

RETURN DATE: MARCH 19, 2002

SUSAN F. COGSWELL, INSURANCE
COMMISSIONER OF THE STATE
OF CONNECTICUT

VS.

CONNECTICUT SURETY COMPANY

: SUPERIOR COURT
:
: JUDICIAL DISTRICT OF
: HARTFORD

:
:
: FEBRUARY 5, 2002

ORDER OF REHABILITATION

The Court enters this Order by consent of the parties, Susan F. Cogswell, Insurance Commissioner of the State of Connecticut (the "Commissioner") and The Connecticut Surety Company (the "Company") as provided in Conn. Gen. Stat. § 38a-914(l).

IT IS HEREBY ORDERED:

1. This Order of Rehabilitation is entered into pursuant to the provisions of The Insurers Rehabilitation and Liquidation Act (the "Act"), Conn. Gen. Stat. §§ 38a-903 to 38a-961 and more particularly Conn. Gen. Stat. § 38a-914(l). The consent of the sole director and the sole shareholder of the Company are attached hereto as Exhibits A and B.

2. Sufficient cause exists for the rehabilitation of the Company pursuant to the Act, accordingly, the Company is placed in rehabilitation under the Act, and as of ^{9:30} o'clock in the ^{even}noon of this ^{6th} day of February, 2002, the Company shall in its existing form cease all operations and "The Connecticut Surety Company in Rehabilitation"

shall continue as successor of the Company, consistent with the terms of this and all subsequent Orders of this Court. The title of this case shall hereafter be "In the matter of The Connecticut Surety Company," but the case number shall remain the same.

3. The Commissioner and her successors in office (collectively, the "Rehabilitator") are hereby appointed Rehabilitator of the Company and are vested, in addition to the powers and authority set forth in this Order, with all powers and authority expressed or implied under the Act.

4. Pursuant to Conn. Gen. Stat. § 38a-915(a), the Rehabilitator is granted and directed to take forthwith possession and control of and title to the assets and property of the Company 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 or with the recorder of deeds of the judicial district in which the principal business of the Company is conducted or in which the Company's principal office or place of business is located, shall impart the same notice as a deed, bill of sale or other evidence of title duly filed or recorded with the recorder of deeds would have imparted. Title to all assets and property of the Company, wherever located, is vested by operation of law in the Rehabilitator.

5. The Rehabilitator shall have all the powers and duties set forth in Conn. Gen. Stat. § 38a-916, including, without limitation, the authority to appoint one or more special deputies who shall have all of the powers and responsibilities of the

Rehabilitator under said section, and the Rehabilitator may employ such counsel, consultants, clerks, and assistants as deemed necessary. The compensation of any such special deputies, counsel, consultant, clerks or assistants and all expenses of taking possession of the Company and of conducting the proceedings and activities under the Act shall be fixed by the Rehabilitator, with the approval of the Court, and shall be paid out of the funds or assets of the Company.

6. The Rehabilitator may take such actions as she deems necessary or appropriate to reform and revitalize the Company, or if the Receiver determines that further efforts to rehabilitate the Company would substantially increase the risk of loss to creditors, policyholders or the public, or would be futile, she may apply to this Court for an Order of Liquidation pursuant to Conn. Gen. Stat. § 38a-918. The Rehabilitator shall have all the powers of the directors, officers and managers, whose authority shall be suspended, except as they are redelegated by the Rehabilitator. The Rehabilitator shall have full power to direct and manage, to hire and discharge employees subject to any contract rights they may have and to deal with the property and business of the Company. Pursuant to Conn. Gen. Stat. § 38a-916(f), the Rehabilitator may exercise any of the powers under Conn. Gen. Stat. § 38a-923, as necessary or appropriate.

7. The Rehabilitator may, in her discretion, pay expenses incurred in the ordinary course of the Company's business in rehabilitation and may, in her discretion, pay the actual, reasonable and necessary costs of preserving or recovering the assets

of the Company and the costs of goods and services provided to the Company's estate. Such costs shall include but not be limited to: (a) reasonable professional fees for accountants, actuaries, attorneys and consultants retained by the Rehabilitator; (b) compensation and other costs related to representatives and employees of the Company; and (c) a reasonable allocation of costs and expenses associated with time spent by Connecticut Insurance Department personnel in connection with the rehabilitation of the Company.

8. The Rehabilitator may, in her discretion, pay claims for losses under policies and contracts of insurance and loss adjustment expenses; or in the alternative, impose a moratorium on such payments.

9. In the event that the property of the Company does not contain sufficient cash or liquid assets to defray the costs incurred, the Commissioner may advance 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 Company.

10. The Rehabilitator shall have the authority to pursue all appropriate legal remedies on behalf of the Company, including without limitation, the powers granted pursuant to Conn. Gen. Stat. §§ 38a-916(f), 38a-928, and 38a-929 to avoid fraudulent transfers, and the powers pursuant to Conn. Gen. Stat. §§ 38a-916(d) with regard to

any criminal or tortious conduct or breach of any contractual or fiduciary obligation detrimental to the Company by any owner, shareholder, officer, manager, agent, broker, employee or other person, or entity.

11. Pursuant to Conn. Gen. Stat. § 38a-916(e), if the Rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger or other transformation of the Company is appropriate, she shall prepare a plan to effect such changes. Upon application of the Rehabilitator for approval of the plan, and after such notice and hearing as the Court may prescribe, the Court may either approve or disapprove the proposed plan or may modify the plan and approve it as modified.

12. The Rehabilitator is authorized to accept or reject new or renewal business.

13. The Rehabilitator shall file no later than March 8, 2002, an accounting statement with the Court and shall file accounting statements thereafter with the Court at such times as the Rehabilitator deems necessary, but no less often than semiannually. Each such accounting shall include a report concerning the Rehabilitator's opinion as to the likelihood that a plan under Conn. Gen. Stat. § 38a-916(e) will be prepared by the Rehabilitator and the timetable for doing so.

14. The entry of this Order shall not constitute an anticipatory breach of any contracts of the Company nor shall it be grounds for retroactive revocation or

retroactive cancellation of any contracts of the Company unless such revocation or cancellation is done by the Rehabilitator pursuant to Conn. Gen. Stat. § 38a-916.

INJUNCTIONS

15. All officers, managers, directors, trustees, owners, employees or agents of the Company, or any other persons with authority over or in charge of any segment of the Company's affairs, including, but not limited to, banks, savings and loan associations, financial or lending institutions, brokers, stock or mutual associations, or any parent, holding company, subsidiary or affiliated corporation or any other representative acting in concert with the Company, shall, in accordance with Conn. Gen. Stat.

§ 38a-908, cooperate with the Rehabilitator in the performance of her duties. The definition of "to cooperate" shall include, but not be limited to, a duty to do the following:

(a) Reply promptly in writing to any inquiry from the Rehabilitator requesting such a reply;

(b) Immediately deliver to, and immediately make available to, the Rehabilitator any books, accounts, documents, records, information, computers, tapes, discs, writings, any other recording of information, pertaining to, or the property of, the Company in his or her possession or control; and

(c) Disclose verbally or in writing, in the transmission requested by the Rehabilitator, the exact whereabouts of such items and information referenced in paragraph (b) above, if not in possession, custody or control of the officers, directors,

trustees, employees or agents of the Company, or any other person, firm, association, partnership, corporation or other entity in charge of any aspect of the Company's affairs.

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

(a) the transaction of further business of the Company unless so authorized by the Rehabilitator;

(b) transferring, selling, concealing, terminating, canceling, destroying, disposing or assigning any assets, funds or other property of any nature of the Company;

(c) any interference, in any manner, with the Rehabilitator in her possession of or title to the property and assets of the Company or in the discharge of her duties as Rehabilitator;

(d) any waste of the Company's assets or property;

(e) dissipation and transfer of bank accounts and negotiable instruments;

(f) the institution or further prosecution of any actions or proceedings in which the Company is a party;

(g) the obtaining of preferences, judgments, attachments, garnishments or liens against the Company, its assets, or its policyholders;

(h) the levying of execution against the Company, its assets, or its policyholders;

(i) the making of any sale or deed for nonpayment of taxes or assessments that would lessen the value of the assets of the Company;

(j) the withholding from the Rehabilitator or his designees of books, accounts, documents, or other records relating to the business of the Company; or

(k) any other threatened or contemplated action that might lessen the value of the Company's assets or prejudice the rights of policyholders/enrollees, creditors, or shareholders, or the administration of the receivership proceeding.

17. All persons who have in their possession, custody or control, assets of the Company of any kind whatsoever and wherever situate, including but not limited to, monies, bank accounts, safe deposit boxes, safes, stock certificates, bonds, certificates of deposit, cash, 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 Company), or any other property, real, personal or mixed, are directed forthwith to inform the Rehabilitator by sworn written statement, of the nature, description and location of all assets or other property of the Defendant not located on the premises of the Company,

and to deliver upon demand such assets, property or records and information to the Rehabilitator.

18. All affiliated companies shall, upon demand, make their books, data processing information, and records (collectively, "documents") available for inspection and copying by the Rehabilitator, and shall, upon demand, relinquish possession of the originals of any of the Company's records that may be in their possession to the Rehabilitator. Any documents sought by the Rehabilitator 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 the Court by such party for a determination of the Rehabilitator's entitlement to access to such documents.

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

transfer title, custody and control of all such funds, accounts or assets to the Rehabilitator and is instructed that the Rehabilitator has absolute control over such funds, accounts and other assets, and that the Rehabilitator 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 receivership.

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 Rehabilitator's control without the permission of this Court.

22. All insurance agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Company shall account for all earned premiums and commissions and shall account for and pay all premiums and commissions unearned due to policies canceled in the normal course of business, directly to the Rehabilitator at the offices of the Company within 30 days of this Order, or the date of receipt, whichever is later, or appear before this Court to show good cause as to why they should not be required to account to the Rehabilitator. No insurance agent, broker or other person shall use premium monies owed to the Company for refund of unearned premiums or for any purpose other than payment to the Rehabilitator.

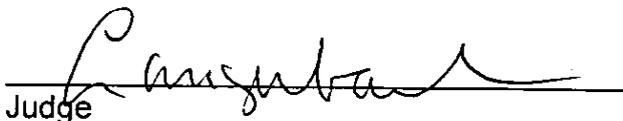
23. The provisions of Conn. Gen. Stat. § 38a-917 concerning legal actions in which the Company is a party or obligated to defend shall apply to these proceedings, including a stay of the action or proceeding, upon request by the Rehabilitator, for ninety days and such additional time as is necessary for the Rehabilitator to obtain proper representation and prepare for further proceedings.

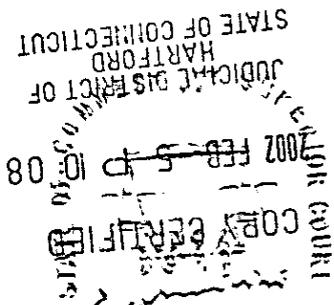
CONTINUING JURISDICTION

24. This Court shall retain jurisdiction over this matter for all purposes necessary to effectuate and enforce this Order. The Rehabilitator 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 he deems necessary.

25. A copy of this Order of Rehabilitation shall be served forthwith upon the Company.

APPROVED AND SO ORDERED this 6th day of February, 2002.


Judge



Diane Barros, o/c

EXHIBIT A

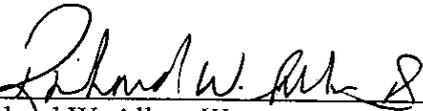
**DIRECTORS CONSENT TO ACTION TAKEN IN LIEU OF MEETING OF
BOARD OF DIRECTORS OF THE CONNECTICUT SURETY COMPANY**

The undersigned, being the sole director of The Connecticut Surety Company, a Connecticut domiciled insurance company, hereby consents to the following action. This consent shall have the same force and effect as would a vote in favor of such action at a regularly constituted special meeting of the Board of Directors called by notice for such purpose.

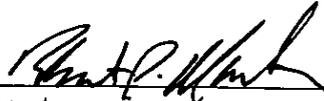
RESOLVED, that the sole director of The Connecticut Surety Company hereby consents to the entry of an Order of Rehabilitation of The Connecticut Surety Company and the appointment of the Honorable Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, as Rehabilitator of The Connecticut Surety Company, pursuant to section 38a-914, et seq. of the Connecticut General Statutes.

Dated: January 25, 2002

THE CONNECTICUT SURETY COMPANY

By 
Richard W. Allen, III
President

I, Robert P. Martin, the secretary of The Connecticut Surety Company, certify that Richard W. Allen, III, the president of The Connecticut Surety Company, whose identity is personally known to me, has acknowledged in my presence to having signed this document for its stated purpose.


Secretary
The Connecticut Surety Company

Dated: January 25, 2002

**SHAREHOLDERS CONSENT TO ACTION TAKEN IN LIEU OF MEETING OF
SHAREHOLDERS OF THE CONNECTICUT SURETY COMPANY**

The undersigned, being the sole holder of all the shares of common stock of The Connecticut Surety Company, a Connecticut domiciled insurance company, hereby consents to the following action. This consent shall have the same force and effect as would a vote in favor of such action at a regularly constituted special meeting of the shareholders called by notice for such purpose.

RESOLVED, that Connecticut Surety Corporation, the sole holder of all of the stock of Connecticut Surety Company, hereby consents to the entry of an Order of Rehabilitation of Connecticut Surety Company and the appointment of the Honorable Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, as Rehabilitator of The Connecticut Surety Company, pursuant to section 38a-914, et seq. of the Connecticut General Statutes.

Dated: January 25, 2002

CONNECTICUT SURETY CORPORATION

By Richard W. Allen, III
Richard W. Allen, III
President

I, Robert P. Martin, secretary of Connecticut Surety Corporation, certify that Richard W. Allen, III, the president of Connecticut Surety Corporation, whose identity is personally known to me, has acknowledged in my presence to having signed this document for its stated purpose.

Robert P. Martin
Secretary
Connecticut Surety Corporation

Dated: January 25, 2002