

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**

**AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR,
IN SUPPORT OF MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT
WITH U.S. PAPER MILLS**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed Special Deputy Liquidator of the Home Insurance Company (“Home”), by the Insurance Commissioner for the State of New Hampshire, as Liquidator (“Liquidator”) of Home. I submit this affidavit in support of the Liquidator’s Motion for Approval of Settlement Agreement with U.S. Paper Mills. The facts and information set forth are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

2. The motion seeks approval for the Settlement Agreement and Mutual Release (“Settlement Agreement”) among U.S. Paper Mills Corp., f/k/a Sonoco U.S. Mills Inc. (“U.S. Paper Mills”) and the Liquidator. The Settlement Agreement was negotiated under my supervision. A copy of the Settlement Agreement is attached as Exhibit A to the Liquidator’s motion.

3. Home issued 13 insurance policies to U.S. Paper Mills for certain policy periods between December 31, 1970 and December 31, 1979. Upon Home’s placement in liquidation, U.S. Paper Mills filed a proof of claim in the Home liquidation regarding claims under the

policies, including but not limited to claims for coverage for environmental clean up costs and damages.

4. The Liquidator and U.S. Paper Mills have negotiated a Settlement Agreement reflecting a resolution of the proofs of claim and all matters under the policies. The Settlement Agreement is subject to approval by the Court. Settlement Agreement ¶ 1.

5. The Settlement Agreement provides that the Liquidator will recommend allowance of the proofs of claim in the aggregate amount of \$4,500,000 as a Class II priority claim under RSA 402-C:44. Settlement Agreement ¶ 2(A). Allowance of the recommended amount as a Class II claim will fully and finally resolve all the proofs of claim and all claims U.S. Paper Mills has under the policies. Id. ¶ 2(B). Distributions based on that allowance will be made at the same intervals and at the same percentages as distributions to other Class II creditors of Home. Id. ¶ 2(C).

6. The Settlement Agreement is intended to resolve the proofs of claim, and all claims under the policies. See Settlement Agreement ¶¶ 2(B), 5. To that end, the Settlement Agreement provides for mutual releases of all claims between Home and U.S. Paper Mills arising from or related to the proofs of claim or the policies. Id. ¶¶ 3, 4. The Liquidator also agrees not to pursue certain claims respecting U.S. Paper Mills against other insurers that agree not to pursue such claims against Home. Id. ¶ 6.

7. The Liquidator is not aware of any third party claimants asserting claims under the policies. However, in resolving all matters relating to the proofs of claim and the policies, the Settlement Agreement contemplates denial of any third party claimants' claims under the policies in the Home liquidation without prejudice to their claims against U.S. Paper Mills. Accordingly, U.S. Paper Mills acknowledges in the Settlement Agreement that it is intended to

resolve all matters between U.S. Paper Mills and the Liquidator/Home relating to the proofs of claim and the policies, including asserted rights of third party claimants. Settlement Agreement ¶ 5. U.S. Paper Mills agrees to address, at its sole cost, the claims of claimants asserting claims against U.S. Paper Mills as if U.S. Paper Mills had no insurance coverage from Home under the policies. Id. U.S. Paper Mills agrees to indemnify the Liquidator and Home against claims arising from the policies up to the amounts actually distributed to U.S. Paper Mills. Id.

8. The denial of any third party claimants' proofs of claim without prejudice to their claims against U.S. Paper Mills will not harm the third party claimants, who will continue to have their full claims against U.S. Paper Mills. As noted above, U.S. Paper Mills has agreed to address these claims as if it had no insurance coverage from Home under the policies.

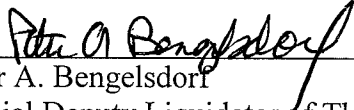
Settlement Agreement ¶ 5. Third party claimants' proofs of claim against the insolvent Home, if not denied with this agreement, would release U.S. Paper Mills from those claims up to the limits of the policies but only entitle the third party claimants (assuming their claims are allowed) to a presently undetermined percentage distribution at the future date when a distribution is made. It is not expected that the allowed claims of any third party claimants (or other Class II creditors) will be paid in full. Under the Settlement Agreement, U.S. Paper Mills will continue to be fully responsible for any third party claimants' claims against it. See Settlement Agreement ¶ 5.

9. The Settlement Agreement reflects a compromise of the claims asserted in the proofs of claim. It is the result of negotiations involving Home's Claims Department, under my supervision, which has extensive experience in assessing the exposure presented by environmental claims under Home's insurance policies. The agreed settlement amount is based on careful evaluation and negotiation of coverage obligations under Home's policies respecting

the underlying liabilities of U.S. Paper Mills. The Liquidator accordingly recommends approval of the Settlement Agreement and allowance of the \$4,500,000 settlement amount as a Class II claim in accordance with RSA 402-C:45 and RSA 402-C:44.

10. I believe that the Settlement Agreement is fair and reasonable and in the best interests of the policyholders and creditors of Home.

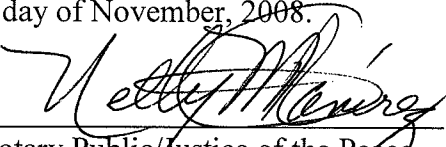
Signed under the penalties of perjury this 13th day of November, 2008.



Peter A. Bengelsdorf
Special Deputy Liquidator of The Home Insurance
Company

STATE OF NEW YORK
COUNTY OF NEW YORK

Subscribed and sworn to, before me, this 13th day of November, 2008.



Notary Public/Justice of the Peace

NELLY M. GOMEZ
Notary Public, State of New York
No ~~0100~~ 5005271
Qualified in ~~Rock~~ County
Certificate Filed in ~~New York~~ County
Commission Expires December 7, ~~2010~~