

**NOTICE TO NEW JERSEY POLICYHOLDERS AND CLAIMANTS OF:
VESTA FIRE INSURANCE CORPORATION
THE SHELBY INSURANCE COMPANY
SHELBY CASUALTY INSURANCE COMPANY
TEXAS SELECT LLOYDS INSURANCE COMPANY
AND
SELECT INSURANCE SERVICES, INC.**

On August 1, 2006, the 126th Judicial District Court of Travis County, Texas (the "Liquidation Court") entered an *Order Appointing Liquidator and Permanent Injunction* declaring insolvent Vesta Fire Insurance Corporation, The Shelby Insurance Company, Shelby Casualty Insurance Company, Texas Select Lloyds Insurance Company and Select Insurance Services, Inc. (the "Vesta/Shelby Companies") pursuant to Tex. Ins. Code §21A.151 *et seq.*, permanently enjoining the Vesta/Shelby Companies or their agents from conducting the business of the Vesta/Shelby Companies pursuant to Tex. Ins. Code §21A.008(a), and enjoining the Vesta/Shelby Companies, their agents, and all other parties from taking action against the Vesta/Shelby Companies or their property (the "Liquidation Order"). As the Liquidation Order contains a final order of insolvency, payments of certain claims of New Jersey residents will be paid by the New Jersey Property-Liability Insurance Guaranty Association (the "Guaranty Association"), which is a private, non-profit, unincorporated legal entity operating to minimize financial loss to certain claimants and certain policyholders when certain insurance companies become insolvent. Prior to this Liquidation Order, on June 28, 2006, the Liquidation Court entered an *Agreed Order Appointing Rehabilitator and Permanent Injunction*, placing the Vesta/Shelby Companies and one other subsidiary, The Vesta Insurance Corporation, into Rehabilitation pursuant to Tex. Ins. Code §21A.101 *et seq.* Under the terms of the Liquidation Order, The Vesta Insurance Corporation remains in Rehabilitation and, to date, the Guaranty Association has assumed no obligations respecting this entity. Creation of the Guaranty Association and the limitations on its protection of policyholders and claimants are governed by N.J.S.A. 17:30A-1 et seq. (the "Guaranty Association Act"), a summary of which is set forth below.

The Liquidation Order: (a) orders the liquidation of the Vesta/Shelby Companies, with the exception of The Vesta Insurance Corporation; (b) appoints the Commissioner of Insurance for the State of Texas as Liquidator of the Vesta/Shelby Companies, except with respect to The Vesta Insurance Corporation, for which the Commissioner remains Rehabilitator; (c) permanently enjoins the Vesta/Shelby Companies and their agents from conducting all business of the Vesta/Shelby Companies; (d) enjoins all other persons and entities from pursuing litigation against the Vesta/Shelby Companies, or from interfering with the Commissioner's efforts to liquidate the Vesta/Shelby Companies; and (e) terminates the Liquidation Court's prior *Agreed Order Appointing Rehabilitator and Permanent Injunction*, except with respect to The Vesta Insurance Corporation.

By virtue of the Liquidation Order's declaration of insolvency, policies and contracts of insurance, other than life insurance, health insurance or annuities, in effect at the time of issuance of the Liquidation Order shall continue in force only until the earlier of: (1) the expiration of the policy coverage; (2) the date when the insured had replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy; (3) August 24, 2006 at 12:01

a.m., the date and time of the Rehabilitator's cancellation of policies issued by the Vesta/Shelby Companies under the authority granted in the *Agreed Order Appointing Rehabilitator and Permanent Injunction*; or (4) the date the Liquidator has effected a transfer of the policy obligations pursuant to Texas law. In addition, an automatic stay of proceedings remains in effect with respect to actions against the Vesta/Shelby Companies for the duration of the liquidation proceedings, and with respect to insureds of the Vesta/Shelby Companies, for 90 days following the date of entry of the *Agreed Order Appointing Rehabilitator and Permanent Injunction* (June 28, 2006).

All policyholders and claimants seeking statutory benefits available through the Guaranty Association must submit their claims to the Liquidator or Guaranty Association by a Bar Date to be set by the Liquidator at a subsequent time in order to be eligible for Guaranty Association protection under the Guaranty Association Act, N.J.S.A. 30A-1, et seq. All interested parties should contact the Liquidator for further information regarding the Bar Date. In the event no Bar Date is set by the Liquidator, then all claims must be submitted to the Guaranty Association within two years from the date of the Order of Liquidation, unless the claimant demonstrates unusual hardship as set forth below.

Pursuant to N.J.S.A. 17:30A-1, et seq., the Guaranty Association hereby notifies all New Jersey insureds of the Vesta/Shelby Companies, all New Jersey residents having claims against such insureds, and any other interested parties of: (a) the determination of insolvency with respect to the Vesta/Shelby Companies, with the exception of The Vesta Insurance Corporation; (b) entry of the Liquidation Order; (c) notice of the injunction against all actions as set forth in the Liquidation Order; and (d) a summary of their rights under the Guaranty Association Act as set forth below.

The Guaranty Association is a private, non-profit, unincorporated legal entity operating to minimize financial loss to certain claimants and certain policyholders when certain insurance companies become insolvent. The Guaranty Association is obligated to the extent of the "covered claims," as defined in the Guaranty Association Act, against an insolvent insurer incurred, in the case of private passenger automobile insurance, prior to or after the determination of insolvency, but before the policy expiration date or the date upon which the insured replaces the policy or causes its cancellation, or in the case of insurance other than private passenger automobile insurance, covered claims against such insolvent insurer incurred prior to or 90 days after the determination of insolvency, or before the policy expiration date, if less than 90 days after said determination, or before the insured replaces the policy or causes its cancellation, if he does so within 90 days of the determination, but such obligation shall include only that amount of each covered claim which is less than \$300,000 and subject to any applicable deductible contained in the policy, except that the \$300,000 limitation shall not apply to a covered claim arising out of insurance coverage mandated by Section 4 of P.L. 1972, c.70 (C. 39:6A-4). Claims which do not constitute "covered claims" pursuant to the Guaranty Association Act may be asserted by the Bar Date against the Liquidator.

IMPORTANT NOTES

THE PROTECTION, IF ANY, AFFORDED BY THE GUARANTY ASSOCIATION ACT TO POLICYHOLDERS AND CLAIMANTS MAY DIFFER FROM COVERAGES SET FORTH IN THE POLICIES ISSUED BY THE INSOLVENT INSURER. THE OBLIGATION OF THE GUARANTY ASSOCIATION SHALL BE LIMITED TO AND SHALL INCLUDE ONLY THAT AMOUNT OF A COVERED CLAIM WHICH IS EQUAL TO OR LESS THAN \$300,000. NOTE, HOWEVER, THAT IF A CLAIM ARISES OUT OF INSURANCE COVERAGE MANDATED BY N.J.S.A. 39:6A-4 (NO FAULT PERSONAL INJURY PROTECTION AUTOMOBILE COVERAGE) THE GUARANTY ASSOCIATION'S OBLIGATION SHALL BE LIMITED TO AND SHALL INCLUDE ONLY THAT PORTION OF THE CLAIM WHICH IS LESS THAN \$75,000. BENEFITS PAID IN EXCESS OF SUCH AMOUNT SHALL BE RECOVERABLE BY THE GUARANTY ASSOCIATION FROM THE UNSATISFIED CLAIM AND JUDGMENT FUND PURSUANT TO N.J.S.A. 17:30A-8(a)(1).

In addition to the foregoing limitations, each “covered claim” is subject to any applicable deductible contained in the policy.

A “covered claim” is defined by the Guaranty Association Act to mean an unpaid claim, including one of unearned premiums, which arises out of and is within the coverage, and not in excess of the applicable limits of any insurance policy to which the Act applies, issued by an insolvent insurer; and

1. the claimant or insured is a resident of New Jersey at the time of the insured event, or
2. the property from which the claim arises is permanently located in New Jersey.

“Covered claims” do not include lines of insurance excluded from coverage by the terms of the Guaranty Association Act. The lines of insurance excluded from the Guaranty Association Act are: life insurance, accident and health insurance, workers’ compensation insurance, title insurance, annuities, surety bonds, credit insurance, mortgage guaranty insurance, municipal bond coverage, fidelity insurance, investment return assurance, ocean marine insurance and pet health insurance. Surplus lines coverages are not protected under the terms of the Guaranty Association Act.

A “covered claim” shall also not include any amount due any reinsurer, insurer, insurance pool, or underwriting association (as subrogation recoveries or otherwise), amounts for interest on unliquidated claims, punitive damages unless covered by the policy, counsel fees for prosecuting suits for claims against the Guaranty Association, and assessments or charges for failure of the insolvent insurer to have expeditiously settled claims, counsel fees and other claim expenses incurred prior to the date of insolvency, and any first party claim by an insured whose aggregate consolidated net worth (*i.e.*, net worth of insured plus that of any and all affiliates) exceeds \$25 million on December 31 of the year prior to the year in which the insurer becomes an insolvent insurer.

A “covered claim” shall also not include a claim filed with the Guaranty Association after any Bar Date set by the Court for the filing of claims against the Liquidator of the Vesta/Shelby Companies, unless the claimant demonstrates unusual hardship and the Commissioner approves of treatment of the claim as a “covered claim.”

Any persons having a “covered claim” which may be recovered from more than one insurance guaranty association or its equivalent shall seek recovery first from the association at the place of residence of the insured at the time of the insured event, except that if there is a first party claim for damage to property with a permanent location, he shall seek recovery first from the association at the location of the property. Any recovery under the Guaranty Association Act shall be reduced by the amount of recovery from any other guaranty association or its equivalent. However, if recovery is denied or deferred by the Guaranty Association, a person may seek recovery from any other insurance guaranty association or its equivalent from which recovery may be legally sought.

Further, in addition to the stay of proceedings provided in the Liquidation Order, the Guaranty Association Act provides that all proceedings in which the insolvent insurer is a party or is obligated to defend a party in any court in this State shall, subject to full or partial waiver by the Guaranty Association in specific cases involving “covered claims,” be stayed for 120 days, and such additional time thereafter as may be determined from the date of the Liquidation Order or any ancillary proceeding initiated in the State, whichever is later, to permit proper defense by the Guaranty Association of all pending causes of action.

Finally, the Guaranty Association requires exhaustion of coverage under solvent insurers’ policies before statutory benefits may be sought from the Guaranty Association under the policy of an insolvent insurer such as the Vesta/Shelby Companies. Any amount otherwise payable on a “covered claim” shall be reduced by the amount of recovery under any solvent insurer’s policy.

For the full provisions of the Guaranty Association Act, reference should be made to N.J.S.A. 17:30A-1 et seq.

All inquiries and communications regarding any “covered claim” arising under a policy of insurance issued by the Vesta/Shelby Companies should be directed promptly to the New Jersey Property-Liability Insurance Guaranty Association’s Claim Office, located at 222 Mount Airy Road, Basking Ridge, New Jersey 07920 (telephone: (908) 382-7100).

BOARD OF DIRECTORS
NEW JERSEY PROPERTY-LIABILITY
INSURANCE GUARANTY ASSOCIATION