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16 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
 17 **FOR THE COUNTY OF LOS ANGELES**

19 INSURANCE COMMISSIONER OF THE
 STATE OF CALIFORNIA,

20 Applicant,

21 v.

22 GOLDEN STATE MUTUAL LIFE
 23 INSURANCE COMPANY, a California
 corporation,

24 Respondent.

Case No. BS123005
 Assigned to Hon. Ann I. Jones, Dept. 86

**DECLARATION OF DAVID E. WILSON
 IN SUPPORT OF MOTION FOR ORDER
 OF LIQUIDATION AND ORDERS AND
 INJUNCTIONS IN AID OF
 LIQUIDATION FOR GOLDEN STATE
 MUTUAL LIFE INSURANCE COMPANY
 BY APPLICANT INSURANCE
 COMMISSIONER**

[Filed concurrently with Notice of OSC and
 Motion, Memorandum and Proposed Order]

Date: January 28, 2011
 Time: 9:30 a.m.
 Dept: 86

1 I, David E. Wilson, declare as follows:

2 1. I am over 18 years of age and have personal knowledge of the facts and
3 circumstances set forth in this declaration, and if called upon to do so, I could and would
4 competently testify thereto.

5 2. I am the Chief Executive Officer and Special Deputy Insurance Commissioner of
6 the Insurance Commissioner's Conservation & Liquidation Office ("CLO"). I have more than 30
7 years of experience in the accounting, health care, and insurance industries, and have a Bachelor
8 of Arts in Accounting. From 1973 to 1989, I served in several managerial positions with Ernst &
9 Young, rising from a staff accountant to become partner in 1986. From 1989 to 1991, I was the
10 senior vice president and Chief Financial Officer of Rocky Mountain Health Care Corporation, a
11 \$3 billion claim processing management company for numerous companies and HMOs including
12 Blue Cross and Blue Shield of Colorado, Blue Shield of New Mexico, Blue Cross and Blue
13 Shield of Nevada, and Rocky Mountain Life Insurance Company. Thereafter until 2005 when I
14 became the CEO of the CLO, I was president of D.E. Wilson & Associates Inc., a national
15 insurance consulting firm working with troubled insurance organizations.

16 3. Starting on September 30, 2009, and continuing to the present, I have been and
17 currently am the Special Deputy Insurance Commissioner on behalf of the Insurance
18 Commissioner in his Statutory Capacity as Conservator ("Conservator") of Golden State Mutual
19 Life Insurance Company ("Golden State"). As the Special Deputy Insurance Commissioner, I am
20 responsible for the supervision and management of all matters pertaining to the conservation of
21 Golden State. Since September 30, 2009, when the Conservator assumed control of Golden State,
22 I and the Conservator's staff have, among other items, managed Golden State's day-to-day
23 operations, commenced marshalling Golden State's assets, commenced reducing Golden State's
24 expenses and liabilities, and carried out the Conservator's numerous duties. I am very familiar
25 with the business operations and financial condition of Golden State and events leading up to the
26 proposed orders of liquidation for Golden State through my extensive involvement in its
27 operations in my role as CEO of the CLO.

28 4. I have read the Conservator's Notice of Order to Show Cause and Motion,

1 Memorandum, Declaration of Michael R. Weiss, and Proposed Order of Liquidation for Golden
2 State.

3 5. Based on my supervision and management of all matters pertaining to Golden
4 State, my experience in the accounting, health care, and insurance industries, my review and
5 understanding of the events related to the conservation and now liquidation of Golden State, my
6 review of the proposed order of liquidation, and my review of this motion and its supporting
7 papers and documents, I state the following:

8 **Golden State's Insurance Business Operations.**

9 6. Golden State is a mutual life insurance company organized and existing under and
10 by virtue of the laws of the State of California. Golden State's principal place of business and
11 home office is located at 1999 West Adams Boulevard in Los Angeles, California 90018-3514
12 through December 31, 2010. Golden State was authorized to transact the business of life, health
13 and disability insurance and annuities, and had in force approximately 120,000 life, health and
14 disability insurance policies and annuity contracts. Golden State's business focus had been to
15 provide said insurance products to the minority middle income marketplace with a geographic
16 emphasis in California, Texas, North Carolina, Michigan and Illinois.

17 **Order Appointing Conservator of Golden State.**

18 7. On September 30, 2009, Los Angeles Superior Court Judge David P. Yaffe issued
19 an Order Appointing Conservator And Restraining Order ("Order Appointing Conservator")
20 which, among other items, appointed the Commissioner as Conservator of Golden State; vested
21 title of Golden State's assets in the Conservator; directed the Conservator to take possession of
22 Golden State's books, records, and assets; directed the Conservator to conduct, as conservator, the
23 business of Golden State; and provided the Conservator with certain powers and authorities set
24 forth in the Order. Attached hereto and incorporated herein as Exhibit "1" is a true and correct
25 copy of the Order Appointing Conservator And Restraining Order.

26 8. Golden State was conserved because as of June 30, 2009, Golden State was
27 financially impaired pursuant to Insurance Code § 988 and deemed to be operating in a hazardous
28 financial condition in that its reported paid-in capital and surplus of assets in excess of liabilities

1 was \$1,650,693 instead of the required \$5,000,000. Golden State could no longer continue its
2 operations without conservation because it lacked sufficient paid-in capital and surplus to ensure
3 policyholder safety.

4 **Conservator's Request For Proposals To Sell Or Merge Golden State's Business**
5 **With A Third Party.**

6 9. In October 2009, based on Golden State's financial condition and its operational
7 capabilities, the Conservator determined that the business operations of Golden State were not
8 sustainable, determined that the best course of action for Golden State's policyholders and
9 creditors was for the Conservator to position Golden State for a sale, merger or an assumption of
10 its insurance book of business by a third party, and commence a Request for Proposals process to
11 solicit, evaluate and recommend proposals for the contemplated sale, merger or assumption of
12 Golden State's insurance business.

13 **Rehabilitation Plan and Sale of Golden State's Insurance Business.**

14 10. In May 2010, as a result of the Request for Proposals process, the Conservator
15 negotiated a plan of rehabilitation and assumption reinsurance agreement for Golden State with
16 IA American to transfer all of Golden State's in-force policies, annuities and policy liabilities to
17 IA American. The plan of rehabilitation and assumption reinsurance agreement is comprised of
18 four agreements, which are: (1) Agreement and Plan of Rehabilitation; (2) Assumption
19 Reinsurance Agreement; (3) Service Agreement; and (4) Novation Agreement (collectively
20 referred to as "Rehabilitation Plan").

21 11. On June 24, 2010, Judge Yaffe approved the Rehabilitation Plan and authorized
22 the Conservator to enter into the four agreements with IA American. Thereafter, on September 2,
23 2010, the Conservator and IA American closed the Assumption Reinsurance Agreement and
24 Agreement And Plan Of Rehabilitation. Attached hereto and incorporated herein as Exhibit "2" is
25 a true and correct copy of the Order Approving The Conservator's Rehabilitation Plan For Golden
26 State Mutual Life Insurance Company And Authorizing Conservator To Enter Into Related
27 Agreements With IA American Life Insurance Company: (1) Agreement And Plan Of
28 Rehabilitation; (2) Assumption Reinsurance Agreement;(3) Service Agreement; And (4) Novation

1 Agreement.

2 12. As a result of closing the Assumption Reinsurance Agreement and Agreement And
3 Plan Of Rehabilitation, as of January 1, 2010, the in-force policyholders and annuity contract
4 holders of Golden State became policyholders and annuity contract holders of IA American, all
5 policyholder policy claims and annuity contract claims for contractual insurance policy and
6 annuity benefits including approximately \$71 million in reserves were transferred to IA
7 American, the Conservator transferred assets from Golden State to IA American valued at
8 approximately \$60 million, and the Conservator was credited with a ceding commission totaling
9 \$11 million. The policyholders and annuity contract holders, and their claims, were thus
10 transferred to the new company, IA American. Assets not transferred by the Conservator to IA
11 American remained with Golden State and are being marshaled and monetized. Once marshaled
12 and monetize, all claims of any kind or nature, other than policyholder and annuity contract
13 holder claims for policy and annuity contract benefits, will be made and administered against
14 Golden State in accordance with the claim administration and priority procedures set forth in §
15 1010 *et seq.*

16 13. The assets transferred to IA American included the following:
17 a. Golden State's commercial mortgage portfolio having a net book value of
18 \$20,744,141. A loss provision of \$4,084,557 was established against the
19 book value of Golden State's mortgage portfolio of \$24,828,698 as of
20 October 31, 2009, so that the mortgage portfolio transferred to IA
21 American at its book value at closing less \$4,084,557, *i.e.*, \$20,744,141;
22 b. Golden State's bond portfolio having a book adjusted carrying value of
23 \$28,597,221 as of January 22, 2010;
24 c. Golden State's Contract Loans having a book value of \$4.2 million;
25 d. Golden State's Net Deferred Premiums having a book value of \$2.3
26 million; and
27 e. Golden State's preferred Stocks having a net book value of approximately
28 \$3,467,139. The Preferred Stocks were valued at 90% of book value.

1 14. Attached hereto and incorporated herein as Exhibit “3” is a true and correct copy
2 of the Assumption Reinsurance Agreement.

3 **Retained Assets and Liabilities for Administration by Golden State’s Estate.**

4 15. Assets retained by Golden State after the closing of the agreements with IA
5 American on September 2, 2010, total approximately \$5,721,154 as of September 30, 2010. The
6 Conservator is currently monetizing these assets for distribution to Golden State’s creditors
7 pursuant to § 1010 *et seq.* The assets include the following:

- 8 a. Cash and cash equivalents of \$3,090,716;
9 b. Prepaid deposit held of \$75,000;
10 c. Receivable due from reinsurers of approximately \$253,807;
11 d. Reinsurance recoverable due from Long Term Disability reinsurer of
12 approximately \$35,471;
13 e. Real estate valued at approximately \$1,512,960; and
14 f. Artwork and murals whose value is at least \$753,200.

15 16. Liabilities retained by Golden State after the closing of the agreements with IA
16 American include all non-policyholder claims of any kind or nature against Golden State. Such
17 liabilities currently are estimated to be at least approximately \$9,291,895 as of September 30,
18 2010, and include the following estimates:

- 19 a. Amounts withheld for accounts of others of \$712,113, which includes
20 amounts owed to IA American and amounts deposited pursuant to the
21 Conservator’s Request for Proposals process for the purchase of Golden
22 State’s murals and art collection;
23 b. Unclaimed funds of \$282,444;
24 c. Accrued liabilities of \$630,802;
25 d. Pension Plan liability of \$5,260,000, which is the difference between the
26 estimated liability of \$13,550,000 if the plan is terminated as of September
27 30, 2010, and the fair value of the plan’s assets of \$8,460,000 as of
28 September 30, 2010, plus early retirement subsidies of \$170,000;

- 1 e. Obligations under Certificates of Contribution including accrued interest of
2 \$2,406,536; and
3 f. Non-contractual liability to Golden State's policyholders as mutual owners
4 of Golden State, who retain their § 1033 priority 9 rights.

5 17. In addition to the above estimated liabilities, estate administrative expenses are
6 anticipated to accrue at the rate of approximately \$900,000 per year (\$75,000 per month) during
7 liquidation in 2011

8 18. The above estimates of potential liabilities which may be asserted against Golden
9 State are not an admission that a particular liability or amount of the liability is actually due.
10 Instead, the above estimates are listed only to establish the amount of possible liabilities which
11 may be asserted against Golden State.

12 19. Golden State's estimated liabilities exceed its estimated remaining assets by
13 \$3,570,741 (\$9,291,895 - \$5,721,154). Attached hereto and incorporated herein as Exhibit "4" is
14 a true and correct copy of the Balance Sheet for Golden State as of September 30, 2010.

15 **Current Operations.**

16 20. The Conservator's staff continues to manage Golden State's day-to-day operations,
17 marshal its assets and reduce its expenses and liabilities. The Conservator has determined that the
18 best course of action for Golden State's creditors is to further reduce operating expenses by
19 permanently closing Golden State's operations, terminating remaining employees, and liquidating
20 and winding down Golden State's business. In furtherance of this course of action, the
21 Conservator has undertaken the following actions:

22 a. Employee terminations. Employee terminations have been on-going since
23 the beginning of conservation and are scheduled to continue through December 31, 2010. At this
24 time, only four Golden State employees remain and they are scheduled to be terminated on
25 December 31, 2010.

26 b. Home office lease termination and closure. The lease for Golden State's
27 home office located at 1999 West Adams Boulevard in Los Angeles is scheduled to terminate on
28 December 31, 2010. The Conservator is on schedule to vacate the premises no later than

1 December 31, 2010. Upon vacating Golden State's home office, Golden State's operations will
2 be managed from the Commissioner's Conservation & Liquidation Office located in San
3 Francisco, California.

4 c. District offices closures. At the time of conservation, Golden State had
5 district offices located in California, Illinois, North Carolina, Michigan and Texas. As of
6 November 15, 2010, all district offices have been closed and all leases have been terminated.

7 **Golden State's Artwork, Removable Murals and Historical Materials.**

8 21. Over the years Golden State amassed a collection of art by African and African
9 American artists, and accumulated a large amount of historical materials. Golden State's art
10 collection and historical materials include two removable murals on canvas, approximately 120
11 paintings, sculptures, photographs and mixed-media pieces, and numerous documents,
12 photographs and recordings relating to Golden State, its history and founders. An inventory of
13 the art collection with photographs can be viewed at
14 www.caclo.org/GoldenStateMutual/ArtCollection.

15 22. To monetize Golden State's artwork, murals and historical materials including the
16 two removable murals, the Conservator has undertaken a Request for Proposals process in which
17 persons and entities interested in purchasing Golden State's art and/or historical materials are
18 required to submit proposals to the Conservator for such purchase or purchases. The Request for
19 Proposals also can be viewed at www.caclo.org/GoldenStateMutual/ArtCollection. Due to
20 continuing interest in the artwork, murals and historical materials, the Conservator continued the
21 Request for Proposals process twice, most recently through October 29, 2010. At this time, the
22 Conservator is evaluating the proposals received and intends to make recommendations to the
23 Court in the next 30 to 60 days. All sales of Golden State's artwork and historical materials
24 having a market value of \$20,000 or more require the approval of this Court, and all such
25 recommendations and proposals are contingent on this required approval.

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Proposed Claims Bar Date.

23. The Conservator proposes that the Claims Bar Date by which claimants are required to file their claims against the insurer be December 31, 2011. The Conservator selected December 31, 2011 as the Claims Bar Date, which is eleven months from the date of the hearing on the motion for liquidation, to allow sufficient time for all of Golden State's policyholders, creditors, shareholders and all other persons interested in its assets to file proper claims with the Liquidator.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 20th day of December, 2010, at San Francisco, California.



DAVID E. WILSON