DOCKET NO. CV-02-0814173-S	:	**SUPERIOR COURT**
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	:	**JUDICIAL DISTRICT OF HARTFORD** **AT HARTFORD** **SEPTEMBER 30, 2005**

FILED
2005 OCT -4 P 12: 28
OFFICE OF THE CLERK
SUPERIOR COURT
HARTFORD J.D.

LIQUIDATOR'S MOTION FOR APPROVAL OF INTERIM PARTIAL DISTRIBUTION OF ASSETS TO CERTAIN CLASS 3 CLAIMANTS

Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, in her capacity as Liquidator of The Connecticut Surety Company ("**CSC**"), respectfully moves this Court for entry of an order pursuant to Conn. Gen. Stat. § 38a-946 approving an interim partial distribution of assets of the estate to certain claimants whose claims have been allowed pursuant to prior Orders of this Court. In support of her Motion, the Liquidator states and alleges as follows:

BACKGROUND

1. This case commenced on February 6, 2002, when this Court entered a consensual Order of Rehabilitation (the "Rehabilitation Order") which placed CSC into rehabilitation proceedings pursuant to Conn. Gen. Stat. §§ 38a-903 – 38a-961, inclusive. Subsequently, on May 17, 2002, this Court entered an Order of Liquidation (the "Liquidation Order") with respect to CSC, and appointed the Insurance Commissioner of the State of Connecticut as liquidator (the "Liquidator") of CSC.

2. The Liquidator has pursued the collection of assets belonging to the estate in accordance with Conn. Gen. Stat. § 38a-923(a)(6). In addition, the Liquidator has analyzed claims filed against the estate in accordance with the procedures set forth in Conn. Gen. Stat. §

38a-941 and has presented to this Court in the past her recommendations on the majority of the claims in accordance with Conn. Gen. Stat. § 38a-945. The Liquidator has only sought the allowance and disallowance of Class 3 claims. This Court has granted each of the Liquidator's motions seeking allowance and disallowance of claims. In this Motion, the Liquidator seeks authorization to make a partial interim distribution to certain claimants holding certain Class 3 claims that have been allowed by a final order of the Court ("Allowed Claims").

3. Conn. Gen. Stat. §38a-946 states:

> "Under the direction of the court, the liquidator shall pay distributions in a manner that will assure the proper recognition of priorities and a reasonable balance between expeditious completion of the liquidation and the protection of unliquidated and undetermined claims, including third party claims."

The Liquidator believes that the proposed partial interim distributions properly recognize priorities and provide a reasonable balance between expeditious completion of this liquidation and the protection of unliquidated claims. All parties with claims senior to those receiving distributions are fully protected by reserves maintained by the Liquidator for such claims. All parties that are not receiving distributions will also be protected by reserves and deposits with state insurance departments.

4. Conn. Gen. Stat. § 38a-944 provides for the priority of distribution of claims. Administrative expenses of CSC are entitled to Class 1 priority. These claims are currently paid, and the Liquidator has sufficient reserves for anticipated future administrative expenses. Guaranty funds handling claims are entitled to assert Class 2 claims for their expenses. Only two guaranty funds are actively involved in the case. They have not liquidated

their Class 2 claims at this time, but they are not expected to be significant. The Liquidator has adequate reserves to cover the anticipated Class 2 claims. Certain other creditors have asserted that they are entitled to turnover of property of the CSC estate. The Liquidator disputes these claims, but has reserved sufficient funds to pay these claims in the event that the creditors prevail in their position.

5. At this time, the Liquidator has an accurate estimate of the maximum amount of CSC's Class 3 claims. CSC has adequately reserved for unliquidated claims and for any new claims that may be filed from time to time that may be allowed despite the bar date pursuant to Conn. Gen. Stat. § 38a-937.

6. Among the most significant assets of the estate are deposits which CSC made with insurance departments in Alaska, Arizona, Arkansas, Connecticut, Delaware, Florida, Georgia, Massachusetts, Nevada, Oregon and South Carolina (the "Deposits"). The Deposits total $3,655,000 plus accrued interest. The Deposits are intended, in most states, to secure the obligations of CSC to residents of those states. Shortly after the commencement of these proceedings, the Liquidator requested the states holding Deposits to make those Deposits available to the Liquidator on the condition that the Liquidator would use the Deposits to pay the claims of state residents in full before using the Deposits for any other purpose. Certain states, Alaska, Arizona, Connecticut, Delaware and South Carolina, have provided their Deposits to the Liquidator. Other states are in the process of negotiating arrangements with the Liquidator to return their Deposits to the Liquidator. Still other states have declined to turnover their Deposits to the Liquidator.

7. By this Motion, the Liquidator seeks authorization for the following:

(a) to immediately pay in full Allowed Claims of creditors that reside in states where the Deposit has been made available to the Liquidator (unless the aggregate amount of such Allowed Claims exceeds, or will in the future exceed, the amount of the Deposit returned to the Liquidator).

(b) to pay in full Allowed Claims of creditors that reside in states where the Deposit is made available to the Liquidator after such Deposit is received by the Liquidator (unless the aggregate amount of such Allowed Claims exceeds, or will in the future exceed, the amount of the Deposit returned to the Liquidator).

(c) to pay forty percent of Allowed Claims of claimants that do not reside in a state where a Deposit has been made.

(d) to pay the greater of (i) forty percent of Allowed Claims or (ii) a pro rata share of the Deposit to Claimants that reside in a state which has returned the Deposit to the Liquidator if the aggregate amount of Allowed Claims exceeds, or will in the future exceed, the amount of such Deposit.

8. The Liquidator believes that the proposed interim partial distribution provides a reasonable balance between the expeditious completion of the liquidation and the protection of any unliquidated or undetermined claims as required by Conn. Gen. Stat. §38a-946.

WHEREFORE, the Liquidator respectfully requests that this Court authorize the partial interim distribution requested herein and such other and further relief as to the Court shall seem equitable.

Dated: 9.30, 2005
Hartford, Connecticut

SUSAN F. COGSWELL, INSURANCE COMMISSIONER OF THE STATE OF CONNECTICUT, AS LIQUIDATOR OF THE CONNECTICUT SURETY COMPANY

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the Notice of Hearing on the Liquidator's Approval of Interim Partial Distribution of Assets to Certain Class 3 Claimants has been sent by first-class mail, postage prepaid, this 4th day of October 2005:

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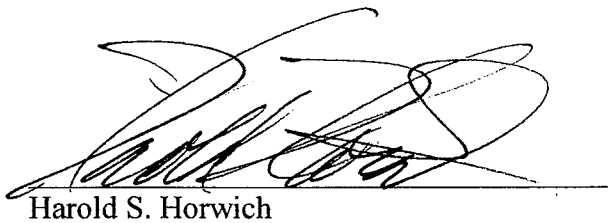

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