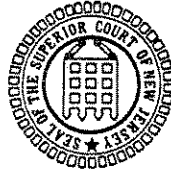


SUPERIOR COURT OF NEW JERSEY
CRIMINAL DIVISION

WILLIAM C. MEEHAN
PRESIDING JUDGE



BERGEN COUNTY JUSTICE CENTER
HACKENSACK, N. J. 07601

June 10, 2008

CIVIL ACTION DECISION

In the Matter of THE LIQUIDATION OF INTEGRITY INSURANCE COMPANY

Docket No.: C-7022-86

INTRODUCTION

This matter is before the Court with David M. Freeman, Esq. and Jennifer D. Pawlak, Esq. of Mazie Slater Katz & Freeman, LLC appearing on behalf of the Commissioner of Banking and Insurance of the State of New Jersey, in his Capacity of Liquidator of Integrity Insurance Company; Timothy Greszler, Esq. of Covington & Burling LLP appearing (via conference call) on behalf of Certain Policyholders of Integrity Insurance Company; Coliln Robinson, Esq. of SAIBER, LLC appearing on behalf of The Celotex Asbestos Settlement Trust; James R. Mattews, Esq. of KEATING MUETHING & KLEKAMP PLL appearing on behalf of The Celotex Asbestos Settlement Trust; Richard Kielbania, Esq. of Riker, Danzig, Scherer, Hyland & Perretti appearing on behalf of Certain Policyholders of Integrity Insurance Company; Jennifer Brennan, Esq. of Gilbert Randolph appearing (via conference call) on behalf of Certain Creditors of Integrity Insurance Company; Carol Carty, Esq. of Morgan, Lewis & Bockius

appearing on behalf of Alco Corporation; Robert D. Chesler, Esq. of Lowenstein Sandler appearing Certain Creditors of Integrity Insurance Company; Cynthia J. Borrelli, Esq. of BRESSLER AMERY & ROSS, P.C. appearing on behalf of the New Jersey Property-Liability Insurance Guaranty Association; and Matthew Wulf, Esq. appearing (via conference call) on behalf of the Reinsurance Association of America.

Before this Court is an application brought on behalf of the New Jersey Commissioner of Banking and Insurance in his capacity as Liquidator (hereinafter "Liquidator") of the Estate of Integrity Insurance Company (hereinafter "Integrity" or "Estate"), seeking this Court's approval of the Liquidation Closing Plan (hereinafter the "LCP" or "Plan"). Certain features of the Plan are objected to by Certain Policyholders represented by Covington & Burling LLP (hereinafter the "Covington Objectors"), the Celotex Asbestos Settlement Trust (hereinafter "Celotex"), the New Jersey Property-Liability Insurance Guaranty Association (hereinafter "NJPLIGA"), Certain Creditors represented by Lowenstein Sandler PC (hereinafter the "Lowenstein Objectors") and Certain Policyholders of Integrity represented by Riker Danzig et al, (hereinafter the "Riker Objectors").

Integrity Insurance Company was a New Jersey stock insurance company that issued various types of insurance policies as well as surety bonds. From 1977 to 1986, Integrity issues, amongst other types of policies, over 25,000 excess and umbrella insurance policies. By order of this Court, on March 24, 1987 Integrity was declared insolvent and the New Jersey Commissioner of Insurance was appointed liquidator. Pursuant to procedures established in N.J.S.A. 17:30C-20 and implemented by an order of this Court dated July 8, 1987, approximately 26,000 claims were filed against the Estate by March 25, 1988, the claim bar date. Pursuant to the Liquidation Act, the Liquidator was directed to liquidate Integrity's liabilities,

marshal its assets, and wind up its business and affairs. This Court appointed Special Masters to facilitate the claims against the Estate by policyholders and creditors who objected to notice of determinations (hereinafter “NOD”) by the Estate.

Many of Integrity’s policies covered large manufacturing companies who were the subject of massive environmental, asbestos and other product liability claims, which claims although incurred, may not be reported for as long as fifty years. The Liquidator devised a plan seeking to resolve the Estate expeditiously while not cutting off those claims that have been incurred but not yet reported (hereinafter “IBNR”). In June of 1996, the Liquidator filed a motion to establish procedures for court approval of the first “Final Dividend Plan” (hereinafter “FDP”). The FDP provided that an actuary would estimate Integrity’s potential obligation on all pending and future claims and then allocate such claims to reinsurers. Following such allocations, reinsurance on the claims would come due, and the Liquidator would resolve all claims of and against the Estate in the FDP, which would expectantly close the Estate in three to five years. In a written opinion dated November 15, 1996, this Court held that the Liquidator had legal authority to estimate the net present value of incurred but not yet known or reported losses and insurer’s pending case reserves on behalf of future claimants and allow such contingent claims to participate in final distribution of assets. See In Re Liquidation of Integrity Ins. Co., 299 N.J. Super. 677 (Ch.Div. 1996).

At that time, numerous reinsurers opposed the approval of the FDP and asserted their purported right to litigate and challenge each claim as it arose demanding that they should not be obligated to pay into a fund for claims that have not materialized. After years of discovery and a three day hearing, this Court in its opinion dated July 21, 2004, granted the Liquidator’s FDP application. This decision was appealed and on October 2, 2006, the Appellate Division

reversed. The New Jersey Supreme Court granted a policyholder's leave to intervene and leave to appeal. The Court later granted the Liquidator's motion for leave to appeal. On December 13, 2007, the New Jersey Supreme Court affirmed the Appellate Division decision, concluding that IBNR claims are not cognizable as "absolute" claims under N.J.S.A. 17:30C-28(a). The Court remanded the matter to this Court for further proceedings.

Subsequent to a remand hearing on January 25, 2008, the Liquidator submitted the LCP for approval. Certain policyholders, creditors and NJPLIGA submitted various objections to the Plan and the Liquidator filed a reply to these objections. Oral argument was heard on May 28, 2008 with counsel for the Liquidator present and counsel for the objectors both present in court or participating via telephonic conference. The Liquidator's application for the LCP is granted for the reasons set forth herein.

OBJECTIONS TO THE LCP

Certain objections by the various parties have been accepted by the Liquidator and the LCP has been amended (hereinafter the "Amended LCP") to embody these changes. The remaining objections fall generally into three categories: 1) scope of the term "absolute claims," 2) LCP final bar date and 3) NJPLIGA procedural safeguards.

I. Scope of the Term "Absolute Claims"

The Covington Objectors point out that the Supreme Court conclusion, like that of the Appellate Division, only addressed IBNR claims. See In re Liquidation of Integrity Insurance Co., 193 N.J. 86 (2007). Thus the Covington Objectors urge that reported claims, referred to as outstanding claims, in which specific claimants and the nature of the claims asserted are known, should be included in the LCP scope of absolute claims. Adopting this expansive definition of absolute claims would require this Court to ignore the reasoning of the Supreme Court's opinion

supporting its conclusion. The Supreme Court began its deliberations at precisely the concept of “absolute.” *Id.* at 94 (“This dispute centers on the meaning of the word “absolute.”) The Supreme Court then determined that the applicable statute, N.J.S.A. 17:30C-28(a) was unambiguous. *Id.* at 95 (“...the Legislature specifically selected which claims would be honored in the insurance company liquidation context. At the outset, the Legislature determined that ‘no contingent claim shall share in a distribution of the assets of an insurer which has been adjudicated to be insolvent.’ [emphasis supplied by the Supreme Court]. Thus, the overarching legislative intent plainly is to bar any contingent claim.” [emphasis in the Opinion]). Notwithstanding the Supreme Court’s limited holding regarding IBNR, its opinion is clear that contingent claims are barred unless they “...become absolute against the insurer on or before the last day fixed for filing of proofs of claim...” *Id.* at 95.

II. LCP Final Bar Date

Both the Riker and Lowenstein Objectors urge this Court to accelerate the final bar date from the June 30, 2009 date submitted by the Liquidator in the LCP. Neither of the Objectors dispute that determination of a final bar date is within the Liquidator’s discretion. The selection of a date approximately one year hence is especially reasonable given the extent of contingent claims in this Estate and the task facing policyholder creditors preparing final proofs of claims as the contingent claims emerge as absolute claims.

III. NJPLIGA Procedural Safeguards - not Added to the Amended LCP

NJPLIGA observes that such safeguards were included in the Liquidator’s FDP and should be included in the LCP. Notably NJPLIGA does not dispute that determination of safeguards, procedural or otherwise, is the province of the Liquidator. This Court is satisfied that

the LCP, a much less complex undertaking than the FDP, provides the essential safeguards for all creditors including NJPLIGA and need not be further augmented.

PROTECTION OF POLICYHOLDERS, INSUREDS AND THE PUBLIC

Finally, and a paramount issue to this Court, is that the Plan affords insureds, claimants, policyholders and the public, protection against the risks they would otherwise be exposed to absent such a Plan. The Integrity Estate has been in existence for over twenty-one years at a cost of more than \$151 million through December 31, 2007. Keeping the Estate open indefinitely and incurring operating costs of administration not only further dilutes distributions to liquidated creditors, but also exposes all creditors to risk of asset diminution through potential market failures. It is this Court's opinion that the Amended LCP provides the necessary safeguards to protect insureds, policyholders and the public and is the best remaining option to close the Estate.

CONCLUSION

For the foregoing reasons, the Liquidator's application is granted and the Amended LCP dated June 5, 2008, is hereby approved.



William C. Meehan, J.S.C.

Dated: June 10, 2008