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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

FLINTKOTE COMPANY, et al.,  
Plaintiffs,  
v.  
AVIVA PLC, et al.,  
Defendants.

Case No. [15-cv-01638-SI](#)

**ORDER ON TRUST PAYMENTS,  
APPLICABILITY OF A BOND, AND  
MOTIONS TO SEAL**

Re: Dkt. Nos. 119, 120, 122, 123, 125, 131,  
135, 137, 139, 146

Before the Court are two motions filed by plaintiffs Flintkote Company and The Flintkote Trust (collectively “Flintkote”),<sup>1</sup> asking this Court: (1) to order defendants Aviva PLC, Aviva International Insurance, Ltd., and The Ocean Marine Insurance Company Limited (collectively “Aviva”)<sup>2</sup> to post a bond pursuant to California Insurance Code § 1616; and (2) to order Aviva to comply with its alleged contractual obligations to pay the liquidated value of covered asbestos-related injury claims to Flintkote. Dkt. 120, 123.

Aviva filed its own motion regarding trust payments. Dkt. 119. Aviva’s motion asks this Court for partial summary judgment concerning choice of law and Aviva’s obligation to pay

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<sup>1</sup> Recently Flintkote Company moved this Court to add The Flintkote Trust as a plaintiff. Dkt. 98. This motion was granted. *Flintkote Co. v. Aviva PLC*, No. 15-CV-01638-SI, 2015 WL 9269761, at \*4-5 (N.D. Cal. Dec. 21, 2015). For purposes of this motion, the Court will refer to plaintiffs as “Flintkote” unless specifically referring to The Flintkote Trust.

<sup>2</sup> Defendants are a series of entities identified as the successors to The Commercial Union Assurance Company Ltd. (“CU UK”), a London-based insurance company that issued asbestos liability insurance policies to Flintkote. *Flintkote Co. v. Aviva PLC*, 2015 WL 9269761, at \*2. Recently, defendants moved this Court to substitute The Ocean Marine Insurance Company Limited (“Ocean Marine”) in place of Aviva PLC as the true defendant. Dkt. 97. This motion was denied, and instead Ocean Marine was added as a defendant. Dkt. 107. For purposes of this motion, the Court will collectively refer to defendants as “Aviva.”

1 Flintkote. According to Aviva, its obligation under the policies at issue is limited to paying  
2 Flintkote for the amount Flintkote has actually paid, or does actually pay, to the asbestos  
3 claimants. Dkt. 119-4 at 6.<sup>3</sup> Aviva believes that California law governs this dispute.<sup>4</sup> Dkt. 119-4  
4 at 13-14.

5 For the reasons that follow, the Court DENIES Flintkote’s motion for a declaration of the  
6 parties’ rights regarding trust payments, GRANTS Aviva’s motion for partial summary judgment,  
7 and GRANTS Flintkote’s motion for a bond.

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**BACKGROUND**

10 The parties have a decades-long relationship consisting of multiple legal challenges in a  
11 multitude of arbitral, state, and federal fora. *See Flintkote Co. v. Aviva P.L.C.*, No. CV 13-103-  
12 LPS, 2015 WL 1405922, at \*1 (D. Del. Mar. 25, 2015).

13 In resolving the motions currently before this Court, the Court will: (1) identify the  
14 parties, one of whom is The Flinktkote Trust; (2) examine the operation of The Trust; (3) examine  
15 the Wellington Agreement; (4) examine the 1989 Agreement (the operative agreement between  
16 the parties that was based on the Wellington Agreement); (5) examine the language of the policies  
17 at issue; (6) determine what law to apply to this contract dispute; (7) resolve and order the  
18 appropriate payment obligation; and (8) resolve the issue of whether a bond applies.

19

20 **I. The Parties**

21 The Trust is the result of Flintkote (and related entities) having filed a May 1, 2004 chapter  
22 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware. *Flintkote Co. v.*

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24 <sup>3</sup> The page numbers cited refer to the page numbers generated by ECF.

25 <sup>4</sup> Along with these motions, the parties have filed numerous motions to seal. Dkt. 119,  
26 122, 131, 135, 137, 139, 146. The documents sought to be sealed discuss trial-level and appellate  
27 arbitral proceeding(s), which the parties have stipulated to keep confidential. The Court GRANTS  
28 the administrative motions reflected in Docket Numbers 119, 122, 131, 135, 137, 139, and 146 at  
this time, but may request further briefing on whether and to what extent they should remain under  
seal. .

1 Aviva P.L.C., 2015 WL 1405922, at \*1. Prior to bankruptcy, Flintkote was a Delaware  
2 corporation, headquartered in California, that manufactured and distributed building materials  
3 containing asbestos fibers. Dkt. 110 ¶ 1, 8; *see also Flintkote Co. v. Presley of N. California*, 154  
4 Cal. App. 3d 458, 461 (Cal. Ct. App. 1984) (describing Flintkote as a material dealer in gypsum  
5 wallboard); *see generally Nelson v. Flintkote Co.*, 172 Cal. App. 3d 727 (Cal. Ct. App. 1985).

6 For purposes of this order,<sup>5</sup> Aviva is a London-based insurance company that issued  
7 asbestos liability insurance policies to Flintkote. Dkt. 110 ¶ 12; *Flintkote Co. v. Aviva P.L.C.*,  
8 2015 WL 1405922, at \*1.

9  
10 **II. The Operation of the Trust**

11 The purpose of The Trust is to channel all pending and future asbestos bodily injury  
12 (“ASBI”) claims, then to administer, resolve, and pay those ASBI claims.<sup>6</sup> *Id.*; *see also* Dkt. 121-  
13 3 at § 4.1.2. The Trust will review and pay current and future ASBI claims pursuant to what are  
14 called “Trust Distribution Procedures,” or TDPs. Dkt. 121-3 at § 4.1.2. The TDPs set forth  
15 procedures for processing and paying Flintkote’s share of the value of the claims, with the  
16 intention of paying all claimants over time as equivalent a share as possible of the value of their  
17 claims. Dkt. 121-4 at § 2.1.

18 Under the TDPs, a Flintkote asbestos claimant may seek to recover for one of seven  
19 “disease” categories, designated as “Disease Level I – VII.” *Id.* Claimants who qualify for  
20 payment under the TDPs are to be paid a percentage of the nominal “value” The Trust assigns to  
21 their claims. *Id.* at §§ 2.3, 4.1., 4.2, 5.1(c). For example, the nominal “Scheduled Values” for  
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23 <sup>5</sup> *See supra* text accompanying note 2.

24 <sup>6</sup> The Trust recently achieved confirmation of its plan of reorganization pursuant to section  
25 524(g) of the Bankruptcy Code. According to the confirmation order and the plan’s terms, the  
26 plan went into effect on September 30, 2015 and began paying ASBI claims. Dkt. 110 at ¶ 29; *In*  
27 *re Flintkote Co.*, No. 04-11300 (MFW), 2015 WL 4762580 (Bankr. D. Del. Aug. 12, 2015).  
28 Section 524(g) is “unique to the asbestos context. It provides a mechanism for consolidating  
asbestos-related assets and liabilities of a debtor into a single trust for the benefit of present and  
future asbestos claimants. . . . Section 524(g) authorizes the bankruptcy court to enter a  
‘channeling injunction’—channeling claims to the trust—to prevent claimants from suing the  
debtor.” *In re Thorpe Insulation Co.*, 671 F.3d 1011, 1015 (9th Cir. 2012).

1 claimants electing the Expedited Review Process<sup>7</sup> range from \$650 for asbestosis/pleural disease  
2 (Level I) to \$184,000 for mesothelioma (Level VII). *Id.* at § 5.3(a)(3). Claims evaluated under  
3 the Individual Review Process are subject to “Maximum Values” ranging from \$650 to \$450,000.  
4 *Id.* at § 5.3(b)(3). Regardless of the nominal values assigned to a claim, The Trust’s obligation to  
5 pay a qualifying claim is limited and determined by what is called the “payment percentage.” *Id.*  
6 at § 2.3, 4.1, 4.2. For example, if The Trust assigns a claim a nominal value of \$184,000 but the  
7 payment percentage is 8%, the amount that The Trust is obligated to pay the claimant is \$14,720.  
8 *Id.* at § 4.2, 4.3; *see also* Dkt. 121 at ¶ 10 (setting forth payment percentage).

9 The present dispute between the parties concerns what Aviva is obligated to pay Flintkote.  
10 Aviva argues that its indemnity obligation is to pay the payment percentage or, as Aviva  
11 characterizes it, what The Trust “actually pays” to the asbestos claimants. Dkt. 119-4 at 13; *see*  
12 *also* Dkt. 119-7 at 2. Flintkote argues that Aviva must honor its pre-bankruptcy coverage  
13 obligations with respect to the ASBI claims and pay the full liquidated value of the claims,  
14 because according to Flintkote “it is a fundamental legal principle that an insurer cannot profit  
15 from the insolvency of its insured.” Dkt. 120 at 16.

16 Flintkote argues that recovering the full liquidated value amount from Aviva would  
17 ultimately lead to a greater recovery for claimants. Flintkote highlights language in the TDPs that  
18 it contends would allow for this increased recovery. The TDPs provide that:

19 The Initial Payment Percentage shall be set . . . after the Trust is established by the  
20 Trustees, the Trust Advisory Committee (“TAC”) and the Legal Representative for  
21 Future Asbestos Claimants (“Future Claimants Representative”) . . . The Initial  
22 Payment Percentage will be calculated on the assumption that the Average Values  
23 . . . will be achieved with respect to existing present claims and projected future  
24 claims involving Disease Levels III-VII. The Payment Percentage *may* thereafter  
25 be adjusted upwards or downwards from time to time . . . with the consent of the  
26 TAC and the Future Claimants Representative to reflect then-current estimates of  
27 the Trust’s assets and liabilities, as well as the then-estimated value of pending and  
28 future claims. . . . *If* the Payment Percentage is increased over time, claimants  
whose claims were liquidated and paid in prior periods under the TDP *may* receive  
additional payments. . . . Because there is uncertainty in the prediction of both the

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<sup>7</sup> The Expedited Review Process, according to the TDPs, “is designed primarily to provide an expeditious, efficient and inexpensive method for liquidating all Trust Claims . . . where the claims can easily be verified by the Trust as meeting the presumptive Medical/Exposure Criteria for the relevant Disease Level.” Dkt. 121-4 at § 5.3(a)(1).

1 number and severity of future claims, and the amount of the Trust's assets, *no*  
2 *guarantee* can be made of any Payment Percentage of a Trust Claim's liquidated  
3 value.

4 Dkt. 121-4 at § 2.3 (emphasis added).

5 In other words, the TDPs contemplate that the payment percentage *may* change, as the initial  
6 percentage assumes a number of factors, such as the number of claimants, the types and number of  
7 diseases ranging in severity, and the available assets. And *if* the payment percentage does change,  
8 earlier claimants who were paid less *may* be entitled to a higher payment. Notably, the TDPs are  
9 careful to point out that *no guarantee* can be made of higher payment amounts. Section 4.2 of the  
10 TDPs provides that,

11 No less frequently than once every three (3) years . . . the Trustees *shall* reconsider  
12 the then applicable Payment Percentage to assure that it is based on accurate,  
13 current information and *may*, after such reconsideration, change the Payment  
14 Percentage if necessary, with the consent of the TAC and the Future Claimants  
15 Representative. . . . The Trustees must base their determination of the Payment  
16 Percentage on then-current estimates of the number, types, and values of present  
17 and future Trust Claims, the value of the assets then available to the Trust for their  
18 payment, all anticipated administrative and legal expenses, and any other material  
19 matters that are reasonably likely to affect the sufficiency of funds to pay a  
20 comparable percentage of full liquidated value to all holders of Trust Claims.

21 Dkt. 121-4 at § 4.2 (emphasis added).

22 Flintkote seizes on the “shall” language italicized above and asserts that if it is able to secure  
23 additional revenue from insurers such as Aviva, “it *must* apply those proceeds to the benefit of  
24 claimants.” Dkt. 120 at 27.

25 In further support of this assertion Flintkote points to section 4.3 of the TDPs, which states:

26 If the Trust successfully resolves an insurance coverage dispute or otherwise  
27 receives a substantial recovery of insurance proceeds, the Trust *shall* use those  
28 proceeds first to *maintain* the Payment Percentage then in effect. . . . *If* the  
Trustees, with the consent of the TAC and the Future Claimants Representative,  
make a determination to increase the Payment Percentage due to a material change  
in the estimates of the Trust's future assets and/or liabilities, the Trustees shall also  
make supplemental payments to all claimants who previously liquidated their  
claims against the Trust and received payments based on a lower Payment  
Percentage.

Dkt. 121-4 at § 4.3 (emphasis added); *see* Dkt. 120 at 27-28.

Importantly, the above language mandates only that insurance proceeds must first go to  
maintain or stabilize the payment percentage. Contrary to Flintkote's representations, the Court  
does not interpret the above provision to mean that there is a direct “link between insurance

1 recoveries and claimant payments.” Dkt. 120 at 28. It is clear that the Trustees still exercise  
2 discretion, based on a series of external factors, when deciding whether to adjust the payment  
3 percentage.

4  
5 **III. The Wellington Agreement, the Asbestos Claims Facility, and the Parallel  
6 Arbitration**

7 In order to resolve what Aviva must pay Flintkote the Court must consider the original  
8 agreements entered into by Flintkote, as well as the policies at issue.

9 In the 1980s, Flintkote, like many other producers of asbestos products, was engaged in  
10 coverage litigation with general liability insurers. *See Flintkote Co. v. Gen. Acc. Assur. Co. of*  
11 *Canada*, No. C04-01827 MHP, 2008 WL 3270922, at \*9 (N.D. Cal. Aug. 6, 2008). A large part  
12 of this industry-wide litigation ended when a number of parties reached a negotiated settlement,  
13 commonly referred to as the Wellington Agreement. *Id.* This accord, signed in 1985 by numerous  
14 manufacturers and their insurers — including Flintkote and some of its insurers, not including  
15 Aviva — resolved persistent contribution and indemnity issues, thereby allowing for joint  
16 representation in thousands of pending asbestos-related lawsuits. *Id.* The Wellington Agreement  
17 provided for the creation of the Asbestos Claims Facility to analyze, defend and settle pending and  
18 future asbestos-related bodily injury claims referred to it by participating former asbestos  
19 producers. *Id.* The Asbestos Claims Facility jointly defended its members until it dissolved in  
20 1988. Dkt. 121 at 3; *see also In re Complex Asbestos Litig.*, 232 Cal. App. 3d 572, 581 (Cal. Ct.  
21 App. 1991).

22 Following the Facility’s dissolution, Flintkote continued to defend its own claims. Dkt.  
23 121 at ¶ 5. The Wellington Agreement continued to bind its signatories, despite the Facility’s  
24 dissolution. *See generally* Dkt. 119-7. Currently, Wellington Agreement signatories (including  
25 Flintkote) are engaged in a parallel arbitration to decide, among other matters, virtually the same  
26 question presented in this dispute: whether insurers are obligated to pay Flintkote the full  
27 liquidated value of the claims, or the trust payment percentage. *Id.* at 2. The insurers in the  
28 arbitration are responsible for a share of the policies that are at issue in the present dispute; that is,  
Aviva subscribed to only a portion of the policies at issue here; the balance of those policies are

1 being arbitrated in the parallel Wellington Agreement arbitration. Dkt. 110 at ¶ 12, 13, 19, 23, 25.

2 The Wellington Agreement is important for the present dispute for three reasons. First, its  
3 parallel arbitration provides insight into how an independent forum would resolve the same issue.  
4 Second, the policies at issue do not contain a choice of law provision, so the parties (and the  
5 arbitrator in the parallel proceeding) have looked to the Wellington Agreement, which provides:  
6 “All disputes concerning the validity, interpretation and application of the Agreement or the  
7 Appendices hereto, or any provision thereof, and all disputes concerning issues within the scope of  
8 the Agreement shall be determined in accordance with applicable common law of the states of the  
9 United States.” Dkt. 121-2 at § XXII(2); *see also* Dkt. 119-7 at 3; Dkt. 120 at 15. Third, Flintkote  
10 claims that the 1989 Agreement between Flintkote and Aviva (as explained in more detail below)  
11 incorporated many of the Wellington Agreement provisions, including the choice of law  
12 provision, as well as the promise that “each Subscribing Insurer shall waive and permanently  
13 abandon and shall not assert or apply any conditions or defenses based upon, or exclusionary  
14 provisions contained in, insurance policies, which defenses or provisions have the effect of  
15 reducing or denying insurance coverage available[.]” *See* Dkt. 121-2 at § VIII(5); *see also* Dkt.  
16 120 at 9, 10, 20. Flintkote supports this assertion by pointing to the 1989 Agreement’s language  
17 of incorporation, which states that “[Aviva] shall afford to Flintkote all of the rights and  
18 obligations afforded to Subscribing Producers by Subscribing Insurers in the Wellington  
19 Agreement subject to the provisions of this Agreement. All interpretations of this Agreement shall  
20 be consistent with interpretations of the Wellington Agreement as adopted by the Facility.” Dkt.  
21 120 at 18 (referencing Dkt. 121-1 at Article IV.).

22  
23 **IV. The 1989 Agreement**

24 Aviva did not immediately subscribe to the Wellington Agreement, but entered into a  
25 separate settlement agreement with Flintkote in 1989 incorporating many Wellington Agreement  
26 provisions (“the 1989 Agreement”). Dkt. 107 at 2; Dkt. 121 at ¶ 3; Dkt. 121-1. The 1989  
27 Agreement provided for litigation, as opposed to the Wellington Agreement’s binding arbitration  
28 procedure, which partially explains why this dispute is pending in federal court. Dkt. 107 at 2-3.

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2 **V. The History of the Present Filing**

3 Flintkote has been litigating with Aviva for decades regarding the scope of coverage and  
4 the rights and obligations of the parties under the settlement agreement reached in 1989. *Flintkote*  
5 *Co. v. Aviva P.L.C.*, 2015 WL 1405922, at \*1. Flintkote filed for chapter 11 bankruptcy  
6 protection in 2004. Dkt. 110 at ¶ 26; Dkt 121 at 3. From 2006 to 2012, Flintkote and Aviva  
7 mediated their coverage disputes. *Flintkote Co. v. Aviva P.L.C.*, 2015 WL 1405922, at \*1.  
8 Following an impasse, on December 24, 2012, Aviva moved the Delaware Bankruptcy Court to  
9 lift the automatic stay imposed by 11 U.S.C. § 362(d), intending to file suit for declaratory relief in  
10 the Northern District of California. *Id.* One week before the scheduled hearing on Aviva’s motion  
11 to lift the stay, Flintkote preemptively filed for identical declaratory relief in Delaware District  
12 Court. *Id.* Flintkote then filed a motion to compel arbitration. *Id.* Aviva filed a motion to  
13 dismiss or, in the alternative, to transfer venue. *Id.* The Delaware District Court granted  
14 Flintkote’s motion to compel arbitration and dismissed as moot Aviva’s motion for summary  
15 judgment and motion to dismiss or transfer. *Id.* The Third Circuit Court of Appeals reversed the  
16 district court’s order. *Id.* Aviva thereupon renewed its motion to dismiss or transfer venue in the  
17 Delaware District Court. *Id.*

18 The Delaware District Court examined the record and found that Flintkote engaged in an  
19 anticipatory filing that merited departure from the first-filed rule, *id.* at 2, which provides that “[i]n  
20 all cases of concurrent jurisdiction, the court which first has possession of the subject must decide  
21 it.” *See Crosley Corp. v. Hazeltine Corp.*, 122 F.2d 925, 929 (3d Cir. 1941). In support of its  
22 departure from the rule, the court found that: (1) Flintkote “undeniably” had knowledge of Aviva’s  
23 intent to file an action adjudicating the same issues in the Northern District of California; and (2)  
24 Flintkote first-filed in Delaware to avoid the California decision *Fuller-Austin Insulation Co. v.*  
25 *Highlands Ins. Co.*, 135 Cal. App. 4th 958 (Cal. Ct. App. 2006) (“*Fuller-Austin*”) — a case  
26 adverse to Flintkote’s interests which will be discussed in greater detail below. *Flintkote Co. v.*  
27 *Aviva P.L.C.*, 2015 WL 1405922, at \*5. The Delaware District Court transferred this case to this  
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1 Court.<sup>8</sup> *Id.*

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3 **VI. The Policies**

4 All of the insurance contracts at issue use substantively identical language in their insuring  
5 agreements, stating that the subscribing insurers will: “indemnify the Assured for all sums which  
6 the Assured shall be *obligated to pay* by reason of the liability . . . (a) imposed upon the Assured  
7 by law . . . for damages on account of: (i) Personal injuries[.]” Dkt. 125 at Exs. E-1 at  
8 LON\_052221; E-2 at LON\_052371; E-3 at LON\_052438; Ex. E-4 at LON\_052701; E-5 at  
9 LON\_052866; E-6 at LON\_052912; E-7 at LON\_052972 (emphasis added). The policies are also  
10 “subject to the same terms, definitions, exclusions and conditions (except as regards the premium,  
11 the amount and limits and except as otherwise provided herein) as are contained in or as may be  
12 added to the Underlying Umbrella Policies[.]” Dkt. 125 at Exs. E-1 at LON\_052222; E-2 at  
13 LON\_052372; E-3 at LON\_052439; E-4 at LON\_052703, E-5 at LON\_052868; E-6 at  
14 LON\_052914; E-7 at LON\_052974.

15 The underlying umbrella policies provide: “The Company will pay on behalf of the Insured  
16 all sums which the Insured shall be *obligated to pay* . . . by reason of the liability imposed upon  
17 the Insured by law . . . for damages on account of [A.] Personal Injuries[.]” Dkt. 125 at Exs. E-8  
18 at LON\_053047; E-9 at LON\_053078 (emphasis added). The underlying umbrella policies further  
19 provide that “[t]he Company shall only be liable for ultimate net loss in excess of . . . the limits of  
20 the underlying insurance in respect of each occurrence covered by the underlying insurances[.]”  
21 Dkt. 125 at Exs. E-8 at LON\_053074; E-9 at LON\_053079.

22 “Ultimate net loss” is defined as: “[T]he total sum which the Assured, or any company as  
23 his insurer, or both, become *obligated to pay* by reason of personal injury, property damage or  
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25 <sup>8</sup> The Court observes that the Delaware District Court found it “unnecessary” and  
26 “premature” to “decide whether California law applies to the underlying insurance dispute, or how  
27 the choice of law doctrines differ between California and Delaware.” *See Flintkote Co. v. Aviva*  
28 *P.L.C.*, 2015 WL 1405922, at \*3 n.3. The court was careful to point out, however, that “Flintkote  
has identified California law as being unfavorable to its position, and seeks to avoid that forum in  
order to reduce the possibility that the adverse law will apply.” *Id.*

1 advertising liability claims, either through adjudication or compromise[.]” Dkt. 125 at Ex. E-8 at  
2 LON\_053051; see also Ex. E-9 at LON\_053083-84 (emphasis added).

3

4 **VII. Other Issues Not Decided By Present Order**

5 Both parties seek guidance from the Court on what Aviva is obligated to pay Flintkote.  
6 Other collateral issues, such as whether the policies are “pay first” policies and the timing of the  
7 payment obligation, have not been fully briefed by the parties and will not be decided in the  
8 present order. *See* Dkt. 120 at 13 (summarizing the parties’ dispute and Flintkote’s requested  
9 relief, not including a discussion of timing); Dkt. 148 at 12 (no meaningful discussion in  
10 Flintkote’s reply brief); Dkt. 119-4 at 28 (Aviva devotes one paragraph of discussion to the issue).  
11 If necessary, the parties may seek resolution of these issues at a later time in a separate motion.  
12 Further, the Court agrees with the arbitrator in the parallel Wellington Arbitration, *see* dkt. 119-7  
13 at 2-3, 5 n.4, that the questions of how the payment of defense costs impacts the remaining policy  
14 limits and whether certain trust expenses are covered defense costs, are issues for later resolution.  
15 *See also* Dkt. 135-5 (arbitrator’s ruling on defense costs issue). These issues are largely irrelevant  
16 to the “obligated to pay” issue. Dkt. 137-4 at 7-8, 26; Dkt. 146-5 at 15-17, 19.

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**LEGAL STANDARD**

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Choice of law determinations, as well as contract interpretation issues, are pure legal  
questions well-suited to summary judgment. *See Shannon-Vail Five Inc. v. Bunch*, 270 F.3d 1207,  
1210 (9th Cir. 2001); *TH&T Int’l Corp. v. Elgin Indus., Inc.*, 216 F.3d 1084 (9th Cir. 2000).  
Summary judgment is proper “if the movant shows that there is no genuine dispute as to any  
material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a).  
The moving party bears the initial burden of demonstrating the absence of a genuine issue of  
material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). The moving party, however,  
has no burden to disprove matters on which the nonmoving party will have the burden of proof at  
trial. *Id.* at 325. The moving party need only demonstrate to the Court that there is an absence of  
evidence to support the non-moving party’s case. *Id.*



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**I. California Law Applies to this Contract Dispute**

**A. The Fuller-Austin Case**

This Court must determine which law — California, Delaware, or some other — applies to this case. In the pages which follow, the Court will evaluate the choice of law issues. For clarity, however, the Court will provide at this point a description of the primary California case which the parties either desire to use, or desire to avoid, *Fuller-Austin Insulation Co. v. Highlands Ins. Co.*, 135 Cal. App. 4th 958 (Cal. Ct. App. 2006).<sup>9</sup> *Fuller-Austin* examined the effect of an insured’s bankruptcy under 11 U.S.C. § 524(g) on an excess insurer’s payment obligations. *Id.* at 966. As in the present case, the court was tasked with deciding how to interpret policies that indemnified Fuller-Austin for amounts the insured was “obligated to pay” by law. *Id.* at 997.

In reaching its decision, the court reasoned that “only section 524(g) permits an entity to shield itself from asbestos liability by diverting not only present, but also future or unknown claimants, to a limited fund for payment.” *Id.* at 996. Pursuant to this bankruptcy shield, the court found that the liquidated value of the claims set by the Fuller-Austin Trust “serve[d] only as a model of what would be paid under the best case scenario, assuming that the payment sum percentage reached 100 percent.” *Id.* at 997. The court determined that the trial court improperly relied on public policy considerations when it concluded that appellants were required to indemnify Fuller-Austin for the liquidated value amount set by the trust. *Id.* The court was careful to note that, “While premising appellants’ indemnity obligations on the basis of a best case scenario may comport with a strong public policy to compensate victims of asbestos exposure, public policy may not be used to redefine the scope of coverage.” *Id.* Instead that court held that the insurer’s obligation was the payment percentage set by the trust — what the trust actually paid to claimants. *Id.* The court noted that there was no assurance in the plan and no requirement that the trustees would *upwardly adjust* the payment sum percentage on the basis of the trust’s increased assets provided by the insurance proceeds. *Id.* at 998.

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<sup>9</sup> *Fuller-Austin* is the elephant in the room for the choice of law discussion. Wikipedia, *Elephant in the Room*, [https://en.wikipedia.org/wiki/Elephant\\_in\\_the\\_room](https://en.wikipedia.org/wiki/Elephant_in_the_room) (as of Apr. 4, 2016, 22:52 GMT). See also *United States v. Yazzen*, 187 F. App’x 800, 802 n.1 (10th Cir. 2006).

1           Whether and to what extent the *Fuller-Austin* applies here will be considered at more  
2 length below.

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4           **B.       Choice of Law Analysis**

5           The parties appear to agree that the Wellington Agreement’s choice of law provision  
6 provides the basis upon which the Court must adjudicate this dispute. Dkt. 120 at 15; Dkt. 137-4  
7 at 11. That provision states: “All disputes concerning the validity, interpretation and application  
8 of the Agreement or the Appendices hereto, or any provision thereof, and all disputes concerning  
9 issues within the scope of the Agreement shall be determined in accordance with applicable  
10 common law of the states of the United States.” Dkt. 121-2 at § XXII(2).

11           Flintkote argues that this “applicable common law of the states of the United States”  
12 language should be interpreted to mean that this Court can rely on “generally applicable contract  
13 interpretation rules that apply to insurance policies.” Dkt. 120 at 14. But as Aviva correctly  
14 points out, there is no such thing as a “national common law,” a “federal general common law,” or  
15 “prevailing law.” *See Erie R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938) (“Except in matters  
16 governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is  
17 the law of the state. . . . There is no federal general common law.”).

18           Flintkote attempts to avoid this conclusion by arguing that there is no conflict of laws at  
19 all, as “every court faced with Flintkote’s Policies, Agreements and circumstances agrees that the  
20 insurer must pay the full Liquidated Value.” Dkt. 120 at 14. But a closer look at the cases cited in  
21 support of this argument reveals that only two federal trial courts, adopting a pre-*Fuller-Austin*  
22 approach as announced by the Seventh Circuit, have reached a contrary result.<sup>10</sup> *See* Dkt. 120 at  
23 13-14, 21-22; Dkt. 139-5 at 11.

24           The Seventh Circuit case was *UNR Indus., Inc. v. Cont’l Cas. Co.*, 942 F.2d 1101 (7th Cir.  
25 1991) (“*UNR*”). *UNR* was a bankrupt asbestos manufacturer and Continental Casualty Company

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27           <sup>10</sup> Flintkote also cites a Texas state court decision, *Swan Transp. Co. v. Highlands Ins. Co.*,  
28 No. D-1-GN-07-004027 (Travis Cty., Tex. D. Ct. 2010), but does not discuss it at all. Dkt. 120 at  
21.

1 (“Continental”) was its excess insurer. *Id.* at 1103-04. Notably, the court determined that state  
 2 law — in that case, Illinois law — controlled the outcome of the dispute. *Id.* The court reasoned  
 3 that, given its bankruptcy, UNR had suffered a “loss” within the meaning of the Continental  
 4 policy. *Id.* at 1105. The court concluded that Continental could not pay UNR the payment  
 5 percentage the UNR bankruptcy trust actually paid to claimants because such a result would run  
 6 afoul of a bankruptcy provision contained in the policy and Illinois law. *Id.*

7 Following *UNR* was *ARTRA 524(g) Asbestos Trust v. Fairmont Premier Ins. Co.*, No. 09-  
 8 CV-458, 2011 WL 4684356 (N.D. Ill. Sept. 30, 2011) (“*ARTRA*”). In *ARTRA*, the court found that  
 9 the policy was governed by Illinois law and applied the holding in *UNR* to require the insurer to  
 10 indemnify the insured for the “full” amount of the loss claimed rather than the “discounted”  
 11 amount of the bankruptcy estate’s payments. *Id.* at \*1. In doing so the Court explicitly discussed  
 12 how *Fuller-Austin* was “inapplicable to the present proceeding” because it was “a California  
 13 court’s application of California law.” *Id.*

14 Most recently was the case *Nat’l Union Fire Ins. Co. of Pittsburgh, PA v. Porter Hayden*  
 15 *Co.*, No. CIV. CCB-03-3408, 2012 WL 734176 (D. Md. Mar. 6, 2012) (“*Porter Hayden*”). In  
 16 *Porter Hayden*, the court was careful to discuss the application of Maryland law in reaching its  
 17 conclusion. *Id.* at \*1-\*2, \*4. The court also distinguished its decision from *Fuller-Austin*, noting  
 18 that *Fuller-Austin* “[did] not have precedential value.” *Id.* at \*2.

19 Unfortunately for Flintkote, *UNR*, *ARTRA*, and *Porter Hayden* do not have precedential  
 20 value in this Court either. This Court accords weight to the final, “Phase I” rulings of the  
 21 arbitrator in the parallel Wellington Agreement proceedings,<sup>11</sup> who noted that he did not “see a  
 22 reference to ‘majority’ rule in the [operative] words ‘applicable common law of the states,’ but  
 23

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24 <sup>11</sup> The Court observes that Flintkote filed the arbitrator’s *preliminary* views on the matter,  
 25 representing that they were “the arbitrator’s Memorandum to the File issued in [this] arbitration.”  
 26 Dkt. 139-2 at ¶ 4; Dkt. 139-4. In that preliminary document, the arbitrator determined that  
 27 Delaware law was the applicable law to govern the dispute. Dkt. 139-4 at 3. In its oral argument  
 28 before this Court, as well as in its briefing, Flintkote neglected to mention that in the *final* Phase I  
 rulings the arbitrator clearly stated: “*Fuller-Austin* is not as easily distinguishable from the instant  
 dispute as I thought when I provided counsel with a memorandum of my preliminary views  
 shortly after the November hearing,” ultimately concluding that “the rationale of the *Fuller-Austin*  
 court’s decision . . . is applicable here as well.” Dkt. 119-7 at 4.

1 rather a requirement that [he] decide *which* state law applies.” Dkt. 119-7 at 3 (emphasis in  
 2 original). Notably, over a four-day hearing, the arbitrator determined that California law applies  
 3 to that dispute. *Id.* at 2. He reasoned that California law “provide[s] the best fit for the facts and  
 4 context of th[e] case,” and cited the factors present in the Restatement (Second) of Conflict of  
 5 Laws § 188, specifically “protection of justified expectations,” and “certainty, predictability and  
 6 uniformity of result.” *Id.*

7 The Court’s own conflict of laws analysis compels the same result. In diversity cases, such  
 8 as this one, federal courts must apply the conflict of laws principles of the forum state.<sup>12</sup> *Klaxon*  
 9 *Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 496 (1941). Any choice of law analysis necessarily  
 10 begins with the presumption that the Court will first look to the law of its own forum. *See Isuzu*  
 11 *Motors Ltd., Consumers Union of U.S., Inc.*, 12 F. Supp. 2d 1035, 1043 (C.D. Cal. 1998)  
 12 (reasoning that the law of the forum generally applies unless a party timely invokes the law of a  
 13 foreign state). “If only one state has a legitimate interest in the application of its law, there is no  
 14 real problem; the law of the interested state should control.” *Rosenthal v. Fonda*, 862 F.2d 1398,  
 15 1402 (9th Cir. 1988) (citing *Hill v. Hill*, 193 Cal. App. 3d 1118 (Cal. Ct. App. 1987)).

16 California courts apply two different choice of law tests when examining a contract, one  
 17 statutory, and the other a common law governmental interest test. *Frontier Oil Corp. v. RLI Ins.*  
 18 *Co.*, 153 Cal. App. 4th 1436, 1459 (Cal. Ct. App. 2007), *as modified* (Sept. 5, 2007). Under the  
 19 governmental interest analysis, courts first determine whether there is a conflict between the law  
 20 of potentially concerned jurisdictions. *Id.* at 1454. If there is no conflict, courts may apply  
 21 California law. *Id.* In the event of conflict, courts examine the interest of each jurisdiction in

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22  
 23 <sup>12</sup> Flintkote argues that Delaware’s choice of law rules apply to this transferred case. *See*  
 24 *Muldoon v. Tropitone Furniture Co.*, 1 F.3d 964, 965 (9th Cir. 1993) (“[W]here such a transfer is  
 25 granted at the behest of a defendant, the transferee court must follow the choice-of-law rules of the  
 26 transferor court.”). This principle plainly does not apply when a plaintiff (here, Flintkote) first  
 27 filed in the transferor court (Delaware) to avoid the application of the law of the transferee court  
 28 (this Court). *Cf. Atl. Marine Const. Co. v. U.S. Dist. Court for W. Dist. of Texas*, 134 S. Ct. 568,  
 582-83 (2013) (rejecting the rule that the law of the court in which the plaintiff inappropriately  
 filed suit should follow the case, because, “[n]ot only would it be inequitable to allow the plaintiff  
 to fasten its choice of substantive law to the venue transfer, but it would also encourage  
 gamesmanship”). The Delaware District Court identified Flintkote’s forum shopping behavior  
 when it transferred this case to this Court. *Flintkote Co. v. Aviva P.L.C.*, 2015 WL 1405922, at \*5.

1 having its own law applied to a particular dispute and engage in a “comparative impairment  
2 analysis” to determine which jurisdiction has a greater interest or more significant impairment if  
3 its own laws are not applied. *Id.* at 1454-55. The court must apply the law of the jurisdiction  
4 whose interest would be more significantly impaired if its laws were not applied. *Id.* at 1455.

5 Here, Flintkote first argues that there is no conflict of laws, a premise the Court rejects,<sup>13</sup>  
6 and then argues, in effect, that *anything but* California law applies. Dkt. 120 at 9, 23-30; Dkt. 148  
7 at 13. To this end, Flintkote suggests that Delaware has a more compelling interest in this case  
8 than California because Delaware is the state of its incorporation and provides “the controlling law  
9 of The Trust.” Dkt. 120 at 15; *see also* Dkt. 139-5 at 16-20. The Court finds this argument  
10 unpersuasive for two reasons.

11 First, the dispute here concerns the interpretation of a payment obligation in insurance  
12 contracts entered into by the parties that significantly predate Flintkote’s bankruptcy and the  
13 creation of the resulting trust. How much Aviva is “obligated to pay” Flintkote has little to do  
14 with the Delaware law controlling The Trust’s operation. Rather, the Court must decide what law  
15 it should apply to interpret the *underlying* insurance contracts’ payment obligation in light of  
16 Flintkote’s bankruptcy and the payment percentage now paid to claimants.

17 Second, Flintkote unsuccessfully attempted to sway the Delaware District Court to keep  
18 this case before it on similar grounds, arguing that Delaware was “a more convenient and logical  
19 forum because it now is the location of its bankruptcy estate.” *See Flintkote Co. v. Aviva P.L.C.*,  
20 2015 WL 1405922, at \*5. The Delaware Court rejected Flintkote’s argument and transferred the  
21 case here. *Id.* In so doing the court found, as explained above, that there was “ample evidence” in  
22 the record to support a finding that Flintkote filed suit in anticipation of Aviva’s forthcoming suit  
23 in the Northern District of California, and did so to avoid *Fuller-Austin*. *Id.* Second, it found that:

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25  
26 <sup>13</sup> In rejecting this assertion, the Court observes that Flintkote spent the majority of its  
27 briefing to this Court attempting to distinguish and thus dismiss the *Fuller-Austin* court’s rationale  
28 as applicable to this dispute. Dkt. 120 at 23-30; Dkt. 148 at 8-13; Dkt. 139-5 at 15-16, 23. This  
exhaustive effort undermines its conflict of laws argument; in any event, the merits of the  
argument are not compelling for the reasons discussed below.



1 [E]ssentially all of the characteristics Flintkote cites as support for the convenience  
2 of this Court existed in 2009, when Flintkote nevertheless filed suit in the Northern  
3 District of California and argued in favor of the application of California law. At  
4 that time, Flintkote had already filed for bankruptcy in Delaware, had long ceased  
operating, and had already proposed to create a § 524(g) trust under Delaware law.  
This undermines Flintkote’s argument that Delaware has become (or imminently  
will become) materially more convenient than previously.

5 *Id.*

6 The 2009 matter referenced above was a prior case between Flintkote and Aviva Insurance  
7 Company of Canada. *See* Northern District of California, Case No. 3:04-cv-01827-MHP, Dkt.  
8 379. Opposing Aviva’s motion for an application of Canadian law, the same attorneys currently  
9 representing Flintkote persuasively argued:

10 Proper application of California’s choice-of-law rules shows that California  
11 substantive law governs. This Court has already told Aviva that “[c]ourts have  
12 frequently affirmed California’s interest in assuring that insurance obligations to  
13 business operating in this state are honored and that injuries sustained in this state  
14 are redressed.” *Flintkote Co. v. General Accident Assur. Co.* (“*Flintkote I*”), 2004  
15 WL 1977220, \*5 (N.D. Cal. Sept. 7, 2004). Flintkote is headquartered in  
California, there are thousands of pending claims in California (in addition to many  
thousands of resolved claims), California law is extremely well-developed on  
asbestos insurance coverage issues, and Aviva acknowledges litigation with other  
insurers which was in California and decided under California law.

16 *Id.* at 9.

17 This Court is convinced by Flintkote’s 2009 argument pursuant to California’s governmental  
18 interest test. Flintkote is headquartered in California. Dkts. 110 at 2-3; 139-5 at 16:3. California  
19 appears to be the principal location of the insured risk. Dkt. 110 at 2; *see, e.g., Flintkote Co. v.*  
20 *Am. Mut. Liab. Ins. Co.*, 103 A.D.2d 501, 507 (N.Y. App. Div. 1984) *aff’d*, 492 N.E.2d 790 (N.Y.  
21 1986) (“Not only would the State that is the principal location of the insured risk have the greatest  
22 interest in determining the issues arising under the insurance contracts, but the parties would  
23 naturally expect the law of that State to apply[.]”). Many of the asbestos-related cases brought  
24 against Flintkote were brought in California courts. *See Flintkote Co. v. Gen. Acc. Assur. Co. of*  
25 *Canada*, 2004 WL 1977220, at \*1 (N.D. Cal. Sept. 7, 2004). California has a clear interest in the  
26 resolution of this dispute. *See Clemco Indus. v. Commercial Union Ins. Co.*, 665 F. Supp. 816,  
27 818 (N.D. Cal. 1987) *aff’d*, 848 F.2d 1242 (9th Cir. 1988) (“California has a very strong interest in  
28 regulating insurance contracts entered into with its own residents[.]”); *Nelson v. Flintkote Co.*, 172  
Cal. App. 3d at 735 (“[California] certainly has an interest in protecting innocent asbestosis

1 victims from toxic tortfeasors. Asbestosis may take up to 35 years to develop from first  
2 exposure.”).

3 Relatedly, the Court is convinced that the intent behind the Wellington Agreement, as  
4 highlighted by Flintkote, is best served by following the parallel arbitration proceedings so as to  
5 uniformly apply California law to these policies. *See* Dkt. 120 at 15; Dkt. 119-7 (arbitrator’s  
6 decision applying California law to this dispute). As the architect of the Wellington Agreement  
7 testified, claims resolution under the Agreement “should be uniform because there is a facility,  
8 rather than numerous jurisdictions in which lawsuits might be tried with differing results.”  
9 *Proposed Asbestos Claims Facility: Hearings before the Subcomm. on Labor of the Senate Comm.*  
10 *on Labor and Human Resources*, 99th Cong. Rec. 25 (1985) (statement of Harry H. Wellington,  
11 Dean, Yale Univ. L. Sch.). Further, the 1989 Agreement between the parties provides that, “All  
12 interpretations of this Agreement *shall be consistent* with interpretations of the Wellington  
13 Agreement as adopted by the Facility.” Dkt. 120 at 18, 20 (referencing 121-2 at IV.) (emphasis  
14 added).

15 California law applies to this proceeding.

16  
17 **II. Fuller-Austin Squarely Dictates What Aviva is “Obligated to Pay” Flintkote**

18 *Fuller-Austin* addresses the issue before this Court: an insurer’s indemnity obligation to its  
19 insured’s §524(g) trust.<sup>14</sup> *See Fuller-Austin*, 135 Cal. App. 4th at 997. Both Flintkote and Fuller-  
20 Austin faced liability for asbestos bodily injury claims from exposure to their products up until the  
21

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22 <sup>14</sup> Flintkote unpersuasively argues that other California cases overrule in part, or diminish  
23 the effect of, *Fuller-Austin*. *See* Dkt. 120 at 22, 24; Dkt. 148 at 16-17 (citing *Fluor Corp. v.*  
24 *Superior Court*, 61 Cal. 4th 1175, 1216 (Cal. 2015) (“[A]n insured loss occurs or happens *at the*  
25 *time of injury* during the policy period, and well before there might be any judgment or approved  
26 settlement for a sum of money[.]” (emphasis added)); *Powerine Oil Co. v. Superior Court*, 37 Cal.  
4th 377, 403 (Cal. 2005) (concluding that a “loss payable” clause . . . speaks to the *timing* of the  
excess insurer’s obligation to indemnify in relation to the exhaustion of underlying primary policy  
limits” (emphasis added) (citations omitted)).

27 These cases discuss the *timing* of an insurer’s payment obligation, not *what* that payment  
28 obligation actually is. What Aviva is legally “obligated to pay” pursuant to the contract between  
the parties, in light of Flintkote’s status as a §524(g) trust, is directly addressed in *Fuller-Austin*.

1 mid-1980s. *Id.* at 966-67. Both filed for bankruptcy protection and proposed a plan of  
2 reorganization under §524(g) of the Bankruptcy Code. *Id.* at 968. Fuller-Austin’s insurers, like  
3 Aviva, objected to the plan of reorganization to the extent it sought to impair the insurers’ rights  
4 under their policies. *Id.* at 970.

5 Like the Flintkote Plan, the Fuller-Austin plan provided that its trust would evaluate and  
6 determine whether to pay claims under that plan’s version of the TDPs, called the “Claims  
7 Resolution Procedures” (“CRPs”). *Id.* at 969-70. “The claimant could either accept the Trust’s  
8 determination or seek a different ruling through binding or nonbinding arbitration, or a jury trial.”  
9 *Id.* at 970. The CRPs, like the Flintkote TDPs, provided “allowed liquidated values” for five  
10 asbestos-related disease levels. *Id.* at 969-70. “The CRP[s] expressly provided that a claimant  
11 would receive only a periodically adjusted ‘Payment Sum Percentage’ of the [allowed liquidated  
12 value], based on the Trust’s assets, that would amount to only a fraction of the [allowed liquidated  
13 value].” *Id.* at 970.

14 The Fuller-Austin policies also provided that the insurers would “indemnify the Assured  
15 for all sums which the Assured shall be *obligated to pay* by reason of liability (a) imposed upon  
16 the Assured by law ... for damages, direct or consequential and expenses, all as more fully defined  
17 by the term ‘ultimate net loss’[.]” *Id.* at 991-92 (emphasis added). The policies defined “ultimate  
18 net loss” as “the total sum which the Assured, or any company as his insurer, or both, become  
19 *obligated to pay* by reason of personal injury, property damage or advertising liability claims,  
20 either through adjudication or compromise[.]” *Id.*

21 The trial court in *Fuller-Austin* initially accepted the argument Flintkote advances here —  
22 that the insurers were obligated to indemnify Fuller-Austin for the allowed liquidated value of  
23 each claim, not the payment sum percentage that Fuller-Austin actually paid each claimant. *Id.* at  
24 996. The California Court of Appeal reversed this ruling, recognizing that the “policies indemnify  
25 Fuller-Austin for amounts it is ‘obligated to pay’ by law.” *Id.* at 997. And, according to the court,  
26 the CDPs established that the only amount that Fuller-Austin was obligated to pay was each  
27 claim’s payment percentage — not the allowed liquidated value. *Id.* The court reasoned that,  
28 “The [allowed liquidated value] serves only as a model of what would be paid under the best case

1 scenario, assuming that the payment . . . percentage reached 100 percent. While premising  
2 appellants' indemnity obligations on the basis of a best case scenario may comport with a strong  
3 public policy to compensate victims of asbestos exposure, public policy may not be used to  
4 redefine the scope of coverage." *Id.*

5 Flintkote argues that The Flintkote Trust is factually distinguishable from the trust in  
6 *Fuller-Austin*. It advances what appear to be three arguments, all saying substantially the same  
7 thing. First, Flintkote argues that there is no language in *Fuller-Austin* directly connecting  
8 insurance proceeds to greater claim benefits. Dkt. 148 at 6. Second, Flintkote asserts that the  
9 discretion of Flintkote's Trustees is severely circumscribed by the Flintkote TDPs, as the  
10 insurance recoveries "must" go to the benefit of claimants. *Id.* at 7. Third, Flintkote argues that  
11 its plan "contains a direct connection between insurance recoveries and payment percentage" for  
12 the benefit for claimants, unlike the plan in *Fuller-Austin*. *Id.* at 8.

13 It appears to the Court that the Fuller-Austin CRPs employed the same mechanism as The  
14 Flintkote Trust TDPs; that is, the procedure increased the payment percentage *if* the Trustees  
15 determined it was appropriate based on a similar set of factors, including the recovery of  
16 additional assets. *Compare* Dkt. 121-4 at §§ 2.3, 4.2 *with Fuller-Austin*, 135 Cal. App. 4th at 999-  
17 1000. Fuller-Austin's petition for writ of certiorari to the United States Supreme Court explained,  
18 "the Plan expressly authorizes increases in victim payments *if* more assets become available to the  
19 Fuller-Austin Trust: '[T]he Trustees *have the power* to alter the Payment Sum Percentage . . . as  
20 well as the power to increase the Allowed Liquidated Value for any Asbestos-Related Disease  
21 Category.'" *Fuller-Austin Insulation Co. v. Highlands Ins. Co.*, 2006 WL 2055468 (U.S.), 21  
22 (emphasis added). Similarly, The Flintkote Trust TDPs provide that, "The Payment Percentage  
23 *may . . . be adjusted upwards or downwards from time to time . . . with the consent of the [Trust*  
24 *Advisory Committee] and the Future Claimants Representative to reflect then-current estimates of*  
25 *the Trust's assets and liabilities, as well as the then-estimated value of pending and future claims.*"  
26 Dkt. 121-4 at § 2.3 (emphasis added). Contrary to what Flintkote represents to this Court, The  
27 Flintkote Trust TDPs do not severely circumscribe the discretion of Flintkote's Trustees,  
28 mandating that insurance recoveries "must" go to the benefit of claimants. *See* Dkt. 148 at 7.

1 Rather, the language clearly provides that, once every three years, “the Trustees shall reconsider  
2 the then applicable Payment Percentage to assure that it is based on accurate, current information  
3 and *may*, after such reconsideration, change the Payment Percentage if necessary, with the consent  
4 of the [Trust Advisory Committee] and the Future Claimants Representative.” Dkt. 121-4 at § 4.2  
5 (emphasis added).

6 Interestingly, the Fuller-Austin CRPs called upon the Trustees to examine the payment  
7 percentage no less than once per year, Dkt. 142-3, § 3.1 at 97-98, while the Flintkote TDPs call for  
8 examination once every three years. Dkt. 121-4 at §§ 2.3, 4.2. The Fuller-Austin CRPs also  
9 allowed for supplemental payments to past claimants if the payment percentage subsequently  
10 increased, just like Flintkote’s TDPs. Dkt. 142-3 at § 4.3(1). The Fuller-Austin CRPs expressly  
11 stated the “overarching goal” was to maximize value for ASBI claimants, dkt. 142-3, §1.4 at 96,  
12 just as Flintkote’s TDPs.

13 The arbitrator in the parallel Wellington Agreement proceeding reached the same  
14 conclusion, finding that he had “no basis on which to distinguish *Fuller-Austin*  
15 . . . by finding that ‘greater insurance recovery would . . . protect or benefit claimants.’” The  
16 arbitrator added that there was no basis for concern about the insurers receiving a “windfall”  
17 either, as “the parties agree that the applicable aggregate policy limits will be exhausted sooner or  
18 later[.]” Dkt. 119-7.

19 The Court finds that *Fuller-Austin* determines the “obligated to pay” issue, and that Aviva  
20 is accordingly obligated to pay Flintkote the trust payment percentage, not the liquidated value.

21 The Court also rejects Flintkote’s assertion that Aviva has somehow contractually waived  
22 the argument that it is only required to pay the trust payment percentage. See Dkt. 120 at 20-21.  
23 As outlined above, section VIII.5 of the Wellington Agreement (which is not in the 1989  
24 Agreement between the parties) provides:

25 [E]ach Subscribing Insurer shall waive and permanently abandon and shall not  
26 assert or apply any conditions or defenses based upon, or exclusionary provisions  
27 contained in, insurance policies, which defenses or provisions have the effect of  
reducing or denying insurance coverage available under any of the insurance  
policies issued by the Subscribing Insurers to Subscribing Producers.

28 Dkt. 121-2, § VIII.5.

1 Insurers in the Wellington Agreement waived defenses based on “conditions” or  
2 “exclusionary provisions.” There exists a clear distinction between coverage defenses based on  
3 exclusionary language or conditions, and the *scope* of the insuring agreement. *See, e.g., Waller v.*  
4 *Truck Ins. Exch., Inc.*, 11 Cal. 4th 1, 32 (Cal. 1995); *Ringler Associates Inc. v. Maryland Cas. Co.*,  
5 80 Cal. App. 4th 1165, 1189 (Cal. Ct. App. 2000); *Alta Cal. Reg’l Ctr. v. Fremont Indem. Co.*, 25  
6 Cal. App. 4th 455, 459, 30 Cal. Rptr. 2d 841, 842-43 (Cal. Ct. App. 1994) (discussing distinction  
7 between assertion of lack of coverage and coverage limiting terms under the policy). In other  
8 words, this dispute concerns the scope of the agreed-upon coverage, not a defense to that  
9 coverage.

10 The arbitrator in the parallel Wellington Agreement proceeding reached the same  
11 conclusion, finding that, “Wellington’s waiver language, § VIII(5), does not support Flintkote’s  
12 position. Limiting the insurers obligation to what the trust actually pays out implicates no  
13 ‘coverage defense’ or ‘exclusion.’” Dkt. 119-7 at 5.

14  
15 **III. Defendants Must Post a Bond**

16 Now that the Court has decided *what* Aviva must pay Flintkote, it must decide whether to  
17 impose a bond on Aviva sufficient to secure the payment of any final judgment which may be  
18 rendered. The Court finds that a bond in this case is appropriate.

19 California Insurance Code section 1616 provides:

20 Before any nonadmitted foreign or alien insurer shall file *or cause to be filed* any  
21 pleading in any action, suit or proceeding instituted against it, the insurer shall  
22 either (1) procure a certificate of authority to transact insurance in this state; or (2)  
23 give a bond in the action, suit or proceeding in an amount to be fixed by the court  
sufficient to secure the payment of any final judgment which may be rendered in  
the action, suit, or proceeding.

24 Aviva indisputably caused this action to be filed in the Northern District of California, as it  
25 successfully moved the Delaware District Court to transfer this matter here. *See Flintkote Co. v.*  
26 *Aviva P.L.C.*, 2015 WL 1405922, at \*5. All of the alleged insurers are foreign U.K. entities.<sup>15</sup>

27  
28 <sup>15</sup> The Court notes that defendants argue that Aviva PLC is not an insurer, but a holding  
company. Dkt. 136 at 6-7. As the Court made clear in its prior order, in light of the years-long  
mistake in identifying the actual successor insurer to CU UK, “[i]t is evident . . . that there is some

1 Dkt. 110 ¶ 7. Aviva has specifically conceded that Ocean Marine, which is now claimed to be the  
 2 only true successor to CU UK (the London-based insurance company that originally issued  
 3 asbestos liability insurance policies to Flintkote), dkt. 119-4 at 5 n.2, is not an admitted surplus  
 4 lines carrier in California. Dkt. 114-1 at 2. Aviva has not produced a certificate of authority for  
 5 any of the defendants in this action.

6 California case law is clear that “Insurance Code section 1616 is *mandatory*,” and a trial  
 7 court has no discretion to waive it. *Lorenz v. Commercial Acceptance Ins. Co.*, 40 Cal. App. 4th  
 8 981, 995-96 (Cal. App. 1995) (emphasis in original); *see also Bank of San Pedro v. Forbes*  
 9 *Westar, Inc.*, 53 F.3d 273, 275 (9th Cir. 1995), *as amended* (May 30, 1995) (“[California  
 10 Insurance Code section 1616] is part of [California’s] regulatory scheme. To disregard it would be  
 11 to damage the mechanism by which California regulates insurance . . . . [W]e apply the  
 12 requirement.”).

13 Aviva nonetheless argues that section 1616 does not apply to this case, because the  
 14 exception contained in California Insurance Code section 1620(a) applies. Dkt. 135-4 at 7; *See*  
 15 *Ludgate Ins. Co. v. Lockheed Martin Corp.*, 82 Cal. App. 4th 592, 611 (Cal. App. 2000). The text  
 16 of section 1620(a) states, “The provisions of the preceding sections of this article shall not apply to  
 17 any . . . proceeding against any unauthorized foreign or alien insurer . . . if the contract is *governed*  
 18 *by* and *complies with* the laws of the state in which the contract was entered.” (Emphasis added).  
 19 Aviva offers a convoluted explanation of the history of the policies, then concludes: “the policies  
 20 were entered either in London, England or Canada — in either event, the exception in § 1620(a) to  
 21 the bonding requirement applies.” Dkt. 135-4 at 8. Aviva also asserts “Flintkote has never argued  
 22 and no court has ever held that the policies are non-compliant with English or Canadian insurance  
 23

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24 uncertainty as to who the proper defendant in this case should be.” Dkt. 107 at 6. Defendants are  
 25 presently jointly responsible for the bond amount levied; should Aviva PLC or Aviva International  
 26 Insurance, Ltd. seek dismissal from this cause of action, counsel must file the appropriate motion  
 27 seeking summary adjudication as to these individual defendants. The Court is aware that “[i]t is  
 28 elementary that a defendant is not liable on the bond if he is not a party to it . . . and judgment may  
 be entered only against those sureties who are named as defendants in the complaint[.]” *Russell v.*  
*United Pac. Ins. Co.*, 214 Cal. App. 2d 78, 91-92 (Cal. Ct. App. 1963) (citations omitted).

1 regulatory requirements for the procurement or issuance of policies[.]” *Id.* As the party seeking  
2 the exception, however, it is incumbent on Aviva to proffer some affirmative evidence that the  
3 policies are, in fact, compliant. Even if “England” or “Canada” could properly be considered a  
4 “state” under the statute, there remains the fact that the Court has found — at Aviva’s urging —  
5 that California law governs interpretation of the contract.

6 Finally, Aviva contends that, should the above exception to section 1616 not apply, then  
7 California Insurance Code section 1620(b)(1) applies, and it has made a sufficient showing that it  
8 maintains in the United States funds sufficient to satisfy a final judgment. Dkt. 135-4 at 10-12.

9 California Insurance Code section 1620(b)(1) provides that,

10 In any action, suit, or proceeding arising out of any such contract of insurance [as  
11 delineated in previous sections], the court *may* require the insurer to file a bond . . .  
12 unless . . . [t]he insurer makes a showing satisfactory to the court that it maintains  
13 in a state of the United States funds or securities in trust or otherwise, sufficient and  
14 available to satisfy any such final judgment and that it will pay the judgment  
15 without requiring suit to be brought thereon in the state where the securities or  
16 funds are located.

17 This section applies where California Insurance Code section 1616 does not apply. *See Ludgate*  
18 *Ins. Co.*, 82 Cal. App. 4th at 611 (finding that where “the bond requirement of section 1616 does  
19 not . . . apply, section 1620, subdivision (b), nonetheless gives the trial court discretion to require  
20 the nonadmitted alien insurer to put up such a bond”).

21 Here, the bond requirement of section 1616 does apply. The Court is compelled both by  
22 the clear wording of California Insurance Code section 1616, and the supporting, unequivocal case  
23 law directly on point. *See Lorenz v. Commercial Acceptance Ins. Co.*, 40 Cal. App. 4th 981, 995-  
24 96 (Cal. Ct. App. 1995) (reasoning that the statute is clear and the bond is mandatory); *see also*  
25 *Trihedron Internat. Assurance, Ltd. v. Superior Court*, 218 Cal. App. 3d 934, 947 (Cal. Ct. App.  
26 1990) (“Here, when a case arises out of a non-admitted foreign or alien insurer transacting  
27 insurance in California, the state has a valid interest in *forcing* the insurer to comply with the  
28 states certification requirements thereby protecting California insureds and beneficiaries. Section  
1616 in the first instance requires compliance with those certification requirements. The statute  
provides the insurer with the generally less onerous alternative of posting a bond in lieu of  
meeting the certification requirements.” (emphasis added)).



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Because the Court will require that a bond be posted, the issue then becomes fixing an appropriate amount. The parties have put forth widely disparate figures: Flintkote believes that the bond should be \$15 million, while Aviva asserts the bond should be \$2 million. Dkt. 123 at 13; Dkt. 135-4 at 13. A review of Flintkote’s recently filed Second Amended Complaint shows that the majority of the disputes between the parties involve declarations as to obligations under the relevant insurance policies as The Trust begins to operate and pay covered ASBI claims. Dkt. 110 at 17-19. Here the Court has decided one aspect of Aviva’s obligation to Flintkote; namely, that Aviva is obligated to pay Flintkote the trust payment percentage. Given the new information contained in this order, the Court orders the parties to meet and confer and to each file a statement of no more than five (5) pages on an appropriate bond amount sufficient to cover a judgment in this case. If the parties still cannot reach comparable figures the Court will order a bond amount, noting that, prior to this order, Aviva admitted that its “potential obligations under all of the Policies total just under CAN\$15 million in policy limits[.]” Dkt. 111 at 9.

**CONCLUSION**

Pursuant to California law, Aviva’s coverage obligation is based on the payment percentage amount The Trust actually pays to claimants. Given this information, the Court orders the parties to meet and confer and to each file a statement of no more than five (5) pages on an appropriate bond amount sufficient to cover a judgment in this case **by April 22, 2016.**

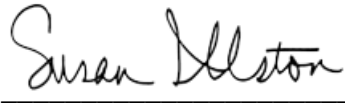
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Accordingly, the Court DENIES Flintkote’s motion for a declaration of the parties’ rights regarding trust payments, GRANTS Aviva’s motion for partial summary judgment, and GRANTS Flintkote’s motion for a bond.<sup>16</sup>

**IT IS SO ORDERED.**

Dated: April 4, 2016



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SUSAN ILLSTON  
United States District Judge

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<sup>16</sup> The timing of the payment obligation, how the payment of defense costs impacts the remaining policy limits, and whether certain trust expenses are covered defense costs are issues for later resolution. The Court encourages the parties to attempt to reach an amicable solution on these and other issues.