STATE OF NORTH CAROLINA

COUNTY OF WAKE

IN THE GENERAL COURT OF JUSTICE
SUPERIOR COURT DIVISION
CIVIL ACTION NO: 05-CVS-2500

HARCO NATIONAL INSURANCE COMPANY,

Plaintiff,

v.

GRANT THORNTON, LLP,

Defendant.

MEMORANDUM OF LAW IN SUPPORT OF ROSEMONT REINSURANCE LTD.'S APPLICATION TO INTERVENE

Petitioner, Rosemont Reinsurance Ltd. as Subrogee of Harco National Insurance Company ("Rosemont Re") seeks to intervene in this proceeding pursuant to Rule 24 of the North Carolina Rules of Civil Procedure. Rosemont Re, a reinsurer of Harco, seeks intervention to protect its rights to recover – through principles of reinsurance and subrogation – the more than $20 million Rosemont paid to Harco National Insurance Company ("Harco") to reimburse Harco for losses attributable to the wrongdoing of Grant Thornton. The North Carolina courts have repeatedly held that an insurance company – like Rosemont Re – that pays a part of the loss of its insured (Harco) is a "proper party" to an action filed by its insured against an alleged wrongdoer.[1]

But Rosemont Re's intervention here is not simply a matter of propriety. Its interests are directly and adversely affected by the claim made by Grant Thornton in its answer that Harco's damages "are barred, in whole or in part, or its alleged damages must be reduced, set off or

[1] *Burgess v. Trevathan*, 236 N.C. 157, 161, 72 S.E.2d 231, 234 (1952) (Ervin, J.) ("Since an insurance company which pays the insured for a part of the loss is entitled to share to the extent of its payment in the proceeds of the judgment in the action brought by the insured against the tort-feasor to recover the total amount of the loss, it has a direct and appreciable interest in the subject matter of the action, and by reason thereof is a proper party to the action.").

offset, by any monies [Harco] . . . recovers from others that reinsured [Harco's] risk in participating in the CBC bond program." Grant Thornton Answer, p. 18, Fourteenth Defense. In other words, Grant Thornton has asked this Court to reduce or eliminate over $20 million that Harco would otherwise – under traditional subrogation principles – be required to hold as "trustee" for Rosemont Re.[2] Furthermore, although Harco is a vigorous advocate with respect to the claims it has asserted against Grant Thornton, Harco's interests in recovering reinsured losses are less certain. Indeed, Harco has expressed an interest in clarifying the subrogation relationships arising from its reinsured losses, something that can occur fairly and effectively only if Rosemont Re becomes a party to this action. As noted below, in seeking intervention, Rosemont Re does not attempt to assert a new cause of action, create a new seat at the trial table or otherwise seek to participate as a "new party" in this case: it merely seeks to protect its subrogation interests arising from the indivisible cause of action Harco has filed against Grant Thornton.

I. FACTUAL AND PROCEDURAL BACKGROUND

Effective January 1, 2003, Harco entered into a quota share reinsurance agreement with Rosemont Re (the "Treaty") under which Rosemont Re reinsured Harco for a percentage of certain bail bond business produced by Capital Bonding Corporation ("CBC"). (A copy of the Treaty is attached as Exhibit A hereto and incorporated by reference.) Since that time, Harco has paid substantial losses arising from CBC's bail bonds. Pursuant to the Treaty, Rosemont Re has reimbursed Harco in excess of $20,000,000 for its respective shares of those losses. Based upon the Treaty, and upon principles of reinsurance and subrogation law, Rosemont Re asserts that it

[2] *See generally Burgess v. Trevathan,* 236 N.C. 157, 160, 72 S.E.2d 231, 233 (1952) (Ervin. J.) (Insured "holds the proceeds of the judgment . . . as a trustee for the benefit of the insurance company to the extent of the insurance paid by it").

has a right to participate *pro tanto* in any recoveries effected with regard to these indemnified losses.

Harco filed its initial Complaint against Grant Thornton on February 23, 2005, and its First Amended Complaint on March 23, 2006. The First Amended Complaint alleges that Grant Thornton is liable for Harco's losses from CBC's bail bonds. Harco alleges causes of action against Grant Thornton for negligence and negligent misrepresentation. Harco alleges in its initial complaint that, as of that time, it had "paid in excess of $47 million in losses" and "ultimately expect[ed] to pay in excess of $60 million." First Amended Compl. ¶ 41. In addition, Harco has filed a motion for leave to file a Second Amended Complaint to add causes of action for gross negligence and fraud. In its proposed complaint, Harco alleges that it has "paid nearly $100 million in losses and expenses" and "expects to pay more." In each of these complaints, Harco prays for compensatory damages "in excess of $10,000." Encompassed in both Harco's initial and its amended complaints are the losses for which Harco was indemnified by Rosemont. Accordingly, Harco's intervention here would require no special amendment to the complaint.

Grant Thornton, however, has unambiguously sought to prevent Harco – and accordingly Rosemount Re – from recovering those losses. In Grant Thornton's Fourteenth Defense, the accounting firm contends that Harco is not entitled to such a recovery.[3] Indeed, Rosemont Re has moved to intervene precisely because Grant Thornton has asserted that Harco's damages must be reduced by Harco's reinsurance reimbursements. Grant Thornton's pleadings do not

[3] The Fourteenth Defense reads as follows: "Plaintiff's claims are barred, in whole or in part, or its alleged damages must be reduced, set off or offset, by any monies Plaintiff is owed or recovers from others that reinsured Plaintiff's risk in participating in the CBC bond programs, from CBC or its officers, employees or shareholders, or from others which performed services for CBC on which Plaintiff alleges it relied."

elucidate the basis for its position. But Rosemont suggests that it would be inequitable and opportunistic for an alleged tortfeasor like Grant Thornton to contend (1) that Harco cannot recover losses to the extent it has been indemnified through reinsurance and, at the same time, (2) oppose the reinsurer's intervention in the case, which -- by the logic of Grant Thornton's own argument -- would be the only proper party to assert a right to recover those losses.

Pursuant to the Treaty, Rosemont Re has reimbursed Harco in excess of $20 million for losses resulting from CBC's bail bonds. Put simply, time-honored principles protect Rosemont's rights to receive these funds through the vehicle of subrogation. *Burgess*, 236 N.C. at 160, 72 S.E.2d at 233 ("When it pays the insured either in full or in part for the loss thus occasioned, the insurance company is subrogated pro tanto in equity to the right of the insured against the tort-feasor.") These payments represent a "collateral source" and should have no impact on the damages Harco seeks in its lawsuit. *Cf. Kaminsky v. Sebile,* 140 N.C. App. 71, 77, 535 S.E.2d 109, 113 (2000) (noting that policy behind collateral source doctrine "is to prevent a tortfeasor from 'reduc[ing] his own liability for damages by the amount of compensation the injured party receives from an independent source'"). The Court should grant this motion so that Rosemont Re can directly oppose Grant Thornton's inequitable attempt to exclude these reinsurance payments from the calculation of Harco's damages, and protect Rosemont's right to participate *pro tanto* in any recovery by Harco.

Granting intervention will cause no undue prejudice to any party. As evidenced by Grant Thornton's answer to Harco's complaint, Grant Thornton is well aware of Harco's reinsurance agreement with Rosemont Re and of Rosemont Re's interest in Harco's claims. Not only does Harco's complaint discuss its reinsurance agreements, Harco has produced documents to Grant Thornton relating to Harco's reinsurance arbitration with Rosemont Re. Refusing intervention,

by contrast, greatly prejudices Rosemont Re by denying it the opportunity to ensure that the losses it suffered on CBC bonds through its reinsurance agreement with Harco are properly included in any damages award in this case.

The type of intervention required to protect Rosemont Re's interests will also have little if any impact on trial or dispositive motions or pleadings. Rosemont Re is not asserting any new claims against Grant Thornton. Indeed, the subrogation interest Rosemont Re seeks to protect here stems from what our Supreme Court has described as the "single and indivisible cause of action against the tortfeasor for the total amount of the loss." *Burgess,* 236 N.C. at 160, 72 S.E.2d at 233. Rosemont Re is simply attempting to ensure that it is reimbursed for its share of Harco's losses in the event that Harco recovers from Grant Thornton. Rosemont Re expects that Harco will continue to represent Rosemont Re's interests, as well as its own interests, with respect to the substantive claims against Grant Thornton.

II. BASIS FOR INTERVENTION

A. The Court Should Grant the Application to Intervene As a Matter of Right

A party seeking to intervene as a matter of right must show that (1) it has a direct and immediate interest relating to the property or transaction at issue; (2) denying intervention would result in a practical impairment of that interest; and (3) there is inadequate representation of that interest by existing parties. *Virmani v. Presbyterian Health Servs. Corp.*, 350 N.C. 449, 458-59, 515 S.E.2d 675, 683 (1999); N.C. R. Civ. P. 24(a)(2) (stating that intervention should be permitted as a matter of right "[w]hen the applicant claims an interest relating to the property or transaction which is the subject of the action and he is so situated that the disposition of the action may as a practical matter impair or impede his ability to protect that interest, unless the

applicant's interest is adequately represented by existing parties"). In the present case, Rosemont Re should be allowed to intervene as a matter of right. *See Colon v. Bailey*, 316 N.C. 190, 190, 340 S.E.2d 478, 479 (1986) (reversing a district court's denial of a motion to intervene as a matter of right brought by an insurer seeking subrogation to the extent it had paid plaintiff's losses under the policy). Indeed, North Carolina courts have repeatedly declared that an insurer who makes partial payment for an insured's losses is a proper party to an action filed by its insured against a third-party tortfeasor. As Judge Ervin declared in *Burgess*, "Since an insurance company which pays the insured for a part of the loss is entitled to share to the extent of its payment in the proceeds of the judgment in the action brought by the insured against the tortfeasor to recover the total amount of the loss, it has a direct and appreciable interest in the subject matter of the action, and by reason thereof is a proper party to the action." 236 N.C. at 161, 72 S.E.2d at 234; *accord Taylor v. Green,* 242 N.C. 156, 87 S.E.2d 11 (1955) (noting that when insurance company pays partial loss, it is "subrogated pro tanto in equity to the rights of the insured against the tort feasor and by virtue of that fact it holds an equitable interest in the subject matter of the action and becomes a proper . . . party" to the litigation); *J & B Slurry Seal Co. v. Mid-South Aviation, Inc.*, 88 N.C. App. 1, 15, 362 S.E.2d 812, 821 (1987) (citing cases) ("If [insured] has retained any separable legal interest in the subject matter of its claims, then *both* plaintiff and Insurer are real parties in interest under Rule 17(a)")(emphasis in original).

By this lawsuit, Harco seeks recovery from Grant Thornton for the losses Harco suffered on bonds issued in its name by CBC. Pursuant to its reinsurance agreement with Harco, Rosemont Re has paid Harco in excess of $20,000,000 in reimbursements for losses on those bonds. Rosemont Re will also continue to be called on to pay future losses resulting from CBC

bonds. These payments provide Rosemont Re with a direct, immediate, and substantial interest in the transaction at issue.

In addition, denying intervention would impair Rosemont Re's interest. If Harco succeeds in showing that the losses it suffered on CBC bonds resulted from Grant Thornton's conduct, Rosemont Re should have the right to participate *pro tanto* in any recovery. Grant Thornton's assertion that its liability to Harco should be reduced by the amount of any reinsurance recoveries directly threatens Rosemont Re's right to such participation. Accordingly, denying intervention would impair Rosemont Re's ability to protect its significant financial interest by opposing Grant Thornton's affirmative defense.

Finally, Rosemont Re's interests will not be adequately represented without intervention. Grant Thornton's attempt to exclude reinsurance payments from the damages calculation works to the direct detriment of Rosemont Re. A damages verdict that excluded Rosemont Re's payments to Harco would make Harco whole, but it would leave unrecovered the losses of Rosemont Re, Harco's subrogee. In fact, Harco has put Rosemont Re on notice that Rosemont Re must intervene to fully protect its rights in this case. (Given the confidentiality order in this case, Rosemont Re is unable to review discovery documents and deposition testimony to evaluate the evidence presented on the damages issue.) For all of these reasons, Harco – despite its vigorous prosecution of claims against Grant Thornton – cannot adequately represent Rosemont Re's interest with regard to this particular issue. Indeed, the numerous decisions of the North Carolina courts declaring a partially subrogated insurer to be a proper party to a subrogation action implicitly recognize the very different interests a subrogee and subrogor have with respect to the cause of action asserted. For all of these reasons, Rosemont Re should be permitted to intervene as a matter of right.

B. The Court Should Exercise its Discretion to Grant the Application to Intervene

Alternatively, this Court should apply its discretion to grant permissive intervention pursuant to Rule 24(b), which provides that the Court may grant permissive intervention "when an applicant's claim or defense and the main action have a question of law or fact in common." In the present case, Rosemont Re has not filed a new claim but has sought to clarify and protect its rights and interests with respect to the claim Harco has asserted. If Harco is entitled to recover losses from Grant Thornton in its lawsuit, then Rosemont Re also should recover its indemnity payments for those losses. However, if, as Grant Thornton insists, Harco is not permitted to recover for losses to the extent Harco has been reimbursed by Rosemont Re, then Rosemont Re will be unduly prejudiced, resulting in an inequitable windfall for Grant Thornton and forfeiture of Rosemont Re's rights to participate *pro tanto* in recoveries.

III. CONCLUSION

Rosemont Re would have no need to intervene here if: (1) Harco agreed vigorously to seek recovery of all of its damages, including losses indemnified by Rosemont; (2) Harco were to agree that, under applicable subrogation principles, it is required to hold any recovery in this action as "trustee" for Rosemont, and (3) Grant Thornton were to admit that Rosemont's payments to Harco constitute an irrelevant "collateral source" that cannot, under applicable law, serve to reduce Harco's damage claims against it. Because neither Harco nor Grant Thornton have so stipulated, Petitioner Rosemont Reinsurance Ltd, as Subrogee of Harco National Insurance Company, respectfully requests that its motion to intervene be granted.

Rosemont requests that this motion be calendared for hearing at 10:00 a.m. on February 10, 2009 at the North Carolina Business Court in Raleigh.

This 23rd day of December, 2008.

David C. Wright, III
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **MEMORANDUM OF LAW IN SUPPORT OF ROSEMONT REINSURANCE LTD.'S APPLICATION TO INTERVENE** was served on each of the parties to this action by depositing same in the United States mail, postage prepaid, in an envelope(s) addressed as follows:

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This 23rd day of December, 2008

Hampton Y. Dellinger

00960-06-03-5116

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HARCO NATIONAL INSURANCE COMPANY, et al

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00960-06-03-5116

BOND QUOTA SHARE REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

entered into by and between

HARCO NATIONAL INSURANCE COMPANY,
Rolling Meadows, Illinois
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
Raleigh, North Carolina
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
Omaha, Nebraska
ACCEPTANCE CASUALTY INSURANCE COMPANY,
Omaha, Nebraska
and/or their affiliates or subsidiaries

(hereinafter collectively referred to as the "Company")

and

The Subscribing Reinsurer(s) executing the
Interests and Liabilities Contract(s)
attached to and forming a part
of this Agreement

(hereinafter referred to as the "Reinsurer")

WITNESSETH:

The Reinsurer hereby reinsures the Company to the extent and on the terms and conditions and subject to the exceptions, exclusions and limitations hereinafter set forth and nothing hereinafter shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third parties or any persons not parties to this Agreement.

ARTICLE I

BUSINESS COVERED:

A. The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the gross liability of the Company under new and renewal bonds becoming effective at and after 12:01 A.M., Eastern Standard Time, January 1, 2003, covering business classified by the Company as Federal Court, State Court, Immigration, Naturalization, Appeal and Supersedeas Bonds produced and underwritten for the Company by Capital Bonding Corporation and such business underwritten directly by the Company in the State of New York, except as excluded in the Exclusions Article of this Agreement, subject to the limits set forth in the Limit and Retention Article.

B. The term "policies" means the Company's binders, policies, bonds and contracts providing insurance and reinsurance on the business covered under this Agreement.

ARTICLE II

TERM AND CANCELLATION:

A. This Agreement will apply to new and renewal bonds becoming effective at and after 12:01 A.M., Eastern Standard Time, January 1, 2003, and will be of unlimited duration. This Agreement may be cancelled as of 12:01 A.M., Eastern Standard Time, January 1st of any year by either the Company or the Reinsurer giving not less than ninety (90) days prior written notice by certified mail, registered mail, or facsimile (receipt confirmed) to the other party.

B. In the event of cancellation, the Reinsurer will continue to participate in all bonds coming within the terms of this Agreement granted or renewed by the Company from the date written notice is given to the other party until the effective date of cancellation, including bonds for which quotes, indications and the like have been made prior to cancellation, until their natural expiry, subject to receipt of the applicable premiums.

C. In the event that any bond is required by statute or departmental regulation or order to be continued in force, the Reinsurer shall continue to remain liable with respect to each such bond until the Company may legally cancel, non-renew or otherwise eliminate liability under such bond or bonds.

D. Notwithstanding the cancellation of this Agreement as hereinabove provided, the provisions of this Agreement shall continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to such cancellation shall be fully performed and discharged.

ARTICLE III

EXCLUSIONS:

This Agreement shall not apply to, and specifically excludes, the following lines and/or classes of business:

1. All business not classified by the Company as business fully within the scope of the Business Covered Article.

2. Reinsurance assumed, but this exclusion shall not apply to reinsurance assumed in the form of inter-company reinsurance between the group of companies collectively referred to as the "Company" under this Agreement.

3. Loss or damage caused by or resulting from war, invasion, acts of foreign enemies, civil war, insurrection, military or usurped power, martial law or confiscation by order of any government or public authority, but not excluding loss or damage that would be covered under a standard form of bond containing a standard War Exclusion Clause.

4. Any liability of the Company arising from its participation or membership in any insolvency fund as per the Standard Insolvency Fund Exclusion Clause.

5. Any loss or liability accruing to the Company directly or indirectly from any insurance written by or through any pool or association, including pools or associations in which membership by the Company is required under any statute or regulation.

6. Loss or liability excluded by the Nuclear Incident Exclusion Clause – Physical Damage – Reinsurance – U.S.A.

ARTICLE IV

TERRITORY:

This Agreement shall apply to bonds written in the United States of America, its territories, its possessions, the Commonwealth of Puerto Rico, and the District of Columbia.

ARTICLE V

LIMIT AND RETENTION:

A. This Agreement shall apply to a maximum bond limit of $1,000,000 per bond.

B. The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the Company's loss and loss adjustment expense under each bond.

ARTICLE VI

ORIGINAL CONDITIONS:

A. The Reinsurer's liability shall attach simultaneously with that of the Company and shall be subject to the same rates, terms, conditions, waivers and interpretations, and to the same modifications and alterations as the respective bonds of the Company. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Agreement.

B. Nothing herein shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third party or any persons not parties to this Agreement.

ARTICLE VII

LOSS AND LOSS ADJUSTMENT EXPENSE:

A. The Company will advise the Reinsurer promptly of all losses which in the opinion of the Company may involve the Reinsurer under this Agreement, and of all subsequent developments pertaining thereto, which in the opinion of the Company may materially affect the position of the Reinsurer.

B. All loss settlements made by the Company shall be unconditionally binding on the Reinsurer provided such settlements are within the terms and conditions of the original bonds (or as provided for in the Excess of Original Policy Limits or Extra Contractual Obligations clauses contained in this Agreement) and within the terms of the Agreement, and amounts falling to the share of the Reinsurer shall be payable by it as soon as possible, but not later than sixty (60) days, upon reasonable evidence of the amount paid being given to it by the Company. The Company shall be the sole judge as to what shall constitute a claim or loss under an original bond.

C. The date of loss as defined in the Company's original bonds shall apply as respects any losses reported under this Agreement.

D. It is understood that when so requested the Company will afford the Reinsurer an opportunity to be associated with the Company, at the expense of the Reinsurer, in the defense of any claim or suit or proceeding involving this reinsurance; and the Company will cooperate in every respect in the defense or control of such claim, suit or proceeding.

E. The Reinsurer shall pay to the Company the Reinsurer's pro rata share of Loss Adjustment Expense, in addition to the Reinsurer's limit of liability hereunder. "Loss Adjustment Expense" means all costs and expenses allocable to a specific claim that are incurred by the Company in adjusting, settling and compromising individual claims, including costs of litigations and interest on judgments, if any; third party claims administration costs; all subrogation, salvage and recovery expenses; and Declaratory Judgment Expense. "Declaratory Judgment Expense" is defined as all expenses incurred by the Company in connection with declaratory judgment actions brought to determine the Company's defense and/or indemnification obligations that are allocable to specific bonds and claims or alleged claims subject to this Agreement. Declaratory Judgment Expense shall be deemed to have been incurred by the Company on the date of the original loss (if any) giving rise to the declaratory judgment action. Salaries of employees of the Company, and normal office expense, shall be excluded from Loss Adjustment Expense.

F. Nothing herein, however, shall be construed to mean that losses are not recoverable hereunder until the Company has availed itself of all collateral and obligations supporting such bond.

ARTICLE VIII

PREMIUM AND COMMISSION:

A. The Reinsurer shall receive its proportionate share of 50% of the Company's applicable Gross Net Written Premium Income less a provisional ceding commission of 2.5%, which represents an estimate for taxes and/or assessments. The Company shall render to the Reinsurer a statement of actual taxes and assessments as soon as possible after the expiration of each underwriting year. If a return of commission is owed to the Reinsurer, the Company shall remit payment with the statement. If additional commission is owed the Company, the Reinsurer shall make payment within fifteen (15) days after receipt of the statement.

B. "Gross Net Written Premium Income" shall be defined as gross rates on original bonds, less cancellations and returns.

ARTICLE IX

ACCOUNTS AND REMITANCES:

A. The Company shall render a monthly account within sixty (60) days after the end of each month, summarizing the following information relating to reinsurance covered under this Agreement during the said month:

1. Gross Net Written Premium Income;
2. Ceding commission;
3. Statement of aggregate paid Losses and Loss Adjustment Expense;
4. Statement of outstanding Losses and Loss Adjustment Expense, and details of all Losses.

B. The Company shall pay any premium due the Reinsurer, net of ceding commission, with the monthly account.

C. The Company shall submit to the Reinsurer a monthly risk bordereau, within sixty (60) days after the end of each calendar month, in a format acceptable to both parties.

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ARTICLE X

OFFSET:

The Company and the Reinsurer may offset any balance or amount due from one party to the other under this Agreement or any other agreement heretofore or hereafter entered into between the Company and the Reinsurer, whether acting as assuming reinsurer or ceding company. This provision shall not be affected by the insolvency of either party to this Agreement.

ARTICLE XI

EXTRA CONTRACTUAL OBLIGATIONS:

A. This Agreement shall protect the Company for any Extra Contractual Obligations. The term "Extra Contractual Obligations" is defined as those liabilities not covered under any other provision of this Agreement and which arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Company to settle within the bond limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.

B. The date on which any Extra Contractual Obligation is incurred by the Company shall be deemed, in all circumstances, to be the date of the original disaster and/or casualty.

C. However, this Article shall not apply where the loss has been incurred due to fraud by a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

ARTICLE XII

EXCESS OF ORIGINAL POLICY LIMITS:

A. This Agreement shall protect the Company in connection with loss in excess of the limit of its original bond, such loss in excess of the limit having been incurred because of failure by it to settle within the bond limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.

B. However, this Article shall not apply where the loss has been incurred due to fraud by a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

C. For the purpose of this Article, the word "loss" shall mean any amounts for which the Company would have been contractually liable to pay had it not been for the limit of the original bond.

ARTICLE XIII

ACCESS TO RECORDS:

The Reinsurer or its designated representatives shall have free access to the books and records of the Company on matters relating to this reinsurance at all reasonable times for the purpose of obtaining information concerning this Agreement or the subject matter hereof.

ARTICLE XIV

ERRORS AND OMISSIONS:

Any inadvertent delay, omission or error shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such delay, omission or error had not been made, provided such omission or error is rectified as soon as possible after discovery.

ARTICLE XV

TAXES:

In consideration of the terms under which this Agreement is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian tax returns or when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America or to the District of Columbia.

ARTICLE XVI

FEDERAL EXCISE TAX:

(Applicable to those Reinsurers, excepting Underwriters at Lloyd's, London and other Reinsurers exempt from Federal Excise Tax, who are domiciled outside the United States of America.)

A. The Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Code) to the extent such premium is subject to the Federal Excise Tax.

B. In the event of any return of premium becoming due hereunder the Reinsurer will deduct the applicable percentage from the return premium payable hereon and the Company or its agent should take steps to recover the tax from the United States Government.

ARTICLE XVII

CURRENCY:

A. Whenever the word "Dollars" or the "$" sign appears in this Agreement, they shall be construed to mean United States Dollars and all transactions under this Agreement shall be in United States Dollars.

B. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.

ARTICLE XVIII

SERVICE OF SUIT:

(Applies only to Reinsurers who are domiciled outside of the United States and/or unauthorized in any state, territory or district of the United States having jurisdiction over the Company. The provisions of this Article are not intended to conflict with or override the obligations of the parties to arbitrate their disputes, as provided for in the Arbitration Article.)

A. It is agreed that in the event of the failure of the Reinsurer hereon to perform their obligations hereunder, the Reinsurer hereon, at the request of the Company, will submit to the jurisdiction of a Court of competent jurisdiction within the United States. Nothing in this Clause constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any Court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another Court as permitted by the laws of the United States or of any State in the United States. It is further agreed that service of process in such suit may be made upon Messrs. Mendes & Mount, 750 Seventh Avenue, New York, New York 10019-6829, and that in any suit instituted, the Reinsurer will abide by the final decision of such Court or of any Appellate Court in the event of an appeal.

B. The above-named are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit and/or upon the request of the Company to give written undertaking to the Company that they will enter a general appearance upon the Reinsurer's behalf in the event such a suit shall be instituted.

C. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereon hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Agreement, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XIX

UNAUTHORIZED REINSURANCE:

(Applies only to a Reinsurer who does not qualify for full credit with any insurance regulatory authority having jurisdiction over the Company's reserves.)

A. As regards policies or bonds issued by the Company coming within the scope of this Agreement, the Company agrees that when it shall file with the insurance regulatory authority or set up on its books reserves for unearned premium and losses covered hereunder which it shall be required by law to set up, it will forward to the Reinsurer a statement showing the proportion of such reserves which is applicable to the Reinsurer. The Reinsurer hereby agrees to fund such reserves in respect of unearned premium, known outstanding losses that have been reported to the Reinsurer and allocated loss adjustment expense relating thereto, losses incurred but not reported, and losses and allocated loss adjustment expense paid by the Company but not recovered from the Reinsurer, as shown in the statement prepared by the Company (hereinafter referred to as "Reinsurer's Obligations") by funds withheld, cash advances or a Letter of Credit. The Reinsurer shall have the option of determining the method of funding provided it is acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves.

B. When funding by a Letter of Credit, the Reinsurer agrees to apply for and secure timely delivery to the Company of a clean, irrevocable and unconditional Letter of Credit issued by a bank and containing provisions acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves in an amount equal to the Reinsurer's proportion of said reserves. Such Letter of Credit shall be issued for a period of not less than one year, and shall be automatically extended for one year from its date of expiration or any future expiration date unless thirty (30) days (sixty (60) days where required by insurance regulatory authorities) prior to any expiration date the issuing bank shall notify the Company by certified or registered mail that the issuing bank elects not to consider the Letter of Credit extended for any additional period.

C. The Reinsurer and Company agree that the letters of credit provided by the Reinsurer pursuant to the provisions of this Agreement may be drawn upon at any time, notwithstanding any other provision of this Agreement, and be utilized by the Company or any successor, by operation of law, of the Company including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company for the following purposes, unless otherwise provided for in a separate trust agreement:

1. to reimburse the Company for the Reinsurer's Obligations, the payment of which is due under the terms of this Agreement and which has not been otherwise paid;

2. to make refund of any sum which is in excess of the actual amount required to pay the Reinsurer's Obligations under this Agreement;

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3. to fund an account with the Company for the Reinsurer's Obligations. Such cash deposit shall be held in an interest bearing account separate from the Company's other assets, and interest thereon not in excess of the prime rate shall accrue to the benefit of the Reinsurer;

4. to pay the Reinsurer's share of any other amounts the Company claims to due under this Agreement.

D. In the event the amount drawn by the Company on any Letter of Credit is in excess of the actual amount required for 1. or 3., or in the case of 4., the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn. All of the foregoing shall be applied without diminution because of insolvency on the part of the Company or the Reinsurer.

E. The issuing bank shall have no responsibility whatsoever in connection with the propriety of withdrawals made by the Company or the disposition of funds withdrawn, except to ensure that withdrawals are made only upon the order of properly authorized representatives of the Company.

F. At annual intervals, or more frequently as agreed but never more frequently than quarterly, the Company shall prepare a specific statement of the Reinsurer's Obligations, for the sole purpose of amending the Letter of Credit, in the following manner:

1. If the statement shows that the Reinsurer's Obligations exceed the balance of credit as of the statement date, the Reinsurer shall, within thirty (30) days after receipt of notice of such excess, secure delivery to the Company of an amendment to the Letter of Credit increasing the amount of credit by the amount of such difference.

2. If, however, the statement shows that the Reinsurer's Obligations are less than the balance of credit as of the statement date, the Company shall, within thirty (30) days after receipt of written request from the Reinsurer, release such excess credit by agreeing to secure an amendment to the Letter of Credit reducing the amount of credit available by the amount of such excess credit.

ARTICLE XX

INSOLVENCY:

A. In the event of the insolvency of one or more than one of the Company(ies), this reinsurance shall be payable directly to the Company(ies) or to its liquidator, receiver, or statutory successor on the basis of the liability of the Company(ies) without diminution because of the insolvency of the Company(ies) or because the liquidator, receiver, conservator or statutory successor of the Company(ies) has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company(ies) shall give written notice to the Reinsurer of the pendency of a claim against

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the Company(ies) indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company(ies) or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Company(ies) as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Company(ies) solely as a result of the defense undertaken by the Reinsurer.

B. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the insolvent Company(ies).

C. It is further understood and agreed that, in the event of the insolvency of the Company(ies), the reinsurance under this Agreement shall be payable directly by the Reinsurer to the Company(ies) or to its liquidator, receiver or statutory successor, except as provided by Section 4118(a) of the New York Insurance Law or except (a) where this Agreement specifically provides another payee of such reinsurance in the event of the insolvency of the Company(ies) or (b) where the Reinsurer with the consent of the direct insured or insureds has assumed such bond obligations of the Company(ies) as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company(ies) to such payees.

D. Should the Company(ies) go into liquidation or should a receiver be appointed, all amounts due either Company(ies) or Reinsurer, whether by reason of premium, losses, or otherwise under this Agreement (whether such Agreement is all assumed or ceded), shall be subject to the right of offset at any time and from time to time, and upon the exercise of the same, only the net balance shall be due.

ARTICLE XXI

ARBITRATION:

A. As a condition precedent to any right of action hereunder, any dispute arising out of the interpretation, performance or breach of this Agreement, including the formation or validity thereof, shall be submitted for decision to a panel of three arbitrators. Notice requesting arbitration will be in writing and sent certified or registered mail, return receipt requested.

B. One arbitrator shall be chosen by each party and the two arbitrators shall, before instituting the hearing, choose an impartial third arbitrator who shall preside at the hearing. If either party fails to appoint its arbitrator within thirty (30) days after being requested to do so by the other party, the latter, after ten (10) days notice by certified or registered mail of its intention to do so, may appoint the second arbitrator.

C. If the two arbitrators are unable to agree upon the third arbitrator within thirty (30) days of their appointment, the third arbitrator shall be selected from a list of six individuals (three named by each arbitrator) by a judge of the federal district court having jurisdiction over the geographical area in which the arbitration is to take place, or if the federal court declines to act, the state court having general jurisdiction in such area.

D. All arbitrators shall be disinterested active or former executive officers of insurance or reinsurance companies or Underwriters at Lloyd's, London.

E. Within thirty (30) days after notice of appointment of all arbitrators, the panel shall meet and determine timely periods for briefs, discovery procedures and schedules for hearings.

F. The panel shall be relieved of all judicial formality and shall not be bound by the strict rules of procedure and evidence. Unless the panel agrees otherwise, arbitration shall take place in Rolling Meadows, Illinois, but the venue may be changed when deemed by the panel to be in the best interest of the arbitration proceeding. Insofar as the arbitration panel looks to substantive law, it shall consider the law of the State of Illinois. The decision of any two arbitrators when rendered in writing shall be final and binding. The panel is empowered to grant interim relief as it may deem appropriate.

G. The panel shall make its decision considering the custom and practice of the applicable insurance and reinsurance business as promptly as possible following the termination of the hearings. Judgment upon the award may be entered in any court having jurisdiction thereof.

H. If more than one Reinsurer is involved in arbitration where there are common questions of law or fact and a possibility of conflicting awards or inconsistent results, all such reinsurers shall constitute and act as one party for purposes of this Article and communications shall be made by the Company to each of the reinsurers constituting the one party; provided, however, that nothing therein shall impair the rights of such reinsurers to assert several, rather than joint defenses or claims, nor be construed as changing the liability of the reinsurers under the terms of this Agreement from several to joint.

I. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the cost of the third arbitrator. The remaining costs of the arbitration shall be allocated by the panel. The panel may, at its discretion, award such further costs and expenses as it considers appropriate, including but not limited to attorneys fees, to the extent permitted by law.

ARTICLE XXII

INTERMEDIARY:

Maiden Lane Intermediaries USA, Inc. is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. All communications (including but not limited to notices, statements, premium, return premium, commissions, taxes, losses, loss adjustment expense, salvages and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through Maiden Lane Intermediaries USA, Incorporated, 600 West Germantown Pike, Suite 270, Plymouth Meeting, Pennsylvania 19462. Payments by the Company to the Intermediary shall be deemed to constitute payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed to constitute payment to the Company only to the extent that such payments are actually received by the Company.

ARTICLE XXIII

GOVERNING LAW:

This Agreement shall be governed by and interpreted in accordance with the laws of the State of Illinois, U.S.A.

ARTICLE XXIV

SEVERAL LIABILITY NOTICE:

The subscribing reinsurers' obligations under contracts of reinsurance to which they subscribe are several and not joint and are limited solely to the extent of their individual subscriptions. The subscribing reinsurers are not responsible for the subscription of any co-subscribing reinsurer who for any reason does not satisfy all or part of its obligations.

ARTICLE XXV

CHANGE IN LAW:

The provisions of this Agreement are based on the benefits payable and other terms as provided for in legislation relating to the business protected hereunder in the territories to which this Agreement applies at the effective date of inception of this Agreement. Should any alterations to such benefits or other terms be made subsequently materially affecting the basis of this Agreement, the parties hereto agree to take up for immediate discussion a suitable revision in the terms of this Agreement. Failing agreement on a revision this Agreement shall operate from the effective date of the change of law as if the change had not occurred.

ARTICLE XXVI

MODE OF EXECUTION:

A. This Agreement may be executed by:

1. An original written ink signature of paper documents;

2. An exchange of facsimile copies showing the original written ink signature of paper documents;

3. Electronic signature technology employing computer software and a digitel signature or digitizer pen pad to capture a person's handwritten signature in such a manner that the signature is unique to the person signing, is under the sole control of the person signing, is capable of verification to authenticate the signature and is linked to the document signed in such a manner that if the data is changed, such signature is invalidated.

B. The use of any one or a combination of these methods of execution shall constitute a legally binding and valid signing of this Agreement. This Agreement may be executed in one or more counterparts, each of which when duly executed shall be deemed an original.

ARTICLE XXVII

ENTIRE AGREEMENT CLAUSE:

This Agreement shall constitute the entire agreement of the parties with respect to the business being reinsured hereunder and that there are not understandings between the parties other than as expressed in the Agreement; and any change or modification to the agreement shall be null and void unless made by amendment to the Agreement and signed by both parties.

ARTICLE XXVIII

SEVERABILITY:

If any provision of this Agreement shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Agreement or the enforceability of such provision in any other jurisdiction.

ARTICLE XXIX

CONFIDENTIALITY:

All terms and conditions of this Agreement and any materials provided in the course of inspection shall be kept confidential by the Reinsurer as against third parties, unless the disclosure is required pursuant to process of law or unless the disclosure is to the Reinsurer's Retrocessionaires, financial auditors or governing regulatory bodies. Disclosing or using this information for any purpose beyond the scope of the Agreement, or beyond the exceptions set forth above, is expressly forbidden without the prior consent of the Company.

ADDENDUM NUMBER 1

This addendum attaches to and forms a part of the

INTERESTS AND LIABILITIES CONTRACT

(hereinafter referred to as the "Contract")

to the

BOND QUOTA SHARE REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

entered into by and between

HARCO NATIONAL INSURANCE COMPANY,
Rolling Meadows, Illinois
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
Raleigh, North Carolina
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
Omaha, Nebraska
ACCEPTANCE CASUALTY INSURANCE COMPANY,
Omaha, Nebraska
AEGIS SECURITY INSURANCE COMPANY,
Harrisburg, Pennsylvania
AMERICAN SENTINEL INSURANCE COMPANY,
Harrisburg, Pennsylvania
and/or their affiliates or subsidiaries

(hereinafter collectively referred to as the "Company")

and

GOSHAWK REINSURANCE LTD.

(hereinafter referred to as the "Subscribing Reinsurer")

IT IS HEREBY AGREED that the instrument attached to this Contract entitled Bond Quota Share Reinsurance Agreement shall be amended in accordance with the provisions of the attached Endorsement Number 1, effective as specified therein.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum Number 1 to be signed in duplicate by their duly authorized representatives.

By the Company:

HARCO NATIONAL INSURANCE COMPANY,
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
ACCEPTANCE CASUALTY INSURANCE COMPANY
and/or their affiliates or subsidiaries

Signed in Raleigh, NC this 6th day of September, 2003

By: _____

AEGIS SECURITY INSURANCE COMPANY,
AMERICAN SENTINEL INSURANCE COMPANY
and/or their affiliates or subsidiaries

Signed in Harrisburg, Pennsylvania this 8th day of April, 2003

By: _____

By the Reinsurer:

GOSHAWK REINSURANCE LTD.

Signed in Bermuda this 7th day of July, 2003

By:

00960-06-03-5116

MEMORANDUM OF CHANGES

to the

HARCO NATIONAL INSURANCE COMPANY, et al

BOND QUOTA SHARE REINSURANCE AGREEMENT

This Endorsement Number 1, effective April 1, 2003, contains the following revisions to the attached Agreement:

1. The group of reinsured companies, collectively referred to hereunder as the "Company", has been revised to include the following:

   Aegis Security Insurance Company,
   American Sentinel Insurance Company
   and/or their affiliates or subsidiaries.

2. Article I, "Business Covered", Section II, with respect to State Bail Bond business written in the states of California, Texas and Florida has been added.

3. Article V, "Limit and Retention", Section II, which applies specifically to State Bail Bond business written in the states of California, Texas and Florida has been added.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

00960-06-03-5116

ENDORSEMENT NUMBER 1

This Endorsement attaches to and forms a part of the

BOND QUOTA SHARE REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

entered into by and between

HARCO NATIONAL INSURANCE COMPANY,
Rolling Meadows, Illinois
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
Raleigh, North Carolina
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
Omaha, Nebraska
ACCEPTANCE CASUALTY INSURANCE COMPANY,
Omaha, Nebraska
and/or their affiliates or subsidiaries

(hereinafter collectively referred to as the "Company")

and

The Subscribing Reinsurer(s) executing the
Interests and Liabilities Contract(s)
attaching to and forming a part
of this Agreement

(hereinafter referred to as the "Reinsurer")

IT IS HEREBY AGREED that, effective 12:01 A.M., Eastern Standard Time, April 1, 2003, this Agreement will be amended as follows:

1. The reinsured companies hereon, collectively referred to as the "Company", shall be revised to include:

AEGIS SECURITY INSURANCE COMPANY,
Harrisburg, Pennsylvania
AMERICAN SENTINEL INSURANCE COMPANY,
Harrisburg, Pennsylvania
and/or their affiliates or subsidiaries

2. Article I, "Business Covered", Section 2, shall be added as follows:

ARTICLE I

BUSINESS COVERED:

SECTION 2:

The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the gross liability of the Company under new and renewal bonds becoming effective at and after 12:01 A.M., Eastern Standard Time, April 1, 2003, covering business classified by the Company as State Bail Bonds produced and underwritten specifically for the named companies Aegis Security Insurance Company, American Sentinel Insurance Company and/or their affiliates or subsidiaries by Capital Bonding Corporation in the States of California, Texas and Florida, except as excluded in the Exclusions Article of this Agreement, subject to the limits set forth in the Limit and Retention Article.

3. Article V, "Limit and Retention", Section 2, shall be added as follows:

ARTICLE V

LIMIT AND RETENTION:

SECTION 2:

A. This Agreement shall apply to a maximum bond limit of $1,000,000 per bond.

B. The Company shall cede to the Reinsurer and the Reinsurer shall accept from the Company a 100% quota share participation of the Company's loss and loss adjustment expense under each bond.

C. It is understood that Harco National Insurance Company (a named "Company" hereon) shall retain a 25% co-participation in the Section 2 subject business covered by this Agreement.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

ADDENDUM NUMBER 2

This addendum attaches to and forms a part of the

INTERESTS AND LIABILITIES CONTRACT

(hereinafter referred to as the "Contract")

to the

BOND QUOTA SHARE REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

entered into by and between

HARCO NATIONAL INSURANCE COMPANY,
Rolling Meadows, Illinois
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
Raleigh, North Carolina
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
Omaha, Nebraska
ACCEPTANCE CASUALTY INSURANCE COMPANY,
Omaha, Nebraska
AEGIS SECURITY INSURANCE COMPANY,
Harrisburg, Pennsylvania
AMERICAN SENTINEL INSURANCE COMPANY,
Harrisburg, Pennsylvania
and/or their affiliates or subsidiaries

(hereinafter collectively referred to as the "Company")

and

GOSHAWK REINSURANCE LIMITED

(hereinafter referred to as the "Subscribing Reinsurer")

IT IS HEREBY AGREED that the instrument attached to this Contract entitled Bond Quota Share Reinsurance Agreement shall be amended in accordance with the provisions of the attached Endorsement Number 1, effective as specified therein.

IT IS HEREBY FURTHER MUTUALLY AGREED that, effective 12:01 A.M., Eastern Standard Time, May 30, 2003 the Subscribing Reinsurer's participation in the business covered specifically under Section 2 of Article I, Business Covered, of the Agreement attached to this Contract shall be cancelled in accordance with the terms and provisions set forth in paragraph B. of Article II, Term and Cancellation, of the Agreement attached.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum Number 2 to be signed in duplicate by their duly authorized representatives.

By the Company:

HARCO NATIONAL INSURANCE COMPANY,
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
ACCEPTANCE CASUALTY INSURANCE COMPANY
and/or their affiliates or subsidiaries

Signed in Raleigh, NC this 5th day of September, 2003

By: [signature]

AEGIS SECURITY INSURANCE COMPANY,
AMERICAN SENTINEL INSURANCE COMPANY
and/or their affiliates or subsidiaries

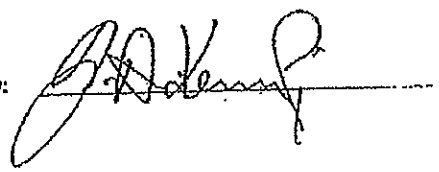
Signed in Harrisburg, Pennsylvania this 29 day of May, 2003

By: [signature]

By the Reinsurer:

GOSHAWK REINSURANCE LIMITED

Signed in Bermuda this 7th day of July 2003

By: 

MEMORANDUM OF CHANGES

to the

HARCO NATIONAL INSURANCE COMPANY, et al

BOND QUOTA SHARE REINSURANCE AGREEMENT

This Endorsement Number 2, effective April 30, 2003, contains the following revisions to the attached Agreement:

1. The group of reinsured companies, collectively referred to hereunder as the "Company", has been revised in that the following companies and/or their affiliates or subsidiaries have been removed:

   Aegis Security Insurance Company,
   American Sentinel Insurance Company.

2. Article I, "Business Covered", Section II, with respect to State Bail Bond business written in the states of California, Texas and Florida has been deleted.

3. Article V, "Limit and Retention", Section II, which applies specifically to State Bail Bond business written in the states of California, Texas and Florida has been deleted.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.

ENDORSEMENT NUMBER 2

This Endorsement attaches to and forms a part of the

BOND QUOTA SHARE REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

entered into by and between

HARCO NATIONAL INSURANCE COMPANY,
Rolling Meadows, Illinois
OCCIDENTAL FIRE & CASUALTY COMPANY OF NORTH CAROLINA,
Raleigh, North Carolina
ACCEPTANCE INDEMNITY INSURANCE COMPANY,
Omaha, Nebraska
ACCEPTANCE CASUALTY INSURANCE COMPANY,
Omaha, Nebraska
AEGIS SECURITY INSURANCE COMPANY,
Harrisburg, Pennsylvania
AMERICAN SENTINEL INSURANCE COMPANY,
Harrisburg, Pennsylvania
and/or their affiliates or subsidiaries

(hereinafter collectively referred to as the "Company")

and

The Subscribing Reinsurer(s) executing the
Interests and Liabilities Contract(s)
attaching to and forming a part
of this Agreement

(hereinafter referred to as the "Reinsurer")

IT IS HEREBY AGREED that, effective 12:01 A.M., Eastern Standard Time, April 30, 2003, this Agreement will be amended as follows:

1. The following companies shall be deleted from the group of reinsured companies, collectively referred to as the "Company", under this Agreement:

AEGIS SECURITY INSURANCE COMPANY,
Harrisburg, Pennsylvania
AMERICAN SENTINEL INSURANCE COMPANY,
Harrisburg, Pennsylvania
and/or their affiliates or subsidiaries

2. Article I, "Business Covered", Section 2, shall be deleted:

3. Article V, "Limit and Retention", Section 2, shall be deleted.

ALL OTHER TERMS AND CONDITIONS REMAIN UNCHANGED.