

DOCKET NO. CV-02-814173-S : **SUPERIOR COURT**
:
THE CONNECTICUT SURETY COMPANY, :
CONNECTICUT SURETY CORPORATION, : **JUDICIAL DISTRICT OF**
CONNECTICUT SURETY INSURANCE :
AGENCY, INC., FUNDS MANAGEMENT INC., : **HARTFORD**
CONNECTICUT SURETY INSURANCE :
AGENCY OF ARIZONA, INC., BONDS II : **AT HARTFORD**
SURETY GROUP, INC., AND CONNECTICUT :
SURETY INSURANCE AGENCY OF NEVADA, :
INC., IN LIQUIDATION : **OCTOBER 20, 2003**

ORDER FOR TRANSFER OF COLLATERAL

Upon the Motion of Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, as Liquidator (the "Liquidator") of 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., to transfer collateral for surety bonds from Connecticut Surety Insurance Agency, Inc. to Capitol Indemnity Corporation (the "Motion") dated September 3, 2003, pursuant to The Insurers Rehabilitation and Liquidation Act, Conn. Gen. Stat. §§ 38a-903 – 38a-961, inclusive, and upon the Order for Substantive Consolidation dated May 29, 2003, it is hereby

*Received in Hartford
Superior Court on 10/20/03
@ 2:25 by SB3/TAC*

FOUND:

1. Connecticut Surety Insurance Agency, Inc. ("CSIA") was an insurance agency that issued and administered surety bonds on behalf of the Connecticut Surety Company, Star Insurance Company, Redland Insurance Company, Acceptance Insurance Companies, Inc. and others (the "Sureties").

2. In connection with its administration of surety bonds for the Sureties, CSIA obtained and held collateral security (the "Security") provided by principals under surety bonds that secured the principals' obligation to reimburse the Sureties in the event of loss on the bonds issued by them.

3. Pursuant to a certain Renewal Rights Agreement dated as of January 31, 2002, Capitol Indemnity Corporation ("CIC") purchased from The Connecticut Surety Company ("CSC") and CSIA all of their rights to renew surety bonds (the "Old Bonds") that had previously been issued through CSIA on behalf of the Sureties.

4. CIC and its affiliates (collectively the "CIC Sureties") have issued approximately two hundred bonds (the "Replacement Bonds") that have replaced certain of the Old Bonds for which Security was pledged. The Replacement Bonds continue to cover the identical risk of the Old Bonds being replaced.

5. The Replacement Bonds were issued through the same agents as issued the Old Bonds.

6. In issuing the Replacement Bonds, it was the intention of the CIC Sureties to obtain the benefit of the Security that had been issued for the Old Bonds that were being replaced (the "Replaced Bond Security").

7. Each of the Sureties may enter into an agreement with the CIC Sureties pursuant to which the Sureties will consent to the transfer of all of the Security to the CIC Sureties for administration and will agree that the Replaced Bond Security may be used as collateral security for the Replacement Bonds.

8. The Liquidator is willing to enter into an agreement with the CIC Sureties that provides for the transfer of possession of the Security to the CIC Sureties provided that this Court shall authorize the Liquidator to transfer to the CIC Sureties the obligations of CSIA with respect to the administration of the Security and determine that the CIC Sureties are entitled to the benefit of the Replaced Bond Security.

9. Neither the CIC Sureties nor the Liquidator have received any requests from bond principals for the return of Replaced Bond Security as a result of the issuance of a Replacement Bond.

10. Each principal under a Replacement Bond has received notice of the Motion, and no principal has filed an objection thereto that has not been withdrawn prior to the date hereof.

11. The principals under the Replacement Bonds intended that the Replaced Bond Security would secure their obligations to reimburse the CIC Sureties for any losses in connection with the Replacement Bonds.

NOW THEREFORE, IT IS HEREBY ORDERED:

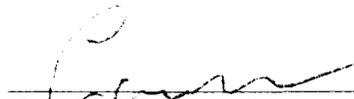
A. An interest in the Replaced Bond Security has been equitably assigned to the CIC Sureties, and the Replaced Bond Security shall, subject to the terms of the agreements among the CIC Sureties, the Sureties and CSIA, secure the obligations of the principals under the Replacement Bonds to reimburse the CIC Sureties with respect to losses under the Replacement Bonds.

B. The Liquidator is authorized to transfer possession of the Security to CIC and to enter into an agreement with CIC providing for the assumption by CIC of CSIA's obligations to administer the Security for the benefit of the Sureties.

C. Upon entering into such an agreement and delivering the Security to CIC, neither the Liquidator nor CSIA shall have any liability to any principal under an Old Bond for any actions taken by CIC with respect to the Security.

D. The Notice of Motion was in form and substance adequate to provide notice to the principals under Replacement Bonds of the relief requested by the Liquidator and the method of serving the Notice of Motion was reasonable under the facts and circumstances of the case.

Dated this 20th day of October, 2003 in Hartford, Connecticut.



Hon. John J. Langenbach
Superior Court Judge

10/20/03