

5217; Christopher Haenel v. Reliance Group Holdings, Inc. et al., 00 Civ. 5643; Norman Weiss v. Reliance Group Holdings, Inc. et al., 00 Civ. 5745; Joel Gottlieb and Melvin Goodrich v. Reliance Group Holdings, Inc. et al., 00 Civ. 5840; Ann Salafia v. Reliance Group Holdings, Inc. et al., 00 Civ. 5876; Mortimer Schulman v. Reliance Group Holdings, Inc. et al., 00 Civ. 5897; Gerry Goldstein v. Reliance Group Holdings, Inc. et al., 00 Civ. 5920; Herbert Silverberg v. Reliance Group Holdings, Inc. et al., 00 Civ. 6178; Ira Saul Schmookler v. Reliance Group Holdings, Inc. et al., 00 Civ. 6623 – were filed in this Court and were subsequently consolidated under the above-caption by Order dated September 20, 2000, and are hereinafter collectively referred to as the “Action”;

B. By Order dated October 6, 2000, the Court appointed Reliance stock purchasers Paul Minish, Verde Investments, Inc. and Verde Reinsurance Co., Ltd., and Reliance bond purchasers Donald and Bonnie Lee Siok and Gary Kimmel, as Lead Plaintiffs. The Court also appointed Milberg Weiss Bershad Hynes & Lerach LLP (now known as Milberg Weiss Bershad & Schulman LLP), representing stockholders, and Berger & Montague, P.C., representing bondholders, as plaintiffs’ Co-Lead Counsel;

C. On May 29, 2001, Plaintiffs and the Defendants entered into a Memorandum of Understanding (“MOU”) as an agreement in principle to settle the claims alleged in the Action. Pursuant to the terms of the MOU, the Defendants were obligated to cause their insurance carriers to pay \$17.4 million to the Class (as hereinafter defined) in exchange for a release of the claims against Defendants. The MOU also provided that the Derivative Action (as hereinafter defined) would be dismissed with prejudice;

D. Simultaneously with the execution of the MOU on May 29, 2001, a Settlement Funding and Release Agreement (the “Funding Agreement”) was entered into by Defendants and

Syndicate 1212 at Lloyds of London and other underwriters of certain insurance policies (the “Policies”) held by Reliance and its officers and directors (the “Underwriters”). The Funding Agreement stated that the Underwriters had approved and consented to the terms and conditions of the MOU. Under the Funding Agreement, the Underwriters agreed to fund the entire \$17.4 million settlement out of the Policies (subject to any remaining self-insured retention amount if, as of the date of any settlement payment, no bankruptcy petition had been filed by or against Reliance), in exchange for obtaining a release from liability under the Policies;

E. On May 29, 2001, the Commonwealth Court of Pennsylvania issued an order placing Reliance’s former operating subsidiary, Reliance Insurance Company (“RIC”) in rehabilitation and naming M. Diane Koken, Insurance Commissioner of the Commonwealth Court of Pennsylvania, as Rehabilitator (now Liquidator) of RIC (the “Liquidator”). On June 4, 2001, the Liquidator filed an emergency petition in the Commonwealth Court to block the settlement by requesting that the Commonwealth Court prohibit Reliance and its officers and directors, as well as the Underwriters, from effectuating the MOU and the Funding Agreement;

F. On or about June 12, 2001, Reliance filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The bankruptcy action was filed in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”), under the caption, In re Reliance Group Holdings, Inc. et al., Case No. 01-13404 (AJG) (the “Bankruptcy Action”);

G. On or about July 16, 2001, Lead Plaintiffs filed the Consolidated Amended Class Action Complaint (the “Complaint”). The Complaint generally alleges, among other things, that the Individual Defendants issued false and misleading press releases and other statements regarding Reliance’s financial condition, growth, liquidity and ability to repay and refinance its

debt during the Class Period — February 8, 1999 through and including December 6, 2000 — in a scheme to artificially inflate the value of Reliance's securities;

H. The Complaint further alleges that Lead Plaintiffs and other Class Members purchased Reliance securities during the Class Period at prices artificially inflated as a result of the Defendants' dissemination of materially false and misleading statements regarding Reliance in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder;

I. On September 24, 2003, Plaintiffs filed a motion in this Court to enforce the MOU and the Funding Agreement. By Order, Judgment, and Decree dated July 15, 2004, the Court granted Plaintiffs' motion and directed the parties to the MOU and the Funding Agreement to take all necessary and appropriate actions to effectuate those agreements. The Liquidator filed an appeal of the Court's July 15, 2004 Order in the Second Circuit Court of Appeals;

J. On September 22, 2004, Plaintiffs and the Liquidator executed a letter agreement under which Plaintiffs agreed to reduce the settlement amount from \$17.4 million to \$15 million. In exchange for the reduced settlement, the Liquidator agreed to withdraw her pending appeal in the Second Circuit Court of Appeals. The Liquidator also agreed not to object to the Settlement herein, and she agreed to cooperate in achieving final approval of this Settlement in the Bankruptcy Court. In addition, the Liquidator agreed to arrange for the release of the claims asserted in the Derivative Action (as hereinafter defined);

K. The Defendants deny any wrongdoing whatsoever and this Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Defendants have asserted. The parties to

this Stipulation recognize, however, that the litigation has been filed by Plaintiffs and defended by Defendants in good faith and with adequate basis in fact under Federal Rule of Civil Procedure 11, that the litigation is being voluntarily settled after advice of counsel, and that the terms of the settlement are fair, adequate and reasonable. The Court has made no findings that the Defendants engaged in any wrongdoing or in any wrongful conduct, or have otherwise acted improperly or in violation of any law or regulation in any respect. This Stipulation shall not be construed or deemed to be a concession by any Plaintiff of any infirmity in the claims asserted in the Action;

L. Plaintiffs' Counsel have conducted an investigation relating to the claims and the underlying events and transactions alleged in the Complaint. Plaintiffs' Counsel have researched the applicable law with respect to the claims of Plaintiffs and the Class against the Defendants and the potential defenses thereto;

M. Lead Plaintiffs, by their counsel, have conducted discussions and arm's length negotiations with counsel for Defendants with respect to a compromise and settlement of the Action with a view to settling the issues in dispute and achieving the best relief possible consistent with the interests of the Class;

N. Based upon their investigation as set forth above, Plaintiffs' Counsel have concluded that the terms and conditions of this Stipulation are fair, reasonable and adequate to Plaintiffs and the Class, and in their best interests, and have agreed to settle the claims raised in the Action pursuant to the terms and provisions of this Stipulation, after considering (a) the substantial benefits that Lead Plaintiffs and the members of the Class will receive from settlement of the Action, (b) the attendant risks of litigation, and (c) the desirability of permitting the Settlement to be consummated as provided by the terms of this Stipulation; and

O. The Bankruptcy Action is still pending in the Bankruptcy Court and, pursuant to 11 U.S.C. § 362(a), all actions are stayed against Reliance. Reliance is currently operating its business as a debtor-in-possession. The Official Unsecured Creditors' Committee for Reliance filed with the Bankruptcy Court a Plan of Reorganization and a related Disclosure Statement. The Disclosure Statement was approved, and after notice and a hearing, the Plan of Reorganization has been confirmed by order of the Bankruptcy Court. Among other things, Reliance's Plan of Reorganization provides that the claims in the Derivative Action will be assigned to the RGH Liquidating Trust and are to be administered by a Trustee if and when the Plan of Reorganization becomes effective.

NOW THEREFORE, without any admission or concession on the part of Lead Plaintiffs of any lack of merit of the Action whatsoever, and without any admission or concession of any liability or wrongdoing or lack of merit in the defenses whatsoever by Defendants, it is hereby STIPULATED AND AGREED, by and among the parties to this Stipulation, through their respective attorneys, subject to approval of the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, in consideration of the benefits flowing to the parties hereto from the Settlement, that all Settled Claims (as defined below) as against the Released Parties (as defined below) and all Settled Defendants' Claims (as defined below) shall be compromised, settled, released and dismissed with prejudice, upon and subject to the following terms and conditions:

CERTAIN DEFINITIONS

1. As used in this Stipulation, the following terms shall have the following meanings:
 - (a) "Authorized Claimant" means a Class Member who submits a timely and valid Proof of Claim form to the Claims Administrator.

(b) “Bankruptcy Action” means the action that was filed in the United States Bankruptcy Court for the Southern District of New York, under the caption, In re Reliance Group Holdings, Inc. et al., Case No. 01-13404 (AJG).

(c) “Bankruptcy Court” means the United States Bankruptcy Court for the Southern District of New York.

(d) “Claims Administrator” means the firm of Analytics Incorporated which shall administer the Settlement.

(e) “Class” and “Class Members” mean, for the purposes of this Settlement only, all persons who purchased Reliance common stock and/or Reliance Bonds (as defined below) during the period from February 8, 1999 through and including December 6, 2000. Excluded from the Class are Defendants, members of their immediate families, their legal representatives, heirs, successors, and assigns and persons acting in concert with or under the control of any Defendant, any entity or individual that provided accounting, auditing, actuarial and/or related services to Reliance or to any of its current or former subsidiaries, including but not limited to, Deloitte & Touche LLP, and any of its present or former partners, principals, officers, directors or employees, or its predecessors, successors and/or assigns and Jan A. Lommele, and all former and current senior executive officers of Reliance and members of their immediate families, their legal representatives, heirs, successors, and assigns and persons acting in concert with or under their control. Also excluded from the Class are any putative Class Members who exclude themselves by filing a request for exclusion in accordance with the requirements set forth in the Notice.

(f) “Class Period” means, for the purposes of this Settlement only, the period of time from February 8, 1999 through and including December 6, 2000.

(g) “Defendants” means Reliance, Saul P. Steinberg, Robert M. Steinberg and Lowell C. Freiberg.

(h) “Defendants’ Counsel” means the law firms of: Debevoise & Plimpton on behalf of Reliance; McCarter & English, LLP on behalf of Robert M. Steinberg; Proskauer Rose LLP on behalf of Saul P. Steinberg; and Paul, Weiss, Rifkind, Wharton & Garrison LLP on behalf of Lowell C. Freiberg.

(i) “Derivative Action” means the derivative action, Glen Leibowitz and Harvey Greenfield v. Saul P. Steinberg et al., Index No. 9869/00 (Supreme Court, Westchester County), which was removed to the Bankruptcy Court as Adversary Proceeding No. 01-02829 within the Bankruptcy Action.

(j) “Derivative Defendants” means those individual defendants named in the Derivative Action, including Saul P. Steinberg, George R. Baker, George E. Bello, Lowell C. Freiberg, Thomas P. Gerrity, Jewell Jackson McCabe, Irving Schneider, Bernard L. Schwartz, Richard E. Snyder, Bruce E. Spivey, Howard E. Steinberg, Robert M. Steinberg, James E. Yacobucci and Bruce Sokoloff.

(k) “Derivative Plaintiffs” means Reliance, the Official Unsecured Bank Committee and the Official Unsecured Creditors’ Committee for the Chapter 11 estate of Reliance (the Official Unsecured Bank Committee and the Official Unsecured Creditors’ Committee, together, referred to as the “Committees”), as per the Bankruptcy Court’s January 10, 2002 bench ruling that Reliance and the Committees have exclusive standing to assert the claims in the Derivative Action. To the extent that the effective date under Reliance’s proposed Plan of Reorganization occurs, the claims in the Derivative Action will be assigned to the RGH

Liquidating Trust, to be administered by a "Trustee" and, at that time, the term Derivative Plaintiffs shall mean the Trustee.

(l) "Effective Date" means the date upon which the Settlement contemplated by this Stipulation shall become effective, as set forth in paragraph 24 below.

(m) "Final Order" means an order as to which there is no pending appeal, stay, motion for reconsideration or motion to vacate or similar request for relief, and as to which the period of time for a party to appeal has expired. For purposes hereof if no appeal or motion for reconsideration, to vacate, or for similar relief is filed within thirty-three (33) days after entry of any order contemplated by this Stipulation, the order shall be deemed to be a Final Order.

(n) "Gross Settlement Fund" means the Settlement Amount plus any income or interest earned thereon.

(o) "Koken Settlement" means the settlement of the Koken Action and the settlement documents and court orders related to the settlement of the Koken Action.

(p) "Koken Action" means Koken v. Saul P. Steinberg, et al., 421 M.D. 2002 (Pa. Commw. Ct.).

(q) "Liquidation Court" shall mean the Commonwealth Court of Pennsylvania overseeing the liquidation of RIC.

(r) "Net Settlement Fund" has the meaning defined in paragraph 5 hereof.

(s) "Notice" means the Notice of Pendency of Class Action and Proposed Settlement, Motion for Attorneys' Fees and Settlement Fairness Hearing, which is to be sent to members of the Class substantially in the form attached hereto as Exhibit 1 to Exhibit A.

(t) "Order and Final Judgment" means the proposed order to be entered approving the Settlement substantially in the form attached hereto as Exhibit B.

(u) “Order for Notice and Hearing” means the proposed order preliminarily approving the Settlement and directing notice thereof to the Class substantially in the form attached hereto as Exhibit 2 to Exhibit A.

(v) “Plaintiffs’ Counsel” means Plaintiffs’ Co-Lead Counsel and all other counsel representing Plaintiffs in the Action.

(w) “Plaintiffs’ Co-Lead Counsel” means the law firms of Milberg Weiss Bershad & Schulman LLP and Berger & Montague, P.C.

(x) “Publication Notice” means the summary notice of proposed Settlement and hearing for publication substantially in the form attached as Exhibit 3 to Exhibit A.

(y) “Released Parties” means Defendants and Reliance’s current and former subsidiaries, affiliates, directors, officers, employees, attorneys, Underwriters, insurers, co-insurers, and re-insurers. “Released Parties” does not include any entity or individual that provided accounting, auditing, actuarial and/or related services to Reliance or to any of its current or former subsidiaries, including but not limited to, Deloitte & Touche LLP, and any of its present or former partners, principals, officers, directors or employees, or its predecessors, successors and/or assigns and Jan A. Lommele.

(z) “Reliance Bonds” means Reliance 9% Senior Notes due November 15, 2000 and Reliance 9.75% Senior Subordinated Debentures due November 15, 2003. Reliance Bonds and Reliance common stock are collectively referred to herein as “Reliance Securities.”

(aa) “Settled Claims” means any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law,

rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and unknown claims, (i) that have been asserted in this Action by the Class Members or any of them against any of the Released Parties, or (ii) that could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of or are based upon the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint and relate to the purchase of Reliance Securities during the Class Period. "Settled Claims" does not include (i) any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and unknown claims, against any entity or individual that provided accounting, auditing, actuarial and/or related services to Reliance or to any of its current or former subsidiaries, including but not limited to, Deloitte & Touche LLP, and any of its present or former partners, principals, officers, directors or employees, or its predecessors, successors and/or assigns and Jan A. Lommele, (ii) any claims by Class Members who held Reliance Securities at the time Reliance filed for bankruptcy for recovery against Reliance for payment of principal and interest in any bankruptcy class of bondholders or for equity participation in any bankruptcy class of equity security holders, or (iii) any claims, rights or defenses otherwise falling within the scope of paragraph 43 hereof.

(bb) “Settled Defendants’ Claims” means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, local, statutory or common law or any other law, rule or regulation, including both known claims and unknown claims, that have been or could have been asserted in the Action or any forum by the Defendants or any of them or the successors and assigns of any of them against any of the Lead Plaintiffs, Class Members or their attorneys, which arise out of or relate in any way to the institution, prosecution, or settlement of the Action (except for claims to enforce the Settlement). “Settled Defendants’ Claims” does not include (i) any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether class or individual in nature, including both known claims and unknown claims that Defendants may have against any entity or individual that provided accounting, auditing, actuarial and/or related services to Reliance or to any of its current or former subsidiaries, including but not limited to, Deloitte & Touche LLP, and any of its present or former partners, principals, officers, directors or employees, or its predecessors, successors and/or assigns and Jan A. Lommele, or (ii) any claims, rights or defenses otherwise falling within the scope of paragraph 43 hereof.

(cc) “Settled Insurance Claims” means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, local, statutory or common law or any other law, rule or regulation, including both known claims and unknown claims, that have, can or could have been asserted for (i) coverage under any of the insurance policies issued

