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MAR 20 2003

March 19, 2003

VIA FEDERAL EXPRESS & E-MAIL

Matthew L. Jacobs, Esq.
Kirkpatrick & Lockhart, LLP
1800 Massachusetts Ave., N.W.
Washington, D.C. 20036

Re: Inspiration Consolidated Copper Co. vs. American Ins. Co., et al.
Maricopa County Superior Court Cause No. CV-98-00530
Home - Inspiration/Phelps Dodge Settlement

Dear Mr. Jacobs:

In response to your recent inquiries, The Home Insurance Company expects the settlement process to continue in the same general manner as before the Order of Rehabilitation, *i.e.*, after finalization of the settlement agreement, Home will present it to the New Hampshire Commissioner of Insurance (in her capacity as Rehabilitator) for approval. Home will recommend approval, but the final decision is up to the Rehabilitator (or her designee).

I must, however, take strong exception to the insinuations and mischaracterizations contained in your March 6 letter. Representatives of Risk Enterprise Management inform me that on more than one occasion, they offered to provided you and your clients with a detailed presentation of the financial status of The Home Insurance Company. Those offers were consistently refused by you. With respect to allegations of undue delay, we need only point out that you responded to our draft agreement 57 days after receiving it. This was three business days before the Rehabilitation Order was entered.

Below, Home hereby responds to your proposed changes to the draft settlement agreement. Enclosed with this letter are "clean" and "blacklined" versions reflecting Home's proposed changes (the "blackline" compares this draft to the one that you recently supplied to us). The more significant changes are touched on below:

Recital B. As mentioned earlier, Home prefers to reference the specific underlying matters.

Recital C. Home does not agree to delete the reference to Inspiration continuing to seek recovery of costs incurred by Phelps Dodge. It is factually accurate, and helps to provide

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background to a future reader. Home is willing to adopt the definition of "Coverage Lawsuit" that you have proposed.

Section 1. Under the present circumstances, Home can do no more than to recommend approval to the Rehabilitator. That it will undertake to do.

Section 2. Home agrees that the intention of the parties is that the \$2.5 million payment is a net payment, with no offsets or deductions of any sort.

Section 10.1(ii). The phrase "against Home and/or REM" seems superfluous, inasmuch as the indemnification itself runs to Home and REM. Accordingly, we have deleted that phrase.

Section 10.3. We have restored the original wording. Home is uncomfortable with the phrase "pursuant to the Inspiration Policies" because "pursuant to" can arguably be construed to mean claims under the policies. If so, contribution claims would not be included. But clearly the intent is to encompass contribution claims.

Section 10.5. Home agrees generally with your suggested new Section 10.5. But we think that the cross-reference to Section 10.4 (defense costs) is slightly too broad, and have limited it to defense costs arising from matters within the Section 10.1 indemnity. Stated differently, defense costs incurred in connection with matters indemnifiable under Sections 10.2 and 10.3 are not capped.

Section 11. Home agrees generally with your suggested new Section 11. However, we have clarified that, with respect to claims outside the scope of the settlement agreement, all parties reserve their respective rights.

Section 17 (old Section 16). Inspiration and Phelps Dodge previously represented to Home that they were not aware of any Asbestos Premises Claims. Accordingly, we have restored that representation and warranty. If that circumstance has changed, please let us know.

Section 18 (old Section 17). Home insists on keeping old Section 17.3, and we have restored it as Section 18.3.

Section 20. Home agrees generally with your suggested new Section 20.

We look forward to learning your client's reaction to Home's proposals. We think that you will not find them particularly controversial or troublesome. We look forward to finalizing the settlement agreement so that we may forward it to the Rehabilitator for consideration.

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Finally, we understand your discomfort about the effect of the Rehabilitation Order, and the uncertainties for all of us that this development necessarily entails. However, please be advised that Home intends to recommend approval of this settlement.

Very truly yours,

A handwritten signature in black ink, appearing to read "Hagan", with a long horizontal flourish extending to the right.

Harry A. Hagan

cc: P. Tanis (REM)