREN WELDIN STEWART, CIR-ML, Insurance Commissioner of the State of Delaware,	)	
Petitioner,	)	
v.	)	C.A. No. 9574- VCL
FREESTONE INSURANCE COMPANY, formerly Dallas National Insurance Company, a Delaware Domestic Property and Casualty Insurance Company,	)	
Respondent.	)	

~~[PROPOSED]~~ REHABILITATION AND INJUNCTION ORDER

WHEREAS, the Honorable Karen Weldin Stewart, CIR-ML, Insurance Commissioner of the State of Delaware (the "Commissioner"), has filed a petition (the "Petition") seeking the entry of a Rehabilitation and Injunction Order concerning Freestone Insurance Company ("FREESTONE"), formerly Dallas National Insurance Company, pursuant to 18 *Del. C.* §5901, *et seq.*;

WHEREAS, the Receiver has provided the Court with evidence sufficient to support the conclusion that FREESTONE is impaired, in unsound condition, and in such condition as to render its further transaction of

insurance presently or prospectively hazardous to its policyholders, and has consented to the entry of a Rehabilitation and Injunction Order through a majority of the directors of the corporation;

WHEREAS, this Court finds that sufficient cause exists for the rehabilitation of the respondent, FREESTONE, pursuant to 18 *Del. C.* §5905 and for the entry of a Rehabilitation and Injunction Order concerning FREESTONE; and

WHEREAS, a formal hearing on the Commissioner's Petition is not necessary due to FREESTONE's consent to the relief requested by the Commissioner and FREESTONE's waiver of formal service of process and a formal hearing on the Petition;

NOW, THEREFORE, THE COURT FINDS AND ORDERS AS FOLLOWS:

1. The Commissioner has attached to the Rehabilitation Petition evidence sufficient to support the conclusion that FREESTONE is impaired, in unsound condition, and in such condition as to render its further transaction of insurance presently and prospectively hazardous to its policyholders. Because FREESTONE has not contested the Rehabilitation Petition and has consented to its entry, the allegations of the Rehabilitation Petition are deemed admitted

as against FREESTONE for purposes of this proceeding. Consequently, FREESTONE is hereby 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 sufficient cause exists for the rehabilitation of FREESTONE pursuant to 18 *Del. C.* §5905 and 18 *Del. C. ch.* 59 and for the entry of a Rehabilitation and Injunction Order concerning FREESTONE.

2. As a separate and independent basis for entry of the Rehabilitation and Injunction Order, evidence that a majority of the directors of FREESTONE have consented to the entry of the Rehabilitation and Injunction Order, has been attached to the Rehabilitation Petition.

3. Given the determination set forth above, a formal hearing on the Commissioner's Rehabilitation Petition is not necessary.

4. Given the determinations set forth above, rehabilitation of FREESTONE is in the best interests of FREESTONE's policyholders.

5. Pursuant to 18 *Del. C.* §5910(a), the Commissioner and her successors in office are hereby appointed as the receiver (hereinafter the "Receiver") of FREESTONE.

6. Pursuant to 18 *Del. C.* §5910(a), the Receiver shall forthwith

conduct and continue the business of FREESTONE pursuant to the terms of this Order and immediately take exclusive possession and control of and 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 securing obligations to, or for the benefit of, FREESTONE or any trustee, bailee, or any agent acting for or on behalf of FREESTONE (collectively, the "Trustees"), securities or other funds, and all real or personal property of any nature of FREESTONE including, without limitation, furniture, equipment, fixtures, and office supplies, wherever located, and including such property of FREESTONE or collateral securing obligations to, or for the benefit of, FREESTONE or any Trustee thereof that may be discovered hereafter, and all proceeds of or accessions to any of the foregoing, wherever located, in the possession, custody, or control of FREESTONE or any Trustee therefore (collectively, the "Assets").

7. 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 other action necessary for the proper conduct of this rehabilitation.

8. The Receiver is hereby directed to continue in her examination of the Assets, business, and affairs of FREESTONE and to take such steps to remove the causes of FREESTONE's impairment, unsound condition, or hazardous condition pursuant to the provisions of 18 *Del. C. ch.* 59 as she deems necessary. The Receiver is further authorized to take such actions as the nature of this cause and interests of the policyholders, creditors, and stockholder of FREESTONE and the public may require, subject to Court approval as required by 18 *Del. C.* ch. 59.

9. The Receiver's right, title, and interest in and to the Assets shall continue until further order of the Court and she is hereby authorized 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, 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, or in the name of FREESTONE.

10. The Receiver is hereby 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 or rescind any reinsurance policy or contract that is contrary to the best interests of the receivership.

11. All persons or entities (other than the Receiver or persons acting on behalf of FREESTONE with the consent of the Receiver) that have in their possession or control Assets or possible Assets and/or have notice of these proceedings or of this Order are hereby 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 Commissioner 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.

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

13. 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 entry of this Order turn those Assets over to the Receiver, regardless of whether such persons or entities dispute the Receiver's entitlement to such Assets.

14. 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 or in other proceedings against FREESTONE, the 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.

15. 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, or 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. All persons or entities that have notice of these proceedings or of this Order are hereby enjoined and restrained from asserting claims for refunds of policy premium resulting from the cancellation of policies of insurance issued by FREESTONE except as provided for in a Plan of Rehabilitation approved by this Court.

16. 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 rehabilitation proceedings of FREESTONE and in a manner otherwise compliant with this Order.

17. 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.

18. 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, creditors, and stockholder, subject to approval by this Court.

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

20. 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.

21. 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 rehabilitation 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.

22. 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.

23. At such time as the Receiver determines that a claim against the FREESTONE estate is ripe for adjudication in the rehabilitation proceedings of FREESTONE, the Receiver shall give notice by mail to any and all persons interested in such claim of the Receiver's proposed report and recommendation

to the Court regarding the allowance or denial (in whole or in part) of such claim.

24. Within sixty (60) days of the mailing of the proposed report and recommendation, the interested person being given notice of such proposed report and recommendation may file a written objection thereto with this Court at 500 North King Street, Wilmington, Delaware, 19801, and the Receiver.

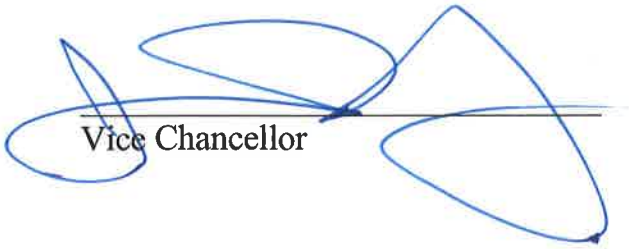
25. No hearing will be held regarding the proposed report and recommendation in the absence of a written objection thereto by a person interested therein.

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

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

27. 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, 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 28th day of April, 2014.



Vice Chancellor