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FREMONT GENERAL CORP
Form 11-K
June 29, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NO. 001-08007

- A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FREMONT GENERAL CORPORATION
AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

FREMONT GENERAL CORPORATION
2425 OLYMPIC BOULEVARD - 3RD FLOOR EAST
SANTA MONICA, CALIFORNIA 90404
(310) 315-5500

FINANCIAL STATEMENTS

The Fremont General Corporation and Affiliated Companies Investment Incentive Plan ("Plan") is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Therefore, in lieu of the requirements of Items 1-3 of Form 11-K, the financial statements and schedules of the Plan for the two fiscal years ended December 31, 2005 and 2004, which have been prepared in accordance with the financial reporting requirements of ERISA, are attached hereto and incorporated herein by reference.

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| EXHIBIT NO. | DESCRIPTION |
|----------------|---|
| 23 | Consent of Independent Registered Public Accounting Firm. |

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

Fremont General Corporation and Affiliated Companies Investment
Incentive Plan

Years Ended December 31, 2005 and 2004

FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

YEARS ENDED DECEMBER 31, 2005 AND 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FREMONT GENERAL CORPORATION
AND AFFILIATED COMPANIES INVESTMENT INCENTIVE PLAN

We have audited the accompanying statements of net assets available for benefits of the Fremont General Corporation and Affiliated Companies Investment Incentive Plan as of December 31, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2005 and 2004, and the changes in its net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of assets (held at end of year) as of December 31, 2005, and reportable transactions for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Los Angeles, California
June 15, 2006

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | DECEMBER 2005 |
|---|------------------|
| | ----- |
| Investments, at fair value | \$ 206,441,595 |
| Interest receivable | 3,931 |
| Other assets | 125,613 |
| | ----- |
| Net assets available for benefits | \$ 206,571,139 |
| | ===== |

See accompanying notes.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | YEARS ENDED 2005 |
|--|---------------------|
| | ----- |
| ADDITIONS (DEDUCTIONS) | |
| Contributions: | |
| Employee | \$ 18,405,180 |
| Employer | 14,221,009 |
| Interest and dividends | 7,145,036 |
| Net (depreciation) appreciation in fair value of investments | (9,972,868) |
| Net benefit distributions to participants | (13,777,598) |
| | ----- |

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| | |
|--|-----------------------|
| Net increase | 16,020,759 |
| Net assets available for benefits at beginning of year | 190,550,380 |
| Net assets available for benefits at end of year | <u>\$ 206,571,139</u> |

See accompanying notes.

FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

1. DESCRIPTION OF PLAN

The following description of the Fremont General Corporation and Affiliated Companies Investment Incentive Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions. In the case of any inconsistency between this document and the Plan document, the Plan document shall prevail.

GENERAL

The Plan is a defined contribution 401(k) plan that commenced on February 1, 1986, and covers eligible employees of Fremont General Corporation (FGC) and subsidiaries (collectively, the Company). An eligible employee who is employed by the Company may elect to make salary deferral 401(k) contributions as soon as administratively feasible following his or her employment date.

CONTRIBUTIONS

Employees may elect to have up to 15% of their eligible compensation deferred and deposited with the plan trustee which will invest the money at the employee's discretion among a variety of investment funds including the Company's common stock. Employee contributions are matched by the Company at a rate of one dollar for every dollar contributed up to 6% of eligible compensation deferred by the employee. Eligible employees may also make catch-up contributions permitted under the Internal Revenue Code. The Company may make additional contributions at its discretion. Company contributions during 2005 and 2004 to eligible employee participants were in shares of Company common stock. Employees have discretion to diversify out of Company common stock after the Company's contribution has been allocated into participants' accounts. All employee contributions are 100% vested. The 401(k) Plan provides that for any participant who is an employee on or after January 1, 2003, the participant's interest in his or her matching contributions account is 100% vested. Disbursement of the employee's account balance will occur upon retirement,

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termination of employment or death. Shares of the Company's common stock held in the 401(k) Plan and allocated to participants' accounts are voted by the 401(k) Plan's Trustee upon instructions from the participants.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) Plan earnings or losses. Allocations are based on participants' contributions and eligible compensation or, in the case of investment earnings or losses, account balances. Forfeited balances of nonvested accounts are applied towards the Company's matching contributions in future periods.

Participants' salary deferral 401(k) contributions and allocated earnings or losses thereon are 100% vested at all times. Company matching and discretionary contributions became fully vested to participants that were active employees on or after January 1, 2003. Different vesting rules may apply to participants who terminated employment with the Company before January 1, 2003.

DISTRIBUTIONS

Distributions of account balances may be made to participants under the following circumstances: termination of employment, attainment of age 59 1/2, retirement, as required for minimum distribution or pursuant to court order, or, to the designated beneficiary following a participant's death. Participants may make withdrawals from their account balances in the event of hardship for the following circumstances: expenses to avoid eviction or foreclosure of their principal residence, extraordinary uninsured medical expenses for the participants or their dependents, tuition and related educational expenses for post-secondary education for the following 12 months for the participants or their dependents, and costs relating to the purchase of a principal residence. Effective January 1, 2006, the Plan was amended to add the following circumstances for hardship withdrawals: burial or funeral expenses for certain dependents of participants and expenses for the repair of damage to the principal residence of participants.

PARTICIPANTS' LOANS

Participants may borrow from their account balance based on the balance at the close of business of the prior day. Interest is fixed for the term of the loan. An approved loan must be repaid fully within a minimum of 12 months to a maximum of 60 months. A loan processing fee of \$40 is deducted directly from the

paycheck in which the first loan repayment is made.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. DESCRIPTION OF PLAN (CONTINUED)

AMENDMENT AND/OR TERMINATION

Although it has not expressed any intent to do so, the Company has the right to terminate the Plan at any time for any reason. The Company also reserves the right to amend the Plan at any time for any reason with or without advance notice (unless required by law) in accordance with the procedures set forth in the Plan document.

2. SUMMARY OF ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

VALUATION OF INVESTMENTS

All assets of the Plan are held by Merrill Lynch Trust Company, FSB (Merrill Lynch).

Investments in mutual funds are stated at current net asset value, which approximates fair value. The funds' net asset values are determined by Merrill Lynch. FGC common stock is stated at current market value based on the composite closing price as reported on the New York Stock Exchange. The closing price of FGC common stock on December 31, 2005, was \$23.23 per share (\$25.18 per share at December 31, 2004). Participant loans and the Retirement Preservation Fund are stated at cost, which approximates fair value.

INVESTMENT INCOME

Interest income is recorded on the accrual basis.

Realized investment gains and losses are determined using the specific-identification basis.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

INCOME TAX STATUS

The Plan received a determination letter from the Internal Revenue Service dated January 8, 2002, stating that the Plan is qualified, in form, under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan was amended subsequent to receiving the determination letter. The Plan Administrator believes that the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

EXPENSES

All administrative expenses of the Plan are paid by the Company. The Plan utilizes office space provided by the Company for which it pays no rent.

BENEFIT PAYMENTS

Benefit distributions to participants are recorded in the period in which the distributions are paid. Distributions payable at December 31, 2005, were \$150,769. There were no distributions payable at December 31, 2004.

FORFEITURES

The balance of amounts forfeited by nonvested accounts of inactive participants at December 31, 2005, was \$47,214 (\$367,673 in 2004). These forfeitures will be applied towards employer matching contributions in future periods.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. INVESTMENTS

During 2005 and 2004, the Plan's investments (including investments purchased,

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sold as well as held during the year) (depreciated) appreciated in fair value as follows:

| | YEARS ENDED 2005 ----- |
|------------------------|------------------------------|
| FGC common stock | \$ (9,751,103) |
| Mutual funds | (221,765) |
| | ----- |
| | \$ (9,972,868) |
| | ===== |

Investments that represent 5% or more of the fair value of the Plan's assets are as follows:

| | DECEMBER 2005 ----- |
|--|---------------------------|
| FGC common stock | \$ 98,922,288 |
| Mutual Funds: | |
| Merrill Lynch Fundamental Growth Fund | 12,356,260 |
| Merrill Lynch Retirement Preservation Fund | 24,512,196 |
| Merrill Lynch S&P 500 Index Fund | 10,332,508 |

4. RELATED-PARTY TRANSACTIONS

Certain Plan investments are units of mutual funds and common/collective trust funds managed by Merrill Lynch, the trustee as defined by the Plan. Participants also have the option to invest in FGC common stock. At the Company's discretion, the investments in FGC common stock may be funded from the Company's employee benefits trust that is also maintained with Merrill Lynch. These transactions qualify as party-in-interest transactions.

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
INVESTMENT INCENTIVE PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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5. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following table reconciles net assets available for benefits per the financial statements to Form 5500 as filed with the Department of Labor:

| | DECEMBER 2005 |
|--|------------------|
| | ----- |
| Net assets available for benefits per the financial statements | \$ 206,571,139 |
| Less: Benefit payable to participants | 150,769 |
| | ----- |
| Net assets available for benefits per Form 5500 | \$ 206,420,370 |
| | ===== |

Amounts payable to participants are reflected as benefit obligations for financial statement purposes but are not included in net assets on Form 5500.

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SUPPLEMENTAL SCHEDULES

FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
 INVESTMENT INCENTIVE PLAN
 EIN: 95-2815260 PLAN NUMBER: 003

SCHEDULE H, LINE 4(i) - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2005

| IDENTITY OF ISSUE, BORROWER, LESSOR OR SIMILAR PARTY | DESCRIPTION OF INVESTMENT, INCLUDING MATURITY DATE, RATE OF INTEREST, PAR OR MATURITY VALUE | COST |
|---|---|-------|
| ----- | ----- | ----- |
| Merrill Lynch:* Fundamental Growth Fund | 645,236 Units | \$ ** |

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| | | |
|--|---------------------------------------|----|
| Global Allocation Fund | 552,563 Units | ** |
| Core Bond Fund | 594,730 Units | ** |
| Balanced Capital Fund | 187,096 Units | ** |
| Basic Value Fund | 319,490 Units | ** |
| S&P 500 Index Fund | 675,769 Units | ** |
| International Index Fund | 408,324 Units | ** |
| Retirement Preservation Fund | 24,512,196 Units | ** |
| Value Opportunities | 273,410 Units | ** |
| Oppenheimer Quest Balance Value Fund | 302,066 Units | ** |
| Blackrock Aurora Fund | 217,711 Units | ** |
| Fremont General Corporation* | 4,258,385 shares of common stock | ** |
| Participants' loans* | Interest at the prime rate plus 2% | |

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FREMONT GENERAL CORPORATION AND AFFILIATED COMPANIES
 INVESTMENT INCENTIVE PLAN
 EIN: 95-2815260 PLAN NUMBER: 003

SCHEDULE H, LINE 4(j) - SCHEDULE OF REPORTABLE TRANSACTIONS

YEAR ENDED DECEMBER 31, 2005

| IDENTITY OF PARTY INVOLVED | DESCRIPTION OF ASSETS | PURCHASE PRICE | SELLING PRICE | EXPENSES INCURRED WITH TRANSACTION | COST OF ASSET |
|--|--------------------------|-------------------|------------------|---|------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| CATEGORY (iii) - A SERIES OF TRANSACTIONS IN EXCESS OF 5% OF PLAN ASSETS | | | | | |
| Fremont General Corporation* | Common Stock | \$ 16,336,277 | \$ - | - | \$ 16,336,277 |
| Fremont General Corporation* | Common Stock | - | 14,538,350 | - | 8,403,000 |

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FREMONT GENERAL CORPORATION AND AFFILIATED
COMPANIES INVESTMENT INCENTIVE PLAN

June 29, 2006

/s/ RAYMOND G. MEYERS

Raymond G. Meyers
on behalf of the Plan Administrator of the
Fremont General Corporation and Affiliated
Companies Investment Incentive Plan