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July 7, 2016

VIA COURIER

Hon. Dave Jones, Commissioner
California Department of Insurance
300 Capitol Mall, Suite 1700
Sacramento, CA 95814

Re: June 29, 2016 Press Release Regarding California Insurance Company (“CIC”) and Applied Underwriters Captive Risk Assurance Company, Inc. (“AUCRA”)

Dear Mr. Jones:

We are co-counsel for CIC and AUCRA. On June 29, 2016, the California Department of Insurance (“CDI”) publicly disseminated a press release erroneously stating that the CDI issued a “cease and desist order” that requires CIC and AUCRA to cease and desist “from issuing or renewing any workers compensation policy that uses an unfiled or unapproved ancillary or collateral agreement...” (the “June 29 Release”). In fact, CDI has not issued a cease and desist order against either CIC or AUCRA. Accordingly, we respectfully request that CDI immediately retract and correct the June 29 Release. The erroneous statement in the June 29 Release has created confusion, market turmoil, and, in some cases, economic harm to CIC’s policyholders and brokers.

CDI only has issued a Notice of Hearing and Order to Cease and Desist (the “Notice”). This is confirmed by the fact that the Notice is signed by Harry J. Levine, Attorney IV. The Notice is issued pursuant to Insurance Code § 1065.1 and § 1065.3. The Notice is clear that any order to cease and desist against CIC and AUCRA will issue only if the allegations in the Notice are proved at a hearing.

The June 29 Release also quotes you as stating, “My cease and desist order requires [CIC and AUCRA] to stop selling unfiled insurance policies, and stop renewing policies that have not been filed with the Department.” A link to the Notice appears at the bottom of the June 29 Release, but it erroneously describes the Notice as a “Cease and Desist Order.” Simply put,



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these statements are inaccurate. Moreover, by stating that a cease and desist order has come into effect, the June 29 Release also constitutes a *de facto* cease and desist order issued without due process.

Based on the erroneous statements in the June 29 Release, many of CIC's policyholders and brokers incorrectly believe that their workers compensation policies are invalid or illegal. While these policyholders do not want to cancel their workers compensation policies, they feel they may have no choice in light of the erroneous statements made by CDI in the June 29 Release. Moreover, brokers and agents are contacting CIC's policyholders urging them to cancel their CIC policies midterm. This is causing market turmoil.

We have prepared a proposed corrected press release, attached hereto, to accurately describe the Notice, and which includes an explanation of the error in the June 29 Release. Please immediately retract the June 29 Release and issue the proposed corrected version to prevent further harm to CIC, and its policyholders.

Very truly yours,

/s/ Shand S. Stephens
Shand S. Stephens

Cc: Spencer Kook, Esq.
Richard G. De La Mora, Esq.

Notice of Hearing issued to Berkshire Hathaway insurers

NOTE: This press release retracts and replaces the press release issued on June 29, 2016, and titled “Berkshire Hathaway insurers ordered to cease and desist sale of illegal workers’ compensation policies.” That release erroneously stated that a cease and desist order had been issued against California Insurance Company and Applied Underwriters Captive Risk Assurance Company, Inc. No such cease and desist order has been issued against those companies.

SACRAMENTO, Calif. – California Insurance Company (CIC) and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA), two Berkshire Hathaway companies, were issued a Notice of Hearing from the California Department of Insurance following Commissioner Jones' decision in the Shasta Linen case that CIC used unapproved rates in a complex insurance scheme that circumvented regulatory review. The order requires CIC and AUCRA to appear at an Administrative Hearing Bureau hearing at a time and date to be determined.

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