



EquityComp® California Facts Sheet

As of July 13, 2016

- We view the Commissioner's Shasta Linen Supply decision involving California Insurance Company ("CIC") as both factually and legally deficient.
- We have filed a Writ Petition with the California Superior Court for the County of Los Angeles at Case No. BS116243. A copy has been posted to our website.
- Commissioner Jones' Press Release dated June 29, 2016 indicating that he issued a cease and desist order against California Insurance Company and Applied Underwriters Captive Risk Assurance Company, Inc. ("AUCRA") is false. Commissioner Jones filed an application for a cease and desist order which will be vigorously contested by CIC and AUCRA. Our attorneys sent Commissioner Jones a letter on July 7, 2016 demanding that he retract this false press release.
- Commissioner Jones in his application for a cease and desist order initially alleged that the management of CIC and AUCRA failed to comply with the requirement for issuance of a Certificate of Authority, to wit, Insurance Code §717, subpart (e) ("competency, character, and integrity of management") and subpart (h) ("fairness and honesty of method of doing business"). When CIC and AUCRA sought discovery on these claims, the Commissioner withdrew these allegations recognizing that management of CIC and AUCRA had the competency, character, and integrity to manage CIC and AUCRA and fairness and honesty of method of doing business.
- At the time of the initial Acord Workers' Compensation application, Shasta Linen Supply had estimated annual payroll of \$1,843,319. Shasta Linen is not a small business.
- Applied Underwriters, Inc. and its affiliates and subsidiaries intend to honor all of their contractual obligations under the EquityComp® program.
- The underlying reinsurance agreement between CIC and AUCRA which forms the basis for the Reinsurance Participation Agreement ("RPA") which the Commission deemed void was submitted and reviewed, and approved by the California Department of Insurance.
- The CIC workers' compensation policies and rates were submitted to the California Workers' Compensation Insurance Rating Bureau and approved by the California Department of Insurance.
- Based on Shasta Linen's ultimate claims experience, they are in a very favorable claims position and received profit sharing distributions during its participation in the EquityComp® program, and would have ultimately paid less over three years for its workers' compensation insurance than if it had not participated

in EquityComp®. The Shasta Linen decision will cost Shasta Linen additional monies it would not otherwise have had to pay if it performed its obligations under the RPA.

- The maximum three year cost under the EquityComp® program was virtually the same as the three year premium cost for a guaranteed cost workers' compensation policy without the benefit of a potential profit sharing distribution if it had paid what it owed.
- The RPA is not an insurance policy or a collateral agreement. It does not satisfy an employer's legal obligation to maintain workers' compensation insurance for its employees.
- EquityComp® involves a reinsurance transaction using a captive facility. These types of programs have been used in California for years without objection from the California Department of Insurance or requiring a special filing of the reinsurance transaction.
- The EquityComp® program has been examined in three separate financial examinations conducted by the California Department of Insurance without any negative comment.
- The EquityComp® program has been examined in a market conduct examination conducted by the California Department of Insurance without any negative comment.
- All claims and disputes involving Shasta Linen have been adjusted in California. Moreover, Shasta Linen was able to initiate its administrative appeal in California under the CIC guaranteed cost policy.
- AUCRA has never had an arbitration take place in the British Virgin Islands under the RPA. All arbitrations under the RPA have taken place in the city where the insured's principal place of business is located.
- AUCRA has been domiciled in the State of Iowa and regulated by the Iowa Division of Insurance since 2011.
- The Commissioner's Order does not address the multiple disclosure documents executed by the insured confirming Shasta Linen's understanding of the EquityComp® product. The owner of Shasta Linen at the time it signed up for the EquityComp® program was an experienced commercial attorney.
- The vast majority of our clients have experienced very good results under EquityComp® and continue to realize significant savings far exceeding those offered by other market alternatives.