



ISLAND INSURANCE
COMPANIES

October 12, 2004

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Bobby N. Harmon, CPCU, ARM
10591 Southgate Manor Dr., #4
Louisville, Kentucky 40229

Re: Demand for Arbitration (American Arbitration Association)
Claimant: Mary Lou Woo, Trustee
Reference No.: 74 166 00491 03 JUSC
Policy No.: THB 2951831

Dear Mr. Harmon:

This is to respond to your letters of September 23, 2004 and September 27, 2004, in the above-referenced matter. Tradewind Insurance continues to adhere to its position that the above-referenced policy provides you with no coverage for the claims asserted in the Demand for Arbitration. Accordingly, Tradewind Insurance reiterates its disclaimers of coverage and denials of your tender of defense as set forth in letters dated June 2, 2003, August 29, 2003, and September 23, 2003.

Your September 23, 2004 letter indicates that the Arbitrator has now "awarded damages to Trustee Mary Lou Woo in the form of legal fees and expenses in excess of \$57,000, and arbitration fees in excess of \$16,000. Also being awarded are yet-undetermined amounts of fines for alleged violations of the Settlement Agreement."

Such awards of legal fees and arbitration fees do not qualify as "damages" under the subject policy. Moreover, as set forth in our earlier letters, the underlying claims raised against you in the Demand for Arbitration do not fall within the scope of coverage of, or are otherwise excluded under, the subject policy. "Fines," which are punitive in nature, also do not qualify as "damages" under the subject policy. Hawaii law expressly provides that exemplary or punitive damages are not covered under the subject policy. Section 431:10-240 of the Hawaii Revised Statutes provides as follows:

Coverage under any policy of insurance issued in this State shall not be construed to provide coverage for punitive or exemplary damages unless specifically included.

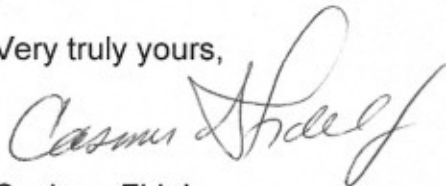
Mr. Bobby N. Harmon
October 12, 2004
Page 2

The subject policy does not "specifically include" coverage for punitive or exemplary damages; therefore, "fines" do not fall within the scope of coverage.

As before, Tradewind Insurance reserves the right to supplement this and any previous disclaimer with additional policy defenses in the event further information and investigation reveal additional facts and circumstances. Should you become aware of any other facts or information that might assist Tradewind Insurance's evaluation of the coverage issues, please communicate such facts or information to us as soon as possible.

If you have any questions regarding the foregoing, please do not hesitate to contact the undersigned or our coverage counsel, Michael N. Tanoue, of The Pacific Law Group, at (808) 523-2999. Thank you for your attention to this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Casimer Fidele".

Casimer Fidele
Claim Representative

cc: Michael N. Tanoue, Esq.