

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**

**LIQUIDATOR'S MOTION FOR APPROVAL OF 2006 COMPENSATION
PLAN FOR THE SPECIAL DEPUTY LIQUIDATOR**

Roger A. Sevigny, Insurance Commissioner of the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home"), hereby moves that the Court enter an order approving the 2006 compensation plan for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the "Special Deputy Liquidator") as described in Ernst & Young LLP's ("E&Y") November 17, 2005 letter attached hereto as Exhibit A. The 2006 compensation plan consists of an incentive/retention program as well as payments for services rendered on an hourly basis pursuant to the 2003 consulting agreement described herein (collectively, the "Plan"). The Plan is intended to reward the Special Deputy Liquidator's performance and reinforce retention of his services in order to facilitate the successful, efficient and prompt completion of the liquidation process. The Plan has been reviewed with the National Conference of Insurance Guaranty Fund's Subcommittee on Home which has indicated its non-objection to this Motion. In support hereof, the Liquidator respectfully represents as follows:

1. Shortly after the liquidation proceeding began in June 2003, the Liquidator recruited the Special Deputy Liquidator from private industry and appointed him to manage

the operations of the liquidation.¹ The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. The terms of his engagement are described in a June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the “Consulting Agreement”). The Consulting Agreement remains in effect until terminated. According to the Consulting Agreement, the Special Deputy Liquidator will be paid at an hourly rate of \$250. (The Special Deputy Liquidator’s hourly rate has not changed since his engagement began in 2003.) He does not participate in the incentive compensation plans for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. During 2004 and 2005 the Special Deputy Liquidator has been eligible to receive an annual incentive award of \$400,000 and annual “Stay Pay” of \$400,000. Affidavit of Roger A. Sevigny, Liquidator, in Support of Approval of Compensation Plan For The Special Deputy Liquidator (“Sevigny Aff.”) ¶ 4.

2. The Special Deputy Liquidator is the top executive of Home, who reports directly to the Liquidator. As described in the advisory letter from E&Y’s Human Capital Practice attached as Exhibit A and discussed in more detail below, E&Y reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as “healthy” companies, identified comparable positions against which to evaluate market competitiveness of the 2006 Plan. A well-qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets as well as the orderly administration and expedited closure of the estate. The present Special Deputy Liquidator has demonstrated his abilities by

¹ The Special Deputy Liquidator also served as Home’s Special Deputy Rehabilitator prior to liquidation.

facilitating the increase in Home's cash and liquid invested assets from \$12.7 million on March 5, 2003 to approximately \$817 million at December 31, 2005. Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements either negotiated by the Special Deputy Liquidator or by Home's staff under his direction.

Maximizing the prompt collection of assets is one of the principal statutory goals of the liquidation. RSA 402-C:25 (VI). The Liquidator believes that this objective can be facilitated through retention of the Special Deputy Liquidator. *Sevigny Aff.* ¶¶ 5, 6.

3. The Liquidator retained E&Y, a nationally recognized compensation consultant with extensive experience in the design of compensation plans for large insurers in liquidation, like Home, to evaluate present and proposed 2006 compensation. As described above, E&Y has conducted an evaluation of the competitiveness of the Special Deputy Liquidator's compensation. E&Y examined the competitiveness of the Special Deputy Liquidator's current compensation in comparison to other comparable positions. Based upon E&Y's experience, a competitive compensation level is one that approximates 85%-115% of the targeted market level (typically a range between the 50th and 75th percentile). E&Y found that the Special Deputy Liquidator's proposed 2006 total direct compensation (or TDC, defined as base salary plus annual and long-term incentives) after adjustment for the absence of benefits is below the market median (50th percentile) and less competitive than the total direct compensation for Home's other top executives, which is between the 50th and 75th percentiles. *Sevigny Aff.* ¶ 6.

4. The 2006 Plan for the Special Deputy Liquidator is described in the E&Y letter and has four primary objectives. First, the Plan recognizes the Special Deputy Liquidator's role as top executive of the Home liquidation operation. Although an independent contractor,

the Special Deputy Liquidator works more than a full-time employee and, because he is responsible for Home's day-to-day operations, he has more responsibility than any other employee of Home. Second, the Plan acknowledges the Special Deputy Liquidator's significant accomplishments to date, as evidenced by the large increase in Home's cash and liquid invested assets and the resolution of numerous business issues as described in the Liquidator's quarterly reports. Third, the Plan aligns the Special Deputy Liquidator's incentives with those of Home's creditors and the Liquidator's goals for Home (collecting assets promptly and efficiently). Specifically, the Special Deputy Liquidator must marshal assets of Home; hire and maintain Home's staff; prepare and file timely and accurate reports for the Liquidator (and ultimately with the Court); and operate Home in a cost-effective manner. Fourth, the Plan provides the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home's current executive team. Sevigny Aff. ¶ 7.

5. The Plan consists of three components. First, the Special Deputy Liquidator's present base compensation will remain at its 2003 level -- \$250 per hour. Second, the Plan provides an annual incentive bonus structure ("AI"). As with the AI component of the Special Deputy Liquidator's 2004 and 2005 compensation plans, the Liquidator will set annual goals for the Special Deputy Liquidator (*e.g.*, success in marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year). After the end of the year, the Liquidator will evaluate the Special Deputy Liquidator's performance with respect to each of those goals and determine the AI bonus based upon those

accomplishments. The 2006 AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of \$300,000 (down from \$400,000 in 2005). E&Y determined that this target dollar amount falls between the amounts available to other Home executives under their proposed 2006 incentive compensation plan. Third, a “Stay Bonus” covering a twelve month period from January 1, 2006 through December 31, 2006 of \$400,000 is payable on January 1, 2007. The 2005 “Stay Bonus” was also \$400,000.² The “Stay Bonus” provides a cash incentive to this senior and experienced insurance industry executive and encourages him to remain with Home. Assuming the Special Deputy Liquidator stays until January 1, 2007 and achieves all the AI goals, the estimated 2006 cost for the incentive/retention portions of the Plan would be \$700,000. Estimated 2006 payments to the Special Deputy Liquidator under the Consulting Agreement are an additional \$550,000. Sevigny Aff. ¶ 8.

6. The Liquidator’s consultants, E&Y, advise that the proposed Plan 2006 compensation provides for market competitive compensation in insurance company liquidations that is properly weighted toward variable or performance-based compensation, and encourages a continuation of the existing working relationship. Sevigny Aff. ¶ 9.

7. The Liquidator has authority under RSA 402-C: 25(I) and paragraph t of the Liquidation Order entered June 13, 2003, to appoint a special deputy and determine his compensation “subject to the court’s control.” The Liquidator also has authority pursuant to RSA 402-C: 25(IV) to use the property of Home to defray the costs of collecting its assets and liquidating its property and business.

8. For the reasons described above and in the Sevigny Affidavit, the Liquidator submits that the Plan is fair and reasonable and in the best interests of the liquidation and of

² In the event of death or disability both the AI bonus and the Stay Bonus are paid in full. In the event the Special Deputy Liquidator is terminated without cause, such bonuses will be pro-rated.

the policyholders and other creditors of Home.

WHEREFORE, the Liquidator requests that the Court enter an order in the form submitted herewith approving the Plan and grant such other and further relief as may be just.

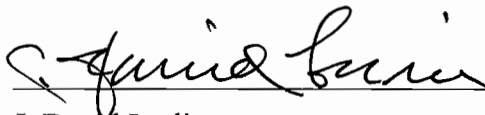
Respectfully submitted,

ROGER A. SEVIGNY, COMMISSIONER OF
INSURANCE OF THE STATE OF NEW
HAMPSHIRE, SOLELY AS LIQUIDATOR OF THE
HOME INSURANCE COMPANY,

By his attorneys,

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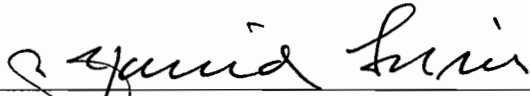


J. David Leslie
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Boston, MA 02111
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February 7, 2006

Certificate of Service

I hereby certify that a copy of the foregoing Liquidator's Motion for Approval of 2006 Compensation Plan for the Special Deputy Liquidator, the Affidavit of Roger A. Sevigny, Liquidator, and the proposed form of order were sent, this 7th day of February, 2006, by first class mail, postage prepaid to all persons on the attached service list.



J. David Leslie

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

In the Matter of the Liquidation of
The Home Insurance Company
Docket No. 03-E-0106

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November 17, 2005

PRIVATE AND CONFIDENTIAL

Mr. Roger Sevigny

In his capacity as Liquidator of the Home Insurance Company in Liquidation
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
Concord NH 03301-7317

Dear Commissioner Sevigny:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (E&Y) Human Capital Practice has been asked to review the competitiveness of Home's current compensation levels to typical market levels and provide a letter summarizing our findings. As a part of this engagement, E&Y advised the Liquidator that it would be appropriate to also review the Special Deputy Liquidator's (Peter Bengelsdorf's) existing compensation arrangements relative to typical market levels. The purpose of this letter is to identify the competitiveness of the Special Deputy Liquidator's current and proposed compensation levels to comparative market levels using the same methodology employed for our review of Home's 27 benchmarked positions (detailed under separate cover).

Similar to the analysis conducted for Home's Top Executives, companies in liquidation typically focus on "healthy company" pay levels to determine appropriate market compensation levels for their Special Deputy Liquidators because they will be competing with healthy companies to retain their liquidation employees.

BACKGROUND

Beginning in the fall of 2003, Ernst & Young developed three incentive compensation programs for the current executives and employees of Home specifically designed to meet the needs of the liquidation operations. These plans, the Retention Incentive Plan (RIP), the Annual Incentive Plan (AIP), and the Collection Incentive Plan (CIP) were approved by the State of New Hampshire Superior Court on April 21, 2004 (please see Docket No. 03-E-0106). Please note, in 2006 Home plans to eliminate the RIP plan and include the 13 non-exempt employees in the AIP. The Special Deputy Liquidator position does not participate in these incentive plans. The Liquidator is the administrator of the RIP, AIP and CIP plans and the Special Deputy Liquidator, by delegation, is responsible for monitoring the operation of the three plans. As such, it is appropriate for the Special Deputy Liquidator's compensation to be independent of these plans.

The Special Deputy Liquidator is the top executive of Home serving as an independent contractor to the State of New Hampshire and reporting directly to the Commissioner. We have reviewed the scope and duties of the Special Deputy Liquidator position and, based on our experience in working with other companies in liquidation and distressed situations as well as "healthy"

companies, identified comparable positions against which to develop a market competitive compensation program for the Special Deputy Liquidator position.

The Special Deputy Liquidator presently has a 2 year contract which expires on December 31, 2005. The current compensation arrangement for the Special Deputy Liquidator consists of a base salary of \$600,000, a performance bonus of \$400,000 and a "stay" bonus of \$400,000 established by the Independent Consultant Agreement between Mr. Bengelsdorf and the State of New Hampshire. Mr. Bengelsdorf does not receive any health and welfare, retirement or severance benefits from Home.

In contemplation of a one-year contract being established for the Special Deputy Liquidator for fiscal 2006, the summary below includes an assessment of the competitiveness of Mr. Bengelsdorf's current compensation as well as his proposed compensation levels for 2006.

Compensation Program Objectives

Previously, Ernst & Young developed an overall compensation framework for the Special Deputy Liquidator based on four (4) primary objectives:

1. Recognize Mr. Bengelsdorf's role as the top executive of Home;
 - Preserve the position's contractor status but recognize that, in terms of time spent, Mr. Bengelsdorf is more than a full-time employee and is filling the role of the top executive;
2. Acknowledge significant contributions that have already occurred;
 - Acknowledge the significant amount of value that had already been contributed to the liquidation process by the Special Deputy Liquidator with liquid assets (including early access payments) at March 5, 2003 of \$12.7 million to approximately \$744.2 million as of September 30, 2005;
3. Align incentives with the Liquidation's goals;
 - Provide Mr. Bengelsdorf with a structured incentive plan of performance objectives that aligns his objectives with Home's creditors.
 - Mr. Bengelsdorf's primary responsibilities are to: (1) effectively marshal assets of the estate, (2) hire and maintain an adequate staff, (3) file timely and appropriate reports on the Liquidation's status and (4) operate the Liquidation in a cost effective manner;
4. Use available comparable market compensation data;
 - Develop competitive market data consistent with Published Survey Analysis and Proxy Analysis;
 - Remain consistent with competitive market positioning in relation to the current executive team.

Compensation Components (Please See Exhibit I)

The current and proposed total direct compensation (TDC) for the Special Deputy Liquidator position consists of three (3) components:

1. **Base Compensation:**

- **Current Base Compensation Level:** Mr. Bengelsdorf's estimated 2005 compensation based on a rate of \$250 per hour (has not changed since the inception of the liquidation proceeding) is approximately \$560,000.
- **Proposed Base Compensation Level:** The rate per hour will be unchanged from the current arrangement; however, Mr. Bengelsdorf has estimated that his annualized base salary will approximate \$550,000 (assuming an estimated 2,200 hours billed). During the period November 2004 and October 2005 Mr. Bengelsdorf billed 2,252 hours but worked 2,574 hours.
- **Please Note:** In order to present base compensation in the same manner as other Home employees and to develop an apples-to-apples comparison with market data, we have adjusted the base compensation to reflect the fact that Mr. Bengelsdorf does not receive employee benefits from Home.
 - Specifically, the estimated 2005 compensation level of \$560,000 and the proposed base compensation level of \$550,000 have been reduced by 25% to adjust for the typical benefits offered to a CEO position.
 - This adjustment results in current base compensation of \$448,000 (or \$560,000/1.25) and a proposed base compensation level of \$440,000 (or \$550,000/1.25)

2. Performance Bonus or Annual Incentive ("AI") Bonus Structure

The current and proposed Performance Bonus is established and determined by the Liquidator in accordance with the process described below.

- Annually, at the outset of the plan cycle, the Liquidator sets the annual goals for this plan (*e.g.* success in marshalling assets, organization performance within budget, implementation of an effective claim determination operation, extent of early access distributions, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year).
- After the end of the plan cycle, the Liquidator evaluates Mr. Bengelsdorf's performance with respect to each of those goals and determines the AI bonus based upon those accomplishments.
- **Current Performance Bonus "AI" Target Level:** Mr. Bengelsdorf's current AI opportunity is a target dollar amount of \$400,000.
- **Proposed Performance Bonus "AI" Target Level:** Mr. Bengelsdorf has asked to lower his targeted performance bonus amount to \$300,000.
- The proposed \$300,000 target Performance Bonus opportunity falls between the amounts available to other Home executives.
- Any AI Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

3. "Stay" Bonus

- **Current Stay Bonus Compensation Level:** Mr. Bengelsdorf's current "Stay" Bonus opportunity is \$400,000 (covering the twelve month period from January 1, 2005 to December 31, 2005) payable January 1, 2006.

- **Proposed Stay Bonus Compensation Level:** Unchanged from the current arrangement with the proposed “Stay” Bonus opportunity at \$400,000 (covering the twelve month period from January 1, 2006 to December 31, 2006) payable January 1, 2007.
- Such “Stay” Bonus will be pro-rated in the event Mr. Bengelsdorf is terminated without cause. In the event of death or disability, such amount will be paid in full.

FINDINGS – COMPETITIVENESS OF COMPENSATION TO MARKET LEVELS

Among healthy companies, TDC typically reflects an incumbent’s base salary plus annual and long-term incentives. For the purposes of assessing the competitiveness of Mr. Bengelsdorf’s TDC to market, TDC for Mr. Bengelsdorf reflects base salary plus annual and retention incentives. Compensation theory and our experience indicate that a competitive compensation level is one that approximates 85% - 115% of targeted market levels (typically 50th percentile, to 75th percentile).

Mr. Bengelsdorf’s current TDC after reducing the base salary by 25% to adjust for the absence of the employee benefits currently provided to Home employees, is competitive (or 87.2%) to median (50th percentile) market levels and is significantly less than competitive (or 69.2%) of 75th percentile market levels. (Please see Exhibit I for additional details). Mr. Bengelsdorf’s proposed TDC, after reducing the estimated base salary by 25% to adjust for the absence of the employee benefits currently provided to Home employees, is at the low end of the competitive range (or 79.7%) of median market levels and is significantly less than competitive (or 63.2%) of 75th percentile market levels. (Please see Exhibit I for additional details).

Current Compensation

Compensation Component	2005 Compensation	Competitive Market		Overall Competitiveness	
		Median	75th Percentile	Median	75th Percentile
Base Salary Adjusted	\$448.0	\$524.1	\$674.6	85.5%	66.4%
Performance Incentive	\$400.0	\$399.6	\$548.8	100.1%	72.9%
Retention Award	\$400.0	\$0.0	\$0.0	---	---
Total Cash Compensation	\$1,248.0	\$923.7	\$1,223.4	135.1%	102.0%
Long-Term Incentive (Equity)	\$0.0	\$399.7	\$547.4	---	---
Total Direct Compensation	\$1,248.0	\$1,430.6	\$1,803.8	87.2%	69.2%

**** Please note that a competitive compensation level is defined as one which falls within an 85% to 115% range of the indicated market consensus level.**

Proposed Compensation

Compensation Component	Proposed Compensation	Competitive Market		Overall Competitiveness	
		Median	75th Percentile	Median	75th Percentile
Base Salary Adjusted	\$440.0	\$524.1	\$674.6	83.9%	65.2%
Performance Incentive	\$300.0	\$399.6	\$548.8	75.1%	54.7%
Retention Award	\$400.0	\$0.0	\$0.0	---	---
Total Cash Compensation	\$1,140.0	\$923.7	\$1,223.4	123.4%	93.2%
Long-Term Incentive (Equity)	\$0.0	\$399.7	\$547.4	---	---
Total Direct Compensation	\$1,140.0	\$1,430.6	\$1,803.8	79.7%	63.2%

Ernst & Young LLP

Mr. Roger Sevigny

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November 17, 2005

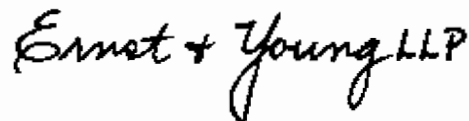
**** Please note that a competitive compensation level is defined as one which falls within an 85% to 115% range of the indicated market consensus level.**

SUMMARY CONCLUSIONS

Overall, the proposed total direct compensation for the Special Deputy Liquidator represents a program that is weighted toward variable or performance-based compensation while also encouraging a continuation of the existing relationship. The proposed TDC (base compensation plus Performance Bonus and "Stay" Bonus) for the Special Deputy Liquidator, if performance objectives are achieved, will be approximately \$1.14 million (note, The Special Deputy Liquidator receives no benefits from the Home). This amount is below the market median (50th percentile) TDC level. This positioning is less competitive than the total direct compensation for Home's other top executives, which is between the 50th and 75th percentiles.

We sincerely appreciate the opportunity to continue to provide human resource advisory assistance to Home Insurance Company in Liquidation on this engagement. Please do not hesitate to call Martha Cook at 404.817.5734 if you have any questions.

Very truly yours,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Copy to: Bill Kane; Ernst & Young, Philadelphia
Martha Cook; Ernst & Young, Atlanta
Bram Hechtkopf; Ernst & Young, Atlanta