

1 EDMUND G. BROWN JR.
Attorney General of California
2 FELIX LEATHERWOOD
3 W. DEAN FREEMAN
Supervising Deputy Attorneys General
4 MARTA L. SMITH, State Bar No. 101955
Deputy Attorney General
5 300 South Spring Street, Room 1702
6 Los Angeles, California 90013
7 Telephone: (213) 897-2483
8 Facsimile: (213) 897-5775
E-mail: Marta.Smith@doj.ca.gov

9 MICHAEL R. WEISS, State Bar No. 180946
EPSTEIN TURNER WEISS
10 A Professional Corporation
11 633 W. Fifth Street, Suite 3330
Los Angeles, California 90071
12 Telephone: (213) 861-7487
13 Facsimile: (213) 861-7488
Email: mrw@epsteinturnerweiss.com

14 Attorneys for Applicant
15 Insurance Commissioner of the State of California

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

18
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

**REPLY MEMORANDUM OF POINTS
AND AUTHORITIES 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**

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

1 **I. INTRODUCTION.**

2 This Reply addresses five letters received by the Conservator in response to the
 3 Conservator's Motion for Order of Liquidation and Orders and Injunctions in Aid of Liquidation
 4 for Golden State Mutual Life Insurance Company Notice ("Liquidation Motion"). The letters are
 5 from holders of Certificates of Contribution ("COCs") issued by Golden State Mutual Life
 6 Insurance Company ("Golden State"), i.e., investors in Golden State. The letters do not oppose
 7 the Liquidation Motion. Instead, the letters request that the COC holders be re-paid their
 8 investments, and one of the letters advises the Court of Golden State's historical significance and
 9 asserts that "during the initial stages of conservatorship, excessive resources were deployed,
 10 deepening GSM's insolvency and likely resulted in fewer funds being available to satisfy COC
 11 claims." Copies of the letters are attached here in Exhibit 1.

12 The Conservator has not received any other responses or any formal opposition to the
 13 Liquidation Motion.

14 In response to the letters, as discussed below, (1) payment at this time to the COC holders
 15 is premature and would violate the statutory claim priority and asset distribution procedures set
 16 forth in Insurance Code § 1010 *et seq.* including Insurance Code § 1033, (2) the Conservator
 17 appreciates Golden State's record of service and historical significance, and (3) disputes the un-
 18 substantiated assertion that excessive resources were deployed during Golden State's
 19 conservation. To the contrary, as discussed below, the Conservator has efficiently managed and
 20 limited resources to the benefit of Golden State's policyholders and creditors including COC
 21 holders.

22 **II. RESPONSES TO ISSUES RAISED IN THE LETTERS.**

23 **A. The COC Holders' Requests To Be Paid Are Premature And Payment Would**
 24 **Violate The Insurance Code.**

25 As discussed in the Liquidation Motion, any payments to COC holders will be made
 26 subject to the claim priority and asset distribution procedures set forth in Insurance Code § 1010
 27 *et seq.* including Insurance Code § 1033. The distribution priorities established in Insurance Code
 28 § 1033 provide that COC holders are paid eighth, after all other expenses and creditor claims

1 except for priority 9 non-contractual liability to Golden State's policyholders as mutual owners of
2 Golden State. Specifically, the distribution priorities established in Insurance Code § 1033
3 provide that funds available are distributed in the following order:

- 4 (1) Expense of administration.
- 5 (2) All claims of the California Insurance Guarantee Association or the California
6 Life and Health Insurance Guarantee Association, and associations or entities
7 performing a similar function in other states, together with claims for refund of
8 unearned premiums and all claims under insurance and annuity policies or
9 contracts, including funding agreements, of an insolvent insurer that are not
10 covered claims.
- 11 (3) Claims having preference by the laws of the United States.
- 12 (4) Unpaid charges due under the provisions of Section 736.
- 13 (5) Taxes due to the State of California.
- 14 (6) Claims having preference by the laws of this state.
- 15 (7) Claims of creditors not included in paragraphs (1) to (6), inclusive.
- 16 (8) Certificates of contribution, surplus notes, or similar obligations, and premium
17 refunds on assessable policies.
- 18 (9) The interests of shareholders or other owners in any residual value in the
19 estate.

20 The proposed Claims Bar Date in the Liquidation Motion is December 31, 2011. Based
21 on this date, the earliest that any COC claims will be determined would be after that date, when
22 all claims against Golden State have been received and determined by the Liquidator. As stated
23 in the Liquidation Motion, the Conservator currently estimates that as of September 30, 2010,
24 Golden State's liabilities are \$9,291,895, which exceeds Golden State's assets of \$5,721,154 by
25 over \$3.5 million (\$5,721,154 in assets - \$9,291,895 in liabilities = \$-3,570,741). Of these
26 liabilities, obligations due to COC holders including accrued interest total \$2,406,536; which
27 means that as of September 30, 2010, it is estimated that Golden State is still deficient over \$1.1
28 million before any payments can be made to COC holders. While these estimates are not
favorable for COC holders, claims have not been formally submitted and determined, which
means it is premature to determine whether the COC holders will or will not recover any of their
investment, as there is the potential that Golden State's liabilities may be less than currently
estimated.

In any event, it is premature for the COC holders to request payment at this time.

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1 **B. Golden State's Record Of Service And Historical Significance.**

2 The Conservator appreciates the historical significance of Golden State and has
3 throughout its conservation attempted to recognize and protect its record of service to its
4 policyholders, the indicia of its historical significance and the financial value in Golden State's
5 insurance business. Among other things, the Conservator's staff has successfully protected
6 Golden State's policyholders and annuity contract holders by transferring their policies and
7 annuity contracts to another financially solvent life insurance company, IA American Life
8 Insurance Company ("IA American"); has tirelessly worked with IA American to ensure a smooth
9 transition for Golden State's policyholders and annuity contract holders to IA American; and has
10 repeatedly met with policyholders, creditors, employees, former employees and community
11 members and groups, to address and best attempt to resolve issues presented by Golden State's
12 financial impairment. Golden State from its founding was a trail-blazer in the community and in
13 the nation. In recent years, its deteriorated financial condition, un-remedied by management,
14 caused these conservation and now liquidation proceedings. The financial impairment and
15 current insolvency of Golden State should in no way take away from Golden State's historical
16 significance.

17 **C. Throughout Golden State's Conservation, The Conservator Has Efficiently**
18 **Managed And Limited Resources To The Benefit Of Golden State's**
19 **Policyholders And Creditors Including COC Holders.**

20 The Conservator disagrees with the un-substantiated assertion that he has somehow
21 "during the initial stages of conservatorship" deployed excessive resources or in any way
22 deepened Golden State's insolvency resulting in "fewer funds being available to satisfy COC
23 claims."

24 As the Court is aware, on September 30, 2009, Judge David P. Yaffe appointed the
25 Insurance Commissioner as Conservator of Golden State because as of June 30, 2009, Golden
26 State was financially impaired pursuant to Insurance Code § 988 and deemed to be operating in a
27 hazardous financial condition in that its reported paid-in capital and surplus of assets in excess of
28 liabilities was \$1,650,693 instead of the required \$5,000,000. The Conservator's statutory charge

1 was and remains, among other things, to protect Golden State's policyholders and creditors, and
2 to marshal and monetize Golden State's assets for distribution to Golden State's creditors
3 pursuant to Insurance Code § 1010 *et seq.* In accordance with this charge, and throughout Golden
4 State's conservation, the Conservator has efficiently managed and limited resources. In the
5 initial stages of conservation, the Conservator's primary objectives included without limitation to:

- 6 1. Maintain and maximize Golden State's annualized premium book of
7 insurance business at approximately \$10 million while reducing the costs of operating Golden
8 State's offices;
- 9 2. Service and seek to monetize Golden State's commercial mortgage loan
10 portfolio;
- 11 3. Marshall and conserve assets;
- 12 4. Reduce liabilities and expenses; and
- 13 5. Restructure the company through merger, sale or other means in the best
14 interests of the public and the company's policyholders and creditors, including execution of an
15 agreement(s), subject to Court approval, for the sale, in whole or in part of Golden State, or the
16 assumption of Golden State's in-force blocks of life, annuity and health businesses by a reinsurer
17 to protect the policyholders.

18 The Conservator successfully accomplished each of these objectives. Most importantly,
19 the book of business was maintained and the mortgage portfolio was serviced and monetized,
20 such that on September 2, 2010, Golden State's book of business and mortgage portfolio were
21 successfully assumed by and transferred to IA American through the assumption reinsurance
22 transaction in which all of Golden State's in-force policyholders and annuity contract holders
23 became policyholders and annuity contract holders of IA American as of January 1, 2010, with IA
24 American paying an \$11 million ceding commission to Golden State as payment for the business.

25 As to Golden State's policyholders and annuity contract holders, the assumption
26 reinsurance transaction with IA American assured Golden State's in-force policyholders and
27 annuity contract holders that their existing policies and annuity contracts will be maintained with
28 a financially solvent insurance company, thereby allowing Golden State's policyholders and

1 annuity contract holders to enjoy continuous coverage and benefits without having to re-enter the
2 insurance and annuity markets at presumably higher age and therefore higher price points.

3 Similarly, as to Golden State's creditors including COC holders, the assumption
4 reinsurance transaction provided an \$11 million ceding commission to Golden State, thereby
5 enabling Golden State's creditors including COC holders to benefit in that Golden State will have
6 significantly more assets than without the assumption reinsurance transaction, thereby enabling
7 the creditors and COC holders to have a much greater potential to be repaid. Without the
8 assumption reinsurance transaction and ceding commission of \$11 million, Golden State would
9 still need to be liquidated; yet, without the \$11 million ceding commission, it is unlikely that
10 100% of Golden State's Priority 2 policy liabilities payable under Golden State's policies would
11 be paid, which in turn would mean that Golden State would not have any remaining money to
12 satisfy its Priority 3 through 9 creditor obligations including COC holders.

13 In addition, in the initial stages of conservation, the Conservator marshaled and conserved
14 assets and reduced liabilities and expenses by significantly renegotiating and terminating lease
15 obligations, consolidating and closing offices, terminating employees and agents, establishing a
16 monetary incentive plan for certain remaining employees to collect past due premiums from
17 policyholders, resolving outstanding litigation and claims against the company pending at the
18 time of conservation, consolidating bank and investment accounts, and undertaking numerous
19 other actions – all of which conserved assets and reduced liabilities and expenses to the benefit of
20 Golden State's creditors including COC holders.

21 Thus, contrary to the assertion, the Conservator did not deploy excessive resources or in
22 any way deepen Golden State's financial impairment and insolvency.

23 **III. CONCLUSION**

24 In sum, there is no opposition to the Conservator's Liquidation Motion, as the letters
25 received from COC holders do not oppose the Liquidation Motion and the Conservator has not
26 received any other responses or formal opposition to the motion. Accordingly, as discussed in the
27 Conservator's Liquidation Motion and supporting papers, the Court should grant the
28

1 Conservator's Liquidation Motion and issue the requested order of liquidation and orders and
2 injunctions in aid of liquidation.

3
4 DATE: January 21, 2011

EDMUND G. BROWN JR.
Attorney General of California
FELIX LEATHERWOOD
W. DEAN FREEMAN
Supervising Deputy Attorneys General
MARTA L. SMITH
Deputy Attorney General

9 EPSTEIN TURNER WEISS
A Professional Corporation


10
11 By: 
12 MICHAEL R. WEISS
13 Attorneys for Applicant
14 INSURANCE COMMISSIONER OF THE
15 STATE OF CALIFORNIA

EXHIBIT 1

DATE RECEIVED

DEC 30 2010

EPSTEIN TURNER WEISS

Teasley Family Partnership
PO Box 8784
Los Angeles, CA 90008
213 840 7415

December 28, 2010

Mr. Michael R. Weiss
Epstein Turner and Weiss
633 W. Fifth Street; Ste 3330
Los Angeles, CA 90071

Re: Golden State Mutual

Dear Mr. Weiss:

In accordance with the provisions of the Notice to Show Cause that we received recently, and in the absence of the proper forms for the submission of such claims, we are submitting a claim via the submission of this letter.

The Teasley Family Partnership is the owner of a number of Certificates of Contribution that were issued by Golden State Mutual. In addition, Larkin Teasley is the owner of Certificates. Golden State has records of the Certificates and their owners. As the Company is now being liquidated, we would like to receive the value of these certificates.

The Certificate numbers are as follows:

D 00409A	D 00235A	D 00513I	D 00370L	D 00480D	D 00472
D 00418	D 00406	D 00255	D 00104	D 00480C	C 10516B
C 10106A	D 00222A				

The total value of the Certificates is \$42,850.

These Certificates are in my possession and are readily available.

Sincerely,

Larkin Teasley

Bishop Carl W. Stewart

9251 La Reina Avenue • Downey, California 90240 • 562.862.1156

DATE RECEIVED

JAN 10 2011

EPSTEIN TURNER WEISS

January 5, 2011

Golden State Mutual Life Insurance Company
Attorney Michael R. Weiss
Epstein Turner Weiss
A Professional Corporation
633 W. Fifth Street – Suite 3330
Los Angeles, CA 90071

Re: Case No. BS123005

To Whom it may Concern:

I am a deposit holder of Golden State Mutual. I am opposed to the liquidation of any of my assets to any other person than myself or my beneficiaries. Please distribute any and all of my assets directly to me immediately.

Respectfully submitted,



Bishop Carl W. Stewart
9251 La Reina Ave.
Downey, CA 90240
562.862.1156

January 10, 2011

Superior Court of the State of California
Honorable Ann I. Jones, Department 86
111 Hill Street
Los Angeles, CA 90012

Re: Case No. BS123005
Insurance Commissioner of the State of California vs.
Golden State Mutual Life Insurance Company

Dear Honorable Ann I. Jones,

My name is Roy S. Petitt, a Certificate of Contribution holder , I am writing this letter for the record as a significant creditor seeking to recover my investment in Golden State Mutual Life Insurance Company.

I understand that the Proof of Claim Process will afford me the opportunity to file a claim to recover my Certificate of Contribution investments and would like this to be on record.

I would like to file my claim as soon as possible to recover my Certificate of Contribution investments.

Please feel free to contact me at (323) 936-4412 home, (323) 309-1612 cell, or (323) 735-5121/22 office with any questions or concerns.

Thank you in advance for your consideration.

Sincerely,

Roy S. Petitt

Cc: Scott Pearce
State Trust Officer,
Golden State Mutual Life Insurance Company
425 Market St, 23rd Floor
San Francisco, CA 94105
pearces@caclo.org

Attorney Michael Weiss
Epstein Turner Weiss
A Professional Corporation
633 W. Fifth St., Ste. 3330
Los Angeles, CA 90071
mrw@epsteinturnerweiss.com

Marta L. Smith
Deputy Attorney General
300 S. Spring St., Room 1702
Los Angeles, CA 90013
Marta.Smith@doj.ca.gov

David Wilson
Special Deputy Insurance Commissioner
425 Market St, 23rd Floor
San Francisco, CA 94105
wilsond@caclo.org

January 10, 2011

Superior Court of the State of California
Honorable Ann I. Jones, Department 86
111 Hill Street
Los Angeles, CA 90012

Re: Case No. BS123005
Insurance Commissioner of the State of California vs.
Golden State Mutual Life Insurance Company

Dear Honorable Ann I. Jones,

I am writing this letter on behalf of Miracle Center – AMA, a Certificate of Contribution holder, for the record as a significant creditor class seeking to recover our investment in Golden State Mutual Life Insurance Company, as a Certificate of Contribution holder.

We understand that the Proof of Claim Process will afford us the opportunity to file a claim to recover our Certificate of Contribution investments and would like this to be on record.

We would like to file our claim as soon as possible to recover our Certificate of Contribution investments.

Please feel free to contact me at (323) 936-4412 home, (323) 309-1612 cell, or (323) 735-5121/22 office with any questions or concerns.

Thank you in advance for your consideration.

Sincerely,

Roy S. Petitt

Cc: Scott Pearce
State Trust Officer,
Golden State Mutual Life Insurance Company
425 Market St, 23rd Floor
San Francisco, CA 94105
pearces@caclo.org

Attorney Michael Weiss
Epstein Turner Weiss
A Professional Corporation
633 W. Fifth St., Ste. 3330
Los Angeles, CA 90071
mrw@epsteinturnerweiss.com

Marta L. Smith
Deputy Attorney General
300 S. Spring St., Room 1702
Los Angeles, CA 90013
Marta.Smith@doj.ca.gov

David Wilson
Special Deputy Insurance Commissioner
425 Market St, 23rd Floor
San Francisco, CA 94105
wilsond@caclo.org

Los Angeles County Superior Court, Dept. 86

111 North Hill Street

Los Angeles, CA 90012

January 11, 2011

Case No. B123005

Attn: Judge Ann I. Jones

Your Honor,

The purpose of this communication is twofold. First, to apprise the Court that my wife and I, and many others, have Golden State Mutual Life Insurance Company (GSM) Certificates of Contribution (COC) and are, therefore, persons with a substantial, unsatisfied claim in this case. Second, is to underscore the significance of GSM as a venerable institution whose demise occurred with little acknowledgement of its accomplishments. The record should reflect that GSM fairly and efficiently served many thousands of clients and many Angelinos are saddened by its demise.

I am requesting the court take judicial notice that persons with GSM COCs may lose their investments. It appears that during the initial stages of conservatorship, excessive resources were deployed, deepening GSM's insolvency and likely resulted in fewer funds being available to satisfy COC claims. Therefore, a fair solution would be to effect a better management of resources during liquidation to ensure an equitable settlement for all parties, particularly COC holders.

As important, Your Honor, GSM's record of service and historical significance should be celebrated, not overlooked or minimized. For over eighty years, the company provided fair and sorely needed service for Los Angeles' Black community. It exemplified trust and integrity and is an important part of Los Angeles' history.

I urge that the Court's decision on the Motion for Liquidation favorably reference payment of COCs and GSM's storied legacy.

Sincerely,

Lawrence R. Aubry

cc: Michael R. Weiss, Epstein Turner Weiss

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PROOF OF SERVICE

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action; my business address is 633 West Fifth Street, Suite 3330, Los Angeles, California 90071.

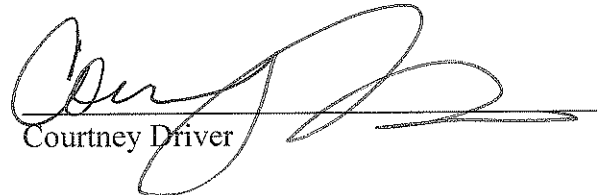
On **January 21, 2011**, I served the foregoing document described as **REPLY MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION FOR ORDER OF LIQUIDATION FOR GOLDEN STATE MUTUAL LIFE INSURANCE COMPANY** by placing [] the original [X] a true copy thereof (**as indicated on the attached service list**) enclosed in a sealed envelope(s) addressed as follows:

SEE ATTACHED SERVICE LIST

- By Mail.** I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice, it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid at Los Angeles, California in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation or postage meter date is more than one day after date of deposit for mailing in affidavit.
- By Fax.** I transmitted the foregoing document by telecopier transmission to the addressee(s) at the facsimile number(s) listed on the attached Service List, and received confirmation that the transmission was received at the facsimile number(s) listed on the attached Service List.
- By Personal Service.** I caused such envelope(s) to be personally delivered via messenger service to the addressee(s) indicated on the attached Service List.
- By Email.** I forwarded a copy of the above-described document(s) via e-mail to each of the individuals set forth above at the email addresses indicated therefor.
- By Federal Express.** I caused such envelope(s) to be deposited at a facility regularly maintained by FedEx at 633 West Fifth Street, Los Angeles, California 90071, with arrangements made for payment in full of the required charges, to the party(ies) listed on the attached Service List.

Executed on **January 21, 2011**, at Los Angeles, California.

- (State) I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.
- (Federal) I am employed by a member of the Bar of the State of California. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.


Courtney Driver

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Insurance Commissioner v. Golden State Mutual Life Ins. Co.

LASC Case No. BS 123005
[Dept. 86]

SERVICE LIST

Ms. Lisa Von Eschen [Via Federal Express]
Abelson Herron LLP
333 South Grand Avenue, Suite 1550
Los Angeles, California 90071
Counsel for Community Impact Development/ Dudley Ventures

Mr. Larkin Teasley [Via U.S. Mail due to P.O. Box]
Teasley Family Partnership
P.O. Box 8784
Los Angeles, California 90008

Bishop Carl W. Stewart [Via Federal Express]
9251 La Reina Ave.
Downey, California 90240

Roy S. Pettitt [Via Federal Express]
3507 Alsace Ave
Los Angeles, California 90016

Lawrence R. Aubry [Via Federal Express]
9007 7th Ave
Inglewood, CA 90302