

DOCKET NO. CV-02-814173-S : SUPERIOR COURT
 :
 THE CONNECTICUT SURETY : JUDICIAL DISTRICT OF
 COMPANY, IN LIQUIDATION : HARTFORD
 :
 : AT HARTFORD
 :
 : MAY 29 2003

ORDER FOR SUBSTANTIVE CONSOLIDATION

Upon the Motion of Susan F. Cogswell, Insurance Commissioner of the State of Connecticut (the "Commissioner") for Substantive Consolidation of The Connecticut Surety Company and its Affiliates (the "Motion") dated April 30, 2003, and pursuant to The Insurers Rehabilitation and Liquidation Act, Conn. Gen. Stat. §§ 38a-903 - 38a-961, inclusive (the "Act"), and upon the Order of Liquidation (the "CSC Liquidation Order") entered by this Court in respect of The Connecticut Surety Company ("CSC") dated May 17, 2002, it is hereby **ORDERED:**

Substantive Consolidation: Fixing of Rights and Liabilities

1. Connecticut Surety Corporation, Connecticut Surety Insurance Agency, Inc., Funds Management, Inc., Connecticut Surety Insurance Agency of Arizona, Inc., Bonds II Surety Group, Inc. and Connecticut Surety Insurance Agency of Nevada, Inc. (collectively, the "Affiliates", and, together with CSC, the "Connecticut Surety Group") are hereby substantively consolidated into CSC for purposes of receivership under the Act as of 10 o'clock in the forenoon of this 29 day of May, 2003. The assets and liabilities of the Affiliates shall now be assets and liabilities of a single estate to be administered by the Liquidator for all creditors of the

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Connecticut Surety Group. The Affiliates shall be subject to the jurisdiction of this Court and shall, in their existing form, cease all operations. The title of this case shall be changed to “The Connecticut Surety Company, Connecticut Surety Corporation, Connecticut Surety Insurance Agency, Inc., Funds Management, Inc., Connecticut Surety Insurance Agency of Arizona, Inc., Bonds II Surety Group, Inc. and Connecticut Surety Insurance Agency of Nevada, Inc., in Liquidation”; however, the case number shall remain the same.

2. The Commissioner, and her successors in office (collectively, the "Liquidator") are hereby appointed liquidator of each of the Affiliates, and shall administer the assets of the Affiliates jointly along with those of CSC.

3. Except as otherwise provided herein and in Conn. Gen. Stat. § 38a-939, the rights and liabilities of the Affiliates and of their creditors, shareholders and all other persons interested in their estate are fixed as of the date of this Order.

General Powers and Duties of Liquidator; Immunity

4. The Liquidator is hereby vested, in addition to the powers and authority set forth in this Order, with all powers and authority expressed or implied under the Act and the powers and authority provided for in the CSC Liquidation Order.

5. Pursuant to Conn. Gen. Stat. § 38a-920, (a) the Liquidator is hereby vested with the title to all of the property, contracts, and rights of action and all of the books and records of the Affiliates, wherever located, and (b) the Liquidator is hereby directed forthwith to take possession of the assets of the Affiliates and to administer them under the general supervision of the Court. The filing or recording of this Order with the clerk of the Superior Court and with the recorder of deeds of the town in which the Affiliates' principal office or place of business is

located, or, in the case of real estate with the recorder of deeds of the town where the property is located, shall impart the same notice as a deed, bill of sale, or other evidence of title duly filed or recorded with that recorder of deeds would have imparted.

6. Certain bank accounts identified in the Motion stand in the name of certain of the Affiliates, but contain either insurance premiums or collateral security for surety bonds underwritten by CSC or other insurers (the "Accounts"). To the extent that the Accounts contain property which is beneficially owned by third parties or to the extent that the Accounts contain property which is beneficially held as collateral for third parties, the Accounts will not be available to satisfy the claims of creditors of the Affiliates or CSC.

7. The Liquidator is hereby authorized, in her sole discretion, to maintain the existing bank accounts of the Affiliates. The Liquidator is also authorized to deposit funds in banks and other institutions in accounts which are insured by the Federal Deposit Insurance Corporation and to invest funds which are not immediately necessary for the administration of the case in the Short Term Investment Fund managed by the Treasurer of the State of Connecticut or obligations of the United States government or agencies and instrumentalities thereof.

8. In the event that the consolidated estate of the Connecticut Surety Group does not contain sufficient cash or liquid assets to defray the costs incurred, the Commissioner may advance the costs so incurred out of any appropriation for the maintenance of the Insurance Department. Any amounts so advanced for expenses of administration shall be repaid to the Commissioner for the use of the Insurance Department out of the first available money of the Connecticut Surety Group.

9. The Liquidator is hereby authorized to abandon, without further order of the Court, property of the Affiliates which, in her discretion, she deems burdensome or of insubstantial value. The Liquidator is further authorized and empowered to sell, transfer, and convey her right, title, and interest and the right, title, and interest of the Affiliates in and to any real property, personal property (tangible and intangible), licenses or any other assets of the Affiliates, for such sums of money and on such terms as appears reasonable, at public or private sales.

10. Except as otherwise expressly provided herein, the entry of this Order shall not constitute an anticipatory breach or repudiation of any contracts of any of the Affiliates, which contracts may be affirmed or disavowed by the Liquidator at any time during the pendency of this case pursuant to the Act with the approval of this Court, said approval to be sought by motion to this Court on no less than ten (10) days written notice to the other party or parties to any contract proposed to be affirmed or disavowed, and to any other person or entity who or which has filed or will hereafter file an appearance in the CSC liquidation proceedings (the "Notice Parties").

11. The Liquidator may sue, defend and continue to prosecute suits or actions already pending in the courts and tribunals, agency or arbitration panels in this state and other states, and may settle controversies in respect of debts and claims owing to the Affiliates, and claims against the estate in these proceedings, on such terms as appear reasonable to the Liquidator.

12. To the fullest extent provided by law including, but not limited to Conn. Gen. Stat. § 38a-909, the Liquidator, her employees, and other personnel retained by the Liquidator pursuant to this Order and/or the CSC Liquidation Order shall have official immunity and shall be immune from suit and liability, both personally and in their official capacity, for any claim or other civil liability in respect of any alleged act, error or omission of the Liquidator, her

employees and retained personnel arising out of or by reason of their duties, employment or retention with respect to these liquidation proceedings or the prior rehabilitation proceedings.

Injunctions

13. The following injunctions set forth in paragraphs 14 through 22 hereof shall apply to entities and persons no matter where they are located, and shall apply to all actions commenced or pending in any jurisdiction, whether in or outside of Connecticut.

14. All officers, managers, directors, trustees, owners, employees or agents of the Affiliates, or any other persons with authority over or in charge of any segment of the Affiliates' affairs, shall, in accordance with Conn. Gen. Stat. § 38a-908, cooperate with the Liquidator.

15. All officers, managers, directors, trustees, owners, employees, agents and creditors of the Affiliates, and all other persons or entities of any nature are hereby stayed, enjoined and restrained, pursuant to Conn. Gen. Stat. § 38a-907, from:

- (a) the transaction of further business;
- (b) the transfer of property;
- (c) interference with the Liquidator;
- (d) waste of the Affiliates' assets;
- (e) dissipation and transfer of bank accounts;
- (f) the institution or further prosecution of any actions or proceedings in which any Affiliate is a party;
- (g) the obtaining of preferences, judgments, attachments, garnishments, or liens against any Affiliate or its assets;
- (h) the levying of execution against any Affiliate or its assets;

- (i) the making of any sale or deed for nonpayment of taxes or assessments that would lessen the value of the assets of any Affiliate;
- (j) the withholding from the liquidator of books, accounts, documents, or other records relating to the business of the Affiliates; or
- (k) any other threatened or contemplated action that might lessen the value of any Affiliate's assets or prejudice the rights of the creditors or shareholders, or the administration of this receivership proceeding.

16. All persons who have in their possession, custody or control, assets of any Affiliate of any kind whatsoever and wherever situated, including but not limited to, monies, books, records (including but not limited to data processing information, source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to the Affiliate), and personal or real property, are directed forthwith to deliver upon demand such assets or books, records and information to the Liquidator.

17. All affiliated companies and any company that shall have acquired any assets or business of any Affiliate at any time shall make their books, data processing information, and records (collectively, the "Documents") available for inspection and copying by the Liquidator, and shall relinquish possession of the originals of any of the Affiliates' records that may be in their possession to the Liquidator. Any Documents sought by the Liquidator, which are claimed in good faith by the party in possession of such Documents to be privileged or outside the scope of the preceding sentence, shall immediately be presented to this Court by such party for a determination of the Liquidator's entitlement to access to such Documents.

18. The Affiliates and their current or former officers, directors, trustees, employees, agents, shareholders, owners and attorneys shall deliver to the Liquidator keys or access codes to the premises where the Affiliates conduct business and to any safe deposit boxes, and shall advise the Liquidator of the combinations or access codes of any safes or safe keeping devices of the Affiliates.

19. The Affiliates and their current or former officers, directors, trustees, employees, agents and attorneys shall identify for the Liquidator all of the assets, books, records, files, credit cards, or other property of the Affiliates, shall tender or make readily available to the Liquidator, in the Liquidator's discretion, all of the foregoing, and shall otherwise advise and cooperate with the Liquidator in identifying and locating any of the Affiliates' assets.

20. Any bank, savings and loan association, other financial institution, including any other entity or person, which has on deposit or in its possession, custody or control any funds, accounts and any other assets of the Affiliates, including the Accounts identified in paragraph 6 hereof, shall immediately transfer title, custody and control of all such funds, accounts or assets to the Liquidator and is instructed that the Liquidator has absolute control over such funds, accounts and other assets, and that the Liquidator may change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of the liquidation.

21. No bank, savings and loan association, reinsurer, other financial institution, or any other person or entity shall exercise any form of set-off, alleged set-off, lien, or any form of self-help whatsoever or refuse to transfer any funds or assets to the Liquidator's control without the permission of this Court.

22. No creditor shall have the right to setoff or recoup any claim against CSC or an Affiliate from an obligation of such creditor unless such obligation was owed to the entity against which the claim could be asserted (without regard to the substantive consolidation effectuated pursuant to this Order).

23. The procedures set forth in the Motion for the filing of proofs of claim are hereby approved. Proofs of claim shall be filed with the Liquidator in the form required by Conn. Gen. Stat. § 38a-938 at the address and in the manner specified in the Claim Notice (defined below). Any and all claims against any Affiliate not presented to the Liquidator on or before August 29, 2003, shall be forever barred from sharing in distributions of the assets of the Connecticut Surety Group except as provided in Conn. Gen. Stat. § 38a-937. If notice is given in accordance with this Order, the distribution of assets of the Connecticut Surety Group in these proceedings shall be conclusive with respect to all claimants whether or not they receive notice.

Notices and Reports

24. The Liquidator shall give or cause to be given notice of this Order and proof of claim procedures (the "Claim Notice") via first-class mail, postage prepaid, to (i) all known creditors of each of the Affiliates including agents and producers; (ii) all last known directors and officers of each of the Affiliates; (iii) all shareholders of the Connecticut Surety Corporation; (iv) the taxing authorities with which each of the Affiliates had previously filed returns, and (v) the Connecticut Attorney General. The Claim Notice shall be substantially in the same form approved by this Court in the CSC Liquidation Order.

25. The Liquidator also shall cause the Claim Notice (or a shortened version thereof) to be published for one day in the Hartford Courant and in other newspapers if the Liquidator deems further publication to be appropriate.

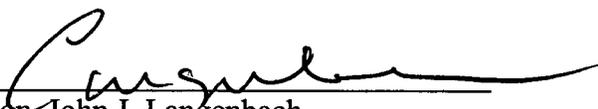
26. The Liquidator shall file the financial reports required by Conn. Gen. Stat. § 38a-920. Such reports may be filed on a consolidated basis as the Connecticut Surety Group and on the same schedule as those required for CSC in the CSC Liquidation Order.

Continuing Jurisdiction

27. This Court shall retain jurisdiction over this matter for all purposes necessary to effectuate and enforce this Order. The Liquidator may at any time make further application for any such further relief, including, without limitation, any restraining order, preliminary or permanent injunctions, and other orders as she deems necessary.

Dated this 29th day of May, 2003 in Hartford, Connecticut.

APPROVED AND SO ORDERED this 29th day of May, 2003.



Hon. John J. Langenbach
Superior Court Judge