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THE COLLAPSE OF EXECUTIVE LIFE INSURANCE CO. AND ITS IMPACT ON POLICYHOLDERS

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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THE COLLAPSE OF EXECUTIVE LIFE INSURANCE CO. AND ITS IMPACT ON POLICYHOLDERS

THURSDAY, OCTOBER 10, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 11 a.m., in room 2154, Rayburn House Office Building, Hon. Dan Burton (chairman of the committee) presiding.

Present: Representatives Burton, Ose, Waxman, Maloney, Norton, Tierney, and Watson.

Also present: Representative Lewis of California.

Staff present: Kevin Binger, staff director; Daniel R. Moll, deputy staff director; James C. Wilson, chief counsel; David A. Kass, deputy chief counsel; Marc Chretien, senior counsel; Jennifer Hall, counsel; Blain Rethmeier, communications director; Allyson Blandford, assistant to the chief counsel; Robert A. Briggs, chief clerk; Robin Butler, office manager; Joshua E. Gillespie, deputy chief clerk; Nicholis Mutton, deputy communications director; Dan Skopec, energy policy, natural resources and regulatory affairs staff director; Phil Schiliro, minority staff director; Phil Barnett, minority chief counsel; Christopher Lu, minority deputy chief counsel; Ellen Rayner, minority chief clerk; and Jean Gosa and Earley Green, minority assistant clerks.

Mr. BURTON. Good morning. A quorum being present, the Committee on Government Reform will come to order.

I ask unanimous consent that all Members' and witnesses' written and opening statements be included in the record. Without objection, so ordered.

I ask unanimous consent that all written questions submitted to witnesses and answers provided by witnesses after the conclusion of this hearing be included in the record. Without objection, so ordered.

I ask unanimous consent that all articles, exhibits, and extraneous or tabular material referred to be included in the record. Without objection, so ordered.

I ask unanimous consent that Congressman Lewis and Berman, who are not members of the committee, be permitted to participate in today's hearing. Jerry Lewis, is he not going to come over, too? I also would like to include Congressman Jerry Lewis of California, who I believe will be showing up, who will be able to participate as well. Without objection, so ordered.

I want to welcome all of you and once again apologize for our tardiness in getting started, but that is the way things work around here. There are two things you don't want to ever watch being made: laws or sausage. That was a joke, folks. [Laughter.]

We are here today to examine the circumstances surrounding the purchase of Executive Life Insurance Co., the alleged fraud perpetrated by Credit Lyonnais, and the impact on policyholders.

Before we get started, I would like to thank my colleagues from California and the California delegation; the ranking minority member, Mr. Waxman; Mr. Ose, and Mr. Jerry Lewis for bringing this issue to my attention. Mr. Ose was the most vocal about that, and I appreciate that very much.

Over the past year the news has been filled with stories of corporate greed, stories of corporations going under and hanging shareholders and employees out to dry. These stories have outraged the American public, and they have had a very adverse impact on the stock market.

Today we will hear another story of corporate greed. However, this story is a lot different. This corporation went under over a decade ago, but the fraud only became public knowledge in 1998, and the stakeholders are still trying to pick up the pieces. Today's hearing is going to focus on how this happened and what should be done to prevent this from ever happening again.

Before 1991, Executive Life was one of the country's largest insurers, with more than 300,000 policyholders and $10.5 billion in assets. Executive Life had most of its investments in high-risk, high-yield junk bonds. With the collapse of the junk bond market in the early 1990's, Executive Life became insolvent.

Afraid of a run on the company by policyholders, the Insurance Commissioner seized Executive Life and put it up for auction. In late 1991, the Insurance Commissioner accepted a bid for Executive Life that would separate the insurance business from its portfolio of junk bonds. This separation left the insurance business without a strong asset base, forcing benefits to be severely reduced.

The Executive Life debacle resulted in losses to its policyholders. State insurance guarantee funds made up part of the losses, but coverage was capped. Of the 300,000 policyholders impacted by the sale, approximately 5,000 reside in my home State of Indiana. The taxpayers of Indiana have spent $26.8 million to cover the losses by the policyholders. There is also an estimated $10.3 million to be spent in Indiana in the future.

California has approximately 180,000 policyholders. In California the State guarantees annuities up to $100,000 and life insurance up to $300,000. Annuitants and recipients of structured settlements in excess of State guarantees suffered great economic losses, and these are the people who can least afford it.

Of the 300,000 policies in effect at the time Executive Life was sold, 5,600 were structured settlement annuities held by severely disabled victims of accidents. For most of these victims the monthly annuity payments are a primary source of their income. These annuities provide medical care and other necessities for their disabled recipients.

After the sale of Executive Life, these payments were severely reduced. The life many victims were guaranteed by their structured

settlement was suddenly jeopardized. This loss has only compounded the hardship they have already endured from the accidents that they suffered.

We will hear today from Dru Ann Jacobson. Mrs. Jacobson is testifying on behalf of her mother, Ann Dixon, an Executive Life policyholder. Unfortunately, Ann Dixon was too sick to come here before us today.

Ann Dixon's story is similar to many recipients of an Executive Life structured settlement annuity. Ann Dixon was in a terrible accident. She received a settlement to take care of her medical needs and provide for her future. Ann Dixon did exactly what she was supposed to do. She followed the advice of her attorneys. She put that money into a highly rated safe annuity, which most of us probably would have done.

When Ann Dixon bought that annuity, she was receiving $3,000 a month. After Credit Lyonnais bought Executive Life, Ann Dixon's monthly income was reduced to $1,800 a month, cut almost in half. That is a 40 percent decrease in her income, and there aren't many people who could survive a 40 percent decrease in income and live a decent life.

We will also hear today from another structured settlement recipient, Bob Bozeman. Mr. Bozeman worked for the Illinois Railroad. Like Ann Dixon, he was in an accident and received a settlement. Mr. Bozeman told his lawyers he wanted to put his settlement in a low-risk annuity. He wanted to make sure he had that money for his future. Mr. Bozeman bought the highly rated Executive Life annuity.

When he bought the annuity, he was receiving $2,000 a month. After Credit Lyonnais bought the Executive Life Co., he received $1,400 per month, which is a 30 percent decrease in income.

We have learned that these people did not need to suffer like this. We have learned that an affiliate of Executive Life, Executive Life of New York, went through similar problems. However, the policyholders of Executive Life of New York were made whole.

So how can there be such a dramatic difference in outcome for these two companies? Mr. James P. Corcoran, the former New York Insurance Commissioner, is here to explain how he accomplished this.

There is much more to this story. We will hear from Steve Green, the Deputy Insurance Commissioner, and Harry LeVine, Special Counsel to the Commissioner, about the California State Insurance Commissioner's pending lawsuit against Credit Lyonnais and others.

We will learn that, unbeknownst to the California Insurance Commissioner and in violation of Federal and California law, Credit Lyonnais, a French government-owned bank, was the ultimate purchaser of Executive Life. Through a series of front companies and secret agreements, Credit Lyonnais was able to secretly own the insurance company. This fraud came to light only after an anonymous whistleblower brought it to the attention of the Insurance Commissioner in 1998.

This is the part that gets me. This fraud netted profits for Credit Lyonnais of approximately $2.9 billion, almost $3 billion. This fraud may be the largest ever committed in American history. That

is definitely something to keep in mind when we hear about Ann Dixon and Robert Bozeman, who can barely make ends meet.

Luckily for Ann Dixon and Bob Bozeman, the law is on their side. The law requires that the perpetrator of a fraud must give up all illegally gotten gains. We are here to shed some light on this today.

Again, I want to thank the California delegation, in particular, Mr. Ose, and I see Mr. Lewis is now with us, and we appreciate your being here, Jerry, to shed light on this.

With that, I see Mr. Waxman is not here.

Incidentally, I have another meeting I have to go to, and Mr. Ose has consented to chair this hearing when I have to leave, but I will be back.

Ms. Maloney, do you have an opening statement.

Mrs. MALONEY. Yes. Thank you, Mr. Chairman. I look forward to the testimony today from today's witnesses.

I am angered to learn of the great hardships that have been caused by the fraudulent actions of Credit Lyonnais, a French bank. More than 5,000 people, many of whom are disabled, victims of accidents or medical malpractice, who were the beneficiaries of settlements managed by Executive Life Insurance Co., all of these people were robbed of their settlement payments.

I know that two of our witnesses can speak personally of this tragedy and the impact this corruption has had on their lives. I thank you very much for coming and really putting a human face on the tragedy.

As you have heard from the chairman, the issues surrounding the collapse of Executive Life Insurance Co., and its sale to Credit Lyonnais have been scrutinized for many years by the State of California and now civil courts. Much of the testimony today will focus on this history, but, as we are not the California State legislature, the major concern of mine is the role of the Federal Government in this case.

In 1999, a career assistant U.S. attorney in Los Angeles conducted an investigation of the role of the French bank in the sale. This same career prosecutor requested that the Justice Department approve indictments against the bank and key officials involved in the fraudulent transactions. This request was made 2 years ago and still awaits action.

In the current era of business scandals, after Enron, WorldCom, Arthur Andersen, Global Crossing, Tyco, I would hope that the Justice Department would not drag its feet on a major corporate criminal case. Two years is too long to delay. These corporate scandals have done serious, lasting damage to the reputations of American business and especially the financial services industry, and have destroyed and hurt many lives. Healing in our business community and our financial markets will come, in part, when the American people believe that the government will take timely action against bad actors.

As a member of the Financial Services Committee and a Representative from the financial capital of the world, New York City, I am especially concerned about the precedent that this case sets.

I would ask permission from the Chair to place in the record an article from The Los Angeles Times, "Little People Floundering from Executive Life Losses" that spells out this.

Mr. OSE [assuming Chair]. Without objection.

[The information referred to follows:]

Los Angeles Times

'The lawyers elected to put it into this "Triple A Executive Life." They said, "This is the safest thing we can put it in. . . . It's rated high, excellent, A-No. 1." '

Dru Ann Jacobsen, whose mother's injury settlement was converted into an Executive Life annuity

BEATRICE de GEA / Los Angeles Times

Dru Ann Jacobsen takes care of her 74-year-old mother, Ann Dixon, a policyholder who had to sell her house after her annuity payments were reduced.

'Little People Floundering' From Executive Life Losses

While the legal process drags on, many policyholders must contend with sharply reduced annuity payments.

By LISA GIRION
TIMES STAFF WRITER

More than 10 years after the failure of California's Executive Life Insurance Co., many of its policyholders, some of them elderly and disabled, are struggling to get by on monthly annuity payments that are 30% to 50% less than what they had been promised by the once highly rated insurer.

The 1991 insolvency, then the nation's largest insurance failure, served as a catalyst for stricter controls on insurance company investments. But the regulations came too late for Executive Life's thousands of policyholders, some of whom lost homes or were forced out of retirement because of the loss of income when policy values were slashed.

Policyholders blame those losses on the terms of the 1992 sale of Executive Life's "junk" bond portfolio to a French investor group for $3.25 billion. They contend that the portfolio was worth much more because the junk, or high-yield, bond market was rapidly recovering.

The deal "left all the little people floundering," said Dru Ann Jacobsen, whose 74-year-old mother lost her home after her annuity payments were cut to $1,800 a month from the $3,000 she had been guaranteed for life.

Authorities say the investor group was a front for French bank **Credit Lyonnais**, which circumvented state and federal laws to buy the bonds. In what has been called "the deal of the century," authorities say the bank and its partners made a profit of at least $2 billion after the value of the junk bond portfolio rose.

The Executive Life deal triggered a wave of litigation, with no quick end in sight. Discovery began months ago in a suit by the state insurance commissioner, but no trial date has been set.

In a hearing last week on the merits of a state attorney general's suit seeking $6 billion in damages, U.S. District Judge A. Howard Matz gave the impression he was inclined to agree with arguments that the insurance commissioner has exclusive standing to represent policyholders in such actions.

Also last week, a U.S. 9th Circuit Court of Appeals panel cited the insurance commissioner's standing and ruled out one of two suits policyholders had filed in the case.

The 9th Circuit has yet to rule on a second policyholders' suit that names the French investors and former Insurance Commissioner John Garamendi, who seized Executive Life and oversaw the sale of its assets. In that suit, policyholders argue that the California insurance commissioner's office cannot be trusted to represent their interests because of Garamendi's alleged bungling of the Executive Life sale.

Meanwhile, the successor to Executive Life could face criminal prosecu-

Please see ANNUITIES, C4

ANNUITIES: Policyholders Struggling By on Less

Continued from C1

tion. Federal prosecutors in Los Angeles recommended a year ago that Credit Lyonnais be prosecuted in the deal. That decision is pending at the Justice Department.

The Executive Life debacle has become a morass of insurance and banking laws and complex international investment deals. Lost in all the legal battles is the fact that thousands of policyholders are out billions of dollars. A central point of dispute is whether their losses are the result of the crash of the junk bond market or the terms of the assets sale.

Lawyers for Credit Lyonnais blame the policyholders' losses on Executive Life's investment in risky junk bonds, which plummeted in value in the late 1980s and early 1990s.

Garamendi shares that view. He said he struck the best deal he could in the sale of the company's assets. Half of Executive Life's junk bonds were in default, and the bond sale proceeds infused the successor insurance company with badly needed cash, said Garamendi, who is running for insurance commissioner again after a failed 1994 bid for governor and a stint in the private sector.

"This was the junk of the junk bonds," he said. "This was the trash. To say the market had recovered is one thing—even though it had not recovered at the time. But to say these bonds would follow the market is fallacious."

Garamendi said he pursued the sale to what he believed was a group of French investors to minimize the risk of additional losses. The Insurance Department, he said, did not have the expertise or the cash necessary to hold the bonds and sell them over time in the hopes of realizing a better return.

"It's a whole lot of foolishness to believe the Insurance Department should have kept those junk bonds," Garamendi said.

But that is exactly what policyholders believe.

"Had they not sold to the French, had they backed off and put it out to bid again, the policyholders would have gotten 100% on their dollars," said Tom Schaefer, a San Diego lawyer who represents policyholders. "In a recovered bond market, there would be no reason to restructure the policies downward."

Allegations Point at Credit Lyonnais

Policyholders were so sure the sale was a bad deal that a group of them went to court at the time to try to stop it. Then, six years after the sale, a whistleblower's disclosure reopened the controversy.

The whistle-blower alleged that the French investor group was a front for Credit Lyonnais, which was then controlled by the French government.

That brought the scrutiny of state and federal prosecutors. California law prohibits foreign governments from owning insurance companies, and federal law at the time banned banks from being in the insurance business.

The U.S. attorney's office in Los Angeles investigated and recommended last April that Credit Lyonnais be charged with fraud and conspiracy. Justice Department officials have met with lawyers for the French bank, who contend that Credit Lyonnais should not face prosecution for its efforts to rescue an insurance company that made questionable investments.

Of 333,000 policies in effect at the time Executive Life was sold, 5,600 were structured settlement annuities that still are held by disabled victims of accidents and malpractice and for whom the monthly payments are a primary source of income, said Maureen Marr, an advocate for the group.

Ann Dixon, Jacobsen's mother, is one of them. She followed her lawyer's advice and converted a $2.5-million settlement for injuries from a car collision into the annuity that was supposed to pay her $5,000 a month. She did not believe she was making a risky investment.

"The lawyers elected to put it into this 'Triple A Executive Life,'" Jacobsen said. "They said, 'This is the safest thing we can put it in. . . . It's rated high, excellent, A-No 1.'

But after Executive Life was sold, Dixon's monthly payments were slashed to $1,800.

Injury Settlement Was Chance to Keep House

She said the loss compounded the hardship she had endured since the 1979 accident in which her van was struck head-on by a drunk driver. She was driving home with daughter Darian, then 19, after a trip to buy tap shoes for a class they had hoped to take together.

Both women were badly injured. Dixon's hips and pelvis were shattered, and her right leg was so badly crushed it had to be amputated at the hip. Doctors wanted to take her left leg as well.

"I just couldn't face that," Dixon said. "At least it's there. I just can't put any weight on it. So I'm in a wheelchair."

Her marriage broke up in the wake of the accident, and her finances were a shambles.

The settlement of an injury lawsuit provided Dixon with the hope that she could remain in the Malibu ranch house she had lived in for 30 years.

"It wasn't a mansion on the beach," she said. "But it was a beautiful house with a beautiful view."

For a while, Dixon managed. But after her annuity payments were cut by $1,200 a month, the bills mounted. Dixon refinanced her home several times, rolling her debt into the mortgage. Then it became difficult for her to make the mortgage payments.

"We just kept refinancing and refinancing and hoping we could pull it off," Jacobsen said. "But finally it got too much. It was taking the whole [annuity] payment. She didn't have anything left for anything else."

Dixon sold her house almost two years ago and moved into a two-bedroom mobile home near Jacobsen and her family.

Jacobsen has helped care for her mother since the accident, lifting her in and out of the wheelchair countless times, a loving but back-breaking task. If the annuity were paid in full, Jacobsen said, the family would buy a van with a chair lift and hire an aide to help care for Dixon.

"Now that she's getting older, she needs more help, and we can't do it," Jacobsen said. "I don't think they expected her to live this long."

In addition to structured-settlement policyholders such as Dixon, the Executive Life debacle resulted in losses to holders of life insurance policies and guaranteed investment contracts, investments similar to certificates of deposit.

Although state insurance guaranty funds made up part of the losses, coverage in California was capped at $100,000 per annuity and $300,000 per life insurance policy, said Gary Fontana, a San Francisco lawyer who was hired by the insurance commissioner's office to handle its suit.

The structured-settlement policyholders "tended to have the bigger policies," said Marr, the group's advocate. "And the bigger your policy, the more you get hurt."

Thousands Lost Money Needed for Medical Care

Vince and Sue Watson believe that their severely disabled daughter, Katie, 21, has lost more than $1 million in annuity payments, not including interest.

The Watsons hope the U.S. 9th Circuit Court of Appeals reinstate the second policyholders' suit, viewing it as their best chance to recover their losses, which would pay for their daughter's stay in a full-care facility should she outlive them.

"Our case has been so fragmented over so many years that a lot of people don't realize that over $4.6 billion was lost by people like Katie, who are sick or crippled," Vince Watson said. "There are thousands of people who lost money that was needed for medical care, for financing their retirement or that they had invested to secure their families' future."

Katie Watson's disabilities stem from lapses in her hospital care when, at 21 months old, she was admitted with a mild case of pneumonia.

"What happened at the hospital was a tragedy of errors—[illegible] medicine, oxygen ordered but not given, blood gases not monitored, a whole series of things," Vince Watson said.

The ordeal left Katie Watson severely brain damaged, unable to walk or feed herself and in need of full-time, round-the-clock care.

The Watsons sued the hospital and used their settlement for the down payment on a home they had built with special lifts, wheelchair ramps and other amenities for their daughter's care.

The settlement of a separate suit on Katie Watson's behalf was intended to fully cover the cost of her care for life and was invested in an Executive Life annuity. The monthly payments were to increase 5% each year to keep up with inflation.

Instead, the payments, which were $13,000 a month, were cut to $5,000. Fearing they could not make the mortgage payments and pay for their daughter's care, the Watsons, both of whom work, immediately put the home on the market.

But in a depressed market, they found no buyers for the unique home. The bank foreclosed, and the Watsons, who have six other children, moved out.

Katie Watson's monthly payments, with the 5% increases, have grown to $10,000 today, still far short of what had been promised.

"If anything happened to Sue and I, there's still not enough money coming in on a month-to-month basis to get Katie in a full-care facility," Vince Watson said. "We're still kind of holding our breath about whether . . . if anything happened, Katie would be taken care of."

SPA PHOTO ©SEA / Los Angeles Times

A traffic accident in 1979 left Ann Dixon disabled. Executive Life's collapse left her unable to keep her home of more than 30 years.

Executive Life Timeline

April 1991: Days after parent First Executive Corp. posts a $486-million loss, California Insurance Commissioner John Garamendi seizes First Executive, which files for bankruptcy.

May 1991: Garamendi puts Executive Life up for sale and reports receipt of $3-billion bid from French investment group.

November 1991: Garamendi announces conditional selection of French group's revised $3.55-billion bid, including $3.25 billion to acquire the company's junk bonds.

September 1993: Deal closes after legal battles.

February 1999: California Insurance Commissioner Chuck Quackenbush sues bank Credit Lyonnais and a group of insurance and finance companies, alleging they hid information in acquisition of Executive Life to skirt state and federal laws.

January 2001: Sources say federal investigation could lead to suspension of Credit Lyonnais' U.S. banking license.

April 2001: Federal investigators in Los Angeles urge Justice Department to indict Credit Lyonnais on fraud charges.

June 2001: California Atty. Gen. Bill Lockyer sues Credit Lyonnais and partners for allegedly conspiring to defraud policyholders.

April 2002: U.S. 9th Circuit Court of Appeals refuses to allow one of two policyholder lawsuits to proceed.

Source: Times research

Mrs. MALONEY. But according to these press accounts, the French government has been aggressively lobbying the Justice Department and the State Department to stall action, and I repeat these are allegations, but they were printed in the press, even going as far as to have President Chirac raise this issue with President Bush and to hire a former first Bush administration Deputy Attorney General to lobby administration political appointees.

Now this I find troubling. One of the things that we have done in government is to put sunshine on what is happening, so as to really let people know who is wooing who or who is trying to influence someone. I know that in the FCC and the SEC and other organizations there is a sign-in sheet when you go in to see the head of the Department. Yet, the Justice Department does not have such a sign-in sheet.

I would appeal to the Members on the other side of the aisle to join in a bipartisan effort to have uniformity of sunshine in the departments in the government, particularly Justice, which is so important and has such an important impact on people's lives. So I intend to draft that legislation, and I hope the chairman will join me and the members of the committee.

I sincerely hope that this political pressure is not the cause of the delay. If a foreign government can successfully delay or stop criminal proceedings by playing politics, it sets an extremely dangerous precedent for U.S. citizens with assets held by other multinational corporations. It sends a message to my constituents with accounts in financial institutions that do business in the United States that are owned by the French, German, or Swiss holding companies that they should fear that the executives of these companies may be above the law. These are serious issues with potentially major economic consequences.

I look forward to the hearing, and I thank very much the witnesses for coming. I know it is very difficult always to testify about your personal life and your personal situation, but I think that your testimony is critical for us to understand exactly the impact of this and how it happened. So I thank you for coming.

I yield back the balance of my time.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

STATEMENT OF CONGRESSWOMAN CAROLYN B. MALONEY

Committee on Government Reform
Full Committee Hearing

"The Collapse of Executive Life Insurance Company and Its Impact on Policyholders"

October 10, 2002

Mr. Chairman and Ranking Member, I look forward to the testimony of today's witnesses and I regret that not all of the invited witnesses could join us today.

I am angered to learn of the great hardships that have been caused by the fraudulent actions of Credit Lyonnais, a French bank. More than 5,000 people, many our whom are disabled victims of accidents or medical malpractice, who were the beneficiaries of settlements managed Executive Life Insurance Company were robbed of their settlement payments. I know that two of our witnesses can speak personally of this tragedy and the impact this corruption has had on their lives.

As you have heard from the Ranking Member and Chairman, the issues surrounding the collapse of Executive Life Insurance Company and its sale to Credit Lyonnais have been scrutinized for many years by the state of California and now civil courts. Much of the testimony today will focus on this history, but as we are not the California state legislature, the major concern of mine is the role of the federal government in this case.

In 1999, a career Assistant U.S. Attorney in Los Angeles conducted an investigation of the role of the French bank in the sale. This same career prosecutor requested that the Justice Department approve indictments against the bank and key officials involved in the fraudulent transactions. This request was made two years ago and still awaits action.

In the current era of business scandals, after Enron, WorldCom, Arthur Anderson, and Global Crossing, I would hope that the Justice Department would not drag its feet on a major corporate criminal case. Two years is too long to delay. These corporate scandals have done serious, lasting damage to the reputations of American business and especially the financial services industry.

Healing in our business community and our financial markets will come when the

American people believe that the government will take timely action against bad actors.

As a member of the Financial Services Committee and a representative from the financial capital of the world – New York City, I am especially concerned about the precedent this case sets. According to press accounts, the French government has been aggressively lobbying the Justice Department and the State Department to stall action; even going as far as to have President Chirac raise this issue with President Bush and to hire a former first Bush Administration Deputy Attorney General to lobby Administration political appointees.

I hope this political pressure is not the cause for the delay. If a foreign government can successfully delay or stop criminal proceedings by playing politics, it sets a dangerous precedent for U.S. citizens with assets held by other multinational corporations. It sends a message to my constituents -- with accounts in financial institutions that do business in the U.S. but are owned by French, German or Swiss holding companies -- that they should fear that the executives of these companies maybe above the law. These are serious issues with potentially major economic consequences and I look forward to the hearing.

Mr. OSE. The committee welcomes the dean of the California Republican delegation, Mr. Lewis, for the purpose of a statement.

Mr. LEWIS OF CALIFORNIA. Thank you very much, Mr. Ose and Mr. Burton, for allowing me to come and sit in a committee meeting on which I do not serve as a member of the committee.

I would like to also welcome Ms. Jacobson and thank her for coming and providing testimony for this very serious challenge.

Mr. Chairman, I do have a formal statement I would like to submit for the record.

Mr. OSE. Without objection.

Mr. LEWIS OF CALIFORNIA. As I express my appreciation for your allowing me to come, let me say, by way of background, the reason for my coming involves the fact that I spent very much of my early life in a field that was not connected with government. For 30 years I was an active life underwriter. Indeed, I feel very strongly about this industry that is being so negatively impacted by companies that would operate in the fashion that Credit Lyonnais has demonstrated a willingness to practice.

I have come today in no small part because many years ago, while I was active in the life insurance business, I became acquainted with people who were very successfully practicing my business. Most of those people spent their lives attempting to help people build security in their own lives. The sale of life insurance and annuities and pensions provides a foundation for our personal security for families across the country like no place else in the world. Indeed, whole life insurance contracts and pension contracts are the original IRAs of our country that led to our using our tax laws to broaden the base of people's willingness to participate in their own independence.

During that time, those early years, there were a few of my direct associates who did not reflect that same philosophy. It was a couple of those very people who created Executive Life in the first place. I watched with great interest as their business went forward.

I was always astonished in my field to find those who were willing to go out and talk with citizens who had purchased life insurance contracts in their efforts to build their own independence, and in approaching those individuals they would take their existing contracts and strip out the cash value or the money, thus, making essentially that contract almost worthless, and use the money to encourage them to purchase other contracts. "Stripping the policies" it was called. To say the least, many of us were astonished at the impact that had on many a life.

The first testimony I ever made before a committee of any kind, Mr. Chairman, was when I went to the State legislature in California to testify about our concern regarding those kinds of practitioners in an industry that is so important to our economy.

It does not surprise me at all that Executive Life was eventually sold to a company in Europe that obviously had very similar levels of value or no value in mind in terms of the reason for their purchase. To have those people who had put their faith in Executive Life then in the hands of people who were willing to strip out the values of their life, the disability contracts that Mrs. Jacobson will talk about, for example, that literally have destroyed many a fami-

ly's ability to provide for their own independence is totally unacceptable.

I did not come today just because I used to be in the life insurance business. Californians have communicated to many of our Members about their concerns relative to the impact of the actions of Credit Lyonnais on the lives of their families. There is little doubt that they went about exercising themselves regarding these contracts in order to literally cream off profit for their own purposes, and in the process not just destroy lives, but lay the foundation to destroy this very industry here at home.

It is very, very appropriate, Mr. Chairman, both of my chairmen here, that you hold these hearings. I would hope you would help us followup to find a way legislatively to impact such transactions that lead to this kind of disaster. It is an unacceptable form of practice. It casts a shadow on one of the finest industries that exists in the world, that is, our life and pension industry in this country. Indeed, whatever we can do by way of changing the law or otherwise to see that such organizations cannot operate within the domain of the United States I certainly am not only delighted, but anxious to participate in and support.

So thank you very much for having me today, and I will leave you to your fine work as I go back and work on our defense bill on the floor. Thank you.

[The prepared statement of Hon. Jerry Lewis follows:]

OPENING STATEMENT OF

THE HONORABLE JERRY LEWIS

House Government Reform Committee Hearing
on
"The Collapse of Executive Life Insurance Company and its Impact on Policyholders"

October 10, 2002

Good morning. I want to thank Chairman Burton and the Committee for allowing me to make an opening statement regarding Credit Lyonnais' illegal purchase of the Executive Life Insurance Company, and the devastating impact that sale has had on hundreds of thousands of policyholders.

I also want to thank the Committee for holding a hearing on such an important issue. I know that Chairman Burton has worked with Ranking Member Waxman in setting up this hearing, and that Congressman Ose, Congressman Berman, and other Members of the California delegation have also been deeply involved in investigating Credit Lyonnais. I thank all of you for your leadership – and for your efforts to keep this a bipartisan issue, as it should be.

What this bipartisanship shows is that inquiries into the Justice Department's investigation of the alleged misconduct of the French bank, Credit Lyonnais, is not a Republican issue or a Democratic issue – but it is an issue of basic fairness and about justice being denied for the victims of these financial crimes.

The history of Credit Lyonnais' dealings with Executive Life Insurance Company has been fraught with corruption and tragedy. In 1991, the State of California was forced to auction the assets of Executive Life. Credit Lyonnais – through the use of an illegal front company -- took over the insurance company's bond portfolio – notwithstanding existing federal law barring a bank from owning interests in an insurance company and California state law prohibiting a foreign government from holding an

interest in a California insurance company. Credit Lyonnais subsequently earned upwards of $3 billion by stripping the insurance company of its assets while effectively leaving the 330,000 policyholders holding the bag.

Credit Lyonnais' alleged role in this whole debacle came to light only after a French whistleblower went public six years after the acquisition. This whistleblower informed the public, the press, federal and state regulators and elected officials that Credit Lyonnais was the real cause of all the subsequent hardship felt by the policyholders.

I am particularly aware of this case because many of the policyholders are from my home state of California. Today, 10 years after the failure of Executive Life, policyholders are receiving annuity payments 30% to 50% less than what they were suppose to be getting. The policyholders have been left to scramble to make ends meet. What is most troubling is that many of these policyholders constitute some of society's most vulnerable citizens – those who are elderly, physically challenged, or seriously ill, including many children.

Of the 330,000 policyholders, 5,600 were structured settlement annuities – policies held by disabled victims of accidents. For these policyholders, the monthly annuity payments were – and still are -- their primary source of income.

The Los Angeles Times earlier this year did a story on just how much Credit Lyonnais' plundering of Executive Life has impacted -- what the paper called – "the little people."

The article talked about people like 74-year-old Ann Dixon who invested the settlement she received, after losing her leg from an accident involving a drunk driver, into Executive Life. She had been assured that Executive Life was one of the safest places to purchase an annuity. Ann Dixon has since lost her home after her monthly annuity payments dropped from the $3,000 she had been promised for life to $1,800 – after Credit Lyonnais went in and used up all the of the company's worthy assets. Ann Dixon is now living in a trailer and hoping to find enough money to purchase a van with a wheelchair lift so she can get around more easily.

This article also focused on the case of Katie Watson, the daughter of Vince and Sue Watson. When Katie was 21 months old she was admitted to a

hospital with a mild case of pneumonia, and -- because of a whole series of things that took place at the hospital -- she was left severely brain damaged. Katie cannot take care of herself – she can't walk, she can't eat and she is in need of full-time, twenty-four hour medical help.

Katie's settlement with the hospital was invested in an Executive Life annuity. The annuity was designed to give her payments each month that would provide her and her family with the financial resources to pay for her care. The pay structure was designed to increase 5% each year to keep up with inflation. Because of the alleged misconduct of Credit Lyonnais, Katie's annuity payments were initially cut by $8,000 a month. As a result, the Watsons were forced to sell their custom-built home and they now cannot provide Katie all the medical attention her doctors say she needs. The Watsons have been economically devastated on top of the emotional pain and suffering they are already experiencing because of Credit Lyonnais.

I am a former insurance agent. I know that most insurance agents are good people, who want to do the right thing and are committed to helping families deal with tough challenges. Credit Lyonnais apparently had none of these concerns. Where most people would have seen Ann Dixon's pain, Credit Lyonnais saw profits; where most people would have been motivated to help Katie Watson, Credit Lyonnais was motivated by greed.

As I understand it from press reports and various accounts, prosecutors in the Los Angeles U.S. Attorneys Office have been seeking to indict Credit Lyonnais for its actions for two years now. A federal court in Los Angeles that is handling the California Insurance Commissioner's civil case against the French multinational has made a ruling that a prima facie case of criminal fraud exists. That same court has even taken the unusual step of prohibiting the French bank from being able to assert the "attorney-client privilege" often invoked to protect documents from disclosure.

I applaud Attorney General Ashcroft and the Bush Administration for its vigorous crackdown on corporate fraud and malfeasance. The administration has pursued Enron, Tyco, WorldCom and Global Crossing. However, Credit Lyonnais stands as a stark example of corporate malfeasance, corporate fraud and corporate irresponsibility long before these other companies' problems were on the national radar screen.

I urge the Attorney General to follow the advice and recommendations of his line prosecutors and pursue indictments against Credit Lyonnais as the Department has against Enron, Tyco, WorldCom and Global Crossing.

Ann Dixon deserves justice. Katie Watson deserves justice. The 330,000 other policyholders deserve justice. But, unfortunately, we are instead seeing too clearly how that old adage remains true: "justice delayed is justice denied."

Thank you.

Mr. OSE. Thank you, Mr. Chairman. It is a pleasure to have you here.

We have another Member on this side who will join us shortly. I am going to proceed with my statement.

First, I want to thank Chairman Burton for holding this hearing. It is interesting, since I got here, I have been involved in a number of things, and you have never flinched from standing up for what is right. I would like to thank you on this day for your leadership. I know your stewardship here is ending, but I do want to compliment you on your leadership.

Mr. BURTON. I was just asking Mr. Lewis because I may be leaving, and maybe you can fill me in, it seems to me that there ought to be some law against a company like Executive Life or the Insurance Department out there selling this company to a front company without the knowledge of the policyholder. I doubt if the Insurance Commissioner knew about that. I have no idea.

But it seems that Credit Lyonnais would be subject to some kind of legal action beyond just liability for knowingly misleading the California public and all those policyholders by thinking that some other company is buying that company rather than them.

Mr. OSE. I think, Mr. Chairman, you will see in the course of the hearing that both the State of California and the Federal Reserve Board both had prohibitions on foreign companies acquiring domestic insurance companies. So that law was in place then. It has since been pulled back a little bit, but I think you will see in the course of the testimony today that that is the case.

Mr. BURTON. OK, thank you.

Mr. OSE. I am going to recognize my good friend from California, Mr. Waxman, for the purpose of an opening statement.

[The prepared statement of Hon. Doug Ose follows:]

Statement of Congressman Doug Ose

The House Government Reform Committee

"The Collapse of Executive Life Insurance Company and Its Impact on Policyholders"

October 10, 2002

Mr. Chairman, I would first like to thank you for holding this hearing. You have never flinched from standing up for what is right, and I would like to thank you for your leadership. As your stewardship at the head of this committee comes to an end, I appreciate that you found the time to help one more group of Americans.

As we will hear today, more than 300,000 Americans – from Indiana to California – were hurt when the Executive Life Insurance Company collapsed. Some are still seeking justice. Lost retirement funds, lost settlements from injury judgments, and other losses of investments left many Americans floundering following the fall of Executive Life. This injury was compounded when it was found that the efforts to help the victims of this collapse were instead left holding the bag while others illegally stole their assets and fled the country.

More than a decade later, some of these victims have learned to live with their loss. Others feel the pain from this loss every day. Two representatives of those who were left to fend for themselves are here with us today.

I appreciate their willingness to share with us their knowledge and to help us in asking the question, "When will they have their day in court?"

How did this happen? How did thousands of Americans who thought their retirements and disability settlements were safe in the hands of a government regulated insurance industry end up with cut benefits and no options?

In the 1980's the Executive Life Insurance Company was a thriving business promising better returns and better benefits at a lower cost. They thought they would be able to achieve this promise because they had invested heavily in a new growth bond market. This market came to be known as the "junk bond market," and many of those who had relied upon it were falling by the wayside during the early 1990's.

When its parent company filed for bankruptcy in 1991, the California Insurance Commissioner stepped in, took control of Executive Life of California, and placed it into receivership.

While the Commissioner's mission was to protect the policyholders and rehabilitate the company, California instead made the decision to grab what it could in the short-term by selling off the bond portfolio, separate from the rest of the package.

This decision left the company so weakened as to require drastic cuts in benefits, and led *Forbes Magazine* to write an article in 1994 entitled "Smart Buyer, Dumb Seller," which accused the state insurance commissioner of having "slept through his finance classes" at Harvard Business School.

But there is much more to this case.

The California Insurance Commissioner asked for bids to rehabilitate Executive Life – and for people to take care of its policyholders. He received a number of bids. Every bid initially included taking the company's entire portfolio.

One company asked to be allowed to "cherry pick" the best bonds in exchange for a cash payment. This company was advised by Mr. Leon Black, a former protégé and advisor to Michael Milken. If anyone knew which bonds to pick, and which were true junk, it was him.

The Commissioner agreed to this deal despite its unusual characteristics. Why he chose this option over the bids of every other company that wanted the whole package is unclear. When everyone else recommends one action, but you choose another, you should expect tough questions.

Even if this decision had proven to be the best, there are still more elements that this committee needs to review.

Unbeknownst to almost anyone at the time, the company that bought these bonds from the Insurance Commissioner's office was a front company controlled under a series of agreements by a French Bank: Credit Lyonnais. Credit Lyonnais was owned and controlled by the French Government at the time of the transaction. It was illegal under both state and federal law for Credit Lyonnais to purchase a U.S. insurance company. Only through documents provided by a former employee did anyone learn of this alleged fraud.

There is more.

The bonds that Credit Lyonnais acquired through these machinations performed well, as many market experts had expected, and netted Credit Lyonnais a profit of nearly $2 billion.

Now we read press accounts and hear stories that the French are trying to avoid responsibility for their alleged fraudulent actions. There are also accounts that France may have offered to give back $500 million if they can keep the other $1.5 to $2 billion. Sounds like a good deal for them, not for us.

Especially when the law says that when a fraud occurs, all gains must be returned as the initial illegal action makes any future benefit inherently illegal. In fact, the aggrieved party is eligible to receive three times the loss in compensation and the state is currently seeking $6 billion in damages under this law.

Does the involvement of the French government as owners of Credit Lyonnais complicate the matter? Anyone who commits fraud must be held accountable – whether it is the French government or a U.S. Senator or your local banker. If the French were responsible for deceiving the American people and leaving the policyholders in the "lurch," then they need to own up to the fact and take responsibility for their actions. They should not work to delay the process and avoid reaching a fair settlement with the victims of their actions.

French billionaires pocketed roughly $2 billion at the expense of American policyholders and are now dining on wine and brie, cruising the French Riviera in their fancy yachts and living in big mansions, while the American victims of this case are selling their homes and finding it hard to pay the bills and support their families on the crumbs thrown to them after the fall of Executive life.

Mr. Chairman, I am pleased to say that California has not sat back and ignored these allegations. The current Insurance Commissioner and his staff have been advocates for the more than 180,000 policyholders in California, and the more than 330,000 across the country who were the victims of the collapse of Executive Life.

In addition, the U.S. Attorney's office in California has been involved in the investigation – and by many accounts wants to bring this case to trial.

Earlier this year, my colleague from California Jerry Lewis and I sent letters to the U.S. Attorney General, California's U.S. Attorney Deborah Yang and to key leaders in Congress urging them to act on this case now. It has long been said that, "Justice delayed is justice denied." You have responded, Mr. Chairman, and I thank you.

But I am deeply disappointed to see that the Department of Justice has refused our invitation to be here today. It has been nearly two years since the U.S. Attorney's office in California is said to have asked for permission to bring this case to court and demand justice for the victims. Those who suffered – and are still suffering today – deserve to hear what their government is doing. Why is the Department of Justice ignoring their pleas? When will the people who suffered through Executive Life's collapse get their day in court?

Similarly, some of those representing the actual parties in the case have refused to tell us their side of the story. It is regrettable that they declined our invitations and the opportunity to explain why they did what they did, and why so many others were left holding the bag by their actions.

Mr. Chairman, I would again like to thank you for calling this hearing and for asking the tough questions. Someone needs to.

Mr. WAXMAN. Thank you very much.

The collapse of Executive Life Insurance Co., in 1991 is an important issue that deserves careful consideration by this committee, but I am confused by the last-minute timing of this hearing and the absence of key witnesses. It is unclear what this hearing will actually accomplish.

The collapse of Executive Life affected over 300,000 policyholders, many of whom lived in California. The hardest-hit policyholders were those people who relied on annuity payments for their living expenses. When Executive Life collapsed, these policyholders, many of whom were disabled, lost significant amounts of money.

For this reason, I wrote to Chairman Burton 6 months ago asking him to monitor this issue. According to press accounts, the Los Angeles Office of the U.S. Attorney's Office recommended in April 2001 that Credit Lyonnais be indicted. However, there were disturbing reports from The New York Times that the Justice Department might be negotiating a lenient settlement with the bank that would provide little restitution to policyholders. Concerns were also being raised about efforts by the French government to lobby President Bush and Secretary of State Powell, and the French bank had retained a close ally of President Bush to lobby the Justice Department. My letter requested that the committee look into these issues.

In addition, Representative Nancy Pelosi and Representative Howard Berman wrote to Attorney General Ashcroft to express their concerns about how the Justice Department was handling this matter. Republican Members, including Mr. Ose and Representative Jerry Lewis, had made similar requests. How the Justice Department is proceeding in this matter and whether the DOJ is being improperly influenced by political considerations are important issues falling squarely within the committee's jurisdiction. These issues need to be and can be examined in a bipartisan manner.

Unfortunately, I doubt whether that will happen today. Or at least I am worried about it. The key witnesses who can help us understand why the Justice Department is not taking action are not here. Plus, there is no indication that future hearings are planned into the Justice Department's failure to act.

Instead, the timing and focus of this hearing creates the impression that it is being held primarily to help a fellow named Gary Mendoza, who is the Republican candidate running against John Garamendi for Insurance Commissioner in California. Mr. Mendoza is trying to make an issue out of the fact that Mr. Garamendi presided over the sale of Executive Life in 1991. That election is only 26 days from today.

Now here are some interesting facts: According to several eyewitnesses, Mr. Mendoza told a group of insurance executives 2 weeks ago, well before this hearing was ever publicly announced, that a congressional committee would be investigating Mr. Garamendi's role in Executive Life. The Dow Jones Newswire is reporting today that the Republican staff is distributing to the media an old 1994 article critical of Mr. Garamendi.

There is little basis for insinuations about Mr. Garamendi's conduct. In the late 1980's the junk bond market was crashing. This

drove Executive Life into insolvency. As Insurance Commissioner, Mr. Garamendi directed that the junk bond portfolio held by Executive Life be sold as a means of protecting policyholders from further losses.

With 20/20 hindsight, it is easy to question this decision, since the junk bond market rose in the 1990's. But as millions of Americans at this moment are experiencing, there is nothing improper about being wrong on the direction of financial markets. How many people are wondering whether they should sell all their stocks and worry that, if they do so, stocks may be rebounding in a short period of time, God willing?

Some believe the reason we are holding this hearing is because Mr. Garamendi is in the middle of a political campaign. Since Mr. Garamendi can't be here, there could be an opportunity for political potshots. I hope that won't be the case. That would be unfair and wrong.

Ironically, this hearing runs the danger of actually hurting the policyholders of Executive Life. The California Insurance Commissioner is litigating a major civil fraud lawsuit against Credit Lyonnais right now. This lawsuit has a very real chance of recovering some of the over $2 billion that was fraudulently taken away from policyholders.

The majority has requested testimony from two lawyers in the Insurance Commissioner's office. They are here today, but have expressed their great reluctance to testify. These lawyers are legitimately concerned that their testimony might lock them into statements that Credit Lyonnais could use against them in court or that they might be forced to provide a road map of their legal case. Nevertheless, the majority has insisted that these lawyers testify.

So at the end of the day, here is what we have: We have a hearing that is not addressing the Justice Department's failure to prosecute Credit Lyonnais. We have a hearing that may be used for partisan political purposes to affect an election 26 days from now, and we have a hearing that could possibly damage the only chance for policyholders to recover any money. This is not how I would have approached this hearing. Nevertheless, if we are able to send a unified message to the Justice Department, some good can be accomplished.

It is important for the Justice Department to understand the loss being suffered by Mr. Bozeman, Ms. Jacobson, and other policyholders, and it is important for the Department to understand the urgency of Federal action to address their wrongs. I hope this committee will stand united in making that point to the Justice Department, who we presume will be monitoring this hearing, even though they are unwilling to testify.

Mr. BURTON. Would the gentleman yield to me just quickly?

Mr. WAXMAN. Certainly. I would be happy to yield.

Mr. BURTON. Mr. Waxman, my business before I came to Congress was insurance, all lines, including life insurance and pensions and things like that. This issue I was not aware of until recently, and I can assure you, and I give you my word, there is no political implication, as far as I am concerned, in this hearing.

I will tell you also that I will be happy, after the elections are over and after there are no more political problems to be dealt

with, that we will have the Justice Department over here to find out what they are doing, either in a public forum or a private forum. I will be happy to have you or some of your staff with us to find out what they are doing to get these funds back for these policyholders who have been really raped in my opinion.

So I just wanted to clarify that because you and I have had a pretty good working relationship, at least the last couple of years, and I hate to see that jeopardized by this.

Mr. WAXMAN. Thank you for your statement.

Mr. OSE. I thank the gentleman.

We come here today for this hearing, and there are any number of reasons why we should or shouldn't have a hearing. I mean there are Department of Justice contentions that they are in the middle of a negotiation. There is an attorney general who says they are in the middle of litigation. There are some who say we are in the middle or too close to an election.

But the fact of the matter is we have a recommendation from a deputy U.S. attorney which has had no action for a number of months. We have over 300,000 policyholders who for years have suffered losses. The time is now. It is as good a time as any. We can wait if you want, and we can continue to have our constituents and our fellow citizens hurt accordingly, but this is as good a time as any, because some are still seeking justice.

We have got lost retirement funds. We have lost settlements from injury judgments. We have other losses of investments that have left many Americans floundering following the fall of Executive Life.

This injury was compounded when it was found that the efforts to help the victims of this collapse instead left those policyholders holding the bag while others took the ELIC, the Executive Life Insurance Co., assets and fled the country.

More than a decade later, some of these victims have learned to live with their loss. Others still feel the pain from this loss every day. Two representatives of those folks are here with us today, and I look forward to their testimony and appreciate their willingness to share with us their knowledge and to help us in asking the question: When will we have a day in court?

Now how did this happen? How did thousands of Americans who thought their retirements and disability settlements were safe in the hands of a government-regulated insurance industry entity end up with cut benefits and no options? How did that happen?

In the 1980's the Executive Life Insurance Co. was a thriving business promising better returns and better benefits at a lower cost. They thought they would be able to achieve this promise because they had invested heavily in a new growth bond market. This market came to be known as the junk bond market, and many of those who relied upon it under the conditions just described ended up falling by the wayside in the early 1990's.

When the parent company of Executive Life ultimately became insolvent in 1991, the California Insurance Commissioner stepped in, took control of it, and placed it into receivership. While the Commissioner's mission was to protect the policyholders and rehabilitate the company, instead the decision was made to take what could be obtained in the short term by selling off the bond portfolio

separate from the rest of the package. This decision left the company so weakened as to require drastic cuts in benefits and led some publications to write articles in 1994 that were, frankly, not particularly flattering, accusing certain people of just having failed in their duty.

There is much more to this case, however. In the process of following up the insolvency and seizure, the Commissioner asked for bids to rehabilitate Executive Life for the purpose of taking care of its policyholders, and the Commissioner received a number of bids. One company asked to be allowed to cherrypick the best bonds in exchange for a cash payment. This company was advised by a gentleman named Leon Black, a former protegé and advisor to Michael Milken. Frankly, if anyone knew which bonds to pick and which were true junk, this was the guy.

The Commissioner agreed to this deal, despite this unusual characteristic. Now why he chose this option over the bids of the other companies that wanted the whole package is unclear. Frankly, it begs a question: When everyone recommends one action and you take another, why did you do it?

Even if this decision had proven to be the best, and there are still more elements that this committee needs to review, unbeknownst to almost anyone at the time, the company that bought the bonds from the Commissioner's Office was, in fact, a front company controlled under a series of agreements by a French bank known as Credit Lyonnais.

Credit Lyonnais was owned and controlled by the French government at the time of the transaction. It was illegal under both State and Federal law for Credit Lyonnais to purchase a U.S. insurance company. Fortunately, through documents provided by a former employee, we found out about this.

There is still more. The bonds that Credit Lyonnais acquired through these machinations performed well, as many market experts had predicted, and netted Credit Lyonnais a profit of over $2 billion. Now this past spring we read press accounts and hear stories here in Congress, and my good friend on my right, Mr. Waxman, and Mr. Berman and Ms. Pelosi, and others, and my good friend, Mr. Lewis, myself, and others heard that there was a proposed settlement coming down the pike in the neighborhood of $100 million, whereby Credit Lyonnais would be excused from any criminal penalty and allowed to retain their banking privileges here in the United States.

There are also accounts that the offer is now up to $500 million. Now $500 million, or $100 million or $500 million against $2 billion, that sounds like a pretty good deal for the people who perpetrated this scam, but, frankly, it is not a good deal for the policyholders.

Now the law says that when a fraud occurs, all the gains obtained through the fraud, whether subsequently legal or not, must be returned. On that basis, the State of California is currently seeking $6 billion in damages from the entity involved.

Does the involvement of the French government as owners of Credit Lyonnais complicate the matter? Well, you can be your own judge, but, frankly, anyone who commits fraud must be held accountable, and it doesn't matter whether it is a French government

or a U.S. Senator or a U.S. Member of Congress or a local banker. If the French were responsible for deceiving the American people, leaving the policyholders in the lurch, then they need to own up to the fact and take responsibility for their actions. It is appalling that we are seeing people work to delay this process and to avoid reaching a fair settlement with the victims for this act.

I wish Mr. Burton was still here; I would share with him that California has not sat back and ignored these allegations. The current Insurance Commissioner and his staff have been advocates for more than 180,000 policyholders in California and more than 300,000 across the country who were victims of the collapse of Executive Life.

As I said earlier, the U.S. Attorney's Office in California has been involved in this investigation, particularly a gentleman named Jeff Isaacs, who, by many accounts wants to bring this matter to trial.

As Mr. Waxman cited, there have been a number of letters to the U.S. Attorney General, to the U.S. attorney in Los Angeles, and to key leaders in Congress, including Mr. Burton, urging them to act on this case now. The chairman of this committee has responded, and for that we are appreciative.

Now we have invited a number of people here today, and some have declined our invitation, including the Department of Justice. That is very disappointing. As Mr. Waxman suggests, it would be nice to have the people here responding affirmatively to our invitations, so we can get to the bottom of this in this hearing instead of having a series of hearings. That would be helpful. However, if we have to have a series of hearings, we will do so.

Those who suffered and are still suffering today, two of whom are with us right now, deserve to hear what their government is doing. Why is the Department of Justice not responding to these pleas? When will the people who suffered through this collapse of Executive Life get their day in court?

With that, I am going to stop.

Now, as we do in this committee every time, we swear all of our witnesses in. So we are going to put you under oath. If you would please rise and raise your right hand?

[Witnesses sworn.]

Mr. OSE. Let the record show that the witnesses answered in the affirmative.

Mrs. Jacobson, you are recognized for an opening statement.

STATEMENTS OF DRU ANN JACOBSON, MALIBU, CA; AND ROBERT BOZEMAN, EVANSVILLE, IN

Ms. JACOBSON. Thank you. I am going to read this because I am nervous. I have never done this before.

My name is Dru Ann Jacobson. I am here to represent my mother, Ann Dixon, and my sister, Darian Andes Merrick, who were policyholders with Executive Life Insurance Co.

My primary reason for being here today is to put to rest misstatements made by Credit Lyonnais representatives that Executive Life Insurance policyholders did not suffer any losses. Equally misleading is former California Insurance Commissioner John Garamendi's statements that 97 percent of the policyholders were

made whole. When my mother and I and others met with California Attorney General Bill Lockyer earlier this year, he confirmed to us that investigations showed that the real losses in benefits to policyholders were more than $4.5 billion.

Let me briefly tell you how my family became involved with Executive Life and how our lives drastically changed. My mother is in a wheelchair and has been since she was in a 1979 auto accident for which the annuities were granted. My mother and sister were driving home in the Santa Monica mountains when they were hit head-on by an oncoming car. My mother tried to turn her car into the hillside as best she could to protect my sister, so she got the brunt of the impact.

The paramedics had to use the jaws of life to remove her and put her in a pressure suit while she was still on the road. She had no blood pressure and was considered dead for some seconds. She heard them say, "We lost her." Somehow she willed herself to live.

That night in the emergency room she had her right leg amputated below the knee while she was awake because they couldn't sedate her. She was in ICU for 3 months and in the hospital for another year. She endured seven surgeries that year. Almost all her bones in her lower body were broken, including her pelvis and hip. Her main artery was severed in her other leg and all the tendons and muscles were cut. Her leg healed slowly and had to be reset twice. She had a major head injury. She was literally scalped. It goes on and on.

Needless to say, the pain she has endured for the last 23 years is severe. She was a very beautiful woman before this, but her face was completely altered. She had been a wonderful mother, active in our schools and community. She had been a dancer, an athlete, and a bathing suit model. Her whole life changed in moments. Our whole family's life changed. My father couldn't take the fact that he no longer had a beautiful wife and left after the accident, leaving her to pay a pile of bills.

My sister, Darian, was seriously injured also. She was in a coma for 5 days with a massive head injury and broken bones. The doctors told me that she and my mother might not make it through that first night. She was in the midst of a promising modeling career and was about to start on a tour on the pro beach volleyball tour. Her future plans collapsed after the accident.

In time my mother and sister went to court and won a lawsuit. Their lawyers told them that the best company to put their money in was the AAA-rated Executive Life. Because my mother and sister would need ongoing care, a lifelong structured settlement annuity was thought to be the safest investment.

In 1991, without warning, we received a letter that Executive Life was being dissolved. We were in shock. The letter said that the payments would be cut, and the company was to be sold. It was like reliving the pain of the accident again, a punch in the stomach for my mother.

Her annuity payments were cut by approximately a third each month. Also, future bulk payments that she was to receive were cut. My mom has tried to hold onto our home for as long as we could, but we finally had to give it up, the home we had lived in

for 33 years. Executive Life was in the hands of the Insurance Commissioner for 3½ years while we twisted in the wind.

I became her sole caregiver and have continued to care for her for 23 years, while raising my own family. I need surgery soon for a condition that I developed from lifting my mom all these years. We can't afford to hire someone to care for her for the 3-months I will need to recover. First the accident, then the Executive Life mess has made all our lives very difficult. It is a constant worry that continues today.

Credit Lyonnais and Mr. Garamendi cannot tell the 160,000 life insurance policyholders and 15,000 annuitants that they were made whole, and you shouldn't allow them to tell that to the Justice Department either. We learned that a recent Pennsylvania high court decision stated that not one single Executive Life policyholder was made whole.

We ask you to use your powers to help 360,000 policyholders and their families receive justice. At our meetings as policyholders when this first happened, we were struck that so many of them were of the generations that served their country in World War II and Korea. They thought they were making safe, prudent plans to protect their loved ones, and they trusted these companies to uphold our laws.

Concerning Credit Lyonnais, we will be shocked if a foreign government is allowed to plot and scheme to evade State law. It has been explained to us that, as a result of the Foreign Sovereign Act, when this French-owned bank lied to State officials and made false and misleading statements in State court, vindication rests with the Federal judicial system and the Justice Department.

We are alarmed that the Justice Department has not acted against Credit Lyonnais since they learned of the side agreements that the French signed that broke our laws. Please understand that we believe that if there are no indictments against them, the only proper action should be based on complete disgorgement of all profits and a penalty. Please understand how much money is involved here. $100 million would represent only 1 percent of the policy value of each policyholder. Our loss is enormous.

Finally, we regret that the Justice Department has not investigated former Insurance Commissioner John Garamendi's role. To begin with, why did Mr. Garamendi charge the policyholders millions of dollars for consulting fees of top investment bankers to set a value on Executive Life's junk bonds when he never disclosed any of their findings? This enabled him to tell the court that he hadn't known the value of the bonds and to sell them to Credit Lyonnais and Leon Black at fire sale prices. What ever happened to a report that his own staff completed that set a value to the bonds but was never made public? Mr. Garamendi's actions beg for a thorough examination.

Executive Life is a scandal that hurt lots of people like my mother, my sister, and myself. There were 360,000 policyholders from nearly every State. We have an opportunity for justice, even at this late date. We need your help.

Thank you very much.

[The prepared statement of Ms. Jacobson follows:]

Testimony: October 10, 2002
Dru Ann Jacobson

Malibu, California

My name is Dru Ann Jacobson. I'm here to represent my mother, Ann Dixon, and my sister Darian Andes Merrick, who were policyholders with Executive Life Insurance Co.

My primary reason for being here today is to put to rest misstatements made by Credit Lyonnais representatives that Executive Life Insurance policyholders did not suffer any losses. Equally misleading is former California Insurance Commissioner John Garamendi's statements that 97% of the policyholders were made whole. When my mother and I and others met with California Attorney General Bill. Lockyer earlier this year, he confirmed to us that his investigation showed that the real losses in benefits to policyholders ~~was~~ were more than 4 ½ billion dollars.

Let me briefly tell you how my family became involved with Executive Life and how our lives drastically changed. My mother is in a wheelchair and has been since she was in a 1979 auto accident for which the annuities were granted. My mother and sister were driving home in the Santa Monica Mountains when they were hit head on by an oncoming car. My mother tried to turn her car into the hillside as best she could to protect my sister, so she got the brunt of the impact. The paramedics had to use the jaws of life to remove her and put her in a pressure suit while she was still on the road. She had no blood pressure and was considered dead for some seconds. She heard them say, "We lost her." Somehow she willed herself to live. That night in the emergency room, she had her right leg amputated below the knee while she was awake, because they couldn't sedate her. She was in ICU for 3 months and in the hospital for another year. She endured seven surgeries that year: almost all her bones in her lower body were broken,

including her pelvis and hip. Her main artery was severed in one leg and all the tendons and muscles were cut. Her leg healed slowly and had to be reset twice. She had a major head injury. She was literally scalped. It goes on and on. Needless to say the pain she has endured for the last 23 years is severe. She was a very beautiful woman before this, but her face was completely altered. She was a wonderful mother, active in our schools and community. She had been a dancer, an athlete, and a bathing suit model. Her whole life changed in moments. My father couldn't take the fact that he no longer had a beautiful wife and left after the accident, leaving her to pay a pile of bills.

My sister, Darian, was seriously injured also. She was in a coma for 5 days with a massive head injury and broken bones. The doctors told me that she and my mother might not make it through that first night. She was in the midst of a promising modeling career and was about to start a tour on the pro beach volleyball tour. Her future plans collapsed after the accident.

In time my mother and sister went to court and won a lawsuit. Their lawyers told them that the best company to put their money in was the AAA-rated Executive Life. Because my mother and sister would need ongoing care, a lifelong structured settlement annuity was thought to be the safest investment.

In 1991, without warning, we received a letter that Executive Life was being dissolved. We were in shock. The letter said that the payments would be cut, and the company was to be sold. It was like reliving the pain of the accident again, a punch in the stomach for my mother.

Her annuity payments were cut by approximately 1/3rd each month. Also, future bulk payments that she was to receive were cut. Mother tried to hang on to her home for a couple of

years, but finally had to give up the home she'd lived in for 33 years. Executive Life was in the hands of the Insurance Commissioner for 3 ½ years, while we twisted in the wind.

I became her sole caregiver and have continued to care for her for 23 years, while raising my own family. I need surgery soon for a condition that I developed from lifting my mother all these years. We can't afford to hire someone to care for her for the 3 months I will need to recover. First the accident, then the Executive Life mess has made all our lives very difficult. It's a constant worry that continues today.

My mother is too ill to travel to speak today for herself and others in her situation. We are still actively involved with other policyholders, and we've gotten to know the impact of this on others' lives also. I've brought along a recent Los Angeles Times article that describes how the policyholders have fared since Executive Life was sold.

You'll read about Katie Watson from Phoenix, a structured settlement annuitant who was brain-damaged in a hospital accident when she was 20 months old. Her parents continue to care for her at home – a 20 year old with the brain function of a 20 month old child, unable to do anything for herself. Her monthly annuity payments were reduced by more than 50%, as were many others. Her parents built a house around Katie's special needs which they lost in foreclosure after Executive Life was seized.

There are whole life insurance policyholders with plans ruined that would have provided for their families in the event of their death. If Heidi Wilson of Northern California were here today, she'd tell you how her husband's premiums were increased so much that they were about to surrender the policy. While Executive Life was in conservation, her husband was diagnosed with leukemia. Heidi had M.S.and she had children to raise. When she called Aurora, the successor insurance company, she was told that they assumed that everyone that stayed with

Aurora was uninsurable and they were given the largest premium increases possible. Heidi's agent felt terrible for them and stepped in and made the payments for them. Heidi's husband died shortly thereafter.

Credit Lyonnais and Mr. Garamendi cannot tell the 160,000 life insurance policyholders and 15,000 annuitants that they were made whole. And you shouldn't allow them to tell that to the Justice Department either. We learned that a recent Pennsylvania high court decision stated that not one single Executive Life policyholder was made whole.

We ask you to use your powers to help 360,000 policyholders and their families receive justice. At our meetings with policyholders when this first happened, we were struck that so many of them were of the generations that served their country in World War II and Korea. They thought they were making safe, prudent plans to protect their loved ones, and they trusted these companies to uphold our laws.

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We regret that the Justice Department seems to have limited its investigation to French defendants. We strongly believe that Credit Lyonnais's partner in profit, Leon Black, formerly with Drexel, should be investigated also. The California Attorney General alleged that Mr. Black had a secret deal to receive a huge profit from the sale of the insurance policies to Aurora. This was not disclosed to the California Department of Insurance. This was in a lawsuit filed this year by the California Attorney General. Unfortunately, the Court found that the Department of Insurance is the only entity that should represent policyholders in this case. I say unfortunately because the Department of Insurance gave a release to Mr. Black, who the Attorney General considered an "equity partner" in this deal. The California Attorney General's case is on appeal.

Finally, we regret that the Justice Department has not investigated former Insurance Commissioner John Garamendi's role. To begin with, why did Mr. Garamendi charge the policyholders millions of dollars for consulting fees with top investment bankers to set a value on Executive Lifes's junk bonds, when he never disclosed any of their findings. This enabled him to tell the court that he ~~didn't~~ hadn't known the value of the bonds and to sell them to Credit Lyonnais and Leon Black at fire sale prices. What ever happened to a report that his own staff completed that set a value to the bonds but was never made public? Mr. Garamendi's actions beg for a thorough examination.

Executive Life is a scandal that hurt lots of people like my mother, my sister, and myself. There were 360,000 policyholders from nearly every state. We have an opportunity for justice, even at this late date. We need your help.

Thank you for allowing me to appear before you today.

Mr. OSE. Thank you, Mrs. Jacobson.

Mr. Bozeman.

Mr. BOZEMAN. Mr. Chairman, members of the committee, I would like to thank you for finally getting a chance to complain to somebody that might be able to do something about it. I have been telling this story for years, mostly to people who really couldn't help.

My name is Bob Bozeman. I live in Evansville, Indiana. I am 63 years old. In 1962, I went to work for the L and N Railroad, part of the CSX now; I don't know what they call it. It was a pretty good job, and I also had a union job. In addition to the railroad, I was local chairman and represented brakemen and conductors. Some crafts call it union steward, whatever you want to call it.

So during the years I was involved in several derailments. It is almost like a fighter. I don't know if it was one punch that got me or it was that last one, but, anyway, the last injury I ended up with three back surgeries. I was in the hospital all summer long, 87 days. When it was all over, their doctors, the company doctors, that is, and my doctors both agreed that I couldn't do this job anymore. So they wouldn't, I don't think, in my opinion, be reasonable.

I had to hire an attorney and sue them. After 5 years of litigation and a trial where we were awarded a nice award—of course, during the appeal process that got reduced, not by the court but by my own attorneys. I think they got a little scared unnecessarily. But, anyway, we settled.

I could have taken the money up front, but I opted for the structured settlement because I am not smart enough to go out here in this high finance world and do my own investing. I would have probably have been broke in a couple of years. I have seen it happen.

So I told them, "Get me the most secure, safe-type product that you can because I'm not some wealthy guy trying to supplement his income. This is my income."

So it ended up I was supposed to receive $2,000 a month, and things went along pretty well from 1985 to 1991. Then, all of a sudden, this thing happens to a company that was supposed to be risk-free and rated very highly and all of that, and I'm notified that I will be receiving $1,300 a month instead of $2,000. Well, this went on for a year or two, and then, finally, after the so-called restructuring of this company, they changed that to $1,455 a month.

I went to a lot of people with this problem. I talked to my law firm, of course. I went back to them. They were supposedly friends of mine, not just lawyer-client-type relationship; they were supposed to be friends of mine. I, with this union job, had thrown them quite a bit of business. When some of the guys would get hurt, I would recommend them. They were not able to help me.

I went to the AARP and talked to their legal staff. The same thing, they sympathized but they were no help either. I went to two international presidents of the union, Tom Dubose and Charlie Little. I haven't talked to Mr. Boyd yet, the new guy, but I don't think I will bother to do that.

Of course, I went back to the railroad. They flat refused. They were not embarrassed to tell me that I had already signed a re-

lease, and that was my one and only shot I was going to get at them.

I called and talked to former Congressman Frank McCloskey. I think Frank really tried to help me, but he was unable to do so. I have talked to his successor a couple of times, John Hostettler; the same thing.

Somebody said, "Call John Dingell." I did that and never got any response from Mr. Dingell. I don't know what happened, breakdown in communications or what.

I even talked to the White House, and I got a letter back that says, "Sorry, but the Railroad Retirement Board doesn't feel responsible." Well, whoever this guy was that I was talking to apparently didn't understand. My problem was not with the Railroad Retirement Board; it was with this insurance company, and he was too dumb, I think, to realize what I was trying to explain to him. So I forgot about that.

I've got reams of correspondence, as you might expect, from this thing and years of anxiety and grief. My whole family has suffered, not just me. Our lifestyle has been lowered to a great extent. We have not been able to do many things that we were planning to do. If we don't get some relief, we never will be able to.

Now I'm sorry if I am coming across a little bit like I am bitter, because I am bitter. I'm madder than hell. It is unfair, and it seems like maybe this is the first opportunity somebody will listen and do something about it, I hope.

Thank you.

Mr. OSE. Thank you, Mr. Bozeman.

I want to make sure the witnesses understand that Members on both sides of the aisle welcome their participation today. We are grateful for the time you have both taken to come to Washington to testify.

We do have a number of questions. The way this proceeds is that I will take 5 minutes, then Mr. Waxman will have 5 minutes. Then we will come back over here, and it just goes back and forth like so.

So now I am going to ask both of you a series of questions. If you don't know the answer, just say, "I don't know." It is not a problem.

So, Mrs. Jacobson, when did you or your family buy your Executive Life annuity?

Ms. JACOBSON. Between 1986 and 1989. The lawsuit was over, I think it settled in 1986, and within that time.

Mr. OSE. OK, so late eighties?

Ms. JACOBSON. Late eighties.

Mr. OSE. Mr. Bozeman, how about you?

Mr. BOZEMAN. I guess it was 1985. That is when the lawsuit was finally settled, and it must have been right at the first of the year, 1985.

Mr. OSE. Now, Mrs. Jacobson, at the time you bought your annuity, do you recall the rating that was given to Executive Life? Was it a highly rated?

Ms. JACOBSON. It was the highest-rated, four-star, triple-A by Standard and Poors. I think those are the rating systems. It was the highest-rated one because we asked our lawyers, "Look for the

best one," when they suggested we do this structured. I was young at the time, so I can't remember all the—but I know it was the highest-rated one at the time.

Mr. OSE. OK. Mr. Bozeman?

Mr. BOZEMAN. The same thing. Like I told you a while ago, I am not familiar with the world of high finance, but something about A-plus. Then, as it turns out, I find out later that's not so hot. You need really to have triple A-plus, and I don't remember for sure just how they were rated, but my attorneys and everybody involved assured me this was a safe——

Mr. OSE. OK, and that as in the mid-eighties?

Mr. BOZEMAN. Sir?

Mr. OSE. That was in the mid-eighties in your case and the latter part of the eighties in Ms. Jacobson's case?

Ms. JACOBSON. The latter part of the eighties, yes.

Mr. BOZEMAN. That is right.

Mr. OSE. OK. Was there any discussion at the time you bought these annuities that you are aware of having to do with any problems that might exist at Executive Life?

Ms. JACOBSON. No.

Mr. BOZEMAN. No. In fact, I find out later, through newspaper articles and, like you say, there wasn't much about it for a while, but as it turns out, it looks like Executive Life was in trouble as far back as 1983, and that is why I couldn't understand why somebody didn't know this.

Mr. OSE. Now after you found out about the collapse and sale of the company, did you contact anyone at Executive Life, Ms. Jacobson?

Ms. JACOBSON. Tried to. You couldn't get a phone call through at all. I mean, you just couldn't touch—through our lawyers; you just couldn't get through to anybody. We just got letters. Then we would call; they would say it is in conservation, and they would make us call somewhere else. Then they would say, "No, call here." You would just get little middlemen that couldn't give you any answers.

Mr. OSE. Did you call the company?

Ms. JACOBSON. Yes.

Mr. OSE. Or did you call somebody else?

Ms. JACOBSON. Yes, but they cut the company number off immediately and gave you a special number to call, and that special number always had some little person on it that didn't know any——

Mr. OSE. Do you recall who that, "little person" worked for?

Ms. JACOBSON. Oh, I don't remember that. Oh, no, it was like a secretary-type person type-thing. They would just say, "Office of Conservation of Executive Life."

Mr. OSE. OK.

Ms. JACOBSON. The main numbers that we had on all our policies. Were totally non-functional after it dissolved. So you couldn't talk to anybody to find out personally what was going on.

Mr. OSE. Mr. Bozeman, what was your experience in that regard?

Mr. BOZEMAN. Yes, sir, I was able to get through, and I've got some names at home of people that I had spoken with periodically

about the problem. They were sympathetic over the phone and everything, but there was something that really scared me. They changed the policy number. I thought that is kind of unusual, but what are you going to do? You accept this over the phone and hope that the check keeps coming and let it go.

Mr. OSE. OK. Mrs. Jacobson, do you recall, the folks or the person that you might have spoken with, do you recall if they did anything other than say, well, a conservator is working on this or was there any definitive report?

Ms. JACOBSON. No.

Mr. OSE. OK.

Ms. JACOBSON. It was roundabout. I was much younger at the time, and my mom tried to take a lot of the calls at that point. So I can't really answer exactly what they said, but it was very hard to find out information and to see if we were still going to get our checks.

Mr. OSE. Now, Mr. Bozeman, you had the ability or you actually got through on a couple of occasions?

Mr. BOZEMAN. Yes, and some of the problems that concerned me, of course, was like my original contract stated that I was to receive this check on or before the 9th of each month, and if it didn't show up—and I actually got a check in the mail. I didn't have this direct deposit or any of that. Maybe it wasn't even available back then; I don't know.

But, anyway, when the check was late, I would get concerned, and it was late several times. And I thought, well, you know, I would get on the phone and I would call everybody. I would say, "Did they go completely under? I am not even going to get the $1,300 now I guess." Finally, it would show up, and they would always have some lame alibi, excuse, for why it was late. All it did was irritate you even more, you know.

I am glad I didn't live any closer to California than I did or I might have got in my car and went over there personally, and then I'd be in the damned jail, I guess. [Laughter.]

Ms. JACOBSON. I did drive there once because it was late. During that first few years they were late all the time.

Mr. OSE. We are going to come back on these questions. My time has expired.

Ms. JACOBSON. OK. Thank you very much.

Mr. OSE. I am going to recognize Mr. Waxman for 5 minutes.

Mr. WAXMAN. Thank you very much, Mr. Chairman.

I think what has happened to you is absolutely unconscionable. You've got nothing but a runaround. You bought this insurance with the expectation that it was going to pay. That is what you bargained for. Then this whole business starts falling apart because they go and invest in junk bonds.

It is sort of like what you see happening now where these corporations have gone over the cliff because they went into these investments that didn't make sense. But there they were actually doing more obvious fraud of creating debts, of hiding them, and all of that.

But, from your point of view, you really have not been treated properly. Congresswoman Pelosi and Congressman Howard Berman and Representative Jerry Lewis, all of us have written asking

for this hearing to try to do something because we are worried about the Justice Department.

This is now in the hands of the Justice Department. Have either of you ever been contacted by the Justice Department?

Ms. JACOBSON. No.

Mr. BOZEMAN. No, sir.

Mr. WAXMAN. Have either of you ever been contacted by the State Department?

Mr. BOZEMAN. No, sir.

Ms. JACOBSON. No.

Mr. WAXMAN. Well, we are hearing that the Justice Department is under pressure, and they have hired a lobbyist who is very close to the Bush administration and he is trying to get them to settle this thing and not bring criminal indictments. The State Department is hearing from France, where the President of France is standing up for his company. What we need is American government to stand up for you.

Ms. JACOBSON. Yes.

Mr. BOZEMAN. That just adds insult to injuries, too, sir, because like this thing was transferred to a foreign—we're foreign investors now, I guess. It sounds important, but it had to be—given a choice, most people wouldn't invest in a foreign company. There's too many good companies right here. That's another thing.

Mr. WAXMAN. Well, not only that, they weren't being on the level about it. They were hiding the fact that they were violating the law by being a foreign investor in insurance when they weren't, as I understand it anyway, permitted to do that. So they created these front groups.

Ms. JACOBSON. And we weren't given much choice either.

Mr. WAXMAN. No.

Mr. BOZEMAN. No, no choice. No choice. You just get a letter.

Ms. JACOBSON. You just get a letter.

Mr. WAXMAN. Well, look, I want to tell you that I share your outrage. I can't even begin to experience how you must feel. As far as I am concerned, I am going to work with my colleagues on this committee and in the House not to let the Justice Department let this thing slide by and not to let others just figure it is over, because it shouldn't be over.

We want justice to be done. If people have engaged in criminal behavior, they ought to be prosecuted. If there is a civil case, as we hope the California Insurance Commission is able to bring successfully, then they ought to be able to get money back for you. I want to just express my feelings for you.

I have to leave and won't be here for the other questions. Well, we don't have too many other Members here, but I think both of my colleagues have further questions. On the House floor we are debating the Iraq resolution, and I have to get over there before that debate ends to get my statement in.

But thank you for the long trip you took to come from California, a little bit shorter from Indiana.

Mr. BOZEMAN. Not too bad.

Mr. WAXMAN. But both of you for being here, I thank you so much.

Mr. BOZEMAN. Could I ask a question before you leave?

Mr. WAXMAN. Sure.

Mr. BOZEMAN. I saw where, in the paper the other day on this Enron thing, they were going to have to pay a fine to the Securities and Exchange Commission. They don't need the money. Why don't they give that money to the people who lost it, the investors? That seems confusing to me.

Mr. WAXMAN. Well, it is confusing. I wrote to a number of people involved in Enron and some of these other corporations that, as far as I was concerned, these executives came out quite well, and they claim they didn't do anything wrong. But they don't deserve walking away with hundreds of millions of dollars while their employees and their investors have their financial security yanked out from under them. I have just written to them and said there is a moral obligation here to help those who were left with nothing. So far I haven't gotten a good response because nobody wants to give up anything.

But if we do talk about higher standards we expect people to live up to, certainly some of these corporate wrongdoers or corporate executives, even though they claim they didn't do anything wrong, some of whom are in the government, have an obligation to give some of that money to those who have been treated so poorly.

Thank you very much. Thank you, Mr. Chairman.

Mr. OSE. I thank my friend.

Ms. Watson, for 5 minutes.

Ms. WATSON. Thank you, Mr. Chairman, and I would like to thank our two witnesses for coming forth.

I served in the California legislature for 20 years. We had some difficulty with insurance companies in California. That is the reason why I was there when we established the Commission on Insurance. Over the years we have had different Commissioners and we have had some problems.

One of the things we were really stressing is that we should have the insurance companies open up their actuarial portfolios, because what they do is they make these investments, as you have mentioned, in junk bonds and abroad, foolish investments. And who are the losers? So, accumulatively, they had to go out of business because they made bad investments, and you are the ones that are suffering from it now.

As I understand, the conservator expects that from the liquidation that there will be money there to pay off the policyholders, but not at the amount that you expected when you bought that policy. I would hope that the Department of Justice here would look into this issue nationally, and I would hope, with the falling stock market and with corporate corruption, as we are seeing played out today, that the Justice Department will feel it is their obligation to follow through and will contact you.

But just understand there are people like Mr. Waxman and other Members, too, who feel this is a real issue. That is why you are here. We are not going to let it go. We are going to sit on top of it.

I am certainly going to be working with our new Insurance Commissioner in the State of California. As you know, we have introduced a lot of laws that oversee how the insurance corporations do business in the State of California. We hope that we can take some

of that policy and make it national policy. We are on your side, and we are going to stay on this until you are treated fairly.

Thank you so much, Mr. Chairman.

Mr. OSE. I thank the gentlelady from California.

Ms. Jacobson, when you found out about the sale of Executive Life, I think your testimony was you received a letter in the mail.

Ms. JACOBSON. Yes.

Mr. OSE. When you found out about the sale of Executive Life, did you think your annuity payments would be reduced?

Ms. JACOBSON. I can't quite remember what the wording was. They said there was going to be some reductions, but didn't know what at the time, something like that. Then they wrote another letter back saying they are going to be reduced by, as my mom's was, about 30 percent. And then there was nothing we could do about it. I mean, we couldn't question it or anything. It was just——

Mr. OSE. Did you call at that point? Do you recall?

Ms. JACOBSON. We were calling constantly.

Mr. OSE. OK. To complain and otherwise about such a cut?

Ms. JACOBSON. Yes. Then when it was sold, we would call the Aurora people constantly and never really talked to anybody.

Mr. OSE. But prior to the settlement of the estate, your calls to the Insurance Commissioner and the like regarding the proposed settlement——

Ms. JACOBSON. Excuse me? Repeat that? I'm sorry.

Mr. OSE. Did you know the terms of the proposed settlement?

Ms. JACOBSON. I just knew our money amount, looking at our letters that we had had from our——

Mr. OSE. OK. So you received a letter before the fact saying that your monthly payment was going to be reduced by about 30 percent?

Ms. JACOBSON. Well, no—I wish I could—I can't really answer that totally because I was younger at the time. They just said it was going to be cut in the beginning. They didn't know what was going to happen.

Mr. OSE. OK. Then you received a subsequent letter saying that it was going to be reduced by this amount?

Ms. JACOBSON. Yes.

Mr. OSE. OK. So, presumably, I would think that would have come after the deal had been struck.

Ms. JACOBSON. That was after the deal was struck. I guess that was after the Aurora. I am not good at this part——

Mr. OSE. OK.

Ms. JACOBSON [continuing]. Knowing all the details. I am not very good at this. I'm sorry.

Mr. OSE. All right.

Ms. JACOBSON. It was a shock. The whole thing was such a shock at the time anyway.

Mr. OSE. And you did call and register your obvious——

Ms. JACOBSON. Oh, very many times, yes.

Mr. OSE [continuing]. Outrage that, "Why am I getting punished?"

Ms. JACOBSON. We called Mr. Garamendi's office. We called Executive Life. We called everybody possible at the time during the transfer.

Mr. OSE. OK. Mr. Bozeman, did you think your annuity payments were going to be reduced?

Mr. BOZEMAN. I was pretty sure they would be. Nobody said for sure, but they were, and then there was some correspondence and some conversations that led me to believe that maybe in time they would get it back to where it belonged, but, of course, that never happened and it's not going to.

Mr. OSE. OK. Now, Mrs. Jacobson, is your annuity payment your only source of income?

Ms. JACOBSON. My mother's, yes.

Mr. OSE. Yes, OK. And, Mr. Bozeman, you testified earlier that this was your sole source of income.

Mr. BOZEMAN. Well, I've got a pension from the railroad, but it is greatly reduced because I quit early.

Mr. OSE. OK.

Mr. BOZEMAN. My wife is not even eligible for her part of that yet. So when you take into account the reduction from both of those, plus you lose some of your benefits like health insurance—I'm paying $500 a month health insurance. People are supposed to get increases with the cost of living when they get old, not cuts, but that's what has happened.

Mr. OSE. Mrs. Jacobson, your mother's annuity payment in the early eighties was how much?

Ms. JACOBSON. When the settlement was made, after the court it was—oh, dear——

Mr. OSE. What I am trying to do is figure out how much it was before and after.

Ms. JACOBSON. I know. Those first years it was about the same. It was about $1,800, and then it was supposed to go, as far as the lawyer, the deal, the settlement thing, it was supposed to go up another thousand about 2 years after it started. They were giving an increase 1½ to 2 years later. So we had just gotten that increase to $3,000 when this all happened. Then it was cut. Now she is getting $1,900 a month rather than the $3,000.

Mr. OSE. So in the mid-eighties you were getting——

Ms. JACOBSON. When we first got it, when we first went with Executive Life, it was $1,900. It was supposed to increase to $3,000 within a year because of something in the lawsuit, the way they set the structure.

Mr. OSE. OK.

Ms. JACOBSON. But it had just increased to that $3,000 when it fell apart.

Mr. OSE. And now you are receiving how much?

Ms. JACOBSON. We are back down to the $1,900 instead of what she was supposed to be getting.

Mr. OSE. Mr. Bozeman, your original annuity was scheduled to be what?

Mr. BOZEMAN. $2,000.

Mr. OSE. And then it fell to $1,300?

Mr. BOZEMAN. For about a year, and then they sold some more property or something, and they got it up to $1,455, and that's what it is now.

Mr. OSE. How long has it been at $1,455?

Mr. BOZEMAN. Oh, probably 5 or 6 years anyway.

Mr. OSE. OK. So it is a fixed amount? There is no inflation adjustment?

Mr. BOZEMAN. They notified me that would be it; there would be no more changes.

Mr. OSE. All right. Now, Mrs. Jacobson, when you went from $3,000 down to $1,900, I mean, that is a heck of a hit.

Ms. JACOBSON. Yes.

Mr. OSE. It is over 33 percent. How did that change your lifestyle?

Ms. JACOBSON. Well, like I said in my statement, we have been trying for years to hang onto our house we grew up in. We refinanced. You know, you keep mortgaging and mortgaging to help bring in some extra income, and we finally did it so far we couldn't do it anymore. So we had to sell it, and now my mom is living in a mobile home. That was a big—that was our home. That was a huge blow to her, and that just happened a couple of years ago. We tried as long as we could to keep hanging on.

Even though it doesn't sound like much, $1,000 a month means a lot to us that was a lot. It helped with the mortgage and everything else. Now we are still struggling, and it is hard, especially when you have been injured so badly.

And she is getting older now, and she needs more care, and I am not physically doing well to do it as much as I always have. If we have to bring somebody else in, we are really in trouble. I can't even get her in and out of the car anymore. It is getting really hard on us because she can't do any lifting herself. So we need to get a van that I can roll her into, but insurance doesn't pay for any of that, and we just don't have the money for that right now. So it is getting much more difficult.

Mr. OSE. Mr. Bozeman, how about you? You went from $2,000 down to $1,300. You are back to $1,455. How did that affect your lifestyle?

Mr. BOZEMAN. Well, it impacts you quite a bit. I mean, you drive old, beat-up cars when you would like to trade. There's a lot of things around the house we wanted to do, remodeling, and this and that and the other, and we put it all off. We haven't been able to do much of anything but just exist with the income we've got now.

I had a grandson, like I told you, that was living with me. I wanted to do a lot of things for him that I wasn't able to do. I wanted to put him in college for one thing. I couldn't do it.

So it's changed our—lowered our lifestyle considerably.

Mr. OSE. I am going to ask you a hindsight question, and I apologize for doing this, but I need to get your input here. Now if you had the opportunity, if you had just received your settlement, would you buy an annuity again? How would you handle your future needs?

Ms. JACOBSON. I don't know. That is hard to say. I don't think I would want to buy an annuity again or I don't think my mother would and try to manage it ourselves. I can't really answer that for her. But after going through this, I don't think I would ever want to be with an insurance company again.

Mr. OSE. Mr. Bozeman?

Mr. BOZEMAN. Hindsight, 20/20? Sure, if I knew then what I know now—well, just last night on the news I heard a guy who re-

tired from Merrill Lynch and he was able to be honest for a change. They asked him the same question: "What would you do if you had some money and you wanted to invest it?" He said, "I'd put it in a glass jar and bury it in the backyard." The man said, "The reason I specify glass jar is because somebody with a magnet couldn't find it."

I don't know of anything that is safe, Mr. Ose. I would probably take the lump sum and, hopefully, put it into something that would have been safe and hope for the best. You know, you couldn't live off of it, but I sure wouldn't have bought an annuity with Executive Life or probably no other insurance company, because they tell you, "Well, this has never happened." It happened once to a company named Baldwin International, but those people ended up never losing a dime. Well, they did at Executive Life.

Mr. OSE. I have one final question. Those buzzers you heard were for a vote. So we are going to take this final question. Then we are going to recess.

Mrs. Jacobson, if we are able, either through the Department of Justice or the attorney general's action out in California to have a financial recovery, what should the proceeds be used for?

Ms. JACOBSON. To pay back the people up to their 100 percent—they have lost so much—at least. It is not a compensation, but at least go back to what their original policies were. I think they should give a retroactive payment to make up for all these years they have lost to struggling. It has been terrible.

It has really affected our whole family horridly because I couldn't go out and get a job because I had to help my mom. I need to be with her 24 hours plus my children, and we are all struggling to get by. I mean, we live in Malibu, but we live in a mobile home. Our house we had before, our old ranchhouse that we lived in for 30 years had to be sold.

Mr. OSE. So there would be a catch-up portion of any such payment?

Ms. JACOBSON. I would think it would be nice to have a catch-up portion to what they have taken from us.

Mr. OSE. All right.

Ms. JACOBSON. Plus, go back to our 100. I mean, I am not trying to be greedy, but it would be nice to be able to buy a car——

Mr. OSE. I understand.

Ms. JACOBSON [continuing]. For my mom, you know, to lift in it, to get something that we could feel like we could relax a little bit. It has been on pins and needles for all these years. It would be nice to be able to know you had something so you could just say, "Well, now we can take a breath."

Mr. OSE. OK. Mr. Bozeman?

Mr. BOZEMAN. Basically, the same thing. I think they should reimburse us for what we have already lost and then put us back to where we were originally. If there is any way possible to get some punitive damages, they should do that as well for the 11 or 12 years we have already suffered.

You know, it is like putting a guy in jail sometime and find out he is innocent. How do you pay him back? So, yes, I mean, that is the way I feel about it. At least put us back the way we were.

Ms. JACOBSON. Yes.

Mr. OSE. OK. I want to repeat or reiterate that the members of this committee are thankful and grateful that you both took the time to come down and testify.

I will tell you that what generated this hearing, and what we are going to talk about with the second panel, is far more technical in terms of where we go from here, what is the Attorney General doing; what is the Insurance Commissioner doing, etc.

I always think when you sit as a Member of Congress oftentimes you get insulated; it is helpful to talk to real people about real life, and I am grateful for you coming down here.

Mr. BOZEMAN. Well, the only sympathy and the only real help that I've got all these years was from the National Structured Settlement Trade Association. They have been informative. They have been knowledgeable, and they have reassured me and kept me abreast of how things are going, and they still are. I talk with them on a regular basis. If it wouldn't have been for them, I guess I would still be calling out there to California trying to talk to the morons at Aurora and Executive Life.

Ms. JACOBSON. Which you can't get through to anyway.

Mr. BOZEMAN. Well, yes, that's right, usually you couldn't get through anyway.

Mr. OSE. All right. Well, thank you for coming.

Ms. JACOBSON. Thank you.

Mr. BOZEMAN. Thank you.

Mr. OSE. The committee is going to go in recess. I have to go over and vote. We will be back at 12:40.

If we could, I would like to have the second panel, comprised of Mr. James Corcoran, Mr. Steven Green, and Mr. Harry LeVine, front and center when we get back.

[Recess.]

Mr. OSE. The committee will reconvene.

All right, as you heard in the first panel, we routinely swear in our witnesses. So, gentlemen, if you would rise, please.

[Witnesses sworn.]

Let the record show the witnesses answered in the affirmative. Please be seated.

Joining us on the second panel in order we have Mr. James P. Corcoran, who is the former New York State Insurance Commissioner; we have Mr. Steven J. Green, who is the Deputy Insurance Commissioner and Chief Counsel to the California Department of Insurance, and we have Mr. Harry LeVine, who is Special Counsel to the Commissioner at the California Department of Insurance.

As we did in the first panel, we are going from my left to my right with the statements. Mr. Corcoran, you are recognized for 5 minutes. Would you please turn on your microphone there, though?

STATEMENTS OF JAMES P. CORCORAN, FORMER INSURANCE COMMISSIONER, STATE OF NEW YORK; STEVEN J. GREEN, DEPUTY INSURANCE COMMISSIONER AND CHIEF COUNSEL, CALIFORNIA DEPARTMENT OF INSURANCE; AND HARRY LE VINE, SPECIAL COUNSEL TO THE COMMISSIONER, CALIFORNIA DEPARTMENT OF INSURANCE

Mr. CORCORAN. Yes, thank you very much. I have already submitted to the committee a copy of the testimony that I gave in 1987 before Congress on this issue.

Maybe I can review quickly with the committee and with you some of the history behind why New York State in 1987 we put a cap on the ability of domestic license life insurance companies to purchase junk bonds. The reasoning and rationale is contained in great depth in the copy of the testimony which I have already provided to the committee, but let me sum it up quickly.

In 1985 the New York State Insurance Department began formulating a plan to place limitations on junk bond holdings. At that time the issue was really brought to our attention because of the structured settlement market, and we became aware of what was occurring with Pacific Lumber Co., where the key concerns that I had were, of course, and you will see in the testimony, some editorials by The New York Times. I was being urged by various individuals and also associations to make sure that companies that had excessive amounts of junk bonds in their portfolio not be allowed to do the structured settlement business and that was a serious concern on my part.

We had had a medical malpractice crisis in New York State. One of the solutions to that was creating a structured settlement market that would be safe for people to purchase them. So I had the oversight ability to see what companies were licensed to issued structured settlements, and that was one of the key issues in 1985 and 1986 that brought the junk bond market to my attention.

The second one, when I became aware of the Pacific Lumber situation, where we saw Drexel and other companies looking to acquire companies and to leverage out of those companies and declare their pension funds excessive or surplus funds. Basically, what was occurring was they were acquiring companies and then alleging there was a surplus in the retirement funds. They were changing the structure by terminating the pension plans—they did this in Pacific Lumber, I am aware—and purchasing annuities. In this case they were purchasing annuities from Executive Life.

Now Executive Life had a competitive advantage, obviously. They were declaring 13 percent interest rates on these single-premium, deferred annuities while the industry average was 9.9. So, obviously, if you are going to purchase a guaranteed GIC or a single-premium, deferred annuity that is declaring 13 percent, you have to lay out less money in order to assure the pensioner theoretically of their funds.

So what I saw was a tremendous shift of responsibilities and guarantees and the pension plan of a guarantee corporation going to the State life guarantee funds and this behavior. So those two issues, the structured settlement and what I saw going on in the pension market, it really brought it to my attention.

I would like to note that in 1978 junk bond holdings in American insurers was very trivial. By 1989, they had about $70 billion in junk bonds, the life insurance industry. That, in fact, would have made up the entire equity of shareholders, stockholders' equity, all the life insurance companies today. So it was huge, growing rapidly.

In 1986, December 1986, I think we decided we were moving more rapidly, and there was an NAIC meeting in Orlando which became a focus point of that issue, my proposing to raise to put a cap on junk bonds. At that point Mr. Milken showed up unannounced at the meeting. We had a long discussion about the issues at a cocktail party actually.

In December 1986, when we first were proactive in it, we found out the New York company, Executive Life, had about 57 percent of their assets in junk bonds. By the time we had the public hearing in February 1987, that amount had gone up to 64 percent. We had extensive public hearings in New York in February 24, 1987, at which time I conducted a hearing, and Milt Ghoul, a very prestigious lawyer, represented Executive Life in New York.

We kept stressing with him we were not attacking junk bonds. We were simply pointing out these were fiduciary funds and that diversity was a key element. I had asked Mr. Ghoul—he had become an executor of many estates—would he put 64 percent of his assets or the assets of any estate that he was managing in any one aspect like any one investment, and he clearly would not, but, of course, that wasn't the issue.

We promulgated, after a couple more hearings and tremendous lobbying effort by Drexel and Mr. Milken to stop the cap, and we can discuss that at length, if you want to, Mr. Chairman, we issued the regulation on June 24, 1987 which capped the ability of domestic life insurance companies in the State of New York at 20 percent. It is not that simplistic, but that is the simple way of looking at it.

But, in addition, it required board directors of any domestic life insurer that invested in junk bonds to adopt a written policy including quality and diversification standards with respect to its junk bond investments. We put that in place. We put that in place in 1987.

Simultaneously, the New York Executive Life was required to come forward to the Department and present to us a plan of divestiture and diversity and bring the amount down from 64 to 20 percent. Of course, when the company went insolvent, when the parent company went insolvent, I believe it was taken over in April 1991, by that time that plan had been in effect the amount of junk bonds was being reduced actively.

The only delay that occurred, there was a 10-day delay between the seizure of the parent company in California and the New York company. There was a run on the bank, quite extensive run of the bank in that 10-day period in New York, but the company was able to withstand that. Ultimately, the company was taken over by MetLife and the policyholders in New York were made whole.

So it is a success story, but there is a lot more to the story in the sense of the things we had to resist to put that cap. The market pressures and the lobbying effort was huge in New York against

us putting that cap on junk bonds. Mr. Milken and Drexel I think hired every lobbying firm in Albany to try to stop us from doing it, so it was quite significant and quite public. I think all the commissioners were aware we were doing it, and we are proud of what we did.

Mr. OSE. Mr. Corcoran, we might come back to that.

Mr. CORCORAN. Sure.

Mr. OSE. I appreciate your testimony.

Mr. CORCORAN. Thank you.

Mr. OSE. And we will submit your statement for the record.

[The prepared statement of Mr. Corcoran follows:]

LIFE INSURERS' INVESTMENTS IN HIGH YIELD-HIGH RISK DEBT OBLIGATIONS

Testimony by

JAMES P. CORCORAN
SUPERINTENDENT OF INSURANCE
STATE OF NEW YORK

before the

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE,
CONSUMER PROTECTION AND COMPETITIVENESS

July 29, 1987
Washington, D.C.

TESTIMONY ON LIFE INSURERS INVESTMENTS
IN HIGH YIELD-HIGH RISK DEBT OBLIGATIONS
BY SUPERINTENDENT JAMES P. CORCORAN
BEFORE THE U.S. HOUSE SUBCOMMITTEE ON
COMMERCE, CONSUMER PROTECTION AND COMPETITIVENESS

Good morning. My name is James P. Corcoran and I am Superintendent of Insurance for the State of New York. I wish to thank Chairman Florio and members of the Committee for the opportunity to appear before you today.

It is my intention to outline for you the principal concerns the New York State Insurance Department has about life insurance company investments and in particular, the reasons behind the promulgation, in June of this year, of Regulation 130 that placed limitations on the concentration of high-yield, high-risk obligations, that any one New York domiciled life insurance company can have in its investment portfolio.

I can sum up the Department's underlying philosophy towards life insurance company investments in two words "consumer protection". The central role of the New York State Insurance Department has been the effort to make certain that the promise of the insurance contract is kept. We have long been concerned with the content of insurance companies' investment portfolios because therein lies a substantial part of the answer to the fundamental insurance question - will the money be there?

For most of this century the life insurance industry has been comparatively stable. The Department's development of standards for licensing, for market conduct, for policy provisions and for investment portfolios, has permitted the industry to experience tremendous growth in New York with virtually no disruption in the marketplace. It has been a highly profitable industry that has always met its obligations. While this remains true today, the threats to the industry's stability have never been greater.

In recent years, life insurance companies have faced stiff competition for a consumer dollar that seeks the greatest possible return in addition to financial security. Consumers no longer want death insurance that only promises to pay off when they're gone. They want their money to work for them now. In the late 1970's we saw an explosion of new products being offered by banks, stock brokers and other financial institutions, all of them luring away traditional life insurance dollars. The life insurance industry responded with a complete new generation of interest-sensitive products that offered a wide variety of investment incentives, together with an insurance component.

This drive to offer greater and greater returns has compelled life insurers to focus new attention on their investment portfolios. It is through such individual investment strategies that life insurers are able to compete with other financial services companies for the increasingly sophisticated consumer dollar. However, in this drive for greater returns, life companies must be reminded that they are fiduciaries, not investment bankers.

The Cuomo administration, in particular the New York Insurance Department, has been very supportive of the life insurance industry's search for innovative ways to remain competitive while continuing to promote growth for companies of all sizes. Most notable in that effort was the 1983 Life Insurance Investment Bill. After careful consideration and much debate, the statutes regulating life insurer investments were substantially liberalized.

Prior to this Administration's liberalization in 1983 of the investment restraints upon life insurance companies, no domestic life insurer could make any investments in junk bonds, except under a "basket" which permitted a maximum of 4% allowance for investments not otherwise permitted. Chapter 567 of the Laws of 1983 removed the qualitative standards in the New York Insurance Law which had limited life insurance company investments in bonds to those issues and issuers meeting certain restrictive earnings tests.

Because of the changes in 1983, life insurance company investments in unsecured obligations became limited only by the prudent person rule. Although diversification standards and aggregate limits were retained in the new investment law for other types of investments, none were included for junk bonds because, at the time, junk bonds were not perceived as a significant investment vehicle. Even today, the vast majority of life

insurers appear to feel that, as fiduciaries, prudence dictates either no position or a very modest position in junk bonds. Nevertheless, a few insurers have chosen to concentrate heavily in these investments.

The Department first expressed concern about junk bonds in life insurance company portfolios in 1985. Allow me to quote from my report to the Governor and the Legislature of May 31 of that year:

> A review of the investment policies of a domestic life companies has indicated that few companies, in an effort to gain a competitive advantage for their interest sensitive products, have markedly increased their investments in lower quality bonds in order to offer higher interest rates and/or increase their profits. The effects of such investment policy will require continued monitoring.

The Department's new regulation on junk bonds, which became effective June 24th, is consistent with the concept that life insurance companies must be able to explore every avenue of investment, while maintaining a diversity in their portfolios that minimizes their exposures to economic downturn -- a downturn that could cripple a company or lead to a default on its obligations to policyholders.

The principle provisions of Regulation 130 require that no domestic life insurer, without the prior approval of Superintendent,

invest in excess of 20% of prior years admitted assets in publicly traded high yield-high risk bonds, in bonds issued in connection with LBO's or in jumbo private placements (those over $50 million). In addition the Regulation requires that the Board of Directors of domestic life companies investing in high yield-high risk obligations adopt a written plan for making such investments. The plan must contain diversification standards including, but not limited to standards for issuer, industry, duration, liquidity and geographic location.

High yield-high risk obligations, sometimes referred to as low rated or "junk bonds", constitute a category of investment in which there has been significant innovation in recent years. It has been estimated that as of March 1, 1987, approximately 30% of the total of low rated obligations were issued as investment grade and were subsequently downgraded (so called "fallen angels"); the other 70% were originally issued as below investment grade debt. It is this latter group that has experienced dramatic growth in the past five years and on which there is no adequate historical record with which to project their behavior through all types of economic cycles. The New York Insurance Department is concerned, therefore, that changes in economic conditions and other market variables could adversely affect domestic life insurers which have a high concentration of these investments. Accordingly, the Department concluded that a limitation on the percentage of total admitted assets that a domestic life insurer may prudently invest in such obligations,

without the prior approval of the Superintendent, is reasonable, necessary and required in order to carry out the Department's responsibilities under relevant statutory law.

The Department's concerns are primarily in three areas: credit risk, liquidity risk and the reinvestment risk in connection with longer term liabilities that have been aggressively priced utilizing high yield-high risk interest rate assumptions.

Credit risk is managed through diversification. That is, if you are well diversified your portfolio should approximate the average default rate. Thus diversification does not immunize the investor from default but rather assures an average default rate.

Dr. Edward Altman of New York University, one of the country's leading experts on high yield-high risk obligations, in a recent update of a study he had done for Morgan Stanley, delineates the default experience of low rated debt. Dr. Altman's report indicates that the average default rate on high yield-high risk bonds from 1970 to 1986 was 2.2%. In that period the highest default rate was 11.4% in 1970 (on a much smaller base of low rated debt outstanding). The 1986 default rate was 3.4%, which Dr. Altman characterizes as high for a non-recession year. Dr. Altman also indicates that the default rate would have been higher were it not for the successful refinancing of the debt of a number of distressed companies.

The point is that, in pricing the product, some default rate must be assumed. What rate will the actuary assume? If one assumes the average default rate over the past 16 years (viz. 2.2%) there are at least three questions that must be answered:

(1) Will the company's investment department be able to mirror the low rated debt universe in the diversification of the company's portfolio or will they fail and produce much lower or much higher default rates?

(2) Will the average rate be adequate given that the sixteen-year average is weighted towards "fallen angels" which today comprise only 30% of the low rated debt universe?

(3) Will the refinancings that have kept the default rate down be possible in the future?

The Department is not forecasting a gloom and doom scenario. However, no one can predict the behavior of this class of investment over the next decade as the economy goes through its normal cycles. If the default rates remain stable, or improves, everyone will rejoice. If they worsen, however, a company with a heavy concentration of its assets in these obligations would come under extreme stress.

The current marketplace for high yield-high risk obligations appears adequate, but not deep. Drexel Burnham, which has been the leading issuer of these obligations, remains embroiled in a swirl of controversy stemming from the Boesky affair. Should Drexel's ability to provide a

market for their issues become impaired, the liquidity of such issues could be affected. Some claim that other brokerage houses would rush in to fill the void; it is more likely that a significant temporary disruption would occur in the market and that most, but possibly not all, of the liquidity would be restored.

However, the one liquidity risk that will almost certainly arise is that caused by the "flight to quality" which invariably occurs in a severe economic downturn. If this takes place at a time when rising interest rates are causing policyholders to withdraw their funds, the problem will be compounded.

On risks with longer term liabilities, such as pension close-outs and structured settlements, the assumption of reinvestment rate can be more problematic when the liabilities are matched with low rated debt. The first problem is the duration of the assets. Low rated debt issued in 1986 had an average maturity of eleven years. However, call provisions are common among these issues, thus making durations even shorter and more uncertain.

The relatively short duration of the assets matched against long term liabilities places greater emphasis on the reinvestment rate assumptions. Aggressive pricing through the utilization of a high range of reinvestment rates can be troublesome and, indeed, dangerous.

This, in brief, outlines our principal reasons for promulgating Regulation 130. We live in a time when our economy has become extremely complicated, with great potential for sudden upheaval. The foreign debt

of banks, the trade deficit, the price of oil and many other issues are all cause for worry. The concern is compounded when you consider the number of people who are capable of creating mayhem in financial markets through mismanagement, irresponsibility or sheer greed.

The job of the Superintendent of Insurance is to do everything in his or her power to make certain that those who have been granted the privilege of a New York license to sell the promise of insurance, do so in a manner that upholds the highest standards of professionalism and financial responsibility.

Recently, we confronted the consequences of the New York property and casualty industry's irresponsibility. Several years of cash-flow underwriting, and the abandonment of basic insurance principles, resulted in a wrenching disruption to our local government operations and virtually every other sector of New York State's economy. Our response in New York was a comprehensive legislative package that renewed our commitment to effective regulation. I am proud to tell you that our Department has received inquiries about our new regulatory framework for liability insurance from every region of the country.

I believe the public has the right to, and indeed expects, its state insurance regulator to anticipate potential problems in the marketplace and to act to solve them before they turn into disasters. With the new liability regulations, we now have the tools to act on the property and

casualty side. I also believe we are well equipped to confront the new challenge the life insurance industry presents, provided there is no loss of will to regulate fairly, efficiently and effectively. I take this opportunity to assure you, and the public, that the New York Insurance Department does not lack that will.

There should be no misunderstanding as to what was at stake in the promulgation of Regulation 130. As difficult as the liability crisis was and continues to be in some sectors, it is nothing compared to what could happen if even one of the major life insurance companies that market any of the new generation of products were to find itself unable to meet its obligations. The prospect of hundreds of millions or billions of dollars worth of policyholder obligations being thrown into the maelstrom of insolvency is simply unacceptable. It is in this context that we have promulgated Regulation 130.

The New York Insurance Department is not alone in its concern over concentrations in junk bonds. The Federal Home Loan Banking Board currently limits Federal savings and loan institutions to no more than 11% of assets in junk bonds. Congressman Dingell (D-Michigan), Chairman of the House Energy and Commerce Committee, has demanded that the SEC investigate the degree to which life insurers invest in junk bonds.

Also of special interest is an article which appeared in the New York Law Journal on October 8, 1986 discussing the tort reform legislation signed into law here in New York on July 30, 1986. The article endorsed

the position that structured settlements, in certain cases, can be beneficial to both plaintiffs and defendants in providing protection to any injured person at a slightly lower cost to a defendant. However, the article concludes with the following cautionary comment:

> Hopefully, the Superintendent of Insurance of the State of New York, who must determine those companies which are suitable to write these insurance contracts, will prohibit 'junk bonds' from the investment portfolio of insurance carriers. Securities backing personal injury victims' payments should all be of investment grade.

Louis Lowenstein, Professor of Law at Columbia University, in an article entitled "Three New Reasons to Fear Junk Bonds," cites an issue of paramount concern, namely that increasing numbers of corporations are terminating employee pension plans to recapture excess assets. Professor Lowenstein goes on to state:

> ...To refund (sic) those pension obligations at the lowest cost, the employers often purchase single-payment annuity contracts from those insurance companies that can offer the best price. Of course, the companies that offer the best prices are those that have invested heavily in high-yield bonds.
>
> Once the plan is terminated and the annuity contracts purchased, the employer may have no further responsibility to its pensioners, so that it has every reason to extract the last dollar of "excess assets" from the trust. But the greater the savings for the

> employer, the greater the risk for the pensioners. These unsuspecting retirees and employees, who typically have no role in the bargaining and get none of the savings, are left to depend on an insurance company of uncertain worth.
>
> The risk of default on these annuity contracts may come from both ends of the investment spectrum. The least profitable junk bond issuers, being most vulnerable to an economic chill, may default on their obligations, and those that are most profitable will try to redeem their high-coupon bonds and replace them with new securities with lower yields. An insurance company relying on junk bonds to sustain higher than ordinary levels of income might, therefore, see its income sharply reduced in both cases.

The net effect of the assumption of these obligations by a life insurance company in New York is a potentially catastrophic shifting of exposure from the Federal Pension Benefit Guaranty Corporation to the various state life insurance guaranty funds. This at a time when, for the first time in 30 years, defined benefit pension plans are paying out more than they are receiving in contributions.

A criticism often heard is that limitations on buyers of junk bonds would also impose limits on issuers, which would ultimately hinder job formation and economic growth. This statement demonstrates a lack of understanding of the limitations contained in Regulation 130. Under the Regulation, our licensed companies could make general account investments in excess of $100 billion with unlimited separate account investments.

That provides a market for publicly traded high risk-high yield bonds of nearly $200 billion just in the life industry licensed in New York. This represents almost three times the total amount of new high risk-high yield risk debt issued from 1978 through 1986. Accordingly, the Department's proposed regulation imposes no practical limitation upon the issuers of junk bonds.

Junk bonds may be an appropriate investment vehicle in a diversified portfolio. Prudence dictates, however, that when the risks associated with a form of security are relatively high, principles of diversification and portfolio balance should be guides to the amount invested. We believe that Regulation 130 leaves all life insurers with authority to invest a substantial portion of their assets in junk bonds, but prevents excessive concentration in this form of investment by any one company.

In conclusion, I want to say the process of developing Regulation 130 involved the broadest possible consultation with interested parties, intense staff review of the data and, of course, the opportunity for public comment. The Regulation is neither anti-junk bond nor narrowly restrictive. It is aimed at protecting against dangerous levels of concentration in a rapidly-developing type of investment.

Regulation 130 is a straightforward effort to protect the life insurance buying public. It is consistent with the tradition of an Insurance Department whose commitment to consumer protection runs deep and strong.

Mr. OSE. Mr. Green.

Mr. GREEN. Good afternoon, Mr. Ose. In response to your request, California Insurance Commissioner Harry Low has directed that the California Department of Insurance cooperate with your investigation of the demise of Executive Life and the fraud perpetrated upon the department by persons and entities who, through that fraud, gained control of the assets and policies of the company. As you are aware, and it has been discussed this morning, in 1999 the department filed suit seeking to have those persons and entities held responsible for their actions.

I am Steven Green, Deputy Insurance Commissioner and Chief Counsel of the Department of Insurance. With me is Harry LeVine, Special Counsel to California Insurance Commissioner Harry Low. Mr. LeVine has a 13-year tenure with the department and for over 3 years has been primarily responsible for the in-house direction of the department's civil lawsuit. He is uniquely qualified to provide this committee with the factual information to assist your investigation.

I must respectfully ask that in questioning Mr. LeVine or me the committee consider two matters which are of great importance to Commissioner Low, which have been discussed with the staffs of the committee and your staff, and which we trust you can appreciate.

First, considering that the department is involved in litigation over events which this committee is also investigating, we must endeavor to avoid comments, speculation, and the like, which could conceivably prejudice the Commissioner's position in that lawsuit.

Second, as has been mentioned earlier today, in a matter of weeks California will again elect an Insurance Commissioner. The Commissioner at the time of the events you are investigating, John Garamendi, is the Democratic candidate for the office; Gary Mendoza is the Republican candidate. As two career California public servants, we must avoid any appearance that we are criticizing or favoring any candidate.

Finally, I have a personal thank you for you, Mr. Ose, in whose district I live. As you learned this morning, another of your constituents is here, my son Samuel, a sophomore at the University of California at Davis. Samuel, for some reason, is impressed that I sit before a congressional committee. As I belong to the great universe of parents who can never impress their 19-year-old children, I owe you and the committee a thank you.

[The prepared statement of Mr. Green follows:]

Good Afternoon Chairman Burton, Representative Waxman and members of the House Committee on Government Reform.

In response to your request, California Insurance Commissioner Low has directed that the California Department of Insurance cooperate with your investigation of the demise of Executive Life and the fraud perpetrated upon the Department by persons and entities who, through that fraud, gained control of the assets and policies of the company. As you are aware, in 1999, the Department filed suit seeking to have these persons and entities held responsible for their actions.

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Mr. OSE. Thank you, Mr. Green. As a parent myself, I am often trying to find ways to get my children to raise their sights. So perhaps you might visit with Samuel about that, too.

Mr. LeVine, for 5 minutes.

Mr. LEVINE. Good afternoon, Congressman Ose. Thank you for inviting me to speak today.

I guess I need to sort of reiterate something that Mr. Green has just said, which is that with respect to the case I am not a witness to the facts that occurred in 1991 and don't have any personal knowledge. So what I say today is simply my understanding of what occurred and my views as a lawyer on the matter.

But I need to be particularly cautious in what we talk about because it is, as has been said today, $1 billion case. I have heard some numbers of $6 billion. With punitive damages, who knows? But I need to be cautious because I can't have things that I say and my thoughts being used to cross examine our witnesses, those people with actual knowledge, when their depositions are taken.

We have heard some overviews already about the case. So I may be a bit redundant. I am going to try to keep it very short.

Basically, this is a case in which the Insurance Commissioner alleges that Altus Finance and Credit Lyonnais, both French government banks, intentionally concealed their ownership of the California insurance company that was set up to take the Executive Life policies, that company being Aurora National Life Insurance Co. They concealed their ownership by written agreements, in some cases setting up fronts, and the fronts were their partners in the bid.

In August 1991, Altus and a group that we call the MAAF group or the MAAF syndicate submitted a bid to buy Executive Life, and Altus was going to buy the junk bonds and the MAAF group was going to set up a new insurance company. What the secret agreement showed was that Altus was going to be a true owner of the insurance company.

It is our belief in doing this that they violated the Federal Bank Holding Company Act, which at the time prohibited banks from owning insurance companies, and they violated California Insurance Code Section 699.5, which has changed a little bit, but at the time provided that a foreign government could not own a California insurance company if its ownership or actually its financial control of an insurance company would have a substantial or undue influence upon that company.

So I think getting the story a little bit out of order, but it is important to keep in mind some facts, one of which is that so far in the development of this case the French don't deny signing the contracts. There is no contention that the contracts weren't effective or they aren't contracts. The second is there is no denial that the contracts were not disclosed to the California Department of Insurance in the numerous filings that were made.

I think, like I say, there has been no testimony so far—that the contracts do exactly what we say they do. They gave the French, Altus Finance, the ownership of 67 percent of the company.

So, then, backtracking a bit, as you know, the Insurance Commissioner seized Executive Life on April 11, 1991. In May 1991, he put out what can be called a request for proposals, letting people

know that he was negotiating with Altus Finance for something that would be called a definitive agreement, which would be a bid, and that other people could then, once that bid was set, bid against it. In a sense, the Altus bid would be a template for other bidders.

So on August 7 the definitive agreement with Altus and the MAAF group was entered into. In the following months other bids were received. On November 14, 1991, if I have the date memorized correctly, the Altus bid was accepted by the Commissioner. Obviously, there are lots of interim steps there, but in the end we know that the bid was accepted.

What was going on at the same time, or starting at that time, was a process that the California Department of Insurance goes through with anybody that wants to set up or own an insurance company. Insurance is a highly regulated business in California, and in order to own an insurance company or start one up, one has to get to set up a company an organizational permit, a stock permit, and eventually has to file an application for the license, which we call a Certificate of Authority.

The Department of Insurance requires of anybody in those circumstances that they submit financial information, information about where they are going to get their money to capitalize the company, about their own financial structure, their own organizational structure, who owns them, in some cases who owns the people that own them, and all the financial connections or corporate connections between the new insurance company and the owners and the other people that they identify as having relationships with.

When we think or when we know that there is a foreign entity that may be involved, we send out a questionnaire which we call a 699.5 questionnaire. One of the questions to be answered in there is, "Does any government entity direct, or have the power to direct, the management or policies of your company or of any persons owning, directly or indirectly, any shares or other interest in your company by means of any contract?"

Starting in 1991 and continuing, I would say, almost through the closing of the transaction, which was on September 3, 1993, Altus, MAAF, and Credit Lyonnais, for that matter, made numerous representations that they would have no ownership of the new company, Aurora.

The declaration, the 699.5 declaration, was affirmatively answered "no" by all the purported owners, by MAAF, and I could name the other three or four, which we assert is a complete misstatement. We received in—I just list the months—September, October, November, December 1991; January, February, March 1992, April 1992, up until the organizational permit was issued in May 1992, indicating the background of all the purported owners, and nowhere in there, of course, do they indicate that Altus has entered into secret agreements.

What we know about the secret agreements, of course, is that two secret agreements were entered into with MAAF and Altus on August 6, 1991, and they state right in them: These will not be revealed to anyone. And a subsequent set of agreements was entered into with MAAF on, I believe—oh, I have got the date written somewhere—I think November 15, or thereabouts, in 1991.

Similarly, there were arrangements with Omnium Geneve, one of the other members of the MAAF group, and they had agreements in November 1992 and later. Those agreements, of course, also were not disclosed to the Department of Insurance in connection with any of its filings.

Mr. OSE. Mr. LeVine, we are over here. So your testimony, I have a copy of your statement right here, and I presume you are running through it accordingly. I have actually read it. So how about we submit it for the record, so we can get to questions?

Mr. LEVINE. That would be fine.

Mr. OSE. That is a great idea. Thank you. [Laughter.]

[The prepared statement of Mr. LeVine follows:]

STATEMENT OF HARRY J. LEVINE

Introduction

Good afternoon. Thank you for inviting me to speak today about a civil lawsuit being prosecuted by the California Insurance Commissioner pertaining to a fraud that the Insurance Commissioner alleges was committed in connection with the insolvency of Executive Life Insurance Company. The lawsuit is titled *Low v. Altus Finance, S.A., et al.* (Case Number CV 99-02829 AHM (CWx)) and it is pending in the United States District Court for the Central District of California (Los Angeles). In this suit, the Insurance Commissioner is seeking over a billion dollars from, among others, French companies that engaged in repeated deceptions designed to evade federal and California laws. The laws in question concerned prohibitions on ownership of non-financial institutions by banks and the ownership of insurance companies by foreign governments. In this case, it is our contention that a French government-owned bank conspired to secretly own a California insurance company that was set up to take over the insurance policies of Executive Life. Remarkably, the French bank's actions are well documented in numerous written agreements, memoranda, and other evidence which were hidden from the Insurance Commissioner.

In 1991, in the Executive Life insolvency, a bidder comprised of a French bank and others proposed setting up a new California insurance company to take over Executive Life's insurance policies. The bidder identified certain European companies that would be the owners of the new insurance company and, in accordance with California laws and regulations, those companies submitted information about themselves to the Department of Insurance. The Department of Insurance diligently reviewed that information and approved their ownership of

the insurer. In September 1993, the new insurer took over Executive Life's policies and began conducting business.

As has been reported in the press, a confidential whistleblower alleged in 1998 that secret agreements existed between the French bank and European companies that owned the new insurer. The whistleblower claimed that those secret agreements showed that the French Bank, and not the European companies, had effectively been the owners of the insurance company and the European companies had been "fronts" for the French bank.

Upon learning of the whistleblower's allegations, the Insurance Commissioner obtained copies of certain of the agreements. The agreements were what they were reported to be; fronting arrangements hiding the French bank's true and improper ownership of the insurance company. Moreover, the agreements contained clauses expressly requiring that they be kept secret.

Had the true ownership of the insurance company been disclosed to the Commissioner, the bid submitted by the bank would have been rejected. In light of the secret agreements, the Commissioner filed his suit in February 1999, seeking damages and disgorgement of all profits earned by the French bank and other participants in the bid.

Background - The Executive Life Insurance Company Rehabilitation

In early 1991, Executive Life Insurance Company became insolvent, in most part because it owned a very large portfolio of high risk "junk bonds" that had declined greatly in value. On April 11, 1991, the Insurance Commissioner obtained an order from the Los Angeles County Superior Court appointing him as conservator of Executive Life. Pursuant to the California

Insurance Code, the Commissioner then sought to rehabilitate Executive Life and to preserve as much of its value as possible for the benefit of its policyholders.

After being appointed as conservator, the Insurance Commissioner engaged in negotiations with Altus Finance, S.A., a French bank, for a "definitive agreement" -- a bid -- to take over Executive Life's assets and liabilities, including its bonds (both junk bonds and investment grade bonds) and its insurance policies. Altus Finance was owned primarily by Credit Lyonnais, which was also a French bank and which was owned by the government of France. In May 1991, the Insurance Commissioner issued a notice that upon reaching a definitive agreement with Altus Finance, all interested persons could submit competing bids. In August 1991, a definitive agreement was reached between the Insurance Commissioner on the one hand, and Altus Finance and a group of French and Swiss companies on the other hand. The French and Swiss companies were led by a French insurance company known by its acronym "MAAF." The bid, referred to as the "Altus/MAAF" bid, provided that Altus Finance would buy Executive Life's junk bonds and the MAAF-led group would take over Executive Life's insurance policies. The MAAF group eventually consisted of MAAF Vie (a subsidiary of MAAF), Omnium Geneve (a Swiss company), S.D.I. Vendome (a French company), and Financiere du Pacifique (a French company)

The Altus/MAAF bid provided that Altus Finance would pay cash for Executive Life's junk bonds. In doing so, of course, the junk bonds would no longer be an asset of Executive Life and Executive Life's policyholders would not be exposed to any risk of further deterioration in their value. Because the bonds were removed from Executive Life, the Altus/MAAF bid was referred to as a "bonds out" bid. As to Executive Life's insurance policies, the Altus/MAAF bid

provided that the MAAF group would establish a new California insurance company -- Aurora National Life Assurance Company -- which would take over the policies at reduced values. Because Altus Finance was a French government owned bank, it advised the Commissioner and the Los Angeles County Superior Court that Altus and Credit Lyonnais would have no ownership interest in, or control over, Aurora.

As provided for in the May 1991 notice, the Commissioner used the Altus/MAAF bid as a template for other persons to make bids to take over Executive Life's assets and insurance policies. The Commissioner then received seven other bids to rehabilitate Executive Life. Unlike the Altus/MAAF bid, six of the bids were "bonds-in" bids (one bid did not include a proposal as to the junk bonds); that is, each of the bidders proposed keeping the junk bonds in Executive Life (or more accurately, in the new company that the successful bidder would set up to take over the Executive Life policies). In order to protect Executive Life's policyholders against further deterioration in the value of the junk bonds, each of the bonds-in bids provided a guarantee. In November 1991, after a further round of bidding, the Commissioner selected the Altus/MAAF bid. Prior to the Insurance Commissioner's selection of the bid, Altus Finance assured the Commissioner that it was complying with the federal Bank Holding Company Act and California Insurance Code section 699.5, which prohibited it from having an ownership interest in Aurora. Thereafter, the Los Angeles County Superior Court approved the selection of the Altus/MAAF bid.

The MAAF Group Applications to the Department of Insurance

Insurance is a highly regulated business in all 50 states, including California. In order to organize or purchase an insurance company based in California, prospective buyers or organizers must comply with numerous regulatory requirements and must submit, among other things, information regarding the proposed ownership of the insurance company. These requirements includes providing information not only about the proposed direct owners of the insurer, but also information about indirect ownership, contractual or other obligations regarding ownership, financing of the purchase, financial connections and biographical information. The foregoing information is provided to the California Department of Insurance in connection with the issuance of organizational permits, stock permits, and the issuance of the license to conduct insurance business (called a "certificate of authority.")

The MAAF group started to provide information to the Department of Insurance in 1991 about the members of its group in order to receive its permits and its certificate of authority for Aurora. Pursuant to the Department's requirements, the information pertained to both Aurora and its newly organized owner/holding company, named New California Life Holdings, Inc. Various further and supplemental submissions were made to the Department regarding the MAAF group. Accordingly, the Department of Insurance received information about the organization and financial connections of MAAF, Omnium Geneve, Financiere du Pacifique, and S.D.I. Vendome. Consistent with representations that were also make in Court, nothing in the MAAF group's filings indicated that Altus Finance would have an ownership interest in New California/Aurora. In fact, the MAAF group represented that Altus Finance would have *no* ownership interest in New California/Aurora.

In 1991, California Insurance Code Section 699.5 provided that a foreign government could not own or financially control a California insurance company unless that ownership or control would not cause substantial or undue influence over the insurer. Because Credit Lyonnais and Altus Finance were French government owned banks, the Department of Insurance required each of the MAAF group members to provide information about their links, if any, to Credit Lyonnais, Altus Finance, or the French government. Each submitted a declaration to the Department of Insurance -- under penalty of perjury -- that there were no material links.

The Aurora and New California filings were approved by the Commissioner and on September 3, 1993, the restructured Executive Life insurance policies and annuities were taken over by Aurora.

The Artemis Applications to the Department of Insurance

In December 1992, Artemis S.A., a French company indirectly owned by French businessman Francois Pinault and Altus Finance, bought a significant part of the ELIC junk bonds from Altus. Then, in the spring and summer of 1994 Artemis filed two applications with the Department of Insurance to buy 50% of New California, comprised of the shares owned by Omnium Geneve, Financiere du Pacifique, S.D.I. Vendome, and part of the shares owned by MAAF Vie. The applications purported to disclose Artemis' financial and contractual connections with Altus Finance and Credit Lyonnais. The applications were approved by the Commissioner, with certain conditions. Subsequently, in 1995, Artemis purchased the remainder of the shares held by MAAF Vie. At that point, Artemis owned 67% of New California.

The Secret Agreements and Misrepresentations

In January 1999, the Commissioner obtained copies of agreements that had been entered into in 1991 (and later) between Altus Finance and MAAF and between Altus Finance and Omnium Geneve regarding the ownership of New California/Aurora. The Insurance Commissioner contends that the agreements provided that Altus Finance would at all times be the true owner of MAAF's and Omnium's stock in New California/Aurora.

In light of these agreements, the regulatory filings that had been made by the MAAF group were false; MAAF and Omnium Geneve held their shares of New California as mere fronts for Altus. The Insurance Commissioner also learned that S.D.I. Vendome and Financiere du Pacifique held their shares of New California as fronts for Altus. the Insurance Commissioner contends that the MAAF group members had simply been "parking places" for Altus Finance's ownership. Similarly, the filings made by Artemis in 1994 were false. The Commissioner learned that Artemis purchased an undisclosed option from Altus Finance *in 1992* to buy Aurora. The Commissioner also learned that Artemis' disclosures of its relationships with Credit Lyonnais and Altus Finance were materially false.

Had the terms of the secret agreements and arrangements been known, the Commissioner would have rejected the Altus/MAAF bid and the Artemis applications. The federal Bank Holding Company Act prohibited banks from owning insurance companies. Having owned the majority of Aurora by virtue of its secret agreements, the Altus/MAAF bid violated the Bank

Holding Company Act. Further, because the secret agreements and arrangements resulted in the ownership of a California insurance company by a French government owned bank, the Altus/MAAF bid violated California Insurance Code section 699.5. Further still, Altus Finance, the MAAF group, and the Artemis defendants submitted false information to the Department of Insurance in violation of other California Insurance Code sections.

The Insurance Commissioner asserts that Altus Finance, the MAAF group, and Artemis participated in intentional acts designed to defraud the Insurance Commissioner and to illegally gain control of Executive Life's junk bonds and insurance policies. The Insurance Commissioner intends, through his lawsuit, to rectify this fraud.

The Lawsuit

In February 1999, the filed his suit against Altus Finance (now known as CDR Enterprises), Credit Lyonnais, MAAF, Omnium Geneve and others, alleging that they intentionally deceived the Insurance Commissioner in order to gain control of Executive Life's junk bonds and insurance policies. The suit was subsequently amended to add Aurora, New California, Francois Pinault, and the Artemis entities as defendants. The Commissioner seeks disgorgement of all profits gained by them and, alternatively, all damages caused by their acts. The suit is pending and a trial date has not yet been set by the court.

Mr. OSE. OK, now I am trying to make sure I understand the process by which we got to the point where the benefits to the policyholders got a haircut. If you can keep that in mind as you entertain these questions, I would appreciate it.

Mr. Corcoran, you were Commissioner of Insurance until 1990 in New York?

Mr. CORCORAN. Correct. I left February 1990.

Mr. OSE. OK. Now California in 1988 passed some sort of a referendum or initiative that made the Office of the Insurance Commissioner elective, and then we elected our first Insurance Commissioner in November 1990, and they were sworn in in January 1991.

Mr. CORCORAN. Right.

Mr. OSE. So your tenure actually predates us even having an——

Mr. CORCORAN. Elected Commissioner, yes.

Mr. OSE. Correct.

Mr. CORCORAN. Roxanne Gillespie was appointed Commissioner at the time.

Mr. OSE. Up until the time——

Mr. CORCORAN. Right.

Mr. OSE [continuing]. When the elected Commissioner was appointed, we had an appointed Commissioner?

Mr. CORCORAN. Correct.

Mr. OSE. OK. I mean, I can tell from your testimony what the answer to this question is, but you were familiar with the problem of junk bonds in terms of how big of a percentage of a portfolio of an investment company or an insurance company it comprised?

Mr. CORCORAN. Correct, and my concern was triggered by the medical malpractice crisis that we had had in New York a few years prior to that. We were compelling the use of structured settlements. I felt it was my obligation to make sure that any structured settlement purchased by anyone would be a high-quality company, not a company that was backed up by junk bonds.

Then the next thing we got involved with was the pension situation. That really brought it to my attention in 1985.

Mr. OSE. So the medical malpractice issue that arose in New York had to do with concerns on your part that there wouldn't be sufficient income to service the structured settlements that came out of that litigation?

Mr. CORCORAN. One of our reforms to all legislation in New York, we changed—there is a substantial tort for medical malpractice, but one of the key things was really kind of imposing structured settlements on these medical mal. awards to make sure that these people did not ultimately become wards of the State. Based on that, it was our obligation to make sure that anyone doing business in the State of New York issue structured settlements of the highest quality.

It was brought to my attention that this Executive Life Co. had a large portfolio of junk bonds. That was our initial awareness.

Mr. OSE. So you were concerned about the quality of the bonds underlying——

Mr. CORCORAN. Well, the lack of diversity in their portfolio.

Mr. OSE. So you moved to put a limitation, a 20 percent limitation, on the amount of junk bonds you could have in your portfolio?

Mr. CORCORAN. For a domestic life insurance company, correct.

Mr. OSE. Now are the domestic life insurance companies the same entities that were doing the medical malpractice structured settlements?

Mr. CORCORAN. Correct.

Mr. OSE. OK.

Mr. CORCORAN. They have to be licensed. Some are licensed; some are domestic, right.

Mr. OSE. So let me ask the question directly, and you can just reiterate that: Why did you act to impose a limitation on the junk bonds?

Mr. CORCORAN. Well, one, beyond the fact that we were concerned about the lack of diversity in their portfolio, that we were concerned ultimately the company become insolvent. To us, the particular company, of course, was in my view unfairly competing. Executive Life in New York became, in my view, we call it a "Judas-co." of the industry. They were promising 13 percent——

Mr. OSE. Versus the 9.9?

Mr. CORCORAN. The 9.9. Now the other companies, of course, fully realized that that is what they were competing against. I always felt, as a regulator, a regulator's key job is to make sure there is a fair competitive environment. So I did have the support of most of the domestic industry in New York when I did impose a 20 percent. Only a few companies opposed me. I think it was Presidential and Executive Life. We acted to make sure that the environment was fair.

Mr. OSE. Were you ever approached by Michael Milken or other junk bond salesmen during your tenure?

Mr. CORCORAN. Well, we had several would-be appointments with the chairman of Drexel who didn't show up. He kept wanting hearings or meetings, but the only meeting I had face to face with Mr. Milken was a reception held in, I think it was, Orlando in December 1986, where he approached me at a cocktail party with two bodyguards. They were not my bodyguards; they were his bodyguards.

And he came over and he said, "Hello, Jim." And I asked him who he was, because I had never met him. He then went on to—he wanted to buy me dinner, and I told him that it was inappropriate to be buying me dinner in light of the fact that we had this issue out there, and we had a long conversation. He was convinced that if I had only fully understood this issue, I would have a great future, and I was touched that he was worried about my future.

Mr. OSE. Who was the chairman of Drexel at the time he requested this——

Mr. CORCORAN. I believe it was Josephs at the time.

Mr. OSE. Do you remember the first name, for the record, of Mr. Josephs?

Mr. CORCORAN. It was Lenny, Leonard Josephs? I might have it here somewhere. I will dig it up for you, Mr. Chairman.

Upon my return to my office, Mr. Milken sent me a flashlight and 1,000 shares of Drexel and a "happy Christmas." He allegedly, in my name, gave $15,000 to some charity, which, of course, I reported all of these things to the attorney general, because, as you well know, it wouldn't look good.

So from then on, it was quite—every lobbyist was retained to—my good friends would call up and get permission to oppose me because they were giving them huge amounts of money to try to stop this cap, and it didn't work.

As a matter of fact, between the hearing we had and the issuing of the regulation, we fined Executive Life of New York $250,000 and required the parent company to put $155 million more cash into the New York company. So at the end of the day, the New York company was in pretty good shape.

Mr. OSE. So you had in New York a sister company, if you will, to Executive Life of California?

Mr. CORCORAN. Right. So when the State, when the California company was seized, New York was able to have its own separate rehabilitation and liquidation sale.

Mr. OSE. Are you familiar with the insolvency that occurred at Executive Life of California?

Mr. CORCORAN. Well, I am only familiar to the extent, one, I am familiar with all the issues involved from reading it, but also about I represented a group of GICs who were trying to get recovery from both the Guarantee Fund and Executive Life subsequently, probably in 1992.

Mr. OSE. OK. Now given that, as the Commissioner in New York, you identified some flaws, in your opinion, in terms of how Executive Life might have been operated. What procedures did you institute to protect the policyholders of New York? No. 1, you moved to reduce the amount of junk bonds in the portfolio underlying the structured settlements?

Mr. CORCORAN. Right.

Mr. OSE. Were there other steps that you took?

Mr. CORCORAN. Well, I would say, clearly, from 1986 to at least my end of office they were on the radar screen, and we were making sure that dividends were not going from the subsidiary in New York to the parent inappropriately. We were making sure that as quickly as possible they had to file a plan with the Department showing divestiture and diversification of their investment portfolios. So that was ongoing from 1987 on to my leaving office 3 years later.

Mr. OSE. Did you ever take any affirmative steps regarding the structure of the assets and liabilities underlying the portfolio? In other words, keeping the bonds with the liabilities?

Mr. CORCORAN. Sure. Well, the department, by actively looking at it—I am sure California does the same thing when they monitor a company. We were making them reduce their junk bond portfolio. That was the most proactive thing we could do. Plus, we put the responsibility on the board of directors.

Mr. OSE. In what way?

Mr. CORCORAN. Well, we told the board of directors, as I noted, the regulation says—I may use the proper language, go back to my notes for a second. "Require the board of directors of any domestic life insurer that invests in junk bonds adopt a written policy including quality and diversification standards with respect to its junk bond investments."

This way, if things went bad, the directors can't say, "Gee, no one told me. I was out in the men's room when they voted on that," or

anything like that. I told the board members that if there is a shortfall and this company goes down, we are going to be looking to you. Fortunately for the policyholders of New York, there was no need to do that because the company was able to pay its obligations.

Mr. OSE. Now you did require an additional capital investment from the parent of $155 million?

Mr. CORCORAN. Correct.

Mr. OSE. Into the New York subsidiary? For what purpose was that done?

Mr. CORCORAN. Keep it solvent, keep it liquid, keep it liquid.

Mr. OSE. So you had looked at the portfolio over time, and the relative solvency or insolvency led you to that step?

Mr. CORCORAN. Correct. Of course, and we had some real concerns about their accounting at that time. We fined them based on their accounting creativity.

Mr. OSE. In terms of valuing the bonds?

Mr. CORCORAN. Valuing their entire portfolio and their reinsurance.

Mr. OSE. And that $250,000 fine was——

Mr. CORCORAN. That was a straight-out fine.

Mr. OSE. That was punitive in nature for the purpose of sending them a clear and unequivocal message that that was not going to be tolerated?

Mr. CORCORAN. Correct.

Mr. OSE. All right. Now in the process of the collapse of the parent and the subsequent dealing with that portion of Executive Life that existed in New York, what losses, if any, occurred to the New York policyholders?

Mr. CORCORAN. Well, of course, I was no longer superintendent when it occurred. Sal Curiale succeeded me as my first deputy. But from my understanding, there were no losses and no long-term agony for the policyholders. MetLife I think ultimately came in and assumed the book, and I think for them it was lucrative, but the policyholders were not damaged in any way.

Mr. OSE. So MetLife assumed both—they took both the bonds and the accompanying liabilities?

Mr. CORCORAN. I believe they took the whole thing——

Mr. OSE. The whole thing?

Mr. CORCORAN [continuing]. But I might not be correct on the exact because I wasn't there. There was some minor Guarantee Fund assessments for some products, but it was very minor.

Mr. OSE. Now your successor's name for the record?

Mr. CORCORAN. Sal Curiale.

Mr. OSE. Could you spell it?

Mr. CORCORAN. C-U-R-I-A-L-E.

Mr. OSE. OK. Are you—I am sure you have been. I don't know if you were then, but you are now. Are you familiar with the rehabilitation plan for Executive Life of California?

Mr. CORCORAN. Only from recollection, from having represented the GIC group. I read it, obviously, and gave opinions to that group of clients, but it would be only recollection.

Mr. OSE. Now I have a copy of the original memorandum soliciting the bids and the like, and I have been through it. I think I am on my fourth read of it. So it is starting to sink in.

Mr. CORCORAN. Well, I was doing it for billable hours, so it was no problem. [Laughter.]

Mr. OSE. There are a number of suggestions in this as to how the Commissioner or the conservator chose to proceed. I would be curious about just some feedback, and you will see it on the screen here, the memorandum itself. I would be curious about your feedback. Was this particular approach that is laid out in this memorandum sound in your opinion?

Mr. CORCORAN. In all fairness to the California department and my own opinion about what could occur in the future, what should occur, this was new ground then. This was probably the most complicated, biggest insolvency, and there were many people, including the NOLHGA, which is the National Organization of Life/Health Guarantee Associations, making bids and discussions on this.

Mr. OSE. There were, in fact, eight bids, if I recall?

Mr. CORCORAN. There were eight bids, and I think NOLHGA itself might have made a bid.

Mr. OSE. They did make a bid, yes.

Mr. CORCORAN. NOLHGA made a bid themselves.

Mr. GREEN. NOLHGA's was one of the eight bids.

Mr. OSE. Correct.

Mr. CORCORAN. So, I mean, I am aware of that, aware of that situation, but I was not sitting in the driver's seat. No one was telling me what the real value of the bonds was and how it was shaky. Don't forget, I came with a predisposition of calling them junk bonds. So I wouldn't, you know——

Mr. OSE. Your dealing with the collapse in New York——

Mr. CORCORAN. Well, there wasn't much of a collapse.

Mr. OSE. OK. For whatever reason, but the issue that you dealt with——

Mr. CORCORAN. It is an issue I am proud of.

Mr. OSE. I understand that.

Mr. CORCORAN. So we didn't get the collapse.

Mr. OSE. We will go through that, if you want, but the manner in which you——

Mr. CORCORAN. I put up with a lot of aggravations so that thing didn't collapse, so I figured I would just point that out.

Mr. OSE. The manner in which you handled it in New York, if I understand, you approached it on a bonds-in basis? In other words, you left the bonds in the company and worked through it?

Mr. CORCORAN. Worked through it. There were liquidity problems.

Mr. OSE. Why did you choose a bonds-in versus a bonds-out approach?

Mr. CORCORAN. Well, I didn't get to choose, but my successor got to choose because there was enough liquidity. The domestic industries were cooperating. The Guarantee Fund in New York was cooperating because they saw the company was not in dire straits, and, ultimately, I believe MetLife took it over, and it was not going to be an issue of pulling out the bonds.

Mr. OSE. In your opinion, do you have to take these things on a case-by-case basis or is there kind of a template that you would work with?

Mr. CORCORAN. Well, a template that I would suggest for the future—we can jump ahead and I will come back to this—is you can look at every one of these major agonies, Confederation Life, Baldwin, Mutual Benefit, Executive Life, and once the rehabilitation process is triggered, and this is what is very difficult for them, and thank God it is not my job, all sorts of rights begin to vest. You've got issues of, will somebody get a priority if you pay this one and what share of assets?

I think the rehabilitation process in and of itself must be changed. There is no reason to go through this agony because you have these guarantee fund associations, who ultimately pay the shortfall assessment.

There is no reason not to have a Federal FDIC guarantee association with standing to come into these companies and say, "OK, we're ultimately going to pay the assessment anyway. We are now going to assume running it."

To make sure it is not anticompetitive, the Commissioner would oversee it and start running these companies now, because, as in this situation, ultimately, the bonds, as no one knew at the time, proved to be more valuable than people thought. Surely, the policyholders should not have gone through this suffering. We all agree with that today, but that, of course, is 20/20 hindsight.

But the system needs to be changed because I was always very reluctant—and while I was in there, I was the longest-tenured superintendent except for the first one in 1865 who was paid $10,000 a year for 10 years, which was a very good salary in 1865.

I was very reluctant to take companies down. I made sure I went in quickly enough to them to stop writing certain lines of business. We took down 23, but they were small property casualty companies that were just badly run. But I knew the minute you triggered a rehabilitation process, you landed up in a State court. Not like your Federal bankruptcy court, where you have judges who are trained in the area, who can look at it and understand the rights—because I have testified as an expert in the Federal bankruptcy court. You have all these rights that vest. All of a sudden, the carcass is being pulled apart by investment bankers, lawyers, accountants, actuaries, and it really is a feeding frenzy.

It is something, unfortunately, the commissioners don't have the standing to resist or can they legally. So whatever plan was put forward here, I am sure in its time and moment it seemed like a good idea, but the whole system needs to be changed.

So that is why I was always reluctant. In New York we had some troubled companies which will go unnamed, but we sat them down and we had the ability to say, "You can't write this line. We're not going to go public," without putting them into rehabilitation.

I had a standard speech I made, and people used to kid me about it: the will to regulate, the will to act. That is what you really needed.

Now I think when John Garamendi took over, by that time my own opinion was Executive Life was long gone because the junk bond market had become illiquid, a market that Drexel had cre-

ated, and there is no recourse back. That was one of our concerns back in 1987.

Mr. OSE. Do you know of any—let me rephrase this. Your successor had to deal with the Executive Life of New York issue.

Mr. CORCORAN. Right.

Mr. OSE. Are you aware of any contacts that he may have had in terms of the rehabilitation plan itself relative to, say, MetLife's ultimate purchase or any other bidders?

Mr. CORCORAN. Oh, sure, I am not privy to the confidential, but I am aware of the discussions when they were discussing with him to see what went on.

Mr. OSE. One of the things that I find most curious and I am trying to understand is the provision that I am aware of at least anecdotally relative to the sale of these companies. There is something called a put-back provision where, if someone comes in and buys the portfolio of an insurance company, all the bonds and what have you, apparently, there are provisions in some of these agreements whereby the buyer has a certain period of time after the close to put unsatisfactory bonds back to the seller. Are you familiar with this?

Mr. CORCORAN. No, I have never dealt with one of those.

Mr. OSE. You understand the concept?

Mr. CORCORAN. I understand the concept. I understand the concept in a private sector way, but not as a regulator.

Mr. OSE. You have never done that? I mean, you never did that during your tenure?

Mr. CORCORAN. No. We never had it in my tenure.

Mr. OSE. Why wouldn't you do that? It seems to me like to facilitate a sale——

Mr. CORCORAN. As a regulator?

Mr. OSE. Yes.

Mr. CORCORAN. The issue never came as superintendent. In fact, we never had that situation. Why would I not do that? Well, my own theory as a regulator was people would come forward with investment proposals and all sorts of wonderful things, and if I didn't understand them, I said, "Look, we're not doing it." If it is too complicated, we are not in the business of risk assumption here; we are in the business of getting things done in the open light of day, and whatever is simple, I am keeping it simple.

Mr. OSE. I have to admit I am not Michael Milken, or whatever. I have a passing understanding of the put-back concept. If I came to New York and I had approached you and said I would like to buy the seized company known as Executive Life of New York but I would like a period of time after close to go through the bond portfolio and basically cull out that which I really don't want and put them back to you, what would your reaction have been?

Mr. CORCORAN. Well, I am not trying to be argumentative here, but if I were in a multicomplex situation like that, I would probably have to go get experts to tell me that that is something you do, because I am a lawyer by training, and it sounds like something that the Wall Street brokers would know more about. I would have to find out if that is fair and normal, and how does that benefit the policyholders. So they would have to give me their analysis. Is this the only way I can get the bonds sold? Maybe it is true.

Maybe it isn't. But I think you would have to go through that process.

My first reaction to it would be, well, you've got to convince me that that is the best thing for the policyholders, and maybe they could. I don't really——

Mr. OSE. It seems to me that the ability to put back bonds from the portfolio that you don't want is almost a risk-free guarantee.

Mr. CORCORAN. It sounds good to me, but the only question I would have there is, are you the only one that wants to buy this? Am I so illiquid—and I think I don't really know this, but let's presume that this company was so illiquid, and I think that was its problem initially, and you guys can tell me whether or not it was, that they needed cash. I don't know how far my back would be to the wall to agree to something like that. It had to be pretty far back.

Mr. OSE. But you dealt with technical insolvencies also?

Mr. CORCORAN. Well, we never had something like that, no. No, no one——

Mr. OSE. In this issue, in those situations where you did have a technical insolvency, I mean you would make a judgment as to the revenue stream and whether it could meet the demands of policyholders in the structured settlements?

Mr. CORCORAN. And the other one you had, they were mostly small insolvencies, and I had the Guarantee Fund to lean on if there was a shortfall. Now, of course, the Guarantee Fund would say, do whatever you can do to make my assessment as small as possible, and they are sitting at a table with you. So if someone came to me with a complex deal like that, I would probably turn around to the Guarantee Fund and say, "Well, you know, you're the guys who are ultimately going to pay the price. This is a national group. Is this the best thing to do? Tell me. I'm not an expert in all areas. I will admit I don't understand all these things, but explain to me why I should do that."

Mr. OSE. So you would negotiate whether or not to include a put-back provision into any such deal?

Mr. CORCORAN. The only criteria I would have, is this the best thing for the policyholders?

Mr. OSE. OK.

Mr. CORCORAN. I have a real simple criteria as Insurance Commissioner. It was, is that best for the policyholders?

Mr. OSE. From your understanding of the Executive Life of California deal, if that included a put-back provision, would that have been beneficial to the policyholders?

Mr. CORCORAN. I am just guessing here, so the testimony isn't that valuable. But if it was the only way out, if there was nobody else at the table, if everybody wanted that, if this was the highest price I could get for the bonds—I wasn't sitting there doing the negotiating, I can't tell you.

But I do know that the company was illiquid, and they wanted to start paying claims, I presume, to policyholders as fast as possible.

Mr. OSE. It is my understanding they were technically insolvent also.

Mr. CORCORAN. Yes, there was a liquidity issue. Now in hindsight we all agree it was liquidity and the thing could have probably within time come out of it, but at that time they needed cash desperately. That I do know. I don't know what else——

Mr. OSE. Of the seven or eight bids that were received, I am only aware of one that ended up having the put-back provision included.

Mr. CORCORAN. I am, Mr. Chairman, unaware of any of these.

Mr. OSE. OK.

Mr. CORCORAN. All I know is there were seven or eight bids, and NOLHGA made a bid, and the Guarantee Funds make bids. Of course, the Guarantee Fund's effort there, don't forget, I mean in all fairness to the Guarantee Fund, they represent all the companies that competed with Executive Life and lost business, and now they get the privilege of paying the bill.

Mr. OSE. Right.

Mr. CORCORAN. So they're not happy bunnies when they are sitting at the table because their whole thrust is try to pay as little as possible. So that is why I do believe that we need to go to a Federal system, much more comprehensive, and stop this process, which is every Commissioner loses control the minute it gets into that courtroom, because then it becomes the great game.

Mr. OSE. OK, this has been very illuminating. I appreciate your time.

Mr. CORCORAN. I appreciate the opportunity.

Mr. OSE. Mr. Green, your tenure at the Insurance Commission commenced when?

Mr. GREEN. Actually commenced on the evening of July 5, 2000, when Bill Lockyer called me to his office and said, "Tomorrow morning Law Professor Clark Kelso is going to take over for Mr. Quackenbush and you get to go over to the Department of Insurance to be the Deputy Commissioner and Chief Counsel."

For the almost 12 years previous to that, I was Deputy Attorney General of the State of California. I still technically am; I am on leave and I will be returning to that position whenever my tenure at the department is over.

Mr. OSE. So from 1988 to 2000 you were at the AG's office?

Mr. GREEN. Yes.

Mr. OSE. You are on temporary assignment, so to speak, over at the IC's office at this point?

Mr. GREEN. Right, right, and most of my hours as a deputy attorney general from 1988 to 2000 were spent representing the Department of Insurance.

Mr. OSE. In the course of the transaction in which Executive Life was seized, what deliberations occurred? Did the office go outside for third-party advice? How did they make the decision that in fact the company was insolvent?

Mr. GREEN. It is very hard for me to say. I need to give you a little bit of background.

Mr. OSE. OK.

Mr. GREEN. In December 1990, approximately a month before Mr. Garamendi took office as the first elected Commissioner, Commissioner Gillespie, the last appointed Commissioner, came to John Vandecamp, who was then the attorney general, and basically said, "I've got a problem with this company and I need specialized out-

side counsel to help me with this problem." Attorney General Vandecamp, pursuant to his ability under the California Government Code, gave that permission.

So what subsequently transpired is that the attorney general's office never was really part of the representation, never has been part of the representation, of three now, four now, Commissioners in connection with Executive Life because, as I understand it, Mr. Garamendi took that initial approval from John Vandecamp and took the position that he was, therefore, entitled to only use outside counsel, never use the attorney general for any matter involving Executive Life.

So while, for some technical reasons, Dan Lungren's name was on some of the pleadings in Executive Life, my office, that office, had nothing to do with it. I don't know what Mr. LeVine has seen in the documents about the deliberative process, but, unlike we were mentioning today when we were speaking before the hearing, the Pacific Standard case, which I was lead counsel for the Commissioner as a deputy AG for 10 years, I don't know what processes the department went through. Maybe Mr. LeVine has some information from the documents that he has looked at.

Mr. OSE. So you wouldn't know whether or who advice was sought from?

Mr. GREEN. Well, I do know, because it is part of the record, that the law firm that Ms. Gillespie hired was Rubenstein and Perry. I do know that Mr. Carl Rubenstein took a lead role in representing first Roxanne Gillespie and then John Garamendi in the court proceedings. I do know that.

I don't recall as I sit here—maybe Harry does—the names of other law firms that were involved, but I do know that law firm was basically lead counsel for the Insurance Commissioner in the Executive Life proceedings in the early nineties.

Mr. OSE. OK. Mr. LeVine, the same question.

Mr. LEVINE. Yes, I didn't work on Executive Life at the time. So it is my understanding that the department staff, financial staff, worked on—yes, the question was monitoring the solvency of the company, I believe. I know that department staff worked on that.

I don't know whether there were experts. I know that once Executive Life went under, as Mr. Green just mentioned, they hired Rubenstein and Perry, and they hired lots of other consultants. But prior to the insolvency, I am unclear right now on whether someone else helped in the analysis of the financial picture.

Mr. OSE. So in December 1990 Commissioner Gillespie approached Mr. Van de Kamp and said, "I've got a problem." Van de Kamp approved Gillespie going outside for third-party counsel, so to speak. Then, subsequently, the newly elected Insurance Commissioner came into office, inherited Rubenstein's firm as the lead counsel on the case?

Mr. LEVINE. I believe that's correct, and Rubenstein and Perry certainly was the lead counsel in the conservation.

Mr. OSE. In terms of Gillespie's determination in December 1990 as to the insolvency or lack thereof at Executive Life, who would have been involved in that deliberative process at the Insurance Commissioner's office?

Mr. GREEN. For sure, one of the people who would have been involved is Norris Clark, who remains the Deputy Commissioner for Financial Affairs and a very nationally respected individual.

Mr. OSE. Norris Clark?

Mr. GREEN. Clark, yes. What he does, he for sure would have been involved. After that, between Norris and Roxanne Gillespie, you know, I don't know who that would be. I have seen—and I have the ability to waive the attorney/client privilege, and I am to a certain extent—I have seen the memo that went from——

Mr. OSE. I will be clear: I haven't asked you to do that.

Mr. GREEN. I know that, sir. I know that.

I have seen the memo once that went from then-Commissioner Gillespie to Mr. Vandecamp. I just recall it saying that there was a problem and there was a need for specialized counsel. You know, I haven't probably looked at it in 8 or 9 months. I had a reason to look at it about 8 or 9 months ago, and that is the first time I had ever seen it.

Mr. OSE. Mr. LeVine, you are currently at the Department of Insurance?

Mr. LEVINE. Yes.

Mr. OSE. As counsel, you are career counsel at the Department of Insurance?

Mr. LEVINE. Yes, I am.

Mr. OSE. Your primary duties and responsibilities include what?

Mr. LEVINE. My primary responsibility is overseeing this current piece of litigation.

Mr. OSE. Relating to Executive Life?

Mr. LEVINE. Relating to Executive Life and some other issues relating to Executive Life that still need to be resolved.

Mr. OSE. Such as?

Mr. LEVINE. There are some trusts that are out there that are making distributions. There are legal issues that come up occasionally. Every now and then we need to modify the rehabilitation agreement to facilitate a distribution, things like that.

Mr. OSE. OK. So you have, is it fair to say that you have day-to-day management responsibilities of the Commissioner's suit against Credit Lyonnais?

Mr. LEVINE. Well, subject to Mr. Green's review, yes.

Mr. OSE. OK. Can you review for us briefly the events that led to the purchase of most of the assets of Executive Life by agents and subsidiaries of Credit Lyonnais, just generically? I just want to put it on the record relative to your guys' understanding.

Mr. LEVINE. Well, I mean, I am not sure if I understand what you are asking, but the basic outline is starting with, I guess, the——

Mr. OSE. Let me be a little more specific.

Mr. LEVINE. OK.

Mr. OSE. We are talking about the initial overtures from the purported buyer, whether it be Credit Lyonnais or otherwise. Did the Commissioner's office get approached early on, and were there any communications back and forth?

Mr. LEVINE. Well, I can tell you what I know about that, but, again, here is where I want to indicate that I need to be cautious because I am not the witness and there will be people who will be

deposed and testify about various contacts and what they said, what they meant.

But it is my understanding that Altus was already working with Executive Life before the insolvency on their own presumably proposed recapitalization or restructuring, or whatever it might have been. I believe there were some meetings or a meeting—I don't know if I should use the plural—with the Commissioner prior to the seizure of the company. But on April 11, 1991, the Commissioner was appointed as conservator and seized the company.

Mr. OSE. Now would it have been illegal for Credit Lyonnais to have openly purchased the assets of Executive Life in 1991?

Mr. LEVINE. Yes, I believe so. It would have violated the Bank Holding Company Act. I don't think they were able to do that.

Mr. OSE. And you are indicating that Altus may have approached the Commissioner's office prior to April 11, 1991?

Mr. LEVINE. Right, but I don't mean——

Mr. OSE. You don't know what the reason was?

Mr. LEVINE. Exactly, and I don't know that Altus was proposing buying the company or proposing some piece of it or working with someone else. I don't know the nature of the approach.

Mr. OSE. Do you know when the Commissioner's office was first approached by the agents of Credit Lyonnais?

Mr. LEVINE. No, I don't.

Mr. OSE. OK.

Mr. LEVINE. I mean, I think it was sometime in—actually, I shouldn't speculate. I mean I'm going to guess. I will speculate. Sometime at the end of 1990 or early 1991.

Mr. OSE. Do you know what was discussed in those meetings?

Mr. LEVINE. No, I am not the person that would know the answer to that one.

Mr. OSE. There is a memorandum that was put out dated May 21, 1991, entitled, "Memorandum," and it is addressed to "Parties Interested in Financial Participation in Executive Life Insurance Company Rehab. Plan." This is the document, and I would be happy to have the clerk deliver the document to you.

The question is, are you familiar with this document?

Mr. LEVINE. I have seen the document, and I know generally what it is.

Mr. OSE. Does this document constitute the requirements for bidders interested in purchasing Executive Life?

Mr. LEVINE. That is my understanding, but I haven't, again, I haven't worked with the witnesses and the people that drafted it, and don't know the context, but on its face that appears to be what we would have called an RFP.

Mr. OSE. So this is, if you will, the initial document, the purpose of which would have been to move forward with rectifying the situation that arose from the insolvency of Executive Life? In other words, this kind of is the road map that we are going to go down?

Mr. LEVINE. I think whether it was the initial document or not, again, I don't know, but it was certainly a public pronouncement of how the Commissioner was going to go about getting a definitive bid and then inviting overbids, other bids.

Mr. OSE. Do you have a copy there with you?

Mr. LEVINE. Yes, I do.

Mr. OSE. OK. If you will look at page 2, section 2, titled, "General Structure of Rehabilitation," the second sentence states, "The general concept is that all fixed assets and liabilities would be transferred from ELIC to NEWCO."

If I read that correctly, the initial proposal, as represented in this memorandum, would track fairly closely what transpired in New York in the sense that the original bid requirement was for both the assets and the liabilities to be transferred to the proposed new company. Am I reading this correctly?

Mr. LEVINE. Well, here's where the rubber meets the road on my sort of not having personal knowledge. I mean, I could read that and I agree it says, "fixed assets," but I don't know whether that means selling the bonds and taking the cash and giving it to a new company or giving the junk bonds to a new company or if there's flexibility in there. I mean, I don't know, and I would suspect that is something that our witnesses will be asked in the course of discovery in this case.

Mr. OSE. I was going to ask what the word "fixed" means, but the next sentence defines it fairly well to include both the liabilities and the assets to be transferred.

Now, pursuant to this memorandum, there was a final purchase agreement, if you will, I think in November, that led to acceptance of Altus' bid on November 14, 1991. The reason I ask that—I don't know if you have a copy of this in front of you; I think you do.

Mr. LEVINE. I do.

Mr. OSE. That is a copy of the final purchase agreement?

Mr. LEVINE. Well, this is a copy—this has been updated since then. There have been many modifications. Things didn't go as anybody initially planned probably in November 1991. As changes were made, this document was modified. It is my understanding this is through 1997. So this does include all the changes through 1997, but it is my understanding that it embodies the original document as well.

Mr. OSE. How does the original document differ from this memorandum of May 21, 1991? Do you have any analysis of that?

Mr. LEVINE. I think they are entirely different. I think this is basically an outline of a structure for a bid, and this is all the dirty details.

Mr. OSE. If I understand the memorandum from May 21, the road map laid out there is a bonds-in kind of deal. Do you know whether or not this document is a bonds-in or a bonds-out type of document?

Mr. LEVINE. Well, I know that the Altus bid was bonds-out. I don't know if this is. As I was saying earlier, I don't really know if this May 21st document contemplated bonds-in or bonds-out, or who knows what kind of structure. But, yes, the Altus deal was a bonds-out deal.

Mr. OSE. You say the eventual sales was a bonds-out deal?

Mr. LEVINE. Yes.

Mr. OSE. OK. So at some point or another, somebody either determined that the memorandum did not require a bonds-in deal or changed what they would be willing to accept to make the deal to allow a bonds-out deal?

Mr. LEVINE. Again, I just don't know because I don't know that bonds-out or bonds-in was contemplated, prohibited, allowed, anything in this document.

Mr. OSE. Did the assets as well as the liabilities in this deal get transferred together to the new company?

Mr. LEVINE. Well, it is my understanding, yes, they did. I mean the cash, not all of it, but most of the cash, most of the assets from Executive Life were transferred to—well, transferred to a number of places. They were transferred to Aurora. Certain assets were put into what we call the enhancement trusts, and then certain assets were retained by the estate. But eventually all the assets were for the benefit of the policyholders.

Mr. OSE. Do you know whether a separate sale of the bonds without the liabilities or the underwriting portion of the business was part and parcel of the final agreement on sale?

Mr. LEVINE. Again, other people would testify to this, but I am fairly confident that the answer is no, that the bid was to—it was a bid, and part of it was that one person would take the bonds and other people would take the insurance assets and liabilities, but, no, they were not separate deals. And the bonds left the company.

Mr. OSE. Do you know whether or not the sale represented in this document allowed for a separate purchase of the bonds or a purchase of the bonds separate from the liabilities to the policyholders?

Mr. LEVINE. I think the answer to that is no, but I believe it is also an issue in the case. I believe you will have the defendants telling you that the bonds were separated somehow at some point in time in the transaction, but we don't believe that's true.

Mr. OSE. That is one of the items being litigated?

Mr. LEVINE. Absolutely, yes.

Mr. OSE. As to what—there is writing and then there is actuality, if I understand the law in some of these cases.

Mr. LEVINE. I'm sorry, there's what and there's actuality?

Mr. OSE. There is writing, there is a written document, and then there is actuality as to what happens, and that is apparently what the subject of the litigation is. You don't need to comment.

Mr. LEVINE. Thank you.

Mr. OSE. Now the document for the final purchase and sale was amended over time?

Mr. LEVINE. Yes, it was.

Mr. OSE. Do you have a copy of the amended purchase and sale agreement? That is what this is?

Mr. LEVINE. That's what that is.

Mr. OSE. OK.

Mr. LEVINE. But, again, I wanted to point out that it is not up through—not current to date. There are other separate agreements that have been negotiated, and nobody has taken the time to put them into one comprehensive agreement.

Mr. OSE. I have a document; it is called exhibit 2, from Morgan, Lewis & Bockius out of Pennsylvania, which represented certain French interests. Do you have it there?

[Exhibit 2 follows:]

MORGAN, LEWIS & BOCKIUS
COUNSELORS AT LAW
2000 ONE LOGAN SQUARE
PHILADELPHIA, PENNSYLVANIA 19103-6993
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DIAL DIRECT (215) 963-5464

October 10, 1991

REDACTED

VIA FEDERAL EXPRESS

CONFIDENTIAL COMMUNICATION

Lorraine Johnson, Esquire
Senior Counsel
State of California
Department of Insurance
Legal Division
100 Van Ness Avenue
San Francisco, CA 94012

Re: **Executive Life Insurance Company**

Dear Ms. Johnson:

Enclosed for your review are a variety of materials detailed below describing the members of the "NewCo" Investor Group ("Investors"). As you requested, we have provided an additional copy of each item to facilitate the review process. The information being provided should still be treated as highly confidential, for all the reasons set forth in David Harbaugh's letter to you dated September 17, 1991.

The Investors in NewCo presently consist of the follow companies, in the percentages shown:

MAAF Vie	27%
Novalis, S.A.	20%
Financiere Du Pacifique S.N.C. ("Finapaci")	17%
SDI Vendome	17%
Marceau Investissements, S.A.	9.5%
Omnium Geneve	9.5%
	100%

0170

Confidential Pursuant to Protective Order

EXHIBIT

ELIC6299 02226

MORGAN, LEWIS & BOCKIUS

Lorraine Johnson, Esquire
October 10, 1991
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Facsimiles of translated financial statements covering a two year period have been provided for each entity (save for SDI Vendome), along with original annuals reports (when available in English). These financial statements have been translated into English and converted to U.S. Dollars by the Paris office of Ernst & Young ("E&Y"). Hardcopies of the facimiles, along with the financial statements of SDI Vendome, are slated to arrive early next week and will be forwarded upon receipt.

As requested by Mr. Norris W. Clark, E&Y has also prepared a general description of the major differences between French accounting conventions and generally accepted accounting principles used in the United States. Copies of this description are also included.

With respect to the Investors holding 10% or more, I have enclosed the organizational affidavits you requested, except the SDI Vendome affidavit, which hopefully will arrive from France tomorrow. The organizational charts for these same entities along with charts and lists of affiliates will be sent by facsimile tomorrow as well.

Finally, I have enclosed the signed, original individual biographical affidavits shown on the enclosed list. More will follow tomorrow, along with a "checklist" for each Investor indicating all affidavits and other documents submitted.

I look forward to speaking with you tomorrow to answer any questions you may have. Thank you again for your ongoing cooperation and assistance.

Very truly yours,

Daniel W. Krane

DWK/paj

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LIST OF INDIVIDUAL AFFIDAVITS SUBMITTED

MAAF VIE S.A.

Directory

IRIGOIN, Jean
President of Directorate

CHALLET, Jean-Paul

GUÉRIT, René

SIMONET, Pierre

Oversight Committee

Mutuelle Assurance
des Artisans de France
(M.A.A.F.)
Member, represented by

SEYS, Jean-Claude

MAAF ASSURANCES S.A.

Director General

SEYS, Jean-Claude
Director General

ROUX, Michel
Deputy Director General

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NOVALIS S.A.

Board of Directors

DUCROUX, Jean
President

LAFRANCHI, Bernadette
Administrateur

RIVAIN, Renaud
Administrateur

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FINANCIERE DU PACIFIQUE

Manager [Gérant]

MORALI, Véronique

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ELIC6299 02230

GENERAL DESCRIPTION OF THE MAIN DIFFERENCES BETWEEN US GAAP AND FRENCH GAAP IN STATUTORY ACCOUNTS

French statutory accounts are produced according to a model defined by law (Company Act of July 24, 1966) that updated in 1982 to ensure conformity with the EC's Fourth Directive. A specific chart of accounts was introduced in 1986 for consolidated accounts. The presentation is made before appropriation of profit.

A Company should produce notes to the accounts which are similar to the US companies' notes. Companies also have to produce an annual report and,of course, tax returns (which are very useful to understand the tax computation).

An audit report is required for all SA companies (Société Anonyme). Auditors express an opinion stated in the auditor's general report, on whether the financial statements give a true and fair view of the company's position. The auditors must also report on related party transactions in the auditors' special report.
The chartered accountant who produces the accounts cannot be the auditor (Commissaire aux Comptes) of the company.

French GAAP for statutory accounts are found in Company and Tax Acts, and legal form predominates over economic substance.

CONSOLIDATED ACCOUNTS

As for consolidation methods, diffences between US and France practices concerning consolidation are not numerous, due to the implementation of the EC's Seventh Directive in France, which is in accordance with US GAAP.
Consolidation is compulsory since January 1985 for listed companies, else from January 1989..
Consolidated income is not available for distribution.

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GOODWILL

Goodwill may be recorded only if it has been purchased. Unless its value is legally protected, goodwill is usually amortised in consolidated accounts.
Goodwill depreciation is not compulsory in the statutory accounts and cannot be deducted for tax purposes.

INVESTMENTS

There exists four types of investments:
- investments in affiliated companies: investments must have been acquired through a public offering or represent at least 10% of the affiliate's share capital, with a purpose of creating at least a lasting economic link. They are accounted for at the lower of cost or net asset value. Specific information in the notes is required on subsidies an associated companies.
- capitalised portfolio securities are securities held for medium to long term profit. They are accounted for at purchase price and depreciation is provided for. Disclosure in the notes is recommended of the estimated value of the portfolio at the beginning and the end of the year, compared with its book value.
- Other investments are those, excluding investments in affiliated companies, that a company intends to hold for a long period of time or that it cannot resell in the near future. They are accounted for at the lower of cost or net asset value.
- marketable securities acquired to make a short-term gain are valued at year end at the lower of cost or net asset value.

For statutory accounts, investments are carried at cost less depreciation when necessary.

PENSION COMMITMENTS

Pension commitments are not recorded in the French statutory accounts but are disclosed. In France, pension benefits are financed on a defined benefit scheme basis by contributions of both employers and employees to legal bodies and mutual insurance groups. Additionnally to this general scheme, a legal provision requires the employers to pay their employees a retirement premium at their retirement living date.
This defined benefit scheme, and in some cases other specific one's, called "pensions commitments" need to be disclosed in the notes and optionnally provided for in the statutory accounts.

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Amounts involved are in fact far less significant than in the US where most of the pension benefits schemes operate on a defined benefit scheme basis and according to specific employers / employees agreements.
Pension commitments can be recorded against the reserves or amortised over X years.

LEASING

Leased assets are not capitalised, and rent paid by the user constitutes an expense. Disclosure of the original cost of the assets, the depreciation expense and accumulated depreciation, however, is required in the notes as if the leased assets had been purchased. France does not recognise the difference between operating and finance leases as defined in the US.
Leases may be capitalised in consolidated accounts when the purchase agreement is not cancellable.

DEFERRED TAX

In general, deferred tax is not recorded in the statutory accounts, except on consolidation: only due tax is recorded in individual accounts.
Deferred tax is instead disclosed in the notes to financial satiements.

PROFIT AND LOSS ACCOUNT

• Income and expenses are presented by nature rather than by function. As a consequence, gross profit does not appear on French income statements.

• The income statement is split into three separate parts:
- operating
- financial
- exceptional

The matching concept applies in each of these three elements.

• Unrealised foreign exchange losses are recorded in the profit and loss account, but unrealised foreign exchange gains are deferred.

APPENDIX: COMPARISON OF ACCOUNTING CONCEPTS

	FRANCE	US
Going concern concept	Y	Y
Accruals or matching concept	Y	Y
Historical cost concept *	Y	Y
Consistency principle	Y	Y
Prudence principle	Y	Y
Materiality concept	Y	Y
Economic substance over legal form concept **	N	Y
Grossing off concept	Y	N

* Except revaluation

** Except for consolidation

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Mr. LEVINE. Yes, I do.

Mr. OSE. Do you recognize it?

Mr. LEVINE. I have seen a lot of documents in this case. I believe I have seen this one.

Mr. OSE. OK. It appears to describe which entity owns what percentage of the new entity that bought Executive Life. Is that your understanding?

Mr. LEVINE. Yes, that is my understanding. At least that is what was being proposed in October 1991. This list of proposed owners actually changed and is not the final list.

Mr. OSE. Does this letter accurately represent the real ownership of the assets of Executive Life post-purchase?

Mr. LEVINE. Of course not because Altus and Credit Lyonnais aren't listed here.

Mr. OSE. Those are who the real owners were?

Mr. LEVINE. At the close of the transaction, it is our contention they owned 67 percent of the company, yes.

Mr. OSE. I have another document dated April 8, 1992 from the same law firm. In the document, some pages back, it contains a statement from Omnium Geneve, which is a Swiss corporation, that claims that Credit Lyonnais has no ownership interest in it except for two purportedly irrelevant European interests. If you will give me a minute, I can find the page.

Mr. LEVINE. I have it in front of me.

Mr. OSE. It is paragraph 2 that makes that representation. Does this document accurately reflect Omnium Geneve's—excuse me—Credit Lyonnais' ownership interest?

Mr. LEVINE. It is our contention that it does not.

Mr. OSE. OK. Who had the ownership and control over Omnium's share of Executive Life assets?

Mr. LEVINE. Well, they had written agreements with—excuse me—Altus had written agreements with Omnium giving them the right or selling them the shares; the forward transfer of shares, I believe it might have been called.

Mr. OSE. These are what are called "call options"?

Mr. LEVINE. The document has been translated from French to English. I think one of the translations is call options.

Mr. OSE. Actually, it says, the French document says, "Promesse de Vente D'Actions," "promise of selling" something. Well, you speak French; I don't.

Mr. LEVINE. I figured 3 years ago this case couldn't go that long, so I wouldn't learn French. [Laughter.]

Mr. OSE. Patience. You might.

Now this document has a call option on Omnium's share of Executive Life assets, is in favor of Altus?

Mr. LEVINE. Yes.

Mr. GREEN. You're talking about exhibit 5?

Mr. OSE. I am talking about exhibit 5, yes. Thank you.

[Exhibit 5 follows:]

[Illegible]

CALL OPTION

BETWEEN THE UNDERSIGNED

- OMNIUM GENEVE S.A.
  A Swiss corporation with a capital of 20,750,000 Swiss francs, whose headquarters are located at 1 Place des Bergues, 1201 Geneva, Switzerland, represented by Mr. Herve Bubois, Chairman of the Board of Directors

hereafter referred to as "OMNIUM" (promissor)

PARTY OF THE FIRST PART

AND

- ALTUS FINANCE
  A French corporation with a capital of 4,408,109,300 French francs, whose headquarters are located at 34/36 avenue de Friedland, 75008 Paris, France, listed in the Businesses and Corporations Register of Paris under number B 772 049 871,

Represented by Mr. Yves Chassagne, Executive Vice President, declaring himself to be empowered to execute this document,

Hereafter designated "ALTUS"

PARTY OF THE SECOND PART

[Handwritten notes: right of Altus to acquire the shares at any time following the acquisition by Omnium, at a premium of $450K over and above the value of the shares; + payment of $750K, analyzed as the option premium, to which Omnium would remain entitled in the event that Altus proves unqualified to purchase]

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WHEREAS:
The corporation NEW CALIFORNIA LIFE HOLDINGS INC (hereafter "NCLH"), is an American holding company organized to be the shareholder of 100% of the American corporation AURORA NATIONAL LIFE ASSURANCE COMPANY (hereafter "AURORA"), participating in the rehabilitation plan of EXECUTIVE LIFE, a California insurance company in liquidation.

OMNIUM must, in the coming weeks and no later than December 31, 1992, carry out the acquisition by subscription from NCLH of 150 (one hundred fifty) shares of NCLH, each having a par value of 100,000 (one hundred thousand) U.S. dollars (hereafter "the Shares"), representing 15% of the capital of NCLH on the date of said acquisition. [15M$]

Parallel to the acquisition of the Shares, OMNIUM is a signatory to an NCLH Shareholders' Agreement, restricting the free negotiability of the Shares for a period of five years.

However, ALTUS wishes to have an option to purchase the totality of the Shares, exercisable in the year following their acquisition by OMNIUM.

IN CONSEQUENCE OF WHICH, THE PARTIES AGREE TO THE FOLLOWING:

ARTICLE 1
OMNIUM irrevocably promises to sell, at the prices and conditions and by the methods hereafter stipulated, to ALTUS or its designee, the Shares of NCLH which OMNIUM is to acquire, and ALTUS accepts said promise as a simple promise.

In the event that ALTUS shall designate for the purpose of acquiring the Shares, any other moral or physical person of its choice, ALTUS would remain jointly responsible for the entire execution of this agreement.

If for any reason OMNIUM has not acquired the Shares by December 31, 1992 at the latest, the present agreement shall automatically be null and void, without indemnity of wither party. [Null and void]

ARTICLE 2
2.1. Pursuant to a Shareholders' Agreement entitled "Agreement restricting transfer of shares" – the text of which appears in Annex 1 – binding Omnium to NCLH, it is stipulated that:

(a) The Shares are not transferrable except with the prior written consent of the INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA (hereafter the "Commissioner")

(b) The acquirer of the Shares must, in advance of the transfer of the Shares, ratify without reservation the aforementioned Shareholders' Agreement.

ALTUS expressly declares that it has full knowledge of the terms of the Shareholders' Agreement and that it accepts said terms without reservation.

ALTUS declares in addition that it will personally undertake, in the event of the exercise of the option granted to it by OMNIUM, to obtain the prior consent of the Commissioner as described in (a), above.

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In consequence, in the event that ALTUS does not obtain said consent, this agreement shall be automatically null and void without indemnity, and OMNIUM shall remain entitled to the entire option premium referred to in Article 4 below,

2.2. ALTUS undertakes to obtain all statutory and other authorizations that may be required to complete the transfer of the Shares in its favor, it being expressly agreed that ALTUS shall in no case nor for any reason be entitled to invoke against OMNIUM the failure to obtain any such authorization in order to defer the payment of the acquisition price of the Shares.

2.3. ALTUS shall assume all costs, charges and taxes of any kind to which this agreement and the forward transfer of Shares are subject, for any reason.

The rights and obligations of the parties hereto shall apply to their successors, transferees and entitled parties.

ARTICLE 3

The option may be exercised at any time, beginning upon the acquisition by OMNIUM of the Shares, until November 30, 1993 at 6:00 p.m. (Paris time).

During this period, ALTUS may at any time exercise the option herewith granted it, by informing OMNIUM of its intention by any means ALTUS chooses.

After the expiration of this period, and in the absence of a new agreement between the parties, ALTUS shall no longer be entitled to exercise the purchase option granted to it.

During the term of this agreement, OMNIUM undertakes not to sell the Shares in whole or in part, without prior written consent from ALTUS.

ARTICLE 4

In consideration for the call option granted to it by this agreement, ALTUS is paying to OMNIUM today an option premium in the amount of 750,000 U.S. dollars (seven hundred fifty thousand U.S. dollars).

ALTUS expressly accepts that this option premium is and shall remain indefinitely vested, in its entirety, in OMNIUM under all circumstances.

ARTICLE 5

The transfer, if it occurs, shall be executed based on an aggregate value of 15,450,000 U.S. dollars [$15M+$450K] (fifteen million four hundred fifty thousand U.S. dollars), to which shall be added interest at an annual rate of 12 month LIBOR plus 0.60%, capitalized annually and accruing from the date hereof until the date on which the Shares are transferred to ALTUS.

From this amount shall be deducted the option premium fixed in Article 4 above.

The total, calculated in this manner, shall be the transfer price of the Shares.

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In addition, this transfer price having been determined, ALTUS shall reimburse OMNIUM for all taxes or charges which OMNIUM may be required to pay during the term of this agreement as a result of its status as a shareholder in NCLH, and, in particular, all taxes which OMNIUM may be required to pay in the United States as well as the stamp duty payable in Switzerland.

This aggregate transfer price shall be paid in cash within eight days after the consent of the Commissioner is obtained, as described in Article 2.1 above, against delivery of a transfer deed for the Shares in favor of the acquirer. The Shares will be transferred with immediate possession rights.

ARTICLE 6

In the event of a merger of NCLH by way of absorption by another company, or in the event of other structural modifications during the term of this agreement, this agreement shall apply to the shares of the surviving company or of the new company or companies, which were delivered to OMNIUM in exchange for the Shares, without any change to the transfer price agreed to above, which shall apply regardless of the number and value of the securities then held by OMNIUM. The same shall apply in the event of a transformation of NCLH into any other entity. The same principle shall apply in the event of a reduction in NCLH's capital, regardless of the number of securities which OMNIUM may still hold.

In the event of an increase in NCLH's capital, by way of an incorporation of reserves, profits, or issue premiums or by the issuance of new shares, during the term of this agreement, the bonus shares distributed to OMNIUM as holder of the Shares which are therefore the extension of and ancillary to said Shares, shall be added to these shares as an integral part of the subject property of this agreement, and there shall accordingly be no addition made to the price agreed upon above.

OMNIUM is not required to act on a capital increase in the form of cash, but it undertakes in all cases during the term of this agreement not to transfer the subscription rights to any physical or moral person other than ALTUS. In the event that on the date of the transfer of the Shares to ALTUS, OMNIUM holds any rights detached from the Shares, and they are still valid, they must be delivered without charge to ALTUS.

ARTICLE 7

For the purposes of performance of this agreement, the parties elect domicile at the address indicated above.

They additionally undertake to inform one another immediately of any change of address.

ARTICLE 8

The undersigned expressly agree not to disclose this agreement to any third party, except for the government agencies and authorities which would have the right to demand such disclosure, their counsels, or with the purpose of compelling the other party to perform its obligations on account of its refusal to do so.

In all other cases, the party which would have made the disclosure or made such disclosure necessary shall bear the entire consequences, whatever their nature, resulting therewith.

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ARTICLE 9

The parties agree to attempt to settle amicably any problems that may arise with respect to this promise or its performance.

They also agree to refer to arbitration any and all disputes, without exception, that would not thus be settled, and which may arise with respect to the validity, interpretation, or performance of this promise.

The sending by the first party of a notice or the sending by the second party of the response mentioned in 2) herewith shall constitute an agreement to arbitrate pursuant to this section.

The arbitration court shall be constituted in the following manner:

1) the party wishing to resort to arbitration (the first party) shall send the other party (the second party) a notification by registered letter, return receipt requested, indicating the object of the dispute and its desire to submit the dispute to arbitration by either a single arbitrator or three arbitrators. In such case, the first party shall indicate the name of the arbitrator it shall have designated.

2) The second party shall reply by registered letter, return receipt requested, either by accepting arbitration by a single arbitrator as proposed by the first party, or by indicating the name of the arbitrator (among the three arbitrators) that it shall have designated.

3) In the event that the second party fails to respond within fifteen days after the date the letter of the first party was presented to it, or failing agreement between the two parties on the name of a single arbitrator within fifteen days of presentation of the letter of the second party, or failing agreement between the two arbitrators designated by the parties within fifteen days of their designation on the name of the third arbitrator, the most diligent party may request the President of the Commercial Court of Paris to appoint the single arbitrator, or the second or third arbitrator, as the case may be, by order issued in "refere" proceedings.

The agreement to arbitrate shall be drafted and executed at the latest within thirty days of the designation of the third arbitrator; failing this, the provisions of the New French Code of Civil Proceedings relating to arbitration shall apply.

The arbitration court shall be constituted in Paris and shall render its decision, which shall be final, as an "amicable arbitrator," without any necessity for it to observe the French rules of law.

The decision shall be rendered within three months of the agreement to arbitrate. The arbitrators may ask the parties for any extensions they deem necessary or useful. However, there may not be more than two two-month extensions in total.

The arbitrators shall allocate the costs of arbitration (arbitrators' fees, expenses and fees of the parties' counsels and experts' costs) between the parties.

The party which, by refusing to perform the arbitration award, compels the other party to apply to a court for enforcement of the award, shall bear all costs, taxes and fees which may result therewith.

Made in Paris
On November 19, 1992
In two originals

Signed by : OMNIUM GENEVA
ALTUS FINANCE

Cabe

PROMESSE DE VENTE D'ACTIONS

ENTRE LES SOUSSIGNEES

- OMNIUM GENEVE S.A.
  Société de droit suisse au capital de FS 20 750 000,
  dont le siège social est 1 Place des Bergues, 1201 GENEVE - SUISSE -
  représentée par Monsieur Hervé DUBOIS, Président du Conseil d'Administration,

Ci-après désigné "OMNIUM" promettant

D'UNE PART

ET

droit d'
~~Promettant~~ Altus d'acquérir les actions à tout moment à partir de l'acquisition par Omnium, prix de 450 k$ minimum

- ALTUS FINANCE
  Société Anonyme de droit français, au capital de F. 4 408 109 300,
  dont le siège social est 34/36 avenue de Friedland, 75008 PARIS - FRANCE -
  inscrite au Registre du Commerce et des Sociétés de PARIS, sous le numéro B 722 049 871,

  représentée par Monsieur Yves CHASSAGNE, Directeur Général Adjoint,
  déclarant être dûment habilité à l'entier effet des présentes,

S&C 03858 Ci-après désigné "ALTUS" CL 00045 CONFIDENTIAL

D'AUTRE PART

il s'agit des nouvelles actions
éventuellement émises
750 k$, analogue comme la prime de l'option,
qui serait acquise à Omnium, au cas où Altus
ne serait pas qualifié pour acheter
et lorsque atteint 450 et 750 k$ ch. dès lors

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IL A ETE PREALABLEMENT EXPOSE CE QUI SUIT :

La Société NEW CALIFORNIA LIFE HOLDINGS INC (ci-après "N.C.L.H.) est une société holding de droit américain constituée pour être actionnaire à 100 % de la Société de droit américain AURORA NATIONAL LIFE ASSURANCE COMPANY (ci-après "AURORA") devant participer au plan de reprise de EXECUTIVE LIFE, société d'assurance de l'Etat de CALIFORNIE en liquidation.

OMNIUM doit procéder dans les prochaines semaines et au plus tard le 31 Décembre 1992 à l'acquisition par souscription auprès de N.C.L.H. de 150 (cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100.000 (cent mille) dollars U.S. (ci-après "les Actions") représentant 15 % du capital de N.C.L.H. au jour de cette acquisition. IJ M #

Parallèlement à l'acquisition des Actions, OMNIUM est signataire d'un pacte d'Actionnaires de N.C.L.H. restreignant la libre négociabilité des Actions sur une période de cinq ans.

Toutefois, ALTUS a souhaité bénéficier d'une option d'achat portant sur la totalité des Actions, exerçable dans l'année suivant leur acquisition par OMNIUM.

EN CONSEQUENCE DE QUOI, IL A ETE CONVENU CE QUI SUIT :

ARTICLE 1

OMNIUM promet irrévocablement de vendre, aux prix, conditions et modalités stipulés ci-après, à ALTUS ou à son substitué, laquelle l'accepte en tant que simple promesse, les Actions de N.C.L.H. qu'elle va acquérir.

Dans l'hypothèse où ALTUS désignerait pour acquérir les Actions, toute autre personne physique ou morale de son choix, elle resterait solidairement responsable de l'entière exécution des présentes.

Dans le cas où OMNIUM n'aurait pas acquis les Actions au plus tard le 31 Décembre 1992, pour quelque cause que ce soit, la présente promesse serait alors caduque et nulle d'effet de plein droit, sans indemnité de part ni d'autre.

ARTICLE 2

2.1. Aux termes d'un Pacte d'Actionnaires dénommé "Agreement restricting transfer of shares" - dont le texte figure à l'annexe 1 - liant OMNIUM à N.C.L.H., il est notamment stipulé que :

a) Les Actions ne sont cessibles qu'avec l'accord préalable écrit de "l'INSURANCE COMMISSIONNER OF THE STATE OF CALIFORNIA" (ci-après le "Commissionner").

b) L'acquéreur des Actions devra préalablement au transfert des Actions ratifier sans réserve le Pacte d'Actionnaires susvisé.

ALTUS déclare expressément avoir parfaite connaissance dudit Pacte d'Actionnaires et en accepter les termes sans réserve.
ALTUS déclare en outre faire son affaire personnelle, en cas d'exercice de l'option lui étant conférée par OMNIUM, de l'obtention de l'accord préalable du Commissionner visé au a) ci-dessus.

En conséquence, dans le cas où ALTUS n'obtiendrait pas cet accord, la présente promesse serait alors caduque et nulle d'effet de plein droit et sans indemnité, la prime d'option visée à l'article 4 ci-dessous restant intégralement acquise à OMNIUM.

2.2. ALTUS fera son affaire de l'obtention de toutes autorisations statutaires et autres qui pourraient être nécessaires à la réalisation du transfert des Actions en sa faveur, étant expressément convenu qu'ALTUS ne pourra en aucun cas et pour quelque cause que ce soit opposer à OMNIUM le défaut d'obtention d'une quelconque de ces autorisations pour différer le paiement du prix d'acquisition des Actions.

2.3. ALTUS prendra à sa charge tous les frais, droits et taxes de toute nature auxquels la présente promesse et la cession éventuelle des Actions pourraient donner lieu pour quelque cause que ce soit.

Les droits et obligations des parties à la présente promesse s'imposeront et bénéficieront à tous leurs successeurs, cessionnaires et ayant-droits.

ARTICLE 3

La présente promesse pourra être levée à tout moment à compter de l'acquisition par OMNIUM des Actions et jusqu'au 30 Novembre 1993 à 18 heures (heure de PARIS).

Durant ce délai, ALTUS pourra exercer à tout moment l'option lui étant présentement consentie en informant OMNIUM de son intention par tout moyen au choix de ALTUS.

Passé ce délai, et sauf nouvelle convention entre les parties, ALTUS ne pourra plus user de la faculté d'acheter qui lui est offerte.

Pendant la durée de la présente promesse, OMNIUM s'interdit de vendre tout ou partie des Actions, sans l'accord préalable écrit de ALTUS.

ARTICLE 4

En contrepartie de l'option d'achat lui étant consentie par la présente promesse de vente, ALTUS verse à OMNIUM ce jour une prime d'option d'un montant de US 750.000 (sept cent cinquante mille dollars U.S.).

Cette prime d'option est et restera définitivement et intégralement acquise à OMNIUM en toutes circonstances, ce qui est expressément accepté par ALTUS.

ARTICLE 5

15 M$ + 450 K$

La cession, si elle intervient, sera effectuée sur la base d'une valeur globale de U.S. D. 15.450.000 (quinze millions quatre cent cinquante mille dollars U.S.), majorée d'un intérêt au taux de LIBOR -douze mois- + 0,60 % l'an, capitalisé annuellement et décompté du jour des présentes jusqu'au jour de la cession des Actions à ALTUS.
De ce montant, sera déduite la prime d'option fixée à l'article 4 ci-dessus.

Le montant ainsi calculé constituera le prix de cession des Actions.

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Outre, ce prix de cession ainsi déterminé, ALTUS remboursera à OMNIUM tous impôts, taxes ou charges que OMNIUM aurait à acquitter pendant la durée du présent engagement du fait de sa qualité d'actionnaire de N.C.L.H., et notamment tous impôts et taxes que OMNIUM pourrait avoir à acquitter aux Etats-Unis ainsi que le droit de timbre payable en SUISSE.

Ce prix total de cession devra être payé comptant à OMNIUM dans les huit jours suivants l'obtention de l'accord du Commissionner visé à l'article 2.1. ci-dessus, contre remise d'un acte de transfert des Actions au profit de l'acquéreur. Les Actions seront transférées avec jouissance courante.

ARTICLE 6

En cas de fusion par absorption de N.C.L.H. par une autre société, ou en cas d'autres modifications de structures pendant la durée de validité de la présente promesse, cette promesse sera reportée sur les actions ou les parts de la société absorbante ou de la ou des sociétés nouvelles, qui auraient été remises à OMNIUM en échange des Actions et ce, sans aucune modification du prix de cession convenu ci-dessus qui sera appliqué quelque soit le nombre et la valeur des titres alors détenus par OMNIUM. Il en serait de même en cas de transformation de N.C.L.H. en entité de toute autre forme. Il sera fait également application de ce même principe en cas de réduction de capital de N.C.L.H. quelque soit le nombre de titres dont OMNIUM resterait propriétaire.

En cas d'augmentation de capital de N.C.L.H., par incorporation de réserves, bénéfices ou primes d'émission et par émission d'actions nouvelles, pendant la durée de validité de la présente promesse, les actions qui auraient été attribuées gratuitement à OMNIUM au titre des Actions et qui en seraient, en conséquence, le prolongement et l'accessoire, s'ajouteraient à ces actions comme faisant partie intégrante de l'objet de la promesse et par conséquent, sans aucun supplément au prix convenu ci-dessus.

OMNIUM n'est pas tenu de suivre à une augmentation de capital en numéraire, mais il s'interdit dans tous les cas, pendant toute la durée de validité de la présente promesse, de céder les droits de souscription à une personne physique ou morale autre que ALTUS. Au cas où, à la date de transfert des Actions à ALTUS, OMNIUM disposerait de droits détachés des Actions en cours de validité, il devrait les remettre gratuitement à ALTUS.

ARTICLE 7

Pour l'exécution des présentes, les parties font élection de domicile à l'adresse indiquée en en-tête des présentes.

Elles s'engagent en outre à s'informer réciproquement et sans délai de toute modification de ladite adresse.

ARTICLE 8

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions des Administrations et Autorités en droit d'en obtenir communication, leurs conseils, ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

1123-1

ARTICLE 9

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant la présente promesse ou son application.

Elles conviennent également de soumettre à un tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution de la présente promesse.

L'envoi par la première partie de la notification, ou l'envoi par la deuxième partie de la réponse prévue en 2) ci-après vaudra compromis dans les termes de la présente clause.

Le tribunal sera constitué de la façon suivante :

1) La partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception, indiquant l'objet du différend et son désir de recourir, soit à un arbitre unique, soit à trois arbitres et, dans ce cas, la première partie indique le nom de celui des arbitres qu'elle a choisi.

2) La deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois arbitres qu'elle choisit.

3) Faute par la deuxième partie d'avoir répondu quinze jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un arbitre unique dans les quinze jours de la présentation de la lettre de la deuxième partie ou faute par les deux arbitres choisis de s'entendre dans les quinze jours de leur désignation sur le nom du troisième arbitre, la partie diligente pourra solliciter la désignation de l'arbitre unique, du deuxième ou troisième arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de PARIS statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente jours de la désignation du troisième arbitre ; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile Français sur l'Arbitrage.

Le tribunal siègera à PARIS et statuera, en premier et dernier ressort, en amiable compositeur sans être tenu d'observer les règles de droit français.

Il devra rendre sa décision dans un délai de trois mois suivant l'établissement du compromis. Les arbitres pourront demander aux parties telles prorogations qu'ils jugeront nécessaires ou utiles sans que le total puisse dépasser deux prorogations de deux mois chacune.

Les arbitres devront répartir les frais d'arbitrage (honoraires des arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

1123-11

La partie qui par son refus d'exécution contraindra l'autre partie à poursuivre l'exécution judiciaire de la sentence restera chargée de tous les frais, droits et honoraires auxquels la poursuite de cette exécution aura donné lieu.

Fait à Paris
Le 16 Novembre 1992
En deux originaux

OMNIUM GENEVE

ALTUS FINANCE

11/16/92

FORWARD SHARE TRANSFER AGREEMENT

BY AND BETWEEN:

Omnium Genève, S.A.,
a Swiss company with stated capital of 20,750,000 Swiss francs,
having its principal office at 1 Place des Bergues, 1201 Geneva, Switzerland,
represented by Mr. Hervé Dubois, Chairman of the Board of Directors,

hereafter referred to as "Omnium"

PARTY OF THE FIRST PART,

AND

Altus Finance, a French corporation (*société anonyme*) with stated capital of 4,408,109,300 French francs, having its principal office at 34-36 Avenue de Friedland, 75008 Paris, registered with the Paris Trade and Company Registry under number B 722 049 871,

represented by Mr. Yves Chassagne, Executive Vice President, who represents that he is duly authorized for the purpose hereof,

hereafter referred to as "Altus"

PARTY OF THE SECOND PART.

EXHIBIT
16A

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EXHIBIT
1124
CHASSAGNE

RECITALS:

The firm New California Life Holdings Inc. (hereafter referred to as "NCLH") is a US holding company that was incorporated in order to wholly own the US company Aurora National Life Assurance Company (hereafter referred to as "Aurora"), which company is to participate in the takeover of Executive Life, a California insurance company in liquidation.

Over the coming weeks, and by December 31, 1992 at the latest, Omnium must subscribe for 150 (one hundred and fifty) NCLH shares with a par value of 100,000 (one hundred thousand) US dollars each (hereafter referred to as the "Shares"), representing 15% of NCLH capital on the date of acquisition.

Moreover, Omnium has signed an NCLH Shareholders' Agreement, authorizing the transfer of the Shares over a period of five years from the date of their acquisition.

As Altus wishes to acquire some Shares, the parties have agreed to this forward sale.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

ARTICLE 1 – SALE

1.1 Omnium hereby sells to Altus, which accepts, for the price and on the terms and conditions set forth below, all the Shares of NCLH it is obliged to acquire, namely 150 shares with a par value of 100,000 US dollars each, all fully paid up.

The parties expressly agree that this forward sale is made subject to Omnium acquiring the Shares by December 31, 1992 at the latest.

Should it fail to acquire the Shares by this date, irrespective of the reason for said failure, this agreement shall become null and void by operation of law, without either party being entitled to compensation.

1.2 For the purpose of this sale, all of the Shares shall be transferred to Altus at the times and in the proportions set out below:

a) At the end of a one-year period from the date of acquisition of the shares by Omnium, one indivisible lot corresponding to 5% of the Shares.

b) At the end of a two-year period from the date of acquisition of the shares by Omnium, a second indivisible lot corresponding to 5% of the Shares.

c) At the end of a three-year period from the date of acquisition of the shares by Omnium, one indivisible lot corresponding to 10% of the Shares.

[... *one or more pages are missing*]
Where applicable, all taxes, duties and expenses that Omnium may be required to pay during the term of this agreement as a result of its status as a shareholder of NCLH, including all taxes and duties Omnium may be required to pay in the United States and the stamp duty payable in Switzerland, shall be added to the sale price and shall form an integral part thereof.

3.2 In addition to this sale price, Altus shall pay Omnium interest equal to the 12-month Libor rate + 3.60% per annum on November 30, 1993, 1994, 1995, 1996 and 1997, which interest payments shall respectively correspond to the following periods:

- from this day until November 30, 1993
- from December 1, 1993 to November 30, 1994
- from December 1, 1994 to November 30, 1995
- from December 1, 1995 to November 30, 1996
- from December 1, 1996 to November 30, 1997.

Interest shall be calculated on the sale price fixed under 3.1 above, or[1] any outstanding portion of said price for Shares still held by Omnium during each of the aforementioned periods.
All dividends net of withholding tax collected by Omnium on the Shares during the period under consideration, if any, shall be deducted from said amount to be paid to Omnium.

In addition, if all the Shares have not been transferred to Altus by November 30, 1997, Altus shall pay Omnium the same interest, prorated for the period from December 1, 1997 to the day the remainder of the Shares are transferred as provided in 1.2. e) above. It is agreed that said interest shall be calculated on the portion of the sale price of the Shares still outstanding.

Finally, Altus shall pay Omnium on this day the sum of USD 750,000 (seven hundred and fifty thousand US dollars) as an advance on the interest owed for the period from this day to November 30, 1993. As a result, this advance shall be deducted from the amount of interest due for said period that Altus will pay Omnium on December 15, 1993[2].

ARTICLE 4 – SUBSTITUTION AND PREMATURE TRANSFER

If, as a result of any new regulation or decision issued by the US, European, French or Swiss authorities, Omnium is unable to keep the NCLH Shares or if, as a result of said regulation, the cost of keeping the Shares would be excessive for Omnium, it shall be entitled either to designate a third party to replace it, who must unreservedly ratify this agreement, or to ask Altus to immediately acquire or arrange for the acquisition of all the Shares held by Omnium at that time, in which case Altus undertakes to take all necessary steps to promptly complete said transfer.

The Shares held by Omnium at that time shall be transferred to Altus for the sale price fixed in Article 3.1, plus the interest fixed in Article 3.2 prorated over the current period.
In any event, Altus shall immediately indemnify Omnium for any extra cost of keeping the Shares as described above.

ARTICLE 5 – LOSS OF VALUE OF NCLH SECURITIES

Should the value of NCLH securities depreciate, irrespective of the reason therefor and including in the event of its bankruptcy or any other procedure resulting from the total or partial insolvency of NCLH or its subsidiaries, or in the event of a merger, split-up or partial contribution of assets, Altus shall not be entitled to raise any objection or claim any compensation in connection with the transfer of the Shares by Omnium.
Altus shall, in any event, still be required to perform this agreement in full.

ARTICLE 6 – PENALTY CLAUSE

Altus irrevocably undertakes to pay Omnium, or any entity that replaces it for the purpose of acquiring or holding the Shares, the penalty fixed below as damages, in the event the transfer of title to the Shares and/or the payment of interest specified in 3.2 above is impossible, namely because of NCLH's insolvency, dissolution, bankruptcy or inability to pay its debts or due to a new regulation or decision issued by the US, European, French or Swiss authorities.

The amount of the penalty shall be equal to the price of the Shares held by Omnium at that time, as indicated in 3.1 above, plus interest at the 12-month Libor rate + 3.60% per annum, from the date of Altus' last interest payment pursuant to 3.2 above until the date of payment of the penalty to Omnium.
Said penalty shall be paid no later than fifteen calendar days after Altus is unable to perform its aforementioned obligations.

In the event Altus pays this penalty to Omnium, the payment shall be made in US dollars.

ARTICLE 7

It is expressly agreed that Omnium shall be automatically considered to have fully performed its obligations under this agreement in all cases where the Shares have been transferred to Altus or its substitute on a date or dates prior to those specified herein.

[Stamp in English: confidential pursuant to protective order]

ARTICLE 8

Altus shall pay all the costs, duties and taxes of any kind that may be due for any reason whatsoever as a result of this agreement and the transfers of Shares.

The rights and obligations of the parties under this agreement shall be binding on and shall inure to the benefit of all of their successors, transferees and beneficiaries.

ARTICLE 9

For the performance hereof, the parties elect domicile at the addresses first above written.
Furthermore, they agree to inform one another immediately of any change in said address.

ARTICLE 10

The undersigned expressly undertake not to disclose this agreement to any third party, except for those Authorities entitled to be informed of it or their counsel, or other than in order to compel the other party to perform its undertakings if it has refused to do so.

Save for the exceptions listed above, any party which discloses this agreement or makes disclosure necessary shall bear all the consequences of said disclosure, of any kind whatsoever.

ARTICLE 11

The parties agree to endeavor to find an amicable solution to any problem that may arise in connection with this Agreement or its performance.

They also agree to refer to an arbitral tribunal any dispute whatsoever that cannot be amicably settled, and that may arise in connection with the validity, construction or performance of this agreement.

The sending of the notice by the first party or of the response by the second party referred to under point two below shall be deemed to constitute an arbitration agreement, in accordance with this article.

The Tribunal shall be formed in the following manner:

1. The party wishing to refer a matter to arbitration (the first party) shall give the other party (the second party) notice, by registered mail, return receipt requested, stating the subject matter of the dispute and its wish to refer the matter to a sole arbitrator or to a panel of three arbitrators, in which case the first party shall disclose the identity of the arbitrator it has appointed;
2. the second party shall reply in a letter sent by registered mail, return receipt requested, either agreeing to the first party's proposal to refer the matter to a sole arbitrator or disclosing the identity of the second arbitrator it has appointed;
3. should the second party fail to reply within fifteen days of the date on which the first party's letter is tendered for delivery, or should the parties be unable to agree on the identity of a sole arbitrator within fifteen days of the date on which the second party's letter is tendered for delivery, or should the two appointed arbitrators fail to agree on the identity of the third arbitrator within fifteen days of their appointment, the first party to act may request the appointment of a sole arbitrator, or the second or third arbitrator, as the case may be, by means of an order made by the Chief Judge of the Paris Commercial Court (*Tribunal de Commerce*), ruling in emergent proceedings.

The arbitration agreement shall be drafted and signed no later than thirty days after the appointment of the third arbitrator. Failing this, the provisions of the New Code of Civil Procedure (*Nouveau Code de Procédure Civile*) on arbitration shall apply.

The arbitrators shall make an award within three months of the date of the arbitration agreement. The arbitrators may ask the parties to extend this deadline should they consider this necessary or appropriate, provided however that the proceedings shall not be extended for more than two additional two-month periods.

The arbitrators shall allocate the arbitration costs (arbitrators' fees, expenses and fees of the parties' counsel and costs of expert opinions) between the parties as they see fit.

Any party who obliges the other party to seek enforcement of the arbitral award because of its refusal to abide by the award shall pay all taxes, duties and fees that may be incurred in connection with said enforcement.

Executed in Paris
on November 16, 1992
in two original counterparts

Omnium	Altus
(signature)	(signature)

Translator's Notes

[1] French is unclear – one or more words appear to be missing.
[2] November 30, 1993 is indicated as the payment date two paragraphs earlier

Revised by Aspen Traduction

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Doc 19

CONTRAT DE CESSION A TERME D'ACTIONS

ENTRE LES SOUSSIGNEES

- OMNIUM GENEVE S.A.
  Société de droit suisse au capital de FS 20 750 000,
  dont le siège social est 1 Place des Bergues, 1201 GENEVE - SUISSE -
  représentée par Monsieur Marvé DUBOIS, Président du Conseil d'Administration,

Ci-après désigné "OMNIUM"

D'UNE PART

ET

- ALTUS FINANCE
  Société Anonyme de droit français, au capital de F. 4 408 109 300,
  dont le siège social est 34/36 avenue de Friedland, 75008 PARIS - FRANCE -
  inscrite au Registre du Commerce et des Sociétés de PARIS, sous le numéro
  B 722 049 871,

  représentée par Monsieur Yves CHASSAGNE, Directeur Général Adjoint,
  déclarant être dûment habilité à l'entier effet des présentes,

Ci-après désigné "ALTUS"

D'AUTRE PART

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IL A ETE PREALABLEMENT EXPOSE CE QUI SUIT :

La Société NEW CALIFORNIA LIFE HOLDINGS INC (ci-après "N.C.L.H.) est une société holding de droit américain constituée pour être actionnaire à 100 % de la Société de droit américain AURORA NATIONAL LIFE ASSURANCE COMPANY (ci-après "AURORA") devant participer au plan de reprise de EXECUTIVE LIFE, société d'assurance de l'Etat de CALIFORNIE en liquidation.

OMNIUM doit procéder dans les prochaines semaines et au plus tard le 31 Décembre 1992 à l'acquisition par souscription auprès de N.C.L.H. de 150 (cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100.000 (cent mille) dollars U.S. (ci-après les "Actions") représentant au jour de leur acquisition 15 % du capital de N.C.L.H.

Parallèlement, OMNIUM est signataire d'un pacte d'Actionnaires de N.C.L.H. autorisant la cession des Actions étalée sur une période de cinq ans à compter de leur acquisition.

ALTUS souhaitant acquérir les Actions, la présente vente à terme a été convenue.

EN CONSEQUENCE DE QUOI, IL A ETE CONVENU CE QUI SUIT :

ARTICLE 1 - VENTE

1.1. OMNIUM vend par les présentes à ALTUS, qui l'accepte, aux prix, conditions et modalités stipulés ci-après, la totalité des Actions de N.C.L.H. qu'elle doit acquérir, soit 150 actions de 100.000 dollars U.S. de nominal chacune, entièrement libérées.

De convention expresse entre les parties, la présente vente est conclue sous réserve de l'acquisition des Actions par OMNIUM au plus tard le 31 Décembre 1993.

A défaut de réalisation de cette acquisition pour quelque cause que ce soit à cette date, le présent contrat deviendra caduc de plein droit, sans indemnité de part ni d'autre.

1.2. En exécution de la présente vente, le transfert de 100 % des Actions au profit de ALTUS s'effectuera aux époques et pour les quotités suivantes :

a) A l'expiration d'un délai d'un an à compter de l'acquisition des Actions par OMNIUM, un lot indivisible correspondant à 5 % des Actions,

b) à l'expiration d'un délai de deux ans à compter de l'acquisition des Actions par OMNIUM, un deuxième lot indivisible correspondant à 5 % des Actions,

c) à l'expiration d'un délai de trois ans de l'acquisition des Actions par OMNIUM, un lot indivisible correspondant à 10 % des Actions.

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Seront ajoutés au prix de cession et en feront partie intégrante ,s'il y a lieu ,tous impôts, taxes ou charges que OMNIUM aurait à acquitter pendant la durée du présent engagement du fait de sa qualité d'actionnaire de N.C.L.N., et notamment tous impôts et taxes que OMNIUM pourrait avoir à acquitter aux Etats-Unis ainsi que le droit de timbre payable en SUISSE.

3.2. Outre ce prix de cession, un intérêt égal au taux LIBOR -douze mois- + 3,60 % l'an sera versé par ALTUS à OMNIUM le 30 Novembre des années 1993, 1994, 1995, 1996 et 1997 au titre respectivement des périodes suivantes :

- de ce jour jusqu'au 30 Novembre 1993,
- du 1er Décembre 1993 au 30 Novembre 1994,
- du 1er Décembre 1994 au 30 Novembre 1995,
- du 1er Décembre 1995 au 30 Novembre 1996,
- du 1er Décembre 1996 au 30 Novembre 1997.

Cet intérêt sera calculé sur le prix de cession fixé au 3.1. ci-dessus ou partie de ce prix restant à verser au titre des Actions encore en possession d'OMNIUM durant chacune des périodes susvisées. De la somme ainsi calculée à verser à OMNIUM, seront déduits - s'il y a lieu - les dividendes nets de retenues à la source encaissés par OMNIUM sur les Actions durant la période considérée.

De plus, si la totalité des Actions n'a pas encore été transférée à ALTUS le 30 Novembre 1997, ALTUS versera à OMNIUM le même intérêt prorata temporis pour la période allant du 1er Décembre 1997 jusqu'au jour du transfert du solde des Actions tel que prévu au 1.2. a) ci-dessus, étant entendu que cet intérêt sera calculé sur la partie restant à verser du prix de cession des Actions.

Enfin, ALTUS verse ce jour à OMNIUM une somme de U.S. D. 750.000 (sept cent cinquante mille Dollars U.S.) à titre d'avance sur les intérêts dûs au titre de la période allant de ce jour au 30 Novembre 1993. En conséquence, cette avance sera déduite du montant des intérêts dûs au titre de cette période et qui sera versé le 15 Décembre 1993 par ALTUS à OMNIUM.

ARTICLE 4 - SUBSTITUTION ET CESSION ANTICIPEE

Au cas où une réglementation nouvelle ou une décision d'une autorité publique américaine, européenne, française ou suisse, mettait OMNIUM dans l'impossibilité de conserver les Actions de la société N.C.L.N., ou si du fait de cette réglementation, le coût de leur conservation devenait anormalement onéreux pour OMNIUM, cette dernière pourra à son choix soit se substituer un tiers qui devra ratifier sans réserve le présent contrat, soit demander à ALTUS d'acquérir ou de faire acquérir immédiatement la totalité des Actions alors détenues par OMNIUM. ALTUS s'oblige à prendre toutes dispositions utiles pour permettre la réalisation de cette cession sans délai.

La cession à ALTUS des Actions, qu'OMNIUM détiendra alors, s'effectuera au prix de cession stipulé à l'article 3.1. majoré de l'intérêt fixé au 3.2. décompté prorata temporis sur la période en cours.
Dans tous les cas, ALTUS indemnisera immédiatement OMNIUM du surcoût de conservation visé ci-dessus.

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ARTICLE 5 - PERTE DE VALEUR DES TITRES DE N.C.L.N.

Dans l'hypothèse où, quelle qu'en soit la cause et notamment en cas de faillite ou toute autre procédure résultant de l'insolvabilité totale ou partielle de N.C.L.N. ou de ses filiales, comme en cas de fusion, scission ou apport partiel d'actif, la valeur des titres de la société N.C.L.N. se déprécierait, la réalisation de la cession des Actions par OMCIUM n'ouvrira aucun droit à contestation ou indemnisation au profit de ALTUS.
Dans tous les cas, ALTUS restera tenue à l'entière exécution des présentes.

ARTICLE 6 - CLAUSE PENALE

ALTUS s'engage irrévocablement à payer, à titre de dommages et intérêts, à OMCIUM ou à toute entité que celle-ci se sera substituée pour l'acquisition ou la conservation des Actions, le montant de la clause pénale déterminé ci-après, pour le cas où le transfert de propriété des Actions et/ou le paiement des intérêts visés au 3.2. ci-dessus, ne pourraient pas être réalisés et notamment du fait de la déconfiture, dissolution ou mise en faillite ou insolvabilité de la société N.C.L.N. ou par l'effet d'une réglementation nouvelle ou d'une décision d'une autorité publique américaine, européenne, française ou suisse.

Le montant de la clause pénale sera égal au prix des Actions qu'OMCIUM détiendra alors, tel que fixé au 3.1. ci-dessus, majoré d'un intérêt dont le taux est LIBOR - douze mois - + 3,60 % l'an et commençant à courir à compter du jour du dernier versement d'intérêts de ALTUS en exécution du 3.2. ci-dessus jusqu'au jour du versement à OMCIUM de cette clause pénale.
Le versement de cette clause pénale devra intervenir dans les quinze jours calendaires suivants l'impossibilité pour ALTUS d'exécuter ses obligations indiquées ci-dessus.

Dans l'hypothèse où cette clause pénale devait être payée par ALTUS à OMCIUM, le paiement sera effectué en dollars U.S.

ARTICLE 7

De convention expresse, il est convenu qu'OMCIUM sera de plein droit réputée avoir pleinement exécuté les obligations lui incombant aux termes des présentes dans tous les cas où les Actions auraient été transférées à ALTUS ou son substitué à une ou des dates antérieures à celles convenues aux présentes.

Confidential Pursuant to Protective Order

ARTICLE 8

ALTUS prendra à sa charge tous les frais, droits et taxes de toute nature auxquels les présentes et les transferts des Actions pourront donner lieu, pour quelque cause que ce soit.

Les droits et obligations des parties aux présentes s'imposeront et bénéficieront à tous leurs successeurs, cessionnaires et ayant-droits.

ARTICLE 9

Pour l'exécution des présentes, les parties font élection de domicile à l'adresse indiquée en en-tête des présentes.

Elles s'engagent en outre à s'informer réciproquement et sans délai de toute modification de ladite adresse.

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ARTICLE 10

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions des Administrations et Autorités en droit d'en obtenir communication, leurs conseils ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

ARTICLE 11

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant le présent Contrat ou son application.

Elles conviennent également de soumettre à un tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution du présent accord.

L'envoi par la première partie de la notification, ou l'envoi par la deuxième partie de la réponse prévus en 2) ci-après vaudra compromis dans les termes de la présente clause.

Le tribunal sera constitué de la façon suivante :

1) La partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception, indiquant l'objet du différend et son désir de recourir, soit à un arbitre unique, soit à trois arbitres et, dans ce cas, la première partie indique le nom de celui des arbitres qu'elle a choisi.

2) La deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois arbitres qu'elle choisit.

3) Faute par la deuxième partie d'avoir répondu quinze jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un arbitre unique dans les quinze jours de la présentation de la lettre de la deuxième partie ou faute par les deux arbitres choisis de s'entendre dans les quinze jours de leur désignation sur le nom du troisième arbitre, la partie diligente pourra solliciter la désignation de l'arbitre unique, du deuxième ou troisième arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de PARIS statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente jours de la désignation du troisième arbitre ; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile sur l'Arbitrage.

OG 000408

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11247

Il devra rendre sa décision dans un délai de trois mois suivant l'établissement du compromis. Les arbitres pourront demander aux parties telles prorogations qu'ils jugeront nécessaires ou utiles sans que le total puisse dépasser deux prorogations de deux mois chacune.

Les arbitres devront répartir les frais d'arbitrage (honoraires des arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

La partie qui par son refus d'exécution contraindra l'autre partie à poursuivre l'exécution judiciaire de la sentence restera chargée de tous les frais, droits et honoraires auxquels la poursuite de cette exécution aura donné lieu.

Fait à Paris
Le 16 Novembre 1992
En deux originaux

OMNIUM

ALTUS

OG 000409

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Mr. GREEN. OK, thank you. That is fine.

Mr. LEVINE. This is sale of a stock, or a forward sale, I believe.

Mr. OSE. Well, it gives one party the option to purchase the stock within some period of time in the future.

Mr. LEVINE. I want to be cautious about not categorizing it as a call because I believe that Omnium absolutely had no ownership interest, and other people have to testify to this.

Mr. OSE. OK.

Mr. LEVINE. In other words, Altus actually had the ownership interest.

Mr. OSE. The net effect is to give control to some other party, if I understand?

Mr. LEVINE. That is my understanding as well.

Mr. OSE. And that other party would be, according to this document, Altus that would have control over Omnium's share?

Mr. LEVINE. That's right.

Mr. OSE. According to this document. Now when did the Insurance Department become aware of these arrangements?

Mr. LEVINE. We became aware—well, the department was first told that some arrangement might exist in the middle of June. I don't have the exact date in mind. The documents actually were received by us in January 1999.

Mr. OSE. So middle of June 1998——

Mr. LEVINE. Yes.

Mr. OSE [continuing]. To January 1999, you heard anecdotally, more or less, in June 1998; you got actual documents in January 1999?

Mr. LEVINE. That is correct. In January 1999 we received copies of some—there were a number of different, we called them "portage," is our version of the French word. We got a number of the "portage" contracts in January 1999.

Mr. OSE. So there are a number of these agreements. In whole, they comprise 100 percent ownership of the entity, but Company A has got an agreement, Company B has got an agreement, Company C has got an agreement. Is that what you are referring to?

Mr. LEVINE. Some of them have different arrangements. MAAF and Omnium Geneve have written agreements. In connection with two of the other French fronts, as we say "fronts," I don't know that they had written agreements quite as nice and neat as these, but it is our belief and our allegation that they had effectively agreements whereby they didn't own the shares and that Altus did own the shares.

Mr. OSE. The net effect, giving Altus control of the shares?

Mr. LEVINE. Right.

Mr. OSE. And, thereby, control of the company?

Mr. LEVINE. That's right.

Mr. OSE. All right. Were there any provisions in these documents for confidentiality, any confidentiality provisions in these documents?

Mr. LEVINE. Yes, there are. They say that they will be kept secret.

Mr. OSE. For what purpose?

Mr. LEVINE. Well, you have to ask the defendants, but I assume so the violation of the Bank Holding Company Act and Insurance Code Section 699.5 won't be revealed.

Mr. OSE. Now these documents were executed, if I recall, back in 1991?

Mr. LEVINE. They vary. There are some in 1991; there are some in 1992; I believe there are some in 1993.

Mr. OSE. So prior to the actual closing of the sale, these documents were in existence, but nobody knew about it?

Mr. LEVINE. That's our belief. It is our belief that—right, that Altus had the ownership interest prior to the closing.

Mr. OSE. Now did Credit Lyonnais—the Commissioner's office required some sort of a guarantor from the successful bidder on certain assets or payments to be made to the policyholders? Do you recall that?

Mr. LEVINE. I'm not sure what you have in mind. There were guarantees. Some of the bidders had guarantees; other bidders had guarantees of capital values. I'm not sure what you have in mind.

Mr. OSE. Let me ask the question differently. Did Credit Lyonnais play a public role as a guarantor of certain purchases in this case?

Mr. LEVINE. I don't think—again, I am not the person with the precise knowledge, but I can tell you what is my basic understanding. There was a time when they guaranteed Altus' ability to buy the junk bonds, and I believe that they gave a guarantee that the minimum capital and surplus of the new company, Aurora, they guaranteed that capital.

Mr. OSE. At what level?

Mr. LEVINE. $300 million.

Mr. OSE. OK. If you will look at exhibit 6, it is a letter to the Commissioner of the Insurance Department from or on Credit Lyonnais' stationery, dated April 19, 1991, representing "such additional funds as may be required to consummate the additional transactions being discussed as soon as agreement is reached."

Is this the document that the department considers to be the $300 million guarantee?

[Exhibit 6 follows:]

CREDIT LYONNAIS

Paris, April 19, 1991

LE PRESIDENT

The Honorable John Garamendi
Insurance Commissioner
State of California
Dept. of Insurance
770 L Street, Suite 1120
SACRAMENTO, California 95814
USA

IFH/FG/382

Dear Mr. Commissioner,

This letter is in reference to certain proposed transactions between Executive Life Insurance Company of California ("ELIC") and an investor group composed of Altus Finance and other substantial institutional investors (the "Investor Group"), involving the purchase of certain assets and the restructuring of certain liabilities of ELIC and certain subsidiaries. We understand that the details of these transactions, including conditions to their consummation, will be set forth in a definitive agreement to be completed within the near future.

We understand that these transactions, if consummated, will require a cash equity investment of three hundred million dollars. Please be advised that we are holding for the account of the Investor Group, or will make available for its account, funds in the amounts referred to above, upon our receipt of notice from the Investor Group that such amounts are required under the terms of the definitive documents currently being negotiated.

We further understand that significant additional funds may be required for the purchase of substantial portions of the assets of ELIC and its subsidiaries. Please be advised that we are holding for the account of the Investor Group, or will make available for its account, such additional funds as may be required to consummate the additional transactions being discussed as soon as agreement is reached.

The foregoing assurances are premised and subject to the assumption that definitive documentation will be executed by may 19, 1991 and that contemplated transactions will be consummated within 90 days thereafter.

Sincerely yours,

J.Y. HABERER
Chairman of the Board

EXHIBIT
6

** TOTAL PAGE.03 **

May 1991

CREDIT LYONNAIS

Paris, May 6, 1991

LE PRESIDENT

The Honorable John Garamendi
Insurance Commissioner
State of California
Dept. of Insurance
770 L Street, Suite 1120
SACRAMENTO, California 95814
USA

JFH/FG/393

RE : Financing/Letter of Credit

Dear Mr. Commissioner,

This letter is in reference to the proposal to rehabilitate Executive Life Insurance Company of California ("ELIC") on behalf of an investor group composed of Altus Finance and other substantial institutional investors (the "Investor Group"). We understand that such rehabilitation would involve the purchase of certain assets and the restructuring of certain liabilities of ELIC, as well as the infusion of substantial equity capital into the rehabilitated entity. We also understand that the parties will enter into discussions regarding the proposed transaction but that the parties will have no obligation to each other unless and until a definitive agreement is executed by the parties, including your office and the Investor Group.

This letter will confirm that subject to the conditions set forth herein, we have committed to provide financing or a letter of credit in the amount of $ billion ($ US) to the Investor Group to fund amounts that may be payable by the Investor Group under the definitive agreement. Any such financing or letter of credit may be provided by or through Crédit Lyonnais U.S. and may involve the participation of crédit Lyonnais.

The above-described commitment is subject to the execution of a definitive agreement, and the negotiation and execution of an agreement concerning the terms of such financing or letter of credit, which terms must be mutually agreed to by the parties, including the Investor Group and Crédit Lyonnais, in their sole discretion.

This letter will expire on June 21, 1991, unless otherwise extended.

Sincerely yours,

J.Y. HABERER
Chairman of the Board

19 boulevard des Italiens - 75002 Paris - Tél.: [illegible]

Mr. LEVINE. I don't know how many different documents there might have been, but I believe this refers to the $300 million guarantee, yes.

Mr. OSE. So there was correspondence in April 1991 relative to the guarantee that, if I recall, was outlined in this memorandum as being a necessary part of the deal between this party, in this case Credit Lyonnais, relative to Altus' ability to perform?

Mr. LEVINE. Well, the $300 million might relate to the ability of the MAAF group of investors to perform, but yes.

Mr. OSE. But this is what constitutes a representation that there was a guarantee? Now this also contemplates that the transaction would be consummated within 90 days, if you look at the last paragraph of the letter, dated April 19, 1991, exhibit 6?

Mr. LEVINE. They were only off by a little. [Laughter.]

Mr. OSE. Well, that begs the question. I mean I have borrowed money before, and I have had letters of credit. Typically, there is a charge for that. I mean $300 million, I figure half a point.

Mr. LEVINE. I have no idea.

Mr. OSE. You don't have any ideas about that?

Mr. LEVINE. I have no idea about the mechanics of that, the mechanics of their guarantee.

Mr. OSE. OK.

Mr. LEVINE. I don't mean to be flip, but you know that the transaction didn't close for years.

Mr. OSE. Well, that is my point. I mean, in fact, it was September 3, 1993.

Mr. LEVINE. That's right.

Mr. OSE. I just want to be clear that I understand the purpose of this letter of April 19. Is the purpose of this letter to assure the department that the guarantee is in place?

Mr. LEVINE. I am going to have to say that I don't know the answer to that, and probably the Commissioner's staff who were involved in the negotiation of this and will be deposed on all those kinds of questions are the ones that can answer it best. I mean, it certainly evidences it, and I don't know if there are other documents that also relate to it.

Mr. OSE. You have already mentioned that or we have already covered the fact that this had a 90-day period, so you figured it was going to end in 3 months.

Mr. LEVINE. Well, somebody thought that.

Mr. OSE. OK.

Mr. LEVINE. Or maybe somebody thought that. I shouldn't speculate whether they thought they were going to really consummate anything within 90 days.

Mr. OSE. Was Credit Lyonnais' guarantee—I mean, I presume from the simple reading of this that they expected a timely transaction and that they would be out of it in 90 days. It doesn't say that explicitly, but—well, actually it does. It says that, "contemplated transactions will be consummated within 90 days thereafter," of May 19, 1991. So, essentially, they are saying they are out of this thing in 90 days?

Mr. LEVINE. Yes, I read the same words, but I just don't know what all was going on. As you know, April 19, that is 8 days after we seized the company.

Mr. OSE. Right.

Mr. LEVINE. I have no idea all the circumstances that surround this and——

Mr. OSE. OK.

Mr. LEVINE [continuing]. What else might have been spoken of or written or in words.

Mr. OSE. And the transaction continued for roughly a year, 2 years after that, a little over 2 years beyond that. Can you give the committee some sense as to why the transaction went on or took this long?

Mr. LEVINE. Yes, there was a lot of litigation. There was litigation over whether the muni-GICs were properly policyholders or not. There was then litigation over whether the Commissioner's plan for valuing the muni-GICs was proper. I think those are the major pieces of litigation, but perhaps, as Mr. Corcoran noted, there's a lot of people who had a lot of dogs in the fight, and everybody was asserting their rights.

Mr. CORCORAN. There was Guaranteed Fund litigation. There was contract definition litigation. It was incredible. It was a "bar association meeting."

Mr. OSE. Now I want to go through and make sure I understand how the succeeding entity dealt with the policyholder claims. The company was seized. The portfolio, in part or in whole, was liquidated for the purpose of raising cash. We heard from our two witnesses earlier, Mrs. Jacobson and Mr. Bozeman, that their distributions were reduced.

How did the department go about determining who got what after the seizure?

Mr. LEVINE. Well, I believe it is actually in both this rehab. plan and then probably also in something called the product books, but it is my understanding that actuaries and other people were involved in determining how to give what is colloquially called a haircut to the policies, because Executive Life being insolvent, it obviously didn't have enough to pay everybody. I think it was quite a complicated procedure and Executive Life had quite a complicated collection of products it sold.

Mr. OSE. Now you had 300,000-odd policyholders. Some of them, their benefits exceeded the $100,000 and the $300,000 thresholds. To the extent that you had policyholders whose benefits were $100,000 or less in one case or $300,000 or less in another, those folks were taken care of by virtue of the Guarantee Fund?

Mr. LEVINE. I would assume generally that is correct, assuming their State had a $100,000 limit, right.

Mr. OSE. OK, in California I think that is the case.

Mr. LEVINE. So there was restructuring—it is a very complicated transaction. There are restructuring percentages. There is something called conservation date statutory reserves. They had to find a way to value the policies to know what they were worth, to know how to structure them.

So somebody just having a $100,000 shortfall, I don't know that I could be the one to say they automatically got their $100,000 from a guarantee association. It was tremendously complicated.

Mr. OSE. And, yet, in New York you had to deal with something similar, I am sure, relative to policyholders?

Mr. CORCORAN. Well, the nature of the product was pretty simple. It was single-premium, deferred annuities and some structured settlements. It wasn't nearly as complicated as the California company.

The key issue there was what was guaranteed under the Guarantee Funds and what wasn't, but, once again, as I said, the assets were adequate long term and only needed to be provided with some liquidity. MetLife, more or less, stepped up to the bat. Ultimately, I believe MetLife, it was a good deal for them. All the old policyholders were made whole, I believe.

Mr. OSE. Now the folks in California, the Guarantee Fund, to the extent that they stepped up, they now are a creditor to the estate?

Mr. LEVINE. They have subrogation rights, right.

Mr. OSE. So any recovery, they might get a piece of that?

Mr. LEVINE. That is correct.

Mr. CORCORAN. The Guarantee Fund also had their own exotic formula, and that was subject to challenge, that we got involved in. It wasn't so simple. I thought it was simple. We had written a statute thing that was simple, but they came up with these theories of weighted coverage. So that became part of this case.

Mr. OSE. If the department or the attorney general or the Department of Justice successfully conclude their actions and they recover $100, for lack of a better number, how does that $100 get allocated out to the current creditors, if you will?

Mr. GREEN. I am assuming by that question, Congressman Ose, that you are presuming that, if the U.S. Department of Justice prosecutes and gets money, that will assign $100 to the policyholders, because I don't think Mr. LeVine and I are competent to testify as to when the Federal Government makes a recovery, how the award or penalty gets——

Mr. OSE. OK, let's say in terms of the attorney general of California or the Insurance Department.

Mr. GREEN. The next one, as you know, the attorney general's case has been dismissed, but it is on appeal. That is a qui tam action and there are some real issues about how much the qui tam gets and how much the attorney general's qui tam fund gets.

Now the third is ours and, as we have explained to the staff, it will go pursuant to, first, section 1033 of the California Insurance Code, which sets up priorities very similar to the Bankruptcy Code priorities. Then that money assigned for policyholders, which are a second priority under our statute, would go pursuant to the rehabilitation plan. Those participating guarantee associations—for example, Congressman Burton mentioned Indiana, which we now think that the debt to that association is $38 million—they are subrogated to their policyholder rights. So they would get, if there was money, they would get—their proportionate share would go to the Indiana Guarantee Association, and policyholders would get their proportionate share pursuant to the rehab. agreement.

Mr. OSE. So you've got $38 million going to Indiana.

Mr. GREEN. Hopefully.

Mr. OSE. You've got $600-odd million that would go to—is it CIGA?

Mr. GREEN. CLIGA. It is called CLIGA.

Mr. OSE. OK, California Life Insurance Guarantee Association. Then there are other states that have participated.

Mr. GREEN. Right.

Mr. OSE. So they would each get a piece. So if you add all that up, what does it come to?

Mr. LEVINE. Do you mean what is the percentage?

Mr. OSE. No, what is the number we have got to get or recover in order to make everybody whole?

Mr. LEVINE. Oh, I don't have that number, but it is astronomical. I think the loss for time value of money and everything else——

Mr. OSE. This is Washington; I mean the numbers—[Laughter]——

Mr. LEVINE. I don't know the number. It is billions, "billions " plural, I am certain.

Mr. OSE. $5 billion?

Mr. LEVINE. Oh, I couldn't even speculate because I don't know. I am not sure that anybody, first of all, has calculated the actual loss that each policyholder took, taking what they got versus what they would have gotten had Executive Life never gone under. I don't think that number exists.

Mr. OSE. OK, so it is more than $1 billion because you said "billions."

Mr. LEVINE. I think it is more than $1 billion, yes.

Mr. OSE. Is it more than $2 billion?

Mr. LEVINE. I'm going to guess more than $2 billion, but, I mean, I——

Mr. OSE. Is it $10 billion?

Mr. LEVINE. I don't even have a basis for speculating on how much it takes to make everybody whole. I would hope $10 billion would do it, but I don't—I shouldn't even say that because I just really don't know.

Mr. OSE. If I understand correctly, on qui tam provisions the whistleblower gets a percentage, is that correct?

Mr. LEVINE. That is correct.

Mr. OSE. What is the percentage?

Mr. LEVINE. Oh, well, that's the AG's lawsuit. It depends on whether or not—my understanding of that law is it depends on whether or not the attorney general has intervened in the case. In that case, since the attorney general did intervene in the case, it is lowered, I would say, 15 to something.

Mr. GREEN. Yes, but once the attorney general intervenes, while the qui tam recovery goes down, the attorney general is entitled to make a recovery for his qui tam fund. So, yes, we understand—again, I am talking as a Deputy Commissioner, not a Deputy Attorney General—we understand that can be, the fund recovery can be as high as one-third. That is money that would not go to policyholders. That money would go to the attorney general's qui tam fund.

Mr. OSE. What is that money used for?

Mr. GREEN. Well, it funds—again, I am talking as a Deputy Commissioner, because in my AG life I don't work on false claims cases, but it is my understanding it goes to fund the attorney general's whistleblower lawsuits.

Mr. OSE. I have to ask this question because I don't quite understand why this would ever occur. We've got a situation where the policyholders have just been pounded. Why would you turn over up to a third of a billion dollars in one case or a third of something even larger to a fund that doesn't benefit the policyholders? Are there no limits on this?

Mr. LEVINE. I believe they say that there are limits, but I believe the attorney general would tell you that they have some flexibility, but we agree. That is why we believe the Commissioner suit—the Commissioner is the proper person to pursue recovery, because no part of the Commissioner's recovery goes to an attorney general's qui tam fund.

Mr. OSE. I will admit to some concern about the level of reward. I mean I recognize we would never have gotten this information without somebody stepping forward, but having stepped forward, what is the right amount to reward such a person? How do we make it enough so that the next guy does the same thing without hammering the policyholders?

Mr. GREEN. I can tell you of a case, because I use it in the business law classes that I teach, of a case for defrauding Medicare and Medicaid where the whistleblowers, three whistleblowers are going to share $105 million. That was just reported in—it was an $875 million penalty that the drug companies agreed to pay, and $105 million——

Mr. OSE. So they got one-eighth. They got one-eighth of it?

Mr. GREEN. One-eighth, yes, but it is $105 million being shared by three individuals.

Mr. OSE. You are making an argument for some sort of a cap on such rewards.

Mr. GREEN. No, not—I echo Mr. LeVine's comment, that our laws—while the Commissioner has gone on record as supporting, as being in favor of a decision by the Department of Justice to indict and bring criminal charges, in terms of a civil action ours is the one that in theory, and we hope in reality, will prove to provide the best benefit for the policyholders.

Mr. OSE. Let me change the focus here a little bit because I don't understand something relative to the component parts of the total estate. There were about $1.9 billion worth of guaranteed investment contracts that were held by or sold by Executive Life. The initial determination was that those constituted junior creditors at the time the insolvency was declared, and they were essentially wiped out with that determination.

A subsequent court ruling reinstated them as equal participants to the initial group of beneficiaries. Have the holders of the guaranteed investment contracts received anything in this process?

Mr. CORCORAN. No.

Mr. LEVINE. Yes.

Mr. OSE. You need to turn on your microphone.

Mr. CORCORAN. I don't believe ultimately—I left the case after a while, but they got payments but they never got Guarantee Fund coverage, but they got a haircut payment and, ultimately, some may have been made whole, I think, after time. There was a time value of money loss to them, but I think they did not qualify for Guarantee Fund coverage. They lost something.

Mr. LEVINE. That is my understanding as well. They don't qualify for Guarantee Fund coverage, but they were policyholders. That was the ruling of the Superior Court. It was upheld by the Court of Appeals. So they had the rights of policyholders. It is my understanding that most of them opted out. So they got their cash when they opted out.

Mr. OSE. They cashed in at the haircut value?

Mr. LEVINE. Yes.

Mr. CORCORAN. Right. The analysis they did was get the cash now; by the time this is over, I will get my money back through my own investments; I'll lose it on my own.

Mr. OSE. Was that a universal approach? Were there some that did stay in?

Mr. CORCORAN. The 60 companies I represented, it was mixed. It was mixed. Most of them opted out and took their cash, I believe.

Mr. OSE. In opting out, did they waive any claim to further payment?

Mr. CORCORAN. I believe they did, and they wanted to litigate separately against the Guarantee Fund, but I don't—in some courts they were there, but it was state by state.

Mr. OSE. So there are still a few that are in there having not opted out?

Mr. CORCORAN. I believe there is, yes.

Mr. LEVINE. Well, opt-out, they are still policyholders, so they will still share in a recovery.

Mr. OSE. They still get checks?

Mr. LEVINE. But you are correct that by opting out they got their haircut liquidation value. Maybe I shouldn't speak about liquidation value. They got their haircut and they did not share in enhancement payments that were received by those who opted in.

Mr. OSE. Right.

Mr. LEVINE. The real estate trust, something called the base assets trust, something called the——

Mr. CORCORAN. Quite a few of them stayed in, I think, for that purpose, but quite a few got out.

Mr. OSE. If there is further recovery through this deliberative process with our friends across the pond, will the policyholders, regardless of class, benefit from that?

Mr. LEVINE. Yes.

Mr. OSE. So you will have not only the structured settlement recipients like Mrs. Jacobson and Mr. Bozeman, but the holders of the guaranteed investment contracts and the like also?

Mr. LEVINE. Right. They are policyholders according to the court ruling.

Mr. OSE. Is there a difference in the treatment of any of these policyholder classes dependent upon who prevails in the litigation? For instance, if it is the Federal Government versus the attorney general versus the Insurance Commissioner?

Mr. CORCORAN. I think it would go pursuant to a preference——

Mr. GREEN. Whatever money is allocated to go to the estate will go pursuant to the combination of the priority statute and the rehab. plan.

Mr. OSE. Is that a function of the actual—if there is a settlement, is that a function of the actual settlement talks or is that a legally defined——

Mr. GREEN. It is legally defined.

Mr. OSE. OK. So there is no discretion, if you will?

Mr. GREEN. Yes, I don't believe the Commissioner has any discretion. If, for example, tomorrow we sat down and the defendants said, "We'll write you a check for 'X'," I don't believe the Commissioner has any discretion except to put that into the ELIC estate and have it paid out pursuant to the combination of the Insurance Code and the rehab. plan. That would be done with notice to the liquidation court, which is the Los Angeles County Superior Court.

Mr. OSE. All right, now we have invited a number of people here, as we invited you. You all came; some didn't. I will tell you I am somewhat disappointed that those didn't. Had they come and the people would come, the person who was the elected Insurance Commissioner then, the Department of Justice, or the person representing ostensibly the French government, we would have asked them a number of questions, such as:

How long does it usually take for the Department of Justice to approve the request of a career prosecutor to move forward on a case, and whether 2 years is an above-average length of time for that or below average or an average average? Does the Department of Justice take into account that statutes of limitations may run out while it is pondering its decision? That is a very real concern. Is it a normal activity for a foreign government to lobby the U.S. Government on criminal cases pending before the Department, and if so, what rules apply?

I hope to ask these questions at some point in the future, and I know you guys can't respond because you are not the subject of the questions.

I appreciate the fact that you all came down here. We may very well have additional hearings on this matter because there is a ton of money involved and a ton of people, and they have just gotten hammered. If somebody on the other side of this just wants to give us our money back, then maybe we won't have hearings, but we are going to shine light on this until we get a satisfactory resolution.

We have the typical practice here at this committee of following up with our witnesses with written questions. We are going to do that. Given the passage of time, we are going to go ahead and end this hearing, but we do have written questions we will forward to you. We would appreciate timely responses. The record will stay open for 2 weeks for that purpose.

With that, we are going to wrap up. Gentlemen, we thank you very much. We thank you for coming. We appreciate your input.

This hearing is adjourned.

[Whereupon, at 2:05 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

[The prepared statement of Hon. Henry A. Waxman, additional information submitted for the record, and the complete set of exhibits referred to follow:]

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BERNARD SANDERS, VERMONT,
INDEPENDENT

Opening Statement of Rep. Henry A. Waxman
Hearing on
The Collapse of Executive Life Insurance Company
and its Impact on Policyholders
October 10, 2002

The collapse of Executive Life Insurance Company in 1991 is an important issue that deserves careful consideration by this Committee. But I am confused by the last-minute timing of this hearing and the absence of key witnesses. It is unclear what this hearing will actually accomplish.

The collapse of Executive Life affected over 300,000 policyholders, many of whom lived in California. The hardest hit policyholders were those people who relied on annuity payments for their living expenses. When Executive Life collapsed, these policyholders – many of whom were disabled – lost significant amounts of money.

For this reason, I wrote to Chairman Burton six months ago, asking him to monitor this issue. According to press accounts, the Los Angeles office of the U.S. Attorney's office recommended in April 2001 that Credit Lyonnais be indicted. However, there were disturbing reports from the *New York Times* that the Justice Department might be negotiating a lenient settlement with the bank that would provide little restitution to policyholders. Concerns were also being raised about efforts by the French government to lobby President Bush and Secretary of State Powell. And the French bank had retained a close ally of President Bush to lobby the Justice Department. My letter requested that the Committee look into these issues.

In addition, Rep. Nancy Pelosi and Rep. Howard Berman wrote to Attorney General Ashcroft to express their concerns about how the Justice Department was handling this matter. Republican members, including Mr. Ose and Rep. Jerry Lewis, have made similar requests.

How the Justice Department is proceeding in this matter and whether DOJ is being improperly influenced by political considerations are important issues falling squarely within the Committee's jurisdiction. These issues need to be – and can be – examined in a bipartisan manner.

- We have a hearing that may be used for partisan political purposes to affect an election 26 days from now.
- And we have a hearing that could possibly damage the only chance for policyholders to recover any money.

This is not how I would have approached this hearing. Nevertheless, if we are able to send a unified message to the Justice Department, some good can be accomplished. It is important for the Justice Department to understand the loss being suffered by Mr. Bozeman, Ms. Jacobsen, and other policyholders, and it is important for the Department to understand the urgency of federal action to redress their wrongs.

John Garamendi graduated Harvard Business School
but must have slept through his finance classes.
Fellow alumnus Leon Black was clearly wide awake during his.

Smart buyer, dumb seller

By Ellie Winninghoff

THIS IS THE STORY of how in the guise of protecting the public, an ambitious politician opened the door to vast riches for an equally ambitious New York financier. The politician is California Insurance Commissioner John Garamendi, a former varsity football star who aspires to be California governor. The New Yorker is Leon Black, a 42-year-old dealmaker who learned real-life finance in the Michael Milken/Drexel Burnham Lambert university.

The story is worth telling because it illustrates what happens when politicians with scant understanding of how markets work match wits with financiers who do.

Leon Black, an intense man who looks much younger than his years, graduated Dartmouth College and Harvard Business School. He was co-head of mergers and acquisitions at Drexel Burnham, helping create many of the overleveraged buyouts that collapsed in the late 1980s and early 1990s.

John Garamendi, now 49, is a Californian who played end on the University of California's football team. He went off to Harvard's business school and returned to California to take a job and soon after entered public life.

Our Black/Garamendi story begins on Oct. 13, 1989, the day the junk bond market decline began to accelerate. The crash was a disaster for Los Angeles' First Executive Corp., a holding company for Executive Life Insurance Co. But Fred Carr, First Executive's boss, was no wild crapshooter. A grizzled veteran of the 1973 stock market collapse that almost wiped out his hot mutual fund, he was careful this time to try to bombproof his investment portfolio.

A year after the junk market began to slide, First Executive was sitting with a paper loss of $500 million on its junk bond portfolio, and well over $3 billion in redemptions out of total policies of $13 billion. Was First Executive insolvent? No more so than almost every bank in the country was insolvent in 1981, when surging interest rates eroded the theoretical value of their portfolios. No more so than many banks were insolvent in 1990, when collapsing property values slashed the theoretical value of their real estate loans. A substantial proportion of First Executive's junk bonds were still current on their interest payments. Held to maturity, most of them would be money-good. Markets recover from panics.

But banks aren't required—at least not yet—to constantly mark their portfolios to market; insurance companies are. Which means that in a panic of any sort they can become technically insolvent even when able to meet their obligations.

The junk bond market did recover: In 1992 and 1993 it was one of the best-performing U.S. markets. Of course, many individual issues did go bad, and billions of dollars were lost in them. But far more junk bonds paid off than didn't. But by the time junk bonds had been vindicated,

California Insurance Commissioner John Garamendi
Selling the junk bonds en masse guaranteed a low price.

First Executive was history. That junk bonds sank as low as they did and stayed down as long as they did was almost entirely the result of political bungling.

The bungling mounted in August 1989 when Congress passed the horribly misnamed Financial Institutions Reform, Recovery & Enforcement Act. FIRREA ordered the country's savings and loans to sell all their junk bonds by 1994. Never mind the price. Just dump them. Dump they did. True, in theory they had until July 1, 1994, but there was no point in waiting: Other regulations forced the thrifts to mark the junk to market, which meant they had to take a hit whether they sold the bonds or not. So they sold. Moreover, the regulators all but prohibited commercial banks from accepting junk bonds as collateral, and insurance companies from acquiring large amounts of junk bond holdings, further depressing the bonds' market prices.

By forcing busted S&Ls to dump junk bonds in a panicked market, Congress cost the taxpayers billions of dollars and more or less guaranteed huge profits for well-heeled bargain hunters. Wall Street loved it. The investment houses were like pigs rolling in manure. They bought and put into inventory billions of dollars of face value in junk bonds, paying 20 cents, 30 cents on the dollar. When the market turned in 1991, the big Wall Street houses made billions off their junk bond holdings.

But in our story it's still 1989 and the panic was on, fed by media reports predicting massive defaults. *Den of Thieves,* portraying Michael Milken as the Great Satan, was soon to become a runaway bestseller. The media love a good panic story; at the same time, print and broadcast media were gleefully predicting massive bank failures when real estate turned down.

Because it had to mark many of its junk bonds to market, in March 1990 First Executive was forced to report a huge $500 million loss for 1989. As news of the loss spread, policyholders panicked. By the end of 1990 they had surrendered over $3 billion worth of policies. Remarkably, First Executive had enough cash, high-grade investments and good-quality junk bonds to sell to meet this massive run.

Enter John Garamendi, who had been building his political career as a protector of the consumer against big business. In 1988 California's voters made the position of insurance commissioner an elected office. Garamendi ran for it and, in November 1990, won. It wasn't a glamorous position, but it did offer possibilities for an ambitious pol.

Carr was beginning to breathe a little easier as Garamendi took office on Jan. 7, 1991. The junk market had bounced from its October 1989 lows *(see chart, p. 74)*. Better yet, policyholder surrenders were subsiding. The majority of policies still on First Executive's books were more or less locked in—over half by legal contract, the rest because their holders were older, unhealthy people and couldn't easily buy other insurance policies. Not that the remaining policyholders were happy; many of them were kicking themselves for opting for high returns without considering the risks.

With Executive Life's reputation badly sullied and with most of its remaining assets in junk bonds, Fred Carr sought a partner with fresh capital. By the end of 1990 Carr had a deal: The Hartford Insurance Co. would buy Executive Life's 160,000 whole life contracts (almost half the company's individual policies), and Leon Black and his French clients would buy some of Executive Life's junk bonds.

On Apr. 4, 1991 John P. Ginnetti, senior vice president at the Hartford, presented the Carr/Hartford/Black recapitalization plan to Garamendi. Garamendi never replied.

Why? We can only surmise. Garamendi's office says the bid was incomplete. Certainly such an outcome would have deprived Garamendi of the headlines he garnered from seizing Executive Life. Jerry Schwartz, head of Windsor Insurance Associates, an agent group affiliated with First Executive, puts it this way: "If the Hartford transaction had been completed—if Garamendi had let it go through—Executive Life would have been left with $1 billion of realistically surrenderable, run-on-the-bank policies. But Executive Life was sitting with $1 billion in cash, which meant they could have handled the

full $1 billion run and then [the run] would have been over."

At any rate Garamendi's silence benefited Leon Black and his friends. Black knew that First Executive's portfolio, though theoretically under water, contained much pure gold. Who would know that better than he, who had structured many of the deals?

Black had a strong card in his hand. Few established U.S. financial institutions would dare attempt a deal for a portfolio loaded with junk bonds; the regulators had labeled the whole category toxic waste and made it unattractive to make loans on it. But Black had financial backing from a big French bank, Crédit Lyonnais. In the end Black got his prize without having to negotiate with Fred Carr. John Garamendi handed him the prize.

Here's what happened: Price Waterhouse was closing Executive Life's 1990 books in early 1991. The losses were subsiding, but as a final step, the auditors called to ask if Garamendi intended to seize Executive Life. Garamendi refused to answer the auditors' questions. With that uncertainty and acutely frightened of possible lawsuits, the auditors refused to certify the report.

It was likely that when news got out that Price Waterhouse had refused to certify, much of the $3 billion in policies that were still surrenderable would be put to First Executive for redemption. Carr had no choice. He announced that he expected a fresh torrent of policy surrenders, which he would not be able to meet.

On Apr. 11, barely 100 days since taking office, Garamendi seized the company.

FORBES put the question to Richard Baum, Garamendi's principal deputy: Why did Garamendi seize First Exec when help was on the way—especially when the junk bond market was already recovering nicely? Baum replied with remarkable candor that Fred Carr's personality and reputation were inseparable from Executive Life's financial condition. "We did not trust Carr," says Baum. "We did not have confidence that he'd be operating in the best interest of the policyholders."

In the context of the time it is hard to fault Garamendi for wanting Carr out of the way. Carr is a smart man, but his former record as a gunslinger and self-promoter scarcely encouraged public trust. The public was in a tizzy about junk bonds and wanted blood. Carr, moreover, was hated in the insurance industry for offering yields that more conservative companies could not match.

Yet Black had been a principal in Drexel Burnham and a leading figure in the leveraging of U.S. business. Was he a more sterling figure than Fred Carr? And what of Crédit Lyonnais, sinking in losses and now embarrassed by huge loans to shady Italian financiers?

This much is certain: No sooner had he seized the company than Garamendi began negotiating the sale of Executive Life's junk bonds to Leon Black, Crédit Lyonnais and their French partners.

Let's recap the score here. Executive Life owned junk bonds with a face value of $6.4 billion. Why did Black so badly want these particular junk bonds? Junk was a $200 billion market. Why didn't he just buy all the bonds he wanted in the open market? The answer is: It would have been impossible. Had Leon Black, Crédit Lyonnais or anyone else tried to buy huge quantities of junk bonds at those depressed market prices, they couldn't have gotten them. The market was extremely thin at those prices. Many of the issuers were sound and were actually buying in their own bonds at luscious discounts. A major buyer would have caused the market to spike upwards.

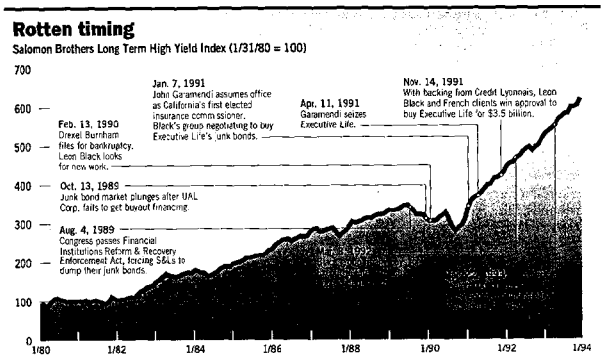
Apollo Advisors' Leon Black
Who knew the gold better than he?

Sure, some of the bonds in the First Exec portfolio had defaulted or were in danger of default. But there were solid assets behind many of them. Whoever owned big chunks of the bonds could dictate reorganizations favorable to their interests.

And the potential fees, oh, those lovely fees! Black knew how to milk companies for fees in financial reorganizations; he hadn't spent 13 years at Drexel Burnham for nothing. Whoever controlled the bonds of busted companies could decide who did the restructuring. At a conservative estimate Leon Black and his friends have squeezed a half-billion dollars in fees from companies whose bonds were in the First Executive portfolio and from other investments he made for the French when he acquired it.

If Garamendi didn't know the portfolio as well as Black did, he still must have known it was worth more than its theoretical value in a thin public market. But he was determined to pose as a man who chased the junk bondsters from the insurance temple. This is confirmed by Ralph Schlosstein, who advised Garamendi on behalf of New York's Blackstone Group.

In selling the bonds as a block at depressed prices, Garamendi ignored advice from the Blackstone Group. It had recommended feeding the bonds into the market gradually or selling them back to the issuers with premiums for the big blocks. The junk bond market had bottomed, and there was plenty of interest in pieces of the portfolio. Among the well-heeled investors who looked at Executive



After a powerful advance during the 1980s, the junk bond market sank for several months after October 1989, and then resumed its steep ascent. With financing from France's Crédit Lyonnais, Leon Black was a big buyer at the bottom. California Insurance Commissioner John Garamendi was an equally big seller.

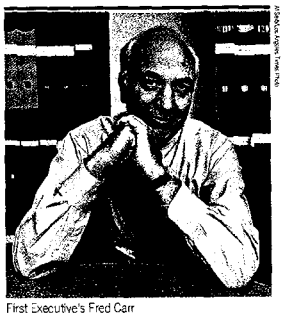
Life's bonds were Richard Rainwater, Fort Worth's billionaire Bass brothers and music centimillionaire David Geffen.

But Garamendi ignored his financial advisers and decided to sell the bonds and the insurance company as a package—with the proviso that the buyer would keep the bonds and recapitalize the insurance company with more conservative assets. Garamendi could thus claim he had cleansed the portfolio of that terrible stuff, rendering the portfolio fit for widows and orphans.

In August Black presented Altus Finance's first bid to Garamendi: $3 billion. This was $2.7 billion for the junk bonds and $300 million in fresh capital for the insurance operation. Garamendi, naturally, solicited other bids.

But alone among bidders, Black knew precisely what assets and cash flow stood behind the 424 companies whose junk bonds were in Executive Life's portfolio. Other bidders suspected there was gold there; Black knew it, and knew where the gold was. He knew the underlying companies—their assets, people, products, markets—intimately. He had negotiated with Carr for months and had done extensive due diligence on Executive Life's hard-to-comprehend insurance operations. Black could bid with confidence.

Garamendi demanded competing bids within 60 days—not much time to line up foreign financing, research 424 companies and decipher Executive Life's complex insurance operations. Nevertheless, there were other serious bidders. One was from Warren Hellman's Hellman & Friedman, a San Francisco investment firm (FORBES, *Oct. 14, 1991*). The other was from the National Organization of Life & Health Guarantee Associations, an umbrella group of state guarantee organizations. NOLHGA was already generally obliged to make good claims of up to $100,000 from First Executive's policyholders. By taking over the junk, NOLHGA could liquidate it at its leisure and easily end up with higher returns for the policyholders.



First Executive's Fred Carr

Remarkably, he met the first run.

Now came what in retrospect looks like a bit of theater. From the three bids Garamendi chose NOLHGA's. But the acceptance had a string attached. Garamendi sought guarantees that the insurance companies behind NOLHGA would cover any liabilities—and claimed the association didn't meet this condition to his satisfaction.

Informed that NOLHGA could not come up with the $1 billion guarantee, on Nov. 7, 1991 Garamendi rejected NOLHGA's bid and gave Black and Warren Hellman seven days to submit their final bids.

On the first bidding Black had bid $3 billion, including $2.7 billion for the junk bonds and $300 million for the insurance operations. Hellman had bid $300 million, intending to leave the junk bonds in the company. Black raised his offer by $500 million. On Nov. 14, 1991 Garamendi accepted Leon Black's French-financed offer: $300 million in new capital for Executive Life's insurance.

How did Executive Life policy-

holders fare? The small policyholder would have gotten 100 cents on the dollar from the NOLHGA proposal no matter who won. In the Black deal the small policyholders were made whole and the larger policyholders got 91 cents on their policy liability dollars—plus a small piece of any profits from the insurance company's operations.

Hellman's bid worked out to only 85 cents on the up-to-$100,000 policyholders, but it would have given the policyholders a much bigger share—around 20%—of the profits from selling off the junk bonds. Hellman planned to leave the bonds in the company and liquidate them slowly, as opposed to Black's plan to take the bonds out of Executive Life and put them in Altus. In short, Hellman proposed putting in less cash than Black offered, but his offer would certainly have been worth much more to policyholders.

Garamendi's apologists argue that no one then knew for sure the junk market would come back and that, therefore, a 91-cent guarantee was worth more than an 85-cent guarantee. To a layman that sounds convincing. To anyone who understands markets it doesn't.

Compare Garamendi's dump-them approach to the Resolution Trust Corp.'s way of dealing with junk bonds seized from busted thrifts. Since 1990 the RTC has had to dispose of $8.2 billion in junk bonds. By selling the bonds piecemeal to over 100 buyers, the RTC was able to get an average recovery of 68 cents on the dollar, compared with the 50-cent average Garamendi got from Black. Nor can Garamendi argue that RTC's junk was better stuff than Executive Life's. "We had some of the crappiest bonds in America," says Eric Alini, director of capital markets for the RTC. "However, we always did better selling smaller pieces and allowing more players into the bidding. Large bulk sales penalized smaller players and almost always made prices lower."

The game isn't quite over. Garamendi garnered headlines with his seizure and prompt disposal. But the deal is turning sour for him now. Disgruntled policyholders claim that by the time Altus wrote its $3.25 billion check, the junk bond market had recovered and Executive Life's portfolio had increased in market value by $800 million.

Who owns the $800 million in profits that accrued even before the deal was paid for? Several groups of policyholders are currently in the California Court of Appeal asking the court to make Altus pay it to policyholders.

Garamendi has other problems. In his haste to get the deal done and thus look decisive, he tried to reduce the scale of Executive Life's liabilities by ruling that some of the holders of guaranteed investment contracts that back municipal bonds were junior creditors, not policyholders qualified to take part in the settlement worked out with Black and the French. The face value of these policies was $1.9 billion. Under Garamendi's plan, as junior creditors these policyholders would have been wiped out.

In 1991 the excluded group went to court demanding recognition as policyholders, not creditors. Last March the California Court of Appeal agreed and ruled against Garamendi.

The court's decision meant that Garamendi's rehabilitation plan for Executive Life was illegal. The other shoe quickly dropped. From the beginning Garamendi had insisted that he was selling Executive Life as a single package—bidders had to bid for the insurance operation *and* the investment portfolio. But once the Court of Appeal ruled that the rehabilitation of the insurance operation was illegal, several lawsuits were filed claiming that this voided the entire transaction—and demanding that Black and the French give the profits back to Executive Life's policyholders.

Garamendi's publicity coup continues to sour on him. In April 1993 he argued to the court that he was permitted to sever the sale of Executive Life's insurance operation from the sale of the junk bond portfolio. In other words he allowed the Black group to buy the junk bonds even if the insurance company part of the purchase didn't go through.

"This was stunning," says Maureen Marr, former director of the

The ownership shuffle

UNDER California law, neither banks nor governments may control insurance companies. Under U.S. law, banks may not control industrial companies.

How is it that Crédit Lyonnais, the $335 billion (assets) bank that is 52% owned by the French government, came to control Aurora National Life Assurance Co., formerly Executive Life, a California insurance company?

The answer: Leon Black and Crédit Lyonnais have clever lawyers. Aurora is owned by a recently formed holding company, New California Life Holdings. Who owns New California? Nominally, the owners are French, Swiss and American investors, Eli Broad's Sun-America among them.

But pierce the ownership veil, and Crédit Lyonnais controls at least two-thirds of Aurora through loans to the investors.

How did Black and Crédit Lyonnais get around U.S. laws forbidding banks to control industrial companies? They put bonds that could be deemed to control companies—some $1.6 billion worth—into a new outfit called Artemis. Who owns Artemis? A Crédit Lyonnais subsidiary, Altus Finance, owns 19.7%; a French company, Financiere Pinault, owns 75%. According to French press reports, Pinault is highly leveraged and Crédit Lyonnais is a major creditor. And an equity owner: Something called Clinvest owns 11% of Pinault. Clinvest is another Crédit Lyonnais division. Does Crédit Lyonnais control the junk bonds Artemis nominally owns? You be the judge. —E.W. ■

Action Network for the Victims of Executive Life (Anvel), an information clearinghouse for policyholders, "because it showed there never was a package deal."

John Garamendi still hopes to win the Democratic nomination to run against Pete Wilson in California's gubernatorial race in 1996. He's trying desperately to keep the Executive Life deal from unraveling. He has gone to such considerable lengths to stifle critics. The southern California chapter of the American Civil Liberties Union has recently attacked Garamendi. It accused him of stifling criticism of the plan by threatening policyholders with lower recoveries.

But whatever happens to Garamendi, Leon Black and his French friends are currently sitting pretty, their possession and disposal of junk a *fait accompli*, and with Garamendi's waiver in their pockets.

Black's company is called Apollo Advisors. Apollo has reaped an estimated $500 million in fees from the companies in the junk portfolio. Altus, the subsidiary of Crédit Lyonnais, owns the junk bonds, but Apollo manages them. Black's company gets 15% or so of the profit after Altus earns 8% on its investment. Meanwhile, many of the old Exec Life junk bonds have paid off or have been converted into new securities. Black has taken control of many of the companies and used the proceeds from other bonds to make yet more investments. For a look at the business empire Leon Black has assembled, see the following story.

While some of the facts may be murky, the moral in this messy situation is quite clear: a) When politicians try to fix things, they more often than not make them worse, and b) Their bumbling actions often create financial opportunities that are hidden from most people but are there for people who know the ropes.

Who paid?

DON'T TRY TELLING Helen McGrath, a resident of Concord, Calif., that John Garamendi got a good deal for Executive Life's policyholders. McGrath, 63, is one of thousands of tort plaintiffs who settled claims by taking Executive Life annuities in lieu of cash. Since Garamendi seized Executive Life and later handed it to Leon Black and his French backers, she and other annuitants have had benefits slashed—by up to 50%.

Garamendi has boasted that 92% of Executive Life policyholders will be made whole. McGrath is among the unlucky 8%. Money that might have gone to her has ended up instead in Black's pockets and those of his partners.

Terry Carter is another Executive Life payee who has fared poorly. Carter's son's birth was allegedly botched at a U.S. military hospital in 1980. As part of a settlement with her, the government paid $513,889 for an Executive Life annuity. Relative to other products then on the market, the annuity was generous, with a monthly benefit starting at about $4,000 in 1984 and escalating 3% annually.

But when Garamendi seized Executive Life in April 1991, Carter's checks were immediately chopped by 30%. She received hardship payments to tide her over, but it now turns out that Garamendi structured those "payments" as loans against Carter's future annuity payments—loans that Carter must repay with interest.

By last November Carter's monthly benefit, which had grown with the escalator clause to $5,478, was cut in half to $2,739. She chose to trade in that reduced benefit for a lump sum cash payment of $272,478.

Plaintiffs' lawyers liked putting their clients into Executive Life's annuities. Why? It was easier to negotiate settlements—and collect fees. Executive Life's junk-bond-backed policies paid higher returns than did competing annuities. This meant the same premium would buy a bigger benefit from Executive Life. So plaintiffs' lawyers could claim they delivered clients more bang for the buck.

Joel Bahn

The Watsons and six of their children **Daughter Katie's benefits have been cut in half.**

Say a lawyer could convince an insurance company to settle a case for $100,000. Plaintiff lawyers typically take 33% of whatever they win, or in this case, $33,000. Another $17,000 might go to the plaintiff to cover, say, immediate medical costs, and the rest, $50,000, would go to purchase an annuity that would pay maybe $250,000 over the plaintiff's lifetime.

If a client asked about risk in Executive Life annuities, the lawyer could have said—at least until January 1990—that Executive Life was rated AAA by Standard & Poor's.

Vincent and Susan Watson accepted an Executive Life annuity as settlement from a Phoenix hospital where one of their their children allegedly suffered brain damage. They are now receiving just 46% of the original benefits, although they may later get help from a $20 million pot Garamendi wants to set aside towards annuitants.

Had Executive Life held on to its junk bond portfolio—or liquidated it slowly—all these annuitants might well be better off today.

–CAROLYN GEER

STATE OF CALIFORNIA JOHN GARAMENDI, INSURANCE COMMISSIONER
DEPARTMENT OF INSURANCE
3450 WILSHIRE BOULEVARD
LOS ANGELES, CA 90010

MEMORANDUM

TO: PARTIES INTERESTED IN FINANCIAL PARTICIPATION IN EXECUTIVE LIFE INSURANCE COMPANY REHABILITATION PLAN

RE: GENERAL STATEMENT OF OBJECTIVES AND TERMS OF THE DEVELOPMENT OF THE REHABILITATION PLAN FOR EXECUTIVE LIFE INSURANCE COMPANY

DATE: MAY 21, 1991

1. In General:

It is contemplated that Executive Life Insurance Company ("ELIC") will be rehabilitated through a plan by which its assets and liabilities will be restructured (the "Rehabilitation Plan"). The Rehabilitation Plan will ultimately proceed under the liquidation statutes of the state of California and, generally speaking, will consist of the transfer of assets and liabilities to a new entity ("NEWCO"), coupled with the use of a liquidating trust. New capital would be placed into NEWCO, which would be a California Insurance Company, preferably a clean shell, and an assumption reinsurance or exchange transaction would be effected whereby policyholder and other contract holder obligations of ELIC would receive NEWCO contracts and substantially all of the assets of ELIC would be transferred from ELIC to NEWCO. NEWCO would be owned by those providing the new capital (the "Investors"), but some participation for the policyholders and other contract holders (jointly "Contract Holders") should be provided either in the form of NEWCO stock held in the Liquidating Trust for the benefit of the Contract Holders or by profit participation provisions in the NEWCO contracts to be issued to the Contract Holders. In addition, the Liquidating Trust proceeds would be dedicated to the Contract Holders in accordance with the provisions of the Rehabilitation Plan.

After the transfer of assets, NEWCO would issue new contracts (the "NEWCO Contracts") to the policyholders and contract holders. The NEWCO Contracts would be structured so that they would be similar to the current ELIC contracts, but where there are now multiple forms of contracts, such as various SPDA forms, NEWCO should issue a single form. Further, the current account values of the ELIC contracts would be adjusted

EXHIBIT

down to reflect the existing uncertainties as to the value level of the ELIC assets. NEWCO opening account values would be set based upon the valuation of ELIC assets transferred to NEWCO as well as the amount of new capital invested by the Investors and the other factors discussed below.

Ultimately, the Rehabilitation Plan would provide for the Contract Holders to "trade" their ELIC contracts for NEWCO Contracts.

To augment the NEWCO Contracts, policyholders and contract holders would be provided with a contractual right to a "pour-over" from the Liquidating Trust of the net proceeds from the liquidation of the assets held by it.

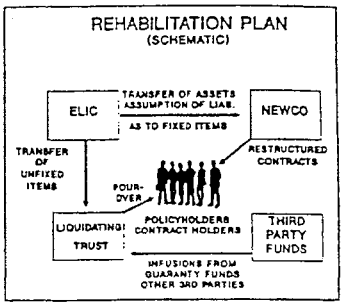
All Contract Holders would also be offered an "Opt Out" right by which they would not "trade" ELIC contracts for NEWCO Contracts, but would be able to cash out at a discounted liquidation value. This Opt Out provision would likely be less valuable than any of the options under the Rehabilitation Plan due to, among other things, the fact that those opting out would receive only the opt out payment and would not have the benefit of the new capital invested in NEWCO, would have no profit participation in NEWCO, and would have no participation in the Liquidating Trust. One would therefore expect few would choose this option.

It is contemplated that Contract Holders seeking to opt out would do so by an affirmative notice to that effect; otherwise they will be deemed to have elected to accept the NEWCO Contract applicable to them.

2. General Structure of Rehabilitation:

The chart on the next page depicts the Rehabilitation Structure the Conservator is currently contemplating. The general concept is that all "fixed" assets and liabilities would be transferred from ELIC to NEWCO. The word "fixed" as used in this context means that, subject to the opt out rights, all ascertainable policyholder liabilities will be transferred to NEWCO along with those assets which the Investors and the Conservator are able to satisfactorily value. The Conservator will not transfer assets to NEWCO unless he is satisfied that a reasonable value has been given for them by the Investors; otherwise such assets will be retained in the Liquidating Trust and the Conservator will liquidate them for the benefit of Contract Holders.

At the closing of the transaction, NEWCO will issue its contracts to Contract Holders guaranteeing benefits at a level to be determined. The level of this guarantee will be primarily a



result of (i) the amount of new money invested and (ii) the valuation of the assets transferred from ELIC. The level of the ultimate guarantee from NEWCO would be determined in the negotiation and court approval process and would go up or down depending upon the valuation of the assets transferred to NEWCO and the amount of new money invested.

A further transactional provision would be a "windfall" protection whereby profits to NEWCO Investors would be structured so that ELIC policyholders and contract holders are treated equitably in the event the ELIC assets prove to be more valuable than currently anticipated. The methodology for accomplishing this will be a part of the negotiation process, but the Conservator believes that this should be accomplished by a sharing of profits between Contract Holders and the Investors for an agreed-upon period of time by either (i) providing the Liquidating Trust with an equity position in NEWCO or (ii) putting a profit participation provision in the NEWCO contracts.

There are legal issues as to potential differential treatment between classes of Contract Holders and these will need to be dealt with in the process of finalizing the Rehabilitation Plan. The Conservator's view is that this issue should be guided by the provisions of the California Insurance Code dealing with priorities and guaranty fund coverages. Generally, the Conservator believes that all Contract Holders should be preferred over general creditors of ELIC, but there should be a distinction made between Guaranteed Investment Contracts ("GICs") purchased by municipalities, other governmental and quasi-governmental entities in connection with their issuance of bonds or other securities or financing arrangements ("Municipal GICs") and other products. This distinction would result in Municipal GICs having a significantly lower NEWCO Current Account Value, as described below, than other ELIC Contract Holders. This issue also potentially impacts other GIC holders and certain unallocated deposits and will be dealt with in the negotiation process and in the subsequent court approval process.

The essence of the "bidding" process contemplated by the Conservator will focus upon the several key factors discussed in this memorandum. The bidder who provides the highest guarantee will do so based upon the net result of the money invested, the valuation of the assets and the investment returns sought.

Assets upon which the Investors are unwilling or unable to base the NEWCO Current Account Value and the undertakings of the NEWCO Contracts, or with respect to which the Conservator believes the Investors are providing too little value, would not be transferred to NEWCO, but would instead be transferred to the Liquidating Trust. Further, the Conservator has already determined that certain ELIC assets should not be transferred to NEWCO because these assets cannot be adequately valued and the Conservator has therefore determined that Contract Holders would receive a higher value if these assets were liquidated through the Liquidating Trust.

It is hoped that the net result of the creation of NEWCO and the Liquidating Trust is that substantially all the value of the assets now held by ELIC would be preserved, new capital would be invested, and a new company would go forward. As indicated above, there will likely be disputes between the holders of traditional life products and annuity holders on the one hand and certain GIC holders on the other. Such disputes could be complex and lengthy. The Conservator believes these should be compromised in order to permit the Rehabilitation Plan to proceed with dispatch. Subject to the resolution of this latter issue, policyholders and contract holders will have dual sources of funds: (i) the rights guaranteed by the NEWCO contracts; and (ii) the proceeds of the Liquidating Trust.

The IRS has asserted substantial tax claims against the ELIC assets. The Conservator is seeking to resolve these in an expeditious manner, but the Rehabilitation Plan cannot be consummated unless and until these tax claims are resolved.

3. Other Structural Details:

NEWCO will guarantee the level of benefits to be provided under the NEWCO Contracts and it is, thus, necessary for the Investors to make their own evaluation of the value of the ELIC assets to be transferred to NEWCO. The Conservator does not intend to negotiate the transaction, asset by asset, as if it were a sale of the ELIC assets; rather the Conservator intends to negotiate the level of guarantees provided to policyholders and contract holders via the NEWCO contracts. In order to provide these guarantees, the Investors in NEWCO will need to evaluate the ELIC bond portfolio, as well as the other ELIC assets, and then provide new capital and letters of credit which are sufficient to support the guarantees.

4. The "Bid" Process:

The Conservator will continue to attempt to negotiate a definitive agreement with Altus Finance as a result of

discussions which originally commenced between ELIC and Altus prior to Conservation. It is by no means certain that these negotiations will be successful. However, the Conservator anticipates that utmost efforts will be made to negotiate an acceptable transaction within approximately 30 days. If completed, an agreement will be executed (the "Definitive Agreement"). The Definitive Agreement, however, will provide that it is subject to a bidding process whereby other parties shall have the opportunity to take over the Investor position in the Definitive Agreement.

To accomplish this, and assuming successful negotiations, within approximately 5 days after the Definitive Agreement is executed it will be filed with the Conservation Court and a hearing will be set for approximately 60 days later. Competing bids could be filed and considered in the intervening days. At the court hearing the Conservator would advise the Conservation Court as to the bid he prefers, others would be given the opportunity to present their views and arguments, and the Court would determine the result. The bidding process would focus upon the following essential elements of the transaction:

a. The assets that the Conservator is satisfied should be transferred to NEWCO and the assets that he determines should be retained in the Liquidating Trust.

b. The NEWCO Current Account Value upon which guarantees will be made to policyholders and contract holders by the NEWCO Contracts.

c. The amount of new capital to be invested in NEWCO.[1]

d. The level of letter of credit or other security to be provided to support the guarantees provided in the NEWCO Contracts.

e. The "windfall profit" protection to be established.

f. The "Opt Out" payment to be made available.

It is the Conservator's expectation that the Definitive Agreement will be closed with the investor group which provides the most satisfactory responses to these elements.

In the event the Conservator determines that the negotiations with Altus are not progressing satisfactorily, or if the transaction cannot be completed in a satisfactory period of

[1] The Conservator believes that the new capital invested should be in the range of 4-6% of reserves.

time, the Conservator will announce that fact and will consider other bidders for the position of the Investors in the Definitive Agreement.

The Conservator is not compelled to accept any of the bids and will reserve the right to reject all bids and effect the Rehabilitation Plan through other means. While the Conservator would prefer to have a new investor and management group to implement the Rehabilitation Plan, the Conservator is also preparing to do without such a group if bidders do not provide sufficient enhancements to what the Conservator could accomplish without them.

5. The Data Room/Prequalification Of Prospective Bidders:

The Conservator has opened a Data Room at the ELIC premises in Los Angeles into which relevant data, documents and other information have been and will continue to be placed in order to permit interested parties to have access to such items in order to formulate their bids. This room will be open to qualified bidders beginning May 21, 1991.

An entity or group will be considered a qualified bidder if it demonstrates to the Conservator its ability to meet, at a minimum, the following three tests:

a. Has $300 to $500 Million available to provide enhancement funds for the NEWCO Contracts and the ability to provide letter of credit or other security to underwrite the ELIC bond portfolio and further support the guarantees in the NEWCO Contracts. In this regard, the Conservator anticipates that the successful bidder will need to be able to demonstrate the ability to commit very substantial sums or assets to support the NEWCO Contract guarantees.

b. Has experience in operating a life insurance company and character satisfactory to the Conservator.

c. Can demonstrate an ability to effectively manage both the insurance operations of NEWCO and the transferred assets, particularly the bond portfolio.

In order to qualify for access to the data room, all qualified bidders must also:

a. Execute confidentiality agreements in a form acceptable to the Conservator and his counsel.

b. Provide written disclosures in a form acceptable to the Conservator and his financial advisors identifying in

reasonable detail all investors, principals, shareholders or advisors, including the disclosure of the arrangements as to the allocation of economic interests among the investor group, the disclosure of the source and amount of investment capital, and a disclosure of whether further capital or investors, principals, shareholders or advisors will be added after the transaction is consummated.

c. Provide a written statement disclosing the proposed management team, including investment advisors, for NEWCO.

Access to the Data Room will be scheduled at times to be determined once the number of qualified bidders is determined. A maximum of two bidder groups will be given simultaneous access to the Data Room. The Data Room will contain non-public information relating to ELIC's assets, liabilities and operations and will be governed by the confidentiality agreement. Copying facilities will be available and qualified bidders will also have an opportunity to utilize the services of ELIC's consulting actuaries who have a longstanding relationship with ELIC and a detailed actuarial model of ELIC's assets and liabilities. Access to the consulting actuaries will be subject to a separate confidentiality agreement and a fee arrangement between the bidder group and the consulting actuaries.

The Conservator will provide for such other and further procedures and qualifications as may appear necessary or convenient as the process evolves.

6. **Industry Participation:**

Insurance Industry participation in this process by direct contributions of money would not only be of huge benefit to the policyholders and contract holders, but would also be of great benefit to the industry itself for obvious reasons. The Rehabilitation Plan structure is ideal for this and a participation could occur through infusions either into the Liquidating Trust or into NEWCO. This could be done through guaranty associations or through direct contributions.

The Conservator is currently discussing such possibilities with responsible members of the industry and is prepared to negotiate separate definitive agreements with them to effect such contributions. Such separate discussions or agreements would be compatible and coordinate with the NEWCO Definitive Agreement and would not interfere with this process.

7. Treatment of GICs and Unallocated QRAs:

As stated above, the issue of how to treat GICs and unallocated QRAs and other unallocated deposits is problematic. The Conservator's approach has been to treat policyholders and contract holders in accordance with the priorities set out in California Insurance Code Section 1033, which provides for the priorities in liquidation and with a view towards the provisions of Code Section 1067, *et seq.*, the California Life Insurance Guaranty Association. There is an issue as to the priorities to be given ELIC products such as unallocated Qualified Retirement Annuities, other unallocated deposits, Municipal GICs, and GICs purchased by pension plans as investment vehicles ("Pension GICs").

Bearing in mind the fact that litigation over this issue would be protracted and that both the traditional policyholders and the GIC and unallocated QRA holders have a great deal to lose, the Conservator's view is that a compromise is in order with regard to these products and the Rehabilitation Plan must effect such a compromise. In this regard, traditional insurance products and certain other products might be preferred over Municipal GICs, for example, and possibly other products. The holders of these subordinated products would, however, receive some payment in preference over general creditors.

The Definitive Agreement, the bidding process and the court approval process will all focus upon and deal with these issues.

8. Further Details As To NEWCO Products:

It is regrettably clear that ELIC assets will not be sufficient to pay all the claims of those who purchased its products. Accordingly, the Conservator must seek to do equity in structuring a Rehabilitation Plan which makes the most out of this difficult situation. With a combination of Investor capital, proceeds from the Liquidating Trust, industry and other third-party contributions, Contract Holders will receive substantial payments. The Conservator believes that the NEWCO products themselves can provide some security to Contract Holders. While there are many ways to approach the determination of what products NEWCO will provide to replace the ELIC products, time is of the essence in this process, and therefore, the Conservator will require the bidding process to focus upon the approaches outlined below. While the ultimate structure of the NEWCO Contracts may not be exactly as set out below, it should be substantially similar absent a compelling reason to alter the approach.

a. **DEFINITIONS:**

1) **Current Account Value** - is the gross accumulated value as of April 11, 1991 with respect to in-force deferred annuity contracts, annual premium and single premium interest sensitive and universal life insurance contracts, guaranteed investment contracts and group deferred annuity contracts. The current account value is calculated before any market value adjustment applicable to the contract or policy.

2) **Implied Current Account Value** - is the present value at April 11, 1991 using the pricing assumptions for benefits currently payable to beneficiaries or annuitants under settlement options for payment of death or cash value proceeds, single premium immediate annuity contracts, structured settlement contracts and allocated Qualified Retirement Annuities (QRA's) and certain Custom Qualified Retirement Annuities (CQRA's). Pricing assumptions mean those factors including the implied interest rate used to determine benefit payment amounts at the starting date of the contract and the mortality assumptions.

3) **Adjusted Current Account Value** - is the current account value adjusted to reflect any of the following policy or contract guarantees that would have been in effect after April 11, 1991.

(i) Extended interest guarantee at some rate higher than the ultimate level guaranteed by most products;

(ii) Market value adjustments, if any, applicable to the contract values at April 11, 1991 and to the extent such adjustment is not reflected in (i), above;

(iii) Any floor interest guarantees (e.g., Savannuity) where interest credits to date have been below the floor;

(iv) Any other guaranteed factor in the contract which can be identified as having a value more than the normal guarantees of the NEWCO Contracts;

(v) Current account values for any front-end load interest sensitive life policy will be adjusted to reflect the loads already deducted.

4) **Implied Adjusted Current Account Value** - is the Adjusted Current Account Value implied by the stream of future benefits of products which do not have a Current Account Value as such.

5) **Current Cash Value** - is the current account value reduced by all surrender charges applicable as of April 11, 1991 and subject to any cash value floor guaranteed as of that date and subject to the minimum values required by law. Any cash value floor shall be reduced by the outstanding policy loan balance.

6) **Adjusted Current Cash Value** - is the current cash value adjusted to reflect the increase or decrease indicated by the relationship of the Adjusted Current Account Value to the Current Account Value.

7) **Newco Current Account Value** - is the Adjusted Current Account Value, multiplied by the applicable Restructuring Percentage set out below. This is the beginning account value from which the benefits under the NEWCO Contracts will be calculated.

8) **Group A Contracts** - are all contracts that provide for the payment of death benefits or annuity benefits, and possibly, products that have options for such benefits.

9) **Group B Contracts** - are all ELIC products, which are not affiliated contracts, which are not Group A Contracts. Group B Contracts should include the Municipal GICs.

10) **Group A Restructuring Percentage** - is the percentage used to convert Group A Contracts from the Adjusted Current Account Value to the NEWCO Current Account Value and will be determined by the valuation of ELIC assets to be transferred to NEWCO, the new capital invested and other provisions of the Rehabilitation Plan.

11) **Group B Restructuring Percentage** - is the percentage used to convert Group B Contracts from the Adjusted Current Account Value to the NEWCO Current Account Value and will be determined by the valuation of ELIC assets to be transferred to NEWCO, the new capital invested and the other provisions of the Rehabilitation

Plan.[2]

12) **Lien Adjustment Factor** - is the factor to be applied to the cash value of the NEWCO contracts to permit some cash surrender amount payable during the Term Of The Rehabilitation Plan. This factor will be determined during the course of negotiation and court approval. After the Commencement Date this factor will grade uniformly over the Term Of The Rehabilitation Plan, or to some earlier date determined by the bidder, until it reaches 100%.

13) **Commencement Date** - is the date that the Rehabilitation Plan becomes effective as determined by the Conservation Court.

14) **Term Of The Rehabilitation Plan** - will be the period of time that restrictions upon cash values, liens, or other restrictions upon policyholders and contract holders will be in place. This period will be determined by the negotiation process and will be subject to the ultimate approval of the Conservation Court. The Conservator expects the term will be from 3 to 5 years, but it could be longer depending upon the exact structure of the NEWCO products and the benefits to Contract Holders.

b. **ANNUAL PREMIUM INTEREST SENSITIVE LIFE INSURANCE CONTRACTS:**

This category includes all interest sensitive and universal life insurance contracts currently in force other than single premium whole life insurance contracts. It includes policies where premiums are still being paid as well as those where premiums have been paid up under the vanish premium option. The following options would be offered to each policyholder in this class:

1) **Interest Sensitive Life Policy** - This option would provide the insured with a restructured policy having the same face amount, same issue date and same issue age as the current contract. The NEWCO Current Account Value for the restructured contract will be the Group A

[2] In defining the relationship between the Group A and B Restructuring Percentages, the Conservator believes that there should be a differential between the two percentages so that Group B is approximately 30% of Group A. This issue will be resolved during the court approval process.

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Restructuring Percentage multiplied by the Adjusted Current Account Value and adjusted by any outstanding policy loan. The outstanding policy loan will be carried forward to the NEWCO contract. The NEWCO contract will have the provisions and features described in 2 - 9, below.

2) **Interest Credit Rate** - A current rate would be payable as declared by NEWCO annually. The contract could provide for additional interest credits for larger account values and for those contracts continuing to pay premiums.

3) **Minimum Interest Rate** - 3% annually or such higher rate guaranteed by the bidder.

4) **Death Benefit Options** - the policy would provide for two options. Under the first option, the death benefit would be the greater of the face amount or the account value of the contract multiplied by the Corridor percentage as defined in (a) below. Under the second option, the death benefit would also include a return of account value provision. The death benefit option in the NEWCO contract would be the same as the present ELIC contract.

5) **Cash Values** - Minimum cash values of the NEWCO contract will be in accordance with applicable law. The cash value of the restructured contract will be the greater of the Current Cash Values or the Adjusted Account Value less a surrender charge. The surrender charge of the NEWCO Contract will be calculated using the same method and percentages as the existing ELIC contract.

6) **Cost Of Insurance** - Guaranteed cost of insurance factors for underwritten business will be the same as included in the existing ELIC contracts. For guaranteed issue business, guaranteed cost of insurance factors will be the corresponding extended term version of the standard guaranteed tables. The interest rate used for the guaranteed cost of insurance calculations will be 4%. Current cost of insurance factors will be as determined by the negotiation process and could reflect, among other factors, premium paying status.

7) **Policy Loans** - Would be permitted at the maximum interest rate provided by law and subject to any restriction in amount as required by the Lien Adjustment Factor and related provisions restricting the use of the Cash Values. Any existing policy loan would be carried forward to the NEWCO Contract at the

outstanding balance on the date the NEWCO Contract becomes effective.

8) **Premium Payments** - The NEWCO contract will include two options for the payment of premiums. Under the first option, a guaranteed premium would be calculated on the Commencement Date to provide for sufficient sums, considering the NEWCO contract guarantees, to mature the contract at its current term. The second option would allow the policyholder to pay a projected premium, to be redetermined annually, based upon the then current cost of insurance and the then current interest rate for the NEWCO contract. The premium option for the NEWCO contract will be the same as that of the current ELIC contract.

9) **Corridor Percentage** - The death benefit corridor factors required by federal tax law definitions of life insurance would be included.

c. SINGLE PREMIUM IMMEDIATE ANNUITIES

This class includes all contracts, certificates and settlement option agreements where periodic benefit payments were currently payable as of April 11, 1991. It includes death benefits being paid under settlement options, single premium immediate annuities, structured settlements and retirees currently receiving benefits under qualified retirement annuities (allocated QRA's and CQRA's). This last group includes participants in QRA contracts who are specifically identified via schedules in the contract, as evidenced by a certificate, as being entitled to receive specific periodic annuity benefits beginning at a future scheduled date. For this group of policyholders, the Implied Adjusted Current Account Value will be adjusted by the Group A Restructuring Percentage and the benefits currently guaranteed by the existing ELIC contracts as of April 11, 1991 would be continued at the reduced level indicated by the Implied Adjusted Current Account Value.

d. SINGLE PREMIUM DEFERRED ANNUITY

In-force SPDA contracts include conventional products with a back-end surrender charge, other products with long initial current interest guarantees as well as one form that has a bonus interest guarantee (Savannuity). Two forms, the Provider and Ten Strike contracts, include a market value adjustment. The Provider is also a combination product including deferred annuity and immediate annuity provisions. Under the Rehabilitation Plan, the Adjusted Current Account Value and the Adjusted Current Cash Values will be calculated. These calculations will contain

adjustment factors to increase current values to reflect the loss of future guarantees under the current ELIC contract. These adjustments will also reflect any applicable market value adjustments as of April 11, 1991 for the Provider and the Ten Strike products to the extent such adjustments are not reflected by the extended interest guarantee adjustment and will also include any adjustment for interest credit rate deficiencies on the Savannuity contract. Under the Rehabilitation Plan all ELIC contracts would be replaced by a single restructured SPDA contract. Under this NEWCO contract, the NEWCO Account Value would equal the Adjusted Current Account Value times the Group A Restructuring Percentage. Other provisions of the NEWCO Contract are described in 1 through 7, below.

1) **Interest Credit Rate** - A current rate would be payable as declared by NEWCO annually.

2) **Minimum Interest Rate** - 3% annually.

3) **Settlement/Annuitization Options** - The new contract would include guaranteed settlement rates including a life option, a life with period certain option, one or more joint life options and some long-term period certain option. "Long-term" means ten years or more.

4) **Death Benefit** - Newco Adjusted Current Account Value plus interest credited to date of death.

5) **Cash Values** - Cash values would be no less than the minimum required by law. The conservator expects that the cash value would be defined as the Newco Adjusted Current Account Value minus a surrender charge expressed as a percentage of the account value, with that percentage grading to zero by or before the maturity dates as determined by the negotiation process.

6) **Maturity Date** - The later of the contract anniversary next following the annuitant's 70th birthday or ten years after the effective date of the NEWCO contract.

e. **SINGLE PREMIUM WHOLE LIFE**

The restructuring options for the Single Premium Whole Life would include the following:

1) **Continued Current Face Amount** - Under this option the policyholder would be permitted to continue the current contract with the same death benefit, a reduced account value, a reduced cash value and a deduction of current cost of insurance charges. The contract would have a

NEWCO Adjusted Current Account Value calculated by the Group A Restructuring Percentage adjusted for any outstanding policy loan as of 4/11/91. This account value will become the face amount under the NEWCO contracts. Cost of insurance charges would be no greater than the guaranteed cost of insurance factors. The NEWCO contract would provide a current interest crediting rate.

2) **Reduced Face Amount** - Under this option, the Group A Restructuring Percentage would be applied to the ELIC Face Amount and the NEWCO Current Account Value would be calculated by using the Group A Restructuring Percentage. The contract would be adjusted for any outstanding policy loan as of 4/11/91. Assuming that current cost of insurance costs are being deducted for the option in 1, above, then it could have a higher crediting rate than this option, which would not have a direct cost of insurance charge. Otherwise, the NEWCO contract would be the same as the ELIC contract.

3) The NEWCO contracts would provide a current interest crediting rate with the Reduced Face Amount contracts receiving a reduced crediting rate (e.g. 1/2 to 3/4 of 1% below other current rates) to reflect the Cost of Insurance. These NEWCO contracts would have lien provisions identical to those applicable to the Annual Premium Interest Sensitive contracts discussed above.

f. PENSION GICs, UNALLOCATED QRAs AND UNALLOCATED CQRAs:

These contracts would be restructured. The NEWCO Current Account Value would be calculated by using the Group A Restructuring Percentage. Any future values of the contract, including any maturity value, would be taken into consideration in determining this value. Calculation of surrender charges would be as provided in the current ELIC contract, subject to adjustment for the reduction by the Group A Restructuring Percentage. Any maturity option occurring during the Term Of The Rehabilitation Plan would be modified to provide that maturity amounts would be payable in five equal annual installments based on a current interest rate to be specified by the bidder and approved by the Conservation Court. Liens identical to those referred to above would also be applied to these contracts.

g. **CURRENT GRADED PREMIUM WHOLE LIFE AND TERM LIFE PRODUCTS:**

The bidder would have the option of offering these Group A contracts the right to convert to an equivalent NEWCO Interest

Sensitive Product or provide for other options which are derived from the principles set out above.

h. **MUNICIPAL GICs AND OTHER GROUP B CONTRACTS:**

Municipal GICs and such other ELIC consumer products as are not specified above, but as may be identified by the Conservation Court, shall be Group B Contracts. These contracts would be provided with a NEWCO contract which would have the same maturity as the existing ELIC contracts, but which would have a NEWCO Current Value calculated by use of the Group B Restructuring Percentage. These contracts would be credited with a current interest rate.

9. Summary:

The concepts described above would result in the following situation:

a. ELIC Policyholders and other Contract Holders would have new contracts from NEWCO which provide them with similar benefits to those they have under the ELIC contracts, but at lowered accumulated values and with a "lock in" period. By lock in period, it is meant that for the Term Of The Rehabilitation Plan they could not surrender, or would have limited surrender rights. This period would be from 3 to 5 years. The exact period of time would be determined in the negotiation process with the NEWCO Investors and the court approval process.

b. Next, Policyholders and other Contract Holders would have contractual rights entitling them to a share of the proceeds from the Liquidating Trust. The share would be based upon ratios determined as part of the Rehabilitation Plan. Assets in the Liquidating Trust would include industry contributions, proceeds from litigations, and proceeds from liquidation of other assets not transferred to NEWCO.

c. Policyholders and other Contract Holders would have a right to opt out of the plan and receive a cash payment in an amount to be determined, but which would be based in large part upon the present value of the net amount they would likely receive in the event of liquidation of ELIC.

10. Conclusion:

The Conservator expects that this process will be a challenge and that there will be many difficulties along the way to a successful Rehabilitation Plan. Nevertheless, the Conservator is confident and determined that this process can be and will be successful. While the results cannot be expected to be perfect, they will be superior to any "fire sale" liquidation scenario. Particular interest groups must realize and accept the fact that they cannot expect that the ELIC contracts will be fully paid. These special proceedings are founded upon the principles of equity and equitable adjustments must be made in the course of the rehabilitation process.

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October 10, 1991

REDACTED

VIA FEDERAL EXPRESS

CONFIDENTIAL COMMUNICATION

Lorraine Johnson, Esquire
Senior Counsel
State of California
Department of Insurance
Legal Division
100 Van Ness Avenue
San Francisco, CA 94012

Re: **Executive Life Insurance Company**

Dear Ms. Johnson:

Enclosed for your review are a variety of materials detailed below describing the members of the "NewCo" Investor Group ("Investors"). As you requested, we have provided an additional copy of each item to facilitate the review process. The information being provided should still be treated as highly confidential, for all the reasons set forth in David Harbaugh's letter to you dated September 17, 1991.

The Investors in NewCo presently consist of the follow companies, in the percentages shown:

MAAF Vie	27%
Novalis, S.A.	20%
Financiere Du Pacifique S.N.C. ("Finapaci")	17%
SDI Vendome	17%
Marceau Investissements, S.A.	9.5%
Omnium Geneve	9.5%
	100%

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EXHIBIT

ELIC6299 02226

MORGAN, LEWIS & BOCKIUS

Lorraine Johnson, Esquire
October 10, 1991
Page 2

Facsimiles of translated financial statements covering a two year period have been provided for each entity (save for SDI Vendome), along with original annuals reports (when available in English). These financial statements have been translated into English and converted to U.S. Dollars by the Paris office of Ernst & Young ("E&Y"). Hardcopies of the facimiles, along with the financial statements of SDI Vendome, are slated to arrive early next week and will be forwarded upon receipt.

As requested by Mr. Norris W. Clark, E&Y has also prepared a general description of the major differences between French accounting conventions and generally accepted accounting principles used in the United States. Copies of this description are also included.

With respect to the Investors holding 10% or more, I have enclosed the organizational affidavits you requested, except the SDI Vendome affidavit, which hopefully will arrive from France tomorrow. The organizational charts for these same entities along with charts and lists of affiliates will be sent by facsimile tomorrow as well.

Finally, I have enclosed the signed, original individual biographical affidavits shown on the enclosed list. More will follow tomorrow, along with a "checklist" for each Investor indicating all affidavits and other documents submitted.

I look forward to speaking with you tomorrow to answer any questions you may have. Thank you again for your ongoing cooperation and assistance.

Very truly yours,

Daniel W. Krane

DWK/paj

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Protective Order

LIST OF INDIVIDUAL AFFIDAVITS SUBMITTED

MAAF VIE S.A.

Directory

IRIGOIN, Jean
President of Directorate

CHALLET, Jean-Paul

GUÉRIT, René

SIMONET, Pierre

Oversight Committee

Mutuelle Assurance
des Artisans de France
(M.A.A.F.)
Member, represented by

SEYS, Jean-Claude

MAAF ASSURANCES S.A.

Director General

SEYS, Jean-Claude
Director General

ROUX, Michel
Deputy Director General

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Protective Order

NOVALIS S.A.

Board of Directors

DUCROUX, Jean
President

LAFRANCHI, Bernadette
Administrateur

RIVAIN, Renaud
Administrateur

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Protective Order

FINANCIERE DU PACIFIQUE

Manager [Gerant]

MORALI, Véronique

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GENERAL DESCRIPTION OF THE MAIN DIFFERENCES BETWEEN US GAAP AND FRENCH GAAP IN STATUTORY ACCOUNTS

French statutory accounts are produced according to a model defined by law (Company Act of July 24, 1966) that updated in 1982 to ensure conformity with the EC's Fourth Directive. A specific chart of accounts was introduced in 1986 for consolidated accounts. The presentation is made before appropriation of profit.

A Company should produce notes to the accounts which are similar to the US companies' notes. Companies also have to produce an annual report and,of course, tax returns (which are very useful to understand the tax computation).

An audit report is required for all SA companies (Société Anonyme). Auditors express an opinion stated in the auditor's general report, on whether the financial statements give a true and fair view of the company's position. The auditors must also report on related party transactions in the auditors' special report.
The chartered accountant who produces the accounts cannot be the auditor (Commissaire aux Comptes) of the company.

French GAAP for statutory accounts are found in Company and Tax Acts, and legal form predominates over economic substance.

CONSOLIDATED ACCOUNTS

As for consolidation methods, diffences between US and France practices concerning consolidation are not numerous, due to the implementation of the EC's Seventh Directive in France, which is in accordance with US GAAP.
Consolidation is compulsory since January 1985 for listed companies, else from January 1989..
Consolidated income is not available for distribution.

GOODWILL

Goodwill may be recorded only if it has been purchased. Unless its value is legally protected, goodwill is usually amortised in consolidated accounts.
Goodwill depreciation is not compulsory in the statutory accounts and cannot be deducted for tax purposes.

INVESTMENTS

There exists four types of investments:
- investments in affiliated companies: investments must have been acquired through a public offering or represent at least 10% of the affiliate's share capital, with a purpose of creating at least a lasting economic link. They are accounted for at the lower of cost or net asset value. Specific information in the notes is required on subsidies an associated companies.
- capitalised portfolio securities are securities held for medium to long term profit. They are accounted for at purchase price and depreciation is provided for. Disclosure in the notes is recommended of the estimated value of the portfolio at the beginning and the end of the year, compared with its book value.
- Other investments are those, excluding investments in affiliated companies, that a company intends to hold for a long period of time or that it cannot resell in the near future. They are accounted for at the lower of cost or net asset value.
- marketable securities acquired to make a short-term gain are valued at year end at the lower of cost or net asset value.

For statutory accounts, investments are carried at cost less depreciation when necessary.

PENSION COMMITMENTS

Pension commitments are not recorded in the French statutory accounts but are disclosed. In France, pension benefits are financed on a defined benefit scheme basis by contributions of both employers and employees to legal bodies and mutual insurance groups. Additionnally to this general scheme, a legal provision requires the employers to pay their employees a retirement premium at their retirement living date.
This defined benefit scheme, and in some cases other specific one's, called "pensions commitments" need to be disclosed in the notes and optionnally provided for in the statutory accounts.

Amounts involved are in fact far less significant than in the US where most of the pension benefits schemes operate on a defined benefit scheme basis and according to specific employers / employees agreements.
Pension commitments can be recorded against the reserves or amortised over X years.

LEASING

Leased assets are not capitalised, and rent paid by the user constitutes an expense. Disclosure of the original cost of the assets, the depreciation expense and accumulated depreciation, however, is required in the notes as if the leased assets had been purchased. France does not recognise the difference between operating and finance leases as defined in the US.
Leases may be capitalised in consolidated accounts when the purchase agreement is not cancellable.

DEFERRED TAX

In general, deferred tax is not recorded in the statutory accounts, except on consolidation: only due tax is recorded in individual accounts.
Deferred tax is instead disclosed in the notes to financial satiements.

PROFIT AND LOSS ACCOUNT

• Income and expenses are presented by nature rather than by function. As a consequence, gross profit does not appear on French income statements.

• The income statement is split into three separate parts:
- operating
- financial
- exceptional

The matching concept applies in each of these three elements.

• Unrealised foreign exchange losses are recorded in the profit and loss account, but unrealised foreign exchange gains are deferred.

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APPENDIX: COMPARISON OF ACCOUNTING CONCEPTS

	FRANCE	US
Going concern concept	Y	Y
Accruals or matching concept	Y	Y
Historical cost concept *	Y	Y
Consistency principle	Y	Y
Prudence principle	Y	Y
Materiality concept	Y	Y
Economic substance over legal form concept **	N	Y
Grossing off concept	Y	N

* Except revaluation
** Except for consolidation

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MORGAN, LEWIS & BOCKIUS
COUNSELORS AT LAW
2000 ONE LOGAN SQUARE
PHILADELPHIA, PENNSYLVANIA 19103-6993
TELEPHONE: (215) 963-5000
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SAN DIEGO
BRUSSELS
TOKYO

DAVID L. HARBAUGH
DIAL DIRECT (215) 963-5751

RECEIVED
1992

HAND DELIVERED

Lorraine Johnson, Esquire
Senior Counsel
State of California
Department of Insurance
Legal Division
100 Van Ness Avenue
San Francisco, CA 94012

Re: Aurora National Life Assurance Company

Dear Ms. Johnson:

Enclosed are (i) an original and two copies of the Statement and Affiliates List for Omnium Geneve; (ii) two copies of the Statement and Affiliate List for SDI Vendome; (iii) a copy of my letter dated April 7 to Mr. Bean supplying responses to his follow-up inquiries on our original pro forma presentation; and (iv) two copies of the MAAF Vie "Best's-style" analysis.

Should you have any question with respect to the enclosed, please let me know.

Very truly yours,

David L. Harbaugh

DLH/ars
Enclosures
cc: Richard Baum

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EXHIBIT 3

ELIC6299 02086

Omnium Geneve S.A.

1. Investor Ownership Interests in Altus/Crédit Lyonnais:

Omnium Genève and its affiliates neither hold, own nor control ownership interests in Altus/Crédit Lyonnais or their affiliates except as follows:

- Westleigh Holdings N.V., a holding company formed under the laws of the Netherlands Antilles and of which Omnium Genève holds 32.5% of the voting stock, has a 50.1% equity participation in Établissement Tarlé S.A., a holding company formed under the laws of France. Altus Finance is an 8% shareholder in Établissement Tarlé. In addition, Altus Finance's affiliate SBT-BATIF holds 35.13% of Établissement Tarlé.

- Établissement Tarlé owns 50% of Finacor S.A., one of Paris' leading brokerage firms. In addition to its indirect ownership interest in Finacor, Altus also directly holds 20% in Finacor.

2. Altus/Crédit Lyonnais Ownership Interests in Investor:

Altus/Crédit Lyonnais and their affiliates neither own, hold nor control ownership interests in affiliates of Omnium Genève except as mentioned in ¶ 1 above.

3. Contracts to Control Management and Policies:

A. There are no contracts or similar arrangements presently in effect pursuant to which Altus/Crédit Lyonnais (or affiliates) exert or can exert, directly or indirectly, control over the management or policies of Omnium Genève or its affiliates.

B. There are no contracts or similar arrangements presently in effect pursuant to which Omnium Genève or its affiliates exert or can exert, directly or indirectly, control over the management or policies of Altus/Crédit Lyonnais or their affiliates.

4. Ordinary Course Transactions:

The following is a description, by type, of business or financial transactions and arrangements arising in the ordinary course of business dealings between Omnium Genève or its affiliates and Altus/Crédit Lyonnais (including affiliates):

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- Omnium Genève has no present accounts with Crédit Lyonnais.

- Banks affiliated with Omnium Genève may presently conduct business with Crédit Lyonnais. [This needs to be more fully explained. Do ye have any more information regarding the affiliates' doing business with Crédit Lyonnais?]

5. Extraordinary Transactions:

There are no extraordinary transactions presently in effect between Omnium Genève (including affiliates) and Altus/Crédit Lyonnais (including affiliates) other than as described in ¶ 1 above.

6. Source of Funds for Investment in Holdco:

The source of funds for Omnium Genève's investment in New California Life Holdings, Inc. will be as follows:

- Omnium Genève will borrow the funds by drawing on an available general line of credit granted by its principal banking institution, Crédit Suisse (Geneva, Switzerland). No specific agreement for the borrowing of the pertinent funds has been entered to date.

7. Business Dealings with Aurora:

Apart from its ownership interest, neither Omnium Genève nor any of its affiliates are expected to have business dealings of any kind with Aurora.

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

Signed this 24th day of March 1992 at ~~Geneva, Switzerland~~

OMNIUM GENÈVE S.A.

By: Jacques Thunnissen

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Omnium Genève S.A.

Investbau Corp Management S.A.
Domicile: Switzerland
Business: Holding company.
Subsidiaries:

1. **Investbau Corp Holding S.A. (62.5%)**
   Domicile: Switzerland
   Business: Holding company.
   Subsidiaries:

   A. **Omnium Genève S.A. (37.2%)**
   Domicile: Switzerland
   Business: Omnium Genève is a publicly traded holding company having interests in financial and banking institutions in Switzerland, France, Germany, the Netherlands and Great Britain. It does not operate within the United States, nor does it own any interest in any insurance company.
   Subsidiaries:

   1. **Anker Compagnie Financière S.A. (51%)**
   Domicile: Switzerland
   Business: Bank holding company.
   Subsidiaries:

   a. **Anker Bank (88%)**
   Domicile: Switzerland
   Business: Banking
   Subsidiaries: None.

   2. **Banque Finindus (21.49%)**
   Domicile: France
   Business: Banking
   Subsidiaries: See Schedule A attached.

   3. **Unifina Establissement Financier (15%)**
   Domicile: France
   Business: Medium-term loans (non-banking).
   Subsidiaries:

   a. **Sicomaz (Sicomf) (11%)**
   Domicile: France
   Business: Banking
   Subsidiaries: None

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4. **Westleigh Holdings N.V. (32.5%)**
   Domicile: Netherlands Antilles
   Business: Holding company.
   Subsidiaries:

   a. **Établissement Tarid (80.1%)**
      Domicile: France
      Business: Holding company.
      Subsidiaries:

      i. **Finacor (50%)**
         Domicile: France
         Business: One of Paris' leading brokerage firms.
         Subsidiaries: See attached chart

5. **Anker Unternehmensverwaltungs G.m.b.H. (100%)**
   Domicile: Germany
   Business: Bank holding company.
   Subsidiaries:

   a. **AB Anker Bank (93%)**
      Domicile: Germany
      Business: Banking.
      Subsidiaries: None.

6. **Effectenbank Stroers N.V. (20.71%)**
   Domicile: The Netherlands
   Business: Banking.
   Subsidiaries: None.

7. **Omega Trust Company Ltd. (10.52%)**
   Domicile: United Kingdom
   Business: Banking.
   Subsidiaries: None.

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Schedule A - Subsidiaries of Banque Finistère

a. **Banque Galibes (100%)**
Domicile: France
Business: Banking
Subsidiaries:

i. **Unifina Etablissement Financier (11%)**
(See above)

ii. **Finisoest (40%)**
Domicile: France
Business: Real estate
Subsidiaries: 5 "S.C.P.I."(companies having primarily assets in real estate): Fininpierre 1, 2, 3 and Patripierre 1 and 2

b. **Unifina Etablissement Financier (47%)**
(See above)

c. **Finisoest (60%)**
(See above)

d. **F.C. Holding (51%)**
Domicile: France
Business: Holding company
Subsidiaries:

i. **Banque du Dôme (65%)**
Domicile: France
Business: Banking
Subsidiaries: None

e. **Lisfina (10%)**
Domicile: France
Business: Leasing
Subsidiaries: None

f. **Finassur (100%)**
Domicile: France
Business: Insurance brokers
Subsidiaries: None

g. **S.F.C. Crédifrance Factor (83%)**
Domicile: France
Business: Factoring
Subsidiaries: None

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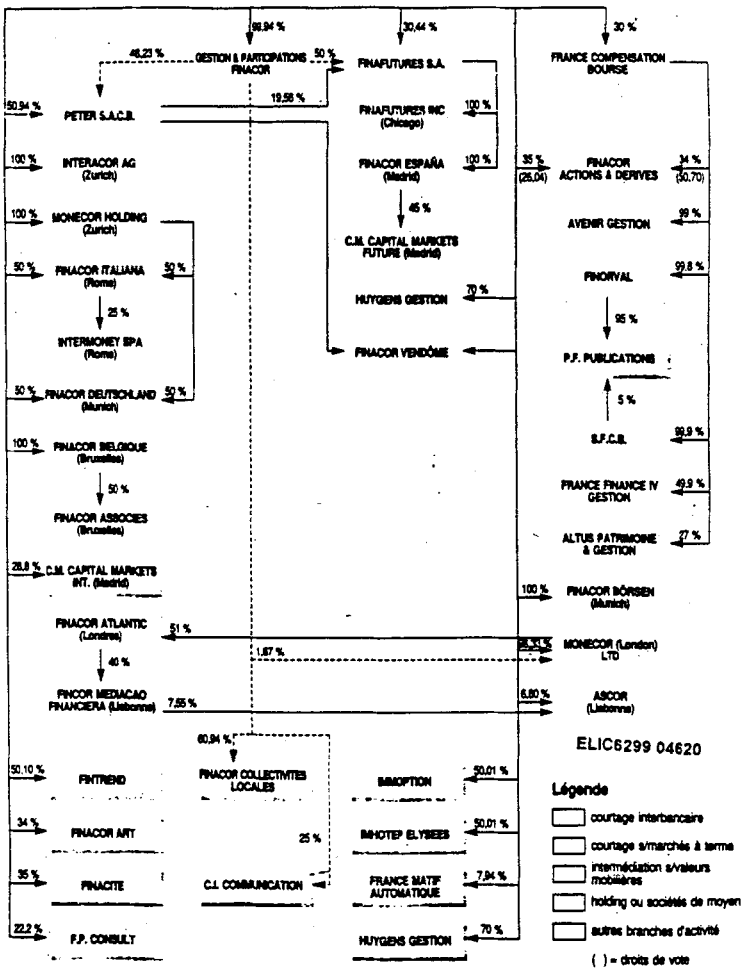
FINACOR S.A.

au 24 mai 1991



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S.D.I. Vendôme S.A.

1. Investor Ownership Interests in Altus/Crédit Lyonnais:

S.D.I. Vendôme and the companies of the AMA Group neither hold, own nor control ownership interests in Altus/Crédit Lyonnais or any of their affiliates except as follows:

- Novapar, a holding company in the Novalliance Group, owns 100% of Novafuturs, a holding company, which in turn owns 3% of the voting stock of Banque Saga. As of March 31, 1992, Altus Finance owned 34% of the voting stock of Banque Saga. All of these entities were formed under the laws of France.

2. Altus/Crédit Lyonnais Ownership Interests in Investor:

Altus/Crédit Lyonnais and their affiliates presently own, hold or control ownership interests in the AMA Group companies as follows:

- Altus Finance holds 34.05% of the voting equity in Alain Mallart et Associés ("AMA").

- Altus Finance holds 26.09% of the voting equity in Finalliance.

- Crédit Lyonnais Investissement ("Clinvest") holds 15% of the voting equity in Compagnie Financière Alain Mallart ("CFAM").

- Clinvest holds 17% of the voting equity in Novalliance Immobilier.

All of the foregoing companies were formed under the laws of France.

Crédit Lyonnais and its affiliates are from time to time [illegible] in other AMA Group companies. [illegible]

[illegible] stock in other AMA Group companies. [illegible]

3. Contracts to Control Management and Policies: ELIC6299 04291

There are no contracts or similar arrangements presently in effect pursuant to which Altus/Crédit Lyonnais or any of their affiliates exert or can exert, directly or indirectly, control over the management or policies of S.D.I. Vendôme or any of the AMA Group companies. However, as part of the

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ordinary course financings between AMA Group companies and various commercial lenders, including Altus/Crédit Lyonnais, the shares of the given company are customarily pledged to the lender to secure repayment of lines of credit or similar routine lending. Such pledges would permit the lender to own (and therefore vote) the shares only in the event of a default on the relevant loan or financing.

4. Ordinary Course Transactions:

The following is a description, by type, of business or financial transactions and arrangements arising in the ordinary course of business dealings between S.D.I. Vendôme or the AMA Group companies and Altus/Crédit Lyonnais (including affiliates):

S.D.I. Vendôme has a current account with Société de Banque et de Transaction ("SBT"), a subsidiary of Altus Finance. Through this SBT account, S.D.I. Vendôme has engaged in a single currency hedging operation designed to reduce the risk for changes in the US$ - FF exchange rate at the time then contemplated of S.D.I. Vendôme's investment in New California Life Holdings, Inc. The currency option expired by its terms on January 15, 1992. At present, the SBT account has a zero balance.

With respect to the many companies of the AMA Group, numerous ongoing ordinary course banking relationships exist with Altus/Crédit Lyonnais, as well as other commercial lenders. These relationships involve maintenance of routine bank accounts, routine operation loans, lines of credit, letters of credit, routine purchases and sales of securities and investments, and other customary banking services.

These relationships also include overdraft facilities (short-term credit lines), medium- and long-term credit lines, deposit accounts, property financings secured by crédit-bail (a form of finance lease), currency transactions, and, from time to time, advisory services in respect of mergers and acquisition activities.

In addition to the foregoing, Crédit Lyonnais and its affiliates provide AMA Group companies with customs guarantees to secure the obligation of the companies to pay the French state amounts to be collected from shippers in respect of value-added taxes and excise taxes in shipments across borders.

5. Extraordinary Transactions:

No "extraordinary transactions" exist or are contemplated between S.D.I. Vendôme and Altus/Crédit Lyonnais or any of

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their affiliates. Approximately 20 to 25 extraordinary transactions have occurred between certain AMA Group companies and Altus/Crédit Lyonnais, involving Altus/Crédit Lyonnais as sponsor of the AMA Group, none of which impact in any way the management, ownership or control of S.D.I. Vendôme or New California Life Holdings, Inc. These transactions are not required to be publicly disclosed under French law or any other relevant law to which the companies are subject. Furthermore, none of the transactions has ever been publicly disclosed; several involve the use of proprietary business structures and techniques and all involve information that is potentially valuable to competitors.

Altus Finance and companies of the AMA Group may each hold minority interests in other third-party companies. Under such circumstances, Altus Finance and the companies of the AMA Group do not act together regarding such investments. (Indeed, under French law, shareholder agreements for the control or management of companies is unlawful and subject to criminal penalties.) None of these transactions will permit Altus/Crédit Lyonnais to, directly or indirectly, exert any influence or control over the ownership, management or policies of S.D.I. Vendôme or New California Life Holdings, Inc.

6. <u>Source of Funds for Investment in New California Life Holdings, Inc.</u>:

The source of funds for S.D.I. Vendôme's investment in New California Life Holdings, Inc. will be as follows:

The funds will derive exclusively from the personal assets of Mr. Alain Mallart, the ultimate controlling parent of S.D.I. Vendôme. These funds will be transferred to S.D.I. Vendôme, which in turn will use the funds to purchase the contemplated percentage of shares in New California Life Holdings, Inc. Except as noted below as to the form of Mr. Mallart's investment, neither Mr. Mallart nor S.D.I. Vendôme will borrow any funds to make the investment, and the shares of S.D.I. Vendôme and New California Life Holdings will not be subject to any pledge or other form of encumbrance.

The funds transfer by Mr. Mallart to S.D.I. Vendôme will be made in the form of a capital contribution (purchase of share capital of S.D.I. Vendôme) and possibly a loan by Mr. Mallart to S.D.I. Vendôme. Mr. Mallart has, as yet, not determined whether his investment in S.D.I. Vendôme will include a loan and, if it does, the amount and other terms of the loan. A final decision will be based in part on tax considerations at the time of the investment.

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7. Business Dealings with Aurora:

Apart from its ownership interest, neither S.D.I. Vendôme nor any of the AMA Group companies is expected to have business dealings of any kind with Aurora National Life Assurance Company.

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

Signed this 6th day of April, 1992 at Paris, France.

S.D.I. VENDOME S.A.

By: Alain Mallart

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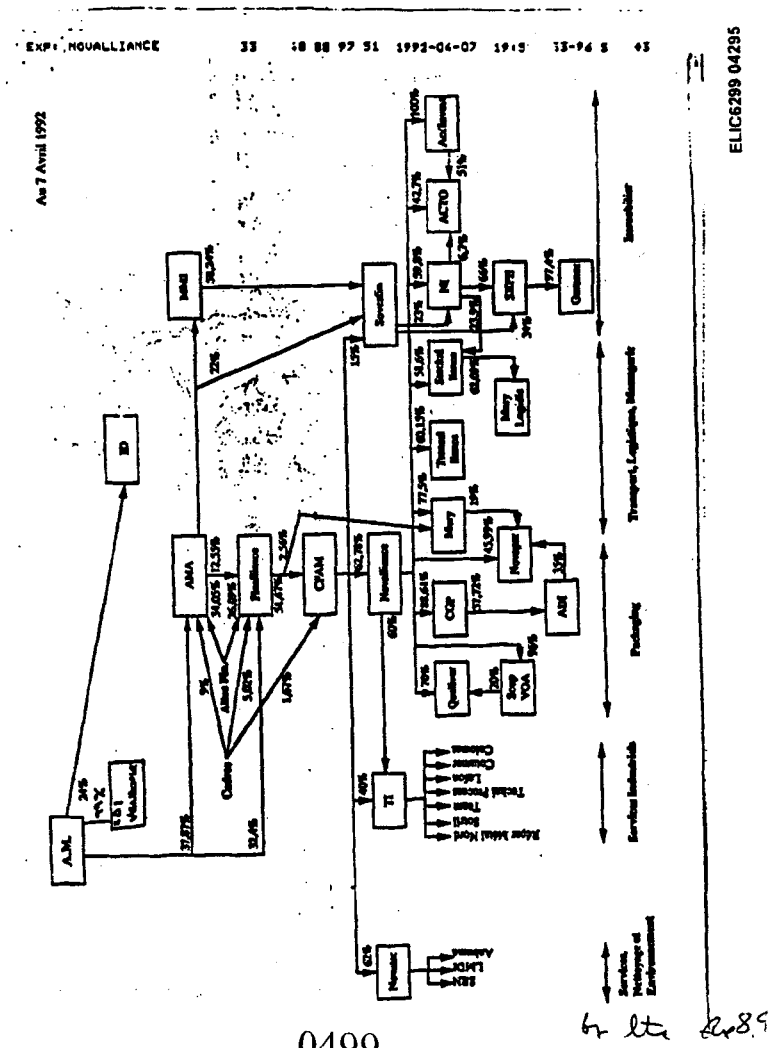

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A M GROUP

NAME	ADDRESS	ACTIVITY	%
SDI VENDOME	4 avenue Hoche 75008 PARIS	French Holding Company	99.99
IMMOBILIERE DELAGENIERE	4 avenue Hoche 75008 PARIS	French Holding Company	94.00
A M A	4 avenue Hoche 75008 PARIS	French Holding Company	37.9
FINALLIANCE	4 avenue Hoche 75008 PARIS	French Holding Company	32.4

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FINAL LIANCE GROUP

NAME	ADDRESS	ACTIVITY	%
CFAM	4 avenue Hoche 75008 PARIS	Holding company	49,82
B N I I	4 avenue Hoche 75008 PARIS	Consultant in real estate and in the building industry	68,00
O N I I	4 avenue Hoche 75008 PARIS	Realtor	90,00
SCI DE VITEROLLES	48 avenue Victor Hugo 75016 PARIS	Property Holding Company	100,00
SCI TRANSFERT ROUSSEVILLE	450 avenue Jean Jaurès 69410 ANZIN	Property Holding Company	90,00
SCI LES AUBIERS	101 Quai Pierre Scize 69005 LYON	Property Holding Company	30,00
SCI ESCALE BLANCHE	101 Quai Pierre Scize 69005 LYON	Property Holding Company	28,00
SOSDIO	3 et 4 route de Chatou 92000 NANTERRE	Real Estate Management	84,00
S I I	1 rue Ambroise Paré 75009 PARIS	Real Estate Management	37,50
FINANCIERE FDR	64 rue de Richelieu 75002 PARIS	Holding company	40,00
A . P . G.	64 rue de Richelieu 75002 PARIS	Fund Management	53,00
HOCHE IENA	4 avenue Hoche 75008 PARIS	Fund management	49,00
HOCHE ASSURANCES (ex ASMOR)	4 avenue Hoche 75008 PARIS	In House Insurance Broker	99,00
FORM ACCESS	132 rue du Pbg Saint-Denis 75010 PARIS	running of a professional training center	99,96
QUADROVA	4 avenue Hoche 75008 PARIS	Holding company	99,00
FINANCIERE DE RIGNY	29 av. Marcelin Berthelot 38000 GRENOBLE	Holding company	50,00

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CPAM GROUP

NAME	ADDRESS	ACTIVITY	%
NOVALLIANCE	4 avenue Hoche 75004 PARIS	Holding Company	62,17
TRANSFERT INDUSTRIE	38-40 rue des jardins 57080 SAN SAINT MARTIN	Industrial services	40,81
NOVATEG	4 avenue Hoche 75008 PARIS	Industrial services	62,00
[illegible]	51 rue du Rocher 75008 PARIS	Financial services	99,00
[illegible]	49 rue Boissière 67200 PORT DE FRANCE	Financial services	51,00
GALIEN	14 rue Saint-Lazare 41260 LA CHAUSSEE ST-VICTOR	Engineering in pharmaceut industry	67,70
EPMO	14 rue Saint-lazare 41260 LA CHAUSSEE ST-VICTOR	Engineering in pharmaceut industry	99,00
Laboratoires Massia	Rue des Cailleres 89000 AUXERRE	Engineering in pharmaceut industry	70,00
NOVASOFT	132 rue du Faq St-Denis 75010 PARIS	Holding company	59,00
D D G	118 avenue Jean Jaurès 75019 PARIS	Holding Company	34,00
Perlizet	25 avenue de Maubeuge 75010 PARIS	Rester	99,00

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NO. TKC GROUP

NAME	ADDRESS	ACTIVITY	%
ANSUMA	Waaslandlaan 3 9160 LOKEREN - BELGIQUE	Distribution of steel products	74,04
H P K	19 rue de Lasserre 47230 LAVARDAC	Manufacture of Cork	99,90
N 2 A	16 rue Emile Marcauche 56100 LORIENT	Industrial cleaning	49,00
S E N	4 avenue Hoche 75008 PARIS	Holding company	61,00
→ TEP	15 cours Louis Lumière 94300 VINCENNES	Industrial cleaning	100,00
→ SENS	16 avenue Marie Reynoard 38100 GRENOBLE	Industrial cleaning	70,00
→ (SES)	c/o 16 avenue Marie Reynoard 38100 GRENOBLE	Industrial cleaning	50,00
→ (SETS)	c/o 16 avenue Marie Reynoard 38100 GRENOBLE	Industrial cleaning	50,00
N S G	132 rue du Fbg Saint-Denis 75010 PARIS	Security, guarding	94,32
NECYDIS	41 rue Les Longs Rideaux 94457 LIMEIL-BREVANNES	Waste management	49,00
→ CGDR Interdéchets	41 rue Les Longs Rideaux 94457 LIMEIL-BREVANNES	Waste management	100,00
L M D I	1 allée de Chartres 33000 BORDEAUX	Logistics services	94,80
SITAIR	41 rue Les Longs Rideaux 94457 LIMEIL-BREVANNES	Industrial services	33,33

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TRAL ERT INDUSTRIE GROUP

NAME	ADDRESS	ACTIVITY	%
SOTRIL	Route de Rombas 57140 WOIPPY	Installation, assembly and transfer of industrial plant and machinery	55,00
SOTRIL SOCHAUX	12 rue du Stade 25200 GRAND-CHARMONT	Installation, assembly and transfer of industrial plant and machinery	90.00
IDEM	38/40 rue des Jardins 57050 SAN ST MARTIN	Installation, assembly and transfer of industrial plant and machinery	60,00
A M S	9 rue Marcel Dassault 51430 TINQUEUX Cedex	Industrial cleaning	61.00
S E R	9 rue Denis Papin 38800 PONT DE CLAIX	Installation, assembly and transfer of industrial plant and machinery	34.00
TEAM MECA TRANSFERT	54 rue Ernest Macarez 59302 VALENCIENNES	Installation, assembly and transfer of industrial plant and machinery	55.00
→ SCI Transfert Rougeville	54 rue Ernest Macarez 59302 VALENCIENNES	" " " " "	50.00
→ ELECTRO TEAM	rue Ambroise Croizat 59125 TRITH SAINT LEGER	" " " " "	51.00
→ VAL ELEC	54 rue Ernest Macarez 59302 VALENCIENNES	" " " " "	70,00
→ IMMOTEAM	c/o TEAM, 54 rue E. Macarez 59304 VALENCIENNES	Waste recycling and recovery	45,00
REPAR METAL NORD	54 rue Ernest Macarez 59302 VALENCIENNES	Installation, assembly and transfer of industrial plant and machinery	50.00
TRANSFERT SERVICES	36 rue des jardins 57050 SAN SAINT MARTIN	Transport by inland waterway, industrial services	99.20
SYSTEMA	c/o TRANSFERT SERVICES 36 rue des jardins 57050 SAN SAINT MARTIN	Installation, assembly and transfer of industrial plant and machinery	99.00
DERIGON	BP 27 - St Jean 63014 CLERMOND-FERRAND	Installation, assembly and transfer of industrial plant and machinery	34,00
GIE MDP	c/o TRANSFERT SERVICES 36 rue des jardins 57050 SAN SAINT MARTIN	Aircraft leasing	28.00
SCI STE AGATHE	c/o TRANSFERT SERVICES 36 rue des Jardins 57050 SAN SAINT MARTIN	Property holding company	67.50

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TECHNIPROCESS	Route de Rombas 57140 WOIPPY	Installation, assembly and transfer of industrial plant and machinery	92,30
COLOMAT	Atelier de la Rotonde 54340 POMPEY	Trading and servicing in industrial material	98,90
LAFON ↳ BARREAULT	Avenue Victor Hugo 33530 BASSENS Avenue Louis Lumière 17185 PERIGNY	Fluid control Fluid control	90,60 65,00
METALOR LAFON	11-13 rue Jean Jaurès 54320 MAXEVILLE	Fluid control	61,00
COTUMER	8 Chemin Clément Lafargue 33660 MARTILLAC	Installation, assembly and transfer of industrial plant and machinery	69,80
OSBORN	12 rue M. Berthelot ZI de la Grande Couture 95600 CONFLANS	Industrial manufacturer	80,00
ECLEM	c/o TRANSFERT SERVICES 36 rue des Jardins 57050 SAN SAINT MARTIN	Installation, assembly and transfer of industrial plant and machinery	70,00
SMI PESAGE	26 av. Marcelin Berthelot 38100 GRENOBLE	Weighing	77,20
LYPREMION	148 av. du Général de Gaulle 57050 LONGEVILLE LES METZ	Industrial advertising	34,00
TI AUSTRIA	Sinnizmanstrasse 26 9020 KLAGENFURT- AUSTRIA	Installation, assembly and transfer of industrial plant and machinery	60,50

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TRANSEST SERVICES GROUP

NAME	ADDRESS	ACTIVITY	%
TRANSEST	Port privé de Thionville-Illange 57185 FLORANGE	Transport by inland waterway	80.00
→ SAAR MOSEL TRANSPORT	Rhein Strasse 5 4100 Duisburg 17 - GERMANY	Transport	92.00
→ (Technoport)	Rhein Strasse 5 4100 Duisburg 17 - Germany	Waste management	51.00
→ (UTC)	Rhein Strasse 5 4100 Duisburg 17 - Germany	Transport	90.00
LAGENDIJK	West wagon Straat 80 NL 3001 - AW ROTTERDAM	Transport by inland waterway	54.32
CILOMATE SERVICE	BP 13, avenue de Nancy 54800 JARNY	Equipment hire	51.96
→ GETIM	Bd de l'engranier 13110 PORT DE BOUC	Handling on silos, road haulage	39.33
→ GEMAT	Route de Farnack 57192 FLORANGE	Port handling, inventory control	28.00
→ CLB	28 route de Farnack 57192 FLORANGE	Equipment hire	33.33
→ LECLERC	Bd de l'engranier 13110 PORT DE BOUC	Equipment hire	33.33
→ CILOMATE TRANSPORT	BP 13 avenue de Nancy 54800 JARNY	Transport	100.00
COL SNC	36 rue des Jardins 57050 SAN SAINT MARTIN	Industrial engineering	99.00

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NOVALLIANCE GROUP

NAME	ADDRESS	ACTIVITY	%
STOCKALLIANCE	4 avenue Hoche 75008 PARIS	Creation and running of warehouses docks and river ports	59,65
TRANSALLIANCE	28 route de Fameck 57190 FLORANGE	Transport, storage and logistics	60,15
MONY	4 avenue Hoche 75008 PARIS	Holding Company specialised in transport	28,13
ACT'INVEST	26 av. Marcelin Berthelot 38036 GRENOBLE Cedex	Holding Company	100,00
ACTO	26 av. Marcelin Berthelot 38036 GRENOBLE Cedex	Holding Company	39,76
TRANSFERT INDUSTRIES	38-40 rue des Jardins 57050 SAN SAINT MARTIN	Industrial services	58,18
SCOP VOA 20% QUALIVER VOA	Rue François Arago 81100 ALBI Rue François Arago 81000 ALBI	Glass factory Glass factory	59,74 70,00
O G P A D I	22/26 avenue Jean Lolive 93507 PANTIN 4 avenue Hoche 75008 PARIS	Holding Company specialised in packaging Holding company	88,61 55,70
NOVAPAR	4 avenue Hoche 75008 PARIS	Packaging, marketing	46,00
NOVALLIANCE IMMOBILIER	4 avenue Hoche 7508 PARIS	Holding Company	59,80
NOVALLIANCE COMMUNICATION	4 avenue Hoche 75008 PARIS	In House advertising agency	99,75
HOCHE IENA FINANCE	4 avenue Hoche 75008 PARIS	Financial services	35,00
SOFT PROGRESS	57 rue Ernest Renan 51100 REIMS	Computer software	65,75
JUSTE A TEMPS	320 rue Saint-Honoré 75001 PARIS	Consultant and services	50,00

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A APAR GROUP

NAME	ADDRESS	ACTIVITY	%
A M S A	Le Mans 86400 LAVILSTER	Holding company	30,00
PRESTIMO	132 rue du Fbg Saint-Denis 75010 PARIS	Real estate	99,81
NOVAFUTURE	4 avenue Hoche 75008 PARIS	Holding company	99,76
AM PARTNERS	4 avenue Hoche 75008 PARIS	Holding company	46,66
M C D	43 avenue Friedland 75008 PARIS	Management services	45,00
LEASE AIR	11 rue Lutzel 59130 ECULLY	Aircraft rental	34,00

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NO' LIANCE IMMOBILIER

NAME	ADDRESS	ACTIVITY	%
NOVAFFINE	23 rue d'Anjou 75008 PARIS	Holding Company	50,00
S C P	94 bd de Plaisance 75012 PARIS	Construction	51,00
SI DES MONTS	4 avenue Hoche 75008 PARIS	Property holding company	100,00
SONOMAG	17 rue Dumont d'Urville 14000 CAEN	Warehousing	54,46
PAINDAVOINE	13' rue Berthelot 59000 LILLE	Warehousing	70,69
M G O A	62 avenue Brébant 51056 REIMS Cedex	Warehousing	99,61
S.L.L.P.E	4 avenue Hoche 75008 PARIS	Holding company	66,00
→ GARONOR SA	Bat G - Autoroute A1 93600 AULNAY S/BOIS	Real estate holding company	97,40
→ (Garonor services)	Bat G - Autoroute A1 93600 AULNAY S/BOIS	Management and Development of warehousing sites	65,00
→ (Garonor exploitation)	Bat G - Autoroute A1 93600 AULNAY S/BOIS		100,00
→ (Garonor Réseau)	Bat G - Autoroute A1 93600 AULNAY S/BOIS		100,00
→ (Garonor ingénierie)	Bat G - Autoroute A1 93600 AULNAY S/BOIS		100,00

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CGP GROUP

NAME	ADDRESS	ACTIVITY	%
GAULT ET FRIEMONT	87 rue de Bordeaux 37012 TOURS CEDEX	Cardboard boxes	62,29
PARIS EMBALLAGE	21 de Montcoupot 51210 MONTMIRAIL	Cardboard boxes	39,20
ELOE	7-11 av. Barthélémy-Thimonnier 69300 CALUIRE	Paper converter	60,00
CMB Carton Systems	PO Box 5, Speke LIVERPOOL L24 9JA - GB	Carboard boxes	65,00
PAPETERIE DU NORD	156 rue JB Delecluse 59170 CROIX	Paper industry	76,01
A D I	4 avenue Hoche 75008 PARIS	Holding company	57,72
- NOVAPAR	4 avenue Hoche 75008 PARIS	Holding company	35,00
- EMBALCO	Heirweg 96, 8720 KUURNE BELGIQUE	Cardboard boxes	99,00
- PENICAUD PROFESSIONNEL	21 rue de la Mauvendière 87011 LIMOGES Cedex	Auto-parts distribution	47,39
SCI PERCELIN	c/o CGP - 22/26 av. Jean Lolive 93507 PANTIN Cedex	Property holding company	51,00
SCI PARENT LAVARENNE	c/o CGP - 22/26 av. Jean Lolive 93507 PANTIN Cedex	Property holding company	45,00

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LAUL JEREMONT GROUP

NAME	ADDRESS	ACTIVITY	%
PARIS EMBALLAGES	ZI de Montcouquet 51210 MONTMIRAIL	Cardboard boxes	50,70
MOREL BARNERON	10-12 rue Charles-Baraile 84000 VALRSAB	Cardboard boxes	100,00
GOLEY	Rue de la Beraudière 45700 VILLEMANDEUR	Labels	100,00
SOTRAMA SARL	Rue de la Beraudière 45700 VILLEMANDEUR	No activity	100,00
TIRIOLAT P.	22 route des Lignières 18200 DAVAL	Cardboard boxes	99,68
WEBLY	PO Box 1083 6201 MAASTRICHT - NL	Paper converter, cardboard boxes	100,00
PAPETERIE DE LA FOURCHE	ZI de Cavilly rue d'Orvillers 60480 PIESSONS SUR MATZ	Paper industry	100,00

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MORY GROUP

NAME	ADDRESS	ACTIVITY	%
MORY LTD	20 Blackfriars Lane LONDON EC 4V 6H	Holding of forwarding agent and international transport	100,00
PALAFINE Ltd	20 Blackfriars Lane LONDON EC 4V 6H	Transport	100,00
MORY UK	Unit 11, Heathrow Inter. Trading Estate, Green Lane HOUNSLOW - MIDDX	Transport	100,00
T M F	4 avenue Hoche 75008 PARIS	Holding of forwarding agent and international transport	100,00
AMPG	151 Bd Danielle Casanova 13312 MARSEILLE Cedex 14	Forwarding agent	75,00
BEAU	Bordeaux Inti 33521 BRUGES Cedex	Forwarding agent	99,00
CAUNEILLE Transit	93 av. Charles de Gaulle 94134 LE PONTET Cedex	Forwarding agent	90,00
(SST Sud)	93 av. Charles de Gaulle 94134 LE PONTET Cedex	Forwarding	100,00
(SST Méditerranée)	13290 LES MILLES	Forwarding	90,00
(Laudun)	93 av. Charles de Gaulle 94134 LE PONTET Cedex	Forwarding	75,00
(Jouvet)	93 av. Charles de Gaulle 94134 LE PONTET Cedex	Forwarding	70,00
(SMITT)	93 av. Charles de Gaulle 94134 LE PONTET Cedex	Forwarding	90,00
(SST Bordeaux)	Bordeaux Inti 33521 BRUGES Cedex	Forwarding	90,00
(Nafasse)	59280 HALLUIN	Forwarding	90,00
DIEPPE RORO QIE	10 cours Louis Lumière 94306 VINCENNES Cedex	Ro-Ro Ferry Services	90,00
TRANSPORTIR	81 av. Marques de Argentera 08003 BARCELONA - ESPAGNE	Transport by inland waterway, industrial services	87,00
REY ESPAGNE	ABRENOA DE LAS DERASSANES 08005 BARCELONA-ESPAGNE	Forwarding	59,00
MORY TNTE	10 cours Louis Lumière 94306 VINCENNES Cedex	Road transport	95,00
PAVEH	Quartier du port de Polle DRAP, 06340 LA TRINITE	Road transport	100,00
SOMETRAC	ZI de Saint-Jory 31150 FENOUILLET	Transport	100,00
SOTRAB	7 rue Mispee SAINT-BRIEUX	Road transport	49,00
EUROTRAF SARL	Port Autonome - 1 rue du Havre 67100 STRASBOURG	Transport	99,00

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(MORY TNTE)			
HELMINGER LUXEMBOURG	Route de Hellange CRAUTHEM - LUXEMBOURG	Transport	99,00
FERRY MOUGIN	ZA de Vesoul Ouest 70000 NOIDANS-les-Vesoul	Transport	55,00
SOGETRANS	6 rue de la Douane 10800 LA CHAPELLE SAINT-LUC	Transport	60,00
JURA TRANSPORTS	12 Chemin des Drochères 39005 LONS LE SAUNIER	Transport	100,00
TRANSPORT INTERNATIONAL INC. DELAWARE	DOVER - DELAWARE US	Transport	100,00
(Vandegrift)	*HABOKEN - NEW JERSEY (US)*	*Transport*	*100,00*
MORY MAROC	10 rue Foucauld CASABLANCA 01 - MAROC	Transit maritime et portuaire	50,00
(COCM)	24 bd Mohamed el Hansali CASABLANCA 01 - MAROC	Fuel trading	*49,00*
SECURITAS	19 rue Marcelis BRUXELLES - BELGIQUE	Transport	99,99
ETEX FRANCE	95190 GOUSSAINVILLE	Transport	100,00
ETEX FAR EAST	3,301 Sunning Plaza 10 Hysan Avenue, HONG KONG	Forwarder of exhibition goods	100,00
WELLING HOOD	2301 Sunning Plaza 10 Hysan Avenue, HONG KONG	International freight forwarding	53,00
MORY TECHNOLOGIE	10 cours Louis Lumière 94304 VINCENNES Cedex	Transport	67,00
HN TRANSPORT	Industrieweg 6 2830 BOOM-HR ANTWERPEN	Road transport	49,00

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1 SSALLIANCE GROUP

NAME	ADDRESS	ACTIVITY
TRANSEST SA	Port privé de Thionville-Illange 57192 FLORANGE	Transport by inland waterway
SAAR MOSEL TRANSPORT	Rhein Strasse 5 4100 Duisburg 17, GERMANY	Transport
TECHNOAGRAR	Rhein Strasse 5 4100 Duisburg 17, GERMANY	Waste management
UTG	Rhein Strasse 5 4100 Duisburg 17, GERMANY	Transport by inland waterway
LAGENDIJK	West Wagen Street 60 NL 3001 AW, ROTTERDAM	Transport by inland waterway
TRANSFERT SERVICES	36 rue des Jardins 57050 SAN SAINT MARTIN	Transport by inland waterway, port handling, industrial services
CILOMATS SERVICE	Avenue de Nancy 54800 JARNY	Equipment hire
CCL Snc	36 rue des Jardins 57050 SAN SAINT MARTIN	Industrial engineering
CILOMATE TRANSPORT	36 rue des Jardins 57050 SAN SAINT MARTIN	Transport
GETIM SNC	Bd de l'engranier Zi de la Grand'Colle 13110 PORT DE BOUC	Handling on sites, inventory control, road haulage.
COMAT	28 route de Fameck 57192 FLORANGE	Port handling, inventory control
CLS SNC	28 route de Fameck 57192 FLORANGE	Equipment hire
LECLERC SNC	Bd de l'engranier 13110 PORT DE BOUC	Equipment hire
SOLOTRA TRANSPORTS EURL	BP 1 57192 FLORANGE Cedex	Transport
SOLOTRA ITALIE	Via Calatra, 73 31100 TREVISO - ITALIA	Transport
SOLOTRA ALSACE	Chemin de la Brugne - Eckbolsheim 67036 STRASBOURG	Transport
MOPA SA	Rd 32, BP 108 40103 Yzosse, DAX Cedex	Road haulage and related activities
POCA SA	Gare Perpignan-Roussillon BP 8468, Saint-Charles 66034 PERPIGNAN Cedex	Road haulage and related activities
REY FRANCE	Marché International St-Charles 66011 PERPIGNAN Cedex	Road haulage and related activities
SCL TRANSPORT	ZI - MUNSBACH L - 5366	Road haulage and related activities
E & T BOURG	12 square Robert Schumann 57190 FLORANGE	Road haulage and related activities
SOLOTRA ST DIE	17 rue du petit St-Dié 88105 SAINT DIE	Road haulage
TOE SA	9 rue du Marché Commun 44040 NANTES Cedex 01	Road haulage

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JL TRANSPORT	c/o TRANSALLIANCE Route de Farnack, FLORANGE	Road haulage
TRANSPORT MAILLART	6-8 Porte de Bourgogne 55700 STENAY	Road haulage
GODEPAR SARL	28 route de Farnack 57190 FLORANGE	Road haulage
HERMANN SARL	Rue de la Madeleine 88103 SAINT DIE	Road haulage
TRANSPORTS ISSOIRIENS	21 les bains - BP 86 63503 ISSOIRE	Road haulage
MALHERBES TRANSPORT	50660 LINGREVILLE	Road haulage
TRANSPORTS MALHERBES	50660 LINGREVILLE	Road haulage
GARAGE MALHERBES	50660 LINGREVILLE	Road haulage
THEVENIN	136 av. du Général Leclerc 54122 AZERAILLES	Road haulage
EUROROUTE	Lingreville 50660 QUETTREVILLE S/SENNE	Road haulage
STC	Rue de l'Isle sur Sorgue 84500 CAVAILLON	Road haulage
RENE MICHEL	141 rue du Général Leclerc 54122 AZERAILLES	Road haulage
PHILIPPE MICHEL	141 rue du Général Leclerc 54122 AZERAILLES	Road haulage
TRANSPORT G. SCHMIT	c/o TRANSALLIANCE Route de Farnack, FLORANGE	Road haulage
BIOT	6/10 rue Joseph-Cugnot 51430 TINQUEUX	Road haulage
MICHEL MAYER DISTRIBUTION	16 rue du Champ moyen 54210 FLAVILLE	Road haulage
MAYER	21/25 rue Marcel Brot 54006 NANCY Cedex	Road haulage
TTP TRANSPORTS	c/o TRANSALLIANCE Route de Farnack, FLORANGE	Road haulage
MAYER TRANSPORTS SP	21/25 rue Marcel Brot 54006 NANCY Cedex	Road haulage
MAYER ATELIER	21/25 rue Marcel Brot 54006 NANCY Cedex	Road haulage
FOB TRANSPORT	Av. Sellerie des Moines 33530 BASSENS	Road haulage

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NSPORTS ISSOIRIENS

NAME	ADDRESS	ACTIVITY
L A T	Rue Bleue - BP 123 63020 CLERMONT-FERRAND	Road haulage
L A T location	Rue Bleue - BP 123 63020 CLERMONT-FERRAND	Road haulage
SATAL	19 rue de l'arsenal 63400 CEURES	Road haulage
PLUS	Rue Bleue - BP 123 63020 CLERMONT FERRAND	Road haulage
SCI LATIMO	c/o Transports Issoirions 63503 ISSOIRE	Property holding company
TRANSPORT PIGNAT	101 Quai de la gare Hall 10 - 75013 PARIS	Road haulage
TRANSPORT HAGNET	c/o Transports Issoirions 63503 ISSOIRE	Road haulage
ARDUINI	7 avenue Paul Héraut 13015 MARSEILLE	Road haulage
LAPOSSE	Gare Rive Gauche - Place Carnot 76100 ROUEN	Road haulage
PROVENCE STOCK SERVICES	ZI Nord 13200 ARLES	Road haulage
ROCHET BONNET	ZI de la guiche rue de l'industrie 85501 LES SABLES	Road haulage

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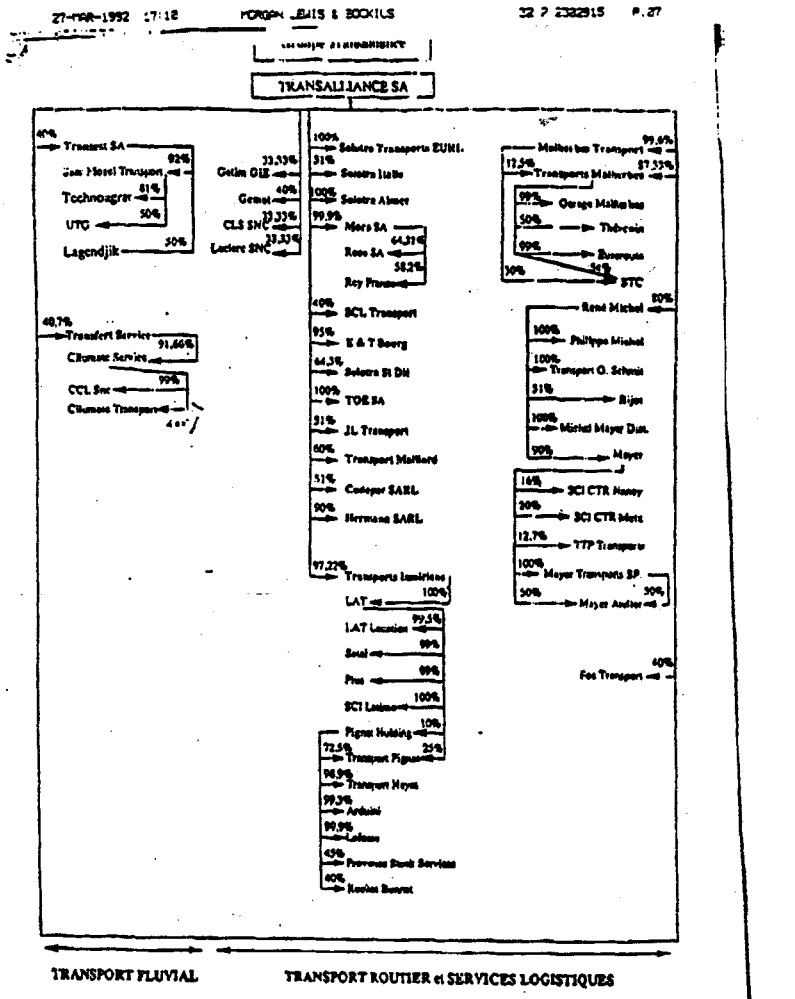

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ELIC6299 04313

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STOCKALLIANCE GROUP

NAME	ADDRESS	ACTIVITY	%
S T S	Rue du Cuanau 68000 APPOIGNY	Road transport	49,00
MAHE STRASBOURG	21 rue de Calais 67100 STRASBOURG	Road transport	100,00
MORY LOGIMS	4 avenue Hoche 75008 PARIS	Contract distribution and storage	92,09
(PLASTIMATIC)	"La chatonnerie" Bat A, 1775 Rte N20 45000 FARAN	Packaging	100,00
STOCKALLIANCE OUEST	La Barre Thomas 16 rue Lion Berthault 35000 RENNES	Contract distribution and storage	65,07
STE D'EXPLOITATION MOCA	92 av. Brébant 51055 REIMS Cedex	Contract distribution and storage	52,00
SOLOTRA DISTRIBUTION	26 route de Farnack 57190 FLORANGE	Contract distribution and storage	90,00
M P J	50 av. du Président Wilson 93000 SAINT-DENIS	Paper Transport and storage	100,00
STOCKEUROPE (*)	4 avenue Hoche 75008 PARIS	Engineering in storage, packaging, marketing, in France and abroad	99,95
SCI CASANOVA	151 Bd Danielle Casanova MARSEILLE	Property holding company	65,00
SCI WASHINGTON	94 rue Sadi Carnot 62400 BETHUNE	Property holding company	50,00

(*) direct and indirect

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ACTO GROUP

NAME	ADDRESS	ACTIVITY
ACTO SERVICES	26 av. Marcelin Berthelot 38100 GRENOBLE	Management services
IMMOBILIERE ACTO	26 av. Marcelin Berthelot 38100 GRENOBLE	Real estate holding company
RESIDENCES B. TERLLAUD	26 av. Marcelin Berthelot 38100 GRENOBLE	Real estate Development (*)
RBT SERVICES	26 av. Marcelin Berthelot 38100 GRENOBLE	Real estate
PROGESTI	26 av. Marcelin Berthelot 38100 GRENOBLE	Real estate
SILT	26 av. Marcelin Berthelot 38100 GRENOBLE	Real Estate
TEG	26 av. Marcelin Berthelot 38100 GRENOBLE	Real Estate
VAN CONTACT	Quartier Cuiez - RN6 03100 CLIFOULES	Real estate
SERVICES ET TRAVAUX	26 av. Marcelin Berthelot 38100 GRENOBLE	Real estate
AUTO HOLDING	26 av. Marcelin Berthelot 38100 GRENOBLE	Automobile distribution
AUTO SERVICES	26 av. Marcelin Berthelot 38100 GRENOBLE	Automobile distribution
SAM	RN 188 - Route de Chartres 91300 MASSY	Automobile distribution
SDAM	RN 188 - Route de Chartres 91300 MASSY	Automobile distribution
LOC 2000	Route de Chartres 91300 MASSY	Automobile distribution
BENNI SA	13 av. de Lorraich 88100 SENS	Automobile distribution
AUTO FORUM	15/17 Bd Aristide Briand 89100 SENS	Automobile distribution
AUTOMOBILE SERVICE ILE DE FRANCE	c/o route de Chartres 91300 MASSY	Automobile distribution
REVERDY	Rigny sur Arroux 71160 DIGOIN	Furniture distribution
MEUBLES REVERDY	Rigny sur Arroux 71160 DIGOIN	Furniture distribution
GUERADO	Rigny sur Arroux 71160 DIGOIN	Furniture distribution
REVERDY ESPAGNOLA (SPAIN)	c/o Rigny sur Arroux 71160 DIGOIN	Furniture distribution
REVERDY ROMANIA (ROUMANIA)	c/o Rigny sur Arroux 71160 DIGOIN	Furniture distribution
EUROPEENNE D'EXTINCTEURS	26 av. Marcelin Berthelot 38100 GRENOBLE	Fire safety

* The various real estate programmes are developed through 100% owned SCIs and SNCs too numerous to list

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S2S SERVICES	26 av. Marcelin Berthelot 38100 GRENOBLE	Fire safety
G R P I	ZAC de Campaillan 33670 VAYRES	Fire safety
P I G	ZI Nelaisé - 7 rue de la Mare blanche 77420 CHAMPS-SUR-MARNE	Fire safety
G R P I AQUITAINE	14 bis, rue du Crochet 92130 NOGENT L'ARTAUD	Fire safety
SOGES	Route de Néris- Lavault Ste-Anne 03310 NERIS LES BAINS	Fire safety
AEROFEU	c/o SOGES -Route de Néris Lavault Ste-Anne, 03310 NERIS LES BAINS	Fire safety
STOP FIRE	Route de Néris 03310 NERIS LES BAINS	Fire safety
S F R D	Route de Barre - Le Petit Valedet 13160 ÉGUILLES	Fire safety
SAMIS	c/o STOP FIRE, route de Néris 03310 NERIS LES BAINS	Fire safety
SOFIMAR	26 av. Marcelin Berthelot 38100 GRENOBLE	Holding company

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M000007

Forward Share Transfer Agreement

BY AND BETWEEN:

Mutuelle Assurance Artisanale de France, a mutual insurance company with variable contributions registered under business (SIRET) number 781 423 280 000 10, having its principal office in Chaban de Chauray, 79036 Niort,

Represented by Mr. Jean Claude Seys, its Chief Executive Officer,

And any subsidiary in which MAAF has a stake of over 67% and which it may unilaterally designate to replace it, including MAAF-Vie, a 99%-owned subsidiary of MAAF,

Mutuelle Assurance Artisanale de France Vie, a French corporation *(société anonyme)* with stated capital of 400,000,000 French francs, registered with the Niort Trade and Company Registry under number B 337 804 819, having its principal office at Chaban de Chauray, 79036 Niort,

Represented by Mr. Jean Claude Seys

Hereafter referred to as
"the Transferor"
Party of the first part

AND

Altus Finance, a French corporation *(société anonyme)* with stated capital of 4,408,108,800 French francs, having its principal office at 34-36 Avenue de Friedland, 75008 Paris, registered with the Paris Trade and Company Registry under number B 722 049 871,

Represented by Mr. Jean-François Hénin, its Chief Executive Officer,

Hereafter referred to as
"the Transferee"
Party of the second part

T 004928

Revised by Aspen Traduction [initials]

EXHIBIT 1148

EXHIBIT

RECITALS

New California Life Holdings Inc. (hereafter "NCLH") is a holding company that was incorporated in order to wholly own Aurora National Life Assurance Company (hereafter "Aurora"), which company is to be a party to the takeover of Executive Life, a California insurance company in liquidation.

Prior to this forward share transfer, the Transferor intends to acquire __ [*by hand: 250 (two hundred and fifty)*] NCLH shares with a par value of __ [*by hand: 100,000 (one hundred thousand)* US dollars each (hereafter the "Shares"), representing 25% of the capital of said company, for a price of 25,000,000 (25 million) US dollars as recorded in the accounting records of the Transferor or any subsidiary replacing it for said purchase (hereafter the "Price").

This forward sale of the shares is made subject to the condition precedent that the Transferor has purchased the Shares or subscribed to NCLH's capital increase after obtaining authorization from the California Courts.

As the Transferee wishes to acquire said Shares, the parties have agreed as follows:

ARTICLE 1 - PURPOSE

The Transferor hereby sells to the Transferee, which accepts, all of the Shares it holds in NCLH, i.e., __ [*by hand: 250 (two hundred and fifty)* Shares with a par value of __ [*by hand: 100,000 (one hundred thousand)* US dollars each, all fully paid up, for a total price calculated in the manner defined in Article 3 below, payable on the date of transfer of title which shall take place on September 30, 1994 at the earliest and December 31, 1994 at the latest.

ARTICLE 2 - TERMS AND CONDITIONS

Transfer of the Shares shall be completed by payment of the price set in Article 3 below, in cash, in exchange for the corresponding share transfer forms.

2.1 Rights attached to transferred shares

Full title to the Shares shall be transferred on the date of actual payment of the price, with dividend rights from such date. The Shares shall not be encumbered by any commitment, pledge or security interest of any kind whatsoever.

Only the Transferee shall be entitled to receive any benefits or revenues generated by the Shares that are paid out after the transfer, pro rata its ownership of the Shares over the fiscal year in which the transfer took place.

2.2 Capital increases, distribution of bonus shares

In the event any allocations of bonus shares, exchanges or reverse stock splits (mergers, split ups, partial contributions of assets, contributions in kind of Shares or changes in their par value) occur between the date of the forward sale and the date of completion of the share transfer, the Shares concerned by this agreement remaining after said operations, plus any shares allotted or exchanged therefor, shall be purchased for the same total price fixed in Article 3.

In the event of a capital increase in cash or the issuance of convertible bonds by NCLH, and if the Transferor does not wish to exercise its preemptive rights, the Transferee shall have a right of first refusal over the Transferor's subscription rights.

Should it decide to purchase said subscription rights, the net equivalent value of their price shall be charged against the price of the Shares concerned by this agreement, as fixed in Article 3, provided however that the price shall not fall below the USD Price indicated in the Transferor's accounting records, less the cost price of the purchased subscription rights as recorded on the Transferee's books.

The cost price of the subscription rights shall be calculated in accordance with the directive (*instruction*) of September 19, 1978 published in France's Official Tax Journal (*BODGI*) under reference 5-G-7-78.

2.3 Authorization

If necessary, the Transferee shall arrange for the Board of Directors of NCLH to authorize the planned transfer of the Shares without any delay or obstruction.

ARTICLE 3 - PRICE

The Shares shall be transferred in exchange for the payment in cash of the price recorded in the Transferor's accounting records for the purchase of the Shares or the subscription to the NCLH capital increase, determined as the product of the value of the NCLH Shares in US dollars multiplied by the US dollar exchange rate at the Paris rate-fixing session on the date of purchase, with the US dollars purchased by MAAF at that price through the intermediary of the Transferee, increased as of the date of purchase or subscription by the Transferor by a percentage equal to the P I C[2] rate + 3% per annum (on the basis of a 360-day year), capitalized once a year, from which amount the aggregate dividend net of withholding tax collected by the Transferor for the Shares until the date of transfer shall be deducted each year.

In the event of any change in applicable laws on the taxation of dividends, the parties shall consult each other with a view to defining a new formula which complies with the spirit of this agreement.

All tax, duties and standard costs the Transferor may be required to pay in connection with performance of this agreement, except for corporate income tax or any withholding tax levied in its place, shall be added to the sale price as fixed above.

ARTICLE 4 - TERMS OF COMPLETION

The Transferor shall inform the Transferee, by registered mail, return receipt requested, sent at least 15 (fifteen) days in advance and during the period fixed in Article 1 above, that it wishes the Transferee to arrange for the transfer of title to the Shares, in exchange for payment of the price fixed in Article 3 above.

Should the Transferor fail to ask the Transferee to arrange for the transfer of title to the Shares by December 15, 1994, the Transferee shall inform the Transferor, by registered mail, return receipt requested, that it should arrange for the transfer of title to the Shares in exchange for payment of the price fixed in Article 3 above by no later than December 31, 1994.

If, as a result of any new regulation or decision issued by the US, European or French authorities, the Transferor is unable to keep the NCLH Shares or if, as a result of said regulation, the cost of keeping the Shares would be excessive for the Transferor, it shall be entitled to propose a replacement, subject to prior approval by the Transferee which may only be withheld for a serious and lawful reason.

If a replacement cannot be appointed, the Transferor shall be entitled to sell the Shares it owns prior to the date fixed in Article 1 above at the sale price fixed in Article 3 above.

ARTICLE 5 - LOSS OF VALUE OF NCLH SECURITIES

Should the value of the NCLH securities depreciate, irrespective of the reason therefor and including in the event of its reorganization[3], court-ordered liquidation, merger, split-up, or the partial contribution of assets, the Transferee shall not be entitled to raise any objection or claim any indemnities in connection with the transfer of the Shares by the Transferor.

ARTICLE 6 - PENALTY CLAUSE

In addition, the Transferee irrevocably undertakes to pay the Transferor, or any subsidiary substituted for it to purchase or keep the Shares, the penalty fixed below as damages if transfer of title to the Shares cannot be completed, namely because of NCLH's insolvency, dissolution, reorganization or court-ordered liquidation or as a result of any new regulation or decision issued by the US, European or French authorities.

The amount of the penalty shall correspond to the Price of the Shares as stated in the accounting records of the Transferor or the subsidiary substituted by it for the purpose of the purchase, plus interest calculated at the P 1 C rate + 3 points (on the basis of a 360-day year), from the date on which the sale price for the Shares falls due.

In the event the Transferee is required to pay said penalty to the Transferor or one of its substituted subsidiaries, payment shall be made in francs after converting the Price in US dollars stated in the accounting records of the Transferor or its substituted subsidiary at the Paris fixing rate on the date the Transferor acquires the Shares.

ARTICLE 7 - REGISTRATION

The Transferee shall pay all registration fees and taxes that may be due as a result of this instrument, if any.

ARTICLE 8 - CONFIDENTIALITY

The undersigned expressly undertake to refrain from disclosing this agreement to any third party except for the authorities responsible for registration and their advisors, or other than in order to compel the other party to perform its undertakings if it has refused to do so.

Save for the exceptions listed above, any party which discloses this agreement or makes disclosure necessary shall bear all the consequences of said disclosure, of any kind whatsoever.

ARTICLE 9 - ARBITRATION

The parties agree to try and find an amicable solution to any problem that may arise in connection with this agreement or its performance.

They also agree to refer to an arbitral tribunal any dispute whatsoever that cannot be amicably settled and which may arise concerning the validity, construction or performance of this agreement.

The sending of the notice by the first party or of the response by the second party referred to in Article 2 above shall be deemed to constitute an arbitration agreement, in accordance with this article.

The Tribunal shall be formed in the following manner:

1. The party wishing to refer a matter to arbitration (the first party) shall give the other party (the second party) notice, by registered mail, return receipt requested, stating the object of the dispute and its wish to refer the matter to a sole arbitrator or to a panel of three arbitrators, in which case the first party shall disclose the identity of the arbitrator it has appointed.

2. The second party shall reply in a letter sent by registered mail, return receipt requested, either agreeing to the first party's proposal to refer the matter to a sole arbitrator or disclosing the identity of the second arbitrator it has appointed.

3. Should the second party fail to reply within fifteen days of the date on which the first party's letter is tendered for delivery, or should the parties be unable to agree on the identity of a sole arbitrator within fifteen days of the date on which the second party's letter is tendered for delivery, or should the two appointed arbitrators fail to agree on the identity of the third arbitrator within fifteen days of their appointment, the first party to act may request the appointment of a sole arbitrator, the second or third arbitrator, as the case may be, by means of an order by the Chief Judge of the Paris Commercial Court (*Tribunal de Commerce*), ruling in emergent proceedings.

The arbitration agreement shall be drafted and signed no later than thirty days after the appointment of the third arbitrator. Failing this, the provisions of the New Code of Civil Procedure (*Nouveau Code de Procédure Civile*) on arbitration shall apply.

The place of arbitration shall be Paris. The arbitrators shall make an award at first instance, against which no appeal shall lie. The tribunal shall rule as amiable compositeurs, and shall not be required to comply with the rules of French law.

The arbitrators shall allocate the arbitration costs (arbitrators' fees, disbursements and fees of the parties' counsel, and costs of expert assessments) between the parties as they see fit.

ARTICLE 10 - ELECTION OF DOMICILE

For performance hereof and of all matters or issues related hereto, the parties elect domicile at their principal offices as indicated above.

ARTICLE 11 - NOVATION

This agreement cancels and supersedes all earlier agreements on the same subject that were signed by the parties on August 6, 1991.

Executed in *[by hand: Paris]*
on November 15, 1991
in two original counterparts

[signature] [signature]

SCHEDULE
to the Forward Share Transfer Agreement
entered into by MAAF, MAAF Vie and Altus Finance
on November 15, 1991

Below is the updated schedule of disbursements paid out by MAAF Vie for creating and operating NCLH:

Amount in $	Exchange rate fixing D - 2	Value date D
- 6,000,000	5.4785	February 5, 1992

These payments were made through the intermediary of SBT Batif on behalf of MAAF Vie. They will be factored into the calculation of the price for the sale of the shares between the MAAF and Altus groups using the actuarial method.

Executed in Paris on [*by hand: March 10, 1992*]

In two original counterparts

Signature
For Altus Finance

Signature
For MAAF and MAAF Vie

T 004936

Revised by Aspen Traduction [initials]

Translator's Notes

[1] Additions and alterations by hand are initialed in the left-hand margin.
[2] We have been unable to find a definition of this rate, or its translation into English.
[3] *Redressement*: proceeding commenced against any insolvent company designed to save the company, continue the business and maintain jobs, while settling liabilities. The closest functional US equivalent is "reorganization".

M 000007

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Contrat de cession à terme d'actions

ENTRE LES SOUSSIGNEES

La société mutuelle Assurance Artisanale de France, sociétés d'assurance mutuelle à cotisations variables, immatriculée par le numéro SIRET 781 423 280 000 10, dont le siège social est à Chaban de Chauray (79036) Niort,

représentée par Monsieur Jean Claude Seys, son Directeur Général,

et toute autre société, filiale de la MAAF à plus de 67%, qu'elles pourront librement se substituer et notamment la MAAF-VIE, filiale à 99 % de la MAAF

La société Mutuelle Assurance Artisanale de France Vie, société anonyme au capital de 400 000 000 Francs, immatriculée au Registre du Commerce et des Sociétés de Niort sous le numéro B 337 804 819, dont le siège social est à Chaban de Chauray (79036) Niort,

représentée par Monsieur Jean Claude Seys

ci-après dénommées
"le Cédant"
D'UNE PART

ET

La société Altus Finance, société anonyme au capital de 4 408 108 800 Francs, dont le siège social est à Paris (75008), 34/36 avenue de Friedland, immatriculée au Registre du Commerce et des Sociétés de Paris sous le numéro B 722 049 871,

représentée par Monsieur Jean François Hénin, son Directeur Général,

ci-après dénommée
" le Cessionnaire"
D'AUTRE PART

T 004938

EXPOSE

La société New California Life Holdings Inc. (ci-après "N.C.L.H.") est une société holding constituée pour être actionnaire à 100 % de la société Aurora National Life Assurance Company (ci-après "Aurora") devant participer au plan de reprise de Executive Life, société d'assurance de l'Etat de Californie, en liquidation.

Le Cédant entend procéder, préalablement à la présente cession à terme, à l'acquisition de 250 (Deux cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100 000 (Cent mille) dollars U.S. (ci-après "les Actions") représentant 25 % du capital de cette société, pour un prix de 25 000 000 (vingt cinq millions) de dollars U.S. ainsi qu'il figure dans les livres comptables du Cédant ou de sa filiale substituée pour cette acquisition (ci-après "le Prix").

La présente vente à terme des Actions est conclue sous la condition suspensive que le Cédant ait acheté les Actions ou souscrit à l'augmentation de capital de N.C.L.H. à la suite de l'obtention de l'autorisation des Autorités Judiciaires californiennes.

Le Cessionnaire souhaitant acquérir ces Actions, les parties sont convenues de ce qui suit :

ARTICLE 1 - OBJET

Le cédant vend, par les présentes, au Cessionnaire, qui l'accepte, la totalité des Actions qu'il détient dans la société N.C.L.H. soit 250 (Deux cent cinquante) Actions de 100 000 (Cent mille) dollars U.S. de nominal chacune, entièrement libérées pour un prix total, calculé ainsi qu'il est défini à l'article 3 des présentes, payable au jour du transfert de propriété qui interviendra au plus tôt le 30 septembre 1994 et au plus tard le 31 décembre 1994.

ARTICLE 2 - CONDITIONS

La réalisation de la cession des Actions se fera par paiement comptant du prix stipulé à l'article 3 contre remise des ordres de mouvements de titres correspondants.

2.1. Droits attachés aux Actions cédées

Les Actions sont cédées à la date du versement effectif du prix jouissance courante, en pleine propriété, libres de tout engagement, nantissement ou droit réel quelconque.

Le Cessionnaire a seul vocation à l'encaissement de tous fruits ou produits relatifs aux Actions mis en paiement postérieurement à la cession et au prorata temporis de la propriété des Actions par celui-ci pour l'exercice au cours duquel a lieu la cession.

2.2. Augmentation de capital et distribution d'actions gratuites

Au cas où des opérations d'attribution d'actions à titre gratuit, d'échange ou de regroupement d'actions (fusion, scission, apport partiel, apport en nature des Actions ou changement de leur valeur nominale) auraient été réalisées entre la date de la vente à terme et la date de réalisation de la cession des Actions, les Actions objet du présent contrat, éventuellement subsistantes ainsi que celles attribuées ou remises en échange, seraient acquises pour le même prix global ainsi qu'il est déterminé à l'article 3.

En cas d'augmentation de capital en numéraire ou d'émission d'obligations convertibles de la société N.C.L.H. et si le Cédant ne souhaite pas exercer son droit préférentiel de souscription, le Cessionnaire dispose d'un droit de priorité à l'achat du droit préférentiel de souscription du Cédant.

En cas de cession de ces droits de souscription, la contrevaleur nette de leur prix s'imputerait sur le prix de cession des Actions, objet des présentes, tel que défini à l'article 3, sans que ce prix puisse devenir inférieur de ce fait au Prix figurant en dollars U.S. dans les livres comptables du Cédant, diminué du prix de revient comptable chez le Cessionnaire des droits de souscription cédés.

Le prix de revient des droits de souscription serait calculé conformément à l'instruction du 19 septembre 1978 publiée au B.O.D.G.I. sous la référence 5-G-7-78.

2.3. Agrément

Le Cessionnaire fera son affaire de l'agrément à donner, le cas échéant, par le conseil d'administration de la société N.C.L.H. à la cession des Actions à intervenir, sans délai, ni difficulté.

ARTICLE 3 - PRIX

La cession aura lieu contre paiement comptant du prix figurant dans les livres comptables du Cédant pour l'acquisition des Actions ou la souscription à l'augmentation de capital de N.C.L.H., fixé comme le produit de la valeur des Actions N.C.L.H. en dollars U.S., par le cours du dollars U.S. du fixing à Paris le jour des achats, les dollars U.S. ayant été achetés à ce prix par la MAAF, par l'intermédiaire du Cessionnaire, majoré, à compter du jour de l'acquisition ou de la souscription par le Cédant, d'un pourcentage égal au taux P 1 C + 3 % l'an (sur base 360 jours), capitalisé annuellement et diminué , chaque année, des dividendes nets de retenue à la source encaissés par le Cédant sur les Actions en question jusqu'à leur cession.

En cas de modification de la législation en vigueur concernant le régime de taxation des dividendes, les deux parties se rapprocheront pour trouver une formule correspondant à l'esprit du présent accord.

Au prix de cession ainsi déterminé s'ajouteront également tous les impôts, taxes et frais usuels que le Cédant pourrait avoir à payer lors de l'exécution du présent engagement, à l'exception de l'impôt sur les sociétés ou des retenues en tenant lieu.

ARTICLE 4 - CONDITIONS DE DENOUEMENT

Le Cédant avertira le Cessionnaire, par lettre recommandée avec accusé de réception adressée au moins quinze (15) jours à l'avance et pendant la période stipulée à l'article 1 des présentes, qu'il demande au Cessionnaire de procéder au transfert de propriété des Actions moyennant le paiement du prix stipulé à l'article 3 des présentes.

A défaut de demande de réalisation du transfert de propriété des Actions, adressée par le Cédant au Cessionnaire avant le 15 décembre 1994, le Cessionnaire informera le Cédant, par lettre recommandée avec accusé de réception, que celui-ci doit procéder au transfert de propiété des Actions contre paiement du prix de cession stipulé à l'article 3 des présentes au plus tard le 31 décembre 1994.

Au cas où une réglementation nouvelle ou une décision d'une autorité publique américaine, européenne ou française mettait le Cédant dans l'impossibilité de conserver les Actions de la société N.C.L.H., ou si du fait de cette réglementation, le coût de leur conservation devenait anormalement onéreux pour le Cédant, celui-ci serait autorisé à se substituer un tiers, qui devrait recevoir l'agrément préalable du Cessionnaire qui ne pourra s'y opposer que pour une raison grave et légitime.

Si la désignation de ce tiers substitué était impossible, le Cédant pourra céder les Actions qu'il détient, avant le terme prévu à l'article 1 des présentes, au prix de cession stipulé à l'article 3 des présentes.

ARTICLE 5 - PERTE DE VALEUR DES TITRES DE N.C.L.H.

Dans l'hypothèse où, quelle qu'en soit la cause et notamment en cas de redressement ou liquidation judiciaire, fusion, scission ou apport partiel d'actif, la valeur des titres de la société N.C.L.H. se déprécierait, la réalisation de la cession des Actions par le Cédant n'ouvrira aucun droit à contestation ou indemnisation au profit du Cessionnaire.

ARTICLE 6 - CLAUSE PENALE

Le Cessionnaire s'engage en outre irrévocablement à payer, à titre de dommages et intérêts, au Cédant ou à toute filiale que celui-ci se sera substitué pour l'acquisition ou la conservation des Actions, le montant de la clause pénale déterminé ci-après, pour le cas ou le transfert de propriété des Actions ne pourrait pas être réalisé et notamment déconfiture, dissolution ou mise en redressement ou en liquidation judiciaire de la société N.C.H.L. ou par l'effet d'une réglementation nouvelle ou d'une décision d'une autorité publique américaine, européenne ou française.

Le montant de la clause pénale sera égal au Prix des Actions figurant dans les livres comptables du Cédant ou de sa filiale substituée aux fins de cette acquisition, majoré d'un intérêt dont le taux est P 1 C + 3 points (sur base 360 jours) et commençant à courir à compterdu jour où le prix de la cession des Actions est exigible.

Dans l'hypothèse où cette clause pénale devait être payée par le Cessionnaire au Cédant ou à l'une de ses filiales substituées, le paiement sera effectué en francs après conversion du Prix en dollars U.S. figurant dans les livres comptables du Cédant ou de sa filiale substituée, d'après son cours au fixing de Paris le jours de l'acquisition des Actions par le Cédant.

ARTICLE 7 - ENREGISTREMENT

Le Cessionnaire fera son affaire des différents droits et frais qui, le cas échéant, pourraient être dus comme conséquences du présent acte.

ARTICLE 8 - CONFIDENTIALITE

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions de l'administration de l'enregistrement, leurs conseils ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

ARTICLE 9 - ARBITRAGE

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant le présent protocole ou son application.

Elles conviennent également de soumettre à un tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution du présent accord.

L'envoi par la première partie de la notification, ou l'envoi par la deuxième partie de la réponse prévue en 2 vaudra compromis dans les termes de la présente clause.

Le tribunal sera constitué de la façon suivante :

1. La partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception, indiquant l'objet du différend et son désir de recourir, soit à un arbitre unique, soit à trois arbitres et, dans ce cas, la première partie indique le nom de celui des arbitres qu'elle a choisi.

2. La deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois arbitres qu'elle choisit.

3. Faute par la deuxième partie d'avoir répondu quinze jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un arbitre unique dans les quinze jours de la présentation de la lettre de la deuxième partie ou faute par les deux arbitres choisis de s'entendre dans les quinze jours de leur désignation sur le nom du troisième arbitre, la partie diligente pourra solliciter la désignation de l'arbitre unique, du deuxième ou troisième arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de Paris statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente jours de la désignation du troisième arbitre; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile sur l'Arbitrage.

Le tribunal siègera à Paris et statuera, en premier et dernier ressort, en amiable compositeur sans être tenu d'observer les règles de droit français.

Les arbitres devront répartir les frais d'arbitrage (honoraires des arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

ARTICLE 10 - ELECTION DE DOMICILE

Pour l'exécution des présentes et de leurs suites, les parties font élection de domicile en leur sièges sociaux sus-indiqués.

ARTICLE 11 - NOVATION

La présente convention remplace et annule les précédents accords ayant le même objet, intervenus le 6 août 1991 entre les parties.

Fait à Paris
Le 15 novembre 1991

En deux exemplaires

M 000019

ANNEXE

au contrat de cession à terme d'actions

conclu entre la MAAF, la MAAF VIE et ALTUS FINANCE

le 15 novembre 1991

Ci-après figure le calendrier à jour des débours de la société MAAF VIE pour la constitution et le fonctionnement de NCLH :

Montant en $	Taux de change fixing J - 2	Date valeur J
6 000 000	5,4785	5 février 1992

Ces paiements ont tous été réalisés par l'intermédiaire de SBT BATIF pour le compte de MAAF VIE. Ils seront pris en compte de manière actuarielle dans le calcul du prix de cession des actions entre le Groupe MAAF et le Groupe ALTUS.

Fait à Paris, le 10 mars 1992

en deux exemplaires originaux

Pour ALTUS FINANCE

Pour la MAAF
et la MAAF VIE

T 004946

MEMORANDUM OF AGREEMENT

BY AND BETWEEN THE UNDERSIGNED:

- Mutuelle Assurance Artisanale de France (MAAF0, a mutual insurance company with variable contributions, registered under business (SIRET) number 781.423.280.000.10, having its principle office in Chaban de Chauray, 79036 Niort.

  Represented by Mr. Jean-Claude Seys, its Chief Executive Officer.

  And any subsidiary in which MAAF has a stake of over 67% and which it may unilaterally designate to replace it, including MAAF Vie, a 99% owned subsidiary of MAAF

- Mutuelle Assurance Artisanale de France Vie, a French corporation with stated capital of 400,000,000 francs, registered in the Niort Trade and Company Registry under number B-337.804.819, having its principle office at Chaban de Chauray, 79036 Niort,

  Represented by Mr. Jean-Claude Seys,

  Hereafter referred to as "the Transferer."

PARTY OF THE FIRST PART,

AND:

- Altus Finance, a French corporation with stated capital of 4,408,108,800 francs, having its principle office at 34/36 avenue de Friedland, Paris (75008), registered in the Paris Trade and Company Registry under number B-772,049,871,

  Represented by Mr. Jean-Francois Henin, its Chief Executive Officer.

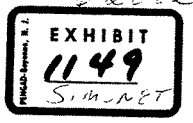
  Hereafter referred to as "the Transferee."

PARTY OF THE SECOND PART.

ART039-000655

C.D.

1403



SF #660778 v1

PREAMBLE

New California Life Holdings, Inc. (hereafter "NCLH") is a holding company that was incorporated in order to wholly own Aurora National Life Assurance Company (hereafter "Aurora"), which company is to be a party to the takeover of Executive Life, a California insurance company in liquidation.

The Transferer intends to proceed with the purchase of 250 (two hundred fifty) shares of NCLH (hereafter referred to as "the Shares"), each having a par value of 100,000 (one hundred thousand) dollars, representing 25% of the capital of the said company, for a price of $25,000,000 U.S. (twenty five million U.S. dollars), as recorded in the accounting records of the Transferer or any subsidiary replacing it for said purchase (hereafter "the Price").

The present agreement is being made subject to the condition precedent that the Transferer has purchased the Shares or subscribed to NCLH's capital increase, after obtaining authorization from the California courts.

As the Transferee wishes to acquire said Shares, the parties have agreed as follows:

ARTICLE 1 – PURPOSE

The Transferer hereby sells to the Transferee, which accepts, all of the shares it holds in NCLH, which is 250 (two hundred fifty) Shares, with a par value of 100,000 (one hundred thousand) U.S. dollars, all fully paid up, for a total price calculated in the manner defined in Article 3 below, payable on the day of transfer of title which shall take place on September 31, 1994 at the earliest and December 31, 1994 at the latest.

Altus hereby agrees to abstain, while awaiting the final implementation of the transaction, from negotiating with any and all third parties, or with the U.S. public authorities, any resolution whose purpose or effect would be to compel MAAF or its substitutes to hold the NCLH stock for a period extending beyond the termination date indicated in Article 6 of the present agreement.

If U.S. regulations prohibit Altus Finance from holding an interest in NCLH, then Altus shall reserve the right to propose to the Transferer a substituted Transferee subject to approval by the Transferer, who shall not unreasonably withhold this approval.

Exercise of the said substitution option shall be communicated to the Transferer in a registered letter with return receipt requested, or in a letter delivered by hand, no later than 6 (six) months prior to the specified date for completion of the present transfer.

The Transferee hereby undertakes, upon giving the notification of the exercise of the said substitution option, to communicate to the Transferer all of the information needed in order for the solvency of the substituted transferee to be verified.

ART039-000656

ARTICLE 2 – TERMS AND CONDITIONS

The transfer of the Shares shall be completed by payment of the price set in Article 3 below, in cash, in exchange for the corresponding share transfer forms.

2.1 Rights attached to Transferred Shares

Full title to the Shares shall be transferred on the date of actual payment of the price, with dividend rights from such date. The Shares shall not be encumbered by any commitment, pledge or security interest of any kind whatsoever.

Only the Transferee shall be entitled to receive any benefits or revenues generated by the Shares that are paid out after the transfer, pro rata its ownership of the Shares over the fiscal year in which the transfer took place.

2.2 Capital increases, distribution of bonus shares

In the event of any allocation of bonus shares, exchanges or reverse stock splits (mergers, split-ups, partial contributions of assets, contributions in kind of Shares, or changes in their par value) occur between the date of the forward sale and the date of completion of the Share transfer, the Shares concerned by this agreement (including any remaining shares, as well as those that have been allocated or delivered in exchange) shall be acquired for the same total price fixed in Article 3.

In the event of an capital increase in cash or the issuance of convertible bonds by NCLH, and if the Transferer does not wish to exercise its preemptive rights, the Transferee shall have a right of first refusal over the Transferer's subscription right.

Should it decide to purchase said subscription rights, the net equivalent value of their price shall be charged against the price of the Shares concerned by this agreement, as fixed in Article 3, provided however that the price shall not fall below the USD Price indicated in the Transferer's accounting records, less the cost price of the purchased subscription rights as recorded in the Transferee's books.

The cost price of the subscription rights shall be calculated in accordance with the directive of September 19, 1978, as published in the France's Official Tax Journal (BODGI)under reference 5-G-7-78.

2.3 Authorization

If necessary, the Transferee shall arrange for the Board of Directors of NCLH to authorize the planned transfer of the Shares without any delay or obstruction

ART039-000657

ARTICLE 3 – PRICE

The Shares shall be transferred in exchange for the payment in cash of the price recorded in the Transferer's accounting records for the purchase of the Shares or the subscription to the NCLH capital increase, determined as the product of the value of the NCLH shares in U.S. dollars, multiplied by the US dollar exchange rate at the Paris-fixing session on the day of the purchase, with the US dollars purchased by MAAF at that price, through the intermediary of the Transferee, increased as of the date of the purchase or subscription by the Transferer by a percentage equal to the PIC rate plus 3% per annum (on the basis of a 360-day year), capitalized once a year, from which amount the aggregate dividend net of withholding tax collected by the Transferer for the Shares until the date of transfer shall be deducted each year.

In the event of any change in applicable laws on the taxation of dividends, the parties shall consult each other with a view to defining a new formula which complies with the spirit of this agreement.

All tax, duties and standard costs the Transferer may be required to pay in connection with performance of this agreement, except for corporate income tax or any withholding tax levied in its place, shall be added to the sale price as fixed above.

ARTICLE 4 – TERMS OF COMPLETION

The Transferer shall inform the Transferee, by registered mail with return receipt requested, sent at least fifteen (15) days in advance and during the period fixed in Article 1 above, that it wishes the Transferee to arrange for the transfer of title to the Shares, in exchange for payment of the price fixed in Article 3 above.

Should the Transferer fail to ask the Transferee to arrange for the transfer of title to the Shares by December 15, 1994, the Transferee shall inform the Transferer, by registered mail with return receipt requested, that it should arrange for the transfer of title to the Shares in exchange for payment of the price fixed in Article 3 above, doing so no later than December 31, 1994.

If, as a result of any new regulation or a decision issued by the U.S., European, or French authorities, the Transferer is unable to keep the NCLH Shares, or if, as a result of said regulations, the cost of keeping the Shares would be excessive for the Transferer, it shall be entitled to propose a replacement, subject to prior approval by the Transferee which may only be withheld for a serious and lawful reason.

If a replacement cannot be appointed, the Transferer shall be entitled to sell the Shares it owns, prior to the date fixed in Article 1 above at the sale price fixed in Article 3 above.

ARTICLE 5 – LOSS OF VALUE OF NCLH SECURITIES

Should the value of the NCLH securities depreciate, irrespective of the reason therefor and including in the event of its reorganization, court-ordered liquidation, merger, split-up, or the partial contribution of assets, the Transferee shall not be entitled to raise any objection or claim any indemnities in connection with the transfer of the Shares by the Transferer.

ARTICLE 6 – PENALTY CLAUSE

In addition, the Transferee irrevocably undertakes to pay the Transferer or any subsidiary substituted for it to purchase or keep the Shares, the penalty fixed below as damages if transfer of title to the Shares cannot be completed, namely because of NCLH's insolvency, dissolution, reorganization or court-ordered liquidation or as a result of any new regulation or decision issued by the US, European or French authorities.

The amount of the penalty shall correspond to the Price of the Shares, as stated in the accounting records of the Transferer or the subsidiary substituted by it for the purposes of the purchase, plus interest calculated at the PIC rate plus 3 points (on the basis of a 360-day year), from the date on which the sale price for the Shares falls due.

In the event that the Transferee is required to pay said penalty to the Transferer or one of its substituted subsidiaries, payment shall be made in francs after converting the Price in US dollars stated in the accounting records of the Transferer or its substituted subsidiary at the Paris fixing rate on the date the Transferer acquires the Shares.

ARTICLE 7 – REGISTRATION

The Transferee shall pay all registration fees and taxes that may be due as a result of this instrument, if any.

ARTICLE 8 – CONFIDENTIALITY

The undersigned expressly undertake to refrain from disclosing this agreement to any and all third parties except for the authorities responsible for registration and their advisors, or other than in order to compel the other party to perform its undertakings if it has refused to do so.

Save for the exceptions listed above, any party which discloses this agreement or makes disclosure necessary shall bear all the consequences of said disclosure, of any kind whatsoever.

ART039-000659

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ARTICLE 9 – ARBITRATION

The parties agree to try and find an amicable solution to any problem that may arise in connection with this agreement or its performance.

They also agree to refer to an arbitral tribunal any dispute whatsoever that cannot be amicably settled and which may arise concerning the validity, construction, or performance of this agreement.

The sending of notice by the first party, or of the response referred to in Article 2 above shall be deemed to constitute an arbitration agreement, in accordance with this article

The Board shall be formed in the following manner:

1. The party wishing to refer a matter to arbitration (i.e. the first party) shall give notice to the other party (i.e. the second party) by registered mail with return receipt requested, stating the object of the dispute and its wish to refer the matter to a sole Arbitrator or to a panel of three Arbitrators, in which case the first party shall disclose the identity of the arbitrator it has appointed

2. The second party shall reply, in a letter sent by registered mail, return receipt requested, either agreeing to the first party's proposal to refer the matter to a sole arbitrator or disclosing the identity of the second arbitrator it has appointed.

3. Should the second party fail to reply within fifteen days of the date on which the first party's letter is tendered for delivery, or should the parties be unable to agree on the identity of a sole arbitrator within fifteen days of the date on which the second party's letter is tendered for delivery, or should the two appointed arbitrators fail to agree on the identity of the third arbitrator within fifteen days of their appointment, the first party to act may request the appointment of a sole arbitrator, the second or third arbitrator, as the case may be, by means of an order by the Chief Judge of the Paris Commercial Court (Tribunal de commerce), ruling in emergent proceedings.

The arbitration agreement shall be drafted and signed no later than thirty (30) days after the appointment of the third arbitrator. Failing this, the provisions of the New Code of Civil Procedure for Arbitration shall be applied.

The place of arbitration shall be Paris. The arbitrators shall make an award at first instance, against which no appeal shall lie. The tribunal shall rule as amiable compositeurs, and shall not be required to comply with the rules of French law.

The Arbitrators shall allocate the arbitration costs (Arbitrators' fees, legal costs and fees, and the costs of expert testimony) between the parties as they see fit.

ARTICLE 10 – ELECTION OF DOMICILE

For performance hereof and of all matters or issues related hereto, the parties elect domicile at their principal offices as indicated above.

ARTICLE 11 – NOVATION

This agreement cancels and supercedes all earlier agreements on the same subject that were signed by the parties on August 6, 1991.

Done in (Paris)

The (15th of November 1991)

In three original copies.

Signatures:

(Jean-Claude Seys)
(Jean-Francois Henin)

ART039-000661

PROTOCOLE d'ACCORD

ENTRE LES SOUSSIGNÉES :

- La société Mutuelle Assurance Artisanale de France (M.A.A.F.), société d'assurance mutuelle à cotisations variables, immatriculée par le numéro SIRET 781 423 280 000 10, dont le siège social est à Chaban de Chauray, 79036 Niort

  Représentée par Monsieur Jean-Claude SEYS, son Directeur général

  Et toute autre société, filiale de la M.A.A.F. à plus de 67 % qu'elles pourront librement se substituer et notamment la M.A.A.F.-VIE, filiale à 99 % de la M.A.A.F.

- La société M.A.A.F Vie, société anonyme au capital de 400 000 000 francs, immatriculée au Registre du Commerce et des Sociétés de Niort sous le numéro B 337 804 819, dont le siège social est à Chaban de Chauray, 79036 Niort

  Représentée par Monsieur Jean-Claude SEYS

  Ci-après dénommées "le Cédant"

D'UNE PART,

ET :

CONFIDENTIAL SUBJECT TO PROTECTIVE ORDER

- La société ALTUS FINANCE, société anonyme au capital de 4 408 108 800 francs, dont le siège social est 34/36 avenue de Friedland, 75008 Paris, immatriculée au Registre du Commerce et des Sociétés de Paris sous le numéro B 722 049 871

  Représentée par Monsieur Jean-François HÉNIN, son Directeur général

  Ci-après dénommée "le Cessionnaire"

D'AUTRE PART.

EXPOSÉ

La société New California Life Holdings Inc. (ci-après "N.C.L.H.") est une société holding constituée pour être actionnaire à 100 % de la société Aurora National Life Assurance Company (ci-après "Aurora") devant participer au plan de reprise de Executive Life, société d'assurance de l'Etat de Californie, en liquidation.

Le Cédant entend procéder à l'acquisition de 250 (deux cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100.000 (cent mille) Dollars US (ci-après "les Actions") représentant 25 % du capital de cette société, pour un prix de 25 000 000 (vingt cinq millions) de Dollars US ainsi qu'il figure dans les livres comptables du Cédant ou de sa filiale substituée pour cette acquisition (ci-après "le Prix").

Le Présent accord est conclu sous la condition suspensive que le Cédant ait acheté les Actions ou souscrit à l'augmentation de capital de N.C.L.H. à la suite de l'obtention de l'autorisation des Autorités judiciaires californiennes.

Le Cessionnaire souhaitant acquérir ces Actions, les parties sont convenues de ce qui suit :

ARTICLE 1 - OBJET

CONFIDENTIAL SUBJECT TO PROTECTIVE ORDER

Le Cédant s'engage à céder, par les présentes, au Cessionnaire, qui s'engage à acquérir, la totalité des Actions qu'il détient dans la société N.C.L.H., soit 250 (deux cent cinquante) Actions de 100.000 (cent mille) Dollars US de nominal chacune, entièrement libérées, pour un prix total calculé ainsi qu'il est défini à l'article 3 des présentes, payable au jour du transfert de propriété qui interviendra au plus tôt le 30 septembre 1994 et au plus tard le 31 décembre 1994.

Altus s'interdit, en l'attente de la réalisation définitive de l'opération, de négocier avec tout tiers ainsi qu'avec les autorités publiques américaines toute solution qui aurait pour objet ou pour effet d'obliger la M.A.A.F. ou ses substitués à détenir les titres de N.C.L.H. pour une durée excédant la date de dénouement prévue à l'article 6 des présentes.

Au cas où la réglementation américaine interdirait à Altus Finance de détenir une participation dans N.C.L.H., Altus se réserve la possibilité de proposer au Cédant un cessionnaire de substitution qui devra être agréé par le Cédant, celui-ci s'interdisant de s'opposer à l'agrément sans motif raisonnable.

L'exercice de cette faculté de substitution sera notifié au Cédant par lettre recommandée avec avis de réception ou par lettre remise en mains propres au plus tard 6 (six) mois avant la date prévue pour le dénouement de la présente cession.

Le Cessionnaire s'engage, lors de la notification de l'exercice de ladite faculté de substituer, à communiquer au Cédant l'ensemble des éléments permettant de vérifier la solvabilité du cessionnaire substitué.

ARTICLE 2 - CONDITIONS

La réalisation de la cession des Actions se fera par paiement comptant du prix stipulé à l'article 3 contre remise des ordres de mouvements de titres correspondants.

2.1 Droits attachés aux Actions cédées

Les Actions seront cédées à la date du versement effectif du prix jouissance courante, en pleine propriété, libres de tout engagement, nantissement ou droit réel quelconque.

Le Cessionnaire a seul vocation à l'encaissement de tous fruits ou produits relatifs aux Actions mis en paiement postérieurement à la cession et au prorata temporis de la propriété des Actions par celui-ci pour l'exercice au cours duquel a lieu la cession.

2.2 Augmentation de capital et distribution d'actions gratuites

Au cas où des opérations d'attribution d'actions à titre gratuit, d'échange ou de regroupement d'actions (fusion, scission, apport partiel, apport en nature des Actions ou changement de leur valeur nominale) auraient été réalisées entre la date de la vente à terme et la date de réalisation de la cession des Actions, les Actions objet du présent contrat, éventuellement subsistantes ainsi que celles attribuées ou remises en échange, seraient acquises pour le même prix global ainsi qu'il est déterminé à l'article 3.

En cas d'augmentation de capital en numéraire ou d'émission d'obligations convertibles de la société N.C.L.H. et si le Cédant ne souhaite pas exercer son droit préférentiel de souscription, le Cessionnaire dispose d'un droit de priorité à l'achat du droit préférentiel de souscription du Cédant.

En cas de cession de ces droits de souscription, la contrevaleur nette de leur prix s'imputerait sur le prix de cession des Actions, objet des présentes, tel que défini à l'article 3, sans que ce prix puisse devenir inférieur de ce fait au Prix figurant en Dollars US dans les livres comptables du Cédant, diminué du prix de revient comptable chez le Cessionnaire des droits de souscription cédés.

Le prix de revient des droits de souscription serait calculé conformément à l'instruction du 19 septembre 1978 publiée au B.O.D.G.I. sous la référence 5-G-7-78.

2.3 Agrément

Le Cessionnaire fera son affaire de l'agrément à donner, le cas échéant, par le Conseil d'Administration de la société N.C.L.H. à la cession des Actions à intervenir, sans délai ni difficulté.

ART 039- 000657

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CONFIDENTIAL SUBJECT TO PROTECTIVE ORDER

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ARTICLE 3 - PRIX

La cession aura lieu contre paiement comptant du prix figurant dans les livres comptables du Cédant pour l'acquisition des Actions ou la souscription à l'augmentation de capital de N.C.L.H., fixé comme le produit de la valeur des Actions N.C.L.H. en Dollars US, par le cours du Dollar US du fixing à Paris le jour des achats, les Dollars US ayant été achetés à ce prix par la M.A.A.F., par l'intermédiaire du Cessionnaire, majoré, à compter du jour de l'acquisition ou de la souscription par le Cédant, d'un pourcentage égal au taux P 1 C + 3 % l'an (sur base 360 jours), capitalisé annuellement et diminué, chaque année, des dividendes nets de retenue à la source encaissés par le Cédant sur les Actions en question jusqu'à leur cession.

En cas de modification de la législation en vigueur concernant le régime de taxation des dividendes, les deux parties se rapprocheront pour trouver une formule correspondant à l'esprit du présent accord.

Au prix de cession ainsi déterminé s'ajouteront également tous les impôts, taxes et frais usuels que le Cédant pourrait avoir à payer lors de l'exécution du présent engagement, à l'exception de l'impôt sur les sociétés ou des retenues en tenant lieu.

ARTICLE 4 - CONDITIONS DE DÉNOUEMENT

Le Cédant avertira le Cessionnaire, par lettre recommandée avec accusé de réception adressée au moins 15 (quinze) jours à l'avance et pendant la période stipulée à l'article 1 des présentes, qu'il demande au Cessionnaire de procéder au transfert de propriété des Actions moyennant le paiement du prix stipulé à l'article 3 des présentes.

A défaut de demande de réalisation du transfert de propriété des Actions, adressée par le Cédant au Cessionnaire avant le 15 décembre 1994, le Cessionnaire informera le Cédant, par lettre recommandée avec accusé de réception, que celui-ci doit procéder au transfert de propriété des Actions contre paiement du prix de cession stipulé à l'article 3 des présentes au plus tard le 31 décembre 1994.

Au cas où une réglementation nouvelle ou une décision d'une autorité publique américaine, européenne ou française mettait le Cédant dans l'impossibilité de conserver les Actions de la société N.C.L.H., ou si du fait de cette réglementation le coût de leur conservation devenait anormalement onéreux pour le Cédant, celui-ci serait autorisé à se substituer un tiers qui devrait recevoir l'agrément préalable du Cessionnaire qui ne pourra s'y opposer que pour une raison grave et légitime.

Si la désignation de ce tiers substitué était impossible, le Cédant pourra céder les Actions qu'il détient, avant le terme prévu à l'article 1 des présentes, au prix de cession stipulé à l'article 3 des présentes.

CONFIDENTIAL SUBJECT TO
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ARTICLE 5 - PERTE DE VALEUR DES TITRES DE N.C.L.H.

Dans l'hypothèse où, quelle qu'en soit la cause et notamment en cas de redressement ou liquidation judiciaire, fusion, scission ou apport partiel d'actif, la valeur des titres de la société N.C.L.H. se déprécierait, la réalisation de la cession des Actions par le Cédant n'ouvrira aucun droit à contestation ou indemnisation au profit du Cessionnaire.

ARTICLE 6 - CLAUSE PÉNALE

Le Cessionnaire s'engage, en outre, irrévocablement, à payer, à titre de dommages et intérêts, au Cédant ou à toute filiale que celui-ci se sera substitué pour l'acquisition ou la conservation des Actions, le montant de la clause pénale déterminé ci-après, pour le cas où le transfert de propriété des Actions ne pourrait pas être réalisé et notamment déconfiture, dissolution ou mise en redressement ou en liquidation judiciaire de la société N.C.L.H. ou par l'effet d'une réglementation nouvelle ou d'une décision d'une Autorité publique américaine, européenne ou française.

Le montant de la clause pénale sera égal au Prix des Actions figurant dans les livres comptables du Cédant ou de sa filiale substituée aux fins de cette acquisition, majoré d'un intérêt dont le taux est P 1 C + 3 points (sur base 360 jours) et commençant à courir à compter du jour où le prix de la cession des Actions est exigible.

Dans l'hypothèse où cette clause pénale devait être payée par le Cessionnaire au Cédant ou à l'une de ses filiales substituées, le paiement sera effectué en francs, après conversion du Prix en Dollars US figurant dans les livres comptables du Cédant ou de sa filiale substituée, d'après son cours au fixing de Paris le jour de l'acquisition des Actions par le Cédant.

ARTICLE 7 - ENREGISTREMENT

Le Cessionnaire fera son affaire des différents droits et frais qui, le cas échéant, pourraient être dûs comme conséquences du présent acte.

ARTICLE 8 - CONFIDENTIALITÉ

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions de l'Administration de l'Enregistrement, leurs conseils ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

CONFIDENTIAL SUBJECT TO
PROTECTIVE ORDER
ART 039- 000659

ARTICLE 9 - ARBITRAGE

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant le présent protocole ou son application.

Elles conviennent également de soumettre à un Tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution du présent accord.

L'envoi, par la première partie, de la notification ou l'envoi, par la deuxième partie, de la réponse prévue en 2 vaudra compromis dans les termes de la présente clause.

Le Tribunal sera constitué de la façon suivante :

1. la partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception indiquant l'objet du différend et son désir de recourir, soit à un Arbitre unique, soit à trois Arbitres et, dans ce cas, la première partie indique le nom de celui des Arbitres qu'elle a choisi ;

2. la deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un Arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois Arbitres qu'elle choisit ;

3. faute par la deuxième partie d'avoir répondu quinze (15) jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un Arbitre unique dans les quinze (15) jours de la présentation de la lettre de la deuxième partie ou faute par les deux Arbitres choisis de s'entendre dans les quinze (15) jours de leur désignation sur le nom du troisième Arbitre, la partie diligente pourra solliciter la désignation de l'Arbitre unique, du deuxième ou troisième Arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de Paris, statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente (30) jours de la désignation du troisième Arbitre ; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile sur l'Arbitrage.

Le Tribunal siègera à Paris et statuera, en premier et dernier ressort, en amiable compositeur sans être tenu d'observer les règles de droit français.

Les Arbitres devront répartir les frais d'arbitrage (honoraires des Arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

ARTICLE 10 - ÉLECTION DE DOMICILE

CONFIDENTIAL SUBJECT TO
PROTECTIVE ORDER

ART 039-000660

Pour l'exécution des présentes et de leurs suites, les parties font élection de domicile en leurs sièges sociaux sus-indiqués.

ARTICLE 11 - NOVATION

La présente convention remplace et annule les précédents accords ayant le même objet, intervenus le 6 août 1991 entre les parties.

Fait à Paris

Le 15 novembre 1991.

En trois exemplaires originaux.

CONFIDENTIAL SUBJECT TO
PROTECTIVE ORDER

[Illegible]

CALL OPTION

BETWEEN THE UNDERSIGNED

- OMNIUM GENEVE S.A.
  A Swiss corporation with a capital of 20,750,000 Swiss francs, whose headquarters are located at 1 Place des Bergues, 1201 Geneva, Switzerland, represented by Mr. Herve Bubois, Chairman of the Board of Directors

hereafter referred to as "OMNIUM" (promissor)

PARTY OF THE FIRST PART

AND

- ALTUS FINANCE
  A French corporation with a capital of 4,408,109,300 French francs, whose headquarters are located at 34/36 avenue de Friedland, 75008 Paris, France, listed in the Businesses and Corporations Register of Paris under number B 772 049 871,

Represented by Mr. Yves Chassagne, Executive Vice President, declaring himself to be empowered to execute this document,

Hereafter designated "ALTUS"

PARTY OF THE SECOND PART

[Handwritten notes: right of Altus to acquire the shares at any time following the acquisition by Omnium, at a premium of $450K over and above the value of the shares; + payment of $750K, analyzed as the option premium, to which Omnium would remain entitled in the event that Altus proves unqualified to purchase]

S&C 03858
CL 00046
CONFIDENTIAL

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EXHIBIT
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EXHIBIT

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WHEREAS:
The corporation NEW CALIFORNIA LIFE HOLDINGS INC (hereafter "NCLH"), is an American holding company organized to be the shareholder of 100% of the American corporation AURORA NATIONAL LIFE ASSURANCE COMPANY (hereafter "AURORA"), participating in the rehabilitation plan of EXECUTIVE LIFE, a California insurance company in liquidation.

OMNIUM must, in the coming weeks and no later than December 31, 1992, carry out the acquisition by subscription from NCLH of 150 (one hundred fifty) shares of NCLH, each having a par value of 100,000 (one hundred thousand) U.S. dollars (hereafter "the Shares"), representing 15% of the capital of NCLH on the date of said acquisition. [15M$]

Parallel to the acquisition of the Shares, OMNIUM is a signatory to an NCLH Shareholders' Agreement, restricting the free negotiability of the Shares for a period of five years.

However, ALTUS wishes to have an option to purchase the totality of the Shares, exercisable in the year following their acquisition by OMNIUM.

IN CONSEQUENCE OF WHICH, THE PARTIES AGREE TO THE FOLLOWING:

ARTICLE 1
OMNIUM irrevocably promises to sell, at the prices and conditions and by the methods hereafter stipulated, to ALTUS or its designee, the Shares of NCLH which OMNIUM is to acquire, and ALTUS accepts said promise as a simple promise.

In the event that ALTUS shall designate for the purpose of acquiring the Shares, any other moral or physical person of its choice, ALTUS would remain jointly responsible for the entire execution of this agreement.

If for any reason OMNIUM has not acquired the Shares by December 31, 1992 at the latest, the present agreement shall automatically be null and void, without indemnity of wither party. [Null and void]

ARTICLE 2
2.1. Pursuant to a Shareholders' Agreement entitled "Agreement restricting transfer of shares" – the text of which appears in Annex 1 – binding Omnium to NCLH, it is stipulated that:

(a) The Shares are not transferrable except with the prior written consent of the INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA (hereafter the "Commissioner")

(b) The acquirer of the Shares must, in advance of the transfer of the Shares, ratify without reservation the aforementioned Shareholders' Agreement.

ALTUS expressly declares that it has full knowledge of the terms of the Shareholders' Agreement and that it accepts said terms without reservation.

ALTUS declares in addition that it will personally undertake, in the event of the exercise of the option granted to it by OMNIUM, to obtain the prior consent of the Commissioner as described in (a), above.

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In consequence, in the event that ALTUS does not obtain said consent, this agreement shall be automatically null and void without indemnity, and OMNIUM shall remain entitled to the entire option premium referred to in Article 4 below,

2.2. ALTUS undertakes to obtain all statutory and other authorizations that may be required to complete the transfer of the Shares in its favor, it being expressly agreed that ALTUS shall in no case nor for any reason be entitled to invoke against OMNIUM the failure to obtain any such authorization in order to defer the payment of the acquisition price of the Shares.

2.3. ALTUS shall assume all costs, charges and taxes of any kind to which this agreement and the forward transfer of Shares are subject, for any reason.

The rights and obligations of the parties hereto shall apply to their successors, transferees and entitled parties.

ARTICLE 3

The option may be exercised at any time, beginning upon the acquisition by OMNIUM of the Shares, until November 30, 1993 at 6:00 p.m. (Paris time).

During this period, ALTUS may at any time exercise the option herewith granted it, by informing OMNIUM of its intention by any means ALTUS chooses.

After the expiration of this period, and in the absence of a new agreement between the parties, ALTUS shall no longer be entitled to exercise the purchase option granted to it.

During the term of this agreement, OMNIUM undertakes not to sell the Shares in whole or in part, without prior written consent from ALTUS.

ARTICLE 4

In consideration for the call option granted to it by this agreement, ALTUS is paying to OMNIUM today an option premium in the amount of 750,000 U.S. dollars (seven hundred fifty thousand U.S. dollars).

ALTUS expressly accepts that this option premium is and shall remain indefinitely vested, in its entirety, in OMNIUM under all circumstances.

ARTICLE 5

The transfer, if it occurs, shall be executed based on an aggregate value of 15,450,000 U.S. dollars [$15M+$450K] (fifteen million four hundred fifty thousand U.S. dollars), to which shall be added interest at an annual rate of 12 month LIBOR plus 0.60%, capitalized annually and accruing from the date hereof until the date on which the Shares are transferred to ALTUS.

From this amount shall be deducted the option premium fixed in Article 4 above.

The total, calculated in this manner, shall be the transfer price of the Shares.

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In addition, this transfer price having been determined, ALTUS shall reimburse OMNIUM for all taxes or charges which OMNIUM may be required to pay during the term of this agreement as a result of its status as a shareholder in NCLH, and, in particular, all taxes which OMNIUM may be required to pay in the United States as well as the stamp duty payable in Switzerland.

This aggregate transfer price shall be paid in cash within eight days after the consent of the Commissioner is obtained, as described in Article 2.1 above, against delivery of a transfer deed for the Shares in favor of the acquirer. The Shares will be transferred with immediate possession rights.

ARTICLE 6

In the event of a merger of NCLH by way of absorption by another company, or in the event of other structural modifications during the term of this agreement, this agreement shall apply to the shares of the surviving company or of the new company or companies, which were delivered to OMNIUM in exchange for the Shares, without any change to the transfer price agreed to above, which shall apply regardless of the number and value of the securities then held by OMNIUM. The same shall apply in the event of a transformation of NCLH into any other entity. The same principle shall apply in the event of a reduction in NCLH's capital, regardless of the number of securities which OMNIUM may still hold.

In the event of an increase in NCLH's capital, by way of an incorporation of reserves, profits, or issue premiums or by the issuance of new shares, during the term of this agreement, the bonus shares distributed to OMNIUM as holder of the Shares which are therefore the extension of and ancillary to said Shares, shall be added to these shares as an integral part of the subject property of this agreement, and there shall accordingly be no addition made to the price agreed upon above.

OMNIUM is not required to act on a capital increase in the form of cash, but it undertakes in all cases during the term of this agreement not to transfer the subscription rights to any physical or moral person other than ALTUS. In the event that on the date of the transfer of the Shares to ALTUS, OMNIUM holds any rights detached from the Shares, and they are still valid, they must be delivered without charge to ALTUS.

ARTICLE 7

For the purposes of performance of this agreement, the parties elect domicile at the address indicated above.

They additionally undertake to inform one another immediately of any change of address.

ARTICLE 8

The undersigned expressly agree not to disclose this agreement to any third party, except for the government agencies and authorities which would have the right to demand such disclosure, their counsels, or with the purpose of compelling the other party to perform its obligations on account of its refusal to do so.

In all other cases, the party which would have made the disclosure or made such disclosure necessary shall bear the entire consequences, whatever their nature, resulting therewith.

S&C 03861
CL00048
CONFIDENTIAL

C.D.

ARTICLE 9

The parties agree to attempt to settle amicably any problems that may arise with respect to this promise or its performance.

They also agree to refer to arbitration any and all disputes, without exception, that would not thus be settled, and which may arise with respect to the validity, interpretation, or performance of this promise.

The sending by the first party of a notice or the sending by the second party of the response mentioned in 2) herewith shall constitute an agreement to arbitrate pursuant to this section.

The arbitration court shall be constituted in the following manner:

1) the party wishing to resort to arbitration (the first party) shall send the other party (the second party) a notification by registered letter, return receipt requested, indicating the object of the dispute and its desire to submit the dispute to arbitration by either a single arbitrator or three arbitrators. In such case, the first party shall indicate the name of the arbitrator it shall have designated.

2) The second party shall reply by registered letter, return receipt requested, either by accepting arbitration by a single arbitrator as proposed by the first party, or by indicating the name of the arbitrator (among the three arbitrators) that it shall have designated.

3) In the event that the second party fails to respond within fifteen days after the date the letter of the first party was presented to it, or failing agreement between the two parties on the name of a single arbitrator within fifteen days of presentation of the letter of the second party, or failing agreement between the two arbitrators designated by the parties within fifteen days of their designation on the name of the third arbitrator, the most diligent party may request the President of the Commercial Court of Paris to appoint the single arbitrator, or the second or third arbitrator, as the case may be, by order issued in "refere" proceedings.

The agreement to arbitrate shall be drafted and executed at the latest within thirty days of the designation of the third arbitrator; failing this, the provisions of the New French Code of Civil Proceedings relating to arbitration shall apply.

The arbitration court shall be constituted in Paris and shall render its decision, which shall be final, as an "amicable arbitrator," without any necessity for it to observe the French rules of law.

The decision shall be rendered within three months of the agreement to arbitrate. The arbitrators may ask the parties for any extensions they deem necessary or useful. However, there may not be more than two two-month extensions in total.

The arbitrators shall allocate the costs of arbitration (arbitrators' fees, expenses and fees of the parties' counsels and experts' costs) between the parties.

S&C 03862
CL00049
CONFIDENTIAL

C.D.

SF #664604 v1

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The party which, by refusing to perform the arbitration award, compels the other party to apply to a court for enforcement of the award, shall bear all costs, taxes and fees which may result therewith.

Made in Paris
On November 19, 1992
In two originals

Signed by : OMNIUM GENEVA
ALTUS FINANCE

Cabe

PROMESSE DE VENTE D'ACTIONS

ENTRE LES SOUSSIGNEES

- OMNIUM GENEVE S.A.
  Société de droit suisse au capital de FS 20 750 000,
  dont le siège social est 1 Place des Bergues, 1201 GENEVE - SUISSE -
  représentée par Monsieur Hervé DUBOIS, Président du Conseil d'Administration,

promettant

Ci-après désigné "OMNIUM"

D'UNE PART

ET

droit d'
~~Bénéficiaire~~ Altus d'acquérir les actions à tout moment à partir de l'acquisition par Omnium, prix de 450 k$ minimum

- ALTUS FINANCE
  Société Anonyme de droit français, au capital de F. 4 408 109 300,
  dont le siège social est 34/36 avenue de Friedland, 75008 PARIS - FRANCE -
  inscrite au Registre du Commerce et des Sociétés de PARIS, sous le numéro B 722 049 871,

  représentée par Monsieur Yves CHASSAGNE, Directeur Général Adjoint,
  déclarant être dûment habilité à l'entier effet des présentes,

S&C 03858

Ci-après désigné "ALTUS"

CL 00045
CONFIDENTIAL

D'AUTRE PART

il s'agit des invendus actions
+ éventuel minimum de
750 k$, analogue comme la prime de l'option,
qui serait acquise à Omnium, au cas où Altus
ne serait pas qualifié pour acheter
et levant alors 450 et 750 et dès lors

1123-7

IL A ETE PREALABLEMENT EXPOSE CE QUI SUIT :

La Société NEW CALIFORNIA LIFE HOLDINGS INC (ci-après "N.C.L.H.) est une société holding de droit américain constituée pour être actionnaire à 100 % de la Société de droit américain AURORA NATIONAL LIFE ASSURANCE COMPANY (ci-après "AURORA") devant participer au plan de reprise de EXECUTIVE LIFE, société d'assurance de l'Etat de CALIFORNIE en liquidation.

OMNIUM doit procéder dans les prochaines semaines et au plus tard le 31 Décembre 1992 à l'acquisition par souscription auprès de N.C.L.H. de 150 (cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100.000 (cent mille) dollars U.S. (ci-après "les Actions") représentant 15 % du capital de N.C.L.H. au jour de cette acquisition. IJM #

Parallèlement à l'acquisition des Actions, OMNIUM est signataire d'un pacte d'Actionnaires de N.C.L.H. restreignant la libre négociabilité des Actions sur une période de cinq ans.

Toutefois, ALTUS a souhaité bénéficier d'une option d'achat portant sur la totalité des Actions, exerçable dans l'année suivant leur acquisition par OMNIUM.

EN CONSEQUENCE DE QUOI, IL A ETE CONVENU CE QUI SUIT :

ARTICLE 1

OMNIUM promet irrévocablement de vendre, aux prix, conditions et modalités stipulés ci-après, à ALTUS ou à son substitué, laquelle l'accepte en tant que simple promesse, les Actions de N.C.L.H. qu'elle va acquérir.

Dans l'hypothèse où ALTUS désignerait pour acquérir les Actions, toute autre personne physique ou morale de son choix, elle resterait solidairement responsable de l'entière exécution des présentes.

Dans le cas où OMNIUM n'aurait pas acquis les Actions au plus tard le 31 Décembre 1992, pour quelque cause que ce soit, la présente promesse serait alors caduque et nulle d'effet de plein droit, sans indemnité de part ni d'autre.

ARTICLE 2

2.1. Aux termes d'un Pacte d'Actionnaires dénommé "Agreement restricting transfer of shares" - dont le texte figure à l'annexe 1 - liant OMNIUM à N.C.L.H., il est notamment stipulé que :

a) Les Actions ne sont cessibles qu'avec l'accord préalable écrit de "l'INSURANCE COMMISSIONNER OF THE STATE OF CALIFORNIA" (ci-après le "Commissionner").

b) L'acquéreur des Actions devra préalablement au transfert des Actions ratifier sans réserve le Pacte d'Actionnaires susvisé.

ALTUS déclare expressément avoir parfaite connaissance dudit Pacte d'Actionnaires et en accepter les termes sans réserve.
ALTUS déclare en outre faire son affaire personnelle, en cas d'exercice de l'option lui étant conférée par OMNIUM, de l'obtention de l'accord préalable du Commissionner visé au a) ci-dessus.

En conséquence, dans le cas où ALTUS n'obtiendrait pas cet accord, la présente promesse serait alors caduque et nulle d'effet de plein droit et sans indemnité, la prime d'option visée à l'article 4 ci-dessous restant intégralement acquise à OMNIUM.

2.2. ALTUS fera son affaire de l'obtention de toutes autorisations statutaires et autres qui pourraient être nécessaires à la réalisation du transfert des Actions en sa faveur, étant expressément convenu qu'ALTUS ne pourra en aucun cas et pour quelque cause que ce soit opposer à OMNIUM le défaut d'obtention d'une quelconque de ces autorisations pour différer le paiement du prix d'acquisition des Actions.

2.3. ALTUS prendra à sa charge tous les frais, droits et taxes de toute nature auxquels la présente promesse et la cession éventuelle des Actions pourraient donner lieu pour quelque cause que ce soit.

Les droits et obligations des parties à la présente promesse s'imposeront et bénéficieront à tous leurs successeurs, cessionnaires et ayant-droits.

ARTICLE 3

La présente promesse pourra être levée à tout moment à compter de l'acquisition par OMNIUM des Actions et jusqu'au 30 Novembre 1993 à 18 heures (heure de PARIS).

Durant ce délai, ALTUS pourra exercer à tout moment l'option lui étant présentement consentie en informant OMNIUM de son intention par tout moyen au choix de ALTUS.

Passé ce délai, et sauf nouvelle convention entre les parties, ALTUS ne pourra plus user de la faculté d'acheter qui lui est offerte.

Pendant la durée de la présente promesse, OMNIUM s'interdit de vendre tout ou partie des Actions, sans l'accord préalable écrit de ALTUS.

ARTICLE 4

En contrepartie de l'option d'achat lui étant consentie par la présente promesse de vente, ALTUS verse à OMNIUM ce jour une prime d'option d'un montant de US 750.000 (sept cent cinquante mille dollars U.S.).

Cette prime d'option est et restera définitivement et intégralement acquise à OMNIUM en toutes circonstances, ce qui est expressément accepté par ALTUS.

ARTICLE 5

15 M$ + 450 K$

La cession, si elle intervient, sera effectuée sur la base d'une valeur globale de U.S. D. 15.450.000 (quinze millions quatre cent cinquante mille dollars U.S.), majorée d'un intérêt au taux de LIBOR -douze mois- + 0,60 % l'an, capitalisé annuellement et décompté du jour des présentes jusqu'au jour de la cession des Actions à ALTUS.
De ce montant, sera déduite la prime d'option fixée à l'article 4 ci-dessus.

Le montant ainsi calculé constituera le prix de cession des Actions.

1123-9

Outre, ce prix de cession ainsi déterminé, ALTUS remboursera à OMNIUM tous impôts, taxes ou charges que OMNIUM aurait à acquitter pendant la durée du présent engagement du fait de sa qualité d'actionnaire de N.C.L.H., et notamment tous impôts et taxes que OMNIUM pourrait avoir à acquitter aux Etats-Unis ainsi que le droit de timbre payable en SUISSE.

Ce prix total de cession devra être payé comptant à OMNIUM dans les huit jours suivants l'obtention de l'accord du Commissionner visé à l'article 2.1. ci-dessus, contre remise d'un acte de transfert des Actions au profit de l'acquéreur. Les Actions seront transférées avec jouissance courante.

ARTICLE 6

En cas de fusion par absorption de N.C.L.H. par une autre société, ou en cas d'autres modifications de structures pendant la durée de validité de la présente promesse, cette promesse sera reportée sur les actions ou les parts de la société absorbante ou de la ou des sociétés nouvelles, qui auraient été remises à OMNIUM en échange des Actions et ce, sans aucune modification du prix de cession convenu ci-dessus qui sera appliqué quelque soit le nombre et la valeur des titres alors détenus par OMNIUM. Il en serait de même en cas de transformation de N.C.L.H. en entité de toute autre forme. Il sera fait également application de ce même principe en cas de réduction de capital de N.C.L.H. quelque soit le nombre de titres dont OMNIUM resterait propriétaire.

En cas d'augmentation de capital de N.C.L.H., par incorporation de réserves, bénéfices ou primes d'émission et par émission d'actions nouvelles, pendant la durée de validité de la présente promesse, les actions qui auraient été attribuées gratuitement à OMNIUM au titre des Actions et qui en seraient, en conséquence, le prolongement et l'accessoire, s'ajouteraient à ces actions comme faisant partie intégrante de l'objet de la promesse et par conséquent, sans aucun supplément au prix convenu ci-dessus.

OMNIUM n'est pas tenu de suivre à une augmentation de capital en numéraire, mais il s'interdit dans tous les cas, pendant toute la durée de validité de la présente promesse, de céder les droits de souscription à une personne physique ou morale autre que ALTUS. Au cas où, à la date de transfert des Actions à ALTUS, OMNIUM disposerait de droits détachés des Actions en cours de validité, il devrait les remettre gratuitement à ALTUS.

ARTICLE 7

Pour l'exécution des présentes, les parties font élection de domicile à l'adresse indiquée en en-tête des présentes.

Elles s'engagent en outre à s'informer réciproquement et sans délai de toute modification de ladite adresse.

ARTICLE 8

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions des Administrations et Autorités en droit d'en obtenir communication, leurs conseils, ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

1123-1

ARTICLE 9

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant la présente promesse ou son application.

Elles conviennent également de soumettre à un tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution de la présente promesse.

L'envoi par la première partie de la notification, ou l'envoi par la deuxième partie de la réponse prévue en 2) ci-après vaudra compromis dans les termes de la présente clause.

Le tribunal sera constitué de la façon suivante :

1) La partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception, indiquant l'objet du différend et son désir de recourir, soit à un arbitre unique, soit à trois arbitres et, dans ce cas, la première partie indique le nom de celui des arbitres qu'elle a choisi.

2) La deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois arbitres qu'elle choisit.

3) Faute par la deuxième partie d'avoir répondu quinze jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un arbitre unique dans les quinze jours de la présentation de la lettre de la deuxième partie ou faute par les deux arbitres choisis de s'entendre dans les quinze jours de leur désignation sur le nom du troisième arbitre, la partie diligente pourra solliciter la désignation de l'arbitre unique, du deuxième ou troisième arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de PARIS statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente jours de la désignation du troisième arbitre ; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile Français sur l'Arbitrage.

Le tribunal siègera à PARIS et statuera, en premier et dernier ressort, en amiable compositeur sans être tenu d'observer les règles de droit français.

Il devra rendre sa décision dans un délai de trois mois suivant l'établissement du compromis. Les arbitres pourront demander aux parties telles prorogations qu'ils jugeront nécessaires ou utiles sans que le total puisse dépasser deux prorogations de deux mois chacune.

Les arbitres devront répartir les frais d'arbitrage (honoraires des arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

1123-11

La partie qui par son refus d'exécution contraindra l'autre partie à poursuivre l'exécution judiciaire de la sentence restera chargée de tous les frais, droits et honoraires auxquels la poursuite de cette exécution aura donné lieu.

Fait à Paris
Le 16 Novembre 1992
En deux originaux

OMNIUM GENEVE

ALTUS FINANCE

1123-1-

11/16/92

FORWARD SHARE TRANSFER AGREEMENT

BY AND BETWEEN:

Omnium Genève, S.A.,
a Swiss company with stated capital of 20,750,000 Swiss francs,
having its principal office at 1 Place des Bergues, 1201 Geneva, Switzerland,
represented by Mr. Hervé Dubois, Chairman of the Board of Directors,

hereafter referred to as "Omnium"

PARTY OF THE FIRST PART,

AND

Altus Finance, a French corporation (*société anonyme*) with stated capital of 4,408,109,300 French francs, having its principal office at 34-36 Avenue de Friedland, 75008 Paris, registered with the Paris Trade and Company Registry under number B 722 049 871,

represented by Mr. Yves Chassagne, Executive Vice President, who represents that he is duly authorized for the purpose hereof,

hereafter referred to as "Altus"

PARTY OF THE SECOND PART.

EXHIBIT
16A

Revised by Aspen Traduction

OG 000404
SF# 603352 v1

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13 pg

EXHIBIT
1124
CHASSAGNE

RECITALS:

The firm New California Life Holdings Inc. (hereafter referred to as "NCLH") is a US holding company that was incorporated in order to wholly own the US company Aurora National Life Assurance Company (hereafter referred to as "Aurora"), which company is to participate in the takeover of Executive Life, a California insurance company in liquidation.

Over the coming weeks, and by December 31, 1992 at the latest, Omnium must subscribe for 150 (one hundred and fifty) NCLH shares with a par value of 100,000 (one hundred thousand) US dollars each (hereafter referred to as the "Shares"), representing 15% of NCLH capital on the date of acquisition.

Moreover, Omnium has signed an NCLH Shareholders' Agreement, authorizing the transfer of the Shares over a period of five years from the date of their acquisition.

As Altus wishes to acquire some Shares, the parties have agreed to this forward sale.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

ARTICLE 1 – SALE

1.1 Omnium hereby sells to Altus, which accepts, for the price and on the terms and conditions set forth below, all the Shares of NCLH it is obliged to acquire, namely 150 shares with a par value of 100,000 US dollars each, all fully paid up.

The parties expressly agree that this forward sale is made subject to Omnium acquiring the Shares by December 31, 1992 at the latest.

Should it fail to acquire the Shares by this date, irrespective of the reason for said failure, this agreement shall become null and void by operation of law, without either party being entitled to compensation.

1.2 For the purpose of this sale, all of the Shares shall be transferred to Altus at the times and in the proportions set out below:

a) At the end of a one-year period from the date of acquisition of the shares by Omnium, one indivisible lot corresponding to 5% of the Shares.

b) At the end of a two-year period from the date of acquisition of the shares by Omnium, a second indivisible lot corresponding to 5% of the Shares.

c) At the end of a three-year period from the date of acquisition of the shares by Omnium, one indivisible lot corresponding to 10% of the Shares.

[... *one or more pages are missing*]
Where applicable, all taxes, duties and expenses that Omnium may be required to pay during the term of this agreement as a result of its status as a shareholder of NCLH, including all taxes and duties Omnium may be required to pay in the United States and the stamp duty payable in Switzerland, shall be added to the sale price and shall form an integral part thereof.

3.2 In addition to this sale price, Altus shall pay Omnium interest equal to the 12-month Libor rate + 3.60% per annum on November 30, 1993, 1994, 1995, 1996 and 1997, which interest payments shall respectively correspond to the following periods:

- from this day until November 30, 1993
- from December 1, 1993 to November 30, 1994
- from December 1, 1994 to November 30, 1995
- from December 1, 1995 to November 30, 1996
- from December 1, 1996 to November 30, 1997.

Interest shall be calculated on the sale price fixed under 3.1 above, or[1] any outstanding portion of said price for Shares still held by Omnium during each of the aforementioned periods.
All dividends net of withholding tax collected by Omnium on the Shares during the period under consideration, if any, shall be deducted from said amount to be paid to Omnium.

In addition, if all the Shares have not been transferred to Altus by November 30, 1997, Altus shall pay Omnium the same interest, prorated for the period from December 1, 1997 to the day the remainder of the Shares are transferred as provided in 1.2. e) above. It is agreed that said interest shall be calculated on the portion of the sale price of the Shares still outstanding.

Finally, Altus shall pay Omnium on this day the sum of USD 750,000 (seven hundred and fifty thousand US dollars) as an advance on the interest owed for the period from this day to November 30, 1993. As a result, this advance shall be deducted from the amount of interest due for said period that Altus will pay Omnium on December 15, 1993[2].

ARTICLE 4 – SUBSTITUTION AND PREMATURE TRANSFER

If, as a result of any new regulation or decision issued by the US, European, French or Swiss authorities, Omnium is unable to keep the NCLH Shares or if, as a result of said regulation, the cost of keeping the Shares would be excessive for Omnium, it shall be entitled either to designate a third party to replace it, who must unreservedly ratify this agreement, or to ask Altus to immediately acquire or arrange for the acquisition of all the Shares held by Omnium at that time, in which case Altus undertakes to take all necessary steps to promptly complete said transfer.

The Shares held by Omnium at that time shall be transferred to Altus for the sale price fixed in Article 3.1, plus the interest fixed in Article 3.2 prorated over the current period.
In any event, Altus shall immediately indemnify Omnium for any extra cost of keeping the Shares as described above.

ARTICLE 5 – LOSS OF VALUE OF NCLH SECURITIES

Should the value of NCLH securities depreciate, irrespective of the reason therefor and including in the event of its bankruptcy or any other procedure resulting from the total or partial insolvency of NCLH or its subsidiaries, or in the event of a merger, split-up or partial contribution of assets, Altus shall not be entitled to raise any objection or claim any compensation in connection with the transfer of the Shares by Omnium.
Altus shall, in any event, still be required to perform this agreement in full.

ARTICLE 6 – PENALTY CLAUSE

Altus irrevocably undertakes to pay Omnium, or any entity that replaces it for the purpose of acquiring or holding the Shares, the penalty fixed below as damages, in the event the transfer of title to the Shares and/or the payment of interest specified in 3.2 above is impossible, namely because of NCLH's insolvency, dissolution, bankruptcy or inability to pay its debts or due to a new regulation or decision issued by the US, European, French or Swiss authorities.

The amount of the penalty shall be equal to the price of the Shares held by Omnium at that time, as indicated in 3.1 above, plus interest at the 12-month Libor rate + 3.60% per annum, from the date of Altus' last interest payment pursuant to 3.2 above until the date of payment of the penalty to Omnium.
Said penalty shall be paid no later than fifteen calendar days after Altus is unable to perform its aforementioned obligations.

In the event Altus pays this penalty to Omnium, the payment shall be made in US dollars.

ARTICLE 7

It is expressly agreed that Omnium shall be automatically considered to have fully performed its obligations under this agreement in all cases where the Shares have been transferred to Altus or its substitute on a date or dates prior to those specified herein.

[Stamp in English: confidential pursuant to protective order]

ARTICLE 8

Altus shall pay all the costs, duties and taxes of any kind that may be due for any reason whatsoever as a result of this agreement and the transfers of Shares.

The rights and obligations of the parties under this agreement shall be binding on and shall inure to the benefit of all of their successors, transferees and beneficiaries.

ARTICLE 9

For the performance hereof, the parties elect domicile at the addresses first above written.
Furthermore, they agree to inform one another immediately of any change in said address.

ARTICLE 10

The undersigned expressly undertake not to disclose this agreement to any third party, except for those Authorities entitled to be informed of it or their counsel, or other than in order to compel the other party to perform its undertakings if it has refused to do so.

Save for the exceptions listed above, any party which discloses this agreement or makes disclosure necessary shall bear all the consequences of said disclosure, of any kind whatsoever.

ARTICLE 11

The parties agree to endeavor to find an amicable solution to any problem that may arise in connection with this Agreement or its performance.

They also agree to refer to an arbitral tribunal any dispute whatsoever that cannot be amicably settled, and that may arise in connection with the validity, construction or performance of this agreement.

The sending of the notice by the first party or of the response by the second party referred to under point two below shall be deemed to constitute an arbitration agreement, in accordance with this article.

The Tribunal shall be formed in the following manner:

1. The party wishing to refer a matter to arbitration (the first party) shall give the other party (the second party) notice, by registered mail, return receipt requested, stating the subject matter of the dispute and its wish to refer the matter to a sole arbitrator or to a panel of three arbitrators, in which case the first party shall disclose the identity of the arbitrator it has appointed;
2. the second party shall reply in a letter sent by registered mail, return receipt requested, either agreeing to the first party's proposal to refer the matter to a sole arbitrator or disclosing the identity of the second arbitrator it has appointed;
3. should the second party fail to reply within fifteen days of the date on which the first party's letter is tendered for delivery, or should the parties be unable to agree on the identity of a sole arbitrator within fifteen days of the date on which the second party's letter is tendered for delivery, or should the two appointed arbitrators fail to agree on the identity of the third arbitrator within fifteen days of their appointment, the first party to act may request the appointment of a sole arbitrator, or the second or third arbitrator, as the case may be, by means of an order made by the Chief Judge of the Paris Commercial Court (*Tribunal de Commerce*), ruling in emergent proceedings.

The arbitration agreement shall be drafted and signed no later than thirty days after the appointment of the third arbitrator. Failing this, the provisions of the New Code of Civil Procedure (*Nouveau Code de Procédure Civile*) on arbitration shall apply.

The arbitrators shall make an award within three months of the date of the arbitration agreement. The arbitrators may ask the parties to extend this deadline should they consider this necessary or appropriate, provided however that the proceedings shall not be extended for more than two additional two-month periods.

The arbitrators shall allocate the arbitration costs (arbitrators' fees, expenses and fees of the parties' counsel and costs of expert opinions) between the parties as they see fit.

Any party who obliges the other party to seek enforcement of the arbitral award because of its refusal to abide by the award shall pay all taxes, duties and fees that may be incurred in connection with said enforcement.

Executed in Paris
on November 16, 1992
in two original counterparts

Omnium	Altus
(signature)	(signature)

Translator's Notes

[1] French is unclear – one or more words appear to be missing.
[2] November 30, 1993 is indicated as the payment date two paragraphs earlier

Revised by Aspen Traduction

1124-7

Doc 19

CONTRAT DE CESSION A TERME D'ACTIONS

ENTRE LES SOUSSIGNEES

- OMNIUM GENEVE S.A.
  Société de droit suisse au capital de FS 20 750 000,
  dont le siège social est 1 Place des Bergues, 1201 GENEVE - SUISSE -
  représentée par Monsieur Marvé DUBOIS, Président du Conseil d'Administration,

Ci-après désigné "OMNIUM"

D'UNE PART

ET

- ALTUS FINANCE
  Société Anonyme de droit français, au capital de F. 4 408 109 300,
  dont le siège social est 34/36 avenue de Friedland, 75008 PARIS - FRANCE -
  inscrite au Registre du Commerce et des Sociétés de PARIS, sous le numéro
  B 722 049 871,

  représentée par Monsieur Yves CHASSAGNE, Directeur Général Adjoint,
  déclarant être dûment habilité à l'entier effet des présentes,

Ci-après désigné "ALTUS"

D'AUTRE PART

OG 000404

IL A ETE PREALABLEMENT EXPOSE CE QUI SUIT :

La Société NEW CALIFORNIA LIFE HOLDINGS INC (ci-après "N.C.L.H.) est une société holding de droit américain constituée pour être actionnaire à 100 % de la Société de droit américain AURORA NATIONAL LIFE ASSURANCE COMPANY (ci-après "AURORA") devant participer au plan de reprise de EXECUTIVE LIFE, société d'assurance de l'Etat de CALIFORNIE en liquidation.

OMNIUM doit procéder dans les prochaines semaines et au plus tard le 31 Décembre 1992 à l'acquisition par souscription auprès de N.C.L.H. de 150 (cent cinquante) actions de N.C.L.H. chacune d'un montant nominal de 100.000 (cent mille) dollars U.S. (ci-après les "Actions") représentant au jour de leur acquisition 15 % du capital de N.C.L.H.

Parallèlement, OMNIUM est signataire d'un pacte d'Actionnaires de N.C.L.H. autorisant la cession des Actions étalée sur une période de cinq ans à compter de leur acquisition.

ALTUS souhaitant acquérir les Actions, la présente vente à terme a été convenue.

EN CONSEQUENCE DE QUOI, IL A ETE CONVENU CE QUI SUIT :

ARTICLE 1 - VENTE

1.1. OMNIUM vend par les présentes à ALTUS, qui l'accepte, aux prix, conditions et modalités stipulés ci-après, la totalité des Actions de N.C.L.H. qu'elle doit acquérir, soit 150 actions de 100.000 dollars U.S. de nominal chacune, entièrement libérées.

De convention expresse entre les parties, la présente vente est conclue sous réserve de l'acquisition des Actions par OMNIUM au plus tard le 31 Décembre 1993.

A défaut de réalisation de cette acquisition pour quelque cause que ce soit à cette date, le présent contrat deviendra caduc de plein droit, sans indemnité de part ni d'autre.

1.2. En exécution de la présente vente, le transfert de 100 % des Actions au profit de ALTUS s'effectuera aux époques et pour les quotités suivantes :

a) A l'expiration d'un délai d'un an à compter de l'acquisition des Actions par OMNIUM, un lot indivisible correspondant à 5 % des Actions,

b) à l'expiration d'un délai de deux ans à compter de l'acquisition des Actions par OMNIUM, un deuxième lot indivisible correspondant à 5 % des Actions,

c) à l'expiration d'un délai de trois ans de l'acquisition des Actions par OMNIUM, un lot indivisible correspondant à 10 % des Actions.

1 0 385

1124-9

Seront ajoutés au prix de cession et en feront partie intégrante ,s'il y a lieu ,tous impôts, taxes ou charges que OMNIUM aurait à acquitter pendant la durée du présent engagement du fait de sa qualité d'actionnaire de N.C.L.N., et notamment tous impôts et taxes que OMNIUM pourrait avoir à acquitter aux Etats-Unis ainsi que le droit de timbre payable en SUISSE.

3.2. Outre ce prix de cession, un intérêt égal au taux LIBOR -douze mois- + 3,60 % l'an sera versé par ALTUS à OMNIUM le 30 Novembre des années 1993, 1994, 1995, 1996 et 1997 au titre respectivement des périodes suivantes :

- de ce jour jusqu'au 30 Novembre 1993,
- du 1er Décembre 1993 au 30 Novembre 1994,
- du 1er Décembre 1994 au 30 Novembre 1995,
- du 1er Décembre 1995 au 30 Novembre 1996,
- du 1er Décembre 1996 au 30 Novembre 1997.

Cet intérêt sera calculé sur le prix de cession fixé au 3.1. ci-dessus ou partie de ce prix restant à verser au titre des Actions encore en possession d'OMNIUM durant chacune des périodes susvisées. De la somme ainsi calculée à verser à OMNIUM, seront déduits - s'il y a lieu - les dividendes nets de retenue à la source encaissés par OMNIUM sur les Actions durant la période considérée.

De plus, si la totalité des Actions n'a pas encore été transférée à ALTUS le 30 Novembre 1997, ALTUS versera à OMNIUM le même intérêt prorata temporis pour la période allant du 1er Décembre 1997 jusqu'au jour du transfert du solde des Actions tel que prévu au 1.2. a) ci-dessus, étant entendu que cet intérêt sera calculé sur la partie restant à verser du prix de cession des Actions.

Enfin, ALTUS verse ce jour à OMNIUM une somme de U.S. D. 750.000 (sept cent cinquante mille Dollars U.S.) à titre d'avance sur les intérêts dûs au titre de la période allant de ce jour au 30 Novembre 1993. En conséquence, cette avance sera déduite du montant des intérêts dûs au titre de cette période et qui sera versé le 15 Décembre 1993 par ALTUS à OMNIUM.

ARTICLE 4 - SUBSTITUTION ET CESSION ANTICIPEE

Au cas où une réglementation nouvelle ou une décision d'une autorité publique américaine, européenne, française ou suisse, mettait OMNIUM dans l'impossibilité de conserver les Actions de la société N.C.L.N., ou si du fait de cette réglementation, le coût de leur conservation devenait anormalement onéreux pour OMNIUM, cette dernière pourra à son choix soit se substituer un tiers qui devra ratifier sans réserve le présent contrat, soit demander à ALTUS d'acquérir ou de faire acquérir immédiatement la totalité des Actions alors détenues par OMNIUM. ALTUS s'oblige à prendre toutes dispositions utiles pour permettre la réalisation de cette cession sans délai.

La cession à ALTUS des Actions, qu'OMNIUM détiendra alors, s'effectuera au prix de cession stipulé à l'article 3.1. majoré de l'intérêt fixé au 3.2. décompté prorata temporis sur la période en cours.
Dans tous les cas, ALTUS indemnisera immédiatement OMNIUM du surcoût de conservation visé ci-dessus.

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ARTICLE 5 - PERTE DE VALEUR DES TITRES DE N.C.L.N.

Dans l'hypothèse où, quelle qu'en soit la cause et notamment en cas de faillite ou toute autre procédure résultant de l'insolvabilité totale ou partielle de N.C.L.N. ou de ses filiales, comme en cas de fusion, scission ou apport partiel d'actif, la valeur des titres de la société N.C.L.N. se déprécierait, la réalisation de la cession des Actions par OMCIUM n'ouvrira aucun droit à contestation ou indemnisation au profit de ALTUS.
Dans tous les cas, ALTUS restera tenue à l'entière exécution des présentes.

ARTICLE 6 - CLAUSE PENALE

ALTUS s'engage irrévocablement à payer, à titre de dommages et intérêts, à OMCIUM ou à toute entité que celle-ci se sera substituée pour l'acquisition ou la conservation des Actions, le montant de la clause pénale déterminé ci-après, pour le cas où le transfert de propriété des Actions et/ou le paiement des intérêts visés au 3.2. ci-dessus, ne pourraient pas être réalisés et notamment du fait de la déconfiture, dissolution ou mise en faillite ou insolvabilité de la société N.C.L.N. ou par l'effet d'une réglementation nouvelle ou d'une décision d'une autorité publique américaine, européenne, française ou suisse.

Le montant de la clause pénale sera égal au prix des Actions qu'OMCIUM détiendra alors, tel que fixé au 3.1. ci-dessus, majoré d'un intérêt dont le taux est LIBOR - douze mois - + 3,60 % l'an et commençant à courir à compter du jour du dernier versement d'intérêts de ALTUS en exécution du 3.2. ci-dessus jusqu'au jour du versement à OMCIUM de cette clause pénale.
Le versement de cette clause pénale devra intervenir dans les quinze jours calendaires suivants l'impossibilité pour ALTUS d'exécuter ses obligations indiquées ci-dessus.

Dans l'hypothèse où cette clause pénale devait être payée par ALTUS à OMCIUM, le paiement sera effectué en dollars U.S.

ARTICLE 7

De convention expresse, il est convenu qu'OMCIUM sera de plein droit réputée avoir pleinement exécuté les obligations lui incombant aux termes des présentes dans tous les cas où les Actions auraient été transférées à ALTUS ou son substitué à une ou des dates antérieures à celles convenues aux présentes.

Confidential Pursuant to Protective Order

ARTICLE 8

ALTUS prendra à sa charge tous les frais, droits et taxes de toute nature auxquels les présentes et les transferts des Actions pourront donner lieu, pour quelque cause que ce soit.

Les droits et obligations des parties aux présentes s'imposeront et bénéficieront à tous leurs successeurs, cessionnaires et ayant-droits.

ARTICLE 9

Pour l'exécution des présentes, les parties font élection de domicile à l'adresse indiquée en en-tête des présentes.

Elles s'engagent en outre à s'informer réciproquement et sans délai de toute modification de ladite adresse.

OG 000407

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ARTICLE 10

Les soussignées s'interdisent expressément de divulguer les présentes à tous tiers, aux seules exceptions des Administrations et Autorités en droit d'en obtenir communication, leurs conseils ou sauf en vue de contraindre l'autre partie à exécuter ses engagements en raison de son refus de le faire.

Hormis l'exception visée ci-dessus, la partie qui aurait divulgué ou rendu nécessaire cette divulgation en supportera seule l'ensemble des conséquences de toute nature qui pourrait en résulter.

ARTICLE 11

Les parties conviennent de s'efforcer de régler à l'amiable tous les problèmes qui pourraient survenir concernant le présent Contrat ou son application.

Elles conviennent également de soumettre à un tribunal arbitral tous les litiges sans exception qui ne seraient pas réglés ainsi et qui pourraient naître de la validité, de l'interprétation ou de l'exécution du présent accord.

L'envoi par la première partie de la notification, ou l'envoi par la deuxième partie de la réponse prévue en 2) ci-après vaudra compromis dans les termes de la présente clause.

Le tribunal sera constitué de la façon suivante :

1) La partie désirant recourir à l'arbitrage (la première partie) adresse à l'autre partie (la deuxième partie) une notification par lettre recommandée avec accusé de réception, indiquant l'objet du différend et son désir de recourir, soit à un arbitre unique, soit à trois arbitres et, dans ce cas, la première partie indique le nom de celui des arbitres qu'elle a choisi.

2) La deuxième partie répond par lettre recommandée avec accusé de réception, soit en acceptant le recours à un arbitre unique proposé par la première partie, soit en indiquant le nom de celui des trois arbitres qu'elle choisit.

3) Faute par la deuxième partie d'avoir répondu quinze jours après la date de la présentation de la lettre de la première partie ou faute par les deux parties de s'être entendues sur le nom d'un arbitre unique dans les quinze jours de la présentation de la lettre de la deuxième partie ou faute par les deux arbitres choisis de s'entendre dans les quinze jours de leur désignation sur le nom du troisième arbitre, la partie diligente pourra solliciter la désignation de l'arbitre unique, du deuxième ou troisième arbitre, selon le cas, par ordonnance de Monsieur le Président du Tribunal de Commerce de PARIS statuant en référé.

Le compromis devra être rédigé et signé au plus tard dans le délai de trente jours de la désignation du troisième arbitre ; à défaut, il sera fait application des dispositions du Nouveau Code de Procédure Civile sur l'Arbitrage.

OG 000408

P. 9/20

11247

Il devra rendre sa décision dans un délai de trois mois suivant l'établissement du compromis. Les arbitres pourront demander aux parties telles prorogations qu'ils jugeront nécessaires ou utiles sans que le total puisse dépasser deux prorogations de deux mois chacune.

Les arbitres devront répartir les frais d'arbitrage (honoraires des arbitres, frais et honoraires des conseils des parties et frais d'expertise) entre les parties.

La partie qui par son refus d'exécution contraindra l'autre partie à poursuivre l'exécution judiciaire de la sentence restera chargée de tous les frais, droits et honoraires auxquels la poursuite de cette exécution aura donné lieu.

Fait à Paris
Le 16 Novembre 1992
En deux originaux

OMNIUM

ALTUS

120

11247

CREDIT LYONNAIS

Paris, April 19, 1991

LE PRESIDENT

The Honorable John Garamendi
Insurance Commissioner
State of California
Dept. of Insurance
770 L Street, Suite 1120
SACRAMENTO, California 95814
USA

IFH/FG/382

Dear Mr. Commissioner,

This letter is in reference to certain proposed transactions between Executive Life Insurance Company of California ("ELIC") and an investor group composed of Altus Finance and other substantial institutional investors (the "Investor Group"), involving the purchase of certain assets and the restructuring of certain liabilities of ELIC and certain subsidiaries. We understand that the details of these transactions, including conditions to their consummation, will be set forth in a definitive agreement to be completed within the near future.

We understand that these transactions, if consummated, will require a cash equity investment of three hundred million dollars. Please be advised that we are holding for the account of the Investor Group, or will make available for its account, funds in the amounts referred to above, upon our receipt of notice from the Investor Group that such amounts are required under the terms of the definitive documents currently being negotiated.

We further understand that significant additional funds may be required for the purchase of substantial portions of the assets of ELIC and its subsidiaries. Please be advised that we are holding for the account of the Investor Group, or will make available for its account, such additional funds as may be required to consummate the additional transactions being discussed as soon as agreement is reached.

The foregoing assurances are premised and subject to the assumption that definitive documentation will be executed by may 19, 1991 and that contemplated transactions will be consummated within 90 days thereafter.

Sincerely yours,

J.Y. HABERER
Chairman of the Board

EXHIBIT
6

** TOTAL PAGE.03 **

May 1991

CREDIT LYONNAIS

Paris, May 6, 1991

LE PRESIDENT

The Honorable John Garamendi
Insurance Commissioner
State of California
Dept. of Insurance
770 L Street, Suite 1120
SACRAMENTO, California 95814
USA

JFH/FG/393

RE : Financing/Letter of Credit

Dear Mr. Commissioner,

This letter is in reference to the proposal to rehabilitate Executive Life Insurance Company of California ("ELIC") on behalf of an investor group composed of Altus Finance and other substantial institutional investors (the "Investor Group"). We understand that such rehabilitation would involve the purchase of certain assets and the restructuring of certain liabilities of ELIC, as well as the infusion of substantial equity capital into the rehabilitated entity. We also understand that the parties will enter into discussions regarding the proposed transaction but that the parties will have no obligation to each other unless and until a definitive agreement is executed by the parties, including your office and the Investor Group.

This letter will confirm that subject to the conditions set forth herein, we have committed to provide financing or a letter of credit in the amount of $ billion ($ US) to the Investor Group to fund amounts that may be payable by the Investor Group under the definitive agreement. Any such financing or letter of credit may be provided by or through Credit Lyonnais U.S. and may involve the participation of crédit Lyonnais.

The above-described commitment is subject to the execution of a definitive agreement, and the negotiation and execution of an agreement concerning the terms of such financing or letter of credit, which terms must be mutually agreed to by the parties, including the Investor Group and Crédit Lyonnais, in their sole discretion.

This letter will expire on June 21, 1991, unless otherwise extended.

Sincerely yours,

J.Y. HABERER
Chairman of the Board

19 boulevard des Italiens - 75002 Paris - Tél.: [illegible]

21 DEC 1992

JOHN GARAMENDI
Insurance Commissioner

December 23, 1992

Mr. Jean Francois Henin
Altus Finance
34 Avenue de Friedland
Paris 75008 France

Dear Jean Francois:

As you know there has been a stay issued by the California Court of Appeals which currently prevents the closing on December 31, 1992 by New California's subsidiary, Aurora National Life of its acquisition of substantially all of the assets and liabilities of Executive Life Insurance Company. I am still hopeful that we will be able to prevail in court and consummate the transaction early in 1993.

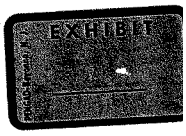
I would like to express my thanks to you personally for all your efforts in communicating with the investor group. I do understand how difficult it has been to hold the investor group together and explain what is happening in California. I know that the United States judicial system may seem mystifying to you. I would also like to express my appreciation for all the time and effort expended by you and your advisors in attempting to close the transaction this year.

My chief deputy, Richard Baum has been in contact with your advisors regarding a grant by New California's investors of an extension of the Purchase agreement until March 31, 1993. Since we have come so far and I am still optimistic in closing the transaction in early 1993, I would ask for your indulgence in extending the agreement through March 31, 1993.

JOHN GARAMENDI
Insurance Commissioner

JG:gg

FORTY-FIVE FREMONT STREET, TWENTY-THIRD FLOOR
SAN FRANCISCO, CALIFORNIA 94105
PHONE: (415) 904-5400 FACSIMILE: (415) 904-5889



EXPL HOMSON 1991-11-1[illegible]

CREDIT LYONNAIS

Novembre 11, 1991

LE PRESIDENT

NEW CALIFORNIA LIFE HOLDING, INC.
C/O MORGAN, LEWIS & BOCKIUS
2000 One Logan Square
PHILADELPHIA, PA 19103-6993

Attention : Mr. Jean IRIGOIN

Gentlemen,

Reference is hereby made to that Amended and Restated Agreement of Purchase and Sale in Connection with the Rehabilitation of Executive Life Insurance Company made as of August 7, 1991 among you, John Garamendi, as Insurance Commissioner of the State of California and statutory conservator of Executive Life Insurance Company (the "Conservator"), and ALTUS FINANCE ("Altus") (the "Agreement"), pursuant to which you agree, subject to certain terms and conditions, to cause the Newco Capital Infusion Amount to be contributed and paid into Newco on or before the Closing Date. Unless otherwise defined in this letter, all capitalized terms appearing in this letter shall have the same meaning as the meaning given to them in the Agreement.

Subject to the conditions set forth in the next paragraph, we hereby guarantee the financial performance by you of your obligation to cause the Newco Capital Infusion Amount of up $300,000,000 to be contributed and paid into Newco.

The foregoing guarantee under this letter is conditioned upon your written certification to us that :

1. After reasonable effort you do not have available funds sufficient to satisfy your obligation described in the first paragraph; and

2. all conditions under the Agreement to your performance of such obligation have been satisfied.

If our guarantee is called upon, we shall be fully discharged of our obligations hereunder, and we shall not be obligated thereafter to make further payment under this letter.

This guarantee shall expire on the earliest of (a) the day after le Closing Date, (b) the termination of the Agreement, or (c) March 31, 1992.

18 boulevard des Italiens - 75002 Paris - Tél. (1) 42 95 70 00

EXS. THOMSON

The covenants and the agreements contained in this letter are for your benefit, and they shall not be construed as conferring any rights on any other persons.

If the foregoing accurately reflects our understanding, please sign the enclosed copy of this letter and return it to the undersigned.

CREDIT LYONNAIS

By :

Its : J.Y. HABERER.

LION ADVISORS, L.P.
1999 Avenue of the Stars, Suite 1050
Los Angeles, California 90067
(213) 286-3455

April 20, 1992

Eric Horodas, Esq.
Rubinstein & Perry
222 Kearny, Suite 900
San Francisco, CA 94108

Dear Eric:

Attached is a copy of the extension of the performance guarantee letter from Credit Lyonnais.

Sincerely,

Eric B. Siegel

EBS/js
Enclosure
cc: Mr. Richard Baum
John F. Hartigan, Esq.
Richard J. Maire, Jr., Esq.

FAX Numbers: (213) 286-3433 or 286-3434

Rubinstein & Perry, LLP

MEMORANDUM

TO: Distribution

FROM: Eric D. Horodas, P.C. EDH

DATE: April 22, 1992

RE: Extension of Credit Lyonnais Guarantee

Attached hereto is a letter dated April 14, 1992 from "Le President" of Credit Lyonnais extending the expiration of their $300mm Guaranty to New California Life Holdings, Inc. to June 30, 1992.

DISTRIBUTION:

Richard D. Baum
Karl L. Rubinstein, P.C.
Chris Maisel, P.C.
Dana Carli Brooks, P.C.
Charlie Bronitsky, P.C.
Jeff Karlin, P.C.
Alan Synder
Danny Morrison
Elizabeth Blaett

CREDIT LYONNAIS

LE PRÉSIDENT

April 14, 1992

NEW CALIFORNIA LIFE HOLDING, INC.
c/o MORGAN, LEWIS & BOCKIUS
2000 One Logan Square
PHILADELPHIA, PA 19103-6993
U.S.A.

Attention : Mr. Jean IRIGOIN

Gentelmen,

Reference is made to our letter to you dated November 11, 1991 pursuant to which we agreed to garantee your financial performance of certain obligations (the "Guarantee").

This will confirm our agreement to extend the Guarantee by changing the reference in clause (c) of the description of the expiration date from "March 31, 1992" to "June 30, 1992". Except for this change, all other provisions of the Guarantee shall remain in effect until the expiration of the Guarantee.

CRÉDIT LYONNAIS

By :

Its : J.Y. HABERER

Rubinstein & Perry, LLP
ATTORNEYS-AT-LAW
A Limited Liability Partnership
Comprised of Professional Corporations

Dallas
Los Angeles
Fort Worth
Robert P. Perry (1928-1988)

222 Kearny Street
9th Floor
San Francisco, California 94108
(415) 398-4700
Fax (415) 398-4005

February 11, 1993

Via Facsimile Transmission

Eric Siegel
Apollo Advisors, L.P.
1999 Avenue of the Stars
Suite 1900
Los Angeles, CA 90067

Dear Eric:

In connection with your letter dated January 22, 1993 to Rick Baum regarding the Credit Lyonnais extension, please send the original letter to Rubinstein & Perry, LLP, 222 Kearny Street, 9th Floor, San Francisco, CA 94108, to my attention.

Very truly yours,

Eric D. Horodas, P.C.

EDH:tsp

cc: Richard Baum

APPOLLO

February 11, 1993

Rubinstein & Perry, LLP
222 Kearny Street
9th Floor
San Francisco, CA 94108

Attention: Eric D. Horodas

Dear Eric:

Pursuant to your instruction I enclose herewith the original executed guarantee extension letter.

Sincerely,

Eric B. Siegel

cc: Richard Baum

14.27.54

1999 AVENUE OF THE STARS
SUITE 1900
LOS ANGELES
CALIFORNIA 90067
310 201 4100

CREDIT LYONNAIS

LE PRESIDENT

January 5, 1993

NEW CALIFORNIA LIFE HOLDING, INC.
c/o MORGAN, LEWIS & BOCKIUS
2000 One Logan Square
PHILADELPHIA, PA 19103-6993
U.S.A.

Attention : Mr. Jean IRIGOIN

Gentlemen,

Reference is made to our letter to you dated November 11, 1991 pursuant to which we agreed to guarantee your financial performance of certain obligations (the "Guarantee").

This will confirm our agreement to extend the Guarantee by changing the reference in clause (c) of the description of the expiration date from "March 31, 1992" to "February 28, 1993". Except for this change, all other provisions of the Guarantee shall remain in effect until the expiration of the Guarantee.

CREDIT LYONNAIS

By :

Its : J.Y. HABERER

19 boulevard des Italiens - 75002 Paris - Tél. (1) 42 95 70 00

January 4, 1993

Mr. Richard D. Baum
Chief Deputy Insurance Commissioner
California Department of Insurance
45 Fremont Street, 23rd Floor
San Francisco, California 94105

Dear Rick:

I just wanted to tell you how glad I am that we were able to work out the extension of the ELIC/Aurora transaction and to apologize for any misunderstanding or inconvenience caused by any delays in getting the process finished. While I believe the issues we would have liked to address, especially the moratorium period, are reasonable and appropriate, unfortunately due to the holidays, travel, etc, there was not sufficient time to address all these issues in an appropriate manner.

As part of the extension, as we have discussed, I will after the holidays follow up with Paris regarding expediting the extension of the Credit Lyonnais guaranty letter. I will forward this to you once I have received it. Also, after the holidays, we will be reviewing the status of the investor group. As we have discussed several changes are likely to occur because of the extension beyond December 31, 1992 necessitated by the appellate court. Once we have worked through this process, I will discuss with you further how best to begin the approval processes for the substitute investors we have discussed.

The agenda I see for going forward pending an appellate decision is, first, to continue to work with you, Art and Alan to flush out the potential for a settlement which would allow us to close and begin to pay benefits to policyholdersunder the plan sooner and with greater certainty. Alan appears to have come up with a plan, which if it works for NOLHGA would be a good place to start any settlement negotiations. We should discuss this further next week. Second, we should collectively review and plan for the likely/possible outcomes of an appellate decision. This will prepare us to move quickly if any modifications are required by such appellate decision and allow us to move to a closing as rapidly as possible. I would also like to work with you to discuss with Art, at the appropriate time, extending until March 31, 1992 as well as the moratorium period. We still believe this is the right period for now.

I wish a happy and healthy new year to you and your family. Hopefully this will be the year of the Aurora closing and the end of the long process you have undertaken to restructure ELIC for the benefit of the policyholders and the beginning of a stable future for policyholders.

Sincerely,

Craig M. Cogut

CMC:wc

1999 Avenue of the Stars
Suite 1900
Los Angeles
California 90067
310.201.4190