

**THE STATE OF NEW HAMPSHIRE**

**MERRIMACK, SS**

**SUPERIOR COURT**

**Docket No. 03-E-0106**

**In the Matter of the Liquidation of  
The Home Insurance Company**

**Docket No. 03-E-0112**

**In the Matter of the Liquidation of  
US International Reinsurance Company**

**LIQUIDATOR'S SEVENTEENTH REPORT**

I, Roger A. Sevigny, Insurance Commissioner ("Commissioner"), as Liquidator ("Liquidator") of The Home Insurance Company ("Home") and US International Reinsurance Company ("USI Re") (collectively, the "Companies"), hereby submit this seventeenth report on the liquidations of the Companies, as of June 13, 2005, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005.

1. AFIA. The proceedings with the ACE Companies and Benjamin Moore & Co. concerning the Liquidator's motion for approval of the agreement with AFIA Cedents continue. On March 7, 2005, the Court issued a schedule that included several key dates and events, culminating in a three-day evidentiary hearing commencing on July 25, 2005. Three of ten scheduled depositions have been completed. Remaining depositions are scheduled in New York City on June 14, 21 and 24, and in London on June 28, 29, 30 and July 1. The Court held hearings and issued orders on May 12 and June 1, 2005 to address discovery motions.

2. Early Access Distributions to Guaranty Funds. On October 15, 2004, the Court approved an early access distribution to insurance guaranty funds of approximately \$40.9 million (based on reported guaranty fund payments less recoveries through June 30, 2004), subject to

offset based on deposits held by the various states. The distribution was also conditioned upon the Liquidator obtaining a waiver of claims under the federal priority statute, 31 U.S.C. § 3713, from the United States. The Liquidator and the United States entered a Release Agreement on February 8, 2005, that constitutes a satisfactory waiver of those claims. The Liquidator then applied offsets based on deposits held by certain states and made the first early access distribution to insurance guaranty funds totaling \$33,821,948 in early February, 2005. A subsequent distribution of \$1 million was made in April. The Liquidator expects to seek approval of a second early access distribution after June 30, 2005.

3. Repatriation of Canadian Branch assets. The Liquidator received \$12 million on February 20, 2005. The Liquidator continues to expect to receive additional releases of repatriated funds in 2005 from Home's Canadian branch assets. At this time there is only one remaining claim pending in the Canadian estate, in the amount of C\$525,000.

4. Zurich Funds withheld. On February 14, 2005, the Liquidator received \$4.3 million from Zurich American Insurance Company and affiliates in connection with the January 2005 calculation of amounts due under the Memorandum of Agreement approved by the Court on December 22, 2003. The Liquidator has now received a total of \$29.3 million from Zurich under the agreement.

5. Proofs of claim. The claim filing deadline in both liquidations was June 13, 2004. The Liquidator has received a total of 712 new proofs of claim (710 for Home and 2 for USI Re) between the last Liquidator's report and May 31, 2005. These numbers include as a single proof of claim (a) multiple proofs received from a claimant that appear to assert the same claim, and (b) claims filed on behalf of mass tort claimants against a single insured. It is difficult to

summarize the proofs of claim in advance of the claim determination process because (a) the proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

6. Claim determinations and reports. The process of determining proofs of claims continues. As of May 31, 2005, and since the last Liquidator's report, the Liquidator has issued 418 notices of determination (412 for Home and 6 for USI Re) pursuant to the original Claims Procedures Orders and the Restated and Revised Claims Procedures Orders entered January 19, 2005. Additionally, 7 claimants have filed requests for review and 6 of these have been sent notices of redetermination. On May 2, 2005, the Court entered an Order Approving the Liquidator's Report of Claims and Recommendations as of April 12, 2005. On June 1, 2005, the Liquidator submitted to the Court the Liquidator's Report of Claims and Recommendations as of May 23, 2005. The Liquidator has now presented claims recommendations for a total of 361 claims (351 for Home and 10 for USI Re) involving a total of \$60,279,667.24.

7. Financial reports. Copies of the unaudited March 31, 2005 financial statements and the 2004 annual financial statements audited by Ernst & Young for both the Home and USI Re are attached as Exhibits A through D to this report.<sup>1</sup> The March 31, 2005 Home statements reflect \$687,958,656 in assets under the Liquidator's direct control, and \$51,677,146 in collections and other receipts and \$9,444,336 in operating disbursements of the liquidation since January 1, 2005. The March 31, 2005 USI Re statements reflect \$3,809,619 in assets under the

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<sup>1</sup> In Exhibits A through D, the amounts of net assets as of December 31, 2004 for the Companies are less than the amounts shown in the December 31, 2004 financial statements previously filed with the Court. Additional bills were received subsequent to filing of the December 31, 2004 statements, which resulted in the recording of additional expense accruals. Accordingly, net assets were lowered by \$253,669 for Home and \$114,972 for USI Re.

Liquidator's direct control, and \$240,868 in collections and other receipts and \$201,047 in operating disbursements of the liquidation since January 1, 2005.

8. USI Re Liabilities. On February 14, 2005, the Liquidator filed with the Court an Executive Summary of the ultimate gross insurance liabilities of Home (excluding AFIA) based on the review by the actuarial firm of Milliman, Inc. Milliman continues to prepare its evaluation of the ultimate gross insurance liabilities of USI Re. The Liquidator expects to receive a report from Milliman within the next month. To date, Milliman has completed an evaluation of USI Re's liabilities as of December 2000 and the Home's accountants have been preparing the data Milliman requires in order to bring this evaluation up to December 2003.

9. 2005 Budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through April 30, 2005 is attached as Exhibit E. Actual expenses are below budget by approximately \$600,000, or 7%, with favorable variances in nearly all categories. The 2004 Home Compensation Plans, which were accrued for during 2004, have been fully funded, and payments have been remitted to the trust account.

10. Deposits. Liquidation staff have been seeking to collect deposits made by Home and USI Re with various states and have collected or resolved issues with most states. Currently, the only states where funds have not been returned are Arizona, Louisiana, New Mexico and New York. All but New Mexico are close to resolution. In New York, the Liquidator anticipates obtaining a release of \$1,911,849 of the Companies' \$2,563,000 deposit, with the remainder being retained to satisfy Home of Wisconsin's obligations to surplus lines policyholders in New York and Illinois, the states where Home of Wisconsin did business on a surplus lines basis.

11. Reinsurance commutations. In accordance with the Court's March 23, 2004 order, the Liquidator reports that since his last report no reinsurance commutation agreements were reached other than a reinsurance commutation agreement with Pennant Insurance Company Limited, which was approved by the Court on May 2, 2005. Discussions with certain reinsurers of Home are continuing.

12. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the Liquidator submits a confidential schedule of asset dispositions (including compromises) and obligation assumptions since the last report to be filed under seal as an appendix to this report. In addition, the shareholders of Rimco Production Company, in which Home holds an 18% interest, have unanimously approved a merger and sale agreement. The Liquidator expects Home will receive cash of approximately \$12 million at closing in June. Home also can receive additional cash of \$700,000 within 6 months based on certain contingent events. Home's gain from disposal of this investment, based on current book value, will be between \$4 and \$4.5 million.

13. Sale of City International Insurance Company. On May 18th a letter of intent was signed by representatives of USI Re and a potential buyer for the purchase of City International Insurance Company ("City"), subject to Court approval. Assuming a final purchase agreement is signed, customary conditions precedent are satisfied and Court approval obtained, the closing of the sale is expected to occur prior to December 31, 2005. Once the sale of City is completed, the Liquidator is considering moving the USI Re liabilities to a liquidating trust and selling the shell

of USI Re. In the interim, efforts are focusing on commuting USI Re's ceded program among other activities designed to wind up this relatively small estate as quickly as possible.

14. Acquisition of Home Shares. The Liquidator is continuing to consider the potential creation of liquidating trusts for Home and USI Re and the sale of the Companies' corporate "shells." To facilitate such a sale, the Liquidator, pursuant to a Stock Transfer Agreement entered into as of May 27, 2005, acquired 12,000 shares of common stock, \$350 par value per share constituting all issued and outstanding shares of Home from the owner thereof, THIC Holdings LLC, for \$1.

15. Storage Costs. The Liquidator continues to seek ways to reduce the Companies' outside storage and storage related costs, which are an annual expense of approximately \$700,000. The Liquidator is reducing storage with Iron Mountain and at the 59 Maiden Lane offices in New York City. In accordance with the Court's December 16, 2004 Order Approving Disposal of Certain Records and February 17, 2005 Order Approving Disposal of Imaged Records, the Liquidator has started to dispose of certain categories of files, in particular those stored with Iron Mountain in Fort Lauderdale, Dallas and Los Angeles and non-essential records at 59 Maiden Lane. The Liquidator also plans to relocate many documents stored in the basement of 59 Maiden Lane to alternative space and to sublet the available basement space.

16. Ancillary Proceedings. Ancillary proceedings for Home have been filed in Oregon, New York and Massachusetts. An ancillary proceeding established for USI Re in Oregon was closed by Order of the Circuit Court for Marion County, Oregon dated April 14, 2005.

17. Staffing Levels. The Companies continue to streamline their operations by reducing the number of full time employees. Prior to liquidation the Companies had 160 full time employees. As of May 31, 2005, that number has been reduced to 88.

18. Information Technology Projects. The Liquidator's information technology staff continues to work on its major initiatives for 2005—namely, (i) developing and implementing a system to support the notice of determination process among other activities (the system was operational in March), (ii) deploying imaging technologies to improve staff productivity of the staff and to reduce costs (ongoing), (iii) maintaining highly reliable and available data center operations (ongoing), and (iv) build a disaster recovery facility in Manchester (installation begins this month and the entire facility is expected to be operational by the end of 2005).

19. Other litigation. By an order dated April 7, 2005, the New Hampshire Supreme Court accepted an appeal of the Court's decision in the Liquidator's favor in Gonya v. Sevigny (No. 2005-0170). On June 9, 2005, the United States Court of Appeals for the First Circuit reversed the federal district court's decision to remand another case to the liquidation court. Sevigny v. Employers Ins. of Wausau, No. 04-2411. On April 4, 2005, Home's counsel argued a retaliatory tax appeal case before the Commonwealth Court of Pennsylvania. The issue on appeal is whether the value of New Jersey second injury fund assessments is required to be included in the City/Home's New Jersey basis for the computation of its Pennsylvania retaliatory tax for the years 1986, 1987 and 1988. The Commonwealth Court, in a Decision dated May 13, 2005, sustained the Department of Revenue's settlement of Home's 1986, 1987 and 1988 retaliatory tax assessments, finding that the New Jersey Second Injury Fund assessment is in the nature of a license fee and therefore such assessment should be included in Home's Pennsylvania retaliatory computation. Home intends to appeal to the Pennsylvania Supreme Court.

20. Guaranty Fund Matters. The Liquidator continues to work closely with the guaranty funds and has scheduled a meeting for September 2005 to discuss various issues in the proceeding.

21. Investment update. A summary of the Companies' holdings of bonds and short-term investments as of March 31, 2005 is provided as Exhibit F. The book value of bonds and short-term investments at March 31 was \$656 million compared to the market value of \$649 million, an unrealized loss of \$7 million. This loss was due to higher interest rates and wider credit spreads. Interest rates have declined in the second quarter, and, as of May 31, 2005, the unrealized loss was reduced to \$600,000 based on book value of \$664.3 million and market value of \$663.7 million. Conning Asset Management continued to reduce short-term investment holdings and lengthen the duration of the Home portfolio during the first quarter. Short-term holdings in this portfolio were reduced by \$18 million in the first quarter and further reduced by \$13 million in April and May. As of May 31, Home continued to maintain \$88 million book value of Treasury bill investments outside of Conning Asset Management's control, which will be used to fund operating requirements.

22. Donation of Antique Fire Engine. Over the years Home amassed a significant collection of fire memorabilia. In 1992, Home placed an antique fire engine known as the Steinway Hose Carriage on loan to the New York City Fire Museum, a non-profit organization that is run in connection with the City of New York. A similar fire engine was sold at auction in 1997 for \$16,000. Given the relatively nominal value of this fire engine, and the significant cost to transport it for resale, the Liquidator has determined that the most appropriate disposition is to donate it permanently to the Museum for public display.



Respectfully submitted,

A handwritten signature in black ink, appearing to read 'RAS', written in a cursive style.

Roger A. Sevigny, Liquidator  
June 20, 2005

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**CERTIFICATE OF SERVICE**

I hereby certify that on June 20, 2005, a copy of the Liquidator's Seventeenth Report, without the confidential schedule of asset dispositions and obligation assumptions, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: June 20, 2005



Eric A. Smith

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