



July 18, 2003

Paula T. Rogers, New Hampshire Insurance Commissioner, solely in her capacity as Liquidator (the "Liquidator") for The Home Insurance Company In Liquidation ("The Home") and US International Reinsurance Company In Liquidation ("USI-RE"; The Home and USI-RE are collectively referred to as "the Companies")
59 Maiden Lane
New York, NY 10038

Dear Commissioner Rogers,

Cap Gemini Ernst & Young U.S. LLC ("CGE&Y") was retained by the Liquidator to perform an assessment of the assets being transferred from Risk Enterprise Management Limited ("REM") to the Liquidator as detailed in, and governed by the terms of our Letter of Understanding, dated July 17, 2003 (the "LOU"). The "transferred assets" are outlined in the Asset Transfer Agreement between the Liquidator and REM attached hereto as Appendix A. This serves as the Deliverable defined in the LOU. It is comprised of CGE&Y's findings of a reasonable range of value for these assets.

The process undertaken by CGEY consisted of reviewing the assets outlined in the Asset Transfer Agreement and determining which items have residual value or no value. Those with value were further analyzed to produce an acceptable range. Based on CGEY's review of the transferred assets, the following are deemed to have asset value and therefore included in the overall range:

- Assumed Reinsurance System. This is a valued asset developed by REM. The valuation for this asset was derived by estimating the replacement cost for a new Assumed Reinsurance System package. This includes the purchase, customization, installation, and converting of the data.
- Links/Interfaces developed by REM that support Home reinsurance processing. This includes, but is not limited to, the interfaces and data feeds that exist between the Pyramid Claims System, Assumed Reinsurance System, Great Plains Financial System and all systems residing on the Zurich Mainframe and AS400. The valuation for this asset was derived through interviews with REM and Liquidator employees and estimating metrics from other CGEY interface engagements.
- Institutional Knowledge required by REM to develop, implement, and enhance the links and interfaces. The valuation for this asset was derived through interviews with REM and Liquidator employees and estimating metrics from other CGEY interface engagements.
- All data and databases required for Home Insurance. The valuation for this asset was derived through interviews with REM and Liquidator employees and estimating metrics from other CGEY interface engagements.

For several applications, Home already owns the rights to the license and is considered a Home asset. Therefore, these applications were assigned zero value in terms of the assets being transferred by REM. These applications include:

- Pyramid Claims System. The Home license includes the base software and all enhancements to source code to support Home functionality.
- Applications residing on the Zurich mainframe or AS400. Although REM pays Zurich the fees for this service, Home pays REM its share of the expense that is then paid to Zurich. An assumption exists, that Home will be able to directly pay Zurich an amount equal to or close to the amount REM is currently paying on behalf of Home
- Great Plains Financial System. Home owns a separate license for this software.

The range of asset values excludes proprietary REM intellectual property such as claim handling best practices, manuals, procedures, techniques, and know-how. Additionally all non-business related software including, but not limited to, operational maintenance software, security, networks, and operating systems is not included in the range of asset value.

As a result, CGEY has provided a range of asset value as follows:

Assumed Reinsurance System Replacement	Low Range	High Range
Base cost for 100 licenses (75 full, 25 read only, 80% retail discount), 1 year support and maintenance, training, customization, 100-120 canned reports/queries, data conversion	\$4.4M	\$5.57M

Interfaces/Links, Additional Data and Databases, and Institutional Knowledge	Low Range	High Range
Interfaces, links and/or data feeds, and databases required for Home Insurance and the institutional knowledge required for their development	\$2.4M	\$3.6M

The total value for the assets transferred from REM is estimated to fall between a range of **\$6.8M and \$9.17M**. The \$7.5M being considered by the Liquidator would fall within this estimated range.

The Liquidator acknowledges that the range of asset value outlined in this assessment is a joint effort of CGE&Y and the Liquidator. The Liquidator understands and agrees that CGE&Y's services are advisory in nature, and the Liquidator shall have full responsibility for the use of, and the results obtained from, CGE&Y's services.



Please feel free to contact Scott Becchi (scott.becchi@cgey.com) - (W) 571-382-6688 or (C) 703-930-3344 if you have any questions regarding this document or any related matters.

Very truly yours,

A handwritten signature in black ink, appearing to read "S. Becchi", written in a cursive style.

Scott Becchi
Vice President
Cap Gemini Ernst & Young U.S. LLC

Appendix A: Copy of Asset Transfer Agreement Between Liquidator and REM

ASSET TRANSFER AGREEMENT

This ASSET TRANSFER AGREEMENT ("Agreement") is made as of the 16th day of July, 2003, by and between the Commissioner of Insurance of the State of New Hampshire, solely in her capacity as Liquidator ("Liquidator") of The Home Insurance Company, a stock insurance company in liquidation in New Hampshire, and U.S. International Reinsurance Company, a stock reinsurance company in liquidation in New Hampshire, and Risk Enterprise Management Limited, a Delaware corporation ("REM"). The Liquidator and REM shall be referred to individually as "Party" and collectively as "Parties."

WHEREAS, pursuant to an Order of Liquidation entered June 11, 2003, by the Superior Court of Merrimack County, New Hampshire ("New Hampshire Court"), which was superseded by an Order of Liquidation entered June 13, 2003, The Home Insurance Company ("The Home") was placed in liquidation, and pursuant to an Order of Liquidation entered June 13, 2003, by the New Hampshire Court, U.S. International Reinsurance Company ("USI Re" and, together with The Home, the "Companies") was placed in liquidation; and pursuant to the Orders of Liquidation the Commissioner of Insurance of the State of New Hampshire was appointed Liquidator of the Companies (the two June 13, 2003 orders shall be referred to collectively as the "Orders of Liquidation");

WHEREAS, the Liquidator intends to create an effective, stand alone liquidation operation for the Companies in liquidation;

WHEREAS, REM owns or possesses rights to certain assets, including hardware, software, and applications that will substantially assist the operation of the Companies in liquidation;

WHEREAS, the Liquidator desires to purchase those assets from REM to facilitate the orderly liquidation of the Companies, and REM is willing and able to sell such assets to the Liquidator, in accordance with this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and agreements as set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Liquidator and REM, hereby agree as follows:

Section 1. Transfer of Assets.

REM agrees to transfer to the Liquidator its rights, title, or interests in all of its assets used to provide services to the Companies in 2002 and 2003 ("Assets") as follows:

- (a) As respects REM's Intellectual Property and Technology: the non-exclusive, non-transferable, perpetual license to use, subject to the obligations of Confidentiality under Section 2(b), any REM-developed software, including object and source code, all data and databases used by or for the Companies during 2003 and 2002, whether located on REM's, the Liquidator's, or, as applicable, third party vendor's Hardware, solely for purpose of liquidating the Companies. Such license rights shall include existing passwords, keys, source codes, disks and files, manuals and procedures. Such license rights shall include rights to:



(i) The Assumed Reinsurance System and all modifications and enhancements to the Ceded Reinsurance System made by REM;

(ii) All modifications and enhancements made by REM to the Pyramid Claims System, including modules and custom documentation and the add-on applications for:

- (1) management reporting consisting of the Standard Reports VB application and Crystal reports and Claim Index/Inquiry;
- (2) additional claim handling processes including Check Extract Processing, TPA Account Information Setup, Transfer Claims, Restore Claims, Financial Adjustments;
- (3) Accounting functions including Bank Check and Recovery Reconciliations and Financial Adjustments.

(iii) All system software, other than 1. (a) (i) and (ii) developed and owned by REM and used for the Companies in 2003 and 2002;

(iv) All Data and Databases developed or used for the business of the Companies;

(v) Any and all other REM proprietary systems, links, data, and applications used for the Companies in 2003 and 2002, including but not limited to financial, accounts payable, accounts receivable, and budget systems.

- (b) As respects REM proprietary Intellectual Property other than software, data, and databases; the non-exclusive, non-transferable, perpetual right to use solely for purpose of liquidating the Companies the REM-developed Best Practices & leakage management processes, manuals, procedures, techniques, and know-how.
- (c) As respects REM personal property, ownership of the security system for the offices at 59 Maiden Lane, New York, New York and 286 Commercial Street, Manchester, New Hampshire;
- (d) Liquidator may (i) install the Assets in its own facilities; (ii) use, execute, and store the Assets on its computer(s) for purposes of liquidating the Companies; (iii) use and alter the source code of any of the Assets; and (iv) make copies of the Assets in machine-readable, object code form, for nonproductive backup purposes and for use by a third party servicer engaged by Liquidator, provided that such servicer executes a Confidentiality Agreement with Liquidator, containing terms substantially as provided under Section 2 (b) herein, and agreeing that servicer shall use the Assets only for purposes of serving the needs of Liquidator to liquidate the Companies and not for any other purpose. The Liquidator shall provide a copy of each such Confidentiality Agreement to REM.
- (e) All Assets shall be conveyed to the Liquidator "AS IS" without any warranty whatsoever except as provided in the next sentence. REM represents and warrants that it has the authority and ability to transfer the Assets specified in Section 1(a), (b), and (c) above to the Liquidator, free of any and all claims, security interests, liens, and other encumbrances, that the transfer does not violate the terms of any contract, license or other agreement, and that no approval, consent, or waiver is required by any other person or entity (except as required by Section 5 below).

(f) Rights, title, or interests to the Assets shall pass to the Liquidator when the payment called for in Section 3(a) is made by the Liquidator.

Section 2. Duties of the Parties.

- (a) REM and the Liquidator shall in good faith cooperate with one another to transfer the Assets, whether located on REM's or a third party's hardware, to the Liquidator's independent operation for the liquidation of the Companies. REM shall also use its best efforts to assist the Liquidator to acquire, at the expense of the Companies, third party vendor software or maintenance agreements which the Liquidator may require for the liquidation of the Companies.
- (b) **Confidentiality.** The Parties acknowledge that in the course of dealings between each other, they each have and will acquire from the other information about business activities and operations, technical information and trade secrets, all of which are highly confidential and proprietary ("Confidential Information"). Confidential Information shall not include (i) information which now is or hereafter becomes publicly known through no wrongful act of a Party, (ii) information received by a Party from a third party without similar restriction and without breach of this Agreement; (iii) information independently developed by a Party; (iv) information approved for release by written authorization of the other Party; and (v) information which, after notice to a Party providing a reasonable opportunity to contest disclosure, must be disclosed pursuant to the requirements of a governmental agency or a binding order of a court of competent jurisdiction. A Party's Confidential Information shall be safeguarded by the other Party with at least as great a degree of care as that Party uses to safeguard its own most confidential materials or data relating to its own business.

Section 3. Payment.

(a) In consideration of the transfer to the Liquidator of the aforesaid rights, title, or interests in the Assets, the Liquidator agrees to pay to REM \$7.5 million (\$7,500,000) by wire transfer within two business days of receipt of notice that the New Hampshire Court has approved this Agreement as provided in Section 5.

(b) The payment called for by the terms of this Agreement are Administration Costs pursuant to New Hampshire RSA 402C: 44, I.

(c) Notwithstanding anything to the contrary in this Agreement, all payments required to be made by the Liquidator under this Agreement, of any kind and for any reason, shall be made only from and are limited to the assets of the Companies in liquidation. The Liquidator shall have no other obligation to make payments and no obligation to seek funding from any other

source. Without limiting the generality of the foregoing, the State of New Hampshire shall have no obligation hereunder.

Section 4. Governing Law; Jurisdiction and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire (regardless of the laws that might otherwise govern under applicable principles of conflicts law) as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies. Any legal action commenced by either Party on any such matters shall be brought exclusively in the New Hampshire Court, and each Party irrevocably consents to the in personam jurisdiction of, and venue in, such court for purposes of any such action.

Section 5. Effective Date and Court Approval. This Agreement shall not become effective until approved by the New Hampshire Court, the date of which shall be the Effective Date. This Agreement is the result of negotiations between the parties undertaken with the understanding that it is to be submitted by the Liquidator for approval by the New Hampshire Court in its entirety, and is not subject to substantial modification by the Liquidator or the New Hampshire Court without the consent of REM.

Section 6. General Provisions.

(a) **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties with respect to the subject matter hereof and supersedes all other prior negotiations, commitments, agreements and understandings, both written and oral, between the Parties or any of them with respect to the subject matter hereof.

(b) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

(c) **Interpretation.** The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(d) **Specific Performance.** Each of the Parties hereto acknowledges and agrees that in the event of a breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the Parties hereto (i) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (ii) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, not otherwise expressly waived herein, to compel specific performance of this Agreement in any action instituted in the New Hampshire Court.

(e) **Authority.** Subject to the Court approval required by Section 5 above, each Party represents to the other that it is authorized to enter into this Agreement and that its execution of this Agreement does not and will not violate the terms of any statute, regulation, judgment, decree or ruling or any contract with any third party.



IN WITNESS WHEREOF, the Parties have executed this Asset Transfer Agreement as of the day and year first above written.

THE COMMISSIONER OF INSURANCE OF THE STATE OF NEW HAMPSHIRE SOLELY IN HER CAPACITY AS LIQUIDATOR OF THE HOME INSURANCE COMPANY AND U.S. INTERNATIONAL REINSURANCE COMPANY

By: _____
Paula T. Rogers

RISK ENTERPRISE MANAGEMENT LIMITED

By: _____
Name:
Title: