

CONNECTICUT WATER SERVICE INC / CT

FORM 10-K (Annual Report)

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Address	93 W MAIN ST CLINTON, CT 06413
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Industry	Water Utilities
Sector	Utilities
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

(X) Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended **December 31, 2003** or

() Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File Number **0-8084**

Connecticut Water Service, Inc.

(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction
of
incorporation or
organization)

06-0739839
(I.R.S. Employer
Identification No.)

**93 West Main Street,
Clinton, CT**
(Address of principal
executive office)

06413
(Zip Code)

Registrant's telephone number, including area code **(860) 669-8636**
Registrant's website: www.ctwater.com

Securities registered pursuant to Section 12 (b) of the Act:

Title of each Class
None

Name of each exchange on which registered
Not applicable

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, without par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K, (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act. Yes No

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The aggregate market value of the registrant's voting Common Stock held by non-affiliates, computed on the price of such stock at the close of business on June 30, 2003 is \$201,620,443.

7,924,603

Number of shares of Common Stock outstanding, March 1, 2004
(excluding 49,970 common stock equivalent shares)

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K Into Which Document is Incorporated
Definitive Proxy Statement, dated March 10, 2004, for Annual Meeting of Shareholders to be held on April 23, 2004.	Part III

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This Form 10-K contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements should be read in conjunction with the cautionary statements included in this Form 10-K in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “Forward Looking Information”.

PART I

ITEM 1. BUSINESS

The Company

The Registrant, Connecticut Water Service, Inc. (referred to as “the Company”, “we” or “our”) was organized in 1956. Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from the earnings of its eleven wholly-owned subsidiary companies. In 2003 approximately 80% of the Company’s earnings were attributable to water activities carried out within its five regulated water companies: The Connecticut Water Company, The Gallup Water Service, Incorporated, The Crystal Water Company of Danielson, The Barnstable Water Company and The Unionville Water Company. These five companies supply water to 86,750 customers in 42 towns throughout Connecticut and Massachusetts. Each of these companies is subject to state regulation regarding financial issues, rates, and operating issues, and to various other state and federal regulatory agencies concerning water quality and environmental standards. In addition to its regulated utilities, the Company owns six unregulated companies: Chester Realty, Inc., a real estate company in Connecticut; New England Water Utility Services, Inc., which provides contract water and sewer operations and other water related services; Connecticut Water Emergency Services, Inc., a provider of drinking and pool water by tanker truck; Crystal Water Utilities Corporation, a holding company which owns The Crystal Water Company of Danielson and three small rental properties; BARLACO, a real estate company in Massachusetts; and Barnstable Holding Company, a holding company which owns The Barnstable Water Company and BARLACO. In 2003, these unregulated companies, in conjunction with the regulated water companies, contributed the remaining 20% of the Company’s earnings through real estate transactions as well as services and rentals.

Our mission is to provide high quality water service to our customers at a fair return to our stockholders while maintaining a work environment that attracts, retains and motivates our employees to achieve a high level of performance.

Our corporate headquarters are located at 93 West Main Street, Clinton, Connecticut 06413. Our telephone number is 860.669.8636, and our Internet address is www.ctwater.com.

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports will be made available free of charge through the "INVESTOR INFO (SEC Filings)" section of the Company's Internet website (<http://www.ctwater.com>) as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission. The following documents are also available through the "CORPORATE GOVERNANCE" section of our website:

- Code of Ethics
- Role of Board
- Role and Composition of Committees
- Audit Committee Charter
- Compensation Committee Charter
- Corporate Governance Committee Charter

Copies of each of the Company's SEC filings (without exhibits) and corporate governance documents mentioned above will also be mailed to investors, upon request.

Our Regulated Business

Our business is subject to seasonal fluctuations and weather variations. The demand for water is generally greater during the warmer months than the cooler months due to customers' high water consumption related to cooling systems and various outdoor uses such as private and public swimming pools and lawn sprinklers. Demand will vary with rainfall and temperature levels from year to year and season to season, particularly during the warmer months.

In general, the profitability of the water utility industry is largely dependent on the timeliness and adequacy of rates allowed by utility regulatory commissions. In addition, profitability is affected by numerous factors over which we have little or no control, such as costs to comply with security, environmental, and water quality regulations. Inflation and other factors also impact costs for construction, materials and personnel related expenses.

Costs to comply with environmental and water quality regulations are substantial. Since the 1974 enactment of the Safe Drinking Water Act we have spent approximately \$50,500,000 in constructing facilities and conducting aquifer mapping necessary to comply with the requirements of the Safe Drinking Water Act, and other federal and state regulations, of which \$2,548,000 was expended in the last five years. We are presently in compliance with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify existing filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Our water companies derive their rights and franchises to operate from special state acts that are subject to alteration, amendment or repeal and do not grant us exclusive rights to our service areas. Our franchises are free from burdensome restrictions, are unlimited as to time, and authorize us to sell potable water in all the towns we now serve. There is the possibility that a state could revoke our franchises and allow a governmental entity to take over some or all of our systems. From time to time such legislation is contemplated.

The rates we charge our water customers are established under the jurisdiction of and are approved by a state regulatory agency. It is our policy to seek rate relief as necessary to enable us to achieve an adequate rate of return. The following table shows information related to each of our water companies' most recent general rate filing.

	Date of Last Rate Decision	Allowed Return on Equity	Allowed Return on Rate Base
Barnstable	1998	12.5%	11.31%
Connecticut Water	1991	12.7%	10.74%
Crystal	1995	12.35%	10.16%
Gallup	1994	N/A*	N/A*
Unionville	1999***	12.35%	N/A**

* Gallup's rates were based on its net income requirement, not on a rate of return methodology.

** Unionville's rates were based on a return on equity methodology, not a rate base methodology.

*** Beginning mid-2003, Unionville began imposing a 30% surcharge on its customers' water bills to recover financing and operating costs related to the construction and use of a water interconnection with a neighboring water supplier. Annually the surcharge is subject to a retroactive refund to ratepayers if total revenue for Unionville exceeds certain stipulated amounts. As part of the decision authorizing the surcharge, the Connecticut Department of Public Utility Control also limited the conditions upon which Unionville may seek a rate increase prior to September 1, 2005.

Our Water Systems

Our water infrastructure consists of 29 noncontiguous water systems in the State of Connecticut and one water system in Massachusetts. Our system, in total, consists of 1,370 miles of water main and reservoir storage capacity of 7.0 billion gallons. The safe, dependable yield from our 131 active wells and 20 reservoirs is approximately 52 million gallons per day. Water sources vary among the individual systems, but overall approximately 42% of the total dependable yield comes from reservoirs and 58% from wells.

We supply water, and in most cases, fire protection to all or portions of 42 towns in Connecticut and Massachusetts. The following table lists the customer count, operating revenues and customer water consumption for each of our water companies as of December 31, 2003.

Water Company	Number of customers	Water Revenues (\$000's)	Customer Water Consumption (millions of gallons)
Barnstable Water Company	7,174	\$ 2,517	813
Connecticut Water Company	68,895	39,301	5,688
Crystal Water Company	3,694	2,071	438
Gallup Water Service	1,225	642	89
Unionville Water Company	5,762	2,584	612
Total	86,750	\$47,115	7,640

The following table breaks down the above total figures by customer class:

Customer Class	Number of customers	Water Revenues (\$000's)	Customer Water Consumption (millions of gallons)
Residential	76,886	\$29,172	5,235
Commercial	6,274	6,210	1,579
Industrial	436	1,616	443
Public Authority	575	1,494	383
Fire Protection	1,638	8,105	0
Other (including non-metered accounts)	941	518	0
Total	86,750	\$47,115	7,640

Disposition of Property

Our water companies own various small, discrete parcels of land that are no longer required for water supply purposes. At December 31, 2003 this land totaled approximately 500 acres. Over the past years we have been slowly disposing of such excess land. The largest transaction to date has been the donation of land by the Crystal Water Company to the Town of Killingly for protected open space purposes over a three-year period, 2002 — 2004. In January 2004, the final parcel of land was transferred to the Town. Over the three-year period the following acreage was donated to the Town under this agreement:

Year	Acres	After-tax Profit
2002	54	\$293,000
2003	178	\$942,000
2004	133	\$712,000

Primarily due to a Connecticut corporate tax credit, which was legislatively enacted in 2000, the donation of land for protected open space purposes results in a greater after-tax profit to the Company than a sale of the land would provide.

Future disposition of land by our Connecticut regulated water companies is limited by the Memorandum of Understanding that the Company entered into with the Connecticut Department of Environmental Protection on December 4, 2002 (See "Moratorium on Land Sales" in the Commitments and Contingencies section of ITEM 7 of this Form 10-K).

We also have a limited amount of land held by our unregulated companies. Included in this category is approximately 100 acres of land held by BARLACO Inc., which we acquired in February 2001 in conjunction with the Company's acquisition of The Barnstable Holding Company.

Competition

Our water companies face competition, presently not material, from a few private water systems operating within, or adjacent to, their franchise areas and from municipal and public authority systems whose service areas in some cases overlap portions of our water companies' franchise areas.

Employees

As of December 31, 2003, we employed a total of 195 persons. Our employees are not covered by collective bargaining agreements. We believe that our relations with our employees are good.

Segments of Our Business

For management purposes we divide our business into three Business segments: Water Activities, Real Estate Transactions, and Services and Rentals.

The Water Activities segment is comprised of our core regulated water activities to supply public drinking water to our customers. This segment encompasses all transactions of all our regulated companies with the exception of real estate transactions and service and rental activities.

Our Real Estate Transactions segment involves the sale or donation for income tax benefits of our limited excess real estate holdings. These transactions can be effected by either our regulated or unregulated companies. A breakdown of the net profits of this segment between our regulated and unregulated companies for the past three years is as follows:

	Net Income from Real Estate Transactions		
	Regulated	Unregulated	Total
2003	\$ 942,000	\$87,000	\$1,029,000
2002	\$ 440,000	—	\$ 440,000
2001	\$1,121,000	—	\$1,121,000

Our Services and Rentals segment provides contracted services to water and wastewater utilities and other clients and also leases certain of our properties to third parties. Both our regulated and unregulated companies offer these transactions. The types of services provided include contract operations of water and wastewater facilities; *Linebacker*®, our service line protection plan for public drinking water customers, and providing bulk deliveries of emergency drinking water to businesses and residences via tanker truck. Our lease and rental income comes primarily from telecommunication antennas placed on our water storage tanks by telecommunication companies, as well as from the renting of residential and commercial property.

Some of the services listed above, including the service line protection plan and antenna leases, have little or no competition. But there can be considerable competition for contract operations of large water and wastewater facilities and systems. However, we have sought to develop a niche market by seeking to serve smaller facilities and systems in our service areas where there is less competition. The services and rentals segment, while relatively new and a small portion of our overall business, has grown significantly over the past five years and now provide nearly eight percent of our overall net income. The table below describes the net profits generated by this segment of our business from our regulated and unregulated companies for the past three years:

	Net Income from Real Estate Transactions		
	Regulated	Unregulated	Total
2003	\$411,000	\$322,000	\$733,000
2002	\$274,000	\$170,000	\$444,000
2001	\$240,000	\$132,000	\$372,000

ITEM 2. PROPERTIES

The properties of our water companies consist of land, easements, rights (including water rights), buildings, reservoirs, standpipes, dams, wells, supply lines, treatment plants, pumping plants, transmission and distribution mains and conduits, mains and other facilities and equipment used for the collection, purification, storage and distribution of water. Although, our regulated water companies own their principal properties in fee, substantially all of the properties owned by Barnstable Water, Connecticut Water, Crystal Water and Unionville Water companies are subject to liens as security for outstanding debt. In addition, in certain cases, our water companies are parties to limited contractual arrangements for the provision of water supply from neighboring utilities. We believe that our properties are in good operating condition. Water mains are located, for the most part, in public streets and, in a few instances, are located on land that we own in fee and land utilized pursuant to easement right, most of which are perpetual and adequate for the purpose for which they are held.

The net utility plant balances of the water companies at December 31, 2003 were as follows:

	Net Utility Plant
Barnstable	\$ 6,468,000
Connecticut Water	196,568,000
Crystal	10,416,000
Gallup	3,250,000
Unionville	18,396,000
Total	\$235,098,000

Sources of water supply owned, maintained, and operated by our regulated water companies include eighteen reservoirs and fifty-five well fields. In addition, Connecticut Water has an agreement with the Metropolitan District Commission (MDC) (a public water and sewer authority presently serving the City of Hartford and portions of surrounding towns), which provides, among other things, for the operation and maintenance by MDC of a filtration plant to supply up to 650,000 gallons of treated water per day for Connecticut Water's Collinsville System. Collectively, these sources have the capacity to deliver approximately fifty-one million gallons of potable water daily to the sixteen major operating systems in the following table. In addition to the principal systems identified, our regulated water companies own, maintain, and operate fifteen small, non-interconnected satellite and consecutive water systems that, combined have the ability to deliver about one million gallons of additional water per day to their respective systems. For some small consecutive water systems, purchased water may comprise substantially all of the total available supply of the system.

Our regulated water companies own and operate fifteen water filtration facilities, having a combined treatment capacity of approximately 26.33 million gallons per day. Of these facilities, twelve are owned by Connecticut Water, two by Unionville Water, and one by Crystal Water. Gallup and Barnstable Water do not have, or require, water filtration facilities.

The companies' estimated available water supply, not including water purchases or non-principal systems, is as follows:

	ESTIMATED AVAILABLE SUPPLY (MILLION GALLONS PER DAY)
Barnstable	3.41
Connecticut Water	
Guilford System	8.60
Chester System	1.69
Naugatuck System	7.02
Terryville System	0.91
Thomaston System	1.08
Collinsville System	0.65
Northern Western System	15.12
Somers System	0.38
Stafford System	1.00
Crystal	
Danielson System	3.69
Plainfield System	1.01
Thompson System	0.29
KIP System	0.50
Gallup	1.44
Unionville	4.35
Total	51.14

As of December 31, 2003, the transmission and distribution systems of our five water companies consisted of approximately 1,370 miles of main. On that date, approximately 75 percent of our mains were eight-inch diameter or larger. Substantially all new main installations are cement-lined ductile iron pipe of eight-inch diameter or larger.

The size of each company’s system(s) in terms of miles of mains is as follows:

	Miles of Transmission and Distribution Water Mains
	<hr/>
Barnstable Water	100
Connecticut Water	1,070
Crystal	70
Gallup	20
Unionville	110
Total	1,370

We believe that our properties are maintained in good condition and in accordance with current regulations and standards of good waterworks industry practice.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings from time to time. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we, or any of our subsidiaries are a party, or to which any of our properties is subject, that presents a reasonable likelihood of a material adverse impact on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.



PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our Common Stock is traded on the NASDAQ exchange under the symbol "CTWS". Our quarterly high and low stock prices as reported by NASDAQ and the cash dividends we paid during 2003 and 2002 are listed as follows:

Period	Price		Dividends
	High	Low	Paid
2003			
First Quarter	\$27.49	\$24.00	\$.2050
Second Quarter	26.96	24.22	\$.2050
Third Quarter	30.41	25.20	\$.2075
Fourth Quarter	30.25	26.96	\$.2075
2002			
First Quarter	\$31.00	\$26.53	\$.2022
Second Quarter	31.09	24.00	\$.2022
Third Quarter	30.00	20.35	\$.2050
Fourth Quarter	27.12	24.05	\$.2050

As of March 1, 2004 there were approximately 5,000 holders of record of our common stock.

We presently intend to pay quarterly cash dividends in 2004 on March 15, June 15, September 15 and December 15 subject to our earnings and financial condition, regulatory requirements and other factors our Board of Directors may deem relevant.

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SUPPLEMENTAL INFORMATION (Unaudited)

ITEM 6. SELECTED FINANCIAL DATA

Years Ended December 31, (thousands of dollars except per share amounts and where otherwise indicated)

	2003	2002	2001	2000	1999
CONSOLIDATED STATEMENTS OF INCOME Operating					
Revenues	\$ 47,115	\$ 45,830	\$ 45,392	\$ 43,997	\$ 45,171
Operating Expenses	\$ 35,584	\$ 33,996	\$ 34,078	\$ 32,335	\$ 33,382
Operating Income	\$ 11,531	\$ 11,834	\$ 11,314	\$ 11,662	\$ 11,789
Interest and Debt Expense	\$ 4,635	\$ 4,534	\$ 4,632	\$ 4,782	\$ 4,720
Net Income Applicable to Common Stock	\$ 9,172	\$ 8,742	\$ 8,401	\$ 7,858	\$ 7,780
Cash Common Stock Dividends Paid	\$ 6,529	\$ 6,277	\$ 6,105	\$ 5,890	\$ 5,688
Dividend Payout Ratio	71%	72%	73%	75%	73%
Weighted Average Common Shares Outstanding	7,956,426	7,717,608	7,619,031	7,604,546	7,593,376
Basic Earnings Per Average Common Share	\$ 1.15	\$ 1.13	\$ 1.10	\$ 1.03	\$ 1.02
Number of Shares Outstanding at Year End	7,967,381	7,939,713	7,649,362	7,604,594	7,596,141
ROE on Year End Common Equity	11.0%	10.9%	11.9%	11.7%	12.0%
Declared Common Dividends Per Share*	\$ 0.825	\$ 0.814	\$ 0.804	\$ 0.795	\$ 0.787
CONSOLIDATED BALANCE SHEET Common Stockholders'					
Equity	\$ 83,315	\$ 79,975	\$ 70,783	\$ 67,110	\$ 64,915
Long-Term Debt	\$ 64,754	\$ 64,734	\$ 63,953	\$ 66,283	\$ 67,099
Minority Interest	\$ —	\$ —	\$ —	\$ 117	\$ 142
Preferred Stock (Consolidated, Excluding Current Maturities)	\$ 847	\$ 847	\$ 847	\$ 847	\$ 847
Total Capitalization	\$ 148,916	\$ 145,556	\$ 135,583	\$ 134,357	\$ 133,003
Stockholders' Equity (Includes Preferred Stock)	57%	56%	53%	51%	49%
Long-Term Debt	43%	44%	47%	49%	51%
Net Utility Plant	\$ 235,098	\$ 229,097	\$ 202,330	\$ 193,169	\$ 187,613
Book Value — Per Common Share	\$ 10.46	\$ 10.07	\$ 9.25	\$ 8.82	\$ 8.55
OPERATING REVENUES BY REVENUE CLASS Residential					
Commercial	6,210	6,036	5,941	5,817	6,093
Industrial	1,616	1,709	1,687	1,905	1,850
Public Authority	1,494	1,436	1,460	1,481	1,561
Fire Protection	8,105	7,434	7,187	6,960	6,861
Other (including non-metered accounts)	518	535	496	470	384
Total Operating Revenues	\$ 47,115	\$ 45,830	\$ 45,392	\$ 43,997	\$ 45,171
Number of Customers (Average)	86,145	82,119	78,156	77,183	76,061
Billed Consumption (Millions of Gallons)	7,640	7,418	7,259	6,911	7,330
Number of Employees	195	191	181	184	180

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**FINANCIAL CONDITION****Overview**

The Company is a non-operating holding company, whose income is derived from the earnings of its eleven wholly-owned subsidiary companies. In 2003, approximately 80% of the Company's earnings were attributable to water activities carried out within its five regulated water companies: The Connecticut Water Company, The Gallup Water Service, Incorporated, The Crystal Water Company of Danielson, The Barnstable Water Company and The Unionville Water Company. Over 95% of this water activity income comes from The Connecticut Water Company (Connecticut Water) our largest subsidiary and water company. Connecticut Water has not had an increase in its rates since 1991. Primarily due to the construction of six major water treatment plants during the late 1970s and throughout the 1980s, our overall investment in gross utility plant increased by \$122,881,000, or 270%, from 1978 to 1991 which resulted in our water rates being amongst the highest in Connecticut. In 1991 we began developing opportunities to increase revenues and earnings without raising regulated water rates. Through these efforts we have successfully:

- Increased our consolidated earnings each year since 1991 without increasing water rates, and;
- Continued increasing our common dividend payments per share during this period.

We believe that it is likely that we will have to seek regulatory approval to increase rates charged at some or all of our 5 regulated water companies during the next 5 years. The material factors that will affect our decision to consider rate increases in the next 5 years are:

- Expected increases in infrastructure investment are necessary to insure a safe, reliable water system remains in place,
- Modest historical and projected annual growth in regulated water sales of approximately 1.5%, and;
- Increases in operating costs such as wage, pension, medical and insurance costs.

On a year-to-year basis our earnings are primarily influenced by weather patterns that affect our customers' water usage and thereby our revenues. Our revenues may fluctuate by as much as \$1.5 million (or 3.0%) over or under a normal year because customers use more water in hot, dry years and less water in cool, rainy years.

Regulatory Matters and Inflation

The Company, like all other businesses, is affected by inflation, most notably by the continually increasing costs required to maintain, improve and expand its service capabilities. The cumulative effect of inflation over time results in significantly higher operating costs and facility replacement costs, which must be recovered from future cash flows.

Our water companies are also subject to environmental and water quality regulations. Costs to comply with environmental and water quality regulations are substantial. We are currently in compliance with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Our water companies' ability to recover their increased expenses and/or investment in utility plant is dependent on the regulatory rates they charge their customers. Changes to these rates must be approved by the appropriate regulatory authority through formal rate proceedings. The rates of our four Connecticut based water companies are regulated by the Connecticut Department of Public Utility Control and our Massachusetts water company's rates are regulated by the Massachusetts Department of Telecommunications and Energy. Due to the subjectivity of certain items involved in the process of establishing rates such as future customer growth, inflation and allowed return on investment, we have no assurance that our water companies will be able to raise their rates to a level we consider appropriate, or to raise their rates at all, through any future rate proceeding.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) and as directed by the regulatory commissions to which the Company's subsidiaries are subject. (See Note 1 to the Consolidated Financial Statements for a discussion of our significant accounting policies.) The Company believes the following policies and estimates are critical to the presentation of its consolidated financial statements.

Public Utility Regulation - Statement of Financial Accounting Standards - Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), requires cost based, rate-regulated enterprises such as the Company's water companies to reflect the impact of regulatory decisions in their financial statements. The state regulators, through the rate regulation process, can create regulatory assets that result when costs are allowed for ratemaking purposes in a period after the period in which costs would be charged to expense by an unregulated enterprise. The balance sheet includes regulatory assets and liabilities as appropriate, primarily related to income taxes and post-retirement benefit costs. The Company believes, based on current regulatory circumstances, that the regulatory assets recorded are likely to be recovered and that its use of regulatory accounting is appropriate and in accordance with the provisions of FAS 71. Material regulatory assets are earning a return.

Revenue Recognition - Revenue from metered customers includes billings to customers based on quarterly meter readings plus an estimate of water used between the customer's last meter reading and the end of the accounting period. The unbilled revenue amount is listed as a current asset on the balance sheet. The amount recorded as unbilled revenue is generally higher during the summer months when water sales are higher. Based upon historical experience, management believes the Company's estimate of unbilled revenues is reasonable.

Pension Plan Accounting – The discount rate assumption we use to value our pension benefit obligations has a material impact on the amount of pension expense we record in a given period. Our 2002 and 2003 pension expense was calculated using assumed discount rates of 7.25% and 6.5%, respectively. In 2004 our pension expense will be calculated with an assumed discount rate of 6.25%. The following shows how much a one percent change in our assumed discount rate would have changed our reported 2003 pension expenses:

	Increase (Decrease) in expense
A 1% increase in the discount rate	(\$196,000)
A 1% decrease in the discount rate	\$ 222,000

Outlook

The Company's profitability is primarily attributable to the sale and distribution of water, the amount of which is dependent on seasonal weather fluctuations, particularly during the summer months when water demand will vary with rainfall and temperature levels.

After the terrorist strike on September 11, 2001, water companies have had to increase security on their water supplies and facilities. This has resulted in increases in operating and capital costs related to security, which are typically recoverable in a rate proceeding.

FINANCIAL CONDITION

Liquidity and Capital Resources

In recent years, we have attempted to limit our investment in utility plant to the amount of funds generated from our consolidated operations. Under this policy, the Company has not been required to significantly increase its long-term debt obligations in order to fund its annual construction program. The following table shows the total construction expenditures for each of the last three years and what we expect to invest on construction projects in 2004.

	Gross Construction Expenditures	Construction Funded by Developers & Others	Construction Funded by Company
2001	\$14,218,000	\$4,332,000	\$ 9,886,000
2002	\$15,691,000	\$4,992,000	\$10,699,000
2003	\$11,909,000	\$3,522,000	\$ 8,387,000
2004 (Projected)	\$14,464,000	\$3,300,000	\$11,164,000

We currently fund our working capital requirements through our lines of credit with three banks, which provide liquidity to satisfy ongoing cash needs. We consider the current aggregate \$12,500,000 lines of credit to be adequate to finance any expected short-term borrowing requirements that may arise in 2004. All the lines have one-year lives and will expire at different dates in 2004. We expect to renew the lines in 2004. The interest rates payable are variable and fluctuate over time based on financial conditions. The weighted average interest rate on the \$9,700,000 balance outstanding at December 31, 2003 was 1.523%.

During 2003 interest rates fell to historically low levels. We took advantage of the low rates and refinanced a portion of our long-term debt in the fourth quarter of 2003. On October 30, 2003, Connecticut Water borrowed \$22.93 million from the issuance of Water Facilities Refunding Revenue Bonds by the Connecticut Development Authority. The bonds were sold in two series with the following terms:

2003 A Series: \$8,000,000 (Non-AMT)	4.40% Maturing 12/15/2020
2003 C Series: \$14,930,000 (AMT)	5.00% Maturing 09/01/2022

The proceeds of the transaction were used to redeem the Series R and S first mortgage bonds of Connecticut Water Company and paid for a portion of the expenses associated with the issuance.

During the first quarter of 2004, Connecticut Water refinanced an additional portion of its long-term debt through the issuance of \$12,500,000 of variable rate, taxable debenture bonds Series 2004 with a maturity date of January 4, 2029. The bonds have been secured by an irrevocable direct pay letter of credit issued by a financial institution, with a five-year term expiring in March 2009. The proceeds of the sale of the bonds, which are general debt obligations of Connecticut Water, will be used to redeem the \$12,050,000 aggregate principal amount of Connecticut Water's First Mortgage Bonds (Series V) and to pay a portion of the expenses associated with the bonds' refunding.

In connection with the issuance of the Bonds, Connecticut Water entered into an interest rate swap transaction with a counterparty in the notional principal amount of \$12,500,000. The interest rate swap agreement provides that, beginning in April 2004 and thereafter on a monthly basis, Connecticut Water will pay the counterparty a fixed interest rate of 3.73% on the notional amount for a period of five years. In exchange, the counterparty will, beginning in April 2004 and thereafter on a monthly basis, pay Connecticut Water a floating interest rate (based on 105% of the U.S. Dollar one-month LIBOR rate) on the notional amount for a period of five years. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in prevailing interest rates.

During the first six months of 2004, Unionville expects to secure \$1.6 million through the Drinking Water State Revolving Fund for costs incurred in developing a water interconnection with a neighboring water supplier. The funds will be used to pay off a portion of the balances outstanding under bank lines of credit.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not use off-balance sheet arrangements such as securitization of receivables with any unconsolidated entities or other parties. The Company does not engage in trading or risk management activities and does not have material transactions involving related parties other than the interest rate swap agreement discussed above.

The following table summarizes the Company's future contractual cash obligations as of December 31, 2003:

Contractual Obligations	Payments due by Periods (in thousands of dollars)				
	Total	Less than 1 year	Years 1 - 3	Years 4 and 5	More than 5 years
Long-Term Debt	\$65,008	\$ 254	\$ 802	\$ 580	\$63,372
Operating Lease Obligations	2,050	781	912	293	64
Purchase Obligations (1)	29,002	750	1,334	1,218	25,700
Total	\$96,060	\$1,785	\$3,048	\$2,091	\$89,136

- (1) Includes long and short-term capital purchase obligations. Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on the registrant and that specify all significant terms, including: fixed or minimum quantities, fixed minimum or variable price provisions; and the approximate timing of the transaction.

Interim Bank Loans Payable at year-end 2003 was \$9,700,000, which is \$2,750,000 higher than at the end of 2002.

During 2003, the Company incurred approximately \$11.9 million of construction expenditures. The Company financed such expenditures through internally generated funds, customers' advances, contributions in aid of construction and short-term borrowings.

The Board of Directors has approved an \$11.2 million construction budget for 2004, net of amounts to be financed by customer advances and contributions in aid of construction. Funds primarily provided by operating activities are expected to finance this entire construction program given normal weather patterns and related operating revenue billings. Refer to Note 10, Utility Plant and Construction Program, in Notes to the Consolidated Financial Statements for additional discussion of the Company's future construction program.

RESULTS OF OPERATIONS

Overview of 2003 Results

Earnings for 2003 were higher than 2002 due to increased profits in our 'Real Estate' and 'Services and Rentals' business segments, which more than offset a reduction in profits from our 'Water Activities' segment.

The profits generated by the real estate segment increased from 2002 primarily because the most valuable parcel of the three parcels being donated to the Town of Killingly, CT over a three-year period was donated in 2003. The net profits (tax benefits) by year from donations under this agreement are:

2002	\$293,000
2003	\$942,000
2004*	\$712,000

* donated in January, 2004

The net profits generated from the services and rental segment increased by 65% from 2002. In 2003, we increased the profit margins generated by our service contract operations, increased customer enrollment in our service line maintenance program and increased the number of leases we have with telecommunications companies that lease space on our water storage tanks for their antenna sites. We have been working hard to grow this segment of the business and are optimistic that we can continue to do so. Our net profits and growth rates for this segment over the last three years are:

	Services and Rental Increased Net Profit Over Prior Year	% Increase
2001	\$106,000	40%
2002	\$ 72,000	19%
2003	\$289,000	65%

Earnings from our core 'Water Activities' segment declined in 2003. The unusually rainy and cool weather experienced during 2003 caused our customers on average to use less water than they would normally use. Operating revenues overall were approximately \$1.3 million lower in 2003 than they would have been in a 'normal' weather year. This segment also experienced a 16.5% increase in operation and maintenance expense in 2003. In addition to picking up 10 additional months of expenses associated with Unionville, which was acquired on October 31, 2002, this segment experienced higher wages, medical, pension, insurance, and power costs. There was also a higher than normal incidence of weather related main breaks in addition to the normal increases in depreciation and property tax expense related to the Company's increased investment in utility plant. Somewhat offsetting these negative impacts on earnings was a 1.5% increase in the number of utility customers plus a lower 2003 effective income tax rate due to book/tax timing differences, lower pre-tax income and a reduction in estimated tax liabilities associated with non-current periods.

Results on a comparable basis

Because we acquired Unionville on October 31, 2002, and because we accounted for the acquisition of Unionville under the purchase method of accounting, our consolidated income statements include different amounts of Unionville operating results in years 2001, 2002 and 2003.

	Number of months Of Unionville Operating Results
2001	0
2002	2
2003	12

To assist us and our investors in analyzing operating results by income statement line, Company management internally looks at our consolidated results without Unionville to measure performance on a comparable company basis. The following are comparable income statements with the results of Unionville removed.

2003 Results Compared with 2002
INCOME STATEMENTS
For the years ended, December 31, (in thousands)

	2003			2002		
	Consolidated	Unionville	Without Unionville	Consolidated	Unionville	Without Unionville
Operating Revenues	\$47,115	\$2,584	\$44,531	45,830	361	\$45,469
Operating Expenses						
Operation and Maintenance	22,759	1,588	21,171	19,531	226	19,305
Depreciation	5,684	472	5,212	5,187	74	5,113
Income Taxes	2,008	140	1,868	4,482	6	4,476
Taxes Other Than Income Taxes	5,133	204	4,929	4,796	36	4,760
Total Operating Expenses	35,584	2,404	33,180	33,996	342	33,654
Utility Operating Income	11,531	180	11,351	11,834	19	11,815
Other Income (Deductions), Net of Taxes						
Gain on Property Transactions	1,029	—	1,029	440	—	440
Non-Water Sales Earnings	733	18	715	444	—	444
Allowance for Funds Used During Construction	476	58	418	470	8	462
Other	76	1	75	126	1	125
Total Other Income (Deductions), Net of Taxes	2,314	77	2,237	1,480	9	1,471
Interest and Debt Expenses						
Interest on Long-Term Debt	4,016	92	3,924	3,909	16	3,893
Other Interest Charges	385	10	375	365	—	365
Amortization of Debt Expense	234	1	233	260	—	260
Total Interest and Debt Expenses	4,635	103	4,532	4,534	16	4,518
Net Income Before Preferred Dividends	9,210	154	9,056	8,780	12	8,768
Preferred Stock Dividend Requirement	38	—	38	38	—	38
Net Income Applicable to Common Stock	\$ 9,172	\$ 154	\$ 9,018	8,742	12	\$ 8,730

2002 Results Compared with 2001

INCOME STATEMENTS

For the years ended, December 31, (in thousands)

	2002		2001	
	Consolidated	Unionville	Without Unionville	Without Unionville
Operating Revenues	\$45,830	\$361	\$45,469	\$45,392
Operating Expenses				
Operation and Maintenance	19,531	226	19,305	20,076
Depreciation	5,187	74	5,113	4,837
Income Taxes	4,482	6	4,476	4,777
Taxes Other Than Income Taxes	4,796	36	4,760	4,388
Total Operating Expenses	33,996	342	33,654	34,078
Utility Operating Income	11,834	19	11,815	11,314
Other Income (Deductions), Net of Taxes				
Gain on Property Transactions	440	—	440	1,121
Non-Water Sales Earnings	444	—	444	372
Allowance for Funds Used During Construction	470	8	462	439
Merger Costs	—	—	—	(352)
Other	126	1	125	177
Total Other Income (Deductions), Net of Taxes	1,480	9	1,471	1,757
Interest and Debt Expenses				
Interest and Debt Expenses Interest on Long-Term Debt	3,909	16	3,893	4,057
Other Interest Charges	365	—	365	353
Amortization of Debt Expense	260	—	260	222
Total Interest and Debt Expenses	4,534	16	4,518	4,632
Net Income Before Preferred Dividends	8,780	12	8,768	8,439
Preferred Stock Dividend Requirement	38	—	38	38
Net Income Applicable to Common Stock	\$ 8,742	\$ 12	\$ 8,730	\$ 8,401

2002 Compared with 2001

Net income applicable to common stock for 2002 in total increased from that of 2001 by \$341,000, or \$.03 per average basic share. The 2002 increase includes \$12,000 relating to two months of 2002 net income generated by Unionville which was acquired on October 31, 2002.

Excluding Unionville's operating results:

Operating revenues increased only .2% despite a 1.6% increase in number of customers served due to a decline in the average amount of water our customers consumed. While the 2002 average customer water usage might be considered average, the 2001 customer water usage was atypically high due to the drought conditions we experienced in 2001.

Non recurring items contributing to the 2002 increase in net income were:

- a 2002 \$344,000 mark to market adjustment on the Company's common stock equivalent shares outstanding
- 2001 merger costs of \$352,000 relating to the Company's pooling of interests treatment of the 2001 Barnstable acquisition.

COMMITMENTS AND CONTINGENCIES

Security — Recent enactment of the Bioterrorism Response Act of 2001 require all public water systems serving over 3,300 people to prepare Vulnerability Assessments (VA) of their critical utility assets. The assessments are to be submitted to the U.S. Environmental Protection Agency by June 2004 followed by an Emergency Response Plan by December 2004. The information within the VA is not subject to release to the public and is protected from Freedom of Information inquiries. Investment in security-related improvements is ongoing and management believes that the costs associated with any such improvements would be chargeable for recovery in future rate proceedings.

Reverse Privatization — Our water companies derive their rights and franchises to operate from state laws that are subject to alteration, amendment or repeal, and do not grant permanent exclusive rights to our service areas. Our franchises are free from burdensome restrictions, are unlimited as to time, and authorize us to sell potable water in all towns we now serve. There is the possibility that states could revoke our franchises and allow a governmental entity to take over some or all of our systems. From time to time such legislation is contemplated.

The Town of Barnstable, Massachusetts has advised the Company that it is actively considering the acquisition of the Company's wholly-owned subsidiary, The Barnstable Holding Company. The Town takes the position that it has the right to acquire The Barnstable Holding Company pursuant to the provisions of Massachusetts legislation passed in 1911. The Company has advised the Town of Barnstable that the Company does not believe the Town has any statutory right to acquire The Barnstable Holding Company.

Environmental and Water Quality Regulation — The Company is subject to environmental and water quality regulations. Costs to comply with environmental and water quality regulations are substantial. We are currently in compliance with current regulations, but the regulations are subject to change at any time. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

Moratorium on Land Sales — On December 4, 2002, the Company entered into a Memorandum of Understanding (MOU) with the State of Connecticut Department of Environmental Protection (DEP). The MOU provides for a voluntary two-year moratorium on the sale of approximately 7,100 acres of undeveloped Class I, II, and III water company lands held by the Company's Connecticut water company subsidiaries. Class I and II water company lands, as defined by Public Health Code regulations, are those that are within the watershed or drainage area of a public water supply. Class III lands are those that are not located within the watershed. Under the terms of the MOU, the DEP in cooperation with the Company's Connecticut water companies will assess and evaluate all undeveloped Class I, II and III land holdings to determine the desirability of the State of Connecticut's acquiring the land for open space and to develop strategies to fund the acquisitions of such properties in fee or by easement from the Company. If the DEP determines that the Company's Class I, II and III land holdings are desirable, the Company and the DEP have agreed to negotiate in good faith to determine a price for the Company's land holdings based upon appraised values. However, the Company is not obligated by the MOU to sell such lands to the State of Connecticut. If the DEP determines that certain parcels of Class III land covered by the MOU do not meet its criteria for desirable open space, the Company can apply to the Department of Public Utility Control to sell or otherwise dispose of the land. The Company has no intention of selling or otherwise disposing of Class I and II lands that have an impact on drinking water supply and water quality. The MOU does not affect the land donation to the Town of Killingly mentioned above. In 2003, the DEP released approximately 130 acres of land from the restrictions of the MOU.

Rock Excavation Contract — In 2002, Connecticut Water signed a contract with O & G Industries, Inc. of Torrington, Connecticut regarding excavation of rock from a 28-acre parcel of land that the company owns in Prospect, Connecticut. At that time, the Company expected that the rock excavation could yield income of \$2 — \$3 million in total over the 20-year life of the contract. A subsequent environmental assessment has indicated that the property contains sensitive wetland areas, which have to be protected. The Company now expects minimal proceeds from this project if it goes forward at all.

Taxes — Due to the current environment of state budget deficits, the Company and its subsidiaries may be subject to a higher tax burden through changes in state legislation. Also, the Company's future property tax burden may increase as state aid to towns is decreased.

FORWARD LOOKING INFORMATION

This report, including management's discussion and analysis, contains certain forward-looking statements regarding the Company's results of operations and financial position. These forward looking statements are based on current information and expectations, and are subject to risks and uncertainties, which could cause the Company's actual results to differ materially from expected results.

Our water companies are subject to various federal and state regulatory agencies concerning water quality and environmental standards. Generally, the water industry is materially dependent on the adequacy of approved rates to allow for a fair rate of return on the investment in utility plant. The ability to maintain our operating costs at the lowest possible level, while providing good quality water service, is beneficial to customers and stockholders. Profitability is also dependent on the timeliness of rate relief, when necessary, and numerous factors over which we have little or no control, such as the quantity of rainfall and temperature, industrial demand, financing costs, energy rates, tax rates, and stock market trends which may affect the return earned on pension assets, and compliance with environmental and water quality regulations. The profitability of our other revenue sources is subject to the amount of land we have available for sale and/or donation, the demand for the land, the continuation of the current state tax benefits relating to the donation of land for open space purposes, regulatory approval of land dispositions, the demand for telecommunications antenna site leases and the successful extensions and expansion of our service contract work. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary market risk faced by the Company is interest rate risk. As of December 31, 2003, the Company had no exposure to derivative financial instruments or financial instruments with significant credit risk or off-balance sheet risks. In addition, the Company is not subject in any material respect to any currency or other commodity risk.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company's exposure to interest fluctuations is managed at the Company and subsidiary operations levels through the use of a combination of fixed rate long-term debt (and variable rate borrowings) under financing arrangements entered into by the Company and its subsidiaries and the use of the interest rate swap agreement discussed below. The Company has \$12,500,000 current lines of credit with three banks, under which interim bank loans payable at December 31, 2003 were \$9,700,000.

During the first quarter of 2004, Connecticut Water entered into a five-year interest rate swap transaction in connection with the refunding of its First Mortgage Bonds (Series V). The swap agreement provides for Connecticut Water's exchange of floating rate interest payment obligations for fixed rate interest payment obligations on a notional principal amount of \$12,500,000. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in prevailing interest rates. See "Liquidity and Capital Resources" section of Item 7 – "Management's Discussion and Analysis and Results of Operations" above for further information. The Company does not enter into derivative financial contracts for trading or speculative purposes and does not use leveraged instruments.

Management does not believe that changes in interest rates will have a material effects on income or cash flow during 2004, although there can be no assurances that interest rates will not significantly change.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Connecticut Water Service, Inc., and the Notes to Consolidated Financial Statements together with the reports of PricewaterhouseCoopers LLP are included herein on pages F-2 through F-26.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

On June 20, 2002, the Company filed a Form 8-K to report the dismissal of Arthur Andersen LLP as its independent accountants and the retainer of PricewaterhouseCoopers LLP as the Company's new independent accountants.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2003, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 13a-15 (e)). Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding disclosure to be made within the time periods specified in the SEC's rules and forms. Further, there were no changes in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Pursuant to General Instruction G(3), the information called for by Items 10, (except for information concerning the executive officers of the Company) 11, 12, 13 and 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed on EDGAR on or about March 10, 2004. Information concerning the executive officers of the Company is included as Item 10 of this report.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The following is a list of the executive officers of the Company:

Name	Age	Office	Period Held or Prior Position	Term of Office Expires
M. T. Chiaraluce	61	President, Chief Executive Officer and Chairman of the Board	Held position of President since January, 1992 and position of Chief Executive Officer since July, 1992	2004 Annual Meeting
D. C. Benoit	46	Vice President – Finance, Chief Financial Officer and Treasurer	Held current position or other executive position with the company since April, 1996	2004 Annual Meeting
J. R. McQueen	61	Vice President – Engineering and Planning	Held current position or other management or engineering position with the Company since October, 1965	2004 Annual Meeting
T. P. O'Neill	50	Vice President – Operations	Held current position or other engineering position with the Company since February, 1980	2004 Annual Meeting
M. P. Westbrook	44	Vice President – Administration and Government Affairs	Held current position or other management position with the Company since September, 1988	2004 Annual Meeting
P. J. Bancroft	54	Assistant Treasurer and Controller	Held current position or other accounting position with the Company since October, 1979	2004 Annual Meeting
M. G. DiAcri	58	Corporate Secretary	Held administrative position with the Company since February, 1990	2004 Annual Meeting

For further information regarding the executive officers see the Company's Proxy Statement dated March 10, 2004.

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

The report of the Company's management, the report of independent public auditors and the Company's Consolidated Financial Statements listed in the Index to Consolidated Financial Statements on page F-1 hereof are filed as part of this report, commencing on page F-2.

	Page
Index to Consolidated Financial Statements and Schedule	F-1
Reports of Independent Auditors	F-2
Consolidated Statements of Income for the years Ended December 31, 2003, 2002, and 2001	F-4
Consolidated Balance Sheets at December 31, 2003 and 2002	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	F-6
Notes to Consolidated Financial Statements	F-7

2. Financial Statement Schedules:

The following schedules of the Company are included on the attached pages as indicated:

Reports of Independent Auditors on Financial Statement Schedules	S-1
Schedule II Valuation and Qualifying Accounts and Reserves for the years ended December 31, 2003, 2002 and 2001	S-2

All other schedules provided for in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because of the absence of conditions under which they are required or because the required information is set forth in the financial statements or notes thereto.

3. Exhibits:

Page

Exhibits for Connecticut Water Service, Inc. are in the Index to Exhibits

E-1

Exhibits heretofore filed with the Securities and Exchange Commission as indicated below are incorporated herein by reference and made a part hereof as if filed herewith. Exhibits marked by asterisk (*) are being filed herewith.

(b) Reports on Form 8-K:

None

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

	Page
Index to Consolidated Financial Statements and Schedule	F-1
Reports of Independent Auditors	F-2
Consolidated Statements of Income for the years ended December 31, 2003, 2002 and 2001	F-4
Consolidated Balance Sheets at December 31, 2003, and 2002	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	F-6
Notes to Consolidated Financial Statements	F-7
Reports of Independent Auditors on Financial Statement Schedules	S-1
Valuation and Qualifying Accounts	S-2

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Connecticut Water Service, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of Connecticut Water Service, Inc. and subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the two years ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of Connecticut Water Service, Inc. and subsidiaries for the year ended December 31, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 8, 2002.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 11, 2004, except for Note 16, as to which the date is March 4, 2004

Set forth below is a copy of a report previously issued by Arthur Andersen LLP, in connection with the Company's filing on Form 10-K for the year ended December 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with the Company's filing on Form 10-K. See Exhibit 23.2 for further discussion.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Connecticut Water Service, Inc.:

We have audited the accompanying consolidated balance sheets of Connecticut Water Service, Inc., and Subsidiaries (a Connecticut corporation) as of December 31, 2001 and 2000, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Water Service, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Hartford, Connecticut
February 8, 2002

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, (in thousands, except per share data)	2003	2002	2001
Operating Revenues	\$47,115	\$45,830	\$45,392
Operating Expenses			
Operation and Maintenance	22,759	19,531	20,076
Depreciation	5,684	5,187	4,837
Income Taxes	2,008	4,482	4,777
Taxes Other Than Income Taxes	5,133	4,796	4,388
Total Operating Expenses	35,584	33,996	34,078
Utility Operating Income	11,531	11,834	11,314
Other Income (Deductions), Net of Taxes			
Gain on Property Transactions	1,029	440	1,121
Non-Water Sales Earnings	733	444	372
Allowance for Funds Used During Construction	476	470	439
Merger Costs	—	—	(352)
Other	76	126	177
Total Other Income (Deductions), Net of Taxes	2,314	1,480	1,757
Interest and Debt Expenses			
Interest on Long-Term Debt	4,016	3,909	4,057
Other Interest Charges	385	365	353
Amortization of Debt Expense	234	260	222
Total Interest and Debt Expenses	4,635	4,534	4,632
Net Income Before Preferred Dividends	9,210	8,780	8,439
Preferred Stock Dividend Requirement	38	38	38
Net Income Applicable to Common Stock	\$ 9,172	\$ 8,742	\$ 8,401
Weighted Average Common Shares Outstanding:			
Basic	7,956	7,718	7,619
Diluted	8,002	7,771	7,662
Earnings Per Common Share:			
Basic	\$ 1.15	\$ 1.13	\$ 1.10
Diluted	\$ 1.15	\$ 1.12	\$ 1.10

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, (in thousands, except share amounts)	2003	2002
ASSETS		
Utility Plant	\$319,616	\$308,385
Construction Work in Progress	9,291	9,592
Utility Plant Acquisition Adjustments	(1,274)	(1,278)
	327,633	316,699
Accumulated Provision for Depreciation	(92,535)	(87,602)
Net Utility Plant	235,098	229,097
Other Property and Investments	3,829	3,557
Cash	1,122	464
Accounts Receivable (Less Allowance, 2003 - \$271; 2002 - \$240)	5,150	5,157
Accrued Unbilled Revenues	3,779	3,619
Materials and Supplies, at Average Cost	920	960
Prepayments and Other Current Assets	265	173
Total Current Assets	11,236	10,373
Unamortized Debt Issuance Expense	6,204	5,080
Unrecovered Income Taxes	15,006	10,718
Post-Retirement Benefits Other Than Pension	946	846
Goodwill	3,608	3,608
Other Costs	1,619	1,520
Total Regulatory and Other Long-Term Assets	27,383	21,772
Total Assets	\$277,546	\$264,799
CAPITALIZATION AND LIABILITIES		
Common Stockholders' Equity:		
Common Stock Without Par Value:		
Authorized - 15,000,000 Shares - Issued and Outstanding:		
2003 - 7,967,379; 2002 - 7,939,713	\$ 53,766	\$ 53,069
Retained Earnings	29,549	26,906
Common Stockholders' Equity	83,315	79,975
Preferred Stock	847	847
Long-Term Debt	64,754	64,734
Total Capitalization	148,916	145,556
Interim Bank Loans Payable	9,700	6,950
Current Portion of Long-Term Debt	254	242
Accounts Payable	5,419	6,539
Accrued Taxes	(1,254)	659
Accrued Interest	626	747
Other Current Liabilities	366	341
Total Current Liabilities	15,111	15,478
Advances for Construction	24,579	22,069
Contributions in Aid of Construction	44,337	43,373

Deferred Federal and State Income Taxes	<u>23,073</u>	<u>20,633</u>
Unfunded Future Income Taxes	<u>12,840</u>	<u>9,871</u>
Long-Term Compensation Arrangements	<u>6,812</u>	<u>5,877</u>
Unamortized Investment Tax Credits	<u>1,878</u>	<u>1,942</u>
Commitments and Contingencies		
Total Capitalization and Liabilities	<u>\$277,546</u>	<u>\$264,799</u>

The accompanying notes are an integral part of these consolidated financial statements. F-6

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, (in thousands)	2003	2002	2001
Operating Activities:			
Net Income Before Preferred Dividends	\$ 9,210	\$ 8,780	\$ 8,439
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation (including \$176 in 2003, \$164 in 2002, and \$169 in 2001 charged to other accounts)	5,860	5,351	5,006
Change in Assets and Liabilities:			
(Increase) in Accounts Receivable and Accrued Unbilled Revenues	(153)	(165)	(153)
(Increase) Decrease in Other Current Assets	(52)	57	(191)
(Increase) in Other Non-Current Items	(621)	(89)	(45)
Increase (Decrease) in Accounts Payable, Accrued Expenses and Other Current Liabilities	(3,129)	(867)	1,089
Increase in Deferred Income Taxes and Investment Tax Credits, Net	2,376	747	675
Total Adjustments	4,281	5,034	6,381
Net Cash Provided by Operating Activities	13,491	13,814	14,820
Investing Activities:			
Gross Additions to Utility Plant (including Allowance For Funds Used During Construction of \$476 in 2003, \$470 in 2002 and \$439 in 2001)	(11,909)	(15,691)	(14,218)
Financing Activities:			
Proceeds from Interim Bank Loans	9,700	6,950	1,825
Repayment of Interim Bank Loans	(6,950)	(1,875)	(1,800)
Reduction of Long-Term Debt Including Current Portion	32	(2,376)	(405)
Proceeds from Issuance of Common Stock	699	753	1,392
Advances, Contributions and Funds from Others for Construction, Net	3,522	4,992	4,332
Costs Incurred to Issue Long-Term Debt and Common Stock	(1,360)	(192)	(15)
Cash Dividends Paid	(6,567)	(6,315)	(6,143)
Net Cash Provided by (Used in) Financing Activities	(924)	1,937	(814)
Net Increase (Decrease) in Cash	658	60	(212)
Cash at Beginning of Year	464	102	314
Cash at End of Year (Excludes Cash Acquired from Purchase of Unionville Water Company in 2002)	1,122	162	102
Cash Acquired from Purchase of Unionville Water Company	—	302	—
Cash at End of Year	\$ 1,122	\$ 464	\$ 102
Non-Cash Investing and Financing Activities:			
Purchase of Unionville Water Company by Issuance of Company Common Stock (see Note 2 for details)	\$ —	\$ 6,166	\$ —
Supplemental Disclosures of Cash Flow Information:			
Cash Paid During the Year for:			
Interest (net of amounts capitalized)	\$ 4,522	\$ 4,811	\$ 3,836
State and Federal Income Taxes	\$ 2,407	\$ 3,780	\$ 3,260

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION -The consolidated financial statements include the operations of Connecticut Water Service, Inc. (the Company), an investor-owned holding company and its eleven wholly owned subsidiaries, listed below:

The Connecticut Water Company (Connecticut Water)
The Gallup Water Service, Incorporated (Gallup)
Crystal Water Utilities Corporation
The Crystal Water Company of Danielson (Crystal Water)
Chester Realty, Inc.
New England Water Utility Services, Inc.
Connecticut Water Emergency Services, Inc.
The Barnstable Holding Company
The Barnstable Water Company (Barnstable Water)
BARLACO
The Unionville Water Company (Unionville)

Connecticut Water, Gallup, Crystal Water, Barnstable Water and Unionville (our “water companies”) are public water utility companies serving 86,750 customers in 42 towns throughout Connecticut and Massachusetts.

Crystal Water Utilities Corporation is a holding company, owning the stock of Crystal Water Company of Danielson and three small rental properties.

Chester Realty, Inc. is a real estate company whose net profits from rental of property are included in the Other Income (Deductions), Net of Taxes section of the Consolidated Statements of Income in the Non-Water Sales Earnings category.

New England Water Utility Services, Inc. is engaged in water-related services, including the *Linebacker*® program, and contract operations. Its earnings are included in the Non-Water Sales Earnings category in the Other Income (Deductions), Net of Taxes section of the Consolidated Statements of Income.

Connecticut Water Emergency Services, Inc. is a provider of emergency drinking water and pool water via tanker trucks. Its net earnings are included in the Non-Water Sales Earnings category in the Other Income (Deductions), Net of Taxes section of the Consolidated Statements of Income.

Barnstable Holding Company is a holding company, owning the stock of Barnstable Water Company and BARLACO. BARLACO is a real estate company whose net profits from land sales are included in the Gain on Property Transactions category in the Other Income (Deductions), Net of Taxes section of the Consolidated Statements of Income.

Intercompany accounts and transactions have been eliminated, except those allocating costs for regulatory purposes between our regulated and non-regulated companies.

PUBLIC UTILITY REGULATION – Four of our water companies are subject to regulation for rates and other matters by the Connecticut Department of Public Utility Control (DPUC) and follow accounting policies prescribed by the DPUC. The Barnstable Water Company is subject to the regulation of the Massachusetts Department of Telecommunications and Energy (DTE) and follows accounting policies prescribed by the DTE. The Company prepares its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), which includes the provisions of Statement of Financial Accounting Standards No. 71, “Accounting for the Effects of Certain Types of Regulation,” (FAS 71). FAS 71 requires cost-based, rate-regulated enterprises such as our water companies to reflect the impact of regulatory decisions in their financial statements. The state regulators, through the rate regulation process, can create regulatory assets that result when costs are allowed for ratemaking purposes in a period after the period in which the costs would be charged to expense by an unregulated enterprise. The balance sheets include regulatory assets and liabilities as appropriate, primarily related to income taxes and post-retirement benefit costs. In accordance with ratemaking procedures, costs which benefit future periods, such as tank painting, are expensed over the periods they benefit. The Company believes, based on current regulatory circumstances, that the regulatory assets recorded are likely to be recovered and that its use of regulatory accounting is appropriate and in accordance with the provisions of FAS 71. Material regulatory assets are earning a return.

USE OF ESTIMATES - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

REVENUES - Most of our water customers are billed quarterly, with the exception of larger commercial and industrial customers, as well as public fire protection customers who are billed monthly. Most customers, except fire protection customers are metered. Revenues from metered customers are based on their usage multiplied by approved, regulated rates. Public fire protection charges are based on the length and diameter of the water main, and number of hydrants in service. Private fire protection charges are based on the diameter of the connection to the water main. Our water companies accrue an estimate for the amount of revenues relating to sales earned but unbilled at the end of each quarter.

UTILITY PLANT - Utility plant is stated at the original cost of such property when first devoted to public service. In the case of acquisitions, the difference between the original cost and the cost to our water companies is charged or credited to utility plant acquisition adjustments. Utility plant accounts are charged with the cost of improvements and replacements of property including an allowance for funds used during construction. Retired or disposed of depreciable plant is charged to accumulated provision for depreciation together with any costs applicable to retirement, less any salvage received. Maintenance of utility plant is charged to expense.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION - Allowance for Funds Used During Construction (AFUDC) is the cost of debt and equity funds used to finance the construction of our water companies' utility plant. Generally, utility plant under construction is not recognized as part of rate base for ratemaking purposes until facilities are placed into service, and accordingly, AFUDC is charged to the construction cost of utility plant. Capitalized AFUDC, which does not represent current cash income, is recovered through rates over the service lives of the facilities.

In order for certain water system acquisitions made in and after 1995 to not degrade earnings, The Connecticut Water Company has received DPUC approval to record AFUDC on certain of its investments in these systems. Through December 31, 2003, Connecticut Water has capitalized approximately \$2,729,000 of AFUDC relating to financing these acquisitions. This amount is expected to be recovered in Connecticut Water's next rate case.

Each company's allowed rate of return on rate base is used to calculate its AFUDC.

DEPRECIATION - Over 99% of the Company's depreciable plant is owned by its five water companies. Depreciation is computed on a straight-line basis at various rates as approved by the state regulators on a company by company basis. Depreciation allows the utility to recover the investment in utility plant over its useful life. The overall consolidated company depreciation rate, based on the average balances of depreciable property, was 2.1% for 2003, 1.9% for 2002 and 2.0% for 2001.

CUSTOMERS' ADVANCES FOR CONSTRUCTION AND CONTRIBUTIONS IN AID OF CONSTRUCTION - Under the terms of construction contracts with real estate developers and others, our water companies receive advances for the costs of new main installations. Refunds are made, without interest, as services are connected to the main, over periods not exceeding fifteen years and not in excess of the original advance. Unrefunded balances, at the end of the contract period, are credited to contributions in aid of construction (CIAC) and are no longer refundable.

INCOME TAXES - The Company provides income tax expense for its utility operations in accordance with the regulatory accounting policies of the applicable jurisdictions (Connecticut and Massachusetts). The Connecticut DPUC requires the flow-through method of accounting for most state tax temporary differences as well as for certain federal temporary differences.

The Company computed deferred tax reserves for all temporary book-tax differences using the liability method prescribed in FAS 109 – Accounting for Income Taxes. Under the liability method, deferred income taxes are recognized at currently enacted income tax rates to reflect the tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. Deferred tax liabilities that have not been reflected in tax expense due to regulatory treatment are described as unfunded future income taxes, and are expected to be recoverable in future years' rates.

The Company believes that all deferred income tax assets will be realized in the future. The majority of all unfunded future income taxes relate to deferred state income taxes.

Deferred Federal Income Taxes consist primarily of amounts that have been provided for accelerated depreciation subsequent to 1981, as required by federal income tax regulations. Deferred taxes have also been provided for temporary differences in the recognition of certain expenses for tax and financial statement purposes as allowed by DPUC ratemaking policies.

MUNICIPAL TAXES – Municipal taxes are generally expensed over the twelve-month period beginning on July 1 following the lien date, corresponding with the period in which the municipal services are provided.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES



STOCK OPTIONS – The Company has a Stock-Based Compensation Plan with two components: the Performance Stock Program and the Stock Option Program, which are described more fully in Note 13. FAS No. 123 “Accounting for Stock-Based Compensation,” encourages entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS No. 123 also allows entities to continue to apply the provisions of Accounting Principles Board (APB) opinion No. 25 “Accounting for Stock Issued to Employees” and provide pro forma net income and pro forma earnings per share disclosures for employee stock grants as if the fair-value-based method defined in FAS No. 123 had been applied.

The Company accounts for its Stock Option Program under the recognition and measurement principles of APB No. 25. As such, no compensation cost related to the Stock Option Program is reflected in Net Income, as all options under this program had an exercise price equal to market value of the underlying common stock on the date of grant. The following table illustrates the effect on Net Income and Earnings Per Share if the Company had applied the fair value recognition provisions of FAS No. 123 to the Stock Option Program.

	Year Ended December 31		
	2003	2002	2001
(in thousands, except for per share data)			
Net income, as reported	\$9,172	\$8,742	\$8,401
Add: Total stock-based employee compensation expense determined under intrinsic value based method for all awards, net of related tax effects	109	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(383)	(218)	(264)
Pro forma net income	\$8,898	\$8,524	\$8,137
Earnings per share:			
Basic – as reported	\$ 1.15	\$ 1.13	\$ 1.10
Basic – pro forma	\$ 1.12	\$ 1.10	\$ 1.07
Diluted – as reported	\$ 1.15	\$ 1.12	\$ 1.10
Diluted – pro forma	\$ 1.11	\$ 1.10	\$ 1.06

Under the Company’s Performance Stock Program, restricted shares of Common Stock, common stock equivalents or cash may be awarded annually to officers and key employees. To the extent that the goals established by the Compensation Committee have been attained, the restrictions on the stock are removed. Amounts charged to expense pursuant to the Performance Stock Program were \$251,000, \$201,000 and \$349,000, for 2003, 2002 and 2001, respectively. These amounts are included in Net Income, as reported.

UNAMORTIZED DEBT ISSUANCE EXPENSE - The issuance costs of long-term debt, including the remaining balance of issuance costs on long-term debt issues that have been refinanced prior to maturity, and related call premiums, are amortized over the respective lives of the outstanding debt, as approved by the state regulators.

GOODWILL - The Company adopted FAS No. 142, “Goodwill and Other Intangible Assets” (FAS 142), effective January 1, 2002. FAS 142 requires that goodwill no longer be amortized on a ratable basis. In accordance with FAS 142, goodwill must be allocated to reporting units and reviewed for impairment at least annually. The Company utilized a net income valuation approach in the performance of the annual goodwill impairment test.

EARNINGS PER SHARE - The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the years ended December 31, 2003, 2002, and 2001.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

Years ended December 31,	2003	2002	2001
Basic earnings per share	\$ 1.15	\$ 1.13	\$ 1.10
Dilutive effect of unexercised stock options	—	.01	—
Diluted earnings per share	\$ 1.15	\$ 1.12	\$ 1.10
Numerator (<i>in thousands</i>):			
Basic net income	\$9,172	\$8,742	\$8,401
Diluted net income	\$9,172	\$8,742	\$8,401
Denominator (<i>in thousands</i>):			
Basic weighted average shares outstanding	7,956	7,718	7,619
Dilutive effect of unexercised stock options	46	53	43
Diluted weighted average shares outstanding	8,002	7,771	7,662

RECLASSIFICATION - Certain reclassifications have been made to conform previously reported data to the current presentation.

NEW ACCOUNTING PRONOUNCEMENTS – In April 2003, the FASB issued FAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (FAS 149). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FAS 133, “Accounting for Derivative Instruments and Hedging Activities.” In particular, this statement (1) clarifies under what circumstances a contract with an initial net investment meets the definition of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying instrument to conform it to language used in FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” and (4) amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. FAS 149 is effective for derivative contracts entered into after June 30, 2003. The adoption of FAS 149 did not have a material impact on the Company’s operating results, financial position, or cash flows.

FAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (FAS 150) was issued in May 2003. This Statement establishes standards for how certain financial instruments with characteristics of both liabilities and equity are classified and measured. It requires that many financial instruments previously classified as equity now be classified as a liability (or an asset in some circumstances). These financial instruments are as follows: financial instrument issued in the form of shares that is mandatorily redeemable — that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur; a financial instrument, other than an outstanding share, that at inception, embodies an obligation to repurchase the issuer’s equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets; a financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on any of the following: a) a fixed monetary amount known at inception, for example, a payable settleable with a variable number of equity shares; b) variations in something other than the fair value of equity shares, for example, a financial instrument indexed to the S&P 500 and settleable with a variable number of equity shares; c) variations inversely related to changes in the fair value of equity shares, for example, a written put option that could be net share settled. FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material effect on the Company’s operating results, financial position, or cash flows.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

In January 2004, the FASB issued FASB Staff Position No. 106-01, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP No. FAS 106-1). This statement permits a sponsor of a post-retirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Regardless of whether a sponsor elects that deferral, the FSP requires certain disclosures pending further consideration of the underlying issues. The Company has met those disclosure requirements in Note 12: Pension and Other Post-Retirement Employee Benefits.

NOTE 2: 2002 PURCHASE ACQUISITION

On October 31, 2002, the Company issued 249,715 shares of its common stock in exchange for all the outstanding common stock of The Unionville Water Company (Unionville). The exchange ratio was approximately 4.16 shares of the Company's common stock for each outstanding share of Unionville stock. The transaction was valued at approximately \$6.2 million. This acquisition was accounted for under the purchase method of accounting, and as such the balances and income statement activity from the acquisition date forward are included in the financial statements. As a result, goodwill of \$3.6 million was recorded and allocated to our water segment. There were no other intangible assets identified as part of the acquisition.

NOTE 3: INCOME TAX EXPENSE

Income Tax Expense for the years ended December 31, is comprised of the following:

(in thousands)	2003	2002	2001
Federal Classified as Operating Expense	\$1,752	\$4,065	\$ 4,225
Federal Classified as Other Income:			
Land Sales	(11)	—	—
Land Donation	(246)	(105)	(254)
Non-Water Sales	352	276	164
Other	(66)	(52)	(42)
Total Federal Income Tax Expense	1,781	4,184	4,093
State Classified as Operating Expense	256	417	552
State Classified as Other Income:			
Land Sales	(3)	(1)	—
Land Donation	(733)	(360)	(1,012)
Non-Water Sales	91	54	41
Other	22	(18)	6
Total State Income Tax Expense (Benefit)	(367)	92	(413)
Total Income Tax Expense	\$1,414	\$4,276	\$ 3,680

The components of the Federal and State income tax provisions are:

	2003	2002	2001
Current:			
Federal	\$ (51)	\$2,835	\$3,062
State	483	192	(48)
	<u>432</u>	<u>3,027</u>	<u>3,014</u>
Deferred Income Taxes, Net:			
Federal			
Investment Tax Credit	(64)	(63)	(63)
Capitalized Interest	25	23	23
Depreciation	2,167	798	910
Other	(296)	591	161
	<u>1,832</u>	<u>1,349</u>	<u>1,031</u>
State			
Depreciation	6	—	(1)
Other	(856)	(100)	(364)
	<u>(850)</u>	<u>(100)</u>	<u>(365)</u>
Total Deferred Income Taxes, Net	<u>982</u>	<u>1,249</u>	<u>666</u>
Total	<u>\$1,414</u>	<u>\$4,276</u>	<u>\$3,680</u>

Deferred income tax liabilities are categorized as follows on the Consolidated Balance Sheet:

	2003	2002
Deferred Federal and State Income Taxes	\$23,073	\$20,633
Unfunded Future Income Taxes	12,840	9,871
	<u>\$35,913</u>	<u>\$30,504</u>
Net Deferred Income Tax Liability	<u>\$35,913</u>	<u>\$30,504</u>

Deferred income tax liabilities are comprised of the following:

	2003	2002
Depreciation	\$34,648	\$29,237
Other	1,265	1,267
	<u>\$35,913</u>	<u>\$30,504</u>
Net Deferred Income Tax Liability	<u>\$35,913</u>	<u>\$30,504</u>

The calculation of Pre-Tax Income is as follows:

	2003	2002	2001
Pre-Tax Income			
Net Income Before Preferred Dividends	\$ 9,210	\$ 8,780	\$ 8,439
Income Taxes	1,414	4,276	3,680
	<u>\$10,624</u>	<u>\$13,056</u>	<u>\$12,119</u>
Total Pre-Tax Income	<u>\$10,624</u>	<u>\$13,056</u>	<u>\$12,119</u>

In accordance with required regulatory treatment, deferred income taxes are not provided for certain timing differences. This treatment, along with other items, causes differences between the statutory income tax rate and the effective income tax rate. The decrease in the Company's effective income tax rate is partially associated with a reassessment of tax reserves which was completed during the third quarter of 2003 when the Company filed its 2002 Income Tax Returns as well as the tax benefit associated with land donations in 2003 and the associated tax credits and deductions. The differences between the effective income tax rate recorded by the Company and the statutory federal tax rate are as follows:

	2003	2002	2001
Federal Statutory Income Tax Rate	34.0%	34.0%	34.0%
Tax Effect of Differences:			
State Income Taxes Net of Federal Benefit:			
State Income Tax Excluding Land Donation Credit	2.3%	2.3%	3.3%
Land Donation Credit	(4.5%)	(1.8%)	(5.5%)
Depreciation	—	.5%	1.2%
Charitable Contribution – Land Donation	(4.7%)	(1.7%)	(4.5%)
Pension Costs	(.3%)	(.7%)	.6%
Debt Refinancing Costs	(4.4%)	.2%	.2%
Non-Deductible Merger Costs	—	—	1.0%
Change in Estimate of Prior Year Income Tax Expense	(11.5%)	—	—
Common Stock Equivalents	.9%	—	1.1%
Other	1.5%	—	(1.0%)
	13.3%	32.8%	30.4%

NOTE 4: COMMON STOCK

The Company has 15,000,000 authorized shares of common stock, no par value. A summary of the changes in the common stock accounts for the period January 1, 2001 through December 31, 2003, appears below:

(in thousands, except share data)	Shares	Issuance Amount	Expense	Total
Balance, January 1, 2001	7,604,594	\$46,350	\$(1,385)	\$44,965
Stock and equivalents issued through Performance Stock Program	5,353	457	—	457
Purchase Minority Interest of Barnstable Holding Company	—	125	—	125
Stock Split – fractional shares	(752)	—	(11)	(11)
Stock Options Exercised	40,167	810	(4)	806
Balance, December 31, 2001	7,649,362	47,742	(1,400)	46,342
Purchase Unionville Water Company	249,715	6,166	(190)	5,976
Stock and equivalents issued through Performance Stock Program	6,672	21	—	21
Stock Options Exercised	33,964	732	(2)	730
Balance, December 31, 2002	7,939,713	54,661	(1,592)	53,069
Stock and equivalents issued through Performance Stock Program	8,347	305	—	305
Stock Options Exercised	19,319	394	(2)	392
Balance, December 31, 2003 ⁽¹⁾	7,967,379	\$55,360	\$(1,594)	\$53,766

(1) Includes 503 restricted and 44,952 common stock equivalent shares issued through the Performance Stock Program through December 31, 2003.

The Company's Shareholder Rights Plan was authorized by the Board of Directors on August 12, 1998. Pursuant to the Plan, the Board authorized a dividend distribution of one Right to purchase one one-hundredth of a share of Series A Junior Participating Preference Stock of the Company for each outstanding share of the Company's common stock. The distribution was effected October 11, 1998.

Upon the terms of the Shareholder Rights Plan, each Right will entitle shareholders to buy one one-hundredth of a share of Series A Junior Participating Preference Stock at a purchase price of \$90, and the Rights will expire October 11, 2008. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock, or announces a tender or exchange offer for 15% or more of the Company's common stock. The Board will be entitled to redeem the Rights at \$0.01 per Right at any time before such acquisition occurs, and upon certain conditions after such a position has been acquired.

Upon the acquisition of 15% or more of the Company's common stock by any person or group, each Right will entitle its holder to purchase, at the Right's purchase price, a number of shares of the Company's common stock having a market value equal to twice the Right's purchase price. In such event, Rights held by the acquiring person will not be allowed to purchase any of the Company's common stock or other securities of the Company. If, after the acquisition of 15% or more of the Company's common stock by any person or group, the Company should consolidate with or merge with and into any person and the Company should not be the surviving company, or if the Company should be the surviving company and all or part of its common stock should be exchanged for the securities of any other person, or if more than 50% of the assets or earning power of the Company were sold, each Right (other than Rights held by the acquiring person, which will become void) will entitle its holder to purchase, at the Right's purchase price, a number of shares of the acquiring Company's common stock having a market value at that time equal to twice the Right's purchase price.

The Company may not pay any dividends on its common stock unless full cumulative dividends to the preceding dividend date for all outstanding shares of Preferred Stock of the Company have been paid or set aside for payment. All such Preferred Stock dividends have been paid.

NOTE 5: ANALYSIS OF RETAINED EARNINGS

The summary of the changes in Retained Earnings for the period January 1, 2001 through December 31, 2003, appears below:

(in thousands, except per share data)	2003	2002	2001
Balance, Beginning of Year	\$26,906	\$24,441	\$22,145
Income Before Preferred Stock Dividends	9,210	8,780	8,439
	36,116	33,221	30,584
Dividends Declared:			
Cumulative Preferred Stock, Series A, \$.80 Per Share	12	12	12
Cumulative Preferred Stock, Series \$.90, \$.90 Per Share	26	26	26
Common Stock:			
2003 \$0.825 Per Share	6,529	—	—
2002 \$0.810 Per Share	—	6,277	—
2001 \$0.800 Per Share	—	—	6,105
	6,567	6,315	6,143
Balance, End of Year	\$29,549	\$26,906	\$24,441

NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each of the following financial instruments.

CASH – Cash consists of highly liquid instruments with original maturities at the time of purchase of three months or less. The carrying amount approximates fair value.

LONG-TERM DEBT - The fair value of the Company's fixed rate long-term debt is based upon borrowing rates currently available to the Company. As of December 31, 2003 and 2002, the estimated fair value of the Company's long-term debt was \$73,678,000 and \$70,438,000, respectively, as compared to the carrying amounts of \$64,754,000 and \$64,734,000, respectively.

The fair values shown above have been reported to meet the disclosure requirements of FAS No. 107, "Disclosures About Fair Values of Financial Instruments" and do not purport to represent the amounts at which those obligations would be settled.

NOTE 7: LONG-TERM DEBT

Long-Term Debt at December 31, consisted of the following:

(in thousands)	2003	2002
The Connecticut Water Company		
First Mortgage Bonds:		
5.875% Series R, Due 2022	\$ —	\$14,645
6.65% Series S, Due 2020	—	8,000
5.75% Series T, Due 2028	5,000	5,000
5.3% Series U, Due 2028	4,550	4,550
6.94% Series V, Due 2029	12,050	12,050
	<u>21,600</u>	<u>44,245</u>
Unsecured Water Facilities Revenue Refinancing Bonds		
5.05% 1998 Series A, Due 2028	9,640	9,625
5.125% 1998 Series B, Due 2028	7,695	7,720
4.40% 2003A Series, Due 2020	8,000	—
5.00% 2003C Series, Due 2022	14,930	—
	<u>40,265</u>	<u>17,345</u>
Total Connecticut Water Company	<u>61,865</u>	<u>61,590</u>
Crystal Water Utilities Corporation		
8.0% Westbank, Due 2017	117	122
Crystal Water Company of Danielson		
7.82% Connecticut Development Authority, Due 2020	469	483
Chester Realty		
6% Note Payable, Due 2006	57	78
Barnstable Water Company		
10.2% Indianapolis Life Insurance, Due 2011	1,425	1,525
Unionville Water Company		
8.125% Farmington Savings Bank, Due 2011	1,075	1,178
Total Connecticut Water Service, Inc.	65,008	64,976
Less Current Portion	(254)	(242)
Total Long-Term Debt	<u>\$64,754</u>	<u>\$64,734</u>

The Company's principal payments required for years 2004 — 2008 are as follows:

(In thousands)	
2004 -	\$254
2005 -	\$266
2006 -	\$268
2007 -	\$268
2008 -	\$282

Substantially all utility plant is pledged as collateral for long-term debt.

In October 2003, Connecticut Water refinanced its Series R, First Mortgage Bonds with 5.00% 2003 C Series Unsecured, Tax-Exempt Water Facilities Revenue Refinancing Bonds and refinanced Series S, First Mortgage Bonds with 4.40% 2003 A Series Unsecured, Tax-Exempt Water Facilities Revenue Refinancing Bonds.

There are no mandatory sinking fund payments required on Connecticut Water Company's outstanding First Mortgage Bonds or the Unsecured Water Facilities Revenue Refinancing Bonds. However, the 1998 Series A and B and the 2003 Series A and C Unsecured Water Facilities Revenue Refinancing Bonds provide for an estate redemption right whereby the estate of deceased bondholders or surviving joint owners may submit bonds to the Trustee for redemption at par, subject to a \$25,000 per individual holder and a 3% annual aggregate limitation.

The outstanding bonds of the Company may be initially called for redemption at the following dates and prices — Series T, July 1, 2003 and Series U, September 1, 2003 at 100% plus accrued interest to the date of redemption; Series V, January 1, 2004 at 103.5%, 1998 Series A and B Unsecured Water Facilities Revenue Refinancing Bonds, March 1, 2008 at 100% plus accrued interest; 2003 Series A Unsecured Water Facilities Revenue Refinancing Bonds, December 15, 2008 at 100% plus accrued interest; 2003 Series C Unsecured Water Facilities Revenue Refinancing Bonds, September 1, 2008 at 100% plus accrued interest.

Barnstable Water Company's note payable has been unconditionally guaranteed by the Company. The note agreement with Indianapolis Life Insurance Company requires the Company to meet certain financial covenants, restricts the Company's ability to incur additional debt unless certain financial tests are met, restricts liens to secure additional long-term borrowings, restricts the type of investments that the Company can purchase and contains a significant prepayment premium. The Company was in compliance with the restrictive covenants at December 31, 2003 and 2002.

Unionville Water Company's term note with Farmington Savings Bank requires monthly payments of principal and interest. The note bears a fluctuating interest rate. The interest rate is adjusted on each 60-month anniversary date from the effective date of May 1, 1996. On the anniversary date (Interest Change Date) the interest rate shall be increased or decreased to a rate determined by adding 2.5 percentage points to the most recent Federal Home Loan Bank of Boston Long-Term, Regular, 5 year, Fixed Rate Mortgage Rate (Index), available 45 days prior to the Interest Change Date, rounded to the next highest one-eighth of one percentage point. Unionville may prepay the principal balance outstanding under the note without penalty for the thirty days preceding each Interest Change Date upon 30 days prior written notice to the bank. Prepayment made at any other time requires a prepayment penalty, which is 110% of the present value of the difference between the interest on the amount prepaid for the remaining term to the next Interest Change Date, as determined by the Current Index and the interest on the same amount for the remaining term to the next Interest Change Date, as determined by the Index in effect for that maturity on the day the prepayment is made.

NOTE 8: PREFERRED STOCK

The Company's Preferred Stock at December 31, consisted of the following:

(in thousands, except share data)	2003	2002
Connecticut Water Service, Inc.		
Cumulative Series A Voting, \$20 Par Value; Authorized, Issued and Outstanding 15,000 Shares	\$300	\$300
Cumulative Series \$.90 Non-Voting, \$16 Par Value; Authorized 50,000 Shares, Issued and Outstanding 29,499 Shares	472	472
	<u>772</u>	<u>772</u>
Barnstable Water Company		
6% Cumulative, \$100 Par Value; Authorized, Issued and Outstanding 750 Shares	75	75
	<u>75</u>	<u>75</u>
Total Preferred Stock	<u>\$847</u>	<u>\$847</u>

All or any part of any series of either class of the Company's issued Preferred Stock may be called for redemption by the Company at any time. The per share redemption prices of the Series A and Series \$.90 Preferred Stock, if called by the Company, are \$21.00 and \$16.00, respectively.

The Company is authorized to issue 400,000 shares of an additional class of Preferred Stock, \$25 par value, the general preferences, voting powers, restrictions and qualifications of which are similar to the Company's existing Preferred Stock. No shares of the \$25 par value Preferred Stock have been issued.

The Company is also authorized to issue 1,000,000 shares of \$1 par value Preference Stock, junior to the Company's existing Preferred Stock in rights to dividends and upon liquidation of the Company. 150,000 of such shares have been designated as "Series A Junior Participating Preference Stock". Pursuant to the Shareholder Rights Plan, described in Note 4, the Company keeps reserved and available for issuance one one-hundredth of a share of Series A Junior Participating Preference Stock for each outstanding share of the Company's common stock.

Barnstable Water Company paid Preferred Dividends of \$4,500 in each of 2003, 2002 and 2001. These dividends are included in the Other category of the Other Income (Deductions) section of the Consolidated Statements of Income. These preferred shareholders have 1/10 of a common vote for matters related to Barnstable Water Company.

NOTE 9: BANK LINES OF CREDIT

The Company has a total of \$12,500,000 in lines of credit provided by three banks. All of the lines have one year lives and will expire at different dates in 2004. The Company expects the lines of credit to be renewed in 2004. The total available on the lines of credit as of December 31, 2003 and 2002 were \$2,800,000 and \$5,550,000, respectively. Bank commitment fees associated with the lines of credit were approximately \$30,000, \$30,000, and \$22,500 in 2003, 2002, and 2001 respectively.

At December 31, 2003 and 2002, the weighted average interest rates on short-term borrowings outstanding were 1.52% and 1.77%, respectively.

NOTE 10: UTILITY PLANT AND CONSTRUCTION PROGRAM

The components of utility plant and equipment at December 31, were as follows:

(in thousands)	2003	2002
Land	\$ 9,604	\$ 9,770
Source of Supply	19,417	18,059
Pumping	24,375	23,841
Water Treatment	47,547	46,692
Transmission and Distribution	199,660	191,603
General	18,548	17,955
Held for Future Use	465	465
	<hr/>	<hr/>
Total	\$319,616	\$308,385
	<hr/>	<hr/>

The amounts of depreciable utility plant at December 31, 2003 and 2002 included in total utility plant were \$284,561,000 and \$276,150,000, respectively.

Our water companies are engaged in continuous construction programs. Estimated annual capital expenditures, net of amounts financed by customer advances and contributions in aid of construction, are expected to be approximately \$11,164,000 during 2004, \$13,075,000 during 2005, and \$13,580,000 in 2006. During the years 2007 and 2008, construction expenditures for routine improvements to the water distribution system are expected to be approximately \$8,000,000 each year.

NOTE 11: TAXES OTHER THAN INCOME TAXES

Taxes Other than Income Taxes consist of the following:

(in thousands)	2003	2002	2001
Municipal Property Taxes	\$4,452	\$4,149	\$3,788
Payroll Taxes	681	647	600
	<hr/>	<hr/>	<hr/>
Total	\$5,133	\$4,796	\$4,388
	<hr/>	<hr/>	<hr/>

NOTE 12: PENSION AND OTHER POST-RETIREMENT EMPLOYEE BENEFITS

GENERAL - As of December 31, 2003, Connecticut Water had 167 employees, Gallup 3, Crystal 8, Connecticut Water Emergency Services

1, Barnstable Water 9, and Unionville 7 for a total of 195 employees. The Company's officers are employees of Connecticut Water. Employee expenses are charged between companies as appropriate. Effective December 31, 2002, the Connecticut Water Company Pension Plan and the Barnstable Water Company Pension Plan merged.

CONNECTICUT WATER SERVICE, INC. AND SUBSIDIARIES

Investment Strategy – The Pension Trust and Finance Committee (the Committee) reviews and approves the investment strategy of the investments made on behalf of various pension and post-retirement benefit plans existing under the Company and certain of its subsidiaries.

The Committee targeted asset allocation at December 31, 2003 and 2002 were as follows:

	2003	2002
Equity	65%	60%
Fixed Income	35%	40%
Total	100%	100%

The Committee recognizes that a variation of up to 5% in either direction from its targeted asset allocation mix is acceptable due to market fluctuations.

PENSION

Defined Contribution Plan – One of the Company’s subsidiaries, Unionville, had through 2003 a noncontributory defined contribution pension plan which covered all employees who had completed one year of service. Unionville provided a contribution to the plan based upon 10% of the participant’s annual payroll. The Unionville contribution charged to expense under this plan for the twelve months ended December 31, 2003 was \$31,000 and for the two-month period ended December 31, 2002 was \$9,000. Effective December 31, 2003 the Unionville pension plan was terminated. Effective January 1, 2004, the employees of Unionville are covered by the Company’s noncontributory defined benefit pension plan.

Defined Benefit Plans– The Company and certain of its subsidiaries have noncontributory defined benefit pension plans covering qualified employees. In general, the Company’s policy is to fund accrued pension costs as permitted by federal income tax and Employee Retirement Income Security Act of 1974 regulations. A contribution of approximately \$914,000 was made in January 2004 for plan year 2003 and a contribution of \$743,000 was made for plan year 2002 in 2002.

The following tables set forth the funded status of the Company’s retirement plans at December 31, the latest valuation date:

(in thousands)	Pension Benefits	
	2003	2002
Change in Benefit Obligation:		
Benefit obligation, beginning of year	\$21,929	\$18,720
Service Cost	843	705
Interest Cost	1,390	1,345
Plan Amendments	(2)	—
Actuarial loss/(gain)	535	1,930
Benefits paid	(883)	(771)
Benefit obligation, end of year	\$23,812	\$21,929
Change in Plan Assets:		
Fair Value, beginning of year	\$17,742	\$19,343
Actual return on plan assets	3,452	(1,573)
Employer contribution	—	743
Benefits paid	(883)	(771)
Fair Value, end of year	\$20,311	\$17,742
Funded Status	\$ (3,501)	\$ (4,187)
Unrecognized net actuarial (gain) loss	298	1,669
Unrecognized transition obligation	36	48
Unrecognized prior service cost	935	1,045
Accrued Cost	\$ (2,232)	\$ (1,425)



The accumulated benefit obligation for all defined benefit pension plans was approximately \$18,800,000 and \$17,057,000 at December 31, 2003 and 2002, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31:

	2003	2002
Discount rate	6.25%	6.50%
Expected return on plan assets	8.00%	8.00%

Weighted-average assumptions used to determine net periodic cost for years ended December 31:

	2003	2002
Discount rate	6.50%	7.25%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.50%

The discount rate is based on interest rates for long-term, high quality, fixed income investments. The Company looks at the general trend of several different bond indices.

(in thousands)	2003	Pension Benefits 2002	2001
Components of net periodic benefit costs			
Service cost	\$ 843	\$ 705	\$ 614
Interest cost	1,390	1,345	1,261
Expected return on plan assets	(1,544)	(1,543)	(1,502)
Amortization of:			
Unrecognized net transition asset	12	13	(20)
Unrecognized net (gain)/loss	(2)	(252)	(356)
Unrecognized prior service cost	108	108	107
Net Periodic Pension Benefit Costs	\$ 807	\$ 376	\$ 104

Plan Assets

The Company's pension plan weighted-average asset allocations at December 31, 2003, and 2002 by asset category were as follows:

	2003	2002
Equity Securities	66%	59%
Fixed Income	34	41
Total	100%	100%

Cash Flows

The Company contributed \$914,000 to its pension plan in 2004 for plan year 2003 and expects to make an estimated \$1.5 million contribution for plan year 2004 in 2004.

POST-RETIREMENT BENEFITS OTHER THAN PENSION (PBOP) - In addition to providing pension benefits, a subsidiary company, Connecticut Water, provides certain medical, dental and life insurance benefits to retired employees partially funded by a 501(c)(9) Voluntary Employee Beneficiary Association Trust that has been approved by the DPUC. Substantially all of Connecticut Water's employees may become eligible for these benefits if they retire on or after age 55 with 10 years of service. The contribution for calendar years 2003 and 2002 was \$473,100 for each year.

A deferred regulatory asset has been recorded to reflect the amount which represents the future operating revenues expected to be recovered in customer rates under FAS 106. In 1997, Connecticut Water requested and received approval from the DPUC to include FAS 106 costs in customer rates. The DPUC's 1997 limited reopener of Connecticut Water's general rate proceeding allowed it to increase customer rates \$208,000 annually for FAS 106 costs. Connecticut Water's current rates now allow for recovery of \$473,100 annually for post-retirement benefit costs other than pension.

Connecticut Water has elected to recognize the transition obligation on a delayed basis over a period equal to the plan participants' 21.6 years of average future service.

The Company has elected to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The benefit obligation and net periodic post-retirement benefit costs do not reflect the effects of the Act on the plan. The specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require previously reported information to be changed.

Another subsidiary company, Barnstable Water, also provides certain health care benefits to eligible retired employees. Substantially all Barnstable Water employees may become eligible for these benefits if they retire on or after age 65 with at least 15 years of service. Post-65 medical coverage is provided for employees up to a maximum coverage of \$500 per quarter. Barnstable Water has incurred annual expenses for PBOP of \$11,000, \$12,000, \$12,000 for 2003, 2002 and 2001, respectively. Barnstable Water's PBOP currently is not funded.

The following tables set forth the funded status of the Company's post-retirement health care benefits at December 31, the latest valuation date:

(in thousands)	Connecticut Water		Barnstable Water	
	2003	2002	2003	2002
Change in Benefit Obligation:				
Benefit obligation, beginning of year	\$ 5,507	\$ 4,171	\$ 98	\$ 83
Service Cost	270	223	2	2
Interest Cost	314	309	6	7
Plan Participant Contributions	52	47	—	—
Plan Amendments	(400)	—	—	—
Actuarial loss/(gain)	(129)	1,184	(8)	10
Benefits paid	(380)	(427)	(4)	(4)
	<u>\$ 5,234</u>	<u>\$ 5,507</u>	<u>\$ 94</u>	<u>\$ 98</u>
Benefit obligation, end of year				
Change in Plan Assets:				
Fair Value, beginning of year	\$ 2,592	\$ 2,684	\$ —	\$ —
Actual return on plan assets	442	(185)	—	—
Employer contribution	473	473	4	4
Participants' contributions	52	47	—	—
Benefits paid	(380)	(427)	(4)	(4)
	<u>\$ 3,179</u>	<u>\$ 2,592</u>	<u>\$ —</u>	<u>\$ —</u>
Fair Value, end of year				
Funded Status	\$ (2,055)	\$ (2,915)	\$ (94)	\$ (98)
Unrecognized net actuarial (gain) loss	25	420	(46)	(41)
Unrecognized transition obligation	1,084	1,649	64	70
	<u>\$ (946)</u>	<u>\$ (846)</u>	<u>\$ (76)</u>	<u>\$ (69)</u>
Accrued Cost				
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Expected return on plan assets (net of tax)	5.00%	5.00%	—	—
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	6.50%	7.25%	6.50%	7.25%
Expected long-term return on plan assets	5.00%	5.00%	—	—
Rate of compensation increase	4.50%	4.50%	—	—

The discount rate is based on interest rates for long-term, high quality, fixed income investments. The Company looks at the general trend of several different bond indices.

(in thousands)	Connecticut Water			Barnstable Water		
	2003	2002	2001	2003	2002	2001
Components of net periodic benefit costs						
Service cost	\$ 270	\$ 223	\$ 190	\$ 2	\$ 2	\$ 4
Interest cost	314	309	276	6	7	6
Expected return on plan assets	(145)	(141)	(128)	—	—	—
Amortization of:						
Unrecognized net transition asset	165	165	165	6	6	6
Recognized net (gain)/loss	(31)	(84)	(135)	(4)	(3)	(4)
Net Periodic Pension and Post Retirement Benefit Costs	\$ 573	\$ 472	\$ 368	\$10	\$12	\$12

In determining the 2003 and 2002 accumulated post-retirement benefit obligation, health care cost trends were assumed to be 8.5% grading 0.5% per year to 4%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

Assumed health care cost trend rates at December 31:

	2003		2002	
	Medical	Dental	Medical	Dental
Health care cost trend rate assumed for next year	8.5%	8.0%	8.5%	8.0%
Rate to which the cost trend rate is assumed to decline	4.0%	3.5%	4.0%	3.5%
Year that the rate reaches the ultimate trend rate	2013	2013	2012	2012

A one-percentage-point change in assumed health care cost trend rates would have the following effects on Connecticut Water's plan and would have no impact on the Barnstable Water plan:

(in thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	\$ 89	\$ (73)
Effect on post-retirement benefit obligation	\$ 663	\$(556)

Plan Assets

Barnstable Water's other post-retirement benefit plan has no assets. Connecticut Water's other postretirement benefit plan weighted-average asset allocations at December 31, 2003 and 2002, by asset category were as follows:

	2003	2002
Equity Securities	55%	48%
Fixed Income	45	52
Total	100%	100%

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Cash Flows

Connecticut Water is expected to contribute \$473,100 to its other post-retirement benefit plan in 2004 for plan year 2004.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN - Connecticut Water provides additional pension benefits to senior management through a supplemental executive retirement plan. At December 31, 2003 and at December 31, 2002 the actuarial present value of the projected benefit obligation was \$918,000 and \$788,000, respectively. Expense associated with this plan was \$152,000 for 2003, \$108,000 for 2002, and \$93,000 for 2001.

SAVINGS PLAN - The Company and certain of its subsidiaries maintains an employee savings plan which allows participants to contribute from 1% to 15% of pre-tax compensation plus for those age 50 and older catch-up contributions as allowed by law. The Company matches 50 cents for each dollar contributed by the employee up to 4% of the employee's compensation. The Company contribution charged to expense in 2003, 2002 and 2001 was \$166,000, \$161,000, and \$150,000, respectively.

The Plan creates the possibility for an "incentive bonus" contribution to the 401(k) plan tied to the attainment of a specific goal or goals to be identified each year. If the specific goal or goals are attained by the end of the year, all eligible employees, except officers and certain key employees, may receive up to an additional 1% of their annual base salary as a direct contribution to their 401(k) account. No incentive bonus was awarded in 2003. An incentive bonus of .4% of base pay, or \$30,000 was awarded in 2002. For 2001, \$41,000 was awarded as an incentive bonus of .6% of base pay.

NOTE 13: STOCK-BASED COMPENSATION PLAN

The Company has two components to its Stock-Based Compensation Plan (the Plan): The Stock Option Program (SOP) and the Performance Stock Program (PSP). In total under the Plan there were 700,000 shares authorized and 234,686 shares available for grant at December 31, 2003. The Plan terminates on April 22, 2004. The Board of Directors has adopted a new plan that is subject to shareholder approval.

STOCK OPTION PROGRAM – As part of the Company's SOP, stock options are permitted to be issued to officers and key employees. The Company accounts for this plan under APB Opinion No. 25, under which no compensation cost has been recognized in the Consolidated Statements of Income. On a pro forma basis, the Company's net income and earnings per share are shown in Note 1.

For purposes of this calculation, the Company arrived at the fair value of each stock grant at the date of grant by using the Black Scholes Option Pricing model with the following weighted average assumptions used for grants for the years ended December 31, 2003, 2002 and 2001.

	2003	2002	2001
Expected life (years)	5.00	6.00	9.40
Risk-free interest rate (percentage)	2.79	3.09	5.07
Volatility (percentage)	30.00	30.00	27.36
Dividend yield	2.91	3.13	2.70

Options begin to become exercisable one year from the date of grant. Vesting periods range from one to five years. The maximum term ranges from five to ten years.

The per share weighted average fair value of stock options granted during 2003, 2002 and 2001 was \$6.42, \$5.82 and \$8.67 respectively.

For the Years Ended December 31,

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	235,101	\$21.41	229,811	\$20.18	236,228	\$18.39
Granted	36,053	29.05	39,254	25.78	33,750	22.99
Terminated	—	—	—	—	—	—
Exercised	(19,319)	16.91	(33,964)	18.12	(40,167)	16.22
Outstanding, end of year	251,835	22.85	235,101	21.41	229,811	20.18
Exercisable, end of year	119,992	\$21.35	71,581	\$20.74	47,630	\$19.94

Options exercised during 2003 ranged in price from \$14.83 per share to \$22.33 per share. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2003:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$12.00 - \$14.99	49,252	5.3	\$14.83	26,709	\$14.83
\$15.00 - \$17.99	—	—	—	—	—
\$18.00 - \$20.99	35,516	6.9	20.42	24,359	20.42
\$21.00 - \$23.99	58,010	5.9	22.33	42,237	22.33
\$24.00 - \$26.99	39,254	8.9	25.78	9,814	25.78
\$27.00 - \$29.99	69,803	8.6	28.52	16,873	27.95
	251,835	7.2	\$22.85	119,992	\$21.35

NOTE 14: SEGMENT REPORTING

Our Company operates principally in three segments: water activities, real estate transactions, and services and rentals. The water segment is comprised of our core regulated water activities to supply water to our customers. Our real estate transactions segment involves selling or donating for income tax benefits our limited excess real estate holdings. Our services and rentals segment provides services on a contract basis and also leases certain of our properties to third parties. The accounting policies of each reportable segment are the same as those described in the summary of significant accounting policies. Financial data for reportable segments is as follows:

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(in thousands)	Revenues	Depreciation	Other Operating Expenses	Other Income (Deductions)	Interest Expense and Preferred Dividend (net of AFUDC)	Income Taxes	Net Income
For the year ended December 31, 2003							
Water Activities	\$47,115	\$5,684	\$27,892	\$ 22	\$4,187	\$ 1,964	\$7,410
Real Estate Transactions	170	—	133	(1)	—	(993)	1,029
Services and Rentals	3,829	23	2,630	—	—	443	733
Total	<u>\$51,114</u>	<u>\$5,707</u>	<u>\$30,655</u>	<u>\$ 21</u>	<u>\$4,187</u>	<u>\$ 1,414</u>	<u>\$9,172</u>
For the year ended December 31, 2002							
Water Activities	\$45,830	\$5,187	\$24,326	\$ 127	\$4,104	\$ 4,482	\$7,858
Real Estate Transactions	5	—	32	—	—	(467)	440
Services and Rentals	2,928	20	2,186	—	—	278	444
Total	<u>\$48,763</u>	<u>\$5,207</u>	<u>\$26,544</u>	<u>\$ 127</u>	<u>\$4,104</u>	<u>\$ 4,293</u>	<u>\$8,742</u>
For the year ended December 31, 2001							
Water Activities	\$45,392	\$4,837	\$24,402	\$(273)	\$4,231	\$ 4,741	\$6,908
Real Estate Transactions	—	—	145	—	—	(1,266)	1,121
Services and Rentals	2,431	15	1,839	—	—	205	372
Total	<u>\$47,823</u>	<u>\$4,852</u>	<u>\$26,386</u>	<u>\$(273)</u>	<u>\$4,231</u>	<u>\$ 3,680</u>	<u>\$8,401</u>

At December 31 (in thousands)

	2003	2002
Total Plant and Other Investments:		
Water	\$237,947	\$231,676
Non-Water	980	978
	<u>238,927</u>	<u>232,654</u>
Other Assets:		
Water	37,175	31,761
Non-Water	1,444	384
	<u>38,619</u>	<u>32,145</u>
Total Assets	<u>\$277,546</u>	<u>\$264,799</u>

NOTE 15: COMMITMENTS AND CONTINGENCIES

REVERSE PRIVATIZATION – Our water companies derive their rights and franchises to operate from state law that are subject to alteration, amendment or repeal and do not grant permanent exclusive rights to our service areas. Our franchises are free from burdensome restrictions, are unlimited as to time, and authorize us to sell potable water in all towns we now serve. There is the possibility that states could revoke our franchises and allow a governmental entity to take over some or all of our systems. From time to time such legislation is contemplated.

The Town of Barnstable, Massachusetts has advised the Company that it is actively considering the acquisition of the Company's wholly-owned subsidiary, The Barnstable Holding Company. The Town takes the position that it has the right to acquire The Barnstable Holding Company pursuant to the provisions of Massachusetts legislation passed in 1911. The Company has advised the Town of Barnstable that the Company does not believe the Town has any statutory right to acquire The Barnstable Holding Company.

ENVIRONMENTAL AND WATER QUALITY REGULATION – The Company is subject to environmental and water quality regulations. Costs to comply with environmental and water quality regulations are substantial. We are in compliance with current regulations, but the regulations are subject to change. The costs to comply with future changes in state or federal regulations, which could require us to modify current filtration facilities and/or construct new ones, or to replace any reduction of the safe yield from any of our current sources of supply, could be substantial.

CONSTRUCTION – Our water companies' estimated capital expenditures for 2004, 2005 and 2006 are \$11.1 million, \$13.1 million and \$13.6 million respectively. These capital expenditures are net of amounts financed by customer advances and contributions in aid of construction. These expenditures are expected to be financed primarily with internally generated funds.

MORATORIUM ON LAND SALES – On December 4, 2002, the Company entered into a Memorandum of Understanding (MOU) with the State of Connecticut Department of Environmental Protection (DEP). The MOU provides for a voluntary two-year moratorium on the sale of approximately 7,100 acres of undeveloped Class I, II, and III water company lands held by the Company's Connecticut water company subsidiaries. Class I and II water company lands, as defined by Public Health Code regulations, are those that are within the watershed or drainage area of a public water supply. Class III lands are those that are not located within the watershed. Under the terms of the MOU, the DEP in cooperation with the Company's Connecticut water companies will assess and evaluate all undeveloped Class I, II and III land holdings to determine the desirability of the State of Connecticut's acquiring the land for open space and to develop strategies to fund the acquisitions of such properties in fee or easement from the Company. If the DEP determines that the Company's Class I, II and III land holdings are desirable, the Company and the DEP have agreed to negotiate in good faith to determine a price for the Company's land holdings based upon appraised values. However, the Company is not obligated by the MOU to sell such lands to the State of Connecticut. If the DEP determines that certain parcels of Class III land covered by the MOU do not meet its criteria for desirable open space, the Company can apply to the Department of Public Utility Control to sell or otherwise dispose of the land. The Company has no intention of selling or otherwise disposing of Class I and II lands that have an impact on drinking water supply and water quality. The MOU does not affect the land donation to the Town of Killingly mentioned above. In 2003, the DEP released approximately 130 acres of land from the restrictions of the MOU.

SECURITY – Recent enactment of the Bioterrorism Response Act of 2001 require all public water systems serving over 3,300 people to prepare Vulnerability Assessments (VA) of their critical utility assets. The assessments are to be submitted to the U.S. Environmental Protection Agency by June 2004 followed by an Emergency Response Plan by December 2004. The information within the VA is not subject to release to the public and is protected from Freedom of Information inquiries. Investment in security-related improvements is ongoing and management believes that the costs associated with any such improvements would be chargeable for recovery in future rate proceedings.

ROCK EXCAVATION CONTRACT – In 2002, Connecticut Water signed a contract with O & G Industries, Inc. of Torrington, Connecticut regarding excavation of rock from a 28-acre parcel of land that the company owns in Prospect, Connecticut. At that time, the Company expected that the rock excavation could yield income of \$2 — \$3 million in total over the 20-year life of the contract. A subsequent environmental assessment has indicated that the property contains sensitive wetland areas which have to be protected. The Company now expects minimal proceeds from this project if it goes forward at all.

TAXES – Due to the current environment of state budget deficits, the Company and its subsidiaries may be subject to a higher tax burden through changes in state legislation. Also, the Company's future property tax burden may increase as state aid to towns is decreased.

NOTE 16: SUBSEQUENT EVENTS

2004 LAND DONATION – In January 2004, 133 acres of unimproved land were donated to the Town of Killingly, Connecticut for protected open space purposes. The expected after tax benefit of this donation is approximately \$712,000.

SERIES V REFINANCING – On March 4, 2004, Connecticut Water refinanced an additional portion of its long-term debt through the issuance of \$12,500,000 of variable rate, taxable debenture bonds Series 2004 with a maturity date of January 4, 2029. The bonds have been secured by an irrevocable direct pay letter of credit issued by a financial institution, with a five-year term expiring in March 2009. The proceeds of the sale of the bonds, which are general debt obligations of Connecticut Water, will be used to redeem the \$12,050,000 aggregate principal amount of Connecticut Water’s First Mortgage Bonds (Series V) and to pay a portion of the expenses associated with the bonds’ refunding.

In connection with the issuance of the Bonds, Connecticut Water entered into an interest rate swap transaction with a counterparty in the notional principal amount of \$12,500,000. The interest rate swap agreement provides that, beginning in April 2004 and thereafter on a monthly basis, Connecticut Water will pay the counterparty a fixed interest rate of 3.73% on the notional amount for a period of five years. In exchange, the counterparty will, beginning in April 2004 and thereafter on a monthly basis, pay Connecticut Water a floating interest rate (based on 105% of the U.S. Dollar one-month LIBOR rate) on the notional amount for a period of five years. The purpose of the interest rate swap is to manage the Company’s exposure to fluctuations in prevailing interest rates.

NOTE 17: QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly financial data for the years ended December 31, 2003 and 2002 appears below:

(in thousands, except for per share data)

	Operating Revenues		Utility Operating Income		Net Income Applicable to Common Stock		Basic Earnings Per Average Common Share	
	2003	2002	2003	2002	2003	2002	2003	2002
First Quarter	\$10,901	\$10,284	\$ 2,016	\$ 2,499	\$2,110	\$1,544	\$0.27	\$0.20
Second Quarter	10,841	10,727	2,048	2,593	1,222	1,866	0.15	0.24
Third Quarter	13,673	13,799	4,606	4,408	3,873	3,850	0.49	0.50
Fourth Quarter	11,700	11,020	2,861	2,334	1,967	1,482	0.24	0.19
Year	\$47,115	\$45,830	\$11,531	\$11,834	\$9,172	\$8,742	\$1.15	\$1.13

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Exhibit Number	Description
3.1	Certificate of Incorporation of Connecticut Water Service, Inc. amended and restated as of April, 1998. (Exhibit 3.1 to Form 10-K for the year ended 12/31/98).
3.2	By-Laws, as amended, of Connecticut Water Service, Inc. as amended and restated as of August 12, 1999. (Exhibit 3.2 to Form 10-K for the year ended 12/31/99).
3.3	Certification of Incorporation of The Connecticut Water Company effective April, 1998. (Exhibit 3.3 to Form 10-K for the year ended 12/31/98).
3.4	Certificate of Amendment to the Certificate of Incorporation of Connecticut Water Service, Inc. dated August 6, 2001. (Exhibit 3.4 to Form 10-K for the year ended 12/31/01).
4.1	Indenture of Mortgage and Deed of Trust from The Connecticut Water Company to The Connecticut Bank and Trust Company, Trustee, dated as of June 1, 1956. (Exhibit 4.3(a) to Registration Statement No. 2-61843).
4.2	Supplemental Indentures thereto dated as of <ul style="list-style-type: none">(i) February 1, 1958 (Exhibit 4.3(b) (i) to Registration Statement No. 2-61843)(ii) September 1, 1962 (Exhibit 4.3(b) (ii) to Registration Statement No. 2-61843)(iii) January 1, 1966 (Exhibit 4.3(b) (iii) to Registration Statement No. 2-61843)(iv) July 1, 1966 (Exhibit 4.3(b) (iv) to Registration Statement No. 2-61843)(v) January 1, 1971 (Exhibit 4.3(b) (v) to Registration Statement No. 2-61843)(vi) September 1, 1974 (Exhibit 4.3(b) (vi) to Registration Statement No. 2-61843)(vii) December 1, 1974 (Exhibit 4.3(b) (vii) to Registration Statement No. 2-61843)(viii) January 1, 1976 (Exhibit 4(b) to Form 10-K for the year ended 12/31/76)(ix) January 1, 1977 (Exhibit 4(b) to Form 10-K for the year ended 12/31/76)(x) September 1, 1978 (Exhibit 2.12(b) (x) to Registration Statement No. 2-66855)(xi) December 1, 1978 (Exhibit 2.12(b) (xi) to Registration Statement No. 2-66855)(xii) June 1, 1979 (Exhibit 2.12(b) (xii) to Registration Statement No. 2-66855)(xiii) December 1, 1983 (Exhibit 4.2 (xiii) to Form 10-K for the year ended 12/31/83)

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- (xiv) January 1, 1987 (Exhibit 4.2 (xiv) to Form 10-K for the year ended 12/31/86)
- (xv) May 1, 1989 (Exhibit 4.2 (xv) to Form 10-K for year ended 12/31/89)
- (xvi) June 1, 1991 (Exhibit 4.2 (xvi) to Form 10-K for year ended 12/31/91)
- (xvii) August 1, 1992 (Exhibit 4.2 (xvii) to Form 10-K for year ended 12/31/92)
- (xviii) October 1, 1993 (Exhibit 4.2 (xviii) to Form 10-K for year ended 12/31/93)
- (xix) June 1, 1993 (Exhibit 4.2 (xix) to Form 10-K for year ended 12/31/93)
- (xx) September 1, 1993 (Exhibit 4.2 (xx) to Form 10-K for year ended 12/31/93)
- (xxi) December 1, 1993 (Exhibit 4.2 (xxi) to Form 10-K for year ended 12/31/93)
- (xxii) March 1, 1994 (Exhibit 4.2 (xxii) to Form 10-K for year ended 12/31/94)
- 4.3 Loan Agreement dated as of October 1, 1993, between the Connecticut Development Authority and The Connecticut Water Company. (Exhibit 4.3 to Form 10-K for year ended December 31, 1993).
- 4.4 Loan Agreement dated as of June 1, 1993, between the Connecticut Development Authority and The Connecticut Water Company. (Exhibit 4.4 to Form 10-K for year ended December 31, 1993).
- 4.5 Loan Agreement dated as of September 1, 1993, between the Connecticut Development Authority and The Connecticut Water Company. (Exhibit 4.5 to Form 10-K for year ended December 31, 1993).
- 4.6 Loan Agreement dated as of August 1, 1992 between the Connecticut Development Authority and The Connecticut Water Company. (Exhibit 4.10 to Form 10-K for the year ended December 31, 1992).
- 4.7 Bond Purchase Agreement dated as of December 1, 1993. (Exhibit 4.8 to Form 10-K for year ended December 31, 1993).
- 4.8 Loan Agreement dated as of March 9, 1998 between the Connecticut Development Authority and The Connecticut Water Company. (Exhibit 4.8 to Form 10-K for the year ended 12/21/98).
- 4.9 Loan Agreement dated as of April 19, 1990 between the Connecticut Development Authority and The Crystal Water Company of Danielson. (Exhibit 4.9 to Form 10.K for the year ended 12/31/99).
- 4.10 Loan Agreement dated as of February 9, 1996 between New London Trust, F.S.B. and The Crystal Water Company of Danielson. (Exhibit 4.10 to Form 10-K for the year ended 12/31/99).

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- 4.11 Loan Agreement dated as of April 11, 1991 between Farmington Savings Bank and The Unionville Water Company. (Exhibit 4.11 to Form 10-K for the year ended 12/31/02).
- 4.12* Loan Agreement dated as of October 1, 2003 between the Connecticut Development Authority and The Connecticut Water Company.
- 4.13* Indenture of Trust dated as of October 1, 2003 between the Connecticut Development Authority and The Connecticut Water Company.
- 4.14* Loan Agreement dated as of October 1, 2003 between the Connecticut Development Authority and The Connecticut Water Company.
- 4.15* Indenture of Trust dated as of October 1, 2003 between the Connecticut Development Authority and The Connecticut Water Company.
- 4.16* Bond Purchase Agreement dated as of October 10, 2003 among Connecticut Development Authority, The Connecticut Water Company and A.G. Edwards and Sons, Inc.
- 10.1 Pension Plan Fiduciary Liability Insurance for The Connecticut Water Company Employees' Retirement Plan and Trust, The Connecticut Water Company Tax Credit Employee Stock Ownership Plan, as Amended and Restated, Savings Plan of The Connecticut Water Company and The Connecticut Water Company VEBA Trust Fund. (Exhibit 10.1 to Registration Statement No. 2-74938).
- 10.2 Directors and Officers Liability and Corporation Reimbursement Insurance. (Exhibit 10.2 to Registration Statement No. 2-74938).
- 10.3 Directors Deferred Compensation Plan, effective as of January 1, 1980, as amended as of April 22, 1994. (Exhibit 10.3 to Form 10-K for the year ended 12/31/02).
- 10.4 The Connecticut Water Company Deferred Compensation Agreement dated December 1, 1984. (Exhibit 10.4 to Form 10-K for the year ended December 31, 1984).
- 10.5 The Connecticut Water Company Amended and Restated Deferred Compensation Agreement dated May 14, 1999. (Exhibit 10.5 to Form 10-K for the year ended 12/31/99).
- a. Marshall T. Chiaraluce
 - b. David C. Benoit
 - c. James R. McQueen
 - d. Kenneth W. Kells
- 10.6 The Connecticut Water Company Supplemental Executive Retirement Agreement with William C. Stewart. (Exhibit 10.6a to Form 10-K for year ended December 31, 1991).

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- 10.7 The Connecticut Water Company Supplemental Executive Retirement Agreement with Marshall T. Chiaraluce dated December 16, 1991. (Exhibit 10.6b to the Form 10-K for year ended 12/31/91).
- 10.7.1 The Connecticut Water Company First Amended Supplemental Executive Retirement Agreement with Marshall T. Chiaraluce dated August 1, 1999. (Exhibit 10.7.2 to Form 10-K for the year ended 12/31/99).
- 10.7.1a* The Connecticut Water Company Second Amended Supplemental Executive Retirement Agreement with Marshall T. Chiaraluce dated December 17, 2003.
- 10.7.2 The Connecticut Water Company Supplemental Executive Retirement Agreement with Michele G. DiAcri dated February 28, 2000. (Exhibit 10.7.2 to Form 10-K for the year ended 12/31/01).
- 10.7.2a* The Connecticut Water Company Second Amended Supplemental Executive Retirement Agreement with Michele G. DiAcri dated December 17, 2003.
- 10.8 The Connecticut Water Company Supplemental Executive Retirement Agreement – standard form for other officers, dated December 4, 1991. (Exhibit 10.6b to Form 10-K for the year ended 12/31/91).
- 10.8.1 The Connecticut Water Company First Amended Supplemental Executive Retirement Agreement — standard form for other officers, dated August 1, 1999. (Exhibit 10.8.2 to Form 10-K for the year ended 12/31/99).
- 10.8.2* The Connecticut Water Company Second Amended Supplemental Executive Retirement Agreement – standard form for other officers, dated December 17, 2003.
 - a) David C. Benoit
 - b) Peter J. Bancroft
 - c) James R. McQueen
 - d) Terrance P. O’Neill
 - e) Maureen P. Westbrook
- 10.9 Amended and restated employment agreement between The Connecticut Water Company and Connecticut Water Service, Inc. with officers, amended and restated as of May 9, 2001. (Exhibit 10.9 to Form 10-K for the year ended 12/31/01).
 - a) Marshall T. Chiaraluce
 - b) Michele G. DiAcri
 - c) James R. McQueen
 - d) David C. Benoit
 - e) Peter J. Bancroft
 - f) Maureen P. Westbrook
 - g) Terrance P. O’Neill

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- 10.9.1 Employment agreement between The Connecticut Water Company and Connecticut Water Service, Inc. with Kevin T. Walsh, amended and restated as of January 9, 2002. (Exhibit 10.9.1 to Form 10-K for the year ended 12/31/02).
- 10.10 Employment and Consulting Agreement between Richard L. Mercier and Gallup Water Service, Inc. dated April 15, 1999. (Exhibit 10.10 to Form 10-K for the year ended 12/31/99).
- 10.11 Employment and Consulting Agreement between Roger Engle and Crystal Water Company of Danielson dated September 29, 1999. (Exhibit 10.11 to Form 10-K for the year ended 12/31/99).
- 10.12 Savings Plan of The Connecticut Water Company, amended and restated effective as of October 1, 2000. (Exhibit 10.12 to Form 10-K for the year ended 12/31/01).
- 10.12.1* Trust Agreement between Connecticut Water Company and Riggs Bank N.A., Trustee, dated as of June 1, 2002.
- 10.12.2* Post-EGTRRA Amendment to the Savings Plan of The Connecticut Water Company, effective January 1, 2002.
- 10.12.3* Supplemental Participation Agreement to the Savings Plan of The Connecticut Water Company between The Unionville Water Company and Connecticut Water Company, dated December 30, 2003.
- 10.12.4* Supplemental Participation Agreement to the Savings Plan of The Connecticut Water Company between The Crystal Water Company of Danielson and Connecticut Water Company, dated December 30, 2003.
- 10.13 The Connecticut Water Company Employees' Retirement Plan as amended and restated as of January 1, 1997. (Exhibit 10.11 to Form 10-K for the year ended 12/31/98).
- 10.13.1 First amendment, dated August 16, 2000 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective January 1, 1997. (Exhibit 10.13.1 to Form 10-K for the year ended 12/31/02).
- 10.13.2 Second amendment, dated November 14, 2000 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective January 1, 1997. (Exhibit 10.13.2 to Form 10-K for the year ended 12/31/02).
- 10.13.3 Third amendment, dated November 14, 2001 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective January 1, 1997. (Exhibit 10.13.3 to Form 10-K for the year ended 12/31/02).
- 10.13.4 Fourth amendment, dated August 14, 2002 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective January 1, 1997. (Exhibit 10.13.4 to Form 10-K for the year ended 12/31/02).

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- 10.13.5 Fifth amendment, dated August 14, 2002 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective January 1, 1997. (Exhibit 10.13.5 to Form 10-K for the year ended 12/31/02).
- 10.13.6* Sixth amendment, dated November 10, 2003 to the amended and restated Connecticut Water Company Employees' Retirement Plan effective November 12, 2003.
- 10.14 Water Supply Agreement dated June 13, 1994, between The Connecticut Water Company and the Hazardville Water Company. (Exhibit 10.15 to Form 10-K for year ended December 31, 1994).
- 10.15 November 4, 1994 Amendment to Agreement dated December 11, 1957 between The Connecticut Water Company (successor to the Thomaston Water Company) and the City of Waterbury. (Exhibit 10.16 to Form 10-K for year ended December 31, 1994).
- 10.16 Contract between The Connecticut Water Company and The Rockville Water and Aqueduct Company dated as of January 1, 1976. (Exhibit 9(b) to Form 10-K for the year ended December 31, 1975).
- 10.17 Agreement dated August 13, 1986 between The Connecticut Water Company and the Metropolitan District. (Exhibit 10.14 to Form 10-K for the year ended December 31, 1986).
- 10.18 Report of the Commission to Study the Feasibility of Expanding the Water Supply Services of the Metropolitan District. (Exhibit 14 to Registration Statement No. 2-61843).
- 10.19 Plan of Merger dated December 18, 1978 of Broad Brook Water Company, The Collinsville Water Company, The Rockville Water and Aqueduct Company, The Terryville Water Company and The Thomaston Water Company with and into The Connecticut Water Company. (Exhibit 13 to Form 10-K for the year ended December 31, 1978).
- 10.20 Bond Exchange Agreements between Connecticut Water Service, Inc., The Connecticut Water Company Bankers Life Company and Connecticut Mutual Life Insurance Company dated October 23, 1978. (Exhibit 14 to Form 10-K for the year ended December 31, 1978).
- 10.21 Dividend Reinvestment and Common Stock Purchase Plan, amended and restated as of November 15, 2001. (Exhibit 99.1 to post-effective amendment filed on December 5, 2001 to Form S-3, Registration Statement No. 33-53211).
- 10.22 Contract for Supplying Bradley International Airport. (Exhibit 10.21 to Form 10-K for the year ended December 31, 1984).
- 10.23 Report of South Windsor Task Force. (Exhibit 10.23 to Form 10-K for the year ended December 31, 1987).

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10.24	Trust Agreement for The Connecticut Water Company Welfare Benefits Plan (VEBA) dated January 1, 1989. (Exhibit 10.21 to Form 10-K for year ended December 31, 1989).
10.25	1994 Performance Stock Program, as amended and restated as of April 26, 2002. (Exhibit A to Proxy Statement dated March 19, 2002).
10.26	Loan Agreement dated as of February 15, 1991 between Indianapolis Life Insurance Company and The Barnstable Water Company. (Exhibit 10.26 to Form 10-K for the year ended 12/31/01).
10.27	Guaranty Agreement by Connecticut Water Service, Inc. and Second Amendment to Note Agreement of Barnstable Water Company dated as of February 23, 2001. (Exhibit 10.27 to Form 10-K for the year ended 12/31/01).
10.28*	Memorandum of Understanding between the State of Connecticut and Connecticut Water Service, Inc. dated December 4, 2002.
23.1*	Consent of PricewaterhouseCoopers LLP.
23.2*	Explanation concerning absence of current written consent of Arthur Andersen LLP.
31.1*	Rule 13a-14 Certification of Marshall T. Chiaraluce, Chief Executive Officer.
31.2*	Rule 13a-14 Certification of David C. Benoit, Chief Financial Officer.
32.1*	Certification of Marshall T. Chiaraluce, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of David C. Benoit, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* = filed herewith

Note: Exhibits 10.1 through 10.13, 10.24 and 10.25 set forth each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form-10K.

**REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT
SCHEDULES**

To the Board of Directors and Stockholders of
Connecticut Water Service, Inc.:

Our audits of the consolidated financial statements referred to in our report dated February 11, 2004 appearing in this Annual Report on Form 10-K of Connecticut Water Service, Inc. also included an audit of the 2003 and 2002 financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. The 2001 consolidated financial statement schedule information of the Company was audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on that financial statement schedule information in their report dated February 8, 2002.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 11, 2004, except for Note 16, as to which the date is March 4, 2004.

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. This report applies to supplemental Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2001. Refer to Exhibit 23.2 for further discussion.

Report of Predecessor Auditor (Arthur Andersen LLP) on Financial Statement Schedules

We have audited, in accordance with accounting principles generally accepted in the United States, the financial statements of Connecticut Water Service, Inc. included in this Form 10-K, and have issued our report thereon dated February 8, 2002. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the accompanying index to consolidated financial statements and schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP
Hartford, Connecticut
February 8, 2002

CONNECTICUT WATER SERVICE, INC. and SUBSIDIARIES
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance Beginning of Year	Additions Charged to Income	Deductions From Reserves ⁽¹⁾	Balance End of Year
Allowance for Uncollectible Accounts Year				
Ended December 31, 2003	\$240	\$186	\$155	\$271
Year Ended December 31, 2002	\$234	\$165	\$159	\$240
	—	—	—	—
Year Ended December 31, 2001	\$218	\$171	\$155	\$234
	—	—	—	—

⁽¹⁾ Amounts charged off as uncollectible after deducting recoveries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONNECTICUT WATER SERVICE, INC.
Registrant

By /s/ Marshall T. Chiaraluce

Marshall T. Chiaraluce
President, Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of Connecticut Water Service, Inc. in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Marshall T. Chiaraluce</u> Marshall T. Chiaraluce (Principal Executive Officer)	Director, President Chairman of the Board, and Chief Executive Officer	March 12, 2004
<u>/s/ David C. Benoit</u> David C. Benoit (Principal Financial and Accounting Officer)	Vice President – Finance, Chief Financial Officer and Treasurer	March 12, 2004

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/s/ Roger Engle	Director	March 1, 2004
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Roger Engle		
/s/ Mary Ann Hanley	Director	March 1, 2004
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Mary Ann Hanley		
/s/ Marcia Hincks	Director	March 1, 2004
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Marcia Hincks		
/s/ Mark G. Kachur	Director	March 1, 2004
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Mark G. Kachur		
/s/ David A. Lentini	Director	March 1, 2004
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David A. Lentini		
/s/ Ronald D. Lengyel	Director	March 1, 2004
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Ronald D. Lengyel		
/s/ Robert F. Neal	Director	March 1, 2004
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Robert F. Neal		
/s/ Arthur C. Reeds	Director	February 20, 2004
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Arthur C. Reeds		
/s/ Lisa J. Thibdaue	Director	March 1, 2004
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Lisa J. Thibdaue		
/s/ Carol P. Wallace	Director	March 1, 2004
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Carol P. Wallace		
/s/ Donald B. Wilbur	Director	March 1, 2004
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Donald B. Wilbur		

CONNECTICUT DEVELOPMENT AUTHORITY

AND

THE CONNECTICUT WATER COMPANY

LOAN AGREEMENT

DATED AS OF OCTOBER 1, 2003

CONNECTICUT DEVELOPMENT AUTHORITY
\$8,000,000 WATER FACILITIES REFUNDING REVENUE BONDS
(THE CONNECTICUT WATER COMPANY PROJECT - 2003A SERIES)

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CONNECTICUT DEVELOPMENT AUTHORITY

THE CONNECTICUT WATER COMPANY

LOAN AGREEMENT

THIS LOAN AGREEMENT, made and dated as of October 1, 2003, by and between the CONNECTICUT DEVELOPMENT AUTHORITY, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, and THE CONNECTICUT WATER COMPANY, a corporation organized and existing under the laws of the State of Connecticut,

WITNESSETH THAT:

WHEREAS, the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended (the "Act"), declares that there is a continuing need in the State (1) for industrial development and activity to provide and maintain employment and tax revenues and to control, abate and prevent pollution to protect the public health and safety, (2) for the development of recreation facilities to promote tourism, provide and maintain employment and tax revenues, and promote the public welfare, (3) for the development of commercial and retail sales and service facilities in urban areas to provide and maintain construction and permanent employment and tax revenues, to improve conditions of deteriorated physical development, slow economic growth and eroded financial health of the public and private sectors in urban areas and to revitalize the economy of urban areas, and (4) for assistance to public service businesses providing transportation and utility services in the State, and that the availability of financial assistance and suitable facilities are important inducements to industrial and commercial enterprises to remain or locate in the State and to provide industrial, recreation, urban and public service projects; and

WHEREAS, the Act provides that (1) the term "project" as used therein means any facility, plant, works, system, building, structure, utility, fixture or other real property improvement located in the State, and the land on which it is located or which is reasonably necessary in connection therewith, which is of a nature or which is to be used or occupied by any person for purposes which would constitute it as an economic development project, recreation project, urban project, public service project or health care project, and any real property improvement reasonably related thereto, and (2) a project may also include or consist exclusively of machinery, equipment or fixtures; and

WHEREAS, the Act provides that the Authority shall have power to determine the location and character of, and extend credit or make loans to any person for the planning, designing, acquiring, improving and equipping of, a project which may be secured by loan, lease or sale agreements, contracts and other instruments, upon such terms and conditions as the Authority shall determine to be reasonable, to require the inclusion in any contract, loan agreement or other instrument of such provisions for the construction, use, operation, maintenance and financing of the project as the Authority may deem necessary or desirable, to issue its bonds for such purposes, subject to the approval of the Treasurer of the State, and, as security for the payment of the principal or redemption price, if any, of and interest on any such bonds, to pledge or assign such a loan, lease or sale agreement and the revenues and receipts derived by the Authority from such a project; and

WHEREAS, the Authority has heretofore issued and sold \$8,000,000 of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series) (all of which were outstanding as of the date of this Loan Agreement) (the "Prior Obligations"), the proceeds of which were used to refund in full the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1983 Series) (the "1983 Bonds"), the proceeds of which were used to finance various capital improvements constituting a portion of the Borrower's existing water system (the "Project"); and

WHEREAS, the Authority has by a resolution adopted June 18, 2003 authorized the issuance of \$8,000,000 principal amount of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) for the purpose of refunding in full the Prior Obligations; and

WHEREAS, pursuant to such resolution the Bonds (as hereinafter defined) are to be secured by an Indenture of Trust of even date herewith, by and between the Authority and U.S. Bank National Association, as Trustee; and

WHEREAS, the Bonds shall be special obligations of the Authority, payable solely from the revenues or other receipts, funds or monies to be derived by the Authority under this Agreement or the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds; and

WHEREAS, the Authority proposes with the proceeds of the Bonds to make a loan to the Borrower and the Borrower proposes to borrow such proceeds from the Authority for the purpose of refunding the Prior Obligations issued by the Authority to refund the 1983 Bonds, which 1983 Bonds were issued to finance the acquisition, construction and installation of the Project; and

WHEREAS, the Borrower acknowledges that the Authority is providing refinancing for the Project in furtherance of the Authority's corporate purposes under the Act, that the accomplishment of these purposes is dependent upon the compliance of the Borrower with its covenants contained in this Agreement, that the Authority has a resulting interest in the Project, and that the Borrower's use of and interest in the Project as provided hereby are in furtherance of the discharge of a public purpose; and

WHEREAS, the Connecticut Department of Public Utility Control (the "DPUC") has approved the issuance of the Note;

NOW, THEREFORE, in consideration of the premises and of the mutual representations, covenants and agreements herein set forth, the Authority and the Borrower, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows (provided that in the performance of the agreements of the Authority herein contained, any obligation it may incur for the payment of money shall not be an obligation, debt or liability of the State or any municipality thereof and neither the State nor any municipality thereof shall be liable on any obligation so incurred, but any such obligation shall be payable solely out of the revenues or other receipts, funds or monies to be derived by the Authority under this Agreement or the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds):

ARTICLE I
DEFINITIONS AND INTERPRETATION

SECTION 1.1. DEFINITIONS. For the purposes of this Agreement, the following words and terms shall have the respective meanings set forth as follows, and any capitalized word or term used but not defined herein is used as defined in the Indenture:

"Act" means the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended.

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"Authority" means the Connecticut Development Authority, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, duly organized and existing under the laws of the State, and any body, board, authority, agency or other political subdivision or instrumentality of the State which shall hereafter succeed to the powers, duties and functions thereof.

"Authorized Representative" means, in the case of the Authority, the Chairman or Vice Chairman, the President, any Executive Vice President, Deputy Director or any Senior Vice President or any Vice President thereof and, in the case of the Borrower, the Chairman, the President and Chief Executive Officer, the Vice President-Chief Financial Officer and Treasurer, and any Vice President, Assistant Treasurer or Secretary thereof and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"Beneficial Owner" shall have the meaning specified in Section 2.3(F) of the Indenture. If any person claims to the Trustee to be a Beneficial Owner, for purposes of Section 2.4(C) of the Indenture, such person shall prove such claim to the satisfaction of the Trustee with such documentation and signature guaranties as the Trustee may request.

"Bonds" means the \$8,000,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) authorized and issued pursuant to Section 2.3 of the Indenture.

"Bond Counsel" means Winston & Strawn LLP or such other nationally recognized bond counsel selected by the Authority and reasonably satisfactory to the Borrower and the Trustee.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means XL Capital Assurance Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, and its successors and assigns.

"Borrower" means (i) The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in Section 6.1 hereof.

"Business Day" means any day (i) that is not a Saturday or Sunday, (ii) that is a day on which banks located in Hartford, Connecticut and New York, New York are not required or authorized to remain closed, (iii) that is a day on which banking institutions in all of the cities in which the principal offices of the Trustee and the Paying Agent are located and are not required or authorized to remain closed and (iv) that is a day on which the New York Stock Exchange, Inc. is not closed.

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder.

"Debt Service Fund" means the special trust fund so designated, established pursuant to Section 5.1 of the Indenture.

"DTC" or "The Depository Trust Company" shall mean the limited-purpose trust company organized under the laws of the State of New York which shall act as securities depository for the Bonds, and any successor thereto.

"Determination of Taxability" means with respect to the Bonds (1) a ruling by the Internal Revenue Service, (2) the receipt by the owner of any of the Bonds from the Internal Revenue Service of a notice of assessment and demand for payment and (provided the Borrower has been afforded the opportunity to participate at its own expense in all appeals and proceedings to which such owner of the Bonds is a party relating to such assessment and demand for payment) the expiration of the appeal period provided therein if no appeal is taken or, if an appeal is taken by such owner as provided in Section 6.3 of this Agreement within the applicable appeal period which has the effect of staying the demand for payment, a final unappealable decision by a court of competent jurisdiction, or (3) the admission in writing by the Borrower, in any case to the effect that the interest on any Bonds is includable in the gross income for federal income tax purposes (other than for purposes of any alternative minimum tax, environmental tax or foreign branch profits tax) of an owner or former owner thereof, other than for a period during which such owner or former owner is or was a "Substantial User" of the Project financed by such Bonds or a "Related Person" as such terms are defined in the Code. For purposes of this definition, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry System is in effect.

"DPUC" means the State Department of Public Utilities Control.

"Disclosure Agreement" means the agreement by and between the Borrower and U.S. Bank National Association, as dissemination agent, dated the date of the initial delivery of the Bonds, providing for the provision of certain information subsequent to the issuance of the Bonds.

"Event of Default" means an Event of Default as defined in subsection 7.1 hereof.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel addressed to the Authority, the Bond Insurer, the Bank and the Trustee to the effect that the action proposed to be taken is not prohibited by the laws of the State or the Indenture and will not adversely affect any exclusion of interest on the Bonds from gross income for federal income tax purposes.

"Financing Documents" (1) when used with respect to the Borrower, means this Agreement, the Tax Regulatory Agreement, the Note, the Disclosure Agreement and the general certificate of the Borrower delivered in connection with the issuance of the Bonds, but shall not include the Mortgage, and (2) when used with respect to the Authority, means any of the foregoing documents and agreements to which the Authority is a direct party. The Financing Documents do not include any documents or agreements to which the Borrower is not a direct party, including the Bonds or the Indenture.

"Indenture" means the Indenture of Trust relating to the Bonds, of even date herewith, by and between the Authority and the Trustee, together with all indentures supplemental thereto made and entered into in accordance therewith.

"Interest Payment Date" shall mean December 15, 2003 and each June 15 and December 15 thereafter on which interest is payable on the Bonds as provided in the forms of the Bonds.

"Moody's" means Moody's Investors Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"Mortgage" means the Indenture of Mortgage and Deed of Trust, dated as of June 1, 1956, between the Borrower and U.S. Bank National Association (successor to The Connecticut Bank and Trust Company), as Mortgage Bond Indenture Trustee, as amended as of the date hereof and as may be amended hereafter.

"Mortgage Bond Indenture Trustee" means U.S. Bank National Association, acting as Mortgage Bond Indenture Trustee pursuant to the Mortgage.

"Net Proceeds" when used with respect to any insurance or condemnation award, means the gross proceeds from such award less all expenses (including attorney's fees and expenses and any extraordinary expenses) incurred by the Trustee in the collection thereof.

"Note" means the promissory note of the Borrower to the Authority, dated the date of initial delivery of the Bonds in the form attached as Appendix A to this Agreement, and any amendments or supplements made in conformity with this Agreement and the Indenture.

"Outstanding", when used with reference to a Bond or Bonds, as of any particular date, means all Bonds which have been authenticated and delivered under the Indenture, except:

(1) any Bonds canceled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee for cancellation;

(2) any Bond (or portion of a Bond) paid or redeemed or for the payment or redemption of which there has been separately set aside and held in the Debt Service Fund either:

(a) monies in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such monies to such payment on the date so specified; or

(b) obligations of the kind described in subsection 12.1(B) of the Indenture in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide monies in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such obligations to such payment on the date so specified; or

(c) any combination of (a) and (b) above;

(3) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article III of the Indenture; and

(4) any Bond deemed to have been paid as provided in subsection 12.1 of the Indenture.

"Paying Agent" means any paying agent for the Bonds appointed pursuant to Section 9.10 of the Indenture (and may include the Trustee), and its successor or successors and any other corporation which may at any time be substituted in its place in accordance with the Indenture.

"Permitted Encumbrances" mean, as of any particular date, (i) the lien of the Mortgage, (ii) liens and encumbrances permitted by the Mortgage, (iii) liens for taxes not yet due and payable, (iv) any lien created by this Agreement and the Indenture, (v) utility, access and other easements and rights-of-way, that will not interfere with or impair the value or use of the Project as herein provided, (vi) any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right in respect thereof if payment is not yet due and payable and for which statutory lien rights exist, (vii) such minor defects, irregularities, easements, and rights-of-way (including agreements with any railroad the purpose of which is to service the railroad siding) as normally exist with respect to property similar in character to the Project and which do not materially impair the value or use of the property affected thereby for the purpose for which it was acquired hereunder, and (viii) any mortgage, lien, security interest or other encumbrance to which the Authority and the Bond Insurer may consent as provided in Section 4.8 hereof.

"Principal User" means any principal user of the Project within the meaning of Section 144(a)(2)(B) of the Code, including without limitation any person who is a greater-than-10-percent-owner (or if none, the person(s) who holds the largest ownership interest in the Project), lessee or user of more than 10% of the Project measured either by occupiable space or fair rental value under any formal or informal agreement or, under the particular facts and circumstances, anyone who is a principal customer of the Project. The term "principal customer" means any person, who purchases output of the Project under a contract if the percentage of output taken or to be taken by such person, multiplied by a fraction the numerator of which is the term of such contract and the denominator of which is the economic life of the Project, exceeds 10%. In the case of a person who purchases output of an electric or thermal energy, gas, water or other similar facility, such person is a principal customer if the total output purchased by such person during any one year period beginning with the date the facility is placed in service is more than 10 percent of the facility's output during each such period. Co-owners or co-lessees who are shareholders in a corporation or who are collectively treated as a partnership subject to subchapter K under section 761(a) of the Code are not treated as Principal Users merely by reason of their ownership of corporate or partnership interests.

"Prior Obligations" means the \$8,000,000 aggregate principal amount of the Authority's Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series).

"Project" means the Borrower's interest in the Project Realty and other interests in the real property, and in all Project Equipment wherever located and whether now owned or hereafter acquired or refinanced in whole or in part with the proceeds of the Bonds and any additions and accessions thereto, substitutions therefor and replacements, improvements, extensions and restorations thereof, described in the appendices hereto, as amended from time to time in accordance with this Agreement.

"Project Equipment" means all personal property, goods, leasehold improvements, machinery, equipment, furnishings, furniture, fixtures, tools and attachments wherever located and whether now owned or hereafter acquired, refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements thereof, including, without limitation the Project Equipment described in Appendix C hereto, as amended from time to time in accordance herewith.

"Project Realty" means the realty and other interests in the real property refinanced in whole or in part from the proceeds of the Bonds, together with all replacements, improvements, extensions, substitutions, restorations and additions thereto which are made pursuant hereto, including without limitation, the Project Realty described in Appendix B, as amended from time to time in accordance herewith.

"Redemption Price" means, when used with respect to a Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"Related Person" means, with respect to any Principal User, a person which is a related person (as defined in Section 144(a)(3) of the Code, and by reference to Sections 267, 707(b) and 1563(a) of the Code, except that 50% is to be substituted for 80% in Section 1563(a)).

"S&P" means Standard & Poor's Ratings Services, a division of McGraw Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation or division shall be dissolved, eliminated, reorganized, or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority at the direction of the Borrower, by notice to the Trustee and the Borrower.

"State" means the State of Connecticut.

"Substantial User" means any substantial user of the Project within the meaning of Section 147(a) of the Code.

"Supplemental Indenture" means any indenture supplemental to the Indenture or amendatory of the Indenture, adopted by the Authority in accordance with Article X of the Indenture.

"Tax Incidence Date" means the date as of which interest on the Bonds becomes or became includable in the gross income of the recipient thereof (other than the Borrower or another Substantial User or Related Person) for federal income tax purposes for any cause, as determined by a Determination of Taxability.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated as of the date of initial issuance and delivery of the Bonds, among the Authority, the Borrower and the Trustee, and any amendments and supplements thereto.

"Term", when used with reference to this Agreement, means the term of this Agreement determined as provided in Article III hereof.

"Trustee" means U.S. Bank National Association, and its successor or successors hereafter appointed in the manner provided in the Indenture.

SECTION 1.2. INTERPRETATION. IN THIS AGREEMENT:

(1) The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms, as used in this Agreement, refer to this Agreement, and the term "hereafter" means after, and the term "heretofore" means before, the date of this Agreement.

(2) Words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa.

(3) Words importing persons include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons.

(4) Any headings preceding the texts of the several Articles and Sections of this Agreement, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

(5) Nothing contained in this Agreement shall be construed to cause the Borrower to become the agent for the Authority or the Trustee for any purpose whatsoever, nor shall the Authority or the Trustee be responsible for any shortage, discrepancy, damage, loss or destruction of any part of the Project wherever located or for whatever cause.

(6) All approvals, consents and acceptances required to be given or made by any person or party hereunder shall be at the sole discretion of the party whose approval, consent or acceptance is required.

(7) All notices to be given hereunder shall be given in writing within a reasonable time unless otherwise specifically provided.

(8) If any provision of this Agreement shall be ruled invalid by any court of competent jurisdiction, the invalidity of such provision shall not affect any of the remaining provisions hereof.

**ARTICLE II
REPRESENTATIONS AND WARRANTIES**

SECTION 2.1. REPRESENTATIONS BY THE AUTHORITIES.

The Authority represents and warrants that:

- (1) It is a body corporate and politic constituting a public instrumentality and political subdivision of the State, duly organized and existing under the laws of the State including the Act. The Authority is authorized to issue the Bonds in accordance with the Act and to use the proceeds thereof to refund in full the Prior Obligations and refinance the Project.
- (2) The Authority has complied with the provisions of the Act and has full power and authority pursuant to the Act to consummate all transactions contemplated by the Bonds, the Indenture and the Financing Documents.
- (3) By resolution duly adopted by the Authority and still in full force and effect, the Authority has authorized the execution, delivery and due performance of the Bonds, the Indenture and the Financing Documents, and the taking of any and all action as may be required on the part of the Authority to carry out, give effect to and consummate the transactions contemplated by this Agreement and the Indenture, and all approvals necessary in connection with the foregoing have been received.
- (4) The Bonds have been duly authorized, executed, authenticated, issued and delivered, constitute valid and binding special obligations of the Authority payable solely from revenues or other receipts, funds or monies pledged therefor under the Indenture and from any amounts otherwise available under the Indenture, and are entitled to the benefit of the Indenture. Neither the State nor any municipality thereof is obligated to pay the Bonds or the interest thereon. Neither the faith and credit nor the taxing power of the State nor any municipality thereof is pledged for the payment of the principal, and premium, if any, of and interest on the Bonds.
- (5) The execution and delivery of the Bonds, the Indenture and the Financing Documents and compliance with the provisions thereof, will not conflict with or constitute on the part of the Authority a violation of, breach of or default under its by-laws or any statute, indenture, mortgage, deed of trust, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound, or, to the knowledge of the Authority, any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities or properties, and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the Authority of the transactions contemplated thereby have been obtained.
- (6) Subject to the provisions of this Agreement and the Indenture, the Authority will apply the proceeds of the Bonds to the purposes specified in the Indenture and the Financing Documents.
- (7) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting the Authority, or to the best knowledge of the Authority, any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated hereby or by the Indenture, or which, in any way, would adversely affect the validity of the Bonds, or the validity of or

enforceability of the Indenture or the Financing Documents, or any agreement or instrument to which the Authority is a party and which is used or contemplated for use in consummation of the transactions contemplated hereby and by the Indenture.

(8) It has not made any commitment or taken any action which will result in a valid claim for any finders or similar fees or commitments in respect of the transactions contemplated by this Agreement.

(9) The representations of the Authority set forth in the Tax Regulatory Agreement are by this reference incorporated in this Agreement as though fully set forth herein.

SECTION 2.2. REPRESENTATIONS BY THE BORROWER.

The Borrower represents and warrants that:

(1) The Borrower has been duly incorporated and validly exists as a corporation under the laws of the State of Connecticut, is not in violation of any provision of its certificate of incorporation or its by-laws, has corporate power to enter into and perform the Financing Documents, and by proper corporate action has duly authorized the execution and delivery of the Financing Documents.

(2) The Financing Documents constitute valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except to the extent that such enforceability may be limited by bankruptcy or insolvency or other laws affecting creditors' rights generally or by general principles of equity.

(3) Neither the execution and delivery of the Financing Documents, the consummation of the transactions contemplated thereby, nor the fulfillment by the Borrower of or compliance by the Borrower with the terms and conditions thereof is prevented or limited by or conflicts with or results in a breach of, or default under the terms, conditions or provisions of any contractual or other restriction of the Borrower, evidence of its indebtedness or agreement or instrument of whatever nature to which the Borrower is now a party or by which it is bound, or constitutes a material default under any of the foregoing. No event has occurred and no condition exists which, upon the execution and delivery of any Financing Documents, constitutes an Event of Default hereunder or an Event of Default thereunder or, but for the lapse of time or the giving of notice, would constitute an Event of Default hereunder or an Event of Default thereunder.

(4) There is no action or proceeding pending or, to the knowledge of the Borrower, threatened against the Borrower before any court, administrative agency or arbitration board that may materially and adversely affect the ability of the Borrower to perform its obligations under the Financing Documents and all authorizations, consents and approvals of governmental bodies or agencies required in connection with the execution and delivery of the Financing Documents and in connection with the performance of the Borrower's obligations hereunder or thereunder have been obtained.

(5) The execution, delivery and performance of the Financing Documents and any other instrument delivered by the Borrower pursuant to the terms hereof or thereof are within the corporate powers of the Borrower and have been duly authorized and approved by the board of directors of the Borrower and are not in contravention of law or of the Borrower's certificate of incorporation or by-laws, as amended to date, or of any undertaking or agreement to which the Borrower is a party or by which it is bound.

- (6) The Borrower represents that it has not made any commitment or taken any action which will result in a valid claim for any finders' or similar fees or commitments in respect of the transactions described in this Agreement other than the fees to various parties to the transactions contemplated hereby which have been heretofore paid or provided.
- (7) The Project is included within the definition of a "project" in the Act. The Borrower intends the Project to continue to be an authorized project under the Act during the Term of this Agreement.
- (8) All amounts shown in Schedule D of the Tax Regulatory Agreement are eligible costs of a project financed by bonds issued by the Authority under the Act, and may be refinanced by amounts in the Refunding Fund under the Indenture. None of the proceeds of the Bonds will be used directly or indirectly as working capital or to finance inventory.
- (9) The Project is in material compliance with all applicable federal, State and local laws and ordinances (including rules and regulations) relating to zoning, building, safety and environmental quality.
- (10) The availability of financial assistance from the Authority, among other factors, has induced the Borrower to locate the Project in the State. The Borrower does not presently intend to lease the Project.
- (11) The Borrower will not take or omit to take any action which action or omission will in any way cause the proceeds of the Bonds to be applied in a manner contrary to that provided in the Indenture and the Financing Documents as in force from time to time.
- (12) The Borrower has not taken and will not take any action and knows of no action that any other person, firm or corporation has taken or intends to take, which would cause interest on the Bonds to be includable in the gross income of the recipients thereof for federal income tax purposes. The representations, certifications and statements of reasonable expectation made by the Borrower in the Tax Regulatory Agreement and relating to Project description, composite issues, bond maturity and average asset economic life, use of Bond proceeds, arbitrage and related matters are hereby incorporated by this reference as though fully set forth herein.
- (13) The Borrower has good and marketable title in fee simple to the Project Realty subject only to Permitted Encumbrances and to irregularities or defects in title which may exist which do not materially impair the use of such properties in the Borrower's business.
- (14) The Borrower has good and merchantable title to the Project Equipment owned by the Borrower as of the date hereof, free and clear of liens and encumbrances, other than Permitted Encumbrances.
- (15) As of the date of hereof, except for the Mortgage, neither the Borrower, nor to its knowledge anyone acting on behalf of the Borrower, has entered into negotiations with any person for the purpose of undertaking any borrowing concurrently with or subsequent to the issuance of the Bonds and to be secured wholly or partially by a lien or encumbrance on the Project or any part thereof, and the Borrower has no present intention of undertaking any such borrowing.
- (16) The Borrower will use all of the proceeds of the Bonds to refund in full the Prior Obligations.

**ARTICLE III
THE LOAN**

SECTION 3.1. LOAN CLAUSES. (A) Subject to the conditions and in accordance with the terms of this Agreement, the Authority agrees to make a loan to the Borrower from the proceeds of the Bonds in the amount of \$8,000,000 and the Borrower agrees to borrow such amount from the Authority.

(B) The loan shall be made at the time of delivery of the Bonds and receipt of payment therefor by the Authority against receipt by the Authority of the Note duly executed and delivered to evidence the pecuniary indebtedness of the Borrower hereunder. As and for the loan the Authority shall apply the proceeds of the Bonds as provided in the Indenture on the terms and conditions therein prescribed.

(C) On or before the third Business Day immediately preceding each due date for the payment of the principal of or interest on the Bonds, until the principal or Redemption Price, if any, of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Borrower shall make loan payments to the Trustee for the account of the Authority in an amount which, when added to any moneys then on deposit in the Debt Service Fund and available therefor, shall be equal to the amount payable on such due date with respect to the Bonds as provided in Section 5.3 of the Indenture, including amounts due for the payment of the principal of and interest on the Bonds. In addition, the Borrower shall pay to the Trustee, as and when the same shall become due, all other amounts due under the Financing Documents, together with interest thereon at the then applicable rate as set forth herein in Section 6.2(G). The Borrower shall have the option to prepay its loan obligation in whole or in part at the times and in the manner provided in Article VIII hereof.

(D) Anything herein to the contrary notwithstanding any amount at any time held in the Principal and Interest Account of the Debt Service Fund by the Trustee pursuant to this Section shall be credited against the next succeeding loan payment obligation of the Borrower as provided in subsection 3.1(C) hereof. If, on any due date for payments with respect to the Bonds, the balance in the Debt Service Fund is insufficient to make such payments, the Borrower agrees forthwith to pay to the Trustee by no later than 11:00 a.m. on such due date the amount of the deficiency. If at any time the amount held by the Trustee in the Debt Service Fund shall be sufficient to pay or provide for the payment of the Bonds in accordance with Section 12.1 of the Indenture, the Borrower shall not be obligated to make any further payments under the foregoing provisions.

SECTION 3.2. OTHER AMOUNTS PAYABLE. (A) The Borrower hereby further expressly agrees to pay to the Trustee as and when the same shall become due,

(i) an amount equal to the initial and annual fees of the Trustee for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indenture, including fees and expenses as Paying Agent and the reasonable fees and expenses of Trustee's counsel, including fees and expenses as registrar and in connection with preparation and delivery of new Bonds upon exchanges or transfers, (ii) the reasonable fees and expenses of the Trustee and any Paying Agents on the Bonds for acting as paying agents as provided in the Indenture, including reasonable fees and expenses of its counsel, (iii) the reasonable fees and charges of the Trustee for extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, including reasonable counsel fees and expenses, and (iv) reasonable fees and expenses of Bond Counsel and the Authority for any future action requested of either.

(B) The Borrower also agrees to pay all amounts payable by it under the Financing Documents at the time and in the manner therein provided.

(C) The Borrower agrees to pay all Rebatable Arbitrages (and penalties, if any) due to the United States of America pursuant to Section 148 (f) of the Code.

(D) The Borrower also agrees to pay directly to the Authority on the date of issuance and delivery of the Bonds and on the second anniversary date of the date of issuance and delivery of the Bonds and each anniversary date thereafter, a fee equal to 1/8th of 1% of the principal amount of the Bonds Outstanding, such fee to be payable without notice, demand or invoice of any kind at the Authority's address as set forth herein or at such other address and to the attention of such other person, or to such account as the Authority may stipulate by written notice to the Borrower.

SECTION 3.3. MANNER OF PAYMENT. The payments provided for in Section 3.1 hereof shall be made by any reasonable method providing immediately available funds at the time and place of payment directly to the Trustee for the account of the Authority and shall be deposited in the Debt Service Fund. The additional payments provided for in Section 3.2 shall be made in the same manner directly to the entitled party or to the Trustee for its own use or disbursement to the Paying Agents, as the case may be.

SECTION 3.4. OBLIGATION UNCONDITIONAL. The obligations of the Borrower under the Financing Documents shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Authority or the Trustee. The Borrower will not suspend or discontinue any such payment or terminate this Agreement (other than in the manner provided for hereunder) for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, failure of title, or commercial frustration of purpose, or any damage to or destruction of the Project, or the taking by eminent domain of title to or the right of temporary use of all or any part of the Project, or any change in the tax or other laws of the United States, the State or any political subdivision of either thereof, or any failure of the Authority or the Trustee to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Financing Documents.

SECTION 3.5. SECURITIES CLAUSES. The Authority hereby notifies the Borrower and the Borrower acknowledges that, among other things, the Borrower's loan payments and all of the Authority's right, title and interest under the Financing Documents to which it is a party (except its rights under Sections 6.2, 6.4, 7.2(A)(2) and 7.3 hereof) are being concurrently with the execution and delivery hereof endorsed, pledged and assigned without recourse by the Authority to the Trustee as security for the Bonds as provided in the Indenture.

SECTION 3.6. ISSUANCE OF BONDS. The Authority has concurrently with the execution and delivery hereof sold and delivered the Bonds under and pursuant to a resolution adopted by the Authority on June 18, 2003, authorizing their issuance under and pursuant to the Indenture. The proceeds of sale of the Bonds shall be applied as provided in Articles IV and V of the Indenture.

SECTION 3.7. EFFECTIVE DATE AND TERM. (A) This Agreement shall become effective upon its execution and delivery by the parties hereto, shall remain in full force from such date and, subject to the provisions hereof (including particularly Articles VII and VIII), shall expire on such date as the Indenture shall be discharged and satisfied in accordance with the provisions of subsection 12.1(A) thereof. The Borrower's obligations under Sections 6.2 and 6.3 hereof, however, shall survive the expiration of this Agreement in accordance with the provisions of such Sections.

(B) Within 60 days of such expiration the Authority shall deliver to the Borrower any documents and take or cause the Trustee, at the Borrower's expense, to take any such reasonable actions as may be necessary to effect the cancellation, release and satisfaction of the Indenture and the Financing Documents.

SECTION 3.8. NO ADDITIONAL BONDS. No Additional Bonds on a parity with the Bonds may be issued under the Indenture.

**ARTICLE IV
THE PROJECT**

SECTION 4.1. COMPLETION OF THE PROJECT. (A) The Borrower represents and warrants that the Project has been completed and that all costs and expenses incurred in connection with the Project have been paid.

(B) The Borrower affirms that it shall bear all of the costs and expenses in connection with the preparation of the Financing Documents and the Indenture, the preparation and delivery of any legal instruments and documents necessary in connection therewith and their filing and recording, if required, and all taxes and charges payable in connection with any of the foregoing. Such costs shall be paid by the Borrower in the manner and to the extent provided in the Indenture.

SECTION 4.2. BORROWER CONTRIBUTION. The Borrower agrees to deposit with the Trustee on the date of issuance of the Bonds a contribution in the amount of \$829,499.29 (\$266,001.00 of which represents the amount of interest to accrue on the Prior Obligations from June 15, 2003 to December 15, 2003, \$160,000.00 of which will be applied to the payment of the redemption premium to become due on the redemption date of the Prior Obligations and \$403,498.29 of which shall be applied to the payment of the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees), which amount shall be deposited by the Trustee in the Refunding Fund established pursuant to Section 5.1 of the Indenture.

SECTION 4.3. NO WARRANTY REGARDING CONDITION, SUITABILITY OR COST OF PROJECT. Neither the Authority, nor the Trustee, nor any Bondholder makes any warranty, either expressed or implied, as to the Project or its condition or that it will be suitable for the Borrower's purposes or needs, or that the insurance required hereunder will be adequate to protect the Borrower's business or interest.

SECTION 4.4. TAXES. (A) The Borrower will pay when due all material (1) taxes, assessments, water rates and sewer use or rental charges, (2) payments in lieu thereof which may be required by law, and (3) governmental charges and impositions of any kind whatsoever which may now or hereafter be lawfully assessed or levied upon the Project Realty and the Project Equipment or any part thereof, or upon the rents, issues, or profits thereof, whether directly or indirectly. With respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the Term.

(B) The Borrower may, at its expense and in its own name, in good faith contest any such taxes, assessments and other charges and payments in lieu of taxes including assessments and, in the event of such contest, may permit the taxes, assessments or other charges or payments in lieu of taxes, including assessments so contested to remain unpaid, provided either (1) prior written notice thereof has been given to the Authority and the Trustee and reserves satisfactory to the Authority are maintained during the period of such contest and any appeal therefrom, or (2) such contest is conducted in full compliance with Connecticut General Statutes Chapter 203 unless, in either case, by nonpayment of such taxes, assessments or other charges or payments, the Project or any part thereof will be subject to loss or forfeiture, and as a result thereof a lien or charge will be placed upon any payment pursuant to this Agreement or the value or operation of the Project Realty and the Project Equipment will be materially impaired, in which event such taxes, assessments or other charges or payments shall be paid forthwith. Nothing herein shall preclude the Borrower, at its expense and in its own name and behalf, from applying for any tax exemption allowed by the federal government, the State or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant such tax exemption.

SECTION 4.5. INSURANCE. (A) The Borrower shall insure the Project Realty and the Project Equipment against loss or damage by fire, flood, lightning, windstorm, vandalism and malicious mischief and other hazards, casualties, contingencies and extended coverage risks in such amounts and in such manner as is required by the Mortgage while the Mortgage is in effect and thereafter as is customary with companies in the same or similar business, and shall pay when due the premiums thereon. In the event of loss or damage to the Project Realty or Project Equipment the Net Proceeds of any insurance provided under this subsection shall be deposited with the Mortgage Bond Indenture Trustee as required by the Mortgage while the Mortgage is in effect and thereafter shall be applied to the manner set forth in Article V hereof. Any excess proceeds of insurance remaining after application as required by this Section shall be paid to the Borrower, but only if the Borrower is not in default under this Agreement. At least ten days prior to the expiration of any policy required under this Section the Borrower shall furnish evidence satisfactory to the Authority and the Trustee that such policy has been renewed or replaced.

(B) The Borrower further agrees that it will at all times carry public liability insurance with respect to the Project Realty and the Project Equipment to the extent required by the Mortgage while the Mortgage is in effect, and, thereafter, in a minimum amount of \$5,000,000 with provisions for a deductible amount not in excess of five percent of the amount of coverage thereunder. In the event of a public liability occurrence, the Net Proceeds of the insurance provided under this subsection shall be applied to satisfy or extinguish the liability, subject to the Mortgage.

(C) As an alternative to the hazard insurance and public liability insurance requirements of subsections (A) or (B) above the Borrower may, to the extent permitted by the Mortgage, self-insure against hazard or public liability risks if (1) self-insurance is the Borrower's customary method of insurance against such risks in similar circumstances, and (2) the Borrower maintains self-insurance reserves adequate and available to meet such risks, subject to the terms of the Mortgage while the Mortgage is in effect. Amounts available under any such self-insurance arrangement upon the occurrence of an insured event shall be applied in the same manner as the Net Proceeds of any insurance maintained pursuant to such subsections would have been applied.

(D) The insurance coverage required by this Section may be effected under overall blanket or excess coverage policies of the Borrower or any affiliate and may be carried with any insurer other than an unauthorized insurer under the Connecticut Unauthorized Insurers Act. The Borrower shall furnish evidence satisfactory to the Authority or the Trustee, promptly upon the request of either, that the required insurance coverage is valid and in force.

SECTION 4.6. COMPLIANCE WITH LAW. The Borrower will observe and comply with all material laws, regulations, ordinances, rules, and orders (including without limitation those relating to zoning, land use, environmental protection, air, water and land pollution, wetlands, health, equal opportunity, minimum wages, worker's compensation and employment practices) of any federal, state, municipal or other governmental authority relating to the Project Realty and the Project Equipment except during any period during which the Borrower at its expense and in its name shall be in good faith contesting its obligation to comply therewith.

SECTION 4.7. MAINTENANCE AND REPAIR. At its own expense, the Borrower will keep and maintain or cause the Project Realty and the Project Equipment to be kept and maintained in accordance with sound water utility operating practice and in good condition, working order and repair, will not commit or suffer any waste thereon, and will make all material repairs and replacements thereto which may be required in connection therewith. Nothing in this Section 4.7 shall (1) apply to any portion of the Project beyond its useful or economic life or (2) apply to the use and disposition by the Borrower of any part of the Project in the ordinary course of its business.

SECTION 4.8. DISPOSITION OF PROJECT REALTY BY BORROWER. (A) The Borrower shall not sell, assign, encumber (other than Permitted Encumbrances), convey or otherwise dispose of its interest in the Project Realty or any part thereof during the Term without the prior written consent of the Authority and the Bond Insurer, except as permitted hereby or by the Mortgage while the Mortgage is in effect.

(B) The Borrower may, however, grant such rights of way or easements over, across, or under, the Project Realty as shall be necessary or convenient for the operation or use of the Project Realty, including but not limited to easements or rights-of-way for utility, roadway, railroad or similar purposes in connection with the Project Realty, or for the use of the real property adjacent to or near the Project and owned by or leased to the Borrower, but only if such rights-of-way or easements shall not materially or adversely affect the value and operation of the Project Realty.

(C) In the event the Authority consents to any disposition of the Borrower's interest in the Project Realty, the proceeds of the disposition shall be deposited with the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter in the Redemption Account of the Debt Service Fund for the redemption of the Bonds under the Indenture. No conveyance or release effected under the provisions of this Section shall entitle the Borrower to any abatement or diminution of the amounts payable hereunder or under the Note, or relieve the Borrower of the obligation to perform all of its covenants and agreements under the Financing Documents.

SECTION 4.9. LEASING OF THE PROJECT REALTY AND THE PROJECT EQUIPMENT. The Borrower may not lease the Project Realty or the Project Equipment to any person during the Term of this Agreement without the prior written consent of the Authority, except as may be permitted by the Mortgage while the Mortgage is in effect. No lease shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any such lease the Borrower shall continue to remain primarily liable for payment of the applicable amounts specified in Article III hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it to the same extent as though no lease had been made.

SECTION 4.10. PROJECT EQUIPMENT. (A) The Borrower shall have the right to install, operate, use, remove and dispose of the Project Equipment in the normal and ordinary course of its business operations, and shall not be required to replace any item of Project Equipment which is discarded or sold for scrap. The Borrower shall not, however, either in one transaction or a series of transactions sell, convey, transfer, remove or otherwise dispose of more than 20% by value of the Project Equipment without prior notice to and the consent of the Authority, unless such Project Equipment is replaced by property of similar value and utility, provided that such dispositions may be made as permitted by the Mortgage while the Mortgage is in effect.

(B) The Borrower shall maintain with the Trustee separate and reasonably detailed descriptions of each item of property constituting the Project Equipment. Without limiting the foregoing, the Project Equipment list appended hereto at the date of execution and delivery of this Agreement shall be modified to the extent required by this Section in connection with any replacement of material items of Project Equipment under this Section or under Section 5.2 hereof.

**ARTICLE V
CONDEMNATION DAMAGE AND DESTRUCTION**

SECTION 5.1. NO ABATEMENT OF PAYMENTS HEREUNDER. If the Project Realty or Project Equipment shall be damaged or either partially or totally destroyed, or if title to or the temporary use of the whole or any part thereof shall be taken or condemned by a competent authority for any public use or purpose, there shall be no abatement or reduction in the amounts payable by the Borrower hereunder and the Borrower shall continue to be obligated to make such payments. In any such case the Borrower shall promptly give written notice thereof to the Authority and the Trustee.

SECTION 5.2. PROJECT DISPOSITION UPON CONDEMNATION, DAMAGE OR DESTRUCTION. In the event of any such condemnation, damage or destruction the Borrower, except as otherwise permitted or required by the Mortgage while the Mortgage is in effect shall:

(1) At its own cost, repair, restore or reconstruct the Project Realty and Project Equipment to substantially its condition immediately prior to such event or to a condition of at least equivalent value, regardless of whether or not the proceeds of any and all policies of insurance covering such damage or destruction, or the amount of the award or compensation or damages recovered on account of such taking or condemnation, shall be available or sufficient to pay the cost thereof;

(2) At its own cost, replace or relocate the Project Realty and Project Equipment at its site in such fashion as to render the replacement or relocated structures, improvements and items, machinery, equipment or other property of equivalent value to the Project Realty and Project Equipment immediately prior to such event; or

(3) If and as permitted by Section 8.1 hereof, exercise its option to prepay its loan obligation in full.

SECTION 5.3. APPLICATION OF NET PROCEEDS OF INSURANCE OR CONDEMNATION. (A) The Net Proceeds from any insurance or condemnation award with respect to the Project Realty or Project Equipment shall be deposited with the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter shall be deposited either (1) in the Renewal Fund and applied to pay for the cost of making such repairs, restorations, reconstructions, replacements or relocations, or to reimburse the Borrower, the Authority or the Trustee for payment therefor from time to time as provided in the Indenture or (2) if prepayment of the loan is then permitted and the Borrower exercises its option to prepay the loan, in the Debt Service Fund and applied to the payment of the Note and redemption of the Bonds.

(B) Notwithstanding the provisions of subsection (A) of this Section, any insurance or condemnation proceeds attributable to improvements, machinery, equipment and other property installed in or about the Project Realty and the Project Equipment, but which do not constitute a portion of the Project Realty and the Project Equipment, shall be paid directly to the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter as the Borrower may direct. The Trustee and the Authority agree to execute such documents as may be reasonably necessary to accomplish the purposes of this subsection.

(C) Subject to the applicable requirements of the Mortgage, the Borrower, the Authority and the Trustee shall cooperate and consult with each other in all matters pertaining to the settlement or adjustment of any and all claims and demands for damages on account of any taking or condemnation of the Project Realty or the Project Equipment or pertaining to the settlement, compromising or arbitration of any claim on account of any damage or destruction thereof.

ARTICLE VI COVENANTS

SECTION 6.1. THE BORROWER TO MAINTAIN ITS CORPORATE EXISTENCE; CONDITIONS UNDER WHICH EXCEPTIONS PERMITTED. (A) The Borrower covenants and agrees that, during the Term of this Agreement it will maintain its corporate existence, will continue to be a corporation either organized under the laws of or duly qualified to do business as a foreign corporation in the State and in all jurisdictions necessary in the operation of its business, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, except as permitted by the Mortgage while the Mortgage is in effect.

(B) The Borrower may, however, without violating the agreements contained in this Section, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entity and thereafter liquidate or dissolve, if (a) the Borrower is the surviving, resulting or transferee corporation, as the case may be, or (b) in the event the Borrower is not the surviving, resulting or transferee corporation, as the case may be, such corporation (i) is a solvent corporation either organized under the laws of or duly qualified to do business as a foreign corporation subject to service of process in the State and (ii) assumes in writing all of the obligations of the Borrower herein, and under the Note.

SECTION 6.2. Indemnification, Payment of Expenses, and Advances. (A) The Borrower agrees to protect, defend and hold harmless the Authority, the State, agencies of the State, members, servants, agents, directors, officers and employees, now or forever, of the Authority or the State (each an "Authority Indemnified Party"), the Trustee and the Paying Agent, agents, directors, officers and employees, now or forever, of the Trustee and the Paying Agent (each an "Indemnified Party"), from any claim, demand, suit, action or other proceeding and any liabilities, costs, and expenses whatsoever by any person or entity whatsoever, arising or purportedly arising from or in connection with the Financing Documents, the Indenture, the Bonds, or the transactions contemplated thereby or actions taken thereunder by any person (including without limitation the filing of any information, form or statement with the Internal Revenue Service, if applicable), except for any willful and material misrepresentation, willful misconduct or gross negligence on the part of the Indemnified Party or the Authority Indemnified Party or any bad faith on the part of any indemnitee other than an Authority Indemnified Party.

The Borrower agrees to indemnify and hold harmless any Indemnified Party against any and all claims, demands, suits, actions or other proceedings and all liabilities, costs and expenses whatsoever caused by any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in the written information provided by the Borrower in connection with the issuance of the Bonds or incorporated by reference therein or caused by any omission or alleged omission from such information of any material fact relating to the Borrower or the Project required to be stated therein or necessary in order to make the statements made therein in the light of the circumstances under which they were made, not misleading.

(B) The Authority and the Trustee shall not be liable for any damage or injury to the persons or property of the Borrower or its members, directors, officers, agents, servants or employees, or any other person who may be about the Project due to any act or omission of any person other than the Authority or the Trustee, respectively, or their respective members, directors, officers, agents, servants and employees.

(C) The Borrower releases each Indemnified Party from, agrees that no Indemnified Party shall be liable for, and agrees to hold each Indemnified Party harmless against, any reasonable attorney

fees and expenses, expenses or damages incurred because of any investigation, review or lawsuit commenced by the Trustee or the Authority in good faith with respect to the Financing Documents, the Indenture, the Bonds and the Project and the Authority or the Trustee, as the case may be, shall promptly give written notice to the Borrower with respect thereto.

(D) All covenants, stipulations, promises, agreements and obligations of the Authority and the Trustee contained herein shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and the Trustee and not of any member, director, officer or employee of the Authority or the Trustee in its individual capacity, and no recourse shall be had for the payment of the Bonds or for any claim based thereon or hereunder against any member, director, officer or employee of the Authority or the Trustee or any natural person executing the Bonds.

(E) In case any action shall be brought against one or more of the Indemnified Parties based upon any of the above and in respect of which indemnity may be sought against the Borrower, such Indemnified Party shall promptly notify the Borrower in writing, enclosing a copy of all papers served, but the omission so to notify the Borrower of any such action shall not relieve it of any liability which it may have to any Indemnified Party otherwise than under this Section 6.2. In case any such action shall be brought against any Indemnified Party and it shall notify the Borrower of the commencement thereof, the Borrower shall be entitled to participate in and, to the extent that it shall wish, to assume the defense thereof with counsel satisfactory to such Indemnified Party, and after notice from the Borrower to such Indemnified Party of the Borrower's election so to assume the defense thereof, the Borrower shall not be liable to such Indemnified Party for any subsequent legal or other expenses attributable to such defense, except as set forth below, other than reasonable costs of investigation subsequently incurred by such Indemnified Party in connection with the defense thereof. The Indemnified Party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the employment of counsel by such Indemnified Party has been authorized by the Borrower, (ii) the Indemnified Party shall have reasonably concluded that there may be a conflict of interest between the Borrower and the Indemnified Party in the conduct of the defense of such action (in which case the Borrower shall not have the right to direct the defense of such action on behalf of the Indemnified Party); or (iii) the Borrower shall not in fact have employed counsel satisfactory to the Indemnified Party to assume defense of such action.

(F) The Borrower also agrees to pay all reasonable or necessary out-of-pocket expenses of the Authority and the Trustee in connection with the issuance of the Bonds, the administration of the Financing Documents and the enforcement of its rights thereunder, including without limitation the costs of preparation and distribution of closing transcripts relating thereto.

(G) In the event the Borrower fails to pay any amount or perform any act under the Financing Documents, the Trustee or the Authority may pay the amount or perform the act, in which event the costs, disbursements, expenses and reasonable counsel fees and expenses thereof, together with interest thereon from the date the expense is paid or incurred at the prime interest rate publicly announced from time to time by the Trustee as a commercial bank plus 1% shall be an additional obligation hereunder payable upon demand by the Authority or the Trustee.

(H) The Borrower shall defend, indemnify, and hold the Authority, its agents, members, officers and employees, and the Trustee and its agents, directors, officers and employees, harmless from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise, related to or in connection with the Project, arising out of, or in any way related to,

(i) the presence, disposal, release, or threatened release of any hazardous materials, asbestos, petroleum or petroleum by-products which are on, from, or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise, except in

compliance with all applicable federal, State and local laws or regulations; (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to hazardous materials, asbestos, petroleum or petroleum by-products; (iii) any lawsuit brought or threatened, settlement reached, or government order relating to such hazardous materials, asbestos, petroleum or petroleum by-products and/or (iv) any violation of laws, orders, regulations, requirements or demand of government authorities or any policies or requirements of the Authority which are based upon or in any way related to such hazardous materials, asbestos, petroleum or petroleum by-products including, without limitation, reasonable attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses. Notwithstanding the foregoing, the Borrower shall have no obligation to defend, indemnify and hold harmless the Authority or the Trustee or their respective agents, members, officers or employees under this Section 6.2(H) in the event and to the extent that any such claims, demands, penalties, fines, liabilities, settlements, damages, costs or other expenses arise out of or result from the willful misconduct or gross negligence of the Authority or the Trustee or their respective agents, members, officers or employees. The provisions of this paragraph shall be in addition to any and all other obligations and liabilities the Borrower may have to the Authority or the Trustee at common law, and shall survive the termination of this Agreement.

(I) Any obligation of the Borrower to the Authority under this Section shall be separate from and independent of the other obligations of the Borrower hereunder, and may be enforced directly by the Authority against the Borrower, irrespective of any action taken by or on behalf of the owners of the Bonds.

(J) The obligations of the Borrower under this section, notwithstanding any other provisions contained in the Financing Documents, shall survive the termination of this Agreement and shall be recourse to the Borrower, and for the enforcement thereof any Indemnified Party shall have recourse to the general credit of the Borrower.

SECTION 6.3. INCORPORATION OF TAX REGULATORY AGREEMENT; PAYMENTS UPON TAXABILITY. (A) For purpose of this Section, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry System is in effect.

(B) The representations, warranties, covenants and statements of expectation of the Borrower set forth in the Tax Regulatory Agreement are by this reference incorporated in this Agreement as though fully set forth herein.

(C) If any owner of the Bonds receives from the Internal Revenue Service a notice of assessment and demand for payment with respect to interest on any Bond (except a notice and demand based upon the assertion that the owner of the Bonds is a Substantial User or Related Person), an appeal may be taken by the owner of the Bonds at the option of either the owner of the Bonds or the Borrower. In either case all expenses of the appeal including reasonable counsel fees and expenses shall be paid by the party taking such appeal, and the owner of the Bonds and the Borrower shall cooperate and consult with each other in all matters pertaining to any such appeal, except that no owner of the Bonds shall be required to disclose or furnish any non-publicly disclosed information, including, without limitation, financial information and tax returns.

(D) Not later than 180 days following a Determination of Taxability, the Borrower shall pay to the Trustee an amount sufficient, when added to the amount then in the Debt Service Fund and available for such purpose, to retire and redeem all Bonds then Outstanding, in accordance with Section 2.4 of the Indenture.

(E) The obligation of the Borrower to make the payments provided for in this Section shall be absolute and unconditional, and the failure of the Authority or the Trustee to execute or deliver or cause to be executed or delivered any documents or to take any action required under this Agreement or otherwise shall not relieve the Borrower of its obligation under this Section. Notwithstanding any other provision of this Agreement or the Indenture, the Borrower's obligations under this Section shall survive the termination of this Agreement and the Indenture.

(F) The occurrence of a Determination of Taxability shall not be an Event of Default hereunder but shall require only the performance of the obligations of the Borrower stated in this Section, the breach of which shall constitute an Event of Default as provided in Section 7.1 hereof.

SECTION 6.4. PUBLIC PURPOSE COVENANTS. (A) The Borrower covenants that it will operate the Project for the purposes and in a manner consistent with its application for assistance to the Authority. The Borrower further covenants and agrees that it will, throughout the term of this Agreement, (1) comply with all applicable laws, regulations, ordinances, rules, and orders relating to the Project as provided in the Financing Documents, (2) maintain the Project in accordance with the Financing Documents, (3) not cause or permit the Project to become or remain a public nuisance, (4) not allow any change in the nature of the occupancy, use or operation of the Project which is substantially inconsistent with the Borrower's application for assistance to the Authority, except that the Borrower may, after notice to the Authority, permit any such change which does not disqualify the Project as an authorized project under the Act as in effect on the date hereof, and (5) except as permitted hereunder, not sell, assign, convey, further lease, sublease or otherwise dispose of title to the Project without the prior written consent of the Authority. Nothing in this Section is intended to require the Borrower to operate the Project in such manner as, in the good faith judgment of the Borrower, shall materially and adversely impair the use and operation of the Project.

(B) A breach of any covenant contained in this Section shall constitute an Event of Default but, in order to relieve the Authority of the consequences of unanticipated failure of consideration, shall permit only the exercise by the Authority of the remedies provided in Section 7.3 hereof.

SECTION 6.5. FURTHER ASSURANCES AND CORRECTIVE INSTRUMENTS. The Authority and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project Realty or Project Equipment or for carrying out the intention of or facilitating the performance of this Agreement.

SECTION 6.6. COVENANT BY BORROWER AS TO COMPLIANCE WITH INDENTURE. The Borrower covenants and agrees that it will comply with the provisions of the Indenture with respect to the Borrower and that the Trustee and the Bondholders shall have the power and authority provided in the Indenture. The Borrower further agrees to aid in the furnishing to the Authority or the Trustee of opinions that may be required under the Indenture. The Borrower covenants and agrees that the Trustee shall be entitled to and shall have all the rights, including the right to enforce against the Borrower the provisions of the Financing Documents, pertaining to the Trustee notwithstanding the fact that the Trustee is not a party to the Financing Documents.

SECTION 6.7. ASSIGNMENT OF AGREEMENT OR NOTE. (A) The Borrower may not assign its rights, interests or obligations hereunder or under the Note except as may be permitted pursuant to Section 6.1(B) hereof.

(B) The Authority agrees that it will not assign or transfer any of the Financing Documents or the revenues and other receipts, funds and monies to be received thereunder during the Term except to the Trustee as provided in this Agreement and the Indenture.

SECTION 6.8. INSPECTION The Authority and its duly authorized agents shall have (1) the right at all reasonable times, and upon notice sufficient to permit the Borrower to take actions necessary to comply with any security regulations then in effect at the Project, to enter upon and to examine and inspect the Project Realty and the Project Equipment and (2) such rights of access thereto as may be reasonably necessary for the proper maintenance and repair thereof in the event of failure by the Borrower to perform its obligations under this Agreement. The Authority and the Trustee shall also be permitted, at all reasonable times, to examine the books and records of the Borrower with respect to the Project Realty and the Project Equipment.

SECTION 6.9. DEFAULT NOTIFICATION. Upon becoming aware of any condition or event which constitutes, or with the giving of notice or the passage of time would constitute, an Event of Default, the Borrower shall deliver to the Authority and the Trustee a notice stating the existence and nature thereof and specifying the corrective steps, if any, the Borrower is taking with respect thereto.

SECTION 6.10. COVENANT AGAINST DISCRIMINATION. (A) The Borrower in the performance of this Agreement will not discriminate or permit discrimination against any person or group of persons on the grounds of race, color, religion, national origin, age, sex, sexual orientation, marital status, physical or learning disability, political beliefs, mental retardation or history of mental disorder in any manner prohibited by the laws of the United States or of the State.

(B) The Borrower will comply with the provisions of the resolution adopted by the Authority on June 14, 1977, as amended, and the policy of the Authority implemented pursuant thereto concerning the promotion of equal employment opportunity through affirmative action plans. The resolution requires that all borrowers receiving financial assistance from the Authority adopt and implement an affirmative action plan prior to the closing of the loan. The plan shall be updated annually as long as the Bonds remain Outstanding.

SECTION 6.11. COVENANT TO PROVIDE DISCLOSURE. The Borrower hereby covenants and agrees that it will execute, comply with and carry out all of the provisions of the Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the provisions of the Disclosure Agreement shall not be considered an Event of Default hereunder; however, the Trustee may, subject to the provisions of Article IX of the Indenture (and, at the request of the underwriter for the Bonds or the Holders of at least 25% aggregate principal amount in Outstanding Bonds, shall), or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower to comply with its obligations under this Section 6.11. For purposes of this Section, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

SECTION 6.12. COVENANT AGAINST ISSUING ADDITIONAL DEBT SECURED BY THE MORTGAGE. The Borrower shall not issue any additional debt secured by the Mortgage unless the Bonds are equally and ratably secured by the Mortgage.

SECTION 6.13. ANNUAL REPORTING REQUIREMENTS. (A) The Borrower shall provide to the Bond Insurer as soon as available, but not later than 120 days after the end of the respective party's fiscal year, (i) the annual audited financial statements of Connecticut Water Service, Inc.; (ii) the annual budget for

the succeeding year for Connecticut Water Service, Inc.; and (iii) the annual (unaudited) financial statements of the Borrower.

(B) Simultaneously with the delivery of the Borrower's annual (unaudited) financial statements, the Borrower shall also deliver to the Bond Insurer a statement of:

(i) the number of system users as of the end of the fiscal year;

(ii) notification of the withdrawal of any system user comprising 5% or more of the system sales measured in terms of revenue dollars since the last reporting date;

(iii) any significant plant retirements or expansions planned or undertaken since the last reporting date;

(iv) maximum and average daily usage for the fiscal year;

(v) updated capital plans for expansion and improvement projects; and

(vi) results of annual engineering inspections, if any, occurring at the end of the fiscal year.

(C) The Borrower will permit the Bond Insurer to discuss the affairs, finances and accounts of the Borrower or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Borrower. The Borrower will permit the Bond Insurer to have access to the Project and have access to and make copies of all books and records relating to the Bonds at any reasonable time.

(D) The Borrower shall provide the Bond Insurer with such additional information as the Bond Insurer may reasonably request.

ARTICLE VII EVENTS OF DEFAULT AND REMEDIES

SECTION 7.1. EVENTS OF DEFAULT. Any one or more of the following shall constitute an "Event of Default" hereunder:

(1) Any material representation or warranty made by the Borrower in the Financing Documents or any certificate, statement, data or information furnished in writing to the Authority or the Trustee by the Borrower in connection with the closing of the Bonds or included by the Borrower in its application to the Authority for assistance proves at any time to have been incorrect in any material respect when made.

(2) Failure by the Borrower to pay any interest, principal or premium, if any, that has become due and payable with respect to the Bonds and the continuance of such failure for more than five (5) Business Days.

(3) Failure by the Borrower to pay any amount, other than principal interest or premium with respect to the Bonds, that has become due and payable with respect to the Bonds or any other amount due and payable pursuant to the Financing Documents and the continuance of such failure for more than thirty (30) Business Days.

(4) Failure by the Borrower to comply with the default notification provisions of Section 6.9 hereof.

(5) The occurrence of an "Event of Default" under Section 8.1(A) of the Indenture.

(6) Failure by the Borrower to observe or perform any covenant, condition or agreement hereunder or under the Financing Documents (other than the Disclosure Agreement) (except those referred to above and except as provided in Section 6.3(G) hereof with respect to the occurrence of a Determination of Taxability which, in and of itself, shall not constitute an Event of Default hereunder but shall require only the performance of the obligations of the Borrower stated in Section 6.3(G) hereof, the breach of which shall constitute an Event of Default hereunder) and (a) continuance of such failure for a period of sixty (60) days after receipt by the Borrower of written notice specifying the nature of such failure or (b) if by reason of the nature of such failure the same cannot be remedied within the sixty-day period, the Borrower fails to proceed with reasonable diligence after receipt of the notice to cure the failure.

(7) The Borrower shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, (b) admit in writing its inability to pay its debts generally as they become due, (c) make a general assignment for the benefit of creditors, (d) be adjudicated a bankrupt or insolvent, or (e) commence a voluntary case under the federal bankruptcy laws of the United States of America or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding; or corporate action shall be taken by it for the purpose of effecting any of the foregoing; or if without the application, approval or consent of the Borrower, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of the Borrower an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Borrower or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Borrower in good faith, the same shall continue undismissed, or pending and unstayed, for any period of 75 consecutive days.

(8) Failure by the Borrower to make when due any payment of principal or interest required under the provisions of any loan agreement (after the expiration of any applicable grace periods) to which the Authority and the Borrower are parties.

SECTION 7.2. REMEDIES ON DEFAULT. (A) Except as provided in Section 6.4(B) hereof, whenever any Event of Default shall have occurred, the Trustee, or the Authority where so provided herein, may take any one or more of the following actions:

(1) The Trustee, as and to the extent provided in Article VIII of the Indenture, may cause all amounts payable under the Financing Documents to be immediately due and payable without notice or demand of any kind, whereupon the same shall become immediately due and payable.

(2) The Authority, without the consent of the Trustee or any Bondholder, may proceed to enforce the obligations of the Borrower to the Authority under this Agreement.

(3) The Trustee may take whatever action at law or in equity it may have to collect the amounts then due and thereafter to become due, or to enforce the performance or observance of the obligations, agreements, and covenants of the Borrower under the Financing Documents.

(4) The Trustee may exercise any and all rights it may have under the Financing Documents.

(B) In the event that any Event of Default or any proceeding taken by the Authority (or by the Trustee on behalf of the Authority) thereon shall be waived or determined adversely to the Authority, then the Event of Default shall be annulled and the Authority and the Borrower shall be restored to their former rights hereunder, but no such waiver or determination shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 7.3. REMEDIES ON PUBLIC PURPOSE DEFAULT. (A) If the Borrower shall default in the performance of any of the covenants contained in Section 6.4 hereof, and in the event that such default shall also constitute an Event of Default under Section 7.1 hereof, such Event of Default shall continue for thirty (30) days without the Trustee or Bondholders instituting the remedial steps provided for in subsection 7.2 (A)(1) hereof or subsection 8.1(B) of the Indenture, then, in either case, the Authority may, so long as such Event of Default is continuing, send a notice to the Trustee calling for the acceleration of all of the Borrower's obligations under the Financing Documents and for the redemption of all of the Bonds then Outstanding. Any such notice shall set forth in reasonable detail the default by the Borrower giving rise thereto and shall specify the date upon which (1) notice of Bond redemption is to be given by the Trustee (which shall be not less than one hundred twenty days from the date of the Authority's determination notice) and (2) the redemption of the Bonds is to occur (which shall be at least thirty (30) days after notice of redemption is given by the Trustee). Within thirty (30) days following receipt of the notice, the Trustee shall forward a copy thereof to the Borrower and each registered Bondholder, together with a copy of Sections 6.4 and 7.3 of this Agreement.

(B) If, within sixty (60) days after the mailing of notice by the Trustee to the Borrower and the Bondholders, the Trustee receives no objection (as hereinbelow provided) to such redemption, the Trustee shall give such notice and effect the acceleration of the Borrower's obligations and the redemption of all Outstanding Bonds in accordance with the Authority's notice and pursuant to Section 2.4 (D) of the Indenture. If, however, the Borrower or any Bondholder disputes the existence of such Event of Default, the Borrower or such Bondholder shall mail a notice to the Authority and the Trustee containing a statement of such person's belief with respect to the claimed default. The receipt of such notice by the Trustee shall serve to suspend the proceedings for redemption of Bonds initiated by the Authority's notice of default.

(C) If upon receipt of such notice from the Borrower or any Bondholder, the Authority determines to affirm its earlier determination, either the Borrower or any Bondholder shall have the right to bring an action in any court of competent jurisdiction to enjoin the proceedings for the redemption of such Bonds, and during the pendency of any such action the redemption proceedings shall be suspended. Neither the Authority, the Borrower nor any Bondholder shall be responsible for any costs, fees, expenses, or reasonable counsel fees incurred by any other party in connection with any such action, other than the Trustee (whose costs, fees and expenses shall be paid by the Borrower). In the event the Authority is successful in such a proceeding, and a final judgment is rendered which is not appealable or appealed within sixty (60) days thereafter finding the Borrower in default under Section 6.4 hereof, the Trustee shall, promptly upon receipt of notice from the Authority of the entry of the decision, give notice of the redemption of all Outstanding Bonds under Section 6.3 of the Indenture, and redeem all such Bonds upon the date fixed for redemption in the notice (which shall be no more than thirty-five (35) days after the notice is given). In the event the Borrower or such Bondholders are successful in such a

proceeding, and a final judgment is rendered which is not appealable or appealed within sixty (60) days thereafter finding the Borrower not to be in default under Section 6.4 hereof, all proceedings for the redemption of Bonds commenced under this Section shall be terminated. No such judgment, however, shall prejudice the exercise of the Authority's rights under this Section upon the occurrence of such subsequent failure of performance under Section 6.4 hereof.

(D) Within fifteen (15) days of the date the Trustee gives notice of any redemption of Bonds pursuant to Section 7.3(B) above and subject to the last sentence of Section 7.3(B) above, the Borrower shall pay as a final loan payment a sum sufficient, together with other funds on deposit with the Trustee and available for such purpose, to redeem all Bonds then Outstanding under the Indenture at 100% of the principal amount thereof plus accrued interest to the redemption date. The Borrower shall also pay or provide for all reasonable and necessary fees and expenses of the Trustee and any Paying Agent accrued and to accrue through the date of redemption of all such Bonds.

(E) Nothing contained in this Section shall be deemed to prevent the Authority or the Borrower from seeking equitable relief if it asserts or disputes, as the case may be, the existence of an event of a public purpose default.

SECTION 7.4. NO DUTY TO MITIGATE DAMAGES. Unless otherwise required by law, neither the Authority, the Trustee nor any Bondholder shall be obligated to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Borrower if an Event of Default shall occur.

SECTION 7.5. REMEDIES CUMULATIVE. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies but each and every such remedy shall be cumulative and shall be in addition to every remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. Delay or omission to exercise any right or power accruing upon any default or failure by the Authority or the Trustee to insist upon the strict performance of any of the covenants and agreements herein set forth or to exercise any rights or remedies upon default by the Borrower hereunder shall not impair any such right or power or be considered or taken as a waiver or relinquishment for the future of the right to insist upon and to enforce, by injunction or other appropriate legal or equitable remedy, strict compliance by the Borrower with all of the covenants and conditions hereof, or of the right to exercise any such rights or remedies, if such default by the Borrower be continued or repeated.

**ARTICLE VIII
PREPAYMENT PROVISIONS**

SECTION 8.1. OPTIONAL PREPAYMENT. (A) The Borrower shall have, and is hereby granted, the option to prepay its loan obligation at any time, and from time to time, on or after December 15, 2008 and to cause the corresponding optional redemption of the Bonds pursuant to Section 2.4(A) of the Indenture at such times, in such amounts, and with such premium, if any, for such optional redemption as set forth in the form of the Bond, by delivering a written notice to the Trustee in accordance with Section 8.2 hereof, with a copy to the Authority, setting forth the amount to be prepaid, the amount of Bonds requested to be redeemed with the proceeds of such prepayment, and the date on which such Bonds are to be redeemed. Such prepayment must be sufficient to provide monies for the payment of interest and Redemption Price in accordance with the terms of the Bonds requested to be redeemed with such prepayment and all other amounts then due under the Financing Documents. In the event of any complete prepayment of its loan obligation, the Borrower shall, at the time of such prepayment, also pay or provide for the payment of all reasonable or necessary fees and expenses of the Authority, the Trustee and the Paying Agent accrued and to accrue through the final payment of all the Bonds. Any such prepayments shall be applied to the redemption of Bonds in the manner provided in Section 6.2 of the Indenture, and credited against payments due hereunder in the same manner.

(B) The Borrower shall have, and is hereby granted, the option to prepay its loan obligation in full at any time without premium if any of the following events shall have occurred, as evidenced in each case by the filing with the Trustee of a certificate of an Authorized Representative of the Borrower to the effect that one of such events has occurred and is continuing, and describing the same:

(1) The Project shall have been damaged or destroyed to such extent that (a) the Project cannot be reasonably restored within a period of six (6) months from the date of such damage or destruction to the condition thereof immediately preceding such damage or destruction, or (b) the Borrower is thereby prevented or likely to be prevented from carrying on its normal operation of the Project for a period of six (6) months from the date of such damage or destruction.

(2) Title to or the temporary use of all or substantially all of the Project shall have been taken or condemned by a competent authority, which taking or condemnation results or is likely to result in the Borrower being thereby prevented or likely to be prevented from carrying on its normal operation of the Project for a period of six (6) months.

(3) A change in the Constitution of the State or of the United States of America or legislative or executive action (whether local, state, or federal) or a final decree, judgment or order of any court or administrative body (whether local, state, or federal) that causes this Agreement to become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed herein or, imposes unreasonable burdens or excessive liabilities upon the Borrower with respect to the Project or the operation thereof.

(4) The operation of any of the Project shall have been enjoined or shall otherwise have been prohibited by any order, decree, rule or regulation of any court or of any local, state, or federal regulatory body, administrative agency or other governmental body for a period of not less than six months.

(5) Changes in the economic availability of raw materials, operating supplies or facilities necessary for the operation of the Project or technological or other changes shall have occurred which the Borrower cannot reasonably overcome or control and which in the

Borrower's reasonable judgment renders the Project unsuitable or uneconomic for the purposes herein specified or any tax shall be levied upon payments due under the Note in an amount which the Borrower in its reasonable judgment believes imposes an unreasonable burden upon the Borrower.

In any such case the final loan payment shall be a sum sufficient, together with other funds deposited with Trustee and available for such purpose, to redeem all Bonds then Outstanding under the Indenture at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date and all other amounts then due under the Financing Documents, and the Borrower shall also pay or provide for all reasonable or necessary fees and expenses of the Authority, the Trustee and Paying Agent accrued and to accrue through final payment for the Bonds. The Borrower shall deliver a written notice to the Trustee, with a copy to the Authority, requesting the redemption of the Bonds under the Indenture, which notice shall have attached thereto the applicable certificate of the Authorized Representative of the Borrower.

SECTION 8.2. NOTICES AND SOURCES OF PREPAYMENT. To exercise any options granted in this Article, or to consummate the acceleration of the loan payments as set forth in this Article, the written notice to the Trustee shall be signed by an Authorized Representative of the Borrower and shall specify therein the date of prepayment, which date shall be not less than thirty-five days nor more than ninety days from the date the notice is mailed. A duplicate copy of any written notice hereunder shall also be filed with the Authority by the Borrower.

SECTION 8.3. MANDATORY PREPAYMENT ON TAXABILITY. The Borrower shall pay or cause the prepayment of its loan obligation following a Determination of Taxability in the manner provided in Section 6.3 of this Agreement.

SECTION 8.4. MANDATORY PREPAYMENT FOR DECEASED BONDHOLDER REDEMPTION. The Borrower is unconditionally obligated, upon its receipt of notice from the Trustee pursuant to Section 2.4(D) of the Indenture, to prepay its loan obligation in amounts sufficient to permit redemption of Bonds eligible for redemption as specified in Section 2.4(D) of the Indenture. Any such prepayments shall be made not later than the date of such redemption and applied to the redemption of Bonds in the manner provided in Section 2.4(D) of the Indenture, and credited against payments due hereunder.

**ARTICLE IX
GENERAL**

SECTION 9.1. INDENTURE. (A) Monies received from the sale of the Bonds and all loan payments made by the Borrower and all other monies received by the Authority or the Trustee under the Financing Documents shall be applied solely and exclusively in the manner and for the purposes expressed and specified in the Indenture and in the Bonds and as provided in this Agreement.

(B) The Borrower shall have and may exercise all the rights, powers and authority given the Borrower in the Indenture and in the Bonds, and the Indenture and the Bonds shall not be modified, altered or amended in any manner which adversely affects such rights, powers and authority or otherwise adversely affects the Borrower without the prior written consent of the Borrower.

SECTION 9.2. BENEFIT OF AND ENFORCEMENT BY BONDHOLDERS. The Authority and the Borrower agree that this Agreement is executed in part to induce the purchase by others of the Bonds and for the further securing of the Bonds, and accordingly that all covenants and agreements on the part of the Authority and the Borrower as to the amounts payable with respect to the Bonds hereunder are hereby declared to be for the benefit of the holders from time to time of the Bonds and may be enforced as provided in the Indenture on behalf of the Bondholders by the Trustee.

SECTION 9.3. FORCE MAJEURE. In case by reason of force majeure either party hereto shall be rendered unable wholly or in part to carry out its obligations under this Agreement, then except as otherwise expressly provided in this Agreement, if such party shall give notice and full particulars of such force majeure in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligations of the party giving such notice, other than the obligation of the Borrower to make the payments required under the terms hereof or of the Note, so far as they are affected by such force majeure, shall be suspended during the continuance of the inability then claimed which shall include a reasonable time for the removal of the effect thereof, but for no longer period, and such parties shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure", as employed herein, means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, orders of any kind of the Government of the United States, of the State or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, volcanoes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of existing or impending strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party having the difficulty and that the above requirements that any force majeure shall be reasonably beyond the control of the party and shall be remedied with all reasonable dispatch shall be deemed to be fulfilled even though such existing or impending strikes, lockouts and other industrial disturbances may not be settled and could have been settled by acceding to the demands of the opposing person or persons.

SECTION 9.4. AMENDMENTS. This Agreement may be amended only with the concurring written consent of the Trustee and, if required by the Indenture, of the owners of the Bonds given in accordance with the provisions of the Indenture.

SECTION 9.5. NOTICES. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or when mailed by registered or certified mail, postage prepaid, addressed as follows: if to the Authority, at 999 West Street, Rocky Hill, Connecticut 06067, Attention: Program Manager - Loan Administration; if to the Borrower, 93 Main Street, Clinton, Connecticut 06413 Attention: Vice President-Chief Financial Officer and Treasurer; if to

the Paying Agent, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Department; if to the Trustee, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Administration; and if to the Bond Insurer, 1221 Avenue of the Americas, New York, New York 10020, Attention: Surveillance. A duplicate copy of each notice, certificate or other communication given hereunder by either the Authority or the Borrower to the other shall also be given to the Trustee and the Bond Insurer. In addition, copies of all amendments to this Agreement which are consented to by the Bond Insurer shall be sent to S&P. The Authority, the Borrower, the Paying Agent, the Trustee and the Bond Insurer may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.6. PRIOR AGREEMENTS SUPERSEDED. This Agreement, together with all agreements executed by the parties concurrently herewith or in conjunction with the sale of the Bonds, shall completely and fully supersede all other prior understandings or agreements, both written and oral, between the Authority and the Borrower relating to the lending of money and the Project, including those contained in any commitment letter executed in anticipation of the issuance of the Bonds but excluding agreements entered into in connection with the financing of the Project with other bonds previously issued by the Authority.

SECTION 9.7. EXECUTION OF COUNTERPARTS This Agreement may be executed simultaneously in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9.8. TIME. All references to times of day in this Agreement are references to New York City time.

SECTION 9.9. SEPARABILITY OF INVALID PROVISIONS. In case any one or more of the provisions contained in this Agreement or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

SECTION 9.10. THIRD PARTY BENEFICIARIES. The Authority and the Borrower agree that the Trustee, the Paying Agent and the Bond Insurer shall be third party beneficiaries of this Agreement to the extent that any of the provisions hereof relate to or provide rights to the Trustee, the Paying Agent or the Bond Insurer.

SECTION 9.11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut, without reference to its choice of law principles.

IN WITNESS WHEREOF, the Authority has caused this Agreement to be executed in its corporate name by a duly Authorized Representative, and the Borrower has caused this Agreement to be executed in its corporate name by its duly authorized officer all as of the date first above written.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Name: Francis T. Gagliardo
Authorized Representative

THE CONNECTICUT WATER COMPANY

By _____
Name: David C. Benoit
Title: Vice President Finance and
Chief Financial Officer

APPENDIX A

THE CONNECTICUT WATER COMPANY

**FORM OF
PROMISSORY NOTE
2003A SERIES**

No. 1 \$8,000,000

The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut (the "Borrower"), for value received, hereby promises to pay to the order of the Connecticut Development Authority (the "Authority"), the principal sum of \$8,000,000.00 together with interest on the unpaid principal balance thereof from the date hereof until fully and finally paid, on the applicable Interest Payment Dates together with all taxes levied or assessed on this Note or the debt evidenced hereby against the holder hereof. This Note shall bear interest at the rate of interest borne by the Bonds referred to below.

This Note has been executed under and pursuant to a Loan Agreement, dated as of October 1, 2003, between the Authority and the Borrower (the "Agreement"). This Note is issued to evidence the obligation of the Borrower under the Agreement to repay the loan made by the Authority from the proceeds of its \$8,000,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) (the "Bonds"), together with interest thereon and all other amounts, fees, penalties, premiums, adjustments, expenses, reasonable counsel fees and other payments of any kind required to be paid by the Borrower under the Agreement. The Agreement includes provision for mandatory and optional prepayment of this Note as a whole or in part. Advances made pursuant to Section 6.2 of the Agreement shall bear interest at the rate specified in accordance therewith.

The Agreement and this Note (hereinafter, together with the Tax Regulatory Agreement, collectively referred to as the "Financing Documents") have been assigned to U.S. Bank National Association (the "Trustee") acting pursuant to an Indenture of Trust, dated as of October 1, 2003 (the "Indenture"), between the Authority and the Trustee. Such assignment is made as security for the payment of the Bonds issued by the Authority pursuant to the Indenture.

As provided in the Agreement and subject to the provisions thereof, payments hereon are to be made at the corporate trust office of U.S. Bank National Association in Hartford, Connecticut, or at the office designated for such payment by any successor trustee in an amount which, together with other moneys available therefor pursuant to the Indenture, will equal the amount payable as principal or Redemption Price, if any, of and interest on the Bonds outstanding under the Indenture on each such due date.

The Borrower shall make payments on this Note on the dates and in the amounts specified herein and in the Agreement and in addition shall make such other payments as are required pursuant to the Financing Documents, the Indenture and the Bonds. Upon the occurrence of an Event of Default, as defined in any of the Financing Documents, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement. Upon any such declaration the Borrower shall pay all cost, disbursements, expenses and reasonable counsel fees of the Authority and the Trustee in seeking to enforce their rights under any of the Financing Documents.

THE BORROWER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES ITS RIGHTS TO NOTICE AND HEARING UNDER CHAPTER 903a OF THE CONNECTICUT GENERAL STATUTES, OR AS OTHERWISE ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER HEREOF MAY DESIRE TO USE. The Borrower further (1) waives diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, notice of any renewals or extension of this Note, and all rights under any statute of limitations, (2) agrees that the time for payment of this Note may be changed and extended in accordance with the provisions of the Indenture, and (3) consents to the release of all or any part of the security for the payment thereof at the discretion of the Trustee or the release of any party liable for this obligation without affecting the liability of the other parties hereto. Any delay on the part of the Authority or the Trustee in exercising any right hereunder shall not operate as a waiver of any such right, and any waiver granted with respect to one default shall not operate as a waiver in the event of any subsequent default.

IN WITNESS WHEREOF, The Connecticut Water Company has caused this Note to be executed in its corporate name by its duly authorized officer, dated October 30, 2003.

THE CONNECTICUT WATER COMPANY

By: _____
Name:
Authorized Representative

AUTHORITY ENDORSEMENT

Pay to the order of U.S. Bank National Association, as Trustee, without recourse.

CONNECTICUT DEVELOPMENT AUTHORITY

By: _____
Name: Francis T. Gagliardo
Authorized Representative

APPENDIX B

DESCRIPTION OF PROJECT REALTY

[TO COME]

APPENDIX C

DESCRIPTION OF PROJECT EQUIPMENT

[TO COME]

CONNECTICUT DEVELOPMENT AUTHORITY

TO

**U.S. BANK NATIONAL ASSOCIATION,
AS TRUSTEE**

INDENTURE OF TRUST

DATED AS OF OCTOBER 1, 2003

**CONNECTICUT DEVELOPMENT AUTHORITY
\$8,000,000 WATER FACILITIES REFUNDING REVENUE BONDS
(THE CONNECTICUT WATER COMPANY PROJECT - 2003A SERIES)**

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THIS INDENTURE OF TRUST, made and dated as of October 1, 2003, by and between the CONNECTICUT DEVELOPMENT AUTHORITY, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America, with a corporate trust office located in Hartford, Connecticut, as Trustee,

WITNESSETH THAT:

WHEREAS, the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended (the "Act"), declares that there is a continuing need in the State (1) for industrial development and activity to provide and maintain employment and tax revenues and to control, abate and prevent pollution to protect the public health and safety, (2) for the development of recreation facilities to promote tourism, provide and maintain employment and tax revenues, and promote the public welfare, (3) for the development of commercial and retail sales and service facilities in urban areas to provide and maintain construction and permanent employment and tax revenues, to improve conditions of deteriorated physical development, slow economic growth and eroded financial health of the public and private sectors in urban areas and to revitalize the economy of urban areas, and (4) for assistance to public service businesses providing transportation and utility services in the State, and that the availability of financial assistance and suitable facilities are important inducements to industrial and commercial enterprises to remain or locate in the State and to provide industrial, recreation, urban and public service projects; and

WHEREAS, the Act provides that (1) the term "project" as used therein means any facility, plant, works, system, building, structure, utility, fixture or other real property improvement located in the State, and the land on which it is located or which is reasonably necessary in connection therewith, which is of a nature or which is to be used or occupied by any person for purposes which would constitute it as an economic development project, recreation project, urban project, public service project or health care project, and any real property improvement reasonably related thereto, and (2) a project may also include or consist exclusively of machinery, equipment or fixtures; and

WHEREAS, the Act provides that the Authority shall have power to determine the location and character of, and extend credit or make loans to any person for the planning, designing, acquiring, improving and equipping of, a project which may be secured by loan, lease or sale agreements, contracts and other instruments, upon such terms and conditions as the Authority shall determine to be reasonable, to require the inclusion in any contract, loan agreement or other instrument of such provisions for the construction, use, operation, maintenance and financing of the project as the Authority may deem necessary or desirable, to issue its bonds for such purposes, subject to the approval of the Treasurer of the State, and, as security for the payment of the principal or redemption price, if any, of and interest on any such bonds, to pledge or assign such a loan, lease or sale agreement and the revenues and receipts derived by the Authority from such a project; and

WHEREAS, the Authority has heretofore issued and sold \$8,000,000 of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series) (all of which were outstanding as of the date of this Indenture) (the "Prior Obligations"), the proceeds of which were used to refund in full the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1983 Series), the proceeds of which were used to finance various capital improvements constituting a portion of the Borrower's existing water system (the "Project"); and

WHEREAS, the Authority has by a resolution adopted on June 18, 2003 authorized the issuance of \$8,000,000 principal amount of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company - 2003A Series) for the purpose of refunding in full the Prior Obligations; and

WHEREAS, the Authority has determined that the issuance, sale and delivery of the Bonds, as hereinafter provided, is needed to refinance the cost of the Project, and concurrently herewith the Authority and the Borrower have entered into a Loan Agreement, dated as of October 1, 2003, providing for a loan by the Authority to the Borrower for such purpose in an amount equal to the principal amount of the Bonds; and

WHEREAS, the Connecticut Department of Public Utility Control (the "DPUC") has approved the issuance of the Note; and

WHEREAS, the Bonds shall be special obligations of the Authority, payable solely out of the revenues and other receipts, funds or monies derived by the Authority under the Agreement or the Indenture and from any amounts otherwise available under this Indenture for the payment of the Bonds; and

WHEREAS, the Bonds are to be originally issued as fully registered bonds and such Bonds and the Trustee's certificate of authentication to be endorsed thereon shall be in substantially the following form, with appropriate variations, omissions and insertions as permitted or required by this Indenture, to wit:

[FORM OF BOND]

No. R- \$

NEITHER THE STATE OF CONNECTICUT NOR ANY MUNICIPALITY THEREOF IS OBLIGATED TO PAY, AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE OF CONNECTICUT NOR ANY MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF, THE PRINCIPAL, PREMIUM, IF ANY, OF OR INTEREST ON THIS BOND.

XL CAPITAL ASSURANCE INC. (THE "BOND INSURER"), NEW YORK, NEW YORK, HAS DELIVERED ITS MUNICIPAL BOND INSURANCE POLICY (THE "BOND INSURANCE POLICY") WITH RESPECT TO THE SCHEDULED PAYMENTS DUE OF PRINCIPAL OF, AND INTEREST ON, THIS BOND TO U.S. BANK NATIONAL ASSOCIATION OR ITS SUCCESSOR, AS PAYING AGENT FOR THE BONDS (THE "PAYING AGENT"). SAID BOND INSURANCE POLICY IS ON FILE AND AVAILABLE FOR INSPECTION AT THE PRINCIPAL OFFICE OF THE PAYING AGENT AND A COPY THEREOF MAY BE OBTAINED FROM THE BOND INSURER OR THE PAYING AGENT.

**CONNECTICUT DEVELOPMENT AUTHORITY
WATER FACILITIES REFUNDING REVENUE BOND
(THE CONNECTICUT WATER COMPANY PROJECT - 2003A SERIES)**

BOND DATE: October 1, 2003

MATURITY DATE: December 15, 2020

INTEREST PAYMENT DATES: June 15 and December 15

INTEREST RATE: %

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \$8,000,000.00***

CUSIP NUMBER:

CONNECTICUT DEVELOPMENT AUTHORITY (the "Authority"), a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut (the "State"), for value received, hereby promises to pay to the REGISTERED OWNER or registered assigns, on the MATURITY DATE, solely from the sources and in the manner hereinafter provided, upon presentation and surrender hereof, in lawful money of the United States of America, the PRINCIPAL AMOUNT and in like manner to pay interest on the unpaid principal balance thereof until the Authority's obligation with respect to the payment of such sum shall be discharged. Interest shall be payable (computed on the basis of a 360-day year consisting of twelve 30-day months) from the most recent INTEREST PAYMENT DATE, to which interest has been paid or duly provided for or, if no interest has been paid, from the DATE OF THIS BOND at the INTEREST RATE per annum, payable semi-annually on the INTEREST PAYMENT DATES until the date on which this bond becomes due, whether at maturity or by acceleration or redemption. From and after that date, any unpaid principal will bear interest at the same rate until paid or duly provided for.

Payment of Principal and Interest. The principal and premium, if any, of this Bond is payable to the REGISTERED OWNER hereof but only upon presentation and surrender of this bond at the corporate trust office of U.S. Bank National Association, as Paying Agent (with its successors, the "Paying Agent"). Interest is payable by check or draft mailed by the Paying Agent to the REGISTERED OWNER of this bond (or of one or more predecessor or successor Bonds (as defined below)), determined as of the close of business on the applicable record date, at its address as shown on the registration books maintained by the Paying Agent. If any payment, redemption or maturity date for principal, premium or interest shall not be a Business Day then the payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the specified payment date and no interest shall accrue for the period after the specified payment date. Payment shall be in any coin or currency of the United States of America, which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts.

The record date for payment of interest is the first day of the month in which the interest is to be paid, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an INTEREST PAYMENT DATE or interest on any overdue amount, the Trustee (as defined below) may establish a special record date. The special record date may be not more than thirty (30) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners of the Bonds (the "Bondholders") at least ten (10) days before the special record date. The Paying Agent will promptly certify to the Authority and the Trustee that it has mailed such notice to all Bondholders, and such certificate will be conclusive evidence that such notice was given in the manner required hereby.

Authorization and Purpose. This bond is one of an authorized issue of Bonds of the Authority in the aggregate principal amount of \$8,000,000 designated: Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) (the "Bonds") which are issued for the purpose of refunding in full the Authority's \$8,000,000 aggregate principal amount of Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series) (the "Prior Obligations"), which were issued for the purpose of refunding in full the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1983 Series), which were issued for the purpose of financing various capital improvements constituting a portion of the Borrower's existing water system (the "Project"), for the benefit of The Connecticut Water Company (the "Borrower"), a corporation organized and existing under the laws of the State of Connecticut, and paying necessary expenses incidental thereto. The Bonds are issued pursuant to the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended, a resolution adopted by the Authority on June 18, 2003 and an Indenture of Trust, dated as of October 1, 2003 (which Indenture as from time to time amended and supplemented is herein referred to as the "Indenture"), duly executed and delivered by the Authority to U.S. Bank National Association, as trustee (with its successors, the "Trustee"), and are equally and ratably secured by and entitled to the protection of the Indenture, which is on file in the office of the Trustee.

Pledge and Security. Pursuant to the Indenture, the Authority has assigned to the Trustee all of its right, title and interest in and to a Loan Agreement, dated as of October 1, 2003, as it may be amended or supplemented from time to time (the "Agreement"), between the Authority and the Borrower, and the Note evidencing the Borrower's obligations under the Agreement (except for certain enforcement and indemnification rights which are reserved in the Indenture), including all rights to receive loan payments sufficient to pay the principal or premium if any, of and interest and all other amounts due on the Bonds as the same become due, to be made by the Borrower pursuant to the Agreement. The Agreement sets forth the terms and conditions under which the Authority will provide for the refinancing of the Project and under which the Borrower will use and occupy the Project and make loan payments to the Authority in such amounts as are necessary to pay the principal of, premium if any, and interest on the Bonds. Reference is hereby made to the Indenture for the definition of any capitalized word or term used but not

defined herein and for a description of the property pledged, assigned and otherwise available for the payment of the Bonds, the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Authority, the Trustee and the owners of the Bonds, and the terms upon which the Bonds are issued and secured, and the holders of the Bonds are deemed to assent to the provisions of the Indenture by the acceptance of this bond.

Event of Default. In case any Event of Default occurs and is continuing, the principal amount of this bond together with accrued interest may be declared due and payable in the manner and with the effect provided in the Indenture.

General Optional Redemption. The Bonds are subject to redemption prior to maturity from time to time pursuant to the Indenture at the option of the Authority, which option shall be exercised at the direction of the Borrower, as a whole or in part on any date on or after December 15, 2008, at the Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

Extraordinary Optional Redemption. In addition, at the option of the Authority, which option shall be exercised upon the giving of notice by the Borrower of its intention to prepay amounts due under the Agreement, the Bonds are subject to redemption prior to maturity as a whole on any date at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, if any one or more of the events of casualty to or condemnation of the Project or change in law or certain economic events affecting the Project specified in subsection 8.1(B) of the Agreement shall have occurred, as evidenced in each case by the filing of a certificate of an Authorized Representative of the Borrower.

Mandatory Taxability Redemption. In the event of a Determination of Taxability, the Bonds shall be redeemed on any day selected by the Borrower that is not more than 180 days after the occurrence of such Determination of Taxability as provided in the Indenture, at the Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption. Redemption under this paragraph shall be in whole unless not less than forty-five (45) days prior to the redemption date the Borrower delivers to the Trustee an opinion of Bond Counsel reasonably satisfactory to the Trustee to the effect that a redemption of less than all of the Bonds will preserve the tax-exempt status of interest on the remaining Bonds outstanding subsequent to such redemption.

Deceased Bondholder Redemptions. For purposes of this section only, the owner of a Bond shall mean the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect.

Notwithstanding the foregoing redemption provisions, the estate of, successor in interest to and, in the case of jointly held Bonds (whether by joint tenancy, tenancy in common or tenancy by the entirety) any surviving joint owner may, within two years of the date of death of a deceased owner, request the redemption of Bonds of which such deceased owner on the date of his or her death was an owner or joint owner ("Deceased Owner Bonds"), and the Authority will redeem such Bonds within 60 days of receipt by the Trustee of such request at a Redemption Price of 100% of the principal amount thereof plus accrued interest to the date of redemption in the manner and as provided in Article VI of the Indenture, subject to the following limitations: (i) the Authority shall not be obligated to redeem any Deceased Owner Bonds prior to September 1, 2005:

(ii) the maximum aggregate principal amount of Deceased Owner Bonds that the Authority shall be required to redeem during each 12-month period commencing September 1, 2005 and each September 1 thereafter through maturity of the Bonds is \$450,000; (iii) during any such 12-month period, the Authority shall not be required to redeem in excess of \$25,000 aggregate principal amount of Deceased Owner Bonds with respect to any one deceased owner, and (iv) such Deceased Owner Bonds had been held by such owner for at least six months prior to his or her death. A request for redemption of Deceased Owner Bonds shall be made by the executor of

the estate of or successor in interest to the deceased owner or, in the case of jointly owned Bonds, by any joint owner surviving the deceased owner, in writing, in form satisfactory to the Trustee, signed by the person requesting redemption or such person's legal representative, with such signature guarantees, evidences of due authorization to make such request for redemption, evidence of death of the deceased owner and ownership of such Bond(s) at the time of death, evidence of tax waivers and such other evidence as the Trustee may require under the Indenture. A request for redemption shall specify the Bonds to be redeemed. Subject to the limitations herein provided, requests for redemption shall be accepted and honored by the Trustee in the order of receipt of such requests by the Trustee. Upon the receipt by the requesting party of notice from the Trustee in accordance with Article VI of the Indenture that the Bonds with respect to which a request for redemption has been made are eligible for redemption and shall be redeemed, such Bonds shall be tendered to the Trustee no later than the date set for redemption. Any request for redemption may be withdrawn at any time prior to the Trustee's sending notice of redemption pursuant to the Indenture; after notice of redemption is sent, a request for redemption is irrevocable.

Selection of Bonds to be Redeemed. If less than all of the Outstanding Bonds are to be called for redemption, the Bonds (or portions thereof) to be redeemed shall be selected as provided in the Indenture.

Notice of Redemption. In the event this bond is selected for redemption, notice (which notice may state that it is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption and which notice shall be of no effect unless such moneys are so received on or before such date) will be mailed no more than forty-five (45) days nor less than thirty (30) days prior to the redemption date to the REGISTERED OWNER at its address shown on the registration books maintained by the Paying Agent. Failure to mail notice to the owner of any other Bond or any defect in the notice to such an owner shall not affect the redemption of this bond.

If this bond is of a denomination in excess of five thousand dollars (\$5,000), portions of the principal amount in the amount of five thousand dollars (\$5,000) or any multiple thereof may be redeemed. If less than all of the principal amount is to be redeemed, upon surrender of this bond to the Paying Agent, there will be issued to the REGISTERED OWNER, without charge, a new Bond or Bonds, at the option of the REGISTERED OWNER, for the unredeemed principal amount.

Notice of redemption having been duly mailed, and moneys for the redemption having been deposited with the Paying Agent, this bond, or the portion called for redemption, will become due and payable on the redemption date at the applicable redemption price from and after the date fixed for redemption, interest on this bond (or such portion) will no longer accrue.

Transfer of Bonds. This bond is transferable by the REGISTERED OWNER, in person or by its attorney duly authorized in writing, at the office of the Paying Agent, upon surrender of this bond to the Paying Agent for cancellation. Upon the transfer, a new Bond or Bonds in authorized denominations of the same aggregate principal amount will be issued to the transferee at the same office. This bond may also be exchanged at the office of the Paying Agent for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. Exchanges and transfers will be without expense to the owner except for applicable taxes or other governmental charges, if any. The Paying Agent will not be required to make an exchange or transfer of this bond during the fifteen (15) days preceding any date fixed for selection for redemption if this bond (or any portion thereof) is eligible to be selected for redemption.

Amendment of Indenture. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Authority and the rights of the owners of the Bonds at any time by the Authority with the consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case such amendment shall require

the consent of the owners of not less than 51% in aggregate principal amount of the Bonds at the time outstanding thereunder. Any such consent shall be conclusive and binding upon each such owner and upon all future owners of each Bond and of any such Bond issued upon the transfer thereof, whether or not notation of such consent is made thereon. The Indenture also permits the amendment thereof by the Authority but without the consent of the owners of the Bonds or the Bond Insurer for certain specified purposes.

Limitation on Bondholder Enforcement Rights. The owner of this bond shall have no right to enforce the provisions of the Indenture, to institute action to enforce the provisions and covenants thereof or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Indenture, so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under the Indenture.

Special Obligations of the Authority. This bond and the issue of which it forms a part are special obligations of the Authority, payable solely out of the revenues or other receipts, funds or moneys of the Authority pledged under the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds. Neither the State nor any municipality thereof shall be obligated to pay the principal or redemption price, if any, of or interest on this bond and neither the faith and credit nor taxing power of the State or any municipality thereof is pledged to such payment. The Bonds do not now and shall never constitute a debt or liability of the State or any municipality thereof or bonds issued or guaranteed by either of them within the meaning of any constitutional or statutory limitation.

Estoppel Clause. This bond is issued pursuant to and in full compliance with the Constitution and laws of the State. It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form and manner as required by law and that the issuance of this bond and of the issue of which it forms a part, together with all other obligations of the Authority, do not exceed or violate any constitutional or statutory limitation.

NEITHER THE AUTHORITY, THE TRUSTEE NOR ANY PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (III) THE SELECTION BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY AS BONDHOLDER; OR (V) THE DELIVERY TO ANY PARTICIPANT, OR INDIRECT PARTICIPANT, BENEFICIAL OWNER OR OTHER PERSON OTHER THAN DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OF ANY NOTICE WITH RESPECT TO THE BONDS, INCLUDING BUT NOT LIMITED TO, ANY NOTICE OF REDEMPTION.

No Personal Liability. Neither the officers, directors or employees of the Authority or the Trustee nor any person executing this bond shall be liable personally or be subject to any personal liability or accountability by reason of the issuance hereof.

Authentication. This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been signed by the Trustee or the Paying Agent.

Authorized Denomination. The Bonds are issuable only in fully registered form in denominations of \$5,000 or any multiple thereof.

Persons Deemed Owners. The Authority, the Trustee, the Paying Agent and the Borrower may treat the REGISTERED OWNER as the absolute owner of this bond for all purposes, notwithstanding any notice to the contrary.

IN WITNESS WHEREOF, the CONNECTICUT DEVELOPMENT AUTHORITY has caused this Bond to be executed in its name by the manual or facsimile signature of its Authorized Representative.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Authorized Representative

[FORM OF CERTIFICATE OF AUTHENTICATION]

CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds of the issue described in the within mentioned Indenture.

Date of Registration:

U.S. BANK NATIONAL ASSOCIATION, Trustee

By _____[,or
Authorized Signature

**U.S. BANK NATIONAL ASSOCIATION,
Paying Agent**

By _____
Authorized Signature]

[FORM OF ASSIGNMENT]

ASSIGNMENT

For value received the undersigned sells, assigns and transfers this bond to

(Name and Address of Assignee)

Social Security or Other Identifying Number of Assignee

and irrevocably appoints _____ attorney-in-fact to transfer it on the books kept for registration of the bond, with full power of substitution.

NOTE: The signature to this assignment must correspond with the name as written on the face of the bond without alteration or enlargement or other change and must be guaranteed by a Participant in a Recognized Signature Guaranty Medallion Program.

Dated:

Signature Guaranteed:

Participant in a Recognized
Signature Guaranty Medallion Program

By: _____ Authorized Signature

[END OF FORM OF BOND]

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid, binding and legal obligations of the Authority according to the import thereof, and to constitute this Indenture a valid pledge of revenues to the payment of the principal or Redemption Price, if any, of and interest on the Bonds and all other amounts due in connection therewith and a valid assignment of the rights of the Authority (except as stated below) under the Agreement and the Note have been done and performed, and the creation, execution and delivery of this Indenture and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS:

GRANTING CLAUSES

That the Authority in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the holders and owners thereof, and of the sum of One Dollar, lawful money of the United States of America, to it duly paid by the Trustee at or before the execution and delivery of these presents, and for other good and valuable consideration, the receipt of which is hereby acknowledged, and in order to secure the payment of the principal of, Redemption Price, if any, and interest on the Bonds according to their tenor and effect and all other amounts due in connection therewith and the performance and observance by the Authority of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, pledge and assign unto, and grant a security interest in and to the Trustee, and unto its respective successors in trust, and to their respective assigns, forever, for the securing of the performance of the obligations of the Authority hereinafter set forth, the following:

I.

The Agreement and the Note (except to the extent to which any such document provides for the indemnification or the payment of expenses of the Authority, rights of the Authority to inspect the Project, receive notices and grant approvals) including all extensions and renewals of the term thereof, if any, together with all right, title and interest of the Authority therein, including, but without limiting the generality of the foregoing, the present and continuing right to claim, collect and receive any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do under the Agreement and the Note but reserving, however, to the Authority rights of the Authority under Sections 6.2, 6.4, 7.2(A)(2) and 7.3 of the Agreement upon the conditions therein set forth;

II.

All Funds and Accounts (except the Rebate Fund and the Refunding Fund) and moneys therein; and

III.

All moneys and securities from time to time held by the Trustee or the Paying Agent under the terms of this Indenture (except moneys and securities in the Rebate Fund and the Refunding Fund) and any and all other real or personal property of every name and nature concurrently herewith or from time to time hereafter by delivery or by writing of any nature conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Authority or by anyone in its behalf, or with its

written consent, to the Trustee or the Paying Agent, which are hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof;

TO HAVE AND TO HOLD all and singular the trust estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors and assigns in trust forever to its and their own proper use and behoof but:

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future holders and owners of the Bonds from time to time issued and to be issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, Redemption Price, if any, and interest on, the Bonds due or to become due thereon, and all other amounts due thereunder, at the times and in the manner mentioned in the Bonds according to their tenor, and shall cause the payments to be made on the Bonds as required under Article VII hereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire amount due or to become due thereon, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Agreement, the Note and this Indenture, then upon the final payment thereof this Indenture and the rights hereby granted shall cease, determine and be void; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered and all of the property, rights and interests, including, without limitation the loan payments and other amounts hereby assigned and pledged are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Authority has agreed and covenanted, and does hereby agree and covenant with the Trustee and with the respective holders and owners of the Bonds as follows:

ARTICLE I DEFINITIONS AND INTERPRETATION

SECTION 1.1. DEFINITIONS. As used in this Indenture:

"Account" or "Accounts" shall mean the Account or Accounts established pursuant to Article V herein below.

"Act" means the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended.

"Agreement" means the Loan Agreement of even date herewith between the Authority and the Borrower, and any amendments and supplements thereto.

"Authority" means the Connecticut Development Authority, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut duly organized and existing under the laws of the State, and any body, board, authority, agency or other political subdivision or instrumentality of the State which shall hereafter succeed to the powers, duties and functions thereof.

"Authorized Investments" means any of the following:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)

Certificates of Beneficial Ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration

Participation Certificates

6. Government National Mortgage Association (GNMA or Ginnie Mae)

GNMA - guaranteed mortgage-backed bonds

GNMA - guaranteed pass-through obligations

7. U.S. Maritime Administration

Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures - U.S. government
guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government
guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System

Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

Participation Certificate

3. Federal National Mortgage Association (FNMA or Fannie Mae)

Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or Sallie Mae)

Senior debt obligations

5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System

Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such rating agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements ("Repos") for 30 days or less must follow the following criteria. Repos which exceed 30 days must be acceptable to the Bond Insurer (criteria available upon request).

Repos provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repos must be between the municipal entity and a dealer bank or securities firm.

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and A2 or better by Moody's, or

b. Banks rated "A" or better by S&P and A2 or better by Moody's.

2. The written repurchase agreement must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct obligations of the United States of America referred to in Section A above, or

(2) Obligations of federal agencies referred to in Section B above

(3) Obligations of FNMA and FHLMC

b. The term of the Repos may be up to 30 days.

c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee is (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of Collateral.

(1) the securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipal entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

(3) A legal opinion which must be delivered to the municipal entity that states that the Repo meets guidelines under state law for legal investment of public funds.

"Authorized Representative" means, in the case of the Authority, the Chairman or Vice Chairman, the President, the Executive Vice President, Deputy Director or any Senior Vice President or any Vice President thereof and, in the case of the Borrower, the Chairman, the President and Chief Executive Officer, the Vice President-Chief Financial Officer and Treasurer, and any Vice President, Assistant Treasurer or Secretary thereof and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"Beneficial Owner" shall have the meaning specified in Section 2.3(F) hereof. If any person claims to the Trustee to be a Beneficial Owner, for purposes of Sections 2.4(C), such person shall prove such claim to the satisfaction of the Trustee with such documentation and signature guaranties as the Trustee may request and shall be responsible for and pay any costs associated with such claim.

"Bonds" means the \$8,000,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) authorized and issued pursuant to Section 2.3 hereof.

"Bond Counsel" means Winston & Strawn LLP or such other nationally recognized bond counsel selected by the Authority and reasonably satisfactory to the Borrower and Trustee.

"Bondholder", "holder" or "owner" or words of similar import when used with reference to Bonds, shall unless otherwise specified, mean any person who shall be the registered owner of any Outstanding Bond.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means XL Capital Assurance Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, and its successors and assigns.

"Borrower" means (i) The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in Section 6.1 of the Agreement.

"Business Day" means any day (i) that is not a Saturday or Sunday, (ii) that is a day on which banks located in Hartford, Connecticut and New York, New York are not required or authorized to remain closed, (iii) that is a day on which banking institutions in all of the cities in which the principal offices of the Trustee and the Paying Agent are located and are not required or authorized to remain closed and (iv) that is a day on which the New York Stock Exchange, Inc. is not closed.

"Cede & Co." means the nominee for The Depository Trust Company (DTC) who shall act as securities depository for the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder.

"Computation Period" means each period from the date of issuance through the date on which a determination of the Rebutable Arbitrage is made or required to be made pursuant to Section 8.3 of the Tax Regulatory Agreement.

"Debt Service Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Default" means any event or condition which will, with the lapse of time, or the giving of notice, or both, become an Event of Default.

"DTC" or "The Depository Trust Company" shall mean the limited-purpose trust company organized under the laws of the State of New York which shall act as securities depository for the Bonds, and any successor thereto.

"Depository" means DTC or any other depository holding the Bonds for purpose of a book-entry system.

"Determination of Taxability" means with respect to the Bonds, (1) a ruling by the Internal Revenue Service, (2) the receipt by the owner of any of the Bonds from the Internal Revenue Service of a notice of assessment and demand for payment (provided the Borrower has been afforded the opportunity to participate at its own expense in all appeals and proceedings to which such owner of any Bonds is a party relating to such assessment and demand for payment) and the expiration of the appeal period provided therein if no appeal is taken or, if an appeal is taken by such owner of any Bonds as provided in Section 6.3 of the Agreement within the applicable appeal period which has the effect of staying the demand for payment, a final unappealable decision by a court of competent jurisdiction, or (3) the admission in writing by the Borrower, in any case to the effect that the interest on the Bonds is includable

in the gross income for federal income tax purposes (other than for purposes of alternative minimum tax, environmental tax or foreign branch profits tax) of an owner or former owner thereof, other than for a period during which such owner or former owner is or was a "substantial user" of the Project financed by such Bonds or a "related person" as such terms are defined in the Code. For purposes of this definition only, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry Only System is in effect.

"Disclosure Agreement" means the agreement by and between the Borrower and U.S. Bank National Association, as dissemination agent, dated the date of the initial delivery of the Bonds and providing for the provision of certain information subsequent to the issuance of the Bonds.

"Event of Bankruptcy" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Authority, the Borrower, or any guarantor of the Bonds, as debtor.

"Event of Default" has the meaning given such term in Section 8.1 hereof.

"Federal Securities" means any direct and general obligations of, or any obligations whose full and timely payment is unconditionally guaranteed by, the United States of America.

"Financing Documents" means (1), when used with respect to the Borrower, means the Agreement, the Tax Regulatory Agreement, the Note, the Disclosure Agreement and the general certificate of the Borrower delivered in connection with the issuance of the Bonds, but shall not include the Mortgage, and (2) when used with respect to the Authority, means any of the foregoing documents and agreements to which the Authority is a direct party. The Financing Documents do not include any documents or agreements to which the Borrower is not a direct party, including the Bonds or the Indenture.

"Fund" or "Funds" shall mean the Fund or Funds established pursuant to Article V herein below.

"Indenture" means this Indenture as from time to time amended or supplemented by Supplemental Indentures in accordance with Article X hereof.

"Indirect Participant" shall have the meaning set forth in Section 2.3(F) hereof.

"Interest Payment Date" shall mean each date on which interest is payable on the Bonds as provided in the form of the Bonds.

"Loan Payments" means the amounts required to be paid by the Borrower in repayment of the loan made to the Borrower by the Authority pursuant to the provisions of the Agreement and the Note, including all amounts realized by the Trustee thereunder in accordance with Article VIII hereof.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"Mortgage" means the Indenture of Mortgage and Deed of Trust, dated as of June 1, 1956, between the Borrower and U.S. Bank National Association (successor to The Connecticut Bank and Trust

Company), as Mortgage Bond Indenture Trustee, as amended as of the date hereof and as may be amended hereafter.

"Mortgage Bond Indenture Trustee" means U.S. Bank National Association, acting as Mortgage Bond Indenture Trustee pursuant to the Mortgage.

"Note" means the promissory note of the Borrower to the Authority, dated the date of initial delivery of the Bonds in the form attached as Appendix A to the Agreement, and any amendments or supplements made in conformity with the Agreement and this Indenture.

"Outstanding", when used with reference to a Bond or Bonds, as of any particular date, means all Bonds which have been authenticated and delivered hereunder, except:

(1) Any Bonds cancelled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee for cancellation;

(2) any Bond (or portion of a Bond) paid or redeemed or for the payment or redemption of which there has been separately set aside and held in the Debt Service Fund either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be, specified in irrevocable instructions given to the Trustee to apply such moneys to such payment on the date so specified; or

(b) obligations of the kind described in subsection 12.1(B) hereof in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such obligations to such payment on the date so specified; or

(c) any combination of (a) and (b) above;

(3) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article III hereof; and

(4) any Bond deemed to have been paid as provided in Section 12.1 hereof.

"Participant" means one of the entities that deposits securities, directly or indirectly, in the Book-Entry Only System.

"Paying Agent" means any paying agent for the Bonds appointed pursuant to Section 9.10 hereof (and may include the Trustee), and its successor or successors and any other corporation which may at any time be substituted in its place in accordance herewith.

"Principal and Interest Account" means the special trust account of the Debt Service Fund so designated, established pursuant to Section 5.3 hereof.

"Prior Obligations" means the \$8,000,000 aggregate principal amount of the Authority's Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series).

"Project" means the Borrower's interest in the Project Realty and other interests in the real property, and in all Project Equipment wherever located and whether now owned or hereafter acquired, acquired or refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements, improvements, extensions and restorations thereof, described in appendices to the Agreement, as amended from time to time in accordance with the Agreement.

"Project Equipment" means all personal property, goods, leasehold improvements, machinery, equipment, furnishings, furniture, fixtures, tools and attachments wherever located and whether now owned or hereafter acquired, refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements thereof, including without limitation the Project Equipment described in appendices to the Agreement, as amended from time to time in accordance herewith.

"Project Realty" means the realty and other interests in the real property refinanced in whole or in part from the proceeds of the Bonds, together with all replacements, improvements, extensions, substitutions, restorations and additions thereto which are made pursuant hereto including without limitation the Project Realty described in appendices to the Agreement, as amended from time to time in accordance herewith.

"Rebate Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Redemption Account" means the special trust account of the Debt Service Fund so designated, established pursuant to Section 5.3 hereof.

"Redemption Price" means, when used with respect to a Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to this Indenture.

"Refunding Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Renewal Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Representation Letter" has the meaning given such term in Section 2.3(F) hereof.

"Revenues" means (a) the Loan Payments, (b) all amounts paid to the Trustee with respect to the principal of, redemption premium, if any, or interest on, the Bonds (1) by the Borrower as required under the Agreement and (2) upon deposit in the Debt Service Fund from the proceeds of the Bonds and (c) investment income with respect to any moneys held by the Trustee in the Refunding Fund, the Debt Service Fund and the Renewal Fund. The term "Revenues" does not include any moneys or investments or investment income in the Rebate Fund.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation or division shall be dissolved, eliminated, reorganized, or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"State" means the State of Connecticut.

"Supplemental Indenture" means any indenture supplemental hereto or amendatory hereof, adopted by the Authority in accordance with Article X hereof.

"Tax Incidence Date" means the date as of which interest on the Bonds becomes or became includable in the gross income of the recipient thereof (other than the Borrower or another substantial user or related person) for federal income tax purposes for any cause, as determined by a Determination of Taxability.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated as of the date of initial issuance and delivery of the Bonds, among the Authority, the Borrower and the Trustee, and any amendments and supplements thereto.

"Term", when used with reference to the Agreement, means the term of the Agreement determined as provided in Article III thereof.

"Trustee" means U.S. Bank National Association, and its successor or successors hereafter appointed in the manner provided in this Indenture.

SECTION 1.2. INTERPRETATION. (A) In this Indenture:

(1) Any capitalized word or term used but not defined herein shall have the meaning ascribed to such word or term in the Agreement or the Tax Regulatory Agreement, as the case may be.

(2) The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms, as used in this Indenture, refer to this Indenture, and the term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Indenture.

(3) Words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa.

(4) Words importing persons include firms, associations, partnerships (including limited partnerships), limited liability companies, trusts, corporations and other legal entities, including public bodies, as well as natural persons.

(5) Any headings preceding the texts of the several Articles and Sections of this Indenture, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

(6) All approvals, consents and acceptances required to be given or made by any person or party hereunder shall be at the sole discretion of the party whose approval, consent or acceptance is required.

(7) This Indenture shall be governed by and construed in accordance with the applicable laws of the State.

(B) Whenever the Authority is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations, and

agreements by or on behalf of, and other provisions for the benefit of, the Authority contained in this Indenture shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, authority, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Authority, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(C) If any one or more of the covenants or agreements provided herein on the part of the Authority, the Trustee or any Paying Agent to be performed should be contrary to law, then such covenant or covenants or agreement or agreements, shall be deemed separable from the remaining covenants and agreements hereof, and shall in no way affect the validity of the other provisions of this Indenture or of the Bonds.

(D) All approvals, consents and actions of the Trustee under this Indenture, the Bonds and the Financing Documents may be given or withheld or taken or not taken in accordance with the direction of the owners of not less than 51% of the principal amount of the Outstanding Bonds or of the Bond Insurer as provided herein.

(E) If the Paying Agent shall be removed and the duties and obligations of such Paying Agent discharged pursuant to Section 9.10 hereof, then each and every such duty and obligation to be performed by such Paying Agent set forth herein and in the Financing Documents shall be performed to the same extent and in the same manner by the Trustee, and each and every reference herein and in the Financing Documents to the Paying Agent shall refer to and shall be deemed to refer to the Trustee unless a successor Paying Agent shall have been appointed.

(F) For purposes hereof the Trustee shall not be deemed to have knowledge or actual knowledge of any fact or the occurrence of any event unless and until an officer of the Trustee's corporate trust administration department has written notice thereof.

(G) In the event of any solicitation of consents from and voting by owners of the Bonds, the Trustee shall establish a record date for such purposes and give DTC notice of such record date not less than fifteen calendar days in advance of such record date to the extent possible.

ARTICLE II
AUTHORIZATION, TERMS AND ISSUANCE OF BONDS

SECTION 2.1. AUTHORIZATION FOR INDENTURE. This Indenture is made and entered into by virtue of and pursuant to the provisions of the Act. The Authority has ascertained and hereby determines and declares that the execution and delivery of this Indenture is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of the Authority in accordance with the Act and to carry out powers expressly given thereby, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and necessary, useful or convenient to carry out and effectuate its corporate purposes under the Act.

SECTION 2.2. AUTHORIZATION AND OBLIGATION OF BONDS. (A) Bonds of the Authority issued hereunder, each to be entitled Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series), shall be subject to the terms, conditions and limitations established herein. No Bonds may be authenticated and delivered except in accordance with this Article.

(B) All Bonds shall be entitled to the benefit of the continuing pledge and lien created by this Indenture to secure the full and final payment of the principal or Redemption Price, if any, thereof and the interest thereon and all other amounts due under the Financing Documents. The Bonds shall be special obligations of the Authority, payable solely out of the revenues or other receipts, funds or moneys pledged therefor pursuant to this Indenture and from any amounts otherwise available under this Indenture for the payment of the Bonds. Neither the State nor any municipality thereof shall be obligated to pay the principal or Redemption Price, if any, of or the interest on the Bonds and neither the faith and credit nor the taxing power of the State or any municipality thereof is pledged to pay such principal, Redemption Price or interest. The Bonds shall never constitute a debt or liability of the State or any municipality thereof or bonds issued or guaranteed by the State or any municipality thereof within the meaning of any constitutional or statutory limitation.

SECTION 2.3. ISSUANCE AND TERMS OF THE BONDS. (A) There shall be issued under and secured by this Indenture a series of Bonds to be designated Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) in the principal amount of \$8,000,000. The Bonds shall be issuable in fully registered form without coupons and shall be dated as provided in Section 3.1 hereof.

(B) The Bonds shall mature on December 15, 2020 and bear interest at the per annum rate of 4.40% payable on December 15, 2003 and on each June 15 and December 15 thereafter until maturity or prior redemption.

(C) Interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve (12) 30-day months.

(D) The Bonds shall be numbered from one upward in consecutive numerical order. Bonds issued in exchange shall be numbered in such manner as the Trustee and the Paying Agent in their discretion shall determine.

(E) The principal or Redemption Price, if any, of the Bonds as they respectively become due shall be payable upon presentation and surrender of the Bonds at the corporate trust office of the Trustee in Hartford, Connecticut, or at the office designated for such payment of any successor Paying Agent. Payment of each installment of interest on the Bonds shall be made to the registered owners thereof who shall appear on the registration books of the Authority maintained by the Trustee at the close of business

on the fifteenth day of the calendar month next preceding such Interest Payment Date, by check or draft mailed to each such registered owner at his address as it appears on such registration books. Alternatively, payment shall be made as otherwise agreed in writing by the Bondholder and the Trustee and, at the written request to the Trustee of and at the expense of any holder of at least \$1,000,000 in Bonds, such payment may be made by wire transfer or other reasonable method to an account or place designated by such registered owner.

(F) Book-Entry Only System for the Bonds

(1) The Depository Trust Company ("DTC"), New York, New York shall act as securities depository for the Bonds. One fully registered bond in the aggregate principal amount of the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Notwithstanding any provision herein to the contrary, the provisions of this Section 2.3(F) and the Representation Letter (as defined below) shall apply with respect to any Bond registered to Cede & Co. or any other nominee of DTC, New York, New York, while the Book-Entry Only System (meaning the system of registration described in paragraph (2) of this Section 2.3(F)) is in effect. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

(2) The Bonds in or to be in the Book-Entry Only System shall be issued in the form of a separate single authenticated fully registered Bond in substantially the form provided for in this Indenture. Any legend required to be on the Bonds by DTC may be added by the Trustee or Paying Agent. On the date of original delivery thereof, the Bonds shall be registered in the registry books of the Paying Agent in the name of Cede & Co., as nominee of The Depository Trust Company as agent for the Authority in maintaining the Book-Entry Only System.

WITH RESPECT TO BONDS REGISTERED IN THE REGISTRY BOOKS KEPT BY THE PAYING AGENT IN THE NAME OF CEDE & CO., AS NOMINEE OF DTC, THE AUTHORITY, THE PAYING AGENT, THE BORROWER AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT (WHICH MEANS SECURITIES BROKERS AND DEALERS, BANKS, TRUST COMPANIES, CLEARING CORPORATIONS AND VARIOUS OTHER ENTITIES, SOME OF WHOM OR THEIR REPRESENTATIVES OWN DTC) OR TO ANY BENEFICIAL OWNER (WHICH MEANS, WHEN USED WITH REFERENCE TO THE BOOK-ENTRY ONLY SYSTEM, THE PERSON WHO IS CONSIDERED THE BENEFICIAL OWNER OF THE BONDS PURSUANT TO THE ARRANGEMENTS FOR BOOK ENTRY DETERMINATION OF OWNERSHIP APPLICABLE TO DTC) WITH RESPECT TO THE FOLLOWING: (A) THE ACCURACY OF THE RECORDS OF DTC, CEDE & CO. OR ANY PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE BONDS, (B) THE DELIVERY TO OR FROM ANY PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON, OTHER THAN DTC, OF ANY NOTICE WITH RESPECT TO THE OTHER PERSON,

OTHER THAN DTC, OF ANY NOTICE WITH RESPECT TO THE BONDS, INCLUDING ANY NOTICE OF REDEMPTION (WHETHER MANDATORY OR OPTIONAL), OR (C) THE PAYMENT TO ANY PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON, OTHER THAN DTC, OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

The Paying Agent shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of DTC, and all such payments shall be valid and effective fully to satisfy and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on Bonds to the extent of the sum or sums so paid. No person other than DTC shall be entitled to receive an authenticated Bond evidencing the obligation of the Authority to make payments of principal and premium, if any, and interest pursuant to this Indenture. Upon delivery by DTC to the Paying Agent of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the words "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

The Authority, the Borrower, the Trustee and the Paying Agent shall be entitled to treat the registered owner of a Bond (initially, DTC or its nominee) as the absolute owner thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by any of them. So long as all Bonds are registered in the name of DTC or its nominee or any qualified successor, the Borrower and the Paying Agent shall cooperate with DTC or its nominee or any qualified successor in effecting payment of the principal of, redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

(3) Upon receipt by the Trustee or the Paying Agent of written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, the Authority shall issue and the Paying Agent shall transfer and exchange Bonds as requested by DTC in appropriate amounts and in authorized denominations, and whenever DTC requests the Authority, the Paying Agent and the Trustee to do so, the Trustee, the Paying Agent and the Authority will, at the expense of the Borrower, cooperate with DTC in taking appropriate action after reasonable notice (A) to arrange for a substitute bond depository willing and able upon reasonable and customary terms to maintain custody of the Bonds or (B) to make available for transfer and exchange Bonds registered in whatever name or names and in whatever authorized denominations as DTC shall designate.

(4) In such event, the Borrower shall so notify DTC, the Paying Agent and the Trustee, whereupon DTC will notify the Participants of the availability through DTC of Bond certificates. In such event, the Authority shall issue and the Paying Agent shall transfer and exchange Bond certificates as requested by DTC in appropriate amounts and in authorized denominations. Whenever DTC requests the Paying Agent to do so, the Paying Agent will cooperate with DTC in taking appropriate action after reasonable notice to make available for transfer and exchange Bonds registered in whatever name or names and in whatever authorized denominations as DTC shall designate.

(5) The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

(6) Notwithstanding any other provisions of this Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the Blanket Letter of Representation, dated March 29, 1995, from the Authority to DTC (the "Representation Letter").

(7) Notwithstanding any other provisions of this Indenture to the contrary, so long as any of the Bonds outstanding are held in the Book-Entry Only System, if less than all of such Bonds are to be redeemed upon any redemption of Bonds hereunder, the particular Bonds or portions of Bonds to be converted or redeemed shall be selected by DTC in such manner as DTC may determine.

Notwithstanding any provision herein to the contrary, the Trustee and the Paying Agent may comply with the provisions of the Letter of Representation or similar document required by DTC or any successor securities depository in order to maintain the Book-Entry Only System for the Bonds.

SECTION 2.4. REDEMPTION OF BONDS. (A) General Optional Redemption. At the option of the Authority, which option shall be exercised upon the giving of written notice by the Borrower of its intention to prepay amounts due under the Agreement pursuant to subsection 8.1(A) thereof and the Note, the Bonds shall be subject to redemption prior to maturity from time to time upon not less than 30 days' notice in writing, as a whole or in part on any date on or after December 15, 2008, at the Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption.

(B) Extraordinary Optional Redemption. In addition, at the option of the Authority, which option shall be exercised upon the giving of written notice by the Borrower of its intention to prepay amounts due under the Agreement pursuant to Section 8.1(B) thereof, the Outstanding Bonds shall be subject to redemption prior to maturity as a whole on any date at the redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption, if any one or more of the events of casualty to or condemnation of the Project, change in law, or certain economic events specified in Section 8.1(B) of the Agreement shall have occurred, as evidenced in each case by the filing with the Trustee of a certificate of an Authorized Representative of the Borrower.

(C) Mandatory Taxability Redemption. In the event of a Determination of Taxability, the Bonds shall be redeemed in the manner and as provided in this Indenture, at the redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption on any day selected by the Borrower, that is not more than 180 days after such Determination of Taxability. In the case of any redemption pursuant to this subsection, the Authority or the Borrower or any Bondholder shall deliver to the Trustee a certificate of an Authorized Representative specifying the event giving rise to such inclusion in the gross income of the recipient thereof and the dates which are the Tax Incidence Date and the date of the Determination of Taxability. Such certificate shall be delivered at least ten days before notice of redemption is required to be given. Redemption under this paragraph shall be in whole unless not less than forty-five (45) days prior to the redemption date the Borrower delivers to the Trustee an opinion of Bond Counsel reasonably satisfactory to the Trustee to the effect that a redemption of less than all of the Bonds will preserve the tax-exempt status of interest on the remaining Bonds outstanding subsequent to such redemption.

For purposes of this Subsection C only, the owner of a Bond means the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect.

(D) Deceased Bondholder Redemptions. For purposes of this paragraph, the owner of said Bond shall mean the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect. Notwithstanding the foregoing redemption provisions, the Bonds are subject to redemption at the request of the estate of, successor in interest to and, in the case of jointly held Bonds, any surviving joint owner with, any person who, on the date of his or her death, was an owner or joint owner of such Bonds, in the manner and subject to the conditions set forth in the form of Bonds contained herein. For purposes of this redemption provision, a Bond held in tenancy by the entirety, joint tenancy or tenancy in common will be deemed to be held by a single owner and the death of a tenant, by the entirety, joint tenant or tenant in common will be deemed the death of an owner. The death of a person, who, during his lifetime, was entitled to substantially all of the beneficial interests of ownership of a Bond will be deemed the

death of an owner, regardless of the owner, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest shall be deemed to exist in typical cases of street name or nominee ownership, ownership under the Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife, and trust and certain other arrangements where one person has substantially all of the beneficial ownership interests in the Bond during his lifetime. In the case of Bonds registered in the name of banks, trust companies or broker/dealers who are members of a national securities exchange or the National Association of Securities Dealers, Inc. or any securities depository ("Qualified Institutions"), the redemption limitations described above apply to each beneficial owner of Bonds held by any Qualified Institution. Beneficial interests shall include the power to sell, transfer or otherwise dispose of a Bond and the right to receive the proceeds therefrom, as well as interest and principal payable with respect thereto. The party requesting redemption pursuant to this Section 2.4(D) shall pay all fees, costs and expenses of the Trustee in connection with establishing the beneficial ownership of the Bonds requested to be redeemed, including but not limited to the obtaining of position listings of DTC, or any successor securities depository, any Direct Participant or Indirect Participant or any nominees.

(E) Upon any redemption of Bonds there shall also be due and payable, concurrently with the payment of the Redemption Price, interest accrued on the Bonds and all other amounts then due under the Financing Documents.

(F) Redemption of Bonds permitted or required by this Article II shall be made as follows, and the Trustee shall give the notice of redemption referred to in Section 6.3 hereof in respect of each such redemption:

(1) Redemption shall be made pursuant to the general optional redemption provisions of Section 2.4(A) in such principal amounts as the Borrower shall request in a written notice to the Trustee in accordance with Section 8.2 of the Agreement.

(2) Redemption shall be made pursuant to the extraordinary optional redemption provisions of Section 2.4(B) at such date as the Borrower shall request in a written notice to the Authority and Trustee in accordance with Section 8.2 of the Agreement, to which shall be attached the certificate referred to in Section 8.1(B) thereof.

(3) Redemption shall be made pursuant to the mandatory taxability redemption provisions of Section 2.4(C) at the earliest possible date following receipt of the certificate prescribed in Section 2.4(C) hereof and of the payments made by the Borrower prescribed in Section 6.3 of the Agreement, without the necessity of any instructions or further act of the Authority or the Borrower.

(4) Redemption shall be made pursuant to the provisions of Section 2.4(D) in accordance with said Section and with Article VI of this Indenture.

SECTION 2.5. EXECUTION AND AUTHENTICATION OF BONDS. (A) After their authorization as provided in this Article, Bonds may be executed by or on behalf of the Authority and delivered to the Trustee or the Paying Agent for authentication. Each Bond shall be executed in the name of the Authority by the manual or facsimile signature of any one or more Authorized Representatives of the Authority.

(B) In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Trustee or the Paying Agent, such Bonds may nevertheless be authenticated and delivered as herein provided as if the person who so signed such Bonds had not ceased to be such officer. Any Bond may be signed on behalf of the

Authority by any person who, on the date of such act, shall hold the proper office, notwithstanding that at the date of such Bond such person may not have held such office.

(C) The Bonds shall each bear thereon a certificate of authentication, in the form set forth in the recitals to this Indenture, executed manually by the Trustee or the Paying Agent. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Indenture and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee or the Paying Agent. Such certificate of the Trustee or the Paying Agent upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the holder thereof is entitled to the benefits hereof.

SECTION 2.6. DELIVERY OF BONDS. The Bonds shall be executed in the form and manner set forth herein and shall be deposited with the Trustee and thereupon shall be authenticated by the Trustee or the Paying Agent. Upon payment to the Trustee of the proceeds of sale thereof, such Bonds shall be delivered by the Trustee or the Paying Agent to or upon the order of the purchasers thereof, but only upon receipt by the Trustee of:

- (1) A certified copy of the Authority's resolution authorizing the issuance of the Bonds and, the execution and delivery of this Indenture and the Financing Documents;
- (2) Original executed counterparts of the Financing Documents other than the Note, and the originally executed Note;
- (3) A request and authorization to the Trustee or the Paying Agent on behalf of the Authority to authenticate and deliver the Bonds to the purchasers therein identified upon payment to the Trustee, for the account of the Authority, of a sum specified in such request and authorization, plus any accrued interest on the Bonds to the date of such delivery. The proceeds of such payment shall be paid over to the Trustee and deposited in the Refunding Fund and Debt Service Fund pursuant to Article IV hereof; and
- (4) A written opinion by Bond Counsel to the effect that the issuance of such Bonds has been duly authorized and that all conditions precedent to the delivery thereof set forth in this Indenture have been fulfilled.

SECTION 2.7. NO ADDITIONAL BONDS. No Additional Bonds on a parity with the Bonds may be issued under this Indenture.

**ARTICLE III
GENERAL TERMS AND PROVISIONS OF BONDS**

SECTION 3.1. DATE OF BONDS. The Bonds shall be dated and bear interest from October 1, 2003, except in the case of Bonds delivered in any exchange or transfer hereunder on or subsequent to the first Interest Payment Date of the Bond for which it is exchanged or transferred, which shall bear interest from the Interest Payment Date next preceding the date of such delivery, unless, as shown by the records of the Trustee, interest on the Bond surrendered in exchange for such Bond shall be in default, in which case such Bond shall bear interest from the date to which interest has been paid in full on the Bond so surrendered.

SECTION 3.2. FORM AND DENOMINATIONS. Bonds shall be issued in fully registered form, without coupons, in denominations of \$5,000 or any multiple thereof. Subject to the provisions of Section 3.3 hereof, the Bonds shall be in substantially the form set forth in the recitals to this Indenture, with such variations, omissions and insertions as are permitted or required by this Indenture.

SECTION 3.3. LEGENDS. Each Bond shall contain on the face thereof a statement to the effect that neither the State nor any municipality thereof shall be obligated to pay the principal of the Bond or interest thereon and neither the faith and credit nor taxing power of the State or any municipality thereof is pledged to such payment. The Bonds may, in addition, contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Indenture as may be necessary or desirable to comply with custom or otherwise as may be determined by the Authority prior to the delivery thereof.

SECTION 3.4. MEDIUM OF PAYMENT. The principal or Redemption Price, if any, of and interest on the Bonds shall be payable in any coin or currency of the United States of America which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts. Such payment may be made as provided in Section 2.3 hereof.

SECTION 3.5. BOND DETAILS. Subject to the provisions hereof, the Bonds shall be dated, shall mature in such years and such amounts, shall bear interest at such rate or rates per annum, shall be subject to redemption on such terms and conditions and shall be payable as to principal or Redemption Price, if any, and interest at such place or places as shall be specified in this Indenture.

SECTION 3.6. INTERCHANGEABILITY, TRANSFER AND REGISTRY. (A) Each Bond shall be transferable only upon compliance with the restrictions on transfer set forth on such Bond and only upon the books of the Authority, which shall be kept for the purpose at the principal office of the Paying Agent, by the registered owner thereof in person or by his attorney duly authorized in writing, upon presentation thereof together with a written instrument of transfer satisfactory to the Paying Agent duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any Bond, the Paying Agent shall prepare and issue in the name of the transferee one or more new Bonds in authorized denominations of the same aggregate principal amount as the surrendered Bond.

(B) Any Bond, upon surrender thereof at the office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the registered owner or his attorney duly authorized in writing, may be exchanged at the office of the Paying Agent for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. No transfer will be effective unless represented by such surrender and reissue.

(C) Except as otherwise specifically provided herein, the Authority, the Borrower, the Trustee, and any Paying Agent may deem and treat the person in whose name any Bond shall be registered as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the

purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all payments made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority, the Borrower, the Trustee nor any Paying Agent, nor any agent of the foregoing, shall be affected by any notice to the contrary.

(D) The Paying Agent shall not be required to exchange or transfer

(a) any Bond during the fifteen (15) day period preceding any Interest Payment Date or the date fixed for selection of Bonds for redemption, or
(b) any Bonds selected, called or being called for redemption in whole or in part except, in the case of any Bond to be redeemed in part, the portion thereof not so to be redeemed.

SECTION 3.7. BONDS MUTILATED, DESTROYED, STOLEN OR LOST. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Authority shall execute and thereupon the Trustee or the Paying Agent shall authenticate and deliver, a new Bond of the same principal amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee of evidence satisfactory to the Authority, the Trustee and the Paying Agent that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Authority, the Trustee and the Paying Agent with indemnity satisfactory to them and complying with such other reasonable requirements as the Authority and the Trustee and the Paying Agent may prescribe and paying such expenses as the Authority, the Trustee and the Paying Agent may incur. All Bonds so surrendered to the Trustee shall be cancelled by it. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued hereunder in any moneys or securities held by the Authority, the Trustee or the Paying Agent for the benefit of the owners of the Bonds.

SECTION 3.8. CANCELLATION AND DESTRUCTION OF BONDS. All Bonds paid or redeemed in full, either at or before maturity, shall be delivered to the Paying Agent when such payment or redemption is made, and such Bonds together with all Bonds purchased by the Paying Agent, together with all Bonds surrendered in any exchange or transfers, shall thereupon be promptly cancelled. All Bonds acquired and owned by the Borrower and delivered to the Paying Agent for cancellation shall be deemed paid and shall be promptly cancelled. Bonds so cancelled shall be cremated or otherwise destroyed by the Paying Agent, who shall execute a certificate of cremation or destruction in duplicate under signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed certificate shall be filed with the Authority and the other executed certificate shall be retained by the Paying Agent. The Paying Agent shall provide written notice to Moody's, if the Bonds are then rated by Moody's and to S&P, if the Bonds are then rated by S&P, of the final payment or redemption of any of the Bonds, either at or before maturity, upon cancellation of any such Bonds.

SECTION 3.9. REQUIREMENTS WITH RESPECT TO TRANSFERS. In all cases in which the privilege of transferring Bonds is exercised, the Authority shall execute and the Trustee or the Paying Agent shall authenticate and deliver Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any such transfer shall forthwith be cancelled by the Trustee or the Paying Agent. For every such transfer of Bonds, the Authority, the Trustee or the Paying Agent may, as a condition precedent to the privilege of making such transfer, make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer and may charge a sum sufficient to pay the cost of preparing and delivering each new Bond issued upon such transfer, which sum or sums shall be paid by the person requesting such transfer.

SECTION 3.10. REGISTRAR. The Trustee shall also be Registrar for the Bonds, and shall maintain a register showing the names of all registered owners of Bonds, Bond numbers and amounts, and other information appropriate to the discharge of its duties hereunder. The Trustee shall make available to the Borrower for its inspection during normal business hours the registration books for the Bonds, as may be requested by the Borrower in connection with any purchase or tender offer by it with respect to the Bonds.

SECTION 3.11. PAYMENT PROCEDURE PURSUANT TO THE BOND INSURANCE POLICY. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date"), there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of, and interest on, Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent"), by telephone or teletype, of the amount of such deficiency by 10:00 a.m., New York City time, on such Business Day. If, on the Business Day prior to the related Payment Date, there is not on deposit with the Trustee moneys sufficient to pay the principal of, and interest on, the Bonds due on such Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Bond Insurer and Bond Insurer's Fiscal Agent by 10:00 a.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate.

For the purposes of the preceding paragraph, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to the Bond Insurer, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment. "Nonpayment" means the failure of Borrower to have provided sufficient funds to the Trustee for payment in full of all principal of, and interest on, the Bonds that are Due for Payment. "Due for Payment", when referring to the principal of the Bonds, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless the Bond Insurer shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on Bonds, means when the stated date for payment of interest has been reached. "Certificate" means a certificate in form and substance satisfactory to the Bond Insurer as to the Trustee's right to receive payment under the Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal on the Bonds paid by the Bond Insurer at maturity on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of the Bond Insurer, as the case may be, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Borrower on any Bond or the subrogation rights of the Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (as hereinafter defined) and the allocation of such funds to payment of interest on and principal paid with respect to any Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of holders of the Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of holders of Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of the Bonds in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of the Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Bond Insurer.

ARTICLE IV
APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

SECTION 4.1. ACCRUED INTEREST. Simultaneously with the delivery of any Bonds by the Trustee, the amount received as accrued interest thereon, if any, shall be deposited in the Principal and Interest Account of the Debt Service Fund.

SECTION 4.2. BOND PROCEEDS. The proceeds of sale and delivery of any Bonds, together with any premium received on account of the sale thereof (but excluding any accrued interest on the Bonds), shall simultaneously with the delivery thereof by the Trustee be deposited in the Refunding Fund.

SECTION 4.3. BORROWER CONTRIBUTION. A contribution of the Borrower in the amount of \$829,499.29 (\$266,001.00 of which represents the amount of interest to accrue on the Prior Obligations from June 15, 2003 to December 15, 2003, \$160,000.00 of which will be applied to the payment of the redemption premium to become due on the redemption date of the Prior Obligations and \$403,498.29 of which shall be applied to the payment of the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees) shall simultaneously with the delivery of the Bonds be deposited by the Trustee in the Refunding Fund.

**ARTICLE V
CUSTODY AND INVESTMENT OF FUNDS**

SECTION 5.1. CREATION OF FUNDS. (A) The Authority hereby establishes and creates the following special trust Funds and Accounts within such Funds:

- (1) Refunding Fund
- (2) Debt Service Fund
 - (a) Principal and Interest Account
 - (b) Redemption Account
- (3) Rebate Fund
- (4) Renewal Fund

(B) The Rebate Fund and the Refunding Fund shall be held by the Trustee free and clear of any lien, charge or pledge created by this Indenture. All of the Funds and Accounts created hereunder shall be held by the Trustee, including one or more depositories in trust for the Trustee. All moneys and investments deposited with the Trustee or any Paying Agent shall be held in trust and applied only in accordance with this Indenture and shall be trust funds for the purposes of this Indenture.

(C) The Trustee, in its sole discretion, may establish accounts and subaccounts within the Funds established pursuant to Section 5.1(A) for its internal accounting purposes.

SECTION 5.2. REFUNDING FUND. (A) There shall be deposited in the Refunding Fund any and all amounts required to be deposited therein pursuant to Section 4.2, Section 4.3 and Section 5.6 hereof or otherwise required to be deposited therein pursuant to the Agreement or this Indenture. Moneys and securities on deposit in the Refunding Fund shall be held by the Trustee in trust for the benefit of the owners of the Prior Obligations.

(B) Subject to the provisions of Section 5.6(B) hereof, the Trustee shall apply \$14,850,247.67 on deposit in the Refunding Fund to pay in full the principal of and interest on the Prior Obligations on November 29, 2003, and apply \$579,002.89 on deposit in the Refunding Fund to pay the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees.

(C) Disbursements from the Refunding Fund in respect of the payment of costs of refunding the Prior Obligations shall be made in accordance with a requisition submitted to the Trustee by the Borrower signed by an Authorized Representative of the Borrower stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Amounts on deposit in the Refunding Fund to be applied to the payment of costs of refunding the Prior Obligations shall not be invested by the Trustee.

(D) Any amounts constituting the proceeds of the issuance of the Bonds and any portion of the equity contribution of the Borrower remaining in the Refunding Fund after the refunding of the Prior Obligations and the payment of all costs associated therewith shall be returned to the Borrower.

SECTION 5.3. DEBT SERVICE FUND. (A) The Trustee shall establish two separate accounts within the Debt Service Fund to be respectively designated "Principal and Interest Account" and "Redemption Account".

(B) The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) Any amount required pursuant to Section 4.1 hereof to be deposited from the proceeds of the Bonds, which shall be credited to the Principal and Interest Account.

(2) All amounts received by the Trustee pursuant to Section 3.1 of the Agreement, which shall be credited to the Principal and Interest Account, in the manner set forth in this Indenture and the Agreement, and applied together with amounts available in the Principal and Interest Account, to pay (i) the interest due on the Outstanding Bonds on the Interest Payment Date next succeeding such payment and (ii) the principal, if any, of the Outstanding Bonds due (otherwise than by call for redemption) on such Interest Payment Date.

(3) Reserved.

(4) Any other amounts required to be paid to the Debt Service Fund for payment of principal and interest due on the Bonds, which shall be credited to the Principal and Interest Account.

(5) Prepayments under the Agreement received by the Trustee pursuant to Article VIII thereof, which shall be credited to the Redemption Account.

(6) All other receipts when and if required by the Financing Documents or any subsequent agreement or by this Indenture to be paid into the Debt Service Fund, which shall be credited to the Principal and Interest Account or the Redemption Account, as appropriate.

(7) Any amounts constituting income or interest earned and gains realized in excess of losses suffered by any Fund and Account hereunder, excluding the Refunding Fund, which shall be credited to the Principal and Interest Account in accordance with Section 5.6(B) hereof. Income or interest earned and gains realized in excess of losses suffered by the Refunding Fund shall be transferred to, or applied at the direction of, the Borrower on the date of the refunding of the Prior Obligations.

(C) There shall be paid from the Principal and Interest Account to the respective Paying Agents on each Interest Payment Date for the Bonds the amounts required for the payment of the principal and interest due on the Bonds on such date. Such amounts shall be applied by the Paying Agents to the payment of principal and interest on the Bonds when due. All other amounts payable on the Bonds from the Principal and Interest Account shall be paid to the respective Paying Agents upon receipt, and shall immediately be paid by such Paying Agents to the Bondholders.

(D) Amounts in the Redemption Account shall be applied, as promptly as practicable, by the Trustee at the direction of the Borrower to the purchase of Bonds at prices not exceeding the optional Redemption Price thereof applicable on the next redemption date plus accrued interest and all other amounts then due under the Financing Documents in connection with such redemption. Such redemption date shall be the earliest date upon which Bonds are subject to redemption from such amounts. Any amount in the Redemption Account not so applied to the purchase of Bonds by forty-five days prior to the next date on which the Bonds are so redeemable shall be applied to the redemption of Bonds on such redemption date; provided that if such amount aggregates less than \$10,000, it need not be then applied to such redemption. Amounts in the Redemption Account to be applied to the redemption of Bonds shall be paid to the respective Paying Agents on or before the redemption date and applied by them on such redemption date to the payment of the Redemption Price of the Bonds being redeemed plus interest on

such Bonds accrued to the redemption date and all other amounts then due under the Financing Documents in connection with such redemption.

(E) Any amounts remaining in the Debt Service Fund after payment in full of the Bonds, the fees, charges and expenses of the Trustee and the Paying Agents and all other amounts required to be paid hereunder or under the Financing Documents shall be paid to the Borrower upon the expiration or sooner termination of the Term of the Agreement.

SECTION 5.4. REBATE FUND. (A) There shall be credited to the Rebate Fund all amounts required to be credited thereto from interest earnings or net gain on disposition of investments pursuant to this Article V.

(B) On the first Business Day following each Computation Period (as defined in the Tax Regulatory Agreement), upon direction in writing from the Borrower, pursuant to the Tax Regulatory Agreement, the Trustee shall withdraw from the Funds and Accounts and deposit to the Rebate Fund an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebatable Arbitrage (as defined in the Tax Regulatory Agreement) calculated as of the last day of the Computation Period; provided, however, that the Trustee may transfer monies from any Fund or Account only to the extent such transfer does not result in an Event of Default hereunder. In the event of any deficiency, the balance required shall be provided by the Borrower pursuant to Section 8.3 of the Tax Regulatory Agreement. Computations of the amounts on deposit in each Fund and Account and of the Rebatable Arbitrage shall be furnished to the Trustee by the Borrower in accordance with Section 8.3 of the Tax Regulatory Agreement. Any amounts on deposit in the Rebate Fund in excess of the Rebatable Arbitrage shall be deposited to the Debt Service Fund.

(C) The Trustee, upon receipt of written instructions from an Authorized Representative of the Borrower in accordance with Section 8.3 of the Tax Regulatory Agreement, shall pay to the United States out of amounts in the Rebate Fund (1) not later than 30 days after the end of each five-year period following the date of issuance of the Bonds, an amount such that, together with amounts previously paid, the total amount paid to the United States is equal to 90% of the Rebatable Arbitrage calculated as of the end of the most recent Computation Period, and (2) not later than 30 days after the date on which all of the Bonds have been paid or redeemed, 100% of the Rebatable Arbitrage as of the end of the final Computation Period.

(D) In transferring any funds to the Rebate Fund and making any payments to the United States from the Rebate Fund, the Trustee may rely on the written directions and computations provided it by the Borrower and the Trustee shall be relieved of all liability with respect to the making of such transfers and payments in accordance with the foregoing.

SECTION 5.5. RENEWAL FUND. (A) Subject to the provisions of the Mortgage, there shall be paid into the Renewal Fund all amounts to be deposited therein pursuant to Section 5.3 of the Agreement, and such amounts shall be applied as provided therein.

(B) Any surplus remaining in the Renewal Fund after the completion of any payments for the replacement, repair, reconstruction, alteration, relocation or restoration, of the Project with respect to any event of damage, destruction or condemnation shall be transferred to the Redemption Account of the Debt Service Fund, but the excess, if any, of such amount as will be sufficient to discharge and satisfy this Indenture and pay all Bonds as provided in Section 12.1 hereof shall be paid over to the Borrower free and clear of any pledge or lien hereunder.

SECTION 5.6. INVESTMENT OF FUNDS AND ACCOUNTS. (A) Except as otherwise provided in this Indenture, amounts in the Funds and Accounts held hereunder shall, if and to the extent then permitted by

law, be invested in Authorized Investments. Investments authorized under this Section shall be made by the Trustee at the written request of an Authorized Representative of the Borrower, and may be made by the Trustee through its own bond department. Any investment hereunder shall be made in accordance with the Tax Regulatory Agreement, including particularly the terms and conditions of Article VII thereof relating to arbitrage. Such investments shall mature in such amounts and at such times as may be necessary to provide funds when needed to make payments from such Funds and Accounts, and any such investments shall, subject to the provisions hereof, including, without limitation, 5.6(B) below, at all times be deemed to be a part of the Fund and Account, from which the investment was made.

(B) Except as provided in the following sentence, the income or interest earned and gains realized in excess of losses suffered by any Fund and Account held hereunder from the date of delivery of the Bonds shall be credited to the Principal and Interest Account of the Debt Service Fund (except income or interest earned and gains realized in excess of losses suffered by the Rebate Fund). Income or interest earned and gains realized in excess of losses suffered by the Refunding Fund shall be transferred to, or applied at the direction of, the Borrower on the date of the refunding of the Prior Obligations.

(C) Prior to each Interest Payment Date on the Bonds, the Trustee shall notify the Borrower of the amount of any net investment income or gain received and collected subsequent to the preceding interest payment date and the amount then available in the Debt Service Fund.

SECTION 5.7. NON-PRESENTMENT OF BONDS. In the event any Bond shall not be presented for payment when the remaining principal thereof becomes due, either at final maturity, or at the date fixed for redemption thereof, or otherwise, and funds sufficient to pay any such Bond shall have been made available to the Trustee for the benefit of the holder or holders thereof, all liability of the Authority to the holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, without liability for interest thereon, for the benefit of the holder of such Bond, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under this Indenture or on, or with respect to, such Bond. Funds remaining with the Trustee as above unclaimed for six years shall be paid to the Borrower.

**ARTICLE VI
REDEMPTION OF BONDS**

SECTION 6.1. PRIVILEGE OF REDEMPTION AND REDEMPTION PRICE. Bonds or portions thereof subject to redemption prior to maturity shall be redeemable, upon mailed notice as provided in this Article, at the times, at the Redemption Prices and upon such terms, in addition to and consistent with the terms contained in this Article, as shall be specified in Section 2.4 hereof and in such Bonds.

SECTION 6.2. SELECTION OF BONDS TO BE REDEEMED. So long as the Bonds are in book-entry form, when Bonds are called, allocation shall be made by DTC or any successor securities depository and not by the Authority or the Trustee. In the event of redemption of less than all the Outstanding Bonds of like maturity, the Trustee shall select by lot, using such method of selection as it shall deem proper in its discretion, the principal amount of such Bonds to be redeemed. For purposes of this Section, Bonds or portions of Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the event that the book-entry system is discontinued, if less than all of the Bonds are to be redeemed at the option of the Borrower, the Bonds or portion thereof to be redeemed shall be selected by the Borrower.

SECTION 6.3. NOTICE OF REDEMPTION. Except with respect to deceased Bondholders redemptions as described in Section 2.4(D) hereof (the notice provisions relating to which are set forth in the Form of Bond contained in the recitals to this Indenture), when redemption is required or permitted by this Indenture, upon written notification of the Trustee by the Borrower of such redemption not less than seven (7) days prior to the date on which the Trustee must give notice to Holders as provided in this Section or the Letter of Representation among the Authority, the Trustee and DTC (if the book entry system is still in effect), the Trustee shall give notice of such redemption in the name of the Authority, specifying the subsection of Section 2.4 hereof under which the redemption is to be made, the numbers and amounts of the Bonds or portions thereof to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable. Such notice shall further state that on such date there shall become due and payable upon each Bond or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to the redemption date and all other amounts then due under the Financing Documents, and that from and after such date interest thereon shall cease to accrue and be payable. Alternatively, at the option of the Authority, such notice may state that it is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption and which notice shall be of no effect unless such moneys are so received on or before such date. Notice of redemption shall be given by the Trustee in the name and on behalf of the Authority by mailing a copy of each such notice to the registered owner of each Bond by first-class mail postage prepaid, addressed to him at his last known address as it appears upon the bond register, no more than forty-five (45) nor less than thirty (30) days prior to the date fixed for redemption. Such notice shall be effective when mailed and any failure to receive such notice shall not affect the validity of the proceedings for redemption. In the event of a postal strike, the Trustee shall give notice by other appropriate means selected by the Trustee in its discretion.

SECTION 6.4. PAYMENT OF REDEEMED BONDS. (A) Notice having been given in the manner provided in Section 6.3 hereof, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued to the redemption date and all other amounts then due under the Financing Documents. If, on the redemption date, monies for the redemption of all the Bonds or portions thereof to be redeemed, together with interest to the redemption date, and all other amounts then due under the Financing Documents, shall be held by the Paying Agent so as to be available therefor on such date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If such monies shall not be so available

on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(B) Payment of the Redemption Price together with interest and all other amounts then due to the Bondholders under the Financing Documents shall be made to or upon the order of the registered owner, only upon presentation of the Bond for cancellation or notation as provided in Section 6.6 hereof.

SECTION 6.5. NOTICE TO AUTHORITY AND BORROWER OF DECEASED BONDHOLDER REDEMPTION. Not later than ten Business Days after receipt of a request for redemption pursuant to Section 2.4(D) hereof by the Trustee, the Trustee shall give notice to the Authority and the Borrower specifying the amount of Bonds requested to be redeemed, the amount of Bonds eligible for redemption, the date on which such Bonds eligible for redemption shall be redeemed and the amount of funds required to be deposited in the Redemption Account.

SECTION 6.6. CANCELLATION OF REDEEMED BONDS. (A) All Bonds redeemed in full under the provisions of this Article shall forthwith be cancelled and destroyed by the Trustee and a certificate of destruction furnished to the Authority, and no Bonds shall be executed, authenticated, issued or delivered in exchange or substitution therefor or for or in respect of any paid portion of a fully registered Bond. In the event that a portion only of a Bond shall be so called for redemption, then, at the option of the registered owner thereof if such owner is a securities depository, such Bond may be either submitted to the Trustee for notation thereon of the payment of the portion of the principal thereof called for redemption or surrendered for redemption. If so surrendered, one or more new Bonds shall be issued for the unredeemed portion hereof.

(B) If there shall be called for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds in any of the authorized denominations.

**ARTICLE VII
PARTICULAR COVENANTS**

SECTION 7.1. NO PECUNIARY LIABILITY ON AUTHORITY OR OFFICERS. (A) No covenant or agreement contained in this Indenture or in the Bonds or any obligations herein or therein imposed upon the Authority or the breach thereof, shall constitute or give rise to a charge upon its general credit, or impose upon the Authority a pecuniary liability except as set forth herein. In making the agreements, provisions and covenants set forth in this Indenture, the Authority has not obligated itself except with respect to the application of the Revenues as hereinabove provided.

(B) All covenants, stipulations, promises, agreements and obligations of the Authority contained herein shall be deemed to be covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer, agent or employee thereof in his individual capacity. No recourse shall be had for the payment of the principal or Redemption Price, if any, of or interest on the Bonds, for the performance of any obligation hereunder, or for any claim based thereon or hereunder against any such member, officer, agent or employee or against any natural person executing the Bonds. No such member, officer, agent, employee or natural person is or shall become personally liable for any such payment, performance or other claim, and in no event shall any monetary or deficiency judgment be sought or secured against any such member, officer, agent, employee or other natural person.

SECTION 7.2. PAYMENT OF PRINCIPAL, REDEMPTION PRICE, IF ANY, AND INTEREST. The Authority covenants that it will promptly pay, solely from the Revenues or other monies derived in connection with the Project or otherwise available hereunder, the principal or Redemption Price, if any, of and interest on every Bond issued under this Indenture, together with all other amounts due under the Financing Documents, at the place, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof.

SECTION 7.3. PERFORMANCE OF COVENANTS. The Authority covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The Authority covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to create, accept and assign the liens in the property described herein and created hereby, to grant the security interest herein provided, to assign the Financing Documents and to pledge the revenues and other amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the holders and owners thereof are and will be valid and enforceable obligations according to their terms and the terms of this Indenture, except to the extent that such enforceability may be limited by bankruptcy or insolvency or other laws affecting creditors' rights generally or by general principles of equity.

SECTION 7.4. FURTHER ASSURANCES. The Authority and the Trustee each covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the other may reasonably require for the better assuring, transferring, conveying pledging, assigning and confirming unto the Trustee all and singular the property and rights assigned hereby and the amounts pledged hereby to the payment of the principal or Redemption Price, if any, of and interest on the Bonds and all other amounts due under the Financing Documents.

SECTION 7.5. INSPECTION OF PROJECT BOOKS. The Authority covenants and agrees that all books and documents in its possession relating to the Project and the revenues derived from the Project shall at

all times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate.

SECTION 7.6. RIGHTS UNDER FINANCING DOCUMENTS. The Financing Documents, originals or duly executed counterparts of which have been filed with the Trustee, set forth the covenants and obligations of the Authority and the Borrower, including provisions that subsequent to the issuance of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions hereof, the Financing Documents may not be effectively amended, changed, modified, altered or terminated without the written consents provided for therein, and reference is hereby made to the same for a detailed statement of the covenants and obligations of the Borrower thereunder. Subject to the provisions of Article IX hereof and to the extent explicitly set forth herein and in the Loan Agreement, the Trustee agrees to enforce all covenants and obligations of the Borrower under the Financing Documents and it is agreed that the Trustee may and is hereby granted the right to enforce all rights of the Authority and all obligations of the Borrower under and pursuant to the Financing Documents. Nothing in this Section shall permit any reduction in the payments required to be made by the Borrower under or pursuant to the Financing Documents or any alteration in the terms of payment thereof. All covenants and agreements on the part of the Authority shall, except as otherwise specifically provided herein, be for the benefit of the holders from time to time of the Bonds and may be enforced in the manner provided by Article VIII hereof on behalf of such holders by the Trustee.

SECTION 7.7. CREATION OF LIENS, INDEBTEDNESS. The Authority shall not create or suffer to be created any lien or charge upon or pledge of the Revenues, except the lien, charge and pledge created by this Indenture and the Bonds. The Authority shall not incur any indebtedness or issue any evidence of indebtedness, other than the Bonds herein authorized, secured by a lien on or pledge of such Revenues.

SECTION 7.8. RECORDING AND FILING. The Authority covenants that it will cause the Financing Documents, this Indenture and all supplements thereto and hereto, as well as such other security agreements, financing statements, and other instruments as may be required from time to time to be kept, to be recorded and filed in such manner and in such places as may be required by law in order to fully preserve and protect the security of the holders and owners of the Bonds and the rights of the Trustee hereunder.

**ARTICLE VIII
REMEDIES OF BONDHOLDERS**

SECTION 8.1. EVENTS OF DEFAULT; ACCELERATION OF DUE DATES. (A) Each of the following events is hereby defined as and shall constitute an "Event of Default":

(1) Failure to duly and punctually pay (a) the interest or (b) any installment of the principal or Redemption Price of any Bond, whether at the stated maturity thereof or upon proceedings for redemption thereof (excluding redemptions for which a conditional notice has been given in accordance with Section 6.3 of this Indenture in which case the failure to pay the Redemption Price of any Bonds shall not constitute an Event of Default under this Section 8.1(1) unless monies are on deposit with the Trustee and available to pay the Redemption Price on the redemption date), and the continuance of such failure for a period of more than five (5) Business Days.

(2) Failure to duly and punctually pay any amount, other than the amounts specified in (1) above, due under the Financing Documents and the continuance of such failure for more than thirty (30) days.

(3) Failure to perform or observe any other of the covenants, agreements or conditions on the part of the Authority in this Indenture or in the Bonds contained and not otherwise a default hereunder and the continuance thereof for a period of sixty (60) days after written notice given by the Trustee or by the owners of not less than 51% of the principal amount of Bonds then Outstanding.

(4) The occurrence of an "Event of Default" under any of the Financing Documents (other than the Disclosure Agreement).

(B) Subject to Sections 6.4(B) and 7.2(C) of the Loan Agreement, upon the happening and continuance of any Event of Default specified in subsection 8.1(A) hereof (unless the principal of all the Bonds shall have already become due and payable), the Trustee (a) upon request in writing to the Authority and the Trustee from the Bond Insurer or, if the Bond Insurance Policy is no longer in effect and if such Event of Default is specified in (1) or (2) above, shall, or (b) if the Bond Insurance Policy is no longer in effect, the Trustee may, and upon request in writing from the owners of not less than 51% in principal amount of the Bonds then Outstanding, shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything in this Indenture or in any of the Bonds contained to the contrary notwithstanding.

(C) The right of the Trustee or of the owners of not less than 51% in principal amount of the Outstanding Bonds to make any declaration authorized under subsection 8.1(B) hereof with respect to any failure under subsection 8.1(A)(1) hereof, however, is subject to the condition that if, at any time before such declaration, all overdue installments of interest upon the Bonds and the principal of all Bonds which shall have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, shall either be paid by or for account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all other events of default cured and waived as provided in Section 8.11 then in every such case any such default and its consequences shall ipso facto be deemed to be annulled, but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 8.2. ENFORCEMENT OF REMEDIES. (A) Upon the happening and continuance of any Event of Default, then and in every case, but subject to the provisions of Section 9.2 hereof and Sections 6.4(B)

and 7.2(C) of the Loan Agreement, the Trustee, with the consent of the Bond Insurer, may proceed, and upon the written request of the Bond Insurer or the owners of not less than 51% in the principal amount of the Bonds Outstanding, with the consent of the Bond Insurer, shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds, the Financing Documents and this Indenture, and under any agreement executed in connection with the foregoing, forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in this Indenture or the Financing Documents or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under this Indenture; provided, that, no such consent of the Bond Insurer shall be required if the Bond Insurance Policy is no longer in effect or if the Bond Insurer is in default under the Bond Insurance Policy.

(B) [Reserved]

(C) Subject to the provisions of Section 8.2(E) below, in the enforcement of any right or remedy under this Indenture or under the Act, the Trustee shall be entitled to sue for, enforce payment on and receive any or all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, Redemption Price, interest or otherwise under any of the provisions of the Financing Documents, this Indenture or of the Bonds, and unpaid, and, to the extent permitted by law, with interest on overdue payments at the applicable rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Financing Documents, this Indenture and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Authority, but solely as provided in the Financing Documents, this Indenture and in the Bonds, for any portion of such amounts remaining unpaid, with interest, to the extent permitted by law, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(D) Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the owners of not less than 51% in principal amount of the Bonds then Outstanding with the consent of the Bond Insurer, while the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, and furnished with reasonable security and indemnity, shall institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under this Indenture by any acts which may be unlawful or in violation of this Indenture or of any resolution authorizing Bonds, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders; but no such request shall be otherwise than in accordance with the provisions of law and of the Indenture or be unduly prejudicial to the interests of the holders of Bonds not making such request.

(E) Anything in this Indenture to the contrary notwithstanding, but subject to Section 9.2 hereinbelow, upon the occurrence and continuance of an Event of Default as defined herein, the Bond Insurer, so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under this Indenture, including, without limitation,

(i) the right to accelerate the principal of the Bonds as described in this Indenture and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

(F) The Bond Insurer's rights under this Article VIII shall be suspended in the event that the Bond Insurer is in default under the Bond Insurance Policy. The preceding sentence shall not affect or limit the Bond Insurer's rights obtained by virtue of subrogation upon payment of any amounts due and owing with respect to the Bonds.

SECTION 8.3. APPLICATION OF REVENUE AND OTHER MONEYS AFTER DEFAULT. (A) All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances incurred or made by the Trustee and any Paying Agent, shall be deposited in the applicable account of the Debt Service Fund and all moneys so deposited in such Fund and available for payment of the Bonds shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

FIRST To the payment of all amounts due under the Financing Documents, exclusive of unpaid principal and interest on the Note;

SECOND To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

THIRD To the payment to the persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in order of maturity, from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal or Redemption Price due on such date, to the persons entitled thereto without any discrimination or preference.

(2) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment of all amounts due under the Financing Documents, then to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(B) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application shall be made. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the owner of any Bonds until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(C) Whenever all Bonds and interest thereon and all other amounts due under the Financing Documents have been paid under the provisions of this Section and all fees, expenses and charges of the Trustee and Paying Agents have been paid, any balance remaining in the Debt Service Fund shall be paid to or upon the order of the Borrower.

SECTION 8.4. ACTIONS BY TRUSTEE. All rights of action under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceedings instituted by the

Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any owners of the Bonds, and any recovery of judgment, subject to the provisions of Section 8.3 hereof, shall be for the benefit of the holders of the Outstanding Bonds.

SECTION 8.5. MAJORITY BONDHOLDERS CONTROL PROCEEDINGS. Subject to Sections 8.2(E) and 13.3 hereof and Section 7.2(C) of the Loan Agreement, the holders of at least 51% in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for any other proceedings hereunder; but such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

SECTION 8.6. INDIVIDUAL BONDHOLDER ACTION RESTRICTED. (A) No owner of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Indenture or the execution of any trust under this Indenture or for any remedy under this Indenture, unless such owners shall have previously given to the Trustee written notice of the happening of an "Event of Default", as provided in this Article, and the owners of at least 51% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in this Indenture or by the Act or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of sixty days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no owner of any Bond shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by this Indenture, or to enforce any right under this Indenture, except in the manner herein provided; and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner provided in this Indenture and for the equal benefit of all owners of the Outstanding Bonds.

(B) Nothing herein or in the Bonds contained shall affect or impair the right of any owner of the Bonds to payment of the principal or Redemption Price, if any, of and interest on any Bond or other amounts due under the Financing Documents at and after the maturity thereof, or the obligation of the Authority to pay the principal or Redemption Price, if applicable, of and interest on each of the Bonds or other amounts due under the Financing Documents to the respective owners thereof at the time, place, from the source and in the manner herein and in such Bonds expressed.

SECTION 8.7. EFFECT OF DISCONTINUANCE OF PROCEEDINGS. In case any proceeding taken by the Trustee on account of any Event of Default shall have been dismissed, discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Authority, the Trustee, and the owners of the Bonds shall be restored, respectively, to their former positions and rights hereunder, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceedings had been taken.

SECTION 8.8. REMEDIES NOT EXCLUSIVE. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or to the owners of the Bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

SECTION 8.9. DELAY OR OMISSION UPON DEFAULT. No delay or omission of the Trustee or of the owners of any Bond to exercise any right or power arising upon any Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy given by this Article to the Trustee and the owner of any Bond, respectively,

may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the owner of the Bonds.

SECTION 8.10. NOTICE OF DEFAULT. The Trustee shall promptly mail, to each owner of the Bonds, written notice of the occurrence of any Event of Default of which it has actual knowledge. Actual knowledge means the actual knowledge of an officer in the Trustee's corporate trust administration department. The Trustee shall not, however, be subject to any liability to any owner of the Bonds by reason of its failure to mail any notice required by this Section.

SECTION 8.11. WAIVERS OF DEFAULT. Subject to the provisions of Section 8.2(E) hereof, the Trustee shall waive any Event of Default hereunder and its consequences upon the written request of the owners of 51% in aggregate principal amount of the Bonds then Outstanding; except that there shall not be waived without the consent of the owners of all the Bonds Outstanding (a) any default in the payment of the principal of and Redemption Price on any Outstanding Bonds at the date of maturity specified therein or (b) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver, all arrears of interest, at the rate borne by the Bonds on overdue installments of interest, to the extent permitted by law, in respect of which such default shall have occurred or all arrears of payments of principal due on the Bonds when due, as the case may be, and all expenses of the Trustee and any Paying Agent in connection with such default shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Trustee on account of any such default shall have been dismissed, discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the owners of the Bonds shall be restored to their former positions and rights hereunder respectively, but no such waiver, dismissal, discontinuance, abandonment or determination shall extend to any subsequent or other default, or impair any right consequent thereon.

**ARTICLE IX
TRUSTEE AND PAYING AGENTS**

SECTION 9.1. APPOINTMENT AND ACCEPTANCE OF DUTIES. (A) U.S. Bank National Association is hereby appointed as Trustee. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing this Indenture. All provisions of this Article shall be construed as extending to and including all the rights, duties and obligations imposed upon the Trustee under the Agreement and the other Financing Documents as fully for all intents and purposes as if this Article were contained in the Agreement and the other Financing Documents.

(B) The Trustee is hereby appointed as Paying Agent for the Bonds. The Authority may also from time to time appoint one or more other Paying Agents in the manner and subject to the conditions set forth in Section 9.10 hereof for the appointment of a successor Paying Agent. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the Authority and to the Trustee a written acceptance thereof. The principal offices of the Paying Agents are designated as the respective offices or agencies of the Authority for the payment of the interest on and principal or Redemption Price of the Bonds, except that interest on all registered Bonds and the principal and Redemption Price of all registered Bonds shall be payable at the corporate trust office of the Trustee located in Hartford, Connecticut.

SECTION 9.2. INDEMNITY. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under this Indenture, or to enter any appearance in or in any way defend any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified and provided with adequate security to its satisfaction against any and all reasonable costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, gross negligence or bad faith.

The Trustee shall be indemnified for and held harmless against any loss, liability or expense incurred without gross negligence or bad faith on its part arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that payment of such funds or adequate indemnity against such risk or liability is not assured to it.

SECTION 9.3. RESPONSIBILITIES OF TRUSTEE. (A) The Trustee shall have no responsibility in respect of the validity or sufficiency of this Indenture or the security provided hereunder or the due execution hereof by the Authority, or in respect of the title or the value of the Project, or in respect of the validity of any Bonds authenticated and delivered by the Trustee in accordance with this Indenture or to see to the recording or filing of the Indenture or any financing statement (except the filing of continuation statements as provided in Section 9.13 hereof) or any other document or instrument whatsoever. The recitals, statements and representations contained herein and in the Bonds shall be taken and construed as made by and on the part of the Authority and not by the Trustee, and the Trustee does not assume any responsibility for the correctness of the same; except that the Trustee shall be responsible for its representation contained in its certificate on the Bonds. The obligation hereunder to pay or reimburse the Trustee for expenses, advances, reimbursements and to indemnify and hold harmless the Trustee pursuant to Section 9.2 hereof shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of all obligations under this Indenture.

(B) The Trustee shall not be liable or responsible because of the failure of the Authority to perform any act required of it by this Indenture or the Financing Documents or because of the loss of any monies arising through the insolvency or the act or default or omission of any depository other than itself in which such monies shall have been deposited. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other monies deposited with it and paid out, invested, withdrawn or transferred in accordance herewith or for any loss resulting from any such investment. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own willful misconduct, gross negligence or bad faith. The immunities and exemptions from liability of the Trustee shall extend to its directors, officers, employees and agents.

(C) The Trustee, prior to the occurrence of an Event of Default and subsequent to an Event of Default that has been cured, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred of which the Trustee has actual knowledge (as defined in Section 8.10 hereinabove) and which has not been cured the Trustee, subject to Section 9.2 hereof, shall exercise such of the rights and powers vested in it hereby and use the same degree of care and skill in their exercise, as a prudent person would exercise under the circumstances in the conduct of his own affairs.

(D) The Trustee shall in all instances act in good faith in incurring costs, expenses and legal fees in connection with the transactions contemplated by this Indenture and the Agreement.

(E) The Trustee shall not be liable or responsible for the failure of the Borrower to effect or maintain insurance on the Project as provided in the Financing Documents nor shall it be responsible for any loss by reason of want or insufficiency in insurance or by reason of the failure of any insurer in which the insurance is carried to pay the full amount of any loss against which it may have insured the Authority, the Borrower, the Trustee or any other person.

SECTION 9.4. COMPENSATION. The Trustee and Paying Agents shall be entitled to receive and collect from the Borrower as provided in the Financing Documents payment for reasonable fees for services rendered hereunder and all advances, counsel fees and expenses and other expenses reasonably and necessarily made or incurred by the Trustee or Paying Agents in connection therewith.

SECTION 9.5. EVIDENCE ON WHICH TRUSTEE MAY ACT. (A) In case at any time it shall be necessary or desirable for the Trustee to make any investigation concerning any fact preparatory to taking or not taking any action, or doing or not doing anything, as such Trustee, and in any case in which this Indenture or the Financing Documents provide for permitting or taking any action, it may rely upon any certificate required or permitted to be filed with it under the provisions hereof or of the Financing Documents, and any such certificate shall be evidence of such fact or protect it in any action that it may or may not take, or in respect of anything it may or may not do, in good faith, by reason of the supposed existence of such fact.

(B) The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of this Indenture or the Financing Documents, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person, or to have been prepared and furnished pursuant to any of the provisions of this Indenture or the Financing Documents, or upon the written opinion of any attorney (who may be an attorney for the Authority or the Borrower), engineer, appraiser, or accountant reasonably believed by the Trustee to be qualified in relation to the subject matter. The Trustee is not required to investigate the qualifications of any such expert.

(C) Notwithstanding any other provision of this Indenture, in determining whether the rights of the holders of any of the Bonds will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee (or any Paying Agent) shall consider the effect on the holders of the Bonds as if there were no Bond Insurance Policy then in effect.

SECTION 9.6. EVIDENCE OF SIGNATURES OF OWNERS OF THE BONDS AND OWNERSHIP OF BONDS. (A) Any request, consent, revocation of consent or other instrument which this Indenture may require or permit to be signed and executed by the owners of the Bonds may be in one or more instruments of similar tenor, and shall be signed or executed by such owners of the Bonds in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of any instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Indenture (except as otherwise herein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any owner of the Bonds or his attorney of such instruments may be proved by a guarantee of the signature thereon by an officer of a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or a member of an association, a limited liability company or a partnership, on behalf of such corporation, association, limited liability company or partnership, such signature guarantee, certificate or affidavit shall be accompanied by sufficient proof of his authority.

(2) The ownership of registered Bonds and the amount, numbers and other identification, and date of owning the same shall be proved by the registry books.

(B) Except as otherwise provided in Section 10.3 hereof with respect to revocation of a consent, any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the Authority or the Trustee or any Paying Agent in accordance therewith.

SECTION 9.7. TRUSTEE AND ANY PAYING AGENT, MAY DEAL IN BONDS AND WITH BORROWER. Any national banking association, bank or trust company acting as a Trustee, or Paying Agent, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any owner of the Bonds may be entitled to take and may otherwise deal with the Borrower with like effect as if such association, bank or trust company were not such Trustee or Paying Agent.

SECTION 9.8. RESIGNATION OR REMOVAL OF TRUSTEE. (A) The Trustee may resign and thereby become discharged from the trusts created under this Indenture by notice in writing to be given to the Authority, the Borrower and the Bond Insurer (so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder) and by notice mailed, postage prepaid to the owners of the Bonds not less than sixty (60) days before such resignation is to take effect, but such resignation shall not take effect until the appointment of a successor Trustee pursuant to Section 9.9 hereof and such successor Trustee shall accept such trust.

(B) The Trustee may be removed at any time thirty (30) days after an instrument or concurrent instruments in writing, is filed with the Trustee and signed by either the Bond Insurer or the owners of not less than a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, but such removal shall not take effect until the appointment of a

successor Trustee pursuant to Section 9.9 hereof and such successor Trustee shall accept such trust. The Trustee shall promptly give notice of such filing to the Authority.

SECTION 9.9. SUCCESSOR TRUSTEE. (A) If at any time the Trustee shall resign, or shall be removed, be dissolved or otherwise become incapable of acting or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator thereof, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Authority shall appoint a successor Trustee to fill such vacancy. If the Authority fails to act prior to the date of resignation of any Trustee or within fifteen days after the position of Trustee becomes vacant, the Trustee may appoint a temporary successor Trustee. The Authority may thereafter appoint a successor Trustee to succeed such temporary Trustee. Within forty-five (45) days after such appointment, the successor Trustee shall cause notice of such appointment to be mailed, postage prepaid, to the Borrower and all owners of the Bonds.

(B) At any time within one year after such vacancy shall have occurred, the owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such owners of the Bonds or their attorneys-in-fact thereunto duly authorized and filed with the Authority, may appoint a successor Trustee, which shall, immediately and without further act, supersede any Trustee theretofore appointed. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section, the owner of any Bond then Outstanding or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee. In either event, within thirty (30) days after such appointment, the successor Trustee shall cause notice of such appointment to be marked, postage prepaid, to the Borrower.

(C) Any Trustee appointed under this Section shall be a national banking association or a bank or trust company duly organized under the laws of the State or under the laws of any state of the United States authorized to exercise corporate trust powers and shall be acceptable to the Bond Insurer (so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder). At the time of its appointment, any successor Trustee shall have a capital stock and surplus aggregating not less than \$100,000,000.

(D) Every successor Trustee shall execute, acknowledge and deliver to its predecessor, and also to the Authority, an instrument in writing accepting such appointment, and thereupon such successor Trustee, without any further act, deed, or conveyance, shall become fully vested with all monies, estates, properties, rights, immunities, powers and trusts, and subject to all the duties and obligations of its predecessor, with like effect as if originally named as such Trustee; but such predecessor shall, nevertheless, on the written request of its successor or of the Authority, and upon payment of the compensation, expenses, charges and other disbursements of such predecessor which are due and payable pursuant to Section 9.4 hereof, execute and deliver an instrument transferring to such successor Trustee all the estate, properties, rights, immunities, powers and trusts of such predecessor, except any indemnification rights. Every predecessor Trustee shall also deliver all property and monies held by it under the Indenture to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such Trustee, the estate, properties, rights, immunities, powers and trusts vested or intended to be vested in the predecessor Trustee any such instrument in writing shall, on request, be executed, acknowledged and delivered by the Authority. Any successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

(E) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate

trust business, provided such company shall be a national banking association or a bank or trust company duly organized under the laws of any state of the United States, shall have a capital stock and surplus aggregating not less than \$100,000,000, and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such Trustee, both in its capacity as Trustee and in its capacity as Paying Agent if the Trustee is serving as Paying Agent, without the execution or filing of any paper or the performance of any further act.

(F) Any Trustee which becomes incapable of acting as Trustee shall pay over, assign and deliver to its successor any monies, funds or investments held by it in the manner provided in Section 9.9(D) and shall render an accounting to the Authority.

SECTION 9.10. APPOINTMENT AND RESPONSIBILITIES OF PAYING AGENT. The initial Paying Agent shall be U.S. Bank National Association. The Paying Agent shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. The Paying Agent may rely conclusively on any telephone or written notice, certificate or other document furnished to it under this Indenture and reasonably believed by it to be genuine. The Paying Agent shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under this Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or other action by the Paying Agent is called for by this Indenture, it may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act. The Paying Agent shall not in any event be liable for the application or misapplication of funds, or for other acts or defaults, by any person, firm or corporation except by the Paying Agent's respective directors, officers, agents and employees. For the purposes of this Indenture matters shall not be considered to be known to the Paying Agent unless they are known to an officer in its corporate trust administration division. The Paying Agent shall not require indemnification prior to making any payment when due of principal, premium or interest on any Bond to be made by the Paying Agent to any Bondholder, except and unless such drawing or payment is prohibited by or violates applicable law or any outstanding or pending court or governmental order or decree.

SECTION 9.11. RESIGNATION OR REMOVAL OF PAYING AGENT; SUCCESSORS. (A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least sixty days' written notice to the Authority, the Trustee and the Borrower. Any successor Paying Agent shall be appointed by the Authority, at the direction of the Borrower, with the approval of the Trustee, and shall be a bank or trust company duly organized under the laws of any state of the United States or a national banking association, having a capital stock and surplus aggregating at least \$100,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture. The Paying Agent may be removed at any time by the Authority at the direction of the Borrower by a written instrument filed with the Trustee and the Paying Agent. The Paying Agent may, but need not be, the same person as the Trustee.

(B) If the position of Paying Agent shall become vacant for any reason, or if any bankruptcy, insolvency or similar proceeding shall be commenced by or against the Paying Agent, the Authority shall appoint a successor Paying Agent designated by the Borrower to fill the vacancy. A written acceptance of office shall be filed by the successor Paying Agent. The Trustee shall give notice of the appointment of a successor Paying Agent in writing to each Bondholder. The Trustee will promptly certify to the Borrower that it has mailed such notice to all Bondholders, and such certificate will be conclusive evidence that such notice was given in the manner required hereby.

(C) Any corporation, association, limited liability company partnership or firm which succeeds to the business of the Paying Agent as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Paying Agent under this Indenture and shall be subject to all the duties and obligations of the Paying Agent under this Indenture.

The Paying Agent shall send or cause to be sent notice to Bondholders of a change of address for the delivery of Bonds or notice or the payment of principal of Bonds.

SECTION 9.12. MONIES HELD FOR PARTICULAR BONDS. The amounts held by the Trustee or Paying Agents for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds, on and after such date and pending such payment, shall be set aside on its books and held in trust by it for the owners of the Bonds entitled thereto. Such funds shall be invested in Federal Securities at the direction of the Borrower for the account of the Borrower or shall otherwise remain uninvested.

SECTION 9.13. CONTINUATION STATEMENTS. The Trustee shall cause all continuation statements necessary to preserve and protect the security interest of the Trustee in the collateral pledged by the Authority in the granting clauses hereof to be filed in the applicable State offices so as to continue the perfected status thereof pursuant to the Uniform Commercial Code of the State.

SECTION 9.14. OBLIGATION TO REPORT DEFAULTS. Upon an officer in the Trustee's corporate trust administration department becoming aware of any condition or event which constitutes, or with the giving of notice or the passage of time would constitute, an Event of Default under the Financing Documents or this Indenture, the Trustee shall deliver to the Authority a written notice stating the existence thereof and the action it proposes to take with respect thereto. Becoming aware means the actual knowledge of an officer in the Trustee's corporate trust department.

SECTION 9.15. PAYMENTS DUE ON NON-BUSINESS DAY. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall, in the city of payment, be a day other than a Business Day, then payment of such amount shall be made as provided in the forms of the Bonds.

SECTION 9.16. APPOINTMENT OF CO-TRUSTEE. (A) It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of banking corporations or associations to transact business as trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Agreement, and in particular in case of the enforcement of either on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-Trustee. The following provisions of this Section are adapted to these ends.

(B) In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate trustee or co-Trustee but only to the extent necessary to enable such separate trustee or co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-Trustee shall run to and be enforceable by either of them.

(C) Should any instrument in writing from the Authority be required by the separate trustee or co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. In case any separate trustee or co-Trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-Trustee.

SECTION 9.17. PROJECT DESCRIPTION. The Trustee shall maintain in current form as an Appendix to the Agreement a list of the property constituting the Project Realty and the Project Equipment and, on the basis of the descriptions furnished by the Borrower pursuant to the Agreement, shall amend the list in writing to reflect changes in the Project Realty and the Project Equipment.

**ARTICLE X
AMENDMENTS OF INDENTURE**

SECTION 10.1. LIMITATION ON MODIFICATIONS. This Indenture shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article.

SECTION 10.2. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF OWNERS OF THE BONDS. (A) Subject to paragraph (C) of the Section 10.2, the Authority may, from time to time and at any time, adopt Supplemental Indentures without notice to or consent of the owners of the Bonds or the Bond Insurer for any of the following purposes:

(1) To cure any formal defect, omission or ambiguity in this Indenture or in any description of property subject to the lien hereof, if such action is not adverse to the interests of the owners of the Bonds.

(2) To grant to or confer upon the Trustee for the benefit of the owners of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(3) To add to the covenants and agreements of the Authority in this Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(4) To add to the limitations and restrictions in this Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture, of Revenues or other income from or in connection with the Project or of any other monies, securities or funds, or to subject to the lien or pledge of this Indenture additional revenues, properties or collateral.

(6) To make any other changes which do not materially adversely affect the interest of owners of the Bonds, as evidenced to the Trustee by an opinion of Bond Counsel.

(7) To enable the Authority and the Borrower to receive or maintain a rating on the Bonds from S&P and/or Moody's; provided, however, that nothing in this Section 10.2(7) shall limit or restrict the rights of Bondholders to consent to modifications, alterations or amendments to this Indenture as provided in Section 10.3 hereof.

(B) Before the Authority shall adopt any Supplemental Indenture pursuant to this Section, there shall have been filed with the Trustee an opinion of Bond Counsel satisfactory to the Trustee stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with the terms of this Indenture, and that upon enactment it will be valid and binding upon the Authority in accordance with its terms.

(C) Notwithstanding anything to the contrary contained herein, any provision of this Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer.

SECTION 10.3. SUPPLEMENTAL INDENTURES WITH CONSENT OF OWNERS OF THE BONDS. (A) Subject to the terms and provisions contained in this Article, the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case the owners of not less than 51% in aggregate principal amount of the Bonds then Outstanding (or in the event that the proposed change does not affect all owners of Bonds, the owners of not less than 51% of the Bonds so affected), shall have the right from time to time, to consent to and approve the adoption by the Authority of any Supplemental Indenture as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein. Nothing herein contained shall permit, or be construed as permitting, without the consent of all of the owners of the Bonds affected thereby (i) a change in the terms of redemption or maturity of the principal of or the interest on any Outstanding Bond, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, without the consent of the owner of such Bond, (ii) the creation of a lien upon or pledge of Revenues other than the lien or pledge created by this Indenture, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture.

(B) If at any time the Authority shall determine to adopt any Supplemental Indenture for any of the purposes of this Section, it shall cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to the Bond Insurer or, if the Bond Insurer is in default under the Bond Insurance Policy, all owners of the Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture, and shall state that a copy thereof is on file at the offices of the Trustee for inspection by the Bond Insurer or all owners of the Bonds, as the case may be.

(C) Within one year after the date of such notice, the Authority may adopt such Supplemental Indenture in substantially the form described in such notice only if there shall have first been filed with the Authority (i) the written consent of the Bond Insurer or, if the Bond Insurer is in default under the Bond Insurance Policy, the written consent of the owners of not less than 51% in aggregate principal amount of the Bonds then Outstanding so affected, and

(ii) an opinion of counsel satisfactory to the Trustee stating that such Supplemental Indenture is authorized or permitted by this Indenture and complies with its terms, and that upon adoption it will be valid and binding upon the Authority in accordance with its terms. Each valid consent of a Bondholder shall be effective only if accompanied by proof of the owning, at the date of such consent, of the Bonds with respect to which such consent is given. A certificate or certificates by the Trustee that it has examined such proof and that such proof is sufficient in accordance with this Indenture shall be conclusive that the consents have been given by the owners of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of the Bonds giving such consent and upon any subsequent owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent owner thereof has notice thereof), unless such consent is revoked in writing by the owner of such Bonds giving such consent or a subsequent owner thereof by filing such revocation with the Trustee prior to the adoption of such Supplemental Indenture.

(D) If the owners of not less than the percentage of Bonds required by this Section, or the Bond Insurer, on their behalf, shall have consented to and approved the execution thereof as herein provided, no owner of any Bond shall have any right to object to the enactment of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Authority from adopting the same or from taking any action pursuant to the provisions thereof.

(E) Upon the adoption of any Supplemental Indenture pursuant to the provisions of this Section, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee, the Paying Agent, the Bond Insurer and all owners of Bonds then Outstanding shall thereafter be determined,

exercised and enforced under this Indenture, subject in all respects to such modifications and amendments.

SECTION 10.4. SUPPLEMENTAL INDENTURE PART OF THE INDENTURE. Any Supplemental Indenture adopted in accordance with the provisions of this Article shall thereafter form a part of this Indenture and all the terms and conditions contained in any such Supplemental Indenture as to any provisions authorized to be contained therein shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes. The Trustee shall execute any Supplemental Indenture adopted in accordance with the provisions of Sections 10.2 or 10.3 hereof; provided, however, that the Trustee may, but shall not be obligated to, enter into any such instrument which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

**ARTICLE XI
AMENDMENTS OF FINANCING DOCUMENTS**

SECTION 11.1. RIGHTS OF BORROWER. Anything herein to the contrary notwithstanding, any Supplemental Indenture under Article X hereof which affects in any manner any rights, powers, authority, duties or obligations of the Borrower under the Financing Documents or of any subsequent user of the Project or requires a revision of the Financing Documents or subsequent agreement with respect to the Project shall not become effective unless and until the Borrower or such subsequent user, as the case may be, shall have given its written consent signed by its duly Authorized Representative to such Supplemental Indenture.

SECTION 11.2. AMENDMENTS OF FINANCING DOCUMENTS NOT REQUIRING CONSENT OF OWNERS OF THE BONDS. The Authority and the Trustee may, without the consent of or notice to the owners of the Bonds or the Bond Insurer, consent to any amendment, change or modification of the Financing Documents for the purpose of

(i) curing any ambiguity or formal defect therein or which, in the judgment of the Trustee will not materially prejudice the Trustee or the owners of the Bonds or (ii) to make any other changes which do not materially adversely affect the interests of the owners of the Bonds, as evidenced to the Trustee by an opinion of counsel. The Trustee shall have no liability to any owner of the Bonds or any other person for any action taken by it in good faith pursuant to this Section.

SECTION 11.3. AMENDMENTS OF FINANCING DOCUMENTS REQUIRING CONSENT OF OWNERS OF THE BONDS. Except as provided in Section 11.2 hereof, the Authority and the Trustee shall not consent to any amendment, change or modification of the Financing Documents, including the substitution of an assignee for the Borrower and the release of the Borrower from the obligations of the Financing Documents, without mailing of notice and the written approval or consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case such amendment, change or modification shall require the mailing of notice and the written approval or consent of the owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding and so affected given and procured as in Section 10.3 hereof provided. If at any time the Borrower or a subsequent user of the Project shall request the consent of the Trustee to any such proposed amendment, change or modification, the Trustee shall cause notice of such proposed amendment, change or modification to be mailed in the same manner as is provided in Article X hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by the Bond Insurer or all owners of the Bonds, as the case may be.

ARTICLE XII
DISCHARGE OF INDENTURE

SECTION 12.1. DEFEASANCE. (A) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the owners of all Bonds the principal or Redemption Price, if applicable, interest and all other amounts due or to become due thereon or in respect thereof, and all other amounts due or to become due under the Financing Documents, at the times and in the manner stipulated therein and in this Indenture, and if all the fees, expenses and advances of the Trustee and all Paying Agents have been paid, then the pledge of any revenues or receipts from or in connection with the Financing Documents or the Project under this Indenture and the estate and rights hereby granted, and all covenants, agreements and other obligations of the Authority to the owners of the Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied and such Bonds shall thereupon cease to be entitled to any lien, benefit or security hereunder, except as to moneys or securities held by the Trustee or the Paying Agents as provided below in this subsection. At the time of such cessation, termination discharge and satisfaction, (1) the Trustee shall cancel and discharge the lien of this Indenture and execute and deliver to the Borrower all such instruments as may be appropriate to satisfy such lien and to evidence such discharge and satisfaction, and (2) the Trustee, the Authority and the Paying Agents shall pay over or deliver to the Borrower or on its order all moneys or securities held by them pursuant to the Indenture which are not required (a) for the payment of principal or Redemption Price, if applicable, or interest on Bonds not theretofore surrendered for such payment or redemption, or
(b) for the payment of all such other amounts due or to become due under the Financing Documents.

(B) Bonds or interest installments for the payment or redemption of which moneys (or Federal Securities, the principal of and interest on which when due, together with the moneys, if any, set aside at the same time, will provide funds sufficient for such payment or redemption) shall then be set aside and held in trust by the Trustee or Paying Agents, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section, if (a) in case any such Bonds are to be redeemed prior to maturity, all action necessary to redeem such Bonds shall have been taken and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (b) if the maturity or redemption date of any such Bond shall not then have arrived, provision shall have been made by deposit with the Trustee or other methods satisfactory to the Trustee for the payment to the owners of any such Bonds upon surrender thereof, whether or not prior to the maturity or redemption date thereof, of the full amount to which they would be entitled by way of principal or Redemption Price and interest and all other amounts then due under the Financing Documents to the date of such maturity or redemption, and provision satisfactory to the Trustee shall have been made for the mailing of a notice to the owners of such Bonds that such moneys are so available for such payment.

**ARTICLE XIII
GENERAL PROVISIONS**

SECTION 13.1. NOTICES. (A) Any notice, request, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by telegram, addressed as follows: if to the Authority, at 999 West Street, Rocky Hill, Connecticut 06067, Attention: Program Manager - Loan Administration; if to the Borrower, 93 Main Street, Clinton, Connecticut 06413, Attention: Vice President-Chief Financial Officer and Treasurer; if to the Trustee, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Administration; and if to the Bond Insurer, 1221 Avenue of the Americas, New York, New York 10020, Attention: Surveillance. A duplicate copy of each notice required to be given hereunder by the Trustee to either the Authority or the Borrower, shall also be given to the other. In addition, copies of all amendments to this Indenture which are consented to by the Bond Insurer, shall be sent to S&P. Any notice party may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

(B) Notice hereunder may be waived prospectively or retrospectively by the person entitled to such notice, but no waiver shall affect any notice requirement as to other persons.

SECTION 13.2. COVENANT AGAINST DISCRIMINATION. The Trustee agrees and warrants that in the performance of this Indenture it will not discriminate against any person or group of persons on the grounds of race, color, religion, national origin, age, sex, sexual orientation, marital status, physical or learning disability, political beliefs, mental retardation, or history of mental disorder in any manner prohibited by the laws of the United States or of the State.

SECTION 13.3. RIGHTS OF BOND INSURER. (A) Notwithstanding anything to the contrary contained herein, so long as the Bond Insurer is not in default on its payment obligations under the Bond Insurance Policy, such Bond Insurer shall at all times be deemed to be the exclusive owner of the Bonds insured pursuant to the Bond Insurance Policy issued by such Bond Insurer for the purposes of all approvals, consents, waivers or institution of any action and the direction of all remedies. To the extent that the Bond Insurer makes payment of principal of or interest on the Bonds, it shall become the owner of such Bonds, or shall be entitled to the right to payment of principal of or interest on such Bonds and shall be fully subrogated to all of the registered owner's rights thereunder, including the registered owner's right to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt of proof from the Bond Insurer as to payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt of proof from the Bond Insurer of the surrender or transfer of the Bonds by the registered owners thereof to the Bond Insurer. The Trustee shall deliver to the Bond Insurer or its designated agent a document in form and substance acceptable to the Trustee and the Bond Insurer or its designated agent confirming such subrogation rights.

(B) In the event that the principal of and/or interest on the Bonds shall be paid by the Bond Insurer pursuant to the terms of the Bond Insurance Policy, the Bonds shall remain Outstanding, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners shall continue to exist and the Bond Insurer shall be fully subrogated to all of the rights of such registered owners in accordance with the terms and conditions of subparagraph (A) above and the Bond Insurance Policy.

(C) Notwithstanding any provision in this Indenture or the Agreement to the contrary, the Bond Insurer shall have no rights under this Indenture or the Agreement, other than rights of subrogation

as herein provided to the extent that the Bond Insurer has made payments under the Bond Insurance Policy, in the event that the Bond Insurance Policy is not in effect or the Bond Insurer is in default on its payment obligations under the Bond Insurance Policy.

SECTION 13.4. BOND INSURER CONSENT. Notwithstanding any other provisions of this Indenture, unless the Bond Insurer is in default under the Bond Insurance Policy, the consent of the owners of Bonds for which a Bond Insurance Policy has been issued shall for purposes of this Indenture be deemed to have been obtained when the consent of the Bond Insurer is obtained, except in the cases where approval of all Bondowners is required as provided in Section

10.3 (A) hereof, in which case the consents of the Bondowners and the Bond Insurer shall be required. Notwithstanding any provision in this Indenture or the Agreement to the contrary, all provisions in this Indenture or the Financing Documents requiring the consent of the Bond Insurer shall have no force and effect if the Bond Insurance Policy is not in effect or if the Bond Insurer is in default under such Bond Insurance Policy.

SECTION 13.5. NOTICES TO THE BOND INSURER. While the Bond Insurance Policy is effect, the Trustee shall furnish to the Bond Insurer a copy of any notice to be given to the registered owners of the Bonds or any other party to this Indenture, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this Indenture relating to the security for the Bonds; and such additional information it may reasonably request.

Notwithstanding any other provision of this Indenture, the Trustee shall immediately notify the Bond Insurer at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default hereunder.

SECTION 13.6. PARTIES INTERESTED HEREIN. Except as otherwise specifically provided herein, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Trustee, the Bond Insurer, the Borrower, the Paying Agent and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, the Bond Insurer, the Borrower, the Paying Agent and the registered owners of the Bonds.

SECTION 13.7. BOND INSURER AS THIRD PARTY BENEFICIARY. To the extent that this Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this Indenture, the Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 13.8. EFFECTIVE DATE; COUNTERPARTS. This Indenture shall become effective on delivery. It may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 13.9. DATE FOR IDENTIFICATION PURPOSES ONLY. The date of this Indenture shall be for identification purposes only and shall not be construed to imply that this Indenture was executed on such date.

SECTION 13.10. SEPARABILITY OF INVALID PROVISIONS. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Connecticut Development Authority has caused these presents to be signed in its name and behalf by an Authorized Representative, and to evidence its acceptance of the trusts hereby created, U.S. Bank National Association, has caused these presents to be signed in its name and behalf by its duly authorized officer, as of the date first above written.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Name: Francis T. Gagliardo
Authorized Representative

U.S. BANK NATIONAL ASSOCIATION

By _____
Name: Cauna M. Silva
Title: Vice President

CONNECTICUT DEVELOPMENT AUTHORITY

AND

THE CONNECTICUT WATER COMPANY

LOAN AGREEMENT

DATED AS OF OCTOBER 1, 2003

**CONNECTICUT DEVELOPMENT AUTHORITY
\$14,930,000 WATER FACILITIES REFUNDING REVENUE BONDS
(THE CONNECTICUT WATER COMPANY PROJECT - 2003C SERIES)**

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CONNECTICUT DEVELOPMENT AUTHORITY

THE CONNECTICUT WATER COMPANY

LOAN AGREEMENT

THIS LOAN AGREEMENT, made and dated as of October 1, 2003, by and between the CONNECTICUT DEVELOPMENT AUTHORITY, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, and THE CONNECTICUT WATER COMPANY, a corporation organized and existing under the laws of the State of Connecticut,

WITNESSETH THAT:

WHEREAS, the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended (the "Act"), declares that there is a continuing need in the State (1) for industrial development and activity to provide and maintain employment and tax revenues and to control, abate and prevent pollution to protect the public health and safety, (2) for the development of recreation facilities to promote tourism, provide and maintain employment and tax revenues, and promote the public welfare, (3) for the development of commercial and retail sales and service facilities in urban areas to provide and maintain construction and permanent employment and tax revenues, to improve conditions of deteriorated physical development, slow economic growth and eroded financial health of the public and private sectors in urban areas and to revitalize the economy of urban areas, and (4) for assistance to public service businesses providing transportation and utility services in the State, and that the availability of financial assistance and suitable facilities are important inducements to industrial and commercial enterprises to remain or locate in the State and to provide industrial, recreation, urban and public service projects; and

WHEREAS, the Act provides that (1) the term "project" as used therein means any facility, plant, works, system, building, structure, utility, fixture or other real property improvement located in the State, and the land on which it is located or which is reasonably necessary in connection therewith, which is of a nature or which is to be used or occupied by any person for purposes which would constitute it as an economic development project, recreation project, urban project, public service project or health care project, and any real property improvement reasonably related thereto, and (2) a project may also include or consist exclusively of machinery, equipment or fixtures; and

WHEREAS, the Act provides that the Authority shall have power to determine the location and character of, and extend credit or make loans to any person for the planning, designing, acquiring, improving and equipping of, a project which may be secured by loan, lease or sale agreements, contracts and other instruments, upon such terms and conditions as the Authority shall determine to be reasonable, to require the inclusion in any contract, loan agreement or other instrument of such provisions for the construction, use, operation, maintenance and financing of the project as the Authority may deem necessary or desirable, to issue its bonds for such purposes, subject to the approval of the Treasurer of the State, and, as security for the payment of the principal or redemption price, if any, of and interest on any such bonds, to pledge or assign such a loan, lease or sale agreement and the revenues and receipts derived by the Authority from such a project; and

WHEREAS, the Authority has heretofore issued and sold \$15,000,000 of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1992 Series) (\$14,640,000 of which were outstanding as of the date of this Loan Agreement) (the "Prior Obligations"), the proceeds of which were used to refund in full the Authority's Water Facilities Revenue Bonds (The Connecticut

Water Company Project - 1987 Series) (the "1987 Bonds"), the proceeds of which were used to finance various capital improvements constituting a portion of the Borrower's existing water system (the "Project"); and

WHEREAS, the Authority has by a resolution adopted June 18, 2003 authorized the issuance of \$15,000,000 principal amount of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series) for the purpose of refunding in full the Prior Obligations; and

WHEREAS, pursuant to such resolution the Bonds (as hereinafter defined) are to be secured by an Indenture of Trust of even date herewith, by and between the Authority and U.S. Bank National Association, as Trustee; and

WHEREAS, the Bonds shall be special obligations of the Authority, payable solely from the revenues or other receipts, funds or monies to be derived by the Authority under this Agreement or the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds; and

WHEREAS, the Authority proposes with the proceeds of the Bonds to make a loan to the Borrower and the Borrower proposes to borrow such proceeds from the Authority for the purpose of refunding the Prior Obligations issued by the Authority to refund the 1987 Bonds, which 1987 Bonds were issued to finance the acquisition, construction and installation of the Project; and

WHEREAS, the Borrower acknowledges that the Authority is providing refinancing for the Project in furtherance of the Authority's corporate purposes under the Act, that the accomplishment of these purposes is dependent upon the compliance of the Borrower with its covenants contained in this Agreement, that the Authority has a resulting interest in the Project, and that the Borrower's use of and interest in the Project as provided hereby are in furtherance of the discharge of a public purpose; and

WHEREAS, the Connecticut Department of Public Utility Control (the "DPUC") has approved the issuance of the Note;

NOW, THEREFORE, in consideration of the premises and of the mutual representations, covenants and agreements herein set forth, the Authority and the Borrower, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows (provided that in the performance of the agreements of the Authority herein contained, any obligation it may incur for the payment of money shall not be an obligation, debt or liability of the State or any municipality thereof and neither the State nor any municipality thereof shall be liable on any obligation so incurred, but any such obligation shall be payable solely out of the revenues or other receipts, funds or monies to be derived by the Authority under this Agreement or the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds):

ARTICLE I
DEFINITIONS AND INTERPRETATION

SECTION 1.1. DEFINITIONS. For the purposes of this Agreement, the following words and terms shall have the respective meanings set forth as follows, and any capitalized word or term used but not defined herein is used as defined in the Indenture:

"Act" means the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended.

"Agreement" means this Loan Agreement and any amendments and supplements hereto.

"Authority" means the Connecticut Development Authority, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, duly organized and existing under the laws of the State, and any body, board, authority, agency or other political subdivision or instrumentality of the State which shall hereafter succeed to the powers, duties and functions thereof.

"Authorized Representative" means, in the case of the Authority, the Chairman or Vice Chairman, the President, any Executive Vice President, Deputy Director or any Senior Vice President or any Vice President thereof and, in the case of the Borrower, the Chairman, the President and Chief Executive Officer, the Vice President-Chief Financial Officer and Treasurer, and any Vice President, Assistant Treasurer or Secretary thereof and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"Beneficial Owner" shall have the meaning specified in Section 2.3(F) of the Indenture. If any person claims to the Trustee to be a Beneficial Owner, for purposes of Section 2.4(C) of the Indenture, such person shall prove such claim to the satisfaction of the Trustee with such documentation and signature guaranties as the Trustee may request.

"Bonds" means the \$14,930,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series) authorized and issued pursuant to Section 2.3 of the Indenture.

"Bond Counsel" means Winston & Strawn LLP or such other nationally recognized bond counsel selected by the Authority and reasonably satisfactory to the Borrower and the Trustee.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means XL Capital Assurance Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, and its successors and assigns.

"Borrower" means (i) The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in Section 6.1 hereof.

"Business Day" means any day (i) that is not a Saturday or Sunday, (ii) that is a day on which banks located in Hartford, Connecticut and New York, New York are not required or authorized to remain closed, (iii) that is a day on which banking institutions in all of the cities in which the principal offices of

the Trustee and the Paying Agent are located and are not required or authorized to remain closed and (iv) that is a day on which the New York Stock Exchange, Inc. is not closed.

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder.

"Debt Service Fund" means the special trust fund so designated, established pursuant to Section 5.1 of the Indenture.

"DTC" or "The Depository Trust Company" shall mean the limited-purpose trust company organized under the laws of the State of New York which shall act as securities depository for the Bonds, and any successor thereto.

"Determination of Taxability" means with respect to the Bonds (1) a ruling by the Internal Revenue Service, (2) the receipt by the owner of any of the Bonds from the Internal Revenue Service of a notice of assessment and demand for payment and (provided the Borrower has been afforded the opportunity to participate at its own expense in all appeals and proceedings to which such owner of the Bonds is a party relating to such assessment and demand for payment) the expiration of the appeal period provided therein if no appeal is taken or, if an appeal is taken by such owner as provided in Section 6.3 of this Agreement within the applicable appeal period which has the effect of staying the demand for payment, a final unappealable decision by a court of competent jurisdiction, or (3) the admission in writing by the Borrower, in any case to the effect that the interest on any Bonds is includable in the gross income for federal income tax purposes (other than for purposes of any alternative minimum tax, environmental tax or foreign branch profits tax) of an owner or former owner thereof, other than for a period during which such owner or former owner is or was a "Substantial User" of the Project financed by such Bonds or a "Related Person" as such terms are defined in the Code. For purposes of this definition, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry System is in effect.

"DPUC" means the State Department of Public Utilities Control.

"Disclosure Agreement" means the agreement by and between the Borrower and U.S. Bank National Association, as dissemination agent, dated the date of the initial delivery of the Bonds, providing for the provision of certain information subsequent to the issuance of the Bonds.

"Event of Default" means an Event of Default as defined in subsection 7.1 hereof.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel addressed to the Authority, the Bond Insurer, the Bank and the Trustee to the effect that the action proposed to be taken is not prohibited by the laws of the State or the Indenture and will not adversely affect any exclusion of interest on the Bonds from gross income for federal income tax purposes.

"Financing Documents" (1) when used with respect to the Borrower, means this Agreement, the Tax Regulatory Agreement, the Note, the Disclosure Agreement and the general certificate of the Borrower delivered in connection with the issuance of the Bonds, but shall not include the Mortgage, and (2) when used with respect to the Authority, means any of the foregoing documents and agreements to which the Authority is a direct party. The Financing Documents do not include any documents or agreements to which the Borrower is not a direct party, including the Bonds or the Indenture.

"Indenture" means the Indenture of Trust relating to the Bonds, of even date herewith, by and between the Authority and the Trustee, together with all indentures supplemental thereto made and entered into in accordance therewith.

"Interest Payment Date" shall mean March 1, 2004 and each March 1 and September 1 thereafter on which interest is payable on the Bonds as provided in the forms of the Bonds.

"Moody's" means Moody's Investors Services, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"Mortgage" means the Indenture of Mortgage and Deed of Trust, dated as of June 1, 1956, between the Borrower and U.S. Bank National Association (successor to The Connecticut Bank and Trust Company), as Mortgage Bond Indenture Trustee, as amended as of the date hereof and as may be amended hereafter.

"Mortgage Bond Indenture Trustee" means U.S. Bank National Association, acting as Mortgage Bond Indenture Trustee pursuant to the Mortgage.

"Net Proceeds" when used with respect to any insurance or condemnation award, means the gross proceeds from such award less all expenses (including attorney's fees and expenses and any extraordinary expenses) incurred by the Trustee in the collection thereof.

"Note" means the promissory note of the Borrower to the Authority, dated the date of initial delivery of the Bonds in the form attached as Appendix A to this Agreement, and any amendments or supplements made in conformity with this Agreement and the Indenture.

"Outstanding", when used with reference to a Bond or Bonds, as of any particular date, means all Bonds which have been authenticated and delivered under the Indenture, except:

(1) any Bonds canceled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee for cancellation;

(2) any Bond (or portion of a Bond) paid or redeemed or for the payment or redemption of which there has been separately set aside and held in the Debt Service Fund either:

(a) monies in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such monies to such payment on the date so specified; or

(b) obligations of the kind described in subsection 12.1(B) of the Indenture in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide monies in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such obligations to such payment on the date so specified; or

(c) any combination of (a) and (b) above;

(3) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article III of the Indenture; and

(4) any Bond deemed to have been paid as provided in subsection 12.1 of the Indenture.

"Paying Agent" means any paying agent for the Bonds appointed pursuant to Section 9.10 of the Indenture (and may include the Trustee), and its successor or successors and any other corporation which may at any time be substituted in its place in accordance with the Indenture.

"Permitted Encumbrances" mean, as of any particular date, (i) the lien of the Mortgage, (ii) liens and encumbrances permitted by the Mortgage, (iii) liens for taxes not yet due and payable, (iv) any lien created by this Agreement and the Indenture, (v) utility, access and other easements and rights-of-way, that will not interfere with or impair the value or use of the Project as herein provided, (vi) any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right in respect thereof if payment is not yet due and payable and for which statutory lien rights exist, (vii) such minor defects, irregularities, easements, and rights-of-way (including agreements with any railroad the purpose of which is to service the railroad siding) as normally exist with respect to property similar in character to the Project and which do not materially impair the value or use of the property affected thereby for the purpose for which it was acquired hereunder, and (viii) any mortgage, lien, security interest or other encumbrance to which the Authority and the Bond Insurer may consent as provided in Section 4.8 hereof.

"Principal User" means any principal user of the Project within the meaning of Section 144(a)(2)(B) of the Code, including without limitation any person who is a greater-than-10-percent-owner (or if none, the person(s) who holds the largest ownership interest in the Project), lessee or user of more than 10% of the Project measured either by occupiable space or fair rental value under any formal or informal agreement or, under the particular facts and circumstances, anyone who is a principal customer of the Project. The term "principal customer" means any person, who purchases output of the Project under a contract if the percentage of output taken or to be taken by such person, multiplied by a fraction the numerator of which is the term of such contract and the denominator of which is the economic life of the Project, exceeds 10%. In the case of a person who purchases output of an electric or thermal energy, gas, water or other similar facility, such person is a principal customer if the total output purchased by such person during any one year period beginning with the date the facility is placed in service is more than 10 percent of the facility's output during each such period. Co-owners or co-lessees who are shareholders in a corporation or who are collectively treated as a partnership subject to subchapter K under section 761(a) of the Code are not treated as Principal Users merely by reason of their ownership of corporate or partnership interests.

"Prior Obligations" means the \$14,640,000 aggregate principal amount of the Authority's Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1992 Series).

"Project" means the Borrower's interest in the Project Realty and other interests in the real property, and in all Project Equipment wherever located and whether now owned or hereafter acquired or refinanced in whole or in part with the proceeds of the Bonds and any additions and accessions thereto, substitutions therefor and replacements, improvements, extensions and restorations thereof, described in the appendices hereto, as amended from time to time in accordance with this Agreement.

"Project Equipment" means all personal property, goods, leasehold improvements, machinery, equipment, furnishings, furniture, fixtures, tools and attachments wherever located and whether now owned or hereafter acquired, refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements thereof, including, without

limitation the Project Equipment described in Appendix C hereto, as amended from time to time in accordance herewith.

"Project Realty" means the realty and other interests in the real property refinanced in whole or in part from the proceeds of the Bonds, together with all replacements, improvements, extensions, substitutions, restorations and additions thereto which are made pursuant hereto, including without limitation, the Project Realty described in Appendix B, as amended from time to time in accordance herewith.

"Redemption Price" means, when used with respect to a Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"Related Person" means, with respect to any Principal User, a person which is a related person (as defined in Section 144(a)(3) of the Code, and by reference to Sections 267, 707(b) and 1563(a) of the Code, except that 50% is to be substituted for 80% in Section 1563(a)).

"S&P" means Standard & Poor's Ratings Services, a division of McGraw Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation or division shall be dissolved, eliminated, reorganized, or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority at the direction of the Borrower, by notice to the Trustee and the Borrower.

"State" means the State of Connecticut.

"Substantial User" means any substantial user of the Project within the meaning of Section 147(a) of the Code.

"Supplemental Indenture" means any indenture supplemental to the Indenture or amendatory of the Indenture, adopted by the Authority in accordance with Article X of the Indenture.

"Tax Incidence Date" means the date as of which interest on the Bonds becomes or became includable in the gross income of the recipient thereof (other than the Borrower or another Substantial User or Related Person) for federal income tax purposes for any cause, as determined by a Determination of Taxability.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated as of the date of initial issuance and delivery of the Bonds, among the Authority, the Borrower and the Trustee, and any amendments and supplements thereto.

"Term", when used with reference to this Agreement, means the term of this Agreement determined as provided in Article III hereof.

"Trustee" means U.S. Bank National Association, and its successor or successors hereafter appointed in the manner provided in the Indenture.

SECTION 1.2. INTERPRETATION. IN THIS AGREEMENT:

- (1) The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms, as used in this Agreement, refer to this Agreement, and the term "hereafter" means after, and the term "heretofore" means before, the date of this Agreement.
- (2) Words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa.
- (3) Words importing persons include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons.
- (4) Any headings preceding the texts of the several Articles and Sections of this Agreement, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.
- (5) Nothing contained in this Agreement shall be construed to cause the Borrower to become the agent for the Authority or the Trustee for any purpose whatsoever, nor shall the Authority or the Trustee be responsible for any shortage, discrepancy, damage, loss or destruction of any part of the Project wherever located or for whatever cause.
- (6) All approvals, consents and acceptances required to be given or made by any person or party hereunder shall be at the sole discretion of the party whose approval, consent or acceptance is required.
- (7) All notices to be given hereunder shall be given in writing within a reasonable time unless otherwise specifically provided.
- (8) If any provision of this Agreement shall be ruled invalid by any court of competent jurisdiction, the invalidity of such provision shall not affect any of the remaining provisions hereof.

**ARTICLE II
REPRESENTATIONS AND WARRANTIES**

SECTION 2.1. REPRESENTATIONS BY THE AUTHORITY.

The Authority represents and warrants that:

- (1) It is a body corporate and politic constituting a public instrumentality and political subdivision of the State, duly organized and existing under the laws of the State including the Act. The Authority is authorized to issue the Bonds in accordance with the Act and to use the proceeds thereof to refund in full the Prior Obligations and refinance the Project.
- (2) The Authority has complied with the provisions of the Act and has full power and authority pursuant to the Act to consummate all transactions contemplated by the Bonds, the Indenture and the Financing Documents.
- (3) By resolution duly adopted by the Authority and still in full force and effect, the Authority has authorized the execution, delivery and due performance of the Bonds, the Indenture and the Financing Documents, and the taking of any and all action as may be required on the part of the Authority to carry out, give effect to and consummate the transactions contemplated by this Agreement and the Indenture, and all approvals necessary in connection with the foregoing have been received.
- (4) The Bonds have been duly authorized, executed, authenticated, issued and delivered, constitute valid and binding special obligations of the Authority payable solely from revenues or other receipts, funds or monies pledged therefor under the Indenture and from any amounts otherwise available under the Indenture, and are entitled to the benefit of the Indenture. Neither the State nor any municipality thereof is obligated to pay the Bonds or the interest thereon. Neither the faith and credit nor the taxing power of the State nor any municipality thereof is pledged for the payment of the principal, and premium, if any, of and interest on the Bonds.
- (5) The execution and delivery of the Bonds, the Indenture and the Financing Documents and compliance with the provisions thereof, will not conflict with or constitute on the part of the Authority a violation of, breach of or default under its by-laws or any statute, indenture, mortgage, deed of trust, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound, or, to the knowledge of the Authority, any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities or properties, and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the Authority of the transactions contemplated thereby have been obtained.
- (6) Subject to the provisions of this Agreement and the Indenture, the Authority will apply the proceeds of the Bonds to the purposes specified in the Indenture and the Financing Documents.
- (7) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting the Authority, or to the best knowledge of the Authority, any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated hereby or by the Indenture, or which, in any way, would adversely affect the validity of the Bonds, or the validity of or

enforceability of the Indenture or the Financing Documents, or any agreement or instrument to which the Authority is a party and which is used or contemplated for use in consummation of the transactions contemplated hereby and by the Indenture.

(8) It has not made any commitment or taken any action which will result in a valid claim for any finders or similar fees or commitments in respect of the transactions contemplated by this Agreement.

(9) The representations of the Authority set forth in the Tax Regulatory Agreement are by this reference incorporated in this Agreement as though fully set forth herein.

SECTION 2.2. REPRESENTATIONS BY THE BORROWER.

The Borrower represents and warrants that:

(1) The Borrower has been duly incorporated and validly exists as a corporation under the laws of the State of Connecticut, is not in violation of any provision of its certificate of incorporation or its by-laws, has corporate power to enter into and perform the Financing Documents, and by proper corporate action has duly authorized the execution and delivery of the Financing Documents.

(2) The Financing Documents constitute valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except to the extent that such enforceability may be limited by bankruptcy or insolvency or other laws affecting creditors' rights generally or by general principles of equity.

(3) Neither the execution and delivery of the Financing Documents, the consummation of the transactions contemplated thereby, nor the fulfillment by the Borrower of or compliance by the Borrower with the terms and conditions thereof is prevented or limited by or conflicts with or results in a breach of, or default under the terms, conditions or provisions of any contractual or other restriction of the Borrower, evidence of its indebtedness or agreement or instrument of whatever nature to which the Borrower is now a party or by which it is bound, or constitutes a material default under any of the foregoing. No event has occurred and no condition exists which, upon the execution and delivery of any Financing Documents, constitutes an Event of Default hereunder or an Event of Default thereunder or, but for the lapse of time or the giving of notice, would constitute an Event of Default hereunder or an Event of Default thereunder.

(4) There is no action or proceeding pending or, to the knowledge of the Borrower, threatened against the Borrower before any court, administrative agency or arbitration board that may materially and adversely affect the ability of the Borrower to perform its obligations under the Financing Documents and all authorizations, consents and approvals of governmental bodies or agencies required in connection with the execution and delivery of the Financing Documents and in connection with the performance of the Borrower's obligations hereunder or thereunder have been obtained.

(5) The execution, delivery and performance of the Financing Documents and any other instrument delivered by the Borrower pursuant to the terms hereof or thereof are within the corporate powers of the Borrower and have been duly authorized and approved by the board of directors of the Borrower and are not in contravention of law or of the Borrower's certificate of incorporation or by-laws, as amended to date, or of any undertaking or agreement to which the Borrower is a party or by which it is bound.

- (6) The Borrower represents that it has not made any commitment or taken any action which will result in a valid claim for any finders' or similar fees or commitments in respect of the transactions described in this Agreement other than the fees to various parties to the transactions contemplated hereby which have been heretofore paid or provided.
- (7) The Project is included within the definition of a "project" in the Act. The Borrower intends the Project to continue to be an authorized project under the Act during the Term of this Agreement.
- (8) All amounts shown in Schedule D of the Tax Regulatory Agreement are eligible costs of a project financed by bonds issued by the Authority under the Act, and may be refinanced by amounts in the Refunding Fund under the Indenture. None of the proceeds of the Bonds will be used directly or indirectly as working capital or to finance inventory.
- (9) The Project is in material compliance with all applicable federal, State and local laws and ordinances (including rules and regulations) relating to zoning, building, safety and environmental quality.
- (10) The availability of financial assistance from the Authority, among other factors, has induced the Borrower to locate the Project in the State. The Borrower does not presently intend to lease the Project.
- (11) The Borrower will not take or omit to take any action which action or omission will in any way cause the proceeds of the Bonds to be applied in a manner contrary to that provided in the Indenture and the Financing Documents as in force from time to time.
- (12) The Borrower has not taken and will not take any action and knows of no action that any other person, firm or corporation has taken or intends to take, which would cause interest on the Bonds to be includable in the gross income of the recipients thereof for federal income tax purposes. The representations, certifications and statements of reasonable expectation made by the Borrower in the Tax Regulatory Agreement and relating to Project description, composite issues, bond maturity and average asset economic life, use of Bond proceeds, arbitrage and related matters are hereby incorporated by this reference as though fully set forth herein.
- (13) The Borrower has good and marketable title in fee simple to the Project Realty subject only to Permitted Encumbrances and to irregularities or defects in title which may exist which do not materially impair the use of such properties in the Borrower's business.
- (14) The Borrower has good and merchantable title to the Project Equipment owned by the Borrower as of the date hereof, free and clear of liens and encumbrances, other than Permitted Encumbrances.
- (15) As of the date of hereof, except for the Mortgage, neither the Borrower, nor to its knowledge anyone acting on behalf of the Borrower, has entered into negotiations with any person for the purpose of undertaking any borrowing concurrently with or subsequent to the issuance of the Bonds and to be secured wholly or partially by a lien or encumbrance on the Project or any part thereof, and the Borrower has no present intention of undertaking any such borrowing.
- (16) The Borrower will use all of the proceeds of the Bonds to refund in full the Prior Obligations and to pay a portion of the costs of issuance of the Bonds.

**ARTICLE III
THE LOAN**

SECTION 3.1. LOAN CLAUSES. (A) Subject to the conditions and in accordance with the terms of this Agreement, the Authority agrees to make a loan to the Borrower from the proceeds of the Bonds in the amount of \$14,930,000 and the Borrower agrees to borrow such amount from the Authority.

(B) The loan shall be made at the time of delivery of the Bonds and receipt of payment therefor by the Authority against receipt by the Authority of the Note duly executed and delivered to evidence the pecuniary indebtedness of the Borrower hereunder. As and for the loan the Authority shall apply the proceeds of the Bonds as provided in the Indenture on the terms and conditions therein prescribed.

(C) On or before the third Business Day immediately preceding each due date for the payment of the principal of or interest on the Bonds, until the principal or Redemption Price, if any, of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Borrower shall make loan payments to the Trustee for the account of the Authority in an amount which, when added to any moneys then on deposit in the Debt Service Fund and available therefor, shall be equal to the amount payable on such due date with respect to the Bonds as provided in Section 5.3 of the Indenture, including amounts due for the payment of the principal of and interest on the Bonds. In addition, the Borrower shall pay to the Trustee, as and when the same shall become due, all other amounts due under the Financing Documents, together with interest thereon at the then applicable rate as set forth herein in Section 6.2(G). The Borrower shall have the option to prepay its loan obligation in whole or in part at the times and in the manner provided in Article VIII hereof.

(D) Anything herein to the contrary notwithstanding any amount at any time held in the Principal and Interest Account of the Debt Service Fund by the Trustee pursuant to this Section shall be credited against the next succeeding loan payment obligation of the Borrower as provided in subsection 3.1(C) hereof. If, on any due date for payments with respect to the Bonds, the balance in the Debt Service Fund is insufficient to make such payments, the Borrower agrees forthwith to pay to the Trustee by no later than 11:00 a.m. on such due date the amount of the deficiency. If at any time the amount held by the Trustee in the Debt Service Fund shall be sufficient to pay or provide for the payment of the Bonds in accordance with Section 12.1 of the Indenture, the Borrower shall not be obligated to make any further payments under the foregoing provisions.

SECTION 3.2. OTHER AMOUNTS PAYABLE. (A) The Borrower hereby further expressly agrees to pay to the Trustee as and when the same shall become due,

(i) an amount equal to the initial and annual fees of the Trustee for the ordinary services of the Trustee rendered and its ordinary expenses incurred under the Indenture, including fees and expenses as Paying Agent and the reasonable fees and expenses of Trustee's counsel, including fees and expenses as registrar and in connection with preparation and delivery of new Bonds upon exchanges or transfers, (ii) the reasonable fees and expenses of the Trustee and any Paying Agents on the Bonds for acting as paying agents as provided in the Indenture, including reasonable fees and expenses of its counsel, (iii) the reasonable fees and charges of the Trustee for extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, including reasonable counsel fees and expenses, and (iv) reasonable fees and expenses of Bond Counsel and the Authority for any future action requested of either.

(B) The Borrower also agrees to pay all amounts payable by it under the Financing Documents at the time and in the manner therein provided.

(C) The Borrower agrees to pay all Rebatable Arbitrages (and penalties, if any) due to the United States of America pursuant to Section 148 (f) of the Code.

(D) The Borrower also agrees to pay directly to the Authority on the date of issuance and delivery of the Bonds and on the second anniversary date of the date of issuance and delivery of the Bonds and each anniversary date thereafter, a fee equal to 1/8th of 1% of the principal amount of the Bonds Outstanding, such fee to be payable without notice, demand or invoice of any kind at the Authority's address as set forth herein or at such other address and to the attention of such other person, or to such account as the Authority may stipulate by written notice to the Borrower.

SECTION 3.3. MANNER OF PAYMENT. The payments provided for in Section 3.1 hereof shall be made by any reasonable method providing immediately available funds at the time and place of payment directly to the Trustee for the account of the Authority and shall be deposited in the Debt Service Fund. The additional payments provided for in Section 3.2 shall be made in the same manner directly to the entitled party or to the Trustee for its own use or disbursement to the Paying Agents, as the case may be.

SECTION 3.4. OBLIGATION UNCONDITIONAL. The obligations of the Borrower under the Financing Documents shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Authority or the Trustee. The Borrower will not suspend or discontinue any such payment or terminate this Agreement (other than in the manner provided for hereunder) for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, failure of title, or commercial frustration of purpose, or any damage to or destruction of the Project, or the taking by eminent domain of title to or the right of temporary use of all or any part of the Project, or any change in the tax or other laws of the United States, the State or any political subdivision of either thereof, or any failure of the Authority or the Trustee to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Financing Documents.

SECTION 3.5. SECURITIES CLAUSES. The Authority hereby notifies the Borrower and the Borrower acknowledges that, among other things, the Borrower's loan payments and all of the Authority's right, title and interest under the Financing Documents to which it is a party (except its rights under Sections 6.2, 6.4, 7.2(A)(2) and 7.3 hereof) are being concurrently with the execution and delivery hereof endorsed, pledged and assigned without recourse by the Authority to the Trustee as security for the Bonds as provided in the Indenture.

SECTION 3.6. ISSUANCE OF BONDS. The Authority has concurrently with the execution and delivery hereof sold and delivered the Bonds under and pursuant to a resolution adopted by the Authority on June 18, 2003, authorizing their issuance under and pursuant to the Indenture. The proceeds of sale of the Bonds shall be applied as provided in Articles IV and V of the Indenture.

SECTION 3.7. EFFECTIVE DATE AND TERM. (A) This Agreement shall become effective upon its execution and delivery by the parties hereto, shall remain in full force from such date and, subject to the provisions hereof (including particularly Articles VII and VIII), shall expire on such date as the Indenture shall be discharged and satisfied in accordance with the provisions of subsection 12.1(A) thereof. The Borrower's obligations under Sections 6.2 and 6.3 hereof, however, shall survive the expiration of this Agreement in accordance with the provisions of such Sections.

(B) Within 60 days of such expiration the Authority shall deliver to the Borrower any documents and take or cause the Trustee, at the Borrower's expense, to take any such reasonable actions as may be necessary to effect the cancellation, release and satisfaction of the Indenture and the Financing Documents.

SECTION 3.8. NO ADDITIONAL BONDS. No Additional Bonds on a parity with the Bonds may be issued under the Indenture.

**ARTICLE IV
THE PROJECT**

SECTION 4.1. COMPLETION OF THE PROJECT. (A) The Borrower represents and warrants that the Project has been completed and that all costs and expenses incurred in connection with the Project have been paid.

(B) The Borrower affirms that it shall bear all of the costs and expenses in connection with the preparation of the Financing Documents and the Indenture, the preparation and delivery of any legal instruments and documents necessary in connection therewith and their filing and recording, if required, and all taxes and charges payable in connection with any of the foregoing. Such costs shall be paid by the Borrower in the manner and to the extent provided in the Indenture.

SECTION 4.2. BORROWER CONTRIBUTION. The Borrower agrees to deposit with the Trustee on the date of issuance of the Bonds a contribution in the amount of \$499,250.56 (\$210,246.67 of which represents the amount of interest to accrue on the Prior Obligations from September 1, 2003 to November 29, 2003 and \$289,003.89 of which shall be applied to the payment of the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees), which amount shall be deposited by the Trustee in the Refunding Fund established pursuant to Section 5.1 of the Indenture.

SECTION 4.3. NO WARRANTY REGARDING CONDITION, SUITABILITY OR COST OF PROJECT. Neither the Authority, nor the Trustee, nor any Bondholder makes any warranty, either expressed or implied, as to the Project or its condition or that it will be suitable for the Borrower's purposes or needs, or that the insurance required hereunder will be adequate to protect the Borrower's business or interest.

SECTION 4.4. TAXES. (A) The Borrower will pay when due all material (1) taxes, assessments, water rates and sewer use or rental charges, (2) payments in lieu thereof which may be required by law, and (3) governmental charges and impositions of any kind whatsoever which may now or hereafter be lawfully assessed or levied upon the Project Realty and the Project Equipment or any part thereof, or upon the rents, issues, or profits thereof, whether directly or indirectly. With respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the Term.

(B) The Borrower may, at its expense and in its own name, in good faith contest any such taxes, assessments and other charges and payments in lieu of taxes including assessments and, in the event of such contest, may permit the taxes, assessments or other charges or payments in lieu of taxes, including assessments so contested to remain unpaid, provided either (1) prior written notice thereof has been given to the Authority and the Trustee and reserves satisfactory to the Authority are maintained during the period of such contest and any appeal therefrom, or (2) such contest is conducted in full compliance with Connecticut General Statutes Chapter 203 unless, in either case, by nonpayment of such taxes, assessments or other charges or payments, the Project or any part thereof will be subject to loss or forfeiture, and as a result thereof a lien or charge will be placed upon any payment pursuant to this Agreement or the value or operation of the Project Realty and the Project Equipment will be materially impaired, in which event such taxes, assessments or other charges or payments shall be paid forthwith. Nothing herein shall preclude the Borrower, at its expense and in its own name and behalf, from applying for any tax exemption allowed by the federal government, the State or any political or taxing subdivision thereof under any existing or future provision of law which grants or may grant such tax exemption.

SECTION 4.5. INSURANCE. (A) The Borrower shall insure the Project Realty and the Project Equipment against loss or damage by fire, flood, lightning, windstorm, vandalism and malicious mischief and other hazards, casualties, contingencies and extended coverage risks in such amounts and in such manner as is required by the Mortgage while the Mortgage is in effect and thereafter as is customary with companies in the same or similar business, and shall pay when due the premiums thereon. In the event of loss or damage to the Project Realty or Project Equipment the Net Proceeds of any insurance provided under this subsection shall be deposited with the Mortgage Bond Indenture Trustee as required by the Mortgage while the Mortgage is in effect and thereafter shall be applied to the manner set forth in Article V hereof. Any excess proceeds of insurance remaining after application as required by this Section shall be paid to the Borrower, but only if the Borrower is not in default under this Agreement. At least ten days prior to the expiration of any policy required under this Section the Borrower shall furnish evidence satisfactory to the Authority and the Trustee that such policy has been renewed or replaced.

(B) The Borrower further agrees that it will at all times carry public liability insurance with respect to the Project Realty and the Project Equipment to the extent required by the Mortgage while the Mortgage is in effect, and, thereafter, in a minimum amount of \$5,000,000 with provisions for a deductible amount not in excess of five percent of the amount of coverage thereunder. In the event of a public liability occurrence, the Net Proceeds of the insurance provided under this subsection shall be applied to satisfy or extinguish the liability, subject to the Mortgage.

(C) As an alternative to the hazard insurance and public liability insurance requirements of subsections (A) or (B) above the Borrower may, to the extent permitted by the Mortgage, self-insure against hazard or public liability risks if (1) self-insurance is the Borrower's customary method of insurance against such risks in similar circumstances, and (2) the Borrower maintains self-insurance reserves adequate and available to meet such risks, subject to the terms of the Mortgage while the Mortgage is in effect. Amounts available under any such self-insurance arrangement upon the occurrence of an insured event shall be applied in the same manner as the Net Proceeds of any insurance maintained pursuant to such subsections would have been applied.

(D) The insurance coverage required by this Section may be effected under overall blanket or excess coverage policies of the Borrower or any affiliate and may be carried with any insurer other than an unauthorized insurer under the Connecticut Unauthorized Insurers Act. The Borrower shall furnish evidence satisfactory to the Authority or the Trustee, promptly upon the request of either, that the required insurance coverage is valid and in force.

SECTION 4.6. COMPLIANCE WITH LAW. The Borrower will observe and comply with all material laws, regulations, ordinances, rules, and orders (including without limitation those relating to zoning, land use, environmental protection, air, water and land pollution, wetlands, health, equal opportunity, minimum wages, worker's compensation and employment practices) of any federal, state, municipal or other governmental authority relating to the Project Realty and the Project Equipment except during any period during which the Borrower at its expense and in its name shall be in good faith contesting its obligation to comply therewith.

SECTION 4.7. MAINTENANCE AND REPAIR. At its own expense, the Borrower will keep and maintain or cause the Project Realty and the Project Equipment to be kept and maintained in accordance with sound water utility operating practice and in good condition, working order and repair, will not commit or suffer any waste thereon, and will make all material repairs and replacements thereto which may be required in connection therewith. Nothing in this Section 4.7 shall (1) apply to any portion of the Project beyond its useful or economic life or (2) apply to the use and disposition by the Borrower of any part of the Project in the ordinary course of its business.

SECTION 4.8. DISPOSITION OF PROJECT REALTY BY BORROWER. (A) The Borrower shall not sell, assign, encumber (other than Permitted Encumbrances), convey or otherwise dispose of its interest in the Project Realty or any part thereof during the Term without the prior written consent of the Authority and the Bond Insurer, except as permitted hereby or by the Mortgage while the Mortgage is in effect.

(B) The Borrower may, however, grant such rights of way or easements over, across, or under, the Project Realty as shall be necessary or convenient for the operation or use of the Project Realty, including but not limited to easements or rights-of-way for utility, roadway, railroad or similar purposes in connection with the Project Realty, or for the use of the real property adjacent to or near the Project and owned by or leased to the Borrower, but only if such rights-of-way or easements shall not materially or adversely affect the value and operation of the Project Realty.

(C) In the event the Authority consents to any disposition of the Borrower's interest in the Project Realty, the proceeds of the disposition shall be deposited with the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter in the Redemption Account of the Debt Service Fund for the redemption of the Bonds under the Indenture. No conveyance or release effected under the provisions of this Section shall entitle the Borrower to any abatement or diminution of the amounts payable hereunder or under the Note, or relieve the Borrower of the obligation to perform all of its covenants and agreements under the Financing Documents.

SECTION 4.9. LEASING OF THE PROJECT REALTY AND THE PROJECT EQUIPMENT. The Borrower may not lease the Project Realty or the Project Equipment to any person during the Term of this Agreement without the prior written consent of the Authority, except as may be permitted by the Mortgage while the Mortgage is in effect. No lease shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any such lease the Borrower shall continue to remain primarily liable for payment of the applicable amounts specified in Article III hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it to the same extent as though no lease had been made.

SECTION 4.10. PROJECT EQUIPMENT. (A) The Borrower shall have the right to install, operate, use, remove and dispose of the Project Equipment in the normal and ordinary course of its business operations, and shall not be required to replace any item of Project Equipment which is discarded or sold for scrap. The Borrower shall not, however, either in one transaction or a series of transactions sell, convey, transfer, remove or otherwise dispose of more than 20% by value of the Project Equipment without prior notice to and the consent of the Authority, unless such Project Equipment is replaced by property of similar value and utility, provided that such dispositions may be made as permitted by the Mortgage while the Mortgage is in effect.

(B) The Borrower shall maintain with the Trustee separate and reasonably detailed descriptions of each item of property constituting the Project Equipment. Without limiting the foregoing, the Project Equipment list appended hereto at the date of execution and delivery of this Agreement shall be modified to the extent required by this Section in connection with any replacement of material items of Project Equipment under this Section or under Section 5.2 hereof.

**ARTICLE V
CONDEMNATION DAMAGE AND DESTRUCTION**

SECTION 5.1. NO ABATEMENT OF PAYMENTS HEREUNDER. If the Project Realty or Project Equipment shall be damaged or either partially or totally destroyed, or if title to or the temporary use of the whole or any part thereof shall be taken or condemned by a competent authority for any public use or purpose, there shall be no abatement or reduction in the amounts payable by the Borrower hereunder and the Borrower shall continue to be obligated to make such payments. In any such case the Borrower shall promptly give written notice thereof to the Authority and the Trustee.

SECTION 5.2. PROJECT DISPOSITION UPON CONDEMNATION, DAMAGE OR DESTRUCTION. In the event of any such condemnation, damage or destruction the Borrower, except as otherwise permitted or required by the Mortgage while the Mortgage is in effect shall:

(1) At its own cost, repair, restore or reconstruct the Project Realty and Project Equipment to substantially its condition immediately prior to such event or to a condition of at least equivalent value, regardless of whether or not the proceeds of any and all policies of insurance covering such damage or destruction, or the amount of the award or compensation or damages recovered on account of such taking or condemnation, shall be available or sufficient to pay the cost thereof;

(2) At its own cost, replace or relocate the Project Realty and Project Equipment at its site in such fashion as to render the replacement or relocated structures, improvements and items, machinery, equipment or other property of equivalent value to the Project Realty and Project Equipment immediately prior to such event; or

(3) If and as permitted by Section 8.1 hereof, exercise its option to prepay its loan obligation in full.

SECTION 5.3. APPLICATION OF NET PROCEEDS OF INSURANCE OR CONDEMNATION. (A) The Net Proceeds from any insurance or condemnation award with respect to the Project Realty or Project Equipment shall be deposited with the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter shall be deposited either (1) in the Renewal Fund and applied to pay for the cost of making such repairs, restorations, reconstructions, replacements or relocations, or to reimburse the Borrower, the Authority or the Trustee for payment therefor from time to time as provided in the Indenture or (2) if prepayment of the loan is then permitted and the Borrower exercises its option to prepay the loan, in the Debt Service Fund and applied to the payment of the Note and redemption of the Bonds.

(B) Notwithstanding the provisions of subsection (A) of this Section, any insurance or condemnation proceeds attributable to improvements, machinery, equipment and other property installed in or about the Project Realty and the Project Equipment, but which do not constitute a portion of the Project Realty and the Project Equipment, shall be paid directly to the Mortgage Bond Indenture Trustee while the Mortgage is in effect and thereafter as the Borrower may direct. The Trustee and the Authority agree to execute such documents as may be reasonably necessary to accomplish the purposes of this subsection.

(C) Subject to the applicable requirements of the Mortgage, the Borrower, the Authority and the Trustee shall cooperate and consult with each other in all matters pertaining to the settlement or adjustment of any and all claims and demands for damages on account of any taking or condemnation of the Project Realty or the Project Equipment or pertaining to the settlement, compromising or arbitration of any claim on account of any damage or destruction thereof.

ARTICLE VI COVENANTS

SECTION 6.1. THE BORROWER TO MAINTAIN ITS CORPORATE EXISTENCE; CONDITIONS UNDER WHICH EXCEPTIONS PERMITTED. (A) The Borrower covenants and agrees that, during the Term of this Agreement it will maintain its corporate existence, will continue to be a corporation either organized under the laws of or duly qualified to do business as a foreign corporation in the State and in all jurisdictions necessary in the operation of its business, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, except as permitted by the Mortgage while the Mortgage is in effect.

(B) The Borrower may, however, without violating the agreements contained in this Section, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entity and thereafter liquidate or dissolve, if (a) the Borrower is the surviving, resulting or transferee corporation, as the case may be, or (b) in the event the Borrower is not the surviving, resulting or transferee corporation, as the case may be, such corporation (i) is a solvent corporation either organized under the laws of or duly qualified to do business as a foreign corporation subject to service of process in the State and (ii) assumes in writing all of the obligations of the Borrower herein, and under the Note.

SECTION 6.2. INDEMNIFICATION, PAYMENT OF EXPENSES, AND ADVANCES. (A) The Borrower agrees to protect, defend and hold harmless the Authority, the State, agencies of the State, members, servants, agents, directors, officers and employees, now or forever, of the Authority or the State (each an "Authority Indemnified Party"), the Trustee and the Paying Agent, agents, directors, officers and employees, now or forever, of the Trustee and the Paying Agent (each an "Indemnified Party"), from any claim, demand, suit, action or other proceeding and any liabilities, costs, and expenses whatsoever by any person or entity whatsoever, arising or purportedly arising from or in connection with the Financing Documents, the Indenture, the Bonds, or the transactions contemplated thereby or actions taken thereunder by any person (including without limitation the filing of any information, form or statement with the Internal Revenue Service, if applicable), except for any willful and material misrepresentation, willful misconduct or gross negligence on the part of the Indemnified Party or the Authority Indemnified Party or any bad faith on the part of any indemnitee other than an Authority Indemnified Party.

The Borrower agrees to indemnify and hold harmless any Indemnified Party against any and all claims, demands, suits, actions or other proceedings and all liabilities, costs and expenses whatsoever caused by any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in the written information provided by the Borrower in connection with the issuance of the Bonds or incorporated by reference therein or caused by any omission or alleged omission from such information of any material fact relating to the Borrower or the Project required to be stated therein or necessary in order to make the statements made therein in the light of the circumstances under which they were made, not misleading.

(B) The Authority and the Trustee shall not be liable for any damage or injury to the persons or property of the Borrower or its members, directors, officers, agents, servants or employees, or any other person who may be about the Project due to any act or omission of any person other than the Authority or the Trustee, respectively, or their respective members, directors, officers, agents, servants and employees.

(C) The Borrower releases each Indemnified Party from, agrees that no Indemnified Party shall be liable for, and agrees to hold each Indemnified Party harmless against, any reasonable attorney

fees and expenses, expenses or damages incurred because of any investigation, review or lawsuit commenced by the Trustee or the Authority in good faith with respect to the Financing Documents, the Indenture, the Bonds and the Project and the Authority or the Trustee, as the case may be, shall promptly give written notice to the Borrower with respect thereto.

(D) All covenants, stipulations, promises, agreements and obligations of the Authority and the Trustee contained herein shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and the Trustee and not of any member, director, officer or employee of the Authority or the Trustee in its individual capacity, and no recourse shall be had for the payment of the Bonds or for any claim based thereon or hereunder against any member, director, officer or employee of the Authority or the Trustee or any natural person executing the Bonds.

(E) In case any action shall be brought against one or more of the Indemnified Parties based upon any of the above and in respect of which indemnity may be sought against the Borrower, such Indemnified Party shall promptly notify the Borrower in writing, enclosing a copy of all papers served, but the omission so to notify the Borrower of any such action shall not relieve it of any liability which it may have to any Indemnified Party otherwise than under this Section 6.2. In case any such action shall be brought against any Indemnified Party and it shall notify the Borrower of the commencement thereof, the Borrower shall be entitled to participate in and, to the extent that it shall wish, to assume the defense thereof with counsel satisfactory to such Indemnified Party, and after notice from the Borrower to such Indemnified Party of the Borrower's election so to assume the defense thereof, the Borrower shall not be liable to such Indemnified Party for any subsequent legal or other expenses attributable to such defense, except as set forth below, other than reasonable costs of investigation subsequently incurred by such Indemnified Party in connection with the defense thereof. The Indemnified Party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the employment of counsel by such Indemnified Party has been authorized by the Borrower, (ii) the Indemnified Party shall have reasonably concluded that there may be a conflict of interest between the Borrower and the Indemnified Party in the conduct of the defense of such action (in which case the Borrower shall not have the right to direct the defense of such action on behalf of the Indemnified Party); or (iii) the Borrower shall not in fact have employed counsel satisfactory to the Indemnified Party to assume defense of such action.

(F) The Borrower also agrees to pay all reasonable or necessary out-of-pocket expenses of the Authority and the Trustee in connection with the issuance of the Bonds, the administration of the Financing Documents and the enforcement of its rights thereunder, including without limitation the costs of preparation and distribution of closing transcripts relating thereto.

(G) In the event the Borrower fails to pay any amount or perform any act under the Financing Documents, the Trustee or the Authority may pay the amount or perform the act, in which event the costs, disbursements, expenses and reasonable counsel fees and expenses thereof, together with interest thereon from the date the expense is paid or incurred at the prime interest rate publicly announced from time to time by the Trustee as a commercial bank plus 1% shall be an additional obligation hereunder payable upon demand by the Authority or the Trustee.

(H) The Borrower shall defend, indemnify, and hold the Authority, its agents, members, officers and employees, and the Trustee and its agents, directors, officers and employees, harmless from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise, related to or in connection with the Project, arising out of, or in any way related to,

(i) the presence, disposal, release, or threatened release of any hazardous materials, asbestos, petroleum or petroleum by-products which are on, from, or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise, except in

compliance with all applicable federal, State and local laws or regulations; (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to hazardous materials, asbestos, petroleum or petroleum by-products; (iii) any lawsuit brought or threatened, settlement reached, or government order relating to such hazardous materials, asbestos, petroleum or petroleum by-products and/or (iv) any violation of laws, orders, regulations, requirements or demand of government authorities or any policies or requirements of the Authority which are based upon or in any way related to such hazardous materials, asbestos, petroleum or petroleum by-products including, without limitation, reasonable attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses. Notwithstanding the foregoing, the Borrower shall have no obligation to defend, indemnify and hold harmless the Authority or the Trustee or their respective agents, members, officers or employees under this Section 6.2(H) in the event and to the extent that any such claims, demands, penalties, fines, liabilities, settlements, damages, costs or other expenses arise out of or result from the willful misconduct or gross negligence of the Authority or the Trustee or their respective agents, members, officers or employees. The provisions of this paragraph shall be in addition to any and all other obligations and liabilities the Borrower may have to the Authority or the Trustee at common law, and shall survive the termination of this Agreement.

(I) Any obligation of the Borrower to the Authority under this Section shall be separate from and independent of the other obligations of the Borrower hereunder, and may be enforced directly by the Authority against the Borrower, irrespective of any action taken by or on behalf of the owners of the Bonds.

(J) The obligations of the Borrower under this section, notwithstanding any other provisions contained in the Financing Documents, shall survive the termination of this Agreement and shall be recourse to the Borrower, and for the enforcement thereof any Indemnified Party shall have recourse to the general credit of the Borrower.

SECTION 6.3. INCORPORATION OF TAX REGULATORY AGREEMENT; PAYMENTS UPON TAXABILITY. (A) For purpose of this Section, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry System is in effect.

(B) The representations, warranties, covenants and statements of expectation of the Borrower set forth in the Tax Regulatory Agreement are by this reference incorporated in this Agreement as though fully set forth herein.

(C) If any owner of the Bonds receives from the Internal Revenue Service a notice of assessment and demand for payment with respect to interest on any Bond (except a notice and demand based upon the assertion that the owner of the Bonds is a Substantial User or Related Person), an appeal may be taken by the owner of the Bonds at the option of either the owner of the Bonds or the Borrower. In either case all expenses of the appeal including reasonable counsel fees and expenses shall be paid by the party taking such appeal, and the owner of the Bonds and the Borrower shall cooperate and consult with each other in all matters pertaining to any such appeal, except that no owner of the Bonds shall be required to disclose or furnish any non-publicly disclosed information, including, without limitation, financial information and tax returns.

(D) Not later than 180 days following a Determination of Taxability, the Borrower shall pay to the Trustee an amount sufficient, when added to the amount then in the Debt Service Fund and available for such purpose, to retire and redeem all Bonds then Outstanding, in accordance with Section 2.4 of the Indenture.

(E) The obligation of the Borrower to make the payments provided for in this Section shall be absolute and unconditional, and the failure of the Authority or the Trustee to execute or deliver or cause to be executed or delivered any documents or to take any action required under this Agreement or otherwise shall not relieve the Borrower of its obligation under this Section. Notwithstanding any other provision of this Agreement or the Indenture, the Borrower's obligations under this Section shall survive the termination of this Agreement and the Indenture.

(F) The occurrence of a Determination of Taxability shall not be an Event of Default hereunder but shall require only the performance of the obligations of the Borrower stated in this Section, the breach of which shall constitute an Event of Default as provided in Section 7.1 hereof.

SECTION 6.4. PUBLIC PURPOSE COVENANTS. (A) The Borrower covenants that it will operate the Project for the purposes and in a manner consistent with its application for assistance to the Authority. The Borrower further covenants and agrees that it will, throughout the term of this Agreement, (1) comply with all applicable laws, regulations, ordinances, rules, and orders relating to the Project as provided in the Financing Documents, (2) maintain the Project in accordance with the Financing Documents, (3) not cause or permit the Project to become or remain a public nuisance, (4) not allow any change in the nature of the occupancy, use or operation of the Project which is substantially inconsistent with the Borrower's application for assistance to the Authority, except that the Borrower may, after notice to the Authority, permit any such change which does not disqualify the Project as an authorized project under the Act as in effect on the date hereof, and (5) except as permitted hereunder, not sell, assign, convey, further lease, sublease or otherwise dispose of title to the Project without the prior written consent of the Authority. Nothing in this Section is intended to require the Borrower to operate the Project in such manner as, in the good faith judgment of the Borrower, shall materially and adversely impair the use and operation of the Project.

(B) A breach of any covenant contained in this Section shall constitute an Event of Default but, in order to relieve the Authority of the consequences of unanticipated failure of consideration, shall permit only the exercise by the Authority of the remedies provided in Section 7.3 hereof.

SECTION 6.5. FURTHER ASSURANCES AND CORRECTIVE INSTRUMENTS. The Authority and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project Realty or Project Equipment or for carrying out the intention of or facilitating the performance of this Agreement.

SECTION 6.6. COVENANT BY BORROWER AS TO COMPLIANCE WITH INDENTURE. The Borrower covenants and agrees that it will comply with the provisions of the Indenture with respect to the Borrower and that the Trustee and the Bondholders shall have the power and authority provided in the Indenture. The Borrower further agrees to aid in the furnishing to the Authority or the Trustee of opinions that may be required under the Indenture. The Borrower covenants and agrees that the Trustee shall be entitled to and shall have all the rights, including the right to enforce against the Borrower the provisions of the Financing Documents, pertaining to the Trustee notwithstanding the fact that the Trustee is not a party to the Financing Documents.

SECTION 6.7. ASSIGNMENT OF AGREEMENT OR NOTE. (A) The Borrower may not assign its rights, interests or obligations hereunder or under the Note except as may be permitted pursuant to Section 6.1(B) hereof.

(B) The Authority agrees that it will not assign or transfer any of the Financing Documents or the revenues and other receipts, funds and monies to be received thereunder during the Term except to the Trustee as provided in this Agreement and the Indenture.

SECTION 6.8. INSPECTION. The Authority and its duly authorized agents shall have (1) the right at all reasonable times, and upon notice sufficient to permit the Borrower to take actions necessary to comply with any security regulations then in effect at the Project, to enter upon and to examine and inspect the Project Realty and the Project Equipment and (2) such rights of access thereto as may be reasonably necessary for the proper maintenance and repair thereof in the event of failure by the Borrower to perform its obligations under this Agreement. The Authority and the Trustee shall also be permitted, at all reasonable times, to examine the books and records of the Borrower with respect to the Project Realty and the Project Equipment.

SECTION 6.9. DEFAULT NOTIFICATION. Upon becoming aware of any condition or event which constitutes, or with the giving of notice or the passage of time would constitute, an Event of Default, the Borrower shall deliver to the Authority and the Trustee a notice stating the existence and nature thereof and specifying the corrective steps, if any, the Borrower is taking with respect thereto.

SECTION 6.10. COVENANT AGAINST DISCRIMINATION. (A) The Borrower in the performance of this Agreement will not discriminate or permit discrimination against any person or group of persons on the grounds of race, color, religion, national origin, age, sex, sexual orientation, marital status, physical or learning disability, political beliefs, mental retardation or history of mental disorder in any manner prohibited by the laws of the United States or of the State.

(B) The Borrower will comply with the provisions of the resolution adopted by the Authority on June 14, 1977, as amended, and the policy of the Authority implemented pursuant thereto concerning the promotion of equal employment opportunity through affirmative action plans. The resolution requires that all borrowers receiving financial assistance from the Authority adopt and implement an affirmative action plan prior to the closing of the loan. The plan shall be updated annually as long as the Bonds remain Outstanding.

SECTION 6.11. COVENANT TO PROVIDE DISCLOSURE. The Borrower hereby covenants and agrees that it will execute, comply with and carry out all of the provisions of the Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the Borrower to comply with the provisions of the Disclosure Agreement shall not be considered an Event of Default hereunder; however, the Trustee may, subject to the provisions of Article IX of the Indenture (and, at the request of the underwriter for the Bonds or the Holders of at least 25% aggregate principal amount in Outstanding Bonds, shall), or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borrower to comply with its obligations under this Section 6.11. For purposes of this Section, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

SECTION 6.12. COVENANT AGAINST ISSUING ADDITIONAL DEBT SECURED BY THE MORTGAGE. The Borrower shall not issue any additional debt secured by the Mortgage unless the Bonds are equally and ratably secured by the Mortgage.

SECTION 6.13. ANNUAL REPORTING REQUIREMENTS. (A) The Borrower shall provide to the Bond Insurer as soon as available, but not later than 120 days after the end of the respective party's fiscal year, (i) the annual audited financial statements of Connecticut Water Service, Inc.; (ii) the annual budget for

the succeeding year for Connecticut Water Service, Inc.; and (iii) the annual (unaudited) financial statements of the Borrower.

(B) Simultaneously with the delivery of the Borrower's annual (unaudited) financial statements, the Borrower shall also deliver to the Bond Insurer a statement of:

(i) the number of system users as of the end of the fiscal year;

(ii) notification of the withdrawal of any system user comprising 5% or more of the system sales measured in terms of revenue dollars since the last reporting date;

(iii) any significant plant retirements or expansions planned or undertaken since the last reporting date;

(iv) maximum and average daily usage for the fiscal year;

(v) updated capital plans for expansion and improvement projects; and

(vi) results of annual engineering inspections, if any, occurring at the end of the fiscal year.

(C) The Borrower will permit the Bond Insurer to discuss the affairs, finances and accounts of the Borrower or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Borrower. The Borrower will permit the Bond Insurer to have access to the Project and have access to and make copies of all books and records relating to the Bonds at any reasonable time.

(D) The Borrower shall provide the Bond Insurer with such additional information as the Bond Insurer may reasonably request.

ARTICLE VII EVENTS OF DEFAULT AND REMEDIES

SECTION 7.1. EVENTS OF DEFAULT. Any one or more of the following shall constitute an "Event of Default" hereunder:

(1) Any material representation or warranty made by the Borrower in the Financing Documents or any certificate, statement, data or information furnished in writing to the Authority or the Trustee by the Borrower in connection with the closing of the Bonds or included by the Borrower in its application to the Authority for assistance proves at any time to have been incorrect in any material respect when made.

(2) Failure by the Borrower to pay any interest, principal or premium, if any, that has become due and payable with respect to the Bonds and the continuance of such failure for more than five (5) Business Days.

(3) Failure by the Borrower to pay any amount, other than principal interest or premium with respect to the Bonds, that has become due and payable with respect to the Bonds or any other amount due and payable pursuant to the Financing Documents and the continuance of such failure for more than thirty (30) Business Days.

(4) Failure by the Borrower to comply with the default notification provisions of Section 6.9 hereof.

(5) The occurrence of an "Event of Default" under Section 8.1(A) of the Indenture.

(6) Failure by the Borrower to observe or perform any covenant, condition or agreement hereunder or under the Financing Documents (other than the Disclosure Agreement) (except those referred to above and except as provided in Section 6.3(G) hereof with respect to the occurrence of a Determination of Taxability which, in and of itself, shall not constitute an Event of Default hereunder but shall require only the performance of the obligations of the Borrower stated in Section 6.3(G) hereof, the breach of which shall constitute an Event of Default hereunder) and (a) continuance of such failure for a period of sixty (60) days after receipt by the Borrower of written notice specifying the nature of such failure or (b) if by reason of the nature of such failure the same cannot be remedied within the sixty-day period, the Borrower fails to proceed with reasonable diligence after receipt of the notice to cure the failure.

(7) The Borrower shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, (b) admit in writing its inability to pay its debts generally as they become due, (c) make a general assignment for the benefit of creditors, (d) be adjudicated a bankrupt or insolvent, or (e) commence a voluntary case under the federal bankruptcy laws of the United States of America or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization or insolvency proceeding; or corporate action shall be taken by it for the purpose of effecting any of the foregoing; or if without the application, approval or consent of the Borrower, a proceeding shall be instituted in any court of competent jurisdiction, seeking in respect of the Borrower an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of the Borrower or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the Borrower in good faith, the same shall continue undismissed, or pending and unstayed, for any period of 75 consecutive days.

(8) Failure by the Borrower to make when due any payment of principal or interest required under the provisions of any loan agreement (after the expiration of any applicable grace periods) to which the Authority and the Borrower are parties.

SECTION 7.2. REMEDIES ON DEFAULT. (A) Except as provided in Section 6.4(B) hereof, whenever any Event of Default shall have occurred, the Trustee, or the Authority where so provided herein, may take any one or more of the following actions:

(1) The Trustee, as and to the extent provided in Article VIII of the Indenture, may cause all amounts payable under the Financing Documents to be immediately due and payable without notice or demand of any kind, whereupon the same shall become immediately due and payable.

(2) The Authority, without the consent of the Trustee or any Bondholder, may proceed to enforce the obligations of the Borrower to the Authority under this Agreement.

(3) The Trustee may take whatever action at law or in equity it may have to collect the amounts then due and thereafter to become due, or to enforce the performance or observance of the obligations, agreements, and covenants of the Borrower under the Financing Documents.

(4) The Trustee may exercise any and all rights it may have under the Financing Documents.

(B) In the event that any Event of Default or any proceeding taken by the Authority (or by the Trustee on behalf of the Authority) thereon shall be waived or determined adversely to the Authority, then the Event of Default shall be annulled and the Authority and the Borrower shall be restored to their former rights hereunder, but no such waiver or determination shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 7.3. REMEDIES ON PUBLIC PURPOSE DEFAULT. (A) If the Borrower shall default in the performance of any of the covenants contained in Section 6.4 hereof, and in the event that such default shall also constitute an Event of Default under Section 7.1 hereof, such Event of Default shall continue for thirty (30) days without the Trustee or Bondholders instituting the remedial steps provided for in subsection 7.2 (A)(1) hereof or subsection 8.1(B) of the Indenture, then, in either case, the Authority may, so long as such Event of Default is continuing, send a notice to the Trustee calling for the acceleration of all of the Borrower's obligations under the Financing Documents and for the redemption of all of the Bonds then Outstanding. Any such notice shall set forth in reasonable detail the default by the Borrower giving rise thereto and shall specify the date upon which (1) notice of Bond redemption is to be given by the Trustee (which shall be not less than one hundred twenty days from the date of the Authority's determination notice) and (2) the redemption of the Bonds is to occur (which shall be at least thirty (30) days after notice of redemption is given by the Trustee). Within thirty (30) days following receipt of the notice, the Trustee shall forward a copy thereof to the Borrower and each registered Bondholder, together with a copy of Sections 6.4 and 7.3 of this Agreement.

(B) If, within sixty (60) days after the mailing of notice by the Trustee to the Borrower and the Bondholders, the Trustee receives no objection (as hereinbelow provided) to such redemption, the Trustee shall give such notice and effect the acceleration of the Borrower's obligations and the redemption of all Outstanding Bonds in accordance with the Authority's notice and pursuant to Section 2.4 (D) of the Indenture. If, however, the Borrower or any Bondholder disputes the existence of such Event of Default, the Borrower or such Bondholder shall mail a notice to the Authority and the Trustee containing a statement of such person's belief with respect to the claimed default. The receipt of such notice by the Trustee shall serve to suspend the proceedings for redemption of Bonds initiated by the Authority's notice of default.

(C) If upon receipt of such notice from the Borrower or any Bondholder, the Authority determines to affirm its earlier determination, either the Borrower or any Bondholder shall have the right to bring an action in any court of competent jurisdiction to enjoin the proceedings for the redemption of such Bonds, and during the pendency of any such action the redemption proceedings shall be suspended. Neither the Authority, the Borrower nor any Bondholder shall be responsible for any costs, fees, expenses, or reasonable counsel fees incurred by any other party in connection with any such action, other than the Trustee (whose costs, fees and expenses shall be paid by the Borrower). In the event the Authority is successful in such a proceeding, and a final judgment is rendered which is not appealable or appealed within sixty (60) days thereafter finding the Borrower in default under Section 6.4 hereof, the Trustee shall, promptly upon receipt of notice from the Authority of the entry of the decision, give notice of the redemption of all Outstanding Bonds under Section 6.3 of the Indenture, and redeem all such Bonds upon the date fixed for redemption in the notice (which shall be no more than thirty-five (35) days after the notice is given). In the event the Borrower or such Bondholders are successful in such a

proceeding, and a final judgment is rendered which is not appealable or appealed within sixty (60) days thereafter finding the Borrower not to be in default under Section 6.4 hereof, all proceedings for the redemption of Bonds commenced under this Section shall be terminated. No such judgment, however, shall prejudice the exercise of the Authority's rights under this Section upon the occurrence of such subsequent failure of performance under Section 6.4 hereof.

(D) Within fifteen (15) days of the date the Trustee gives notice of any redemption of Bonds pursuant to Section 7.3(B) above and subject to the last sentence of Section 7.3(B) above, the Borrower shall pay as a final loan payment a sum sufficient, together with other funds on deposit with the Trustee and available for such purpose, to redeem all Bonds then Outstanding under the Indenture at 100% of the principal amount thereof plus accrued interest to the redemption date. The Borrower shall also pay or provide for all reasonable and necessary fees and expenses of the Trustee and any Paying Agent accrued and to accrue through the date of redemption of all such Bonds.

(E) Nothing contained in this Section shall be deemed to prevent the Authority or the Borrower from seeking equitable relief if it asserts or disputes, as the case may be, the existence of an event of a public purpose default.

SECTION 7.4. NO DUTY TO MITIGATE DAMAGES. Unless otherwise required by law, neither the Authority, the Trustee nor any Bondholder shall be obligated to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to the Borrower if an Event of Default shall occur.

SECTION 7.5. REMEDIES CUMULATIVE. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies but each and every such remedy shall be cumulative and shall be in addition to every remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. Delay or omission to exercise any right or power accruing upon any default or failure by the Authority or the Trustee to insist upon the strict performance of any of the covenants and agreements herein set forth or to exercise any rights or remedies upon default by the Borrower hereunder shall not impair any such right or power or be considered or taken as a waiver or relinquishment for the future of the right to insist upon and to enforce, by injunction or other appropriate legal or equitable remedy, strict compliance by the Borrower with all of the covenants and conditions hereof, or of the right to exercise any such rights or remedies, if such default by the Borrower be continued or repeated.

**ARTICLE VIII
PREPAYMENT PROVISIONS**

SECTION 8.1. OPTIONAL PREPAYMENT. (A) The Borrower shall have, and is hereby granted, the option to prepay its loan obligation at any time, and from time to time, on or after September 1, 2008 and to cause the corresponding optional redemption of the Bonds pursuant to Section 2.4(A) of the Indenture at such times, in such amounts, and with such premium, if any, for such optional redemption as set forth in the form of the Bond, by delivering a written notice to the Trustee in accordance with Section 8.2 hereof, with a copy to the Authority, setting forth the amount to be prepaid, the amount of Bonds requested to be redeemed with the proceeds of such prepayment, and the date on which such Bonds are to be redeemed. Such prepayment must be sufficient to provide monies for the payment of interest and Redemption Price in accordance with the terms of the Bonds requested to be redeemed with such prepayment and all other amounts then due under the Financing Documents. In the event of any complete prepayment of its loan obligation, the Borrower shall, at the time of such prepayment, also pay or provide for the payment of all reasonable or necessary fees and expenses of the Authority, the Trustee and the Paying Agent accrued and to accrue through the final payment of all the Bonds. Any such prepayments shall be applied to the redemption of Bonds in the manner provided in Section 6.2 of the Indenture, and credited against payments due hereunder in the same manner.

(B) The Borrower shall have, and is hereby granted, the option to prepay its loan obligation in full at any time without premium if any of the following events shall have occurred, as evidenced in each case by the filing with the Trustee of a certificate of an Authorized Representative of the Borrower to the effect that one of such events has occurred and is continuing, and describing the same:

(1) The Project shall have been damaged or destroyed to such extent that (a) the Project cannot be reasonably restored within a period of six (6) months from the date of such damage or destruction to the condition thereof immediately preceding such damage or destruction, or (b) the Borrower is thereby prevented or likely to be prevented from carrying on its normal operation of the Project for a period of six (6) months from the date of such damage or destruction.

(2) Title to or the temporary use of all or substantially all of the Project shall have been taken or condemned by a competent authority, which taking or condemnation results or is likely to result in the Borrower being thereby prevented or likely to be prevented from carrying on its normal operation of the Project for a period of six (6) months.

(3) A change in the Constitution of the State or of the United States of America or legislative or executive action (whether local, state, or federal) or a final decree, judgment or order of any court or administrative body (whether local, state, or federal) that causes this Agreement to become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed herein or, imposes unreasonable burdens or excessive liabilities upon the Borrower with respect to the Project or the operation thereof.

(4) The operation of any of the Project shall have been enjoined or shall otherwise have been prohibited by any order, decree, rule or regulation of any court or of any local, state, or federal regulatory body, administrative agency or other governmental body for a period of not less than six months.

(5) Changes in the economic availability of raw materials, operating supplies or facilities necessary for the operation of the Project or technological or other changes shall have occurred which the Borrower cannot reasonably overcome or control and which in the

Borrower's reasonable judgment renders the Project unsuitable or uneconomic for the purposes herein specified or any tax shall be levied upon payments due under the Note in an amount which the Borrower in its reasonable judgment believes imposes an unreasonable burden upon the Borrower.

In any such case the final loan payment shall be a sum sufficient, together with other funds deposited with Trustee and available for such purpose, to redeem all Bonds then Outstanding under the Indenture at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date and all other amounts then due under the Financing Documents, and the Borrower shall also pay or provide for all reasonable or necessary fees and expenses of the Authority, the Trustee and Paying Agent accrued and to accrue through final payment for the Bonds. The Borrower shall deliver a written notice to the Trustee, with a copy to the Authority, requesting the redemption of the Bonds under the Indenture, which notice shall have attached thereto the applicable certificate of the Authorized Representative of the Borrower.

SECTION 8.2. NOTICES AND SOURCES OF PREPAYMENT. To exercise any options granted in this Article, or to consummate the acceleration of the loan payments as set forth in this Article, the written notice to the Trustee shall be signed by an Authorized Representative of the Borrower and shall specify therein the date of prepayment, which date shall be not less than thirty-five days nor more than ninety days from the date the notice is mailed. A duplicate copy of any written notice hereunder shall also be filed with the Authority by the Borrower.

SECTION 8.3. MANDATORY PREPAYMENT ON TAXABILITY. The Borrower shall pay or cause the prepayment of its loan obligation following a Determination of Taxability in the manner provided in Section 6.3 of this Agreement.

SECTION 8.4. MANDATORY PREPAYMENT FOR DECEASED BONDHOLDER REDEMPTION. The Borrower is unconditionally obligated, upon its receipt of notice from the Trustee pursuant to Section 2.4(D) of the Indenture, to prepay its loan obligation in amounts sufficient to permit redemption of Bonds eligible for redemption as specified in Section 2.4(D) of the Indenture. Any such prepayments shall be made not later than the date of such redemption and applied to the redemption of Bonds in the manner provided in Section 2.4(D) of the Indenture, and credited against payments due hereunder.

**ARTICLE IX
GENERAL**

SECTION 9.1. INDENTURE. (A) Monies received from the sale of the Bonds and all loan payments made by the Borrower and all other monies received by the Authority or the Trustee under the Financing Documents shall be applied solely and exclusively in the manner and for the purposes expressed and specified in the Indenture and in the Bonds and as provided in this Agreement.

(B) The Borrower shall have and may exercise all the rights, powers and authority given the Borrower in the Indenture and in the Bonds, and the Indenture and the Bonds shall not be modified, altered or amended in any manner which adversely affects such rights, powers and authority or otherwise adversely affects the Borrower without the prior written consent of the Borrower.

SECTION 9.2. BENEFIT OF AND ENFORCEMENT BY BONDHOLDERS. The Authority and the Borrower agree that this Agreement is executed in part to induce the purchase by others of the Bonds and for the further securing of the Bonds, and accordingly that all covenants and agreements on the part of the Authority and the Borrower as to the amounts payable with respect to the Bonds hereunder are hereby declared to be for the benefit of the holders from time to time of the Bonds and may be enforced as provided in the Indenture on behalf of the Bondholders by the Trustee.

SECTION 9.3. FORCE MAJEURE. In case by reason of force majeure either party hereto shall be rendered unable wholly or in part to carry out its obligations under this Agreement, then except as otherwise expressly provided in this Agreement, if such party shall give notice and full particulars of such force majeure in writing to the other party within a reasonable time after occurrence of the event or cause relied on, the obligations of the party giving such notice, other than the obligation of the Borrower to make the payments required under the terms hereof or of the Note, so far as they are affected by such force majeure, shall be suspended during the continuance of the inability then claimed which shall include a reasonable time for the removal of the effect thereof, but for no longer period, and such parties shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure", as employed herein, means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, orders of any kind of the Government of the United States, of the State or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, volcanoes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other similar or different cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of existing or impending strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party having the difficulty and that the above requirements that any force majeure shall be reasonably beyond the control of the party and shall be remedied with all reasonable dispatch shall be deemed to be fulfilled even though such existing or impending strikes, lockouts and other industrial disturbances may not be settled and could have been settled by acceding to the demands of the opposing person or persons.

SECTION 9.4. AMENDMENTS. This Agreement may be amended only with the concurring written consent of the Trustee and, if required by the Indenture, of the owners of the Bonds given in accordance with the provisions of the Indenture.

SECTION 9.5. NOTICES. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or when mailed by registered or certified mail, postage prepaid, addressed as follows: if to the Authority, at 999 West Street, Rocky Hill, Connecticut 06067, Attention: Program Manager - Loan Administration; if to the Borrower, 93 Main Street, Clinton, Connecticut 06413 Attention: Vice President-Chief Financial Officer and Treasurer; if to

the Paying Agent, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Department; if to the Trustee, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Administration; and if to the Bond Insurer, 1221 Avenue of the Americas, New York, New York 10020, Attention: Surveillance. A duplicate copy of each notice, certificate or other communication given hereunder by either the Authority or the Borrower to the other shall also be given to the Trustee and the Bond Insurer. In addition, copies of all amendments to this Agreement which are consented to by the Bond Insurer shall be sent to S&P. The Authority, the Borrower, the Paying Agent, the Trustee and the Bond Insurer may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.6. PRIOR AGREEMENTS SUPERSEDED. This Agreement, together with all agreements executed by the parties concurrently herewith or in conjunction with the sale of the Bonds, shall completely and fully supersede all other prior understandings or agreements, both written and oral, between the Authority and the Borrower relating to the lending of money and the Project, including those contained in any commitment letter executed in anticipation of the issuance of the Bonds but excluding agreements entered into in connection with the financing of the Project with other bonds previously issued by the Authority.

SECTION 9.7. EXECUTION OF COUNTERPARTS. This Agreement may be executed simultaneously in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 9.8. TIME. All references to times of day in this Agreement are references to New York City time.

SECTION 9.9. SEPARABILITY OF INVALID PROVISIONS. In case any one or more of the provisions contained in this Agreement or in the Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

SECTION 9.10. THIRD PARTY BENEFICIARIES. The Authority and the Borrower agree that the Trustee, the Paying Agent and the Bond Insurer shall be third party beneficiaries of this Agreement to the extent that any of the provisions hereof relate to or provide rights to the Trustee, the Paying Agent or the Bond Insurer.

SECTION 9.11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut, without reference to its choice of law principles.

IN WITNESS WHEREOF, the Authority has caused this Agreement to be executed in its corporate name by a duly Authorized Representative, and the Borrower has caused this Agreement to be executed in its corporate name by its duly authorized officer all as of the date first above written.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Name: Francis T. Gagliardo
Authorized Representative

THE CONNECTICUT WATER COMPANY

By _____
Name: David C. Benoit
Title: Vice President Finance and
Chief Financial Officer

APPENDIX A

THE CONNECTICUT WATER COMPANY

**FORM OF
PROMISSORY NOTE
2003C SERIES**

No. 1 \$14,930,000

The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut (the "Borrower"), for value received, hereby promises to pay to the order of the Connecticut Development Authority (the "Authority"), the principal sum of \$14,930,000.00 together with interest on the unpaid principal balance thereof from the date hereof until fully and finally paid, on the applicable Interest Payment Dates together with all taxes levied or assessed on this Note or the debt evidenced hereby against the holder hereof. This Note shall bear interest at the rate of interest borne by the Bonds referred to below.

This Note has been executed under and pursuant to a Loan Agreement, dated as of October 1, 2003, between the Authority and the Borrower (the "Agreement"). This Note is issued to evidence the obligation of the Borrower under the Agreement to repay the loan made by the Authority from the proceeds of its \$14,930,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series) (the "Bonds"), together with interest thereon and all other amounts, fees, penalties, premiums, adjustments, expenses, reasonable counsel fees and other payments of any kind required to be paid by the Borrower under the Agreement. The Agreement includes provision for mandatory and optional prepayment of this Note as a whole or in part. Advances made pursuant to Section 6.2 of the Agreement shall bear interest at the rate specified in accordance therewith.

The Agreement and this Note (hereinafter, together with the Tax Regulatory Agreement, collectively referred to as the "Financing Documents") have been assigned to U.S. Bank National Association (the "Trustee") acting pursuant to an Indenture of Trust, dated as of October 1, 2003 (the "Indenture"), between the Authority and the Trustee. Such assignment is made as security for the payment of the Bonds issued by the Authority pursuant to the Indenture.

As provided in the Agreement and subject to the provisions thereof, payments hereon are to be made at the corporate trust office of U.S. Bank National Association in Hartford, Connecticut, or at the office designated for such payment by any successor trustee in an amount which, together with other moneys available therefor pursuant to the Indenture, will equal the amount payable as principal or Redemption Price, if any, of and interest on the Bonds outstanding under the Indenture on each such due date.

The Borrower shall make payments on this Note on the dates and in the amounts specified herein and in the Agreement and in addition shall make such other payments as are required pursuant to the Financing Documents, the Indenture and the Bonds. Upon the occurrence of an Event of Default, as defined in any of the Financing Documents, the principal of and interest on this Note may be declared immediately due and payable as provided in the Agreement. Upon any such declaration the Borrower shall pay all cost, disbursements, expenses and reasonable counsel fees of the Authority and the Trustee in seeking to enforce their rights under any of the Financing Documents.

THE BORROWER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES ITS RIGHTS TO NOTICE AND HEARING UNDER CHAPTER 903a OF THE CONNECTICUT GENERAL STATUTES, OR AS OTHERWISE ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER HEREOF MAY DESIRE TO USE. The Borrower further (1) waives diligence, demand, presentment for payment, notice of nonpayment, protest and notice of protest, notice of any renewals or extension of this Note, and all rights under any statute of limitations, (2) agrees that the time for payment of this Note may be changed and extended in accordance with the provisions of the Indenture, and (3) consents to the release of all or any part of the security for the payment thereof at the discretion of the Trustee or the release of any party liable for this obligation without affecting the liability of the other parties hereto. Any delay on the part of the Authority or the Trustee in exercising any right hereunder shall not operate as a waiver of any such right, and any waiver granted with respect to one default shall not operate as a waiver in the event of any subsequent default.

IN WITNESS WHEREOF, The Connecticut Water Company has caused this Note to be executed in its corporate name by its duly authorized officer, dated October 30, 2003.

THE CONNECTICUT WATER COMPANY

By: _____

Name:

Authorized Representative

AUTHORITY ENDORSEMENT

Pay to the order of U.S.Bank National Association, as Trustee, without recourse.

CONNECTICUT DEVELOPMENT AUTHORITY

By: _____
Name: Francis T. Gagliardo
Authorized Representative

APPENDIX B

DESCRIPTION OF PROJECT REALTY

[TO COME]

APPENDIX C

DESCRIPTION OF PROJECT EQUIPMENT

[TO COME]

CONNECTICUT DEVELOPMENT AUTHORITY

TO

U.S. BANK NATIONAL ASSOCIATION,

AS TRUSTEE

INDENTURE OF TRUST

DATED AS OF OCTOBER 1, 2003

CONNECTICUT DEVELOPMENT AUTHORITY
\$14,930,000 WATER FACILITIES REFUNDING REVENUE BONDS
(THE CONNECTICUT WATER COMPANY PROJECT - 2003C SERIES)

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THIS INDENTURE OF TRUST, made and dated as of October 1, 2003, by and between the CONNECTICUT DEVELOPMENT AUTHORITY, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut, and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America, with a corporate trust office located in Hartford, Connecticut, as Trustee,

WITNESSETH THAT:

WHEREAS, the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended (the "Act"), declares that there is a continuing need in the State (1) for industrial development and activity to provide and maintain employment and tax revenues and to control, abate and prevent pollution to protect the public health and safety, (2) for the development of recreation facilities to promote tourism, provide and maintain employment and tax revenues, and promote the public welfare, (3) for the development of commercial and retail sales and service facilities in urban areas to provide and maintain construction and permanent employment and tax revenues, to improve conditions of deteriorated physical development, slow economic growth and eroded financial health of the public and private sectors in urban areas and to revitalize the economy of urban areas, and (4) for assistance to public service businesses providing transportation and utility services in the State, and that the availability of financial assistance and suitable facilities are important inducements to industrial and commercial enterprises to remain or locate in the State and to provide industrial, recreation, urban and public service projects; and

WHEREAS, the Act provides that (1) the term "project" as used therein means any facility, plant, works, system, building, structure, utility, fixture or other real property improvement located in the State, and the land on which it is located or which is reasonably necessary in connection therewith, which is of a nature or which is to be used or occupied by any person for purposes which would constitute it as an economic development project, recreation project, urban project, public service project or health care project, and any real property improvement reasonably related thereto, and (2) a project may also include or consist exclusively of machinery, equipment or fixtures; and

WHEREAS, the Act provides that the Authority shall have power to determine the location and character of, and extend credit or make loans to any person for the planning, designing, acquiring, improving and equipping of, a project which may be secured by loan, lease or sale agreements, contracts and other instruments, upon such terms and conditions as the Authority shall determine to be reasonable, to require the inclusion in any contract, loan agreement or other instrument of such provisions for the construction, use, operation, maintenance and financing of the project as the Authority may deem necessary or desirable, to issue its bonds for such purposes, subject to the approval of the Treasurer of the State, and, as security for the payment of the principal or redemption price, if any, of and interest on any such bonds, to pledge or assign such a loan, lease or sale agreement and the revenues and receipts derived by the Authority from such a project; and

WHEREAS, the Authority has heretofore issued and sold \$15,000,000 of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1992 Series) (\$14,640,000 of which were outstanding as of the date of this Indenture) (the "Prior Obligations"), the proceeds of which were used to refund in full the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1987 Series), the proceeds of which were used to finance various capital improvements constituting a portion of the Borrower's existing water system (the "Project"); and

WHEREAS, the Authority has by a resolution adopted on June 18, 2003 authorized the issuance of \$8,000,000 principal amount of its Water Facilities Refunding Revenue Bonds (The Connecticut Water Company - 2003C Series) for the purpose of refunding in full the Prior Obligations; and

WHEREAS, the Authority has determined that the issuance, sale and delivery of the Bonds, as hereinafter provided, is needed to refinance the cost of the Project, and concurrently herewith the Authority and the Borrower have entered into a Loan Agreement, dated as of October 1, 2003, providing for a loan by the Authority to the Borrower for such purpose in an amount equal to the principal amount of the Bonds; and

WHEREAS, the Connecticut Department of Public Utility Control (the "DPUC") has approved the issuance of the Note; and

WHEREAS, the Bonds shall be special obligations of the Authority, payable solely out of the revenues and other receipts, funds or monies derived by the Authority under the Agreement or the Indenture and from any amounts otherwise available under this Indenture for the payment of the Bonds; and

WHEREAS, the Bonds are to be originally issued as fully registered bonds and such Bonds and the Trustee's certificate of authentication to be endorsed thereon shall be in substantially the following form, with appropriate variations, omissions and insertions as permitted or required by this Indenture, to wit:

[FORM OF BOND]

No. R- \$

NEITHER THE STATE OF CONNECTICUT NOR ANY MUNICIPALITY THEREOF IS OBLIGATED TO PAY, AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE OF CONNECTICUT NOR ANY MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF, THE PRINCIPAL, PREMIUM, IF ANY, OF OR INTEREST ON THIS BOND.

XL CAPITAL ASSURANCE INC. (THE "BOND INSURER"), NEW YORK, NEW YORK, HAS DELIVERED ITS MUNICIPAL BOND INSURANCE POLICY (THE "BOND INSURANCE POLICY") WITH RESPECT TO THE SCHEDULED PAYMENTS DUE OF PRINCIPAL OF, AND INTEREST ON, THIS BOND TO U.S. BANK NATIONAL ASSOCIATION OR ITS SUCCESSOR, AS PAYING AGENT FOR THE BONDS (THE "PAYING AGENT"). SAID BOND INSURANCE POLICY IS ON FILE AND AVAILABLE FOR INSPECTION AT THE PRINCIPAL OFFICE OF THE PAYING AGENT AND A COPY THEREOF MAY BE OBTAINED FROM THE BOND INSURER OR THE PAYING AGENT.

**CONNECTICUT DEVELOPMENT AUTHORITY
WATER FACILITIES REFUNDING REVENUE BOND
(THE CONNECTICUT WATER COMPANY PROJECT - 2003C SERIES)**

BOND DATE: October 1, 2003

MATURITY DATE: September 1, 2022

INTEREST PAYMENT DATES: March 1 and September 1

INTEREST RATE: %

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \$14,930,000.00***

CUSIP NUMBER:

CONNECTICUT DEVELOPMENT AUTHORITY (the "Authority"), a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut (the "State"), for value received, hereby promises to pay to the REGISTERED OWNER or registered assigns, on the MATURITY DATE, solely from the sources and in the manner hereinafter provided, upon presentation and surrender hereof, in lawful money of the United States of America, the PRINCIPAL AMOUNT and in like manner to pay interest on the unpaid principal balance thereof until the Authority's obligation with respect to the payment of such sum shall be discharged. Interest shall be payable (computed on the basis of a 360-day year consisting of twelve 30-day months) from the most recent INTEREST PAYMENT DATE, to which interest has been paid or duly provided for or, if no interest has been paid, from the DATE OF THIS BOND at the INTEREST RATE per annum, payable semi-annually on the INTEREST PAYMENT DATES until the date on which this bond becomes due, whether at maturity or by acceleration or redemption. From and after that date, any unpaid principal will bear interest at the same rate until paid or duly provided for.

Payment of Principal and Interest. The principal and premium, if any, of this Bond is payable to the REGISTERED OWNER hereof but only upon presentation and surrender of this bond at the corporate trust office of U.S. Bank National Association, as Paying Agent (with its successors, the "Paying Agent"). Interest is payable by check or draft mailed by the Paying Agent to the REGISTERED OWNER of this bond (or of one or more predecessor or successor Bonds (as defined below)), determined as of the close of business on the applicable record date, at its address as shown on the registration books maintained by the Paying Agent. If any payment, redemption or maturity date for principal, premium or interest shall not be a Business Day then the payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the specified payment date and no interest shall accrue for the period after the specified payment date. Payment shall be in any coin or currency of the United States of America, which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts.

The record date for payment of interest is the first day of the month in which the interest is to be paid, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an INTEREST PAYMENT DATE or interest on any overdue amount, the Trustee (as defined below) may establish a special record date. The special record date may be not more than thirty (30) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners of the Bonds (the "Bondholders") at least ten (10) days before the special record date. The Paying Agent will promptly certify to the Authority and the Trustee that it has mailed such notice to all Bondholders, and such certificate will be conclusive evidence that such notice was given in the manner required hereby.

Authorization and Purpose. This bond is one of an authorized issue of Bonds of the Authority in the aggregate principal amount of \$8,000,000 designated: Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003A Series) (the "Bonds") which are issued for the purpose of refunding in full the Authority's \$8,000,000 aggregate principal amount of Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1993 Series) (the "Prior Obligations"), which were issued for the purpose of refunding in full the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1983 Series), which were issued for the purpose of financing various capital improvements constituting a portion of the Borrower's existing water system (the "Project"), for the benefit of The Connecticut Water Company (the "Borrower"), a corporation organized and existing under the laws of the State of Connecticut, and paying necessary expenses incidental thereto. The Bonds are issued pursuant to the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended, a resolution adopted by the Authority on June 18, 2003 and an Indenture of Trust, dated as of October 1, 2003 (which Indenture as from time to time amended and supplemented is herein referred to as the "Indenture"), duly executed and delivered by the Authority to U.S. Bank National Association, as trustee (with its successors, the "Trustee"), and are equally and ratably secured by and entitled to the protection of the Indenture, which is on file in the office of the Trustee.

Pledge and Security. Pursuant to the Indenture, the Authority has assigned to the Trustee all of its right, title and interest in and to a Loan Agreement, dated as of October 1, 2003, as it may be amended or supplemented from time to time (the "Agreement"), between the Authority and the Borrower, and the Note evidencing the Borrower's obligations under the Agreement (except for certain enforcement and indemnification rights which are reserved in the Indenture), including all rights to receive loan payments sufficient to pay the principal or premium if any, of and interest and all other amounts due on the Bonds as the same become due, to be made by the Borrower pursuant to the Agreement. The Agreement sets forth the terms and conditions under which the Authority will provide for the refinancing of the Project and under which the Borrower will use and occupy the Project and make loan payments to the Authority in such amounts as are necessary to pay the principal of, premium if any, and interest on the Bonds. Reference is hereby made to the Indenture for the definition of any capitalized word or term used but not

defined herein and for a description of the property pledged, assigned and otherwise available for the payment of the Bonds, the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Authority, the Trustee and the owners of the Bonds, and the terms upon which the Bonds are issued and secured, and the holders of the Bonds are deemed to assent to the provisions of the Indenture by the acceptance of this bond.

Event of Default. In case any Event of Default occurs and is continuing, the principal amount of this bond together with accrued interest may be declared due and payable in the manner and with the effect provided in the Indenture.

General Optional Redemption. The Bonds are subject to redemption prior to maturity from time to time pursuant to the Indenture at the option of the Authority, which option shall be exercised at the direction of the Borrower, as a whole or in part on any date on or after December 15, 2008, at the Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

Extraordinary Optional Redemption. In addition, at the option of the Authority, which option shall be exercised upon the giving of notice by the Borrower of its intention to prepay amounts due under the Agreement, the Bonds are subject to redemption prior to maturity as a whole on any date at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption, if any one or more of the events of casualty to or condemnation of the Project or change in law or certain economic events affecting the Project specified in subsection 8.1(B) of the Agreement shall have occurred, as evidenced in each case by the filing of a certificate of an Authorized Representative of the Borrower.

Mandatory Taxability Redemption. In the event of a Determination of Taxability, the Bonds shall be redeemed on any day selected by the Borrower that is not more than 180 days after the occurrence of such Determination of Taxability as provided in the Indenture, at the Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption. Redemption under this paragraph shall be in whole unless not less than forty-five (45) days prior to the redemption date the Borrower delivers to the Trustee an opinion of Bond Counsel reasonably satisfactory to the Trustee to the effect that a redemption of less than all of the Bonds will preserve the tax-exempt status of interest on the remaining Bonds outstanding subsequent to such redemption.

Deceased Bondholder Redemptions. For purposes of this section only, the owner of a Bond shall mean the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect.

Notwithstanding the foregoing redemption provisions, the estate of, successor in interest to and, in the case of jointly held Bonds (whether by joint tenancy, tenancy in common or tenancy by the entirety) any surviving joint owner may, within two years of the date of death of a deceased owner, request the redemption of Bonds of which such deceased owner on the date of his or her death was an owner or joint owner ("Deceased Owner Bonds"), and the Authority will redeem such Bonds within 60 days of receipt by the Trustee of such request at a Redemption Price of 100% of the principal amount thereof plus accrued interest to the date of redemption in the manner and as provided in Article VI of the Indenture, subject to the following limitations: (i) the Authority shall not be obligated to redeem any Deceased Owner Bonds prior to September 1, 2005:

(ii) the maximum aggregate principal amount of Deceased Owner Bonds that the Authority shall be required to redeem during each 12-month period commencing September 1, 2005 and each September 1 thereafter through maturity of the Bonds is \$450,000; (iii) during any such 12-month period, the Authority shall not be required to redeem in excess of \$25,000 aggregate principal amount of Deceased Owner Bonds with respect to any one deceased owner, and (iv) such Deceased Owner Bonds had been held by such owner for at least six months prior to his or her death. A request for redemption of Deceased Owner Bonds shall be made by the executor of

the estate of or successor in interest to the deceased owner or, in the case of jointly owned Bonds, by any joint owner surviving the deceased owner, in writing, in form satisfactory to the Trustee, signed by the person requesting redemption or such person's legal representative, with such signature guarantees, evidences of due authorization to make such request for redemption, evidence of death of the deceased owner and ownership of such Bond(s) at the time of death, evidence of tax waivers and such other evidence as the Trustee may require under the Indenture. A request for redemption shall specify the Bonds to be redeemed. Subject to the limitations herein provided, requests for redemption shall be accepted and honored by the Trustee in the order of receipt of such requests by the Trustee. Upon the receipt by the requesting party of notice from the Trustee in accordance with Article VI of the Indenture that the Bonds with respect to which a request for redemption has been made are eligible for redemption and shall be redeemed, such Bonds shall be tendered to the Trustee no later than the date set for redemption. Any request for redemption may be withdrawn at any time prior to the Trustee's sending notice of redemption pursuant to the Indenture; after notice of redemption is sent, a request for redemption is irrevocable.

Selection of Bonds to be Redeemed. If less than all of the Outstanding Bonds are to be called for redemption, the Bonds (or portions thereof) to be redeemed shall be selected as provided in the Indenture.

Notice of Redemption. In the event this bond is selected for redemption, notice (which notice may state that it is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption and which notice shall be of no effect unless such moneys are so received on or before such date) will be mailed no more than forty-five (45) days nor less than thirty (30) days prior to the redemption date to the REGISTERED OWNER at its address shown on the registration books maintained by the Paying Agent. Failure to mail notice to the owner of any other Bond or any defect in the notice to such an owner shall not affect the redemption of this bond.

If this bond is of a denomination in excess of five thousand dollars (\$5,000), portions of the principal amount in the amount of five thousand dollars (\$5,000) or any multiple thereof may be redeemed. If less than all of the principal amount is to be redeemed, upon surrender of this bond to the Paying Agent, there will be issued to the REGISTERED OWNER, without charge, a new Bond or Bonds, at the option of the REGISTERED OWNER, for the unredeemed principal amount.

Notice of redemption having been duly mailed, and moneys for the redemption having been deposited with the Paying Agent, this bond, or the portion called for redemption, will become due and payable on the redemption date at the applicable redemption price from and after the date fixed for redemption, interest on this bond (or such portion) will no longer accrue.

Transfer of Bonds. This bond is transferable by the REGISTERED OWNER, in person or by its attorney duly authorized in writing, at the office of the Paying Agent, upon surrender of this bond to the Paying Agent for cancellation. Upon the transfer, a new Bond or Bonds in authorized denominations of the same aggregate principal amount will be issued to the transferee at the same office. This bond may also be exchanged at the office of the Paying Agent for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. Exchanges and transfers will be without expense to the owner except for applicable taxes or other governmental charges, if any. The Paying Agent will not be required to make an exchange or transfer of this bond during the fifteen (15) days preceding any date fixed for selection for redemption if this bond (or any portion thereof) is eligible to be selected for redemption.

Amendment of Indenture. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Authority and the rights of the owners of the Bonds at any time by the Authority with the consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case such amendment shall require

the consent of the owners of not less than 51% in aggregate principal amount of the Bonds at the time outstanding thereunder. Any such consent shall be conclusive and binding upon each such owner and upon all future owners of each Bond and of any such Bond issued upon the transfer thereof, whether or not notation of such consent is made thereon. The Indenture also permits the amendment thereof by the Authority but without the consent of the owners of the Bonds or the Bond Insurer for certain specified purposes.

Limitation on Bondholder Enforcement Rights. The owner of this bond shall have no right to enforce the provisions of the Indenture, to institute action to enforce the provisions and covenants thereof or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Indenture, so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under the Indenture.

Special Obligations of the Authority. This bond and the issue of which it forms a part are special obligations of the Authority, payable solely out of the revenues or other receipts, funds or moneys of the Authority pledged under the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bonds. Neither the State nor any municipality thereof shall be obligated to pay the principal or redemption price, if any, of or interest on this bond and neither the faith and credit nor taxing power of the State or any municipality thereof is pledged to such payment. The Bonds do not now and shall never constitute a debt or liability of the State or any municipality thereof or bonds issued or guaranteed by either of them within the meaning of any constitutional or statutory limitation.

Estoppel Clause. This bond is issued pursuant to and in full compliance with the Constitution and laws of the State. It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form and manner as required by law and that the issuance of this bond and of the issue of which it forms a part, together with all other obligations of the Authority, do not exceed or violate any constitutional or statutory limitation.

NEITHER THE AUTHORITY, THE TRUSTEE NOR ANY PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (III) THE SELECTION BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY AS BONDHOLDER; OR (V) THE DELIVERY TO ANY PARTICIPANT, OR INDIRECT PARTICIPANT, BENEFICIAL OWNER OR OTHER PERSON OTHER THAN DTC OR ANY SUCCESSOR SECURITIES DEPOSITORY OF ANY NOTICE WITH RESPECT TO THE BONDS, INCLUDING BUT NOT LIMITED TO, ANY NOTICE OF REDEMPTION.

No Personal Liability. Neither the officers, directors or employees of the Authority or the Trustee nor any person executing this bond shall be liable personally or be subject to any personal liability or accountability by reason of the issuance hereof.

Authentication. This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been signed by the Trustee or the Paying Agent.

Authorized Denomination. The Bonds are issuable only in fully registered form in denominations of \$5,000 or any multiple thereof.

Persons Deemed Owners. The Authority, the Trustee, the Paying Agent and the Borrower may treat the REGISTERED OWNER as the absolute owner of this bond for all purposes, notwithstanding any notice to the contrary.

IN WITNESS WHEREOF, the CONNECTICUT DEVELOPMENT AUTHORITY has caused this Bond to be executed in its name by the manual or facsimile signature of its Authorized Representative.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Authorized Representative

[FORM OF CERTIFICATE OF AUTHENTICATION]
CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds of the issue described in the within mentioned Indenture.

Date of Registration:

U.S. BANK NATIONAL ASSOCIATION, Trustee

By _____ [,or
Authorized Signature

**U.S. BANK NATIONAL ASSOCIATION,
Paying Agent**

By _____
Authorized Signature]

[FORM OF ASSIGNMENT]

ASSIGNMENT

For value received the undersigned sells, assigns and transfers this bond to

(Name and Address of Assignee)

Social Security or Other Identifying Number of Assignee

and irrevocably appoints _____ attorney-in-fact to transfer it on the books kept for registration of the bond, with full power of substitution.

NOTE: The signature to this assignment must correspond with the name as written on the face of the bond without alteration or enlargement or other change and must be guaranteed by a Participant in a Recognized Signature Guaranty Medallion Program.

Dated:

Signature Guaranteed:

Participant in a Recognized
Signature Guaranty Medallion Program

By: _____ Authorized Signature

[END OF FORM OF BOND]

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid, binding and legal obligations of the Authority according to the import thereof, and to constitute this Indenture a valid pledge of revenues to the payment of the principal or Redemption Price, if any, of and interest on the Bonds and all other amounts due in connection therewith and a valid assignment of the rights of the Authority (except as stated below) under the Agreement and the Note have been done and performed, and the creation, execution and delivery of this Indenture and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS:

GRANTING CLAUSES

That the Authority in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the holders and owners thereof, and of the sum of One Dollar, lawful money of the United States of America, to it duly paid by the Trustee at or before the execution and delivery of these presents, and for other good and valuable consideration, the receipt of which is hereby acknowledged, and in order to secure the payment of the principal of, Redemption Price, if any, and interest on the Bonds according to their tenor and effect and all other amounts due in connection therewith and the performance and observance by the Authority of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, pledge and assign unto, and grant a security interest in and to the Trustee, and unto its respective successors in trust, and to their respective assigns, forever, for the securing of the performance of the obligations of the Authority hereinafter set forth, the following:

I.

The Agreement and the Note (except to the extent to which any such document provides for the indemnification or the payment of expenses of the Authority, rights of the Authority to inspect the Project, receive notices and grant approvals) including all extensions and renewals of the term thereof, if any, together with all right, title and interest of the Authority therein, including, but without limiting the generality of the foregoing, the present and continuing right to claim, collect and receive any of the moneys, income, revenues, issues, profits and other amounts payable or receivable thereunder, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do under the Agreement and the Note but reserving, however, to the Authority rights of the Authority under Sections 6.2, 6.4, 7.2(A)(2) and 7.3 of the Agreement upon the conditions therein set forth;

II.

All Funds and Accounts (except the Rebate Fund and the Refunding Fund) and moneys therein; and

III.

All moneys and securities from time to time held by the Trustee or the Paying Agent under the terms of this Indenture (except moneys and securities in the Rebate Fund and the Refunding Fund) and any and all other real or personal property of every name and nature concurrently herewith or from time to time hereafter by delivery or by writing of any nature conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the Authority or by anyone in its behalf, or with its

written consent, to the Trustee or the Paying Agent, which are hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof;

TO HAVE AND TO HOLD all and singular the trust estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors and assigns in trust forever to its and their own proper use and behoof but:

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future holders and owners of the Bonds from time to time issued and to be issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that if the Authority, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, Redemption Price, if any, and interest on, the Bonds due or to become due thereon, and all other amounts due thereunder, at the times and in the manner mentioned in the Bonds according to their tenor, and shall cause the payments to be made on the Bonds as required under Article VII hereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire amount due or to become due thereon, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Agreement, the Note and this Indenture, then upon the final payment thereof this Indenture and the rights hereby granted shall cease, determine and be void; otherwise this Indenture to be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered and all of the property, rights and interests, including, without limitation the loan payments and other amounts hereby assigned and pledged are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Authority has agreed and covenanted, and does hereby agree and covenant with the Trustee and with the respective holders and owners of the Bonds as follows:

ARTICLE I DEFINITIONS AND INTERPRETATION

SECTION 1.1. DEFINITIONS. As used in this Indenture:

"Account" or "Accounts" shall mean the Account or Accounts established pursuant to Article V herein below.

"Act" means the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended.

"Agreement" means the Loan Agreement of even date herewith between the Authority and the Borrower, and any amendments and supplements thereto.

"Authority" means the Connecticut Development Authority, a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut duly organized and existing under the laws of the State, and any body, board, authority, agency or other political

subdivision or instrumentality of the State which shall hereafter succeed to the powers, duties and functions thereof.

"Authorized Investments" means any of the following:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FmHA) Certificates of Beneficial Ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration Participation Certificates
6. Government National Mortgage Association (GNMA or Ginnie Mae) GNMA - guaranteed mortgage-backed bonds GNMA - guaranteed pass-through obligations
7. U.S. Maritime Administration Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD) Project Notes Local Authority Bonds New Communities Debentures - U.S. government guaranteed debentures U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies which are not backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) Participation Certificate

Senior debt obligations

3. Federal National Mortgage Association (FNMA or Fannie Mae) Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or Sallie Mae) Senior debt obligations

5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

H. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such rating agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements ("Repos") for 30 days or less must follow the following criteria. Repos which exceed 30 days must be acceptable to the Bond Insurer (criteria available upon request).

Repos provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repos must be between the municipal entity and a dealer bank or securities firm.

a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and A2 or better by Moody's, or

b. Banks rated "A" or better by S&P and A2 or better by Moody's.

2. The written repurchase agreement must include the following:

a. Securities which are acceptable for transfer are:

(1) Direct obligations of the United States of America referred to in Section A above, or

(2) Obligations of federal agencies referred to in Section B above

(3) Obligations of FNMA and FHLMC

b. The term of the Repos may be up to 30 days.

c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee is (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of Collateral.

(1) the securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipal entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

(3) A legal opinion which must be delivered to the municipal entity that states that the Repo meets guidelines under state law for legal investment of public funds.

"Authorized Representative" means, in the case of the Authority, the Chairman or Vice Chairman, the President, the Executive Vice President, Deputy Director or any Senior Vice President or any Vice President thereof and, in the case of the Borrower, the Chairman, the President and Chief Executive Officer, the Vice President-Chief Financial Officer and Treasurer, and any Vice President, Assistant Treasurer or Secretary thereof and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

"Beneficial Owner" shall have the meaning specified in Section 2.3(F) hereof. If any person claims to the Trustee to be a Beneficial Owner, for purposes of Sections 2.4(C), such person shall prove such claim to the satisfaction of the Trustee with such documentation and signature guaranties as the Trustee may request and shall be responsible for and pay any costs associated with such claim.

"Bonds" means the \$14,930,000 Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series) authorized and issued pursuant to Section 2.3 hereof.

"Bond Counsel" means Winston & Strawn LLP or such other nationally recognized bond counsel selected by the Authority and reasonably satisfactory to the Borrower and Trustee.

"Bondholder", "holder" or "owner" or words of similar import when used with reference to Bonds, shall unless otherwise specified, mean any person who shall be the registered owner of any Outstanding Bond.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means XL Capital Assurance Inc., a financial guaranty insurance company incorporated under the laws of the State of New York, and its successors and assigns.

"Borrower" means (i) The Connecticut Water Company, a corporation organized and existing under the laws of the State of Connecticut, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in Section 6.1 of the Agreement.

"Business Day" means any day (i) that is not a Saturday or Sunday, (ii) that is a day on which banks located in Hartford, Connecticut and New York, New York are not required or authorized to remain closed, (iii) that is a day on which banking institutions in all of the cities in which the principal offices of the Trustee and the Paying Agent are located and are not required or authorized to remain closed and (iv) that is a day on which the New York Stock Exchange, Inc. is not closed.

"Cede & Co." means the nominee for The Depository Trust Company (DTC) who shall act as securities depository for the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder.

"Computation Period" means each period from the date of issuance through the date on which a determination of the Rebutable Arbitrage is made or required to be made pursuant to Section 8.3 of the Tax Regulatory Agreement.

"Debt Service Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Default" means any event or condition which will, with the lapse of time, or the giving of notice, or both, become an Event of Default.

"DTC" or "The Depository Trust Company" shall mean the limited-purpose trust company organized under the laws of the State of New York which shall act as securities depository for the Bonds, and any successor thereto.

"Depository" means DTC or any other depository holding the Bonds for purpose of a book-entry system.

"Determination of Taxability" means with respect to the Bonds, (1) a ruling by the Internal Revenue Service, (2) the receipt by the owner of any of the Bonds from the Internal Revenue Service of a notice of assessment and demand for payment (provided the Borrower has been afforded the opportunity to participate at its own expense in all appeals and proceedings to which such owner of any Bonds is a

party relating to such assessment and demand for payment) and the expiration of the appeal period provided therein if no appeal is taken or, if an appeal is taken by such owner of any Bonds as provided in Section 6.3 of the Agreement within the applicable appeal period which has the effect of staying the demand for payment, a final unappealable decision by a court of competent jurisdiction, or (3) the admission in writing by the Borrower, in any case to the effect that the interest on the Bonds is includable in the gross income for federal income tax purposes (other than for purposes of alternative minimum tax, environmental tax or foreign branch profits tax) of an owner or former owner thereof, other than for a period during which such owner or former owner is or was a "substantial user" of the Project financed by such Bonds or a "related person" as such terms are defined in the Code. For purposes of this definition only, the term owner means the Beneficial Owner of the Bonds so long as the Book-Entry Only System is in effect.

"Disclosure Agreement" means the agreement by and between the Borrower and U.S. Bank National Association, as dissemination agent, dated the date of the initial delivery of the Bonds and providing for the provision of certain information subsequent to the issuance of the Bonds.

"Event of Bankruptcy" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Authority, the Borrower, or any guarantor of the Bonds, as debtor.

"Event of Default" has the meaning given such term in Section 8.1 hereof.

"Federal Securities" means any direct and general obligations of, or any obligations whose full and timely payment is unconditionally guaranteed by, the United States of America.

"Financing Documents" means (1), when used with respect to the Borrower, means the Agreement, the Tax Regulatory Agreement, the Note, the Disclosure Agreement and the general certificate of the Borrower delivered in connection with the issuance of the Bonds, but shall not include the Mortgage, and (2) when used with respect to the Authority, means any of the foregoing documents and agreements to which the Authority is a direct party. The Financing Documents do not include any documents or agreements to which the Borrower is not a direct party, including the Bonds or the Indenture.

"Fund" or "Funds" shall mean the Fund or Funds established pursuant to Article V herein below.

"Indenture" means this Indenture as from time to time amended or supplemented by Supplemental Indentures in accordance with Article X hereof.

"Indirect Participant" shall have the meaning set forth in Section 2.3(F) hereof.

"Interest Payment Date" shall mean each date on which interest is payable on the Bonds as provided in the form of the Bonds.

"Loan Payments" means the amounts required to be paid by the Borrower in repayment of the loan made to the Borrower by the Authority pursuant to the provisions of the Agreement and the Note, including all amounts realized by the Trustee thereunder in accordance with Article VIII hereof.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's"

shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"Mortgage" means the Indenture of Mortgage and Deed of Trust, dated as of June 1, 1956, between the Borrower and U.S. Bank National Association (successor to The Connecticut Bank and Trust Company), as Mortgage Bond Indenture Trustee, as amended as of the date hereof and as may be amended hereafter.

"Mortgage Bond Indenture Trustee" means U.S. Bank National Association, acting as Mortgage Bond Indenture Trustee pursuant to the Mortgage.

"Note" means the promissory note of the Borrower to the Authority, dated the date of initial delivery of the Bonds in the form attached as Appendix A to the Agreement, and any amendments of supplements made in conformity with the Agreement and this Indenture.

"Outstanding", when used with reference to a Bond or Bonds, as of any particular date, means all Bonds which have been authenticated and delivered hereunder, except:

(1) Any Bonds cancelled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee for cancellation;

(2) any Bond (or portion of a Bond) paid or redeemed or for the payment or redemption of which there has been separately set aside and held in the Debt Service Fund either:

(a) moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be, specified in irrevocable instructions given to the Trustee to apply such moneys to such payment on the date so specified; or

(b) obligations of the kind described in subsection 12.1(B) hereof in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such obligations to such payment on the date so specified; or

(c) any combination of (a) and (b) above;

(3) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under Article III hereof; and

(4) any Bond deemed to have been paid as provided in Section 12.1 hereof.

"Participant" means one of the entities that deposits securities, directly or indirectly, in the Book-Entry Only System.

"Paying Agent" means any paying agent for the Bonds appointed pursuant to Section 9.10 hereof (and may include the Trustee), and its successor or successors and any other corporation which may at any time be substituted in its place in accordance herewith.

"Principal and Interest Account" means the special trust account of the Debt Service Fund so designated, established pursuant to Section 5.3 hereof.

"Prior Obligations" means the \$14,640,000 aggregate principal amount of the Authority's Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 1992 Series).

"Project" means the Borrower's interest in the Project Realty and other interests in the real property, and in all Project Equipment wherever located and whether now owned or hereafter acquired, acquired or refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements, improvements, extensions and restorations thereof, described in appendices to the Agreement, as amended from time to time in accordance with the Agreement.

"Project Equipment" means all personal property, goods, leasehold improvements, machinery, equipment, furnishings, furniture, fixtures, tools and attachments wherever located and whether now owned or hereafter acquired, refinanced in whole or in part with the proceeds of the Bonds, and any additions and accessions thereto, substitutions therefor and replacements thereof, including without limitation the Project Equipment described in appendices to the Agreement, as amended from time to time in accordance herewith.

"Project Realty" means the realty and other interests in the real property refinanced in whole or in part from the proceeds of the Bonds, together with all replacements, improvements, extensions, substitutions, restorations and additions thereto which are made pursuant hereto including without limitation the Project Realty described in appendices to the Agreement, as amended from time to time in accordance herewith.

"Rebate Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Redemption Account" means the special trust account of the Debt Service Fund so designated, established pursuant to Section 5.3 hereof.

"Redemption Price" means, when used with respect to a Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to this Indenture.

"Refunding Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Renewal Fund" means the special trust fund so designated, established pursuant to Section 5.1 hereof.

"Representation Letter" has the meaning given such term in Section 2.3(F) hereof.

"Revenues" means (a) the Loan Payments, (b) all amounts paid to the Trustee with respect to the principal of, redemption premium, if any, or interest on, the Bonds (1) by the Borrower as required under the Agreement and (2) upon deposit in the Debt Service Fund from the proceeds of the Bonds and (c) investment income with respect to any moneys held by the Trustee in the Refunding Fund, the Debt Service Fund and the Renewal Fund. The term "Revenues" does not include any moneys or investments or investment income in the Rebate Fund.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation or division shall be dissolved, eliminated, reorganized, or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, at the direction of the Borrower, by notice to the Trustee and the Borrower.

"State" means the State of Connecticut.

"Supplemental Indenture" means any indenture supplemental hereto or amendatory hereof, adopted by the Authority in accordance with Article X hereof.

"Tax Incidence Date" means the date as of which interest on the Bonds becomes or became includable in the gross income of the recipient thereof (other than the Borrower or another substantial user or related person) for federal income tax purposes for any cause, as determined by a Determination of Taxability.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated as of the date of initial issuance and delivery of the Bonds, among the Authority, the Borrower and the Trustee, and any amendments and supplements thereto.

"Term", when used with reference to the Agreement, means the term of the Agreement determined as provided in Article III thereof.

"Trustee" means U.S. Bank National Association, and its successor or successors hereafter appointed in the manner provided in this Indenture.

SECTION 1.2. INTERPRETATION. (A) In this Indenture:

(1) Any capitalized word or term used but not defined herein shall have the meaning ascribed to such word or term in the Agreement or the Tax Regulatory Agreement, as the case may be.

(2) The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms, as used in this Indenture, refer to this Indenture, and the term "hereafter" means after, and the term "heretofore" means before, the date of execution of this Indenture.

(3) Words of the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular number mean and include the plural number and vice versa.

(4) Words importing persons include firms, associations, partnerships (including limited partnerships), limited liability companies, trusts, corporations and other legal entities, including public bodies, as well as natural persons.

(5) Any headings preceding the texts of the several Articles and Sections of this Indenture, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

(6) All approvals, consents and acceptances required to be given or made by any person or party hereunder shall be at the sole discretion of the party whose approval, consent or acceptance is required.

(7) This Indenture shall be governed by and construed in accordance with the applicable laws of the State.

(B) Whenever the Authority is named or referred to, it shall be deemed to include its successors and assigns whether so expressed or not. All of the covenants, stipulations, obligations, and agreements by or on behalf of, and other provisions for the benefit of, the Authority contained in this Indenture shall bind and inure to the benefit of such successors and assigns and shall bind and inure to the benefit of any officer, board, commission, authority, agency or instrumentality to whom or to which there shall be transferred by or in accordance with law any right, power or duty of the Authority, or of its successors or assigns, the possession of which is necessary or appropriate in order to comply with any such covenants, stipulations, obligations, agreements or other provisions hereof.

(C) If any one or more of the covenants or agreements provided herein on the part of the Authority, the Trustee or any Paying Agent to be performed should be contrary to law, then such covenant or covenants or agreement or agreements, shall be deemed separable from the remaining covenants and agreements hereof, and shall in no way affect the validity of the other provisions of this Indenture or of the Bonds.

(D) All approvals, consents and actions of the Trustee under this Indenture, the Bonds and the Financing Documents may be given or withheld or taken or not taken in accordance with the direction of the owners of not less than 51% of the principal amount of the Outstanding Bonds or of the Bond Insurer as provided herein.

(E) If the Paying Agent shall be removed and the duties and obligations of such Paying Agent discharged pursuant to Section 9.10 hereof, then each and every such duty and obligation to be performed by such Paying Agent set forth herein and in the Financing Documents shall be performed to the same extent and in the same manner by the Trustee, and each and every reference herein and in the Financing Documents to the Paying Agent shall refer to and shall be deemed to refer to the Trustee unless a successor Paying Agent shall have been appointed.

(F) For purposes hereof the Trustee shall not be deemed to have knowledge or actual knowledge of any fact or the occurrence of any event unless and until an officer of the Trustee's corporate trust administration department has written notice thereof.

(G) In the event of any solicitation of consents from and voting by owners of the Bonds, the Trustee shall establish a record date for such purposes and give DTC notice of such record date not less than fifteen calendar days in advance of such record date to the extent possible.

ARTICLE II
AUTHORIZATION, TERMS AND ISSUANCE OF BONDS

SECTION 2.1. AUTHORIZATION FOR INDENTURE. This Indenture is made and entered into by virtue of and pursuant to the provisions of the Act. The Authority has ascertained and hereby determines and declares that the execution and delivery of this Indenture is necessary to carry out the powers and duties expressly provided by the Act, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate the purposes of the Authority in accordance with the Act and to carry out powers expressly given thereby, and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and necessary, useful or convenient to carry out and effectuate its corporate purposes under the Act.

SECTION 2.2. AUTHORIZATION AND OBLIGATION OF BONDS. (A) Bonds of the Authority issued hereunder, each to be entitled Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series), shall be subject to the terms, conditions and limitations established herein. No Bonds may be authenticated and delivered except in accordance with this Article.

(B) All Bonds shall be entitled to the benefit of the continuing pledge and lien created by this Indenture to secure the full and final payment of the principal or Redemption Price, if any, thereof and the interest thereon and all other amounts due under the Financing Documents. The Bonds shall be special obligations of the Authority, payable solely out of the revenues or other receipts, funds or moneys pledged therefor pursuant to this Indenture and from any amounts otherwise available under this Indenture for the payment of the Bonds. Neither the State nor any municipality thereof shall be obligated to pay the principal or Redemption Price, if any, of or the interest on the Bonds and neither the faith and credit nor the taxing power of the State or any municipality thereof is pledged to pay such principal, Redemption Price or interest. The Bonds shall never constitute a debt or liability of the State or any municipality thereof or bonds issued or guaranteed by the State or any municipality thereof within the meaning of any constitutional or statutory limitation.

SECTION 2.3. ISSUANCE AND TERMS OF THE BONDS. (A) There shall be issued under and secured by this Indenture a series of Bonds to be designated Water Facilities Refunding Revenue Bonds (The Connecticut Water Company Project - 2003C Series) in the principal amount of \$14,930,000. The Bonds shall be issuable in fully registered form without coupons and shall be dated as provided in Section 3.1 hereof.

(B) The Bonds shall mature on September 1, 2022 and bear interest at the per annum rate of 5.00% payable on March 1, 2004 and on each March 1 and September 1 thereafter until maturity or prior redemption.

(C) Interest on the Bonds shall be computed on the basis of a 360-day year consisting of twelve (12) 30-day months.

(D) The Bonds shall be numbered from one upward in consecutive numerical order. Bonds issued in exchange shall be numbered in such manner as the Trustee and the Paying Agent in their discretion shall determine.

(E) The principal or Redemption Price, if any, of the Bonds as they respectively become due shall be payable upon presentation and surrender of the Bonds at the corporate trust office of the Trustee in Hartford, Connecticut, or at the office designated for such payment of any successor Paying Agent. Payment of each installment of interest on the Bonds shall be made to the registered owners thereof who shall appear on the registration books of the Authority maintained by the Trustee at the close of business

on the fifteenth day of the calendar month next preceding such Interest Payment Date, by check or draft mailed to each such registered owner at his address as it appears on such registration books. Alternatively, payment shall be made as otherwise agreed in writing by the Bondholder and the Trustee and, at the written request to the Trustee of and at the expense of any holder of at least \$1,000,000 in Bonds, such payment may be made by wire transfer or other reasonable method to an account or place designated by such registered owner.

(F) Book-Entry Only System for the Bonds

(1) The Depository Trust Company ("DTC"), New York, New York shall act as securities depository for the Bonds. One fully registered bond in the aggregate principal amount of the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Notwithstanding any provision herein to the contrary, the provisions of this Section 2.3(F) and the Representation Letter (as defined below) shall apply with respect to any Bond registered to Cede & Co. or any other nominee of DTC, New York, New York, while the Book-Entry Only System (meaning the system of registration described in paragraph (2) of this Section 2.3(F)) is in effect. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

(2) The Bonds in or to be in the Book-Entry Only System shall be issued in the form of a separate single authenticated fully registered Bond in substantially the form provided for in this Indenture. Any legend required to be on the Bonds by DTC may be added by the Trustee or Paying Agent. On the date of original delivery thereof, the Bonds shall be registered in the registry books of the Paying Agent in the name of Cede & Co., as nominee of The Depository Trust Company as agent for the Authority in maintaining the Book-Entry Only System.

WITH RESPECT TO BONDS REGISTERED IN THE REGISTRY BOOKS KEPT BY THE PAYING AGENT IN THE NAME OF CEDE & CO., AS NOMINEE OF DTC, THE AUTHORITY, THE PAYING AGENT, THE BORROWER AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT (WHICH MEANS SECURITIES BROKERS AND DEALERS, BANKS, TRUST COMPANIES, CLEARING CORPORATIONS AND VARIOUS OTHER ENTITIES, SOME OF WHOM OR THEIR REPRESENTATIVES OWN DTC) OR TO ANY BENEFICIAL OWNER (WHICH MEANS, WHEN USED WITH REFERENCE TO THE BOOK-ENTRY ONLY SYSTEM, THE PERSON WHO IS CONSIDERED THE BENEFICIAL OWNER OF THE BONDS PURSUANT TO THE ARRANGEMENTS FOR BOOK ENTRY DETERMINATION OF OWNERSHIP APPLICABLE TO DTC) WITH RESPECT TO THE FOLLOWING: (A) THE ACCURACY OF THE RECORDS OF DTC, CEDE & CO. OR ANY PARTICIPANT WITH RESPECT TO ANY OWNERSHIP INTEREST IN THE BONDS, (B) THE DELIVERY TO OR FROM ANY PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON,

OTHER THAN DTC, OF ANY NOTICE WITH RESPECT TO THE OTHER PERSON, OTHER THAN DTC, OF ANY NOTICE WITH RESPECT TO THE BONDS, INCLUDING ANY NOTICE OF REDEMPTION (WHETHER MANDATORY OR OPTIONAL), OR (C) THE PAYMENT TO ANY PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON, OTHER THAN DTC, OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS.

The Paying Agent shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of DTC, and all such payments shall be valid and effective fully to satisfy and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on Bonds to the extent of the sum or sums so paid. No person other than DTC shall be entitled to receive an authenticated Bond evidencing the obligation of the Authority to make payments of principal and premium, if any, and interest pursuant to this Indenture. Upon delivery by DTC to the Paying Agent of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the words "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

The Authority, the Borrower, the Trustee and the Paying Agent shall be entitled to treat the registered owner of a Bond (initially, DTC or its nominee) as the absolute owner thereof for all purposes of this Indenture and any applicable laws, notwithstanding any notice to the contrary received by any of them. So long as all Bonds are registered in the name of DTC or its nominee or any qualified successor, the Borrower and the Paying Agent shall cooperate with DTC or its nominee or any qualified successor in effecting payment of the principal of, redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

(3) Upon receipt by the Trustee or the Paying Agent of written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, the Authority shall issue and the Paying Agent shall transfer and exchange Bonds as requested by DTC in appropriate amounts and in authorized denominations, and whenever DTC requests the Authority, the Paying Agent and the Trustee to do so, the Trustee, the Paying Agent and the Authority will, at the expense of the Borrower, cooperate with DTC in taking appropriate action after reasonable notice (A) to arrange for a substitute bond depository willing and able upon reasonable and customary terms to maintain custody of the Bonds or (B) to make available for transfer and exchange Bonds registered in whatever name or names and in whatever authorized denominations as DTC shall designate.

(4) In such event, the Borrower shall so notify DTC, the Paying Agent and the Trustee, whereupon DTC will notify the Participants of the availability through DTC of Bond certificates. In such event, the Authority shall issue and the Paying Agent shall transfer and exchange Bond certificates as requested by DTC in appropriate amounts and in authorized denominations. Whenever DTC requests the Paying Agent to do so, the Paying Agent will cooperate with DTC in taking appropriate action after reasonable notice to make available for transfer and exchange Bonds registered in whatever name or names and in whatever authorized denominations as DTC shall designate.

(5) The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

(6) Notwithstanding any other provisions of this Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the Blanket Letter of Representation, dated March 29, 1995, from the Authority to DTC (the "Representation Letter").

(7) Notwithstanding any other provisions of this Indenture to the contrary, so long as any of the Bonds outstanding are held in the Book-Entry Only System, if less than all of such Bonds are to be redeemed upon any redemption of Bonds hereunder, the particular Bonds or portions of Bonds to be converted or redeemed shall be selected by DTC in such manner as DTC may determine.

Notwithstanding any provision herein to the contrary, the Trustee and the Paying Agent may comply with the provisions of the Letter of Representation or similar document required by DTC or any successor securities depository in order to maintain the Book-Entry Only System for the Bonds.

SECTION 2.4. REDEMPTION OF BONDS. (A) General Optional Redemption. At the option of the Authority, which option shall be exercised upon the giving of written notice by the Borrower of its intention to prepay amounts due under the Agreement pursuant to subsection 8.1(A) thereof and the Note, the Bonds shall be subject to redemption prior to maturity from time to time upon not less than 30 days' notice in writing, as a whole or in part on any date on or after September 1, 2008, at the Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

(B) Extraordinary Optional Redemption. In addition, at the option of the Authority, which option shall be exercised upon the giving of written notice by the Borrower of its intention to prepay amounts due under the Agreement pursuant to Section 8.1(B) thereof, the Outstanding Bonds shall be subject to redemption prior to maturity as a whole on any date at the redemption price of 100% of the principal amount thereof plus accrued interest to the date of redemption, if any one or more of the events of casualty to or condemnation of the Project, change in law, or certain economic events specified in Section 8.1(B) of the Agreement shall have occurred, as evidenced in each case by the filing with the Trustee of a certificate of an Authorized Representative of the Borrower.

(C) Mandatory Taxability Redemption. In the event of a Determination of Taxability, the Bonds shall be redeemed in the manner and as provided in this Indenture, at the redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption on any day selected by the Borrower, that is not more than 180 days after such Determination of Taxability. In the case of any redemption pursuant to this subsection, the Authority or the Borrower or any Bondholder shall deliver to the Trustee a certificate of an Authorized Representative specifying the event giving rise to such inclusion in the gross income of the recipient thereof and the dates which are the Tax Incidence Date and the date of the Determination of Taxability. Such certificate shall be delivered at least ten days before notice of redemption is required to be given. Redemption under this paragraph shall be in whole unless not less than forty-five (45) days prior to the redemption date the Borrower delivers to the Trustee an opinion of Bond Counsel reasonably satisfactory to the Trustee to the effect that a redemption of less than all of the Bonds will preserve the tax-exempt status of interest on the remaining Bonds outstanding subsequent to such redemption.

For purposes of this Subsection C only, the owner of a Bond means the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect.

(D) Deceased Bondholder Redemptions. For purposes of this paragraph, the owner of said Bond shall mean the Beneficial Owner of said Bond so long as the Book-Entry Only System shall be in effect. Notwithstanding the foregoing redemption provisions, the Bonds are subject to redemption at the request of the estate of, successor in interest to and, in the case of jointly held Bonds, any surviving joint owner with, any person who, on the date of his or her death, was an owner or joint owner of such Bonds, in the manner and subject to the conditions set forth in the form of Bonds contained herein. For purposes of this redemption provision, a Bond held in tenancy by the entirety, joint tenancy or tenancy in common will be deemed to be held by a single owner and the death of a tenant, by the entirety, joint tenant or tenant in common will be deemed the death of an owner. The death of a person, who, during his lifetime, was entitled to substantially all of the beneficial interests of ownership of a Bond will be deemed the

death of an owner, regardless of the owner, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest shall be deemed to exist in typical cases of street name or nominee ownership, ownership under the Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife, and trust and certain other arrangements where one person has substantially all of the beneficial ownership interests in the Bond during his lifetime. In the case of Bonds registered in the name of banks, trust companies or broker/dealers who are members of a national securities exchange or the National Association of Securities Dealers, Inc. or any securities depository ("Qualified Institutions"), the redemption limitations described above apply to each beneficial owner of Bonds held by any Qualified Institution. Beneficial interests shall include the power to sell, transfer or otherwise dispose of a Bond and the right to receive the proceeds therefrom, as well as interest and principal payable with respect thereto. The party requesting redemption pursuant to this Section 2.4(D) shall pay all fees, costs and expenses of the Trustee in connection with establishing the beneficial ownership of the Bonds requested to be redeemed, including but not limited to the obtaining of position listings of DTC, or any successor securities depository, any Direct Participant or Indirect Participant or any nominees.

(E) Upon any redemption of Bonds there shall also be due and payable, concurrently with the payment of the Redemption Price, interest accrued on the Bonds and all other amounts then due under the Financing Documents.

(F) Redemption of Bonds permitted or required by this Article II shall be made as follows, and the Trustee shall give the notice of redemption referred to in Section 6.3 hereof in respect of each such redemption:

(1) Redemption shall be made pursuant to the general optional redemption provisions of Section 2.4(A) in such principal amounts as the Borrower shall request in a written notice to the Trustee in accordance with Section 8.2 of the Agreement.

(2) Redemption shall be made pursuant to the extraordinary optional redemption provisions of Section 2.4(B) at such date as the Borrower shall request in a written notice to the Authority and Trustee in accordance with Section 8.2 of the Agreement, to which shall be attached the certificate referred to in Section 8.1(B) thereof.

(3) Redemption shall be made pursuant to the mandatory taxability redemption provisions of Section 2.4(C) at the earliest possible date following receipt of the certificate prescribed in Section 2.4(C) hereof and of the payments made by the Borrower prescribed in Section 6.3 of the Agreement, without the necessity of any instructions or further act of the Authority or the Borrower.

(4) Redemption shall be made pursuant to the provisions of Section 2.4(D) in accordance with said Section and with Article VI of this Indenture.

SECTION 2.5. EXECUTION AND AUTHENTICATION OF BONDS. (A) After their authorization as provided in this Article, Bonds may be executed by or on behalf of the Authority and delivered to the Trustee or the Paying Agent for authentication. Each Bond shall be executed in the name of the Authority by the manual or facsimile signature of any one or more Authorized Representatives of the Authority.

(B) In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Trustee or the Paying Agent, such Bonds may nevertheless be authenticated and delivered as herein provided as if the person who so signed such Bonds had not ceased to be such officer. Any Bond may be signed on behalf of the

Authority by any person who, on the date of such act, shall hold the proper office, notwithstanding that at the date of such Bond such person may not have held such office.

(C) The Bonds shall each bear thereon a certificate of authentication, in the form set forth in the recitals to this Indenture, executed manually by the Trustee or the Paying Agent. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Indenture and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee or the Paying Agent. Such certificate of the Trustee or the Paying Agent upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the holder thereof is entitled to the benefits hereof.

SECTION 2.6. DELIVERY OF BONDS. The Bonds shall be executed in the form and manner set forth herein and shall be deposited with the Trustee and thereupon shall be authenticated by the Trustee or the Paying Agent. Upon payment to the Trustee of the proceeds of sale thereof, such Bonds shall be delivered by the Trustee or the Paying Agent to or upon the order of the purchasers thereof, but only upon receipt by the Trustee of:

- (1) A certified copy of the Authority's resolution authorizing the issuance of the Bonds and, the execution and delivery of this Indenture and the Financing Documents;
- (2) Original executed counterparts of the Financing Documents other than the Note, and the originally executed Note;
- (3) A request and authorization to the Trustee or the Paying Agent on behalf of the Authority to authenticate and deliver the Bonds to the purchasers therein identified upon payment to the Trustee, for the account of the Authority, of a sum specified in such request and authorization, plus any accrued interest on the Bonds to the date of such delivery. The proceeds of such payment shall be paid over to the Trustee and deposited in the Refunding Fund and Debt Service Fund pursuant to Article IV hereof; and
- (4) A written opinion by Bond Counsel to the effect that the issuance of such Bonds has been duly authorized and that all conditions precedent to the delivery thereof set forth in this Indenture have been fulfilled.

SECTION 2.7. NO ADDITIONAL BONDS. No Additional Bonds on a parity with the Bonds may be issued under this Indenture.

**ARTICLE III
GENERAL TERMS AND PROVISIONS OF BONDS**

SECTION 3.1. DATE OF BONDS. The Bonds shall be dated and bear interest from October 1, 2003, except in the case of Bonds delivered in any exchange or transfer hereunder on or subsequent to the first Interest Payment Date of the Bond for which it is exchanged or transferred, which shall bear interest from the Interest Payment Date next preceding the date of such delivery, unless, as shown by the records of the Trustee, interest on the Bond surrendered in exchange for such Bond shall be in default, in which case such Bond shall bear interest from the date to which interest has been paid in full on the Bond so surrendered.

SECTION 3.2. FORM AND DENOMINATIONS. Bonds shall be issued in fully registered form, without coupons, in denominations of \$5,000 or any multiple thereof. Subject to the provisions of Section 3.3 hereof, the Bonds shall be in substantially the form set forth in the recitals to this Indenture, with such variations, omissions and insertions as are permitted or required by this Indenture.

SECTION 3.3. LEGENDS. Each Bond shall contain on the face thereof a statement to the effect that neither the State nor any municipality thereof shall be obligated to pay the principal of the Bond or interest thereon and neither the faith and credit nor taxing power of the State or any municipality thereof is pledged to such payment. The Bonds may, in addition, contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Indenture as may be necessary or desirable to comply with custom or otherwise as may be determined by the Authority prior to the delivery thereof.

SECTION 3.4. MEDIUM OF PAYMENT. The principal or Redemption Price, if any, of and interest on the Bonds shall be payable in any coin or currency of the United States of America which, on the respective dates of payment thereof, is legal tender for the payment of public and private debts. Such payment may be made as provided in Section 2.3 hereof.

SECTION 3.5. BOND DETAILS. Subject to the provisions hereof, the Bonds shall be dated, shall mature in such years and such amounts, shall bear interest at such rate or rates per annum, shall be subject to redemption on such terms and conditions and shall be payable as to principal or Redemption Price, if any, and interest at such place or places as shall be specified in this Indenture.

SECTION 3.6. INTERCHANGEABILITY, TRANSFER AND REGISTRY. (A) Each Bond shall be transferable only upon compliance with the restrictions on transfer set forth on such Bond and only upon the books of the Authority, which shall be kept for the purpose at the principal office of the Paying Agent, by the registered owner thereof in person or by his attorney duly authorized in writing, upon presentation thereof together with a written instrument of transfer satisfactory to the Paying Agent duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any Bond, the Paying Agent shall prepare and issue in the name of the transferee one or more new Bonds in authorized denominations of the same aggregate principal amount as the surrendered Bond.

(B) Any Bond, upon surrender thereof at the office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the registered owner or his attorney duly authorized in writing, may be exchanged at the office of the Paying Agent for a new Bond or Bonds in authorized denominations of the same aggregate principal amount without transfer to a new registered owner. No transfer will be effective unless represented by such surrender and reissue.

(C) Except as otherwise specifically provided herein, the Authority, the Borrower, the Trustee, and any Paying Agent may deem and treat the person in whose name any Bond shall be registered as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the

purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all payments made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority, the Borrower, the Trustee nor any Paying Agent, nor any agent of the foregoing, shall be affected by any notice to the contrary.

(D) The Paying Agent shall not be required to exchange or transfer

(a) any Bond during the fifteen (15) day period preceding any Interest Payment Date or the date fixed for selection of Bonds for redemption, or
(b) any Bonds selected, called or being called for redemption in whole or in part except, in the case of any Bond to be redeemed in part, the portion thereof not so to be redeemed.

SECTION 3.7. BONDS MUTILATED, DESTROYED, STOLEN OR LOST. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Authority shall execute and thereupon the Trustee or the Paying Agent shall authenticate and deliver, a new Bond of the same principal amount as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee of evidence satisfactory to the Authority, the Trustee and the Paying Agent that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Authority, the Trustee and the Paying Agent with indemnity satisfactory to them and complying with such other reasonable requirements as the Authority and the Trustee and the Paying Agent may prescribe and paying such expenses as the Authority, the Trustee and the Paying Agent may incur. All Bonds so surrendered to the Trustee shall be cancelled by it. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued hereunder in any moneys or securities held by the Authority, the Trustee or the Paying Agent for the benefit of the owners of the Bonds.

SECTION 3.8. CANCELLATION AND DESTRUCTION OF BONDS. All Bonds paid or redeemed in full, either at or before maturity, shall be delivered to the Paying Agent when such payment or redemption is made, and such Bonds together with all Bonds purchased by the Paying Agent, together with all Bonds surrendered in any exchange or transfers, shall thereupon be promptly cancelled. All Bonds acquired and owned by the Borrower and delivered to the Paying Agent for cancellation shall be deemed paid and shall be promptly cancelled. Bonds so cancelled shall be cremated or otherwise destroyed by the Paying Agent, who shall execute a certificate of cremation or destruction in duplicate under signature of one of its authorized officers describing the Bonds so cremated or otherwise destroyed, and one executed certificate shall be filed with the Authority and the other executed certificate shall be retained by the Paying Agent. The Paying Agent shall provide written notice to Moody's, if the Bonds are then rated by Moody's and to S&P, if the Bonds are then rated by S&P, of the final payment or redemption of any of the Bonds, either at or before maturity, upon cancellation of any such Bonds.

SECTION 3.9. REQUIREMENTS WITH RESPECT TO TRANSFERS. In all cases in which the privilege of transferring Bonds is exercised, the Authority shall execute and the Trustee or the Paying Agent shall authenticate and deliver Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any such transfer shall forthwith be cancelled by the Trustee or the Paying Agent. For every such transfer of Bonds, the Authority, the Trustee or the Paying Agent may, as a condition precedent to the privilege of making such transfer, make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer and may charge a sum sufficient to pay the cost of preparing and delivering each new Bond issued upon such transfer, which sum or sums shall be paid by the person requesting such transfer.

SECTION 3.10. REGISTRAR. The Trustee shall also be Registrar for the Bonds, and shall maintain a register showing the names of all registered owners of Bonds, Bond numbers and amounts, and other information appropriate to the discharge of its duties hereunder. The Trustee shall make available to the Borrower for its inspection during normal business hours the registration books for the Bonds, as may be requested by the Borrower in connection with any purchase or tender offer by it with respect to the Bonds.

SECTION 3.11. PAYMENT PROCEDURE PURSUANT TO THE BOND INSURANCE POLICY. If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date"), there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of, and interest on, Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent"), by telephone or teletype, of the amount of such deficiency by 10:00 a.m., New York City time, on such Business Day. If, on the Business Day prior to the related Payment Date, there is not on deposit with the Trustee moneys sufficient to pay the principal of, and interest on, the Bonds due on such Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Bond Insurer and Bond Insurer's Fiscal Agent by 10:00 a.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate.

For the purposes of the preceding paragraph, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to the Bond Insurer, which notice shall specify (a) the name of the entity making the claim, (b) the policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment. "Nonpayment" means the failure of Borrower to have provided sufficient funds to the Trustee for payment in full of all principal of, and interest on, the Bonds that are Due for Payment. "Due for Payment", when referring to the principal of the Bonds, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless the Bond Insurer shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on Bonds, means when the stated date for payment of interest has been reached. "Certificate" means a certificate in form and substance satisfactory to the Bond Insurer as to the Trustee's right to receive payment under the Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal on the Bonds paid by the Bond Insurer at maturity on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of the Bond Insurer, as the case may be, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Borrower on any Bond or the subrogation rights of the Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (as hereinafter defined) and the allocation of such funds to payment of interest on and principal paid with respect to any Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of holders of the Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of holders of Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of the Bonds in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of the Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Bond Insurer.

ARTICLE IV
APPLICATION OF BOND PROCEEDS AND OTHER AMOUNTS

SECTION 4.1. ACCRUED INTEREST. Simultaneously with the delivery of any Bonds by the Trustee, the amount received as accrued interest thereon, if any, shall be deposited in the Principal and Interest Account of the Debt Service Fund.

SECTION 4.2. BOND PROCEEDS. The proceeds of sale and delivery of any Bonds, together with any premium received on account of the sale thereof (but excluding any accrued interest on the Bonds), shall simultaneously with the delivery thereof by the Trustee be deposited in the Refunding Fund.

SECTION 4.3. BORROWER CONTRIBUTION. A contribution of the Borrower in the amount of \$499,250.56 (\$210,246.67 of which represents the amount of interest to accrue on the Prior Obligations from September 1, 2003 to November 29, 2003 and \$289,003.89 of which shall be applied to the payment of the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees) shall simultaneously with the delivery of the Bonds be deposited by the Trustee in the Refunding Fund.

**ARTICLE V
CUSTODY AND INVESTMENT OF FUNDS**

SECTION 5.1. CREATION OF FUNDS. (A) The Authority hereby establishes and creates the following special trust Funds and Accounts within such Funds:

- (1) Refunding Fund
- (2) Debt Service Fund
 - (a) Principal and Interest Account
 - (b) Redemption Account
- (3) Rebate Fund
- (4) Renewal Fund

(B) The Rebate Fund and the Refunding Fund shall be held by the Trustee free and clear of any lien, charge or pledge created by this Indenture. All of the Funds and Accounts created hereunder shall be held by the Trustee, including one or more depositories in trust for the Trustee. All moneys and investments deposited with the Trustee or any Paying Agent shall be held in trust and applied only in accordance with this Indenture and shall be trust funds for the purposes of this Indenture.

(C) The Trustee, in its sole discretion, may establish accounts and subaccounts within the Funds established pursuant to Section 5.1(A) for its internal accounting purposes.

SECTION 5.2. REFUNDING FUND. (A) There shall be deposited in the Refunding Fund any and all amounts required to be deposited therein pursuant to Section 4.2, Section 4.3 and Section 5.6 hereof or otherwise required to be deposited therein pursuant to the Agreement or this Indenture. Moneys and securities on deposit in the Refunding Fund shall be held by the Trustee in trust for the benefit of the owners of the Prior Obligations.

(B) Subject to the provisions of Section 5.6(B) hereof, the Trustee shall apply \$14,850,247.67 on deposit in the Refunding Fund to pay in full the principal of and interest on the Prior Obligations on November 29, 2003, and apply \$579,002.89 on deposit in the Refunding Fund to pay the costs of refunding the Prior Obligations, including, but not limited to, all expenses incurred in connection with the issuance, execution and sale of the Bonds, including compensation and expenses of the Trustee, legal, accounting and consulting expenses and fees, costs of printing and engraving, underwriting expenses and recording and filing fees.

(C) Disbursements from the Refunding Fund in respect of the payment of costs of refunding the Prior Obligations shall be made in accordance with a requisition submitted to the Trustee by the Borrower signed by an Authorized Representative of the Borrower stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Amounts on deposit in the Refunding Fund to be applied to the payment of costs of refunding the Prior Obligations shall not be invested by the Trustee.

(D) Any amounts constituting the proceeds of the issuance of the Bonds and any portion of the equity contribution of the Borrower remaining in the Refunding Fund after the refunding of the Prior Obligations and the payment of all costs associated therewith shall be returned to the Borrower.

SECTION 5.3. DEBT SERVICE FUND. (A) The Trustee shall establish two separate accounts within the Debt Service Fund to be respectively designated "Principal and Interest Account" and "Redemption Account".

(B) The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) Any amount required pursuant to Section 4.1 hereof to be deposited from the proceeds of the Bonds, which shall be credited to the Principal and Interest Account.

(2) All amounts received by the Trustee pursuant to Section 3.1 of the Agreement, which shall be credited to the Principal and Interest Account, in the manner set forth in this Indenture and the Agreement, and applied together with amounts available in the Principal and Interest Account, to pay (i) the interest due on the Outstanding Bonds on the Interest Payment Date next succeeding such payment and (ii) the principal, if any, of the Outstanding Bonds due (otherwise than by call for redemption) on such Interest Payment Date.

(3) Reserved.

(4) Any other amounts required to be paid to the Debt Service Fund for payment of principal and interest due on the Bonds, which shall be credited to the Principal and Interest Account.

(5) Prepayments under the Agreement received by the Trustee pursuant to Article VIII thereof, which shall be credited to the Redemption Account.

(6) All other receipts when and if required by the Financing Documents or any subsequent agreement or by this Indenture to be paid into the Debt Service Fund, which shall be credited to the Principal and Interest Account or the Redemption Account, as appropriate.

(7) Any amounts constituting income or interest earned and gains realized in excess of losses suffered by any Fund and Account hereunder, excluding the Refunding Fund, which shall be credited to the Principal and Interest Account in accordance with Section 5.6(B) hereof. Income or interest earned and gains realized in excess of losses suffered by the Refunding Fund shall be transferred to, or applied at the direction of, the Borrower on the date of the refunding of the Prior Obligations.

(C) There shall be paid from the Principal and Interest Account to the respective Paying Agents on each Interest Payment Date for the Bonds the amounts required for the payment of the principal and interest due on the Bonds on such date. Such amounts shall be applied by the Paying Agents to the payment of principal and interest on the Bonds when due. All other amounts payable on the Bonds from the Principal and Interest Account shall be paid to the respective Paying Agents upon receipt, and shall immediately be paid by such Paying Agents to the Bondholders.

(D) Amounts in the Redemption Account shall be applied, as promptly as practicable, by the Trustee at the direction of the Borrower to the purchase of Bonds at prices not exceeding the optional Redemption Price thereof applicable on the next redemption date plus accrued interest and all other amounts then due under the Financing Documents in connection with such redemption. Such redemption date shall be the earliest date upon which Bonds are subject to redemption from such amounts. Any amount in the Redemption Account not so applied to the purchase of Bonds by forty-five days prior to the next date on which the Bonds are so redeemable shall be applied to the redemption of Bonds on such redemption date; provided that if such amount aggregates less than \$10,000, it need not be then applied to such redemption. Amounts in the Redemption Account to be applied to the redemption of Bonds shall be paid to the respective Paying Agents on or before the redemption date and applied by them on such redemption date to the payment of the Redemption Price of the Bonds being redeemed plus interest on

such Bonds accrued to the redemption date and all other amounts then due under the Financing Documents in connection with such redemption.

(E) Any amounts remaining in the Debt Service Fund after payment in full of the Bonds, the fees, charges and expenses of the Trustee and the Paying Agents and all other amounts required to be paid hereunder or under the Financing Documents shall be paid to the Borrower upon the expiration or sooner termination of the Term of the Agreement.

SECTION 5.4. REBATE FUND. (A) There shall be credited to the Rebate Fund all amounts required to be credited thereto from interest earnings or net gain on disposition of investments pursuant to this Article V.

(B) On the first Business Day following each Computation Period (as defined in the Tax Regulatory Agreement), upon direction in writing from the Borrower, pursuant to the Tax Regulatory Agreement, the Trustee shall withdraw from the Funds and Accounts and deposit to the Rebate Fund an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebatable Arbitrage (as defined in the Tax Regulatory Agreement) calculated as of the last day of the Computation Period; provided, however, that the Trustee may transfer monies from any Fund or Account only to the extent such transfer does not result in an Event of Default hereunder. In the event of any deficiency, the balance required shall be provided by the Borrower pursuant to Section 8.3 of the Tax Regulatory Agreement. Computations of the amounts on deposit in each Fund and Account and of the Rebatable Arbitrage shall be furnished to the Trustee by the Borrower in accordance with Section 8.3 of the Tax Regulatory Agreement. Any amounts on deposit in the Rebate Fund in excess of the Rebatable Arbitrage shall be deposited to the Debt Service Fund.

(C) The Trustee, upon receipt of written instructions from an Authorized Representative of the Borrower in accordance with Section 8.3 of the Tax Regulatory Agreement, shall pay to the United States out of amounts in the Rebate Fund (1) not later than 30 days after the end of each five-year period following the date of issuance of the Bonds, an amount such that, together with amounts previously paid, the total amount paid to the United States is equal to 90% of the Rebatable Arbitrage calculated as of the end of the most recent Computation Period, and (2) not later than 30 days after the date on which all of the Bonds have been paid or redeemed, 100% of the Rebatable Arbitrage as of the end of the final Computation Period.

(D) In transferring any funds to the Rebate Fund and making any payments to the United States from the Rebate Fund, the Trustee may rely on the written directions and computations provided it by the Borrower and the Trustee shall be relieved of all liability with respect to the making of such transfers and payments in accordance with the foregoing.

SECTION 5.5. RENEWAL FUND. (A) Subject to the provisions of the Mortgage, there shall be paid into the Renewal Fund all amounts to be deposited therein pursuant to Section 5.3 of the Agreement, and such amounts shall be applied as provided therein.

(B) Any surplus remaining in the Renewal Fund after the completion of any payments for the replacement, repair, reconstruction, alteration, relocation or restoration, of the Project with respect to any event of damage, destruction or condemnation shall be transferred to the Redemption Account of the Debt Service Fund, but the excess, if any, of such amount as will be sufficient to discharge and satisfy this Indenture and pay all Bonds as provided in Section 12.1 hereof shall be paid over to the Borrower free and clear of any pledge or lien hereunder.

SECTION 5.6. INVESTMENT OF FUNDS AND ACCOUNTS. (A) Except as otherwise provided in this Indenture, amounts in the Funds and Accounts held hereunder shall, if and to the extent then permitted by

law, be invested in Authorized Investments. Investments authorized under this Section shall be made by the Trustee at the written request of an Authorized Representative of the Borrower, and may be made by the Trustee through its own bond department. Any investment hereunder shall be made in accordance with the Tax Regulatory Agreement, including particularly the terms and conditions of Article VII thereof relating to arbitrage. Such investments shall mature in such amounts and at such times as may be necessary to provide funds when needed to make payments from such Funds and Accounts, and any such investments shall, subject to the provisions hereof, including, without limitation, 5.6(B) below, at all times be deemed to be a part of the Fund and Account, from which the investment was made.

(B) Except as provided in the following sentence, the income or interest earned and gains realized in excess of losses suffered by any Fund and Account held hereunder from the date of delivery of the Bonds shall be credited to the Principal and Interest Account of the Debt Service Fund (except income or interest earned and gains realized in excess of losses suffered by the Rebate Fund). Income or interest earned and gains realized in excess of losses suffered by the Refunding Fund shall be transferred to, or applied at the direction of, the Borrower on the date of the refunding of the Prior Obligations.

(C) Prior to each Interest Payment Date on the Bonds, the Trustee shall notify the Borrower of the amount of any net investment income or gain received and collected subsequent to the preceding interest payment date and the amount then available in the Debt Service Fund.

SECTION 5.7. NON-PRESENTMENT OF BONDS. In the event any Bond shall not be presented for payment when the remaining principal thereof becomes due, either at final maturity, or at the date fixed for redemption thereof, or otherwise, and funds sufficient to pay any such Bond shall have been made available to the Trustee for the benefit of the holder or holders thereof, all liability of the Authority to the holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, without liability for interest thereon, for the benefit of the holder of such Bond, who shall thereafter be restricted exclusively to such funds, for any claim of whatever nature on his part under this Indenture or on, or with respect to, such Bond. Funds remaining with the Trustee as above unclaimed for six years shall be paid to the Borrower.

**ARTICLE VI
REDEMPTION OF BONDS**

SECTION 6.1. PRIVILEGE OF REDEMPTION AND REDEMPTION PRICE. Bonds or portions thereof subject to redemption prior to maturity shall be redeemable, upon mailed notice as provided in this Article, at the times, at the Redemption Prices and upon such terms, in addition to and consistent with the terms contained in this Article, as shall be specified in Section 2.4 hereof and in such Bonds.

SECTION 6.2. SELECTION OF BONDS TO BE REDEEMED. So long as the Bonds are in book-entry form, when Bonds are called, allocation shall be made by DTC or any successor securities depository and not by the Authority or the Trustee. In the event of redemption of less than all the Outstanding Bonds of like maturity, the Trustee shall select by lot, using such method of selection as it shall deem proper in its discretion, the principal amount of such Bonds to be redeemed. For purposes of this Section, Bonds or portions of Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding. In the event that the book-entry system is discontinued, if less than all of the Bonds are to be redeemed at the option of the Borrower, the Bonds or portion thereof to be redeemed shall be selected by the Borrower.

SECTION 6.3. NOTICE OF REDEMPTION. Except with respect to deceased Bondholders redemptions as described in Section 2.4(D) hereof (the notice provisions relating to which are set forth in the Form of Bond contained in the recitals to this Indenture), when redemption is required or permitted by this Indenture, upon written notification of the Trustee by the Borrower of such redemption not less than seven (7) days prior to the date on which the Trustee must give notice to Holders as provided in this Section or the Letter of Representation among the Authority, the Trustee and DTC (if the book entry system is still in effect), the Trustee shall give notice of such redemption in the name of the Authority, specifying the subsection of Section 2.4 hereof under which the redemption is to be made, the numbers and amounts of the Bonds or portions thereof to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable. Such notice shall further state that on such date there shall become due and payable upon each Bond or portion thereof to be redeemed the Redemption Price thereof together with interest accrued to the redemption date and all other amounts then due under the Financing Documents, and that from and after such date interest thereon shall cease to accrue and be payable. Alternatively, at the option of the Authority, such notice may state that it is subject to the receipt of the redemption moneys by the Trustee on or before the date fixed for redemption and which notice shall be of no effect unless such moneys are so received on or before such date. Notice of redemption shall be given by the Trustee in the name and on behalf of the Authority by mailing a copy of each such notice to the registered owner of each Bond by first-class mail postage prepaid, addressed to him at his last known address as it appears upon the bond register, no more than forty-five (45) nor less than thirty (30) days prior to the date fixed for redemption. Such notice shall be effective when mailed and any failure to receive such notice shall not affect the validity of the proceedings for redemption. In the event of a postal strike, the Trustee shall give notice by other appropriate means selected by the Trustee in its discretion.

SECTION 6.4. PAYMENT OF REDEEMED BONDS. (A) Notice having been given in the manner provided in Section 6.3 hereof, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption dates so designated at the Redemption Price, plus interest accrued to the redemption date and all other amounts then due under the Financing Documents. If, on the redemption date, monies for the redemption of all the Bonds or portions thereof to be redeemed, together with interest to the redemption date, and all other amounts then due under the Financing Documents, shall be held by the Paying Agent so as to be available therefor on such date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If such monies shall not be so available

on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(B) Payment of the Redemption Price together with interest and all other amounts then due to the Bondholders under the Financing Documents shall be made to or upon the order of the registered owner, only upon presentation of the Bond for cancellation or notation as provided in Section 6.6 hereof.

SECTION 6.5. NOTICE TO AUTHORITY AND BORROWER OF DECEASED BONDHOLDER REDEMPTION. Not later than ten Business Days after receipt of a request for redemption pursuant to Section 2.4(D) hereof by the Trustee, the Trustee shall give notice to the Authority and the Borrower specifying the amount of Bonds requested to be redeemed, the amount of Bonds eligible for redemption, the date on which such Bonds eligible for redemption shall be redeemed and the amount of funds required to be deposited in the Redemption Account.

SECTION 6.6. CANCELLATION OF REDEEMED BONDS. (A) All Bonds redeemed in full under the provisions of this Article shall forthwith be cancelled and destroyed by the Trustee and a certificate of destruction furnished to the Authority, and no Bonds shall be executed, authenticated, issued or delivered in exchange or substitution therefor or for or in respect of any paid portion of a fully registered Bond. In the event that a portion only of a Bond shall be so called for redemption, then, at the option of the registered owner thereof if such owner is a securities depository, such Bond may be either submitted to the Trustee for notation thereon of the payment of the portion of the principal thereof called for redemption or surrendered for redemption. If so surrendered, one or more new Bonds shall be issued for the unredeemed portion hereof.

(B) If there shall be called for redemption less than all of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds in any of the authorized denominations.

**ARTICLE VII
PARTICULAR COVENANTS**

SECTION 7.1. NO PECUNIARY LIABILITY ON AUTHORITY OR OFFICERS. (A) No covenant or agreement contained in this Indenture or in the Bonds or any obligations herein or therein imposed upon the Authority or the breach thereof, shall constitute or give rise to a charge upon its general credit, or impose upon the Authority a pecuniary liability except as set forth herein. In making the agreements, provisions and covenants set forth in this Indenture, the Authority has not obligated itself except with respect to the application of the Revenues as hereinabove provided.

(B) All covenants, stipulations, promises, agreements and obligations of the Authority contained herein shall be deemed to be covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer, agent or employee thereof in his individual capacity. No recourse shall be had for the payment of the principal or Redemption Price, if any, of or interest on the Bonds, for the performance of any obligation hereunder, or for any claim based thereon or hereunder against any such member, officer, agent or employee or against any natural person executing the Bonds. No such member, officer, agent, employee or natural person is or shall become personally liable for any such payment, performance or other claim, and in no event shall any monetary or deficiency judgment be sought or secured against any such member, officer, agent, employee or other natural person.

SECTION 7.2. PAYMENT OF PRINCIPAL, REDEMPTION PRICE, IF ANY, AND INTEREST. The Authority covenants that it will promptly pay, solely from the Revenues or other monies derived in connection with the Project or otherwise available hereunder, the principal or Redemption Price, if any, of and interest on every Bond issued under this Indenture, together with all other amounts due under the Financing Documents, at the place, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof.

SECTION 7.3. PERFORMANCE OF COVENANTS. The Authority covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The Authority covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to execute this Indenture, to create, accept and assign the liens in the property described herein and created hereby, to grant the security interest herein provided, to assign the Financing Documents and to pledge the revenues and other amounts hereby pledged in the manner and to the extent herein set forth; that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the holders and owners thereof are and will be valid and enforceable obligations according to their terms and the terms of this Indenture, except to the extent that such enforceability may be limited by bankruptcy or insolvency or other laws affecting creditors' rights generally or by general principles of equity.

SECTION 7.4. FURTHER ASSURANCES. The Authority and the Trustee each covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the other may reasonably require for the better assuring, transferring, conveying pledging, assigning and confirming unto the Trustee all and singular the property and rights assigned hereby and the amounts pledged hereby to the payment of the principal or Redemption Price, if any, of and interest on the Bonds and all other amounts due under the Financing Documents.

SECTION 7.5. INSPECTION OF PROJECT BOOKS. The Authority covenants and agrees that all books and documents in its possession relating to the Project and the revenues derived from the Project shall at

all times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate.

SECTION 7.6. RIGHTS UNDER FINANCING DOCUMENTS. The Financing Documents, originals or duly executed counterparts of which have been filed with the Trustee, set forth the covenants and obligations of the Authority and the Borrower, including provisions that subsequent to the issuance of Bonds and prior to their payment in full or provision for payment thereof in accordance with the provisions hereof, the Financing Documents may not be effectively amended, changed, modified, altered or terminated without the written consents provided for therein, and reference is hereby made to the same for a detailed statement of the covenants and obligations of the Borrower thereunder. Subject to the provisions of Article IX hereof and to the extent explicitly set forth herein and in the Loan Agreement, the Trustee agrees to enforce all covenants and obligations of the Borrower under the Financing Documents and it is agreed that the Trustee may and is hereby granted the right to enforce all rights of the Authority and all obligations of the Borrower under and pursuant to the Financing Documents. Nothing in this Section shall permit any reduction in the payments required to be made by the Borrower under or pursuant to the Financing Documents or any alteration in the terms of payment thereof. All covenants and agreements on the part of the Authority shall, except as otherwise specifically provided herein, be for the benefit of the holders from time to time of the Bonds and may be enforced in the manner provided by Article VIII hereof on behalf of such holders by the Trustee.

SECTION 7.7. CREATION OF LIENS, INDEBTEDNESS. The Authority shall not create or suffer to be created any lien or charge upon or pledge of the Revenues, except the lien, charge and pledge created by this Indenture and the Bonds. The Authority shall not incur any indebtedness or issue any evidence of indebtedness, other than the Bonds herein authorized, secured by a lien on or pledge of such Revenues.

SECTION 7.8. RECORDING AND FILING. The Authority covenants that it will cause the Financing Documents, this Indenture and all supplements thereto and hereto, as well as such other security agreements, financing statements, and other instruments as may be required from time to time to be kept, to be recorded and filed in such manner and in such places as may be required by law in order to fully preserve and protect the security of the holders and owners of the Bonds and the rights of the Trustee hereunder.

**ARTICLE VIII
REMEDIES OF BONDHOLDERS**

SECTION 8.1. EVENTS OF DEFAULT; ACCELERATION OF DUE DATES. (A) Each of the following events is hereby defined as and shall constitute an "Event of Default":

(1) Failure to duly and punctually pay (a) the interest or (b) any installment of the principal or Redemption Price of any Bond, whether at the stated maturity thereof or upon proceedings for redemption thereof (excluding redemptions for which a conditional notice has been given in accordance with Section 6.3 of this Indenture in which case the failure to pay the Redemption Price of any Bonds shall not constitute an Event of Default under this Section 8.1(1) unless monies are on deposit with the Trustee and available to pay the Redemption Price on the redemption date), and the continuance of such failure for a period of more than five (5) Business Days.

(2) Failure to duly and punctually pay any amount, other than the amounts specified in (1) above, due under the Financing Documents and the continuance of such failure for more than thirty (30) days.

(3) Failure to perform or observe any other of the covenants, agreements or conditions on the part of the Authority in this Indenture or in the Bonds contained and not otherwise a default hereunder and the continuance thereof for a period of sixty (60) days after written notice given by the Trustee or by the owners of not less than 51% of the principal amount of Bonds then Outstanding.

(4) The occurrence of an "Event of Default" under any of the Financing Documents (other than the Disclosure Agreement).

(B) Subject to Sections 6.4(B) and 7.2(C) of the Loan Agreement, upon the happening and continuance of any Event of Default specified in subsection 8.1(A) hereof (unless the principal of all the Bonds shall have already become due and payable), the Trustee (a) upon request in writing to the Authority and the Trustee from the Bond Insurer or, if the Bond Insurance Policy is no longer in effect and if such Event of Default is specified in (1) or (2) above, shall, or (b) if the Bond Insurance Policy is no longer in effect, the Trustee may, and upon request in writing from the owners of not less than 51% in principal amount of the Bonds then Outstanding, shall, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything in this Indenture or in any of the Bonds contained to the contrary notwithstanding.

(C) The right of the Trustee or of the owners of not less than 51% in principal amount of the Outstanding Bonds to make any declaration authorized under subsection 8.1(B) hereof with respect to any failure under subsection 8.1(A)(1) hereof, however, is subject to the condition that if, at any time before such declaration, all overdue installments of interest upon the Bonds and the principal of all Bonds which shall have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, shall either be paid by or for account of the Authority or provision satisfactory to the Trustee shall be made for such payment, and all other events of default cured and waived as provided in Section 8.11 then in every such case any such default and its consequences shall ipso facto be deemed to be annulled, but no such annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 8.2. ENFORCEMENT OF REMEDIES. (A) Upon the happening and continuance of any Event of Default, then and in every case, but subject to the provisions of Section 9.2 hereof and Sections 6.4(B)

and 7.2(C) of the Loan Agreement, the Trustee, with the consent of the Bond Insurer, may proceed, and upon the written request of the Bond Insurer or the owners of not less than 51% in the principal amount of the Bonds Outstanding, with the consent of the Bond Insurer, shall proceed, to protect and enforce its rights and the rights of the Bondholders under the Act, the Bonds, the Financing Documents and this Indenture, and under any agreement executed in connection with the foregoing, forthwith by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in this Indenture or the Financing Documents or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under this Indenture; provided, that, no such consent of the Bond Insurer shall be required if the Bond Insurance Policy is no longer in effect or if the Bond Insurer is in default under the Bond Insurance Policy.

(B) [Reserved]

(C) Subject to the provisions of Section 8.2(E) below, in the enforcement of any right or remedy under this Indenture or under the Act, the Trustee shall be entitled to sue for, enforce payment on and receive any or all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, Redemption Price, interest or otherwise under any of the provisions of the Financing Documents, this Indenture or of the Bonds, and unpaid, and, to the extent permitted by law, with interest on overdue payments at the applicable rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the Financing Documents, this Indenture and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce judgment or decree against the Authority, but solely as provided in the Financing Documents, this Indenture and in the Bonds, for any portion of such amounts remaining unpaid, with interest, to the extent permitted by law, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

(D) Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the owners of not less than 51% in principal amount of the Bonds then Outstanding with the consent of the Bond Insurer, while the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, and furnished with reasonable security and indemnity, shall institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under this Indenture by any acts which may be unlawful or in violation of this Indenture or of any resolution authorizing Bonds, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders; but no such request shall be otherwise than in accordance with the provisions of law and of the Indenture or be unduly prejudicial to the interests of the holders of Bonds not making such request.

(E) Anything in this Indenture to the contrary notwithstanding, but subject to Section 9.2 hereinbelow, upon the occurrence and continuance of an Event of Default as defined herein, the Bond Insurer, so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder, shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under this Indenture, including, without limitation,

(i) the right to accelerate the principal of the Bonds as described in this Indenture and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

(F) The Bond Insurer's rights under this Article VIII shall be suspended in the event that the Bond Insurer is in default under the Bond Insurance Policy. The preceding sentence shall not affect or limit the Bond Insurer's rights obtained by virtue of subrogation upon payment of any amounts due and owing with respect to the Bonds.

SECTION 8.3. APPLICATION OF REVENUE AND OTHER MONEYS AFTER DEFAULT. (A) All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances incurred or made by the Trustee and any Paying Agent, shall be deposited in the applicable account of the Debt Service Fund and all moneys so deposited in such Fund and available for payment of the Bonds shall be applied as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

FIRST To the payment of all amounts due under the Financing Documents, exclusive of unpaid principal and interest on the Note;

SECOND To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

THIRD To the payment to the persons entitled thereto of the unpaid principal or Redemption Price, if any, of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in order of maturity, from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal or Redemption Price due on such date, to the persons entitled thereto without any discrimination or preference.

(2) If the principal of all the Bonds shall have become or have been declared due and payable, to the payment of all amounts due under the Financing Documents, then to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

(B) Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application shall be made. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the owner of any Bonds until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

(C) Whenever all Bonds and interest thereon and all other amounts due under the Financing Documents have been paid under the provisions of this Section and all fees, expenses and charges of the Trustee and Paying Agents have been paid, any balance remaining in the Debt Service Fund shall be paid to or upon the order of the Borrower.

SECTION 8.4. ACTIONS BY TRUSTEE. All rights of action under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceedings instituted by the

Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any owners of the Bonds, and any recovery of judgment, subject to the provisions of Section 8.3 hereof, shall be for the benefit of the holders of the Outstanding Bonds.

SECTION 8.5. MAJORITY BONDHOLDERS CONTROL PROCEEDINGS. Subject to Sections 8.2(E) and 13.3 hereof and Section 7.2(C) of the Loan Agreement, the holders of at least 51% in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for any other proceedings hereunder; but such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

SECTION 8.6. INDIVIDUAL BONDHOLDER ACTION RESTRICTED. (A) No owner of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Indenture or the execution of any trust under this Indenture or for any remedy under this Indenture, unless such owners shall have previously given to the Trustee written notice of the happening of an "Event of Default", as provided in this Article, and the owners of at least 51% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in this Indenture or by the Act or by the laws of the State or to institute such action, suit or proceeding in its own name, and unless such owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of sixty days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no owner of any Bond shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by this Indenture, or to enforce any right under this Indenture, except in the manner herein provided; and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner provided in this Indenture and for the equal benefit of all owners of the Outstanding Bonds.

(B) Nothing herein or in the Bonds contained shall affect or impair the right of any owner of the Bonds to payment of the principal or Redemption Price, if any, of and interest on any Bond or other amounts due under the Financing Documents at and after the maturity thereof, or the obligation of the Authority to pay the principal or Redemption Price, if applicable, of and interest on each of the Bonds or other amounts due under the Financing Documents to the respective owners thereof at the time, place, from the source and in the manner herein and in such Bonds expressed.

SECTION 8.7. EFFECT OF DISCONTINUANCE OF PROCEEDINGS. In case any proceeding taken by the Trustee on account of any Event of Default shall have been dismissed, discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Authority, the Trustee, and the owners of the Bonds shall be restored, respectively, to their former positions and rights hereunder, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceedings had been taken.

SECTION 8.8. REMEDIES NOT EXCLUSIVE. No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or to the owners of the Bonds is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

SECTION 8.9. DELAY OR OMISSION UPON DEFAULT. No delay or omission of the Trustee or of the owners of any Bond to exercise any right or power arising upon any Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy given by this Article to the Trustee and the owner of any Bond, respectively,

may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the owner of the Bonds.

SECTION 8.10. NOTICE OF DEFAULT. The Trustee shall promptly mail, to each owner of the Bonds, written notice of the occurrence of any Event of Default of which it has actual knowledge. Actual knowledge means the actual knowledge of an officer in the Trustee's corporate trust administration department. The Trustee shall not, however, be subject to any liability to any owner of the Bonds by reason of its failure to mail any notice required by this Section.

SECTION 8.11. WAIVERS OF DEFAULT. Subject to the provisions of Section 8.2(E) hereof, the Trustee shall waive any Event of Default hereunder and its consequences upon the written request of the owners of 51% in aggregate principal amount of the Bonds then Outstanding; except that there shall not be waived without the consent of the owners of all the Bonds Outstanding (a) any default in the payment of the principal of and Redemption Price on any Outstanding Bonds at the date of maturity specified therein or (b) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver, all arrears of interest, at the rate borne by the Bonds on overdue installments of interest, to the extent permitted by law, in respect of which such default shall have occurred or all arrears of payments of principal due on the Bonds when due, as the case may be, and all expenses of the Trustee and any Paying Agent in connection with such default shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Trustee on account of any such default shall have been dismissed, discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the owners of the Bonds shall be restored to their former positions and rights hereunder respectively, but no such waiver, dismissal, discontinuance, abandonment or determination shall extend to any subsequent or other default, or impair any right consequent thereon.

**ARTICLE IX
TRUSTEE AND PAYING AGENTS**

SECTION 9.1. APPOINTMENT AND ACCEPTANCE OF DUTIES. (A) U.S. Bank National Association is hereby appointed as Trustee. The Trustee shall signify its acceptance of the duties and obligations of the Trustee by executing this Indenture. All provisions of this Article shall be construed as extending to and including all the rights, duties and obligations imposed upon the Trustee under the Agreement and the other Financing Documents as fully for all intents and purposes as if this Article were contained in the Agreement and the other Financing Documents.

(B) The Trustee is hereby appointed as Paying Agent for the Bonds. The Authority may also from time to time appoint one or more other Paying Agents in the manner and subject to the conditions set forth in Section 9.10 hereof for the appointment of a successor Paying Agent. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the Authority and to the Trustee a written acceptance thereof. The principal offices of the Paying Agents are designated as the respective offices or agencies of the Authority for the payment of the interest on and principal or Redemption Price of the Bonds, except that interest on all registered Bonds and the principal and Redemption Price of all registered Bonds shall be payable at the corporate trust office of the Trustee located in Hartford, Connecticut.

SECTION 9.2. INDEMNITY. The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under this Indenture, or to enter any appearance in or in any way defend any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified and provided with adequate security to its satisfaction against any and all reasonable costs and expenses, outlays, and counsel fees and other disbursements, and against all liability not due to its willful misconduct, gross negligence or bad faith.

The Trustee shall be indemnified for and held harmless against any loss, liability or expense incurred without gross negligence or bad faith on its part arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that payment of such funds or adequate indemnity against such risk or liability is not assured to it.

SECTION 9.3. RESPONSIBILITIES OF TRUSTEE. (A) The Trustee shall have no responsibility in respect of the validity or sufficiency of this Indenture or the security provided hereunder or the due execution hereof by the Authority, or in respect of the title or the value of the Project, or in respect of the validity of any Bonds authenticated and delivered by the Trustee in accordance with this Indenture or to see to the recording or filing of the Indenture or any financing statement (except the filing of continuation statements as provided in Section 9.13 hereof) or any other document or instrument whatsoever. The recitals, statements and representations contained herein and in the Bonds shall be taken and construed as made by and on the part of the Authority and not by the Trustee, and the Trustee does not assume any responsibility for the correctness of the same; except that the Trustee shall be responsible for its representation contained in its certificate on the Bonds. The obligation hereunder to pay or reimburse the Trustee for expenses, advances, reimbursements and to indemnify and hold harmless the Trustee pursuant to Section 9.2 hereof shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of all obligations under this Indenture.

(B) The Trustee shall not be liable or responsible because of the failure of the Authority to perform any act required of it by this Indenture or the Financing Documents or because of the loss of any monies arising through the insolvency or the act or default or omission of any depository other than itself in which such monies shall have been deposited. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other monies deposited with it and paid out, invested, withdrawn or transferred in accordance herewith or for any loss resulting from any such investment. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own willful misconduct, gross negligence or bad faith. The immunities and exemptions from liability of the Trustee shall extend to its directors, officers, employees and agents.

(C) The Trustee, prior to the occurrence of an Event of Default and subsequent to an Event of Default that has been cured, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred of which the Trustee has actual knowledge (as defined in Section 8.10 hereinabove) and which has not been cured the Trustee, subject to Section 9.2 hereof, shall exercise such of the rights and powers vested in it hereby and use the same degree of care and skill in their exercise, as a prudent person would exercise under the circumstances in the conduct of his own affairs.

(D) The Trustee shall in all instances act in good faith in incurring costs, expenses and legal fees in connection with the transactions contemplated by this Indenture and the Agreement.

(E) The Trustee shall not be liable or responsible for the failure of the Borrower to effect or maintain insurance on the Project as provided in the Financing Documents nor shall it be responsible for any loss by reason of want or insufficiency in insurance or by reason of the failure of any insurer in which the insurance is carried to pay the full amount of any loss against which it may have insured the Authority, the Borrower, the Trustee or any other person.

SECTION 9.4. COMPENSATION. The Trustee and Paying Agents shall be entitled to receive and collect from the Borrower as provided in the Financing Documents payment for reasonable fees for services rendered hereunder and all advances, counsel fees and expenses and other expenses reasonably and necessarily made or incurred by the Trustee or Paying Agents in connection therewith.

SECTION 9.5. EVIDENCE ON WHICH TRUSTEE MAY ACT. (A) In case at any time it shall be necessary or desirable for the Trustee to make any investigation concerning any fact preparatory to taking or not taking any action, or doing or not doing anything, as such Trustee, and in any case in which this Indenture or the Financing Documents provide for permitting or taking any action, it may rely upon any certificate required or permitted to be filed with it under the provisions hereof or of the Financing Documents, and any such certificate shall be evidence of such fact or protect it in any action that it may or may not take, or in respect of anything it may or may not do, in good faith, by reason of the supposed existence of such fact.

(B) The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of this Indenture or the Financing Documents, upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person, or to have been prepared and furnished pursuant to any of the provisions of this Indenture or the Financing Documents, or upon the written opinion of any attorney (who may be an attorney for the Authority or the Borrower), engineer, appraiser, or accountant reasonably believed by the Trustee to be qualified in relation to the subject matter. The Trustee is not required to investigate the qualifications of any such expert.

(C) Notwithstanding any other provision of this Indenture, in determining whether the rights of the holders of any of the Bonds will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee (or any Paying Agent) shall consider the effect on the holders of the Bonds as if there were no Bond Insurance Policy then in effect.

SECTION 9.6. EVIDENCE OF SIGNATURES OF OWNERS OF THE BONDS AND OWNERSHIP OF BONDS. (A) Any request, consent, revocation of consent or other instrument which this Indenture may require or permit to be signed and executed by the owners of the Bonds may be in one or more instruments of similar tenor, and shall be signed or executed by such owners of the Bonds in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of any instrument appointing any such attorney, or (ii) the holding by any person of the Bonds shall be sufficient for any purpose of this Indenture (except as otherwise herein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any owner of the Bonds or his attorney of such instruments may be proved by a guarantee of the signature thereon by an officer of a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or a member of an association, a limited liability company or a partnership, on behalf of such corporation, association, limited liability company or partnership, such signature guarantee, certificate or affidavit shall be accompanied by sufficient proof of his authority.

(2) The ownership of registered Bonds and the amount, numbers and other identification, and date of owning the same shall be proved by the registry books.

(B) Except as otherwise provided in Section 10.3 hereof with respect to revocation of a consent, any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the Authority or the Trustee or any Paying Agent in accordance therewith.

SECTION 9.7. TRUSTEE AND ANY PAYING AGENT, MAY DEAL IN BONDS AND WITH BORROWER. Any national banking association, bank or trust company acting as a Trustee, or Paying Agent, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any owner of the Bonds may be entitled to take and may otherwise deal with the Borrower with like effect as if such association, bank or trust company were not such Trustee or Paying Agent.

SECTION 9.8. RESIGNATION OR REMOVAL OF TRUSTEE. (A) The Trustee may resign and thereby become discharged from the trusts created under this Indenture by notice in writing to be given to the Authority, the Borrower and the Bond Insurer (so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder) and by notice mailed, postage prepaid to the owners of the Bonds not less than sixty (60) days before such resignation is to take effect, but such resignation shall not take effect until the appointment of a successor Trustee pursuant to Section 9.9 hereof and such successor Trustee shall accept such trust.

(B) The Trustee may be removed at any time thirty (30) days after an instrument or concurrent instruments in writing, is filed with the Trustee and signed by either the Bond Insurer or the owners of not less than a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, but such removal shall not take effect until the appointment of a

successor Trustee pursuant to Section 9.9 hereof and such successor Trustee shall accept such trust. The Trustee shall promptly give notice of such filing to the Authority.

SECTION 9.9. SUCCESSOR TRUSTEE. (A) If at any time the Trustee shall resign, or shall be removed, be dissolved or otherwise become incapable of acting or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator thereof, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Authority shall appoint a successor Trustee to fill such vacancy. If the Authority fails to act prior to the date of resignation of any Trustee or within fifteen days after the position of Trustee becomes vacant, the Trustee may appoint a temporary successor Trustee. The Authority may thereafter appoint a successor Trustee to succeed such temporary Trustee. Within forty-five (45) days after such appointment, the successor Trustee shall cause notice of such appointment to be mailed, postage prepaid, to the Borrower and all owners of the Bonds.

(B) At any time within one year after such vacancy shall have occurred, the owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such owners of the Bonds or their attorneys-in-fact thereunto duly authorized and filed with the Authority, may appoint a successor Trustee, which shall, immediately and without further act, supersede any Trustee theretofore appointed. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section, the owner of any Bond then Outstanding or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee. In either event, within thirty (30) days after such appointment, the successor Trustee shall cause notice of such appointment to be marked, postage prepaid, to the Borrower.

(C) Any Trustee appointed under this Section shall be a national banking association or a bank or trust company duly organized under the laws of the State or under the laws of any state of the United States authorized to exercise corporate trust powers and shall be acceptable to the Bond Insurer (so long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default thereunder). At the time of its appointment, any successor Trustee shall have a capital stock and surplus aggregating not less than \$100,000,000.

(D) Every successor Trustee shall execute, acknowledge and deliver to its predecessor, and also to the Authority, an instrument in writing accepting such appointment, and thereupon such successor Trustee, without any further act, deed, or conveyance, shall become fully vested with all monies, estates, properties, rights, immunities, powers and trusts, and subject to all the duties and obligations of its predecessor, with like effect as if originally named as such Trustee; but such predecessor shall, nevertheless, on the written request of its successor or of the Authority, and upon payment of the compensation, expenses, charges and other disbursements of such predecessor which are due and payable pursuant to Section 9.4 hereof, execute and deliver an instrument transferring to such successor Trustee all the estate, properties, rights, immunities, powers and trusts of such predecessor, except any indemnification rights. Every predecessor Trustee shall also deliver all property and monies held by it under the Indenture to its successor. Should any instrument in writing from the Authority be required by any successor Trustee for more fully and certainly vesting in such Trustee, the estate, properties, rights, immunities, powers and trusts vested or intended to be vested in the predecessor Trustee any such instrument in writing shall, on request, be executed, acknowledged and delivered by the Authority. Any successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

(E) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate

trust business, provided such company shall be a national banking association or a bank or trust company duly organized under the laws of any state of the United States, shall have a capital stock and surplus aggregating not less than \$100,000,000, and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such Trustee, both in its capacity as Trustee and in its capacity as Paying Agent if the Trustee is serving as Paying Agent, without the execution or filing of any paper or the performance of any further act.

(F) Any Trustee which becomes incapable of acting as Trustee shall pay over, assign and deliver to its successor any monies, funds or investments held by it in the manner provided in Section 9.9(D) and shall render an accounting to the Authority.

SECTION 9.10. APPOINTMENT AND RESPONSIBILITIES OF PAYING AGENT. The initial Paying Agent shall be U.S. Bank National Association. The Paying Agent shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. The Paying Agent may rely conclusively on any telephone or written notice, certificate or other document furnished to it under this Indenture and reasonably believed by it to be genuine. The Paying Agent shall not be liable for any action taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under this Indenture or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or other action by the Paying Agent is called for by this Indenture, it may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act. The Paying Agent shall not in any event be liable for the application or misapplication of funds, or for other acts or defaults, by any person, firm or corporation except by the Paying Agent's respective directors, officers, agents and employees. For the purposes of this Indenture matters shall not be considered to be known to the Paying Agent unless they are known to an officer in its corporate trust administration division. The Paying Agent shall not require indemnification prior to making any payment when due of principal, premium or interest on any Bond to be made by the Paying Agent to any Bondholder, except and unless such drawing or payment is prohibited by or violates applicable law or any outstanding or pending court or governmental order or decree.

SECTION 9.11. RESIGNATION OR REMOVAL OF PAYING AGENT; SUCCESSORS. (A) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least sixty days' written notice to the Authority, the Trustee and the Borrower. Any successor Paying Agent shall be appointed by the Authority, at the direction of the Borrower, with the approval of the Trustee, and shall be a bank or trust company duly organized under the laws of any state of the United States or a national banking association, having a capital stock and surplus aggregating at least \$100,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture. The Paying Agent may be removed at any time by the Authority at the direction of the Borrower by a written instrument filed with the Trustee and the Paying Agent. The Paying Agent may, but need not be, the same person as the Trustee.

(B) If the position of Paying Agent shall become vacant for any reason, or if any bankruptcy, insolvency or similar proceeding shall be commenced by or against the Paying Agent, the Authority shall appoint a successor Paying Agent designated by the Borrower to fill the vacancy. A written acceptance of office shall be filed by the successor Paying Agent. The Trustee shall give notice of the appointment of a successor Paying Agent in writing to each Bondholder. The Trustee will promptly certify to the Borrower that it has mailed such notice to all Bondholders, and such certificate will be conclusive evidence that such notice was given in the manner required hereby.

(C) Any corporation, association, limited liability company partnership or firm which succeeds to the business of the Paying Agent as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Paying Agent under this Indenture and shall be subject to all the duties and obligations of the Paying Agent under this Indenture.

The Paying Agent shall send or cause to be sent notice to Bondholders of a change of address for the delivery of Bonds or notice or the payment of principal of Bonds.

SECTION 9.12. MONIES HELD FOR PARTICULAR BONDS. The amounts held by the Trustee or Paying Agents for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds, on and after such date and pending such payment, shall be set aside on its books and held in trust by it for the owners of the Bonds entitled thereto. Such funds shall be invested in Federal Securities at the direction of the Borrower for the account of the Borrower or shall otherwise remain uninvested.

SECTION 9.13. CONTINUATION STATEMENTS. The Trustee shall cause all continuation statements necessary to preserve and protect the security interest of the Trustee in the collateral pledged by the Authority in the granting clauses hereof to be filed in the applicable State offices so as to continue the perfected status thereof pursuant to the Uniform Commercial Code of the State.

SECTION 9.14. OBLIGATION TO REPORT DEFAULTS. Upon an officer in the Trustee's corporate trust administration department becoming aware of any condition or event which constitutes, or with the giving of notice or the passage of time would constitute, an Event of Default under the Financing Documents or this Indenture, the Trustee shall deliver to the Authority a written notice stating the existence thereof and the action it proposes to take with respect thereto. Becoming aware means the actual knowledge of an officer in the Trustee's corporate trust department.

SECTION 9.15. PAYMENTS DUE ON NON-BUSINESS DAY. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall, in the city of payment, be a day other than a Business Day, then payment of such amount shall be made as provided in the forms of the Bonds.

SECTION 9.16. APPOINTMENT OF CO-TRUSTEE. (A) It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of banking corporations or associations to transact business as trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Agreement, and in particular in case of the enforcement of either on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-Trustee. The following provisions of this Section are adapted to these ends.

(B) In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate trustee or co-Trustee but only to the extent necessary to enable such separate trustee or co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-Trustee shall run to and be enforceable by either of them.

(C) Should any instrument in writing from the Authority be required by the separate trustee or co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. In case any separate trustee or co-Trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-Trustee.

SECTION 9.17. PROJECT DESCRIPTION. The Trustee shall maintain in current form as an Appendix to the Agreement a list of the property constituting the Project Realty and the Project Equipment and, on the basis of the descriptions furnished by the Borrower pursuant to the Agreement, shall amend the list in writing to reflect changes in the Project Realty and the Project Equipment.

**ARTICLE X
AMENDMENTS OF INDENTURE**

SECTION 10.1. LIMITATION ON MODIFICATIONS. This Indenture shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article.

SECTION 10.2. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF OWNERS OF THE BONDS. (A) Subject to paragraph (C) of the Section 10.2, the Authority may, from time to time and at any time, adopt Supplemental Indentures without notice to or consent of the owners of the Bonds or the Bond Insurer for any of the following purposes:

(1) To cure any formal defect, omission or ambiguity in this Indenture or in any description of property subject to the lien hereof, if such action is not adverse to the interests of the owners of the Bonds.

(2) To grant to or confer upon the Trustee for the benefit of the owners of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(3) To add to the covenants and agreements of the Authority in this Indenture other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(4) To add to the limitations and restrictions in this Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with this Indenture as theretofore in effect.

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture, of Revenues or other income from or in connection with the Project or of any other monies, securities or funds, or to subject to the lien or pledge of this Indenture additional revenues, properties or collateral.

(6) To make any other changes which do not materially adversely affect the interest of owners of the Bonds, as evidenced to the Trustee by an opinion of Bond Counsel.

(7) To enable the Authority and the Borrower to receive or maintain a rating on the Bonds from S&P and/or Moody's; provided, however, that nothing in this Section 10.2(7) shall limit or restrict the rights of Bondholders to consent to modifications, alterations or amendments to this Indenture as provided in Section 10.3 hereof.

(B) Before the Authority shall adopt any Supplemental Indenture pursuant to this Section, there shall have been filed with the Trustee an opinion of Bond Counsel satisfactory to the Trustee stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with the terms of this Indenture, and that upon enactment it will be valid and binding upon the Authority in accordance with its terms.

(C) Notwithstanding anything to the contrary contained herein, any provision of this Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer.

SECTION 10.3. SUPPLEMENTAL INDENTURES WITH CONSENT OF OWNERS OF THE BONDS. (A) Subject to the terms and provisions contained in this Article, the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case the owners of not less than 51% in aggregate principal amount of the Bonds then Outstanding (or in the event that the proposed change does not affect all owners of Bonds, the owners of not less than 51% of the Bonds so affected), shall have the right from time to time, to consent to and approve the adoption by the Authority of any Supplemental Indenture as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein. Nothing herein contained shall permit, or be construed as permitting, without the consent of all of the owners of the Bonds affected thereby (i) a change in the terms of redemption or maturity of the principal of or the interest on any Outstanding Bond, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, without the consent of the owner of such Bond, (ii) the creation of a lien upon or pledge of Revenues other than the lien or pledge created by this Indenture, (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture.

(B) If at any time the Authority shall determine to adopt any Supplemental Indenture for any of the purposes of this Section, it shall cause notice of the proposed Supplemental Indenture to be mailed, postage prepaid, to the Bond Insurer or, if the Bond Insurer is in default under the Bond Insurance Policy, all owners of the Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture, and shall state that a copy thereof is on file at the offices of the Trustee for inspection by the Bond Insurer or all owners of the Bonds, as the case may be.

(C) Within one year after the date of such notice, the Authority may adopt such Supplemental Indenture in substantially the form described in such notice only if there shall have first been filed with the Authority (i) the written consent of the Bond Insurer or, if the Bond Insurer is in default under the Bond Insurance Policy, the written consent of the owners of not less than 51% in aggregate principal amount of the Bonds then Outstanding so affected, and

(ii) an opinion of counsel satisfactory to the Trustee stating that such Supplemental Indenture is authorized or permitted by this Indenture and complies with its terms, and that upon adoption it will be valid and binding upon the Authority in accordance with its terms. Each valid consent of a Bondholder shall be effective only if accompanied by proof of the owning, at the date of such consent, of the Bonds with respect to which such consent is given. A certificate or certificates by the Trustee that it has examined such proof and that such proof is sufficient in accordance with this Indenture shall be conclusive that the consents have been given by the owners of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of the Bonds giving such consent and upon any subsequent owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent owner thereof has notice thereof), unless such consent is revoked in writing by the owner of such Bonds giving such consent or a subsequent owner thereof by filing such revocation with the Trustee prior to the adoption of such Supplemental Indenture.

(D) If the owners of not less than the percentage of Bonds required by this Section, or the Bond Insurer, on their behalf, shall have consented to and approved the execution thereof as herein provided, no owner of any Bond shall have any right to object to the enactment of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Authority from adopting the same or from taking any action pursuant to the provisions thereof.

(E) Upon the adoption of any Supplemental Indenture pursuant to the provisions of this Section, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the Trustee, the Paying Agent, the Bond Insurer and all owners of Bonds then Outstanding shall thereafter be determined,

exercised and enforced under this Indenture, subject in all respects to such modifications and amendments.

SECTION 10.4. SUPPLEMENTAL INDENTURE PART OF THE INDENTURE. Any Supplemental Indenture adopted in accordance with the provisions of this Article shall thereafter form a part of this Indenture and all the terms and conditions contained in any such Supplemental Indenture as to any provisions authorized to be contained therein shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes. The Trustee shall execute any Supplemental Indenture adopted in accordance with the provisions of Sections 10.2 or 10.3 hereof; provided, however, that the Trustee may, but shall not be obligated to, enter into any such instrument which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

**ARTICLE XI
AMENDMENTS OF FINANCING DOCUMENTS**

SECTION 11.1. RIGHTS OF BORROWER. Anything herein to the contrary notwithstanding, any Supplemental Indenture under Article X hereof which affects in any manner any rights, powers, authority, duties or obligations of the Borrower under the Financing Documents or of any subsequent user of the Project or requires a revision of the Financing Documents or subsequent agreement with respect to the Project shall not become effective unless and until the Borrower or such subsequent user, as the case may be, shall have given its written consent signed by its duly Authorized Representative to such Supplemental Indenture.

SECTION 11.2. AMENDMENTS OF FINANCING DOCUMENTS NOT REQUIRING CONSENT OF OWNERS OF THE BONDS. The Authority and the Trustee may, without the consent of or notice to the owners of the Bonds or the Bond Insurer, consent to any amendment, change or modification of the Financing Documents for the purpose of

(i) curing any ambiguity or formal defect therein or which, in the judgment of the Trustee will not materially prejudice the Trustee or the owners of the Bonds or (ii) to make any other changes which do not materially adversely affect the interests of the owners of the Bonds, as evidenced to the Trustee by an opinion of counsel. The Trustee shall have no liability to any owner of the Bonds or any other person for any action taken by it in good faith pursuant to this Section.

SECTION 11.3. AMENDMENTS OF FINANCING DOCUMENTS REQUIRING CONSENT OF OWNERS OF THE BONDS. Except as provided in Section 11.2 hereof, the Authority and the Trustee shall not consent to any amendment, change or modification of the Financing Documents, including the substitution of an assignee for the Borrower and the release of the Borrower from the obligations of the Financing Documents, without mailing of notice and the written approval or consent of the Bond Insurer, unless the Bond Insurer is in default under the Bond Insurance Policy, in which case such amendment, change or modification shall require the mailing of notice and the written approval or consent of the owners of not less than 51% in aggregate principal amount of the Bonds at the time Outstanding and so affected given and procured as in Section 10.3 hereof provided. If at any time the Borrower or a subsequent user of the Project shall request the consent of the Trustee to any such proposed amendment, change or modification, the Trustee shall cause notice of such proposed amendment, change or modification to be mailed in the same manner as is provided in Article X hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by the Bond Insurer or all owners of the Bonds, as the case may be.

**ARTICLE XII
DISCHARGE OF INDENTURE**

SECTION 12.1. DEFEASANCE. (A) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the owners of all Bonds the principal or Redemption Price, if applicable, interest and all other amounts due or to become due thereon or in respect thereof, and all other amounts due or to become due under the Financing Documents, at the times and in the manner stipulated therein and in this Indenture, and if all the fees, expenses and advances of the Trustee and all Paying Agents have been paid, then the pledge of any revenues or receipts from or in connection with the Financing Documents or the Project under this Indenture and the estate and rights hereby granted, and all covenants, agreements and other obligations of the Authority to the owners of the Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied and such Bonds shall thereupon cease to be entitled to any lien, benefit or security hereunder, except as to moneys or securities held by the Trustee or the Paying Agents as provided below in this subsection. At the time of such cessation, termination discharge and satisfaction, (1) the Trustee shall cancel and discharge the lien of this Indenture and execute and deliver to the Borrower all such instruments as may be appropriate to satisfy such lien and to evidence such discharge and satisfaction, and (2) the Trustee, the Authority and the Paying Agents shall pay over or deliver to the Borrower or on its order all moneys or securities held by them pursuant to the Indenture which are not required (a) for the payment of principal or Redemption Price, if applicable, or interest on Bonds not theretofore surrendered for such payment or redemption, or
(b) for the payment of all such other amounts due or to become due under the Financing Documents.

(B) Bonds or interest installments for the payment or redemption of which moneys (or Federal Securities, the principal of and interest on which when due, together with the moneys, if any, set aside at the same time, will provide funds sufficient for such payment or redemption) shall then be set aside and held in trust by the Trustee or Paying Agents, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in subsection (A) of this Section, if (a) in case any such Bonds are to be redeemed prior to maturity, all action necessary to redeem such Bonds shall have been taken and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (b) if the maturity or redemption date of any such Bond shall not then have arrived, provision shall have been made by deposit with the Trustee or other methods satisfactory to the Trustee for the payment to the owners of any such Bonds upon surrender thereof, whether or not prior to the maturity or redemption date thereof, of the full amount to which they would be entitled by way of principal or Redemption Price and interest and all other amounts then due under the Financing Documents to the date of such maturity or redemption, and provision satisfactory to the Trustee shall have been made for the mailing of a notice to the owners of such Bonds that such moneys are so available for such payment.

**ARTICLE XIII
GENERAL PROVISIONS**

SECTION 13.1. NOTICES. (A) Any notice, request, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by telegram, addressed as follows: if to the Authority, at 999 West Street, Rocky Hill, Connecticut 06067, Attention: Program Manager - Loan Administration; if to the Borrower, 93 Main Street, Clinton, Connecticut 06413, Attention: Vice President-Chief Financial Officer and Treasurer; if to the Trustee, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103, Attention: Corporate Trust Administration; and if to the Bond Insurer, 1221 Avenue of the Americas, New York, New York 10020, Attention: Surveillance. A duplicate copy of each notice required to be given hereunder by the Trustee to either the Authority or the Borrower, shall also be given to the other. In addition, copies of all amendments to this Indenture which are consented to by the Bond Insurer, shall be sent to S&P. Any notice party may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

(B) Notice hereunder may be waived prospectively or retrospectively by the person entitled to such notice, but no waiver shall affect any notice requirement as to other persons.

SECTION 13.2. COVENANT AGAINST DISCRIMINATION. The Trustee agrees and warrants that in the performance of this Indenture it will not discriminate against any person or group of persons on the grounds of race, color, religion, national origin, age, sex, sexual orientation, marital status, physical or learning disability, political beliefs, mental retardation, or history of mental disorder in any manner prohibited by the laws of the United States or of the State.

SECTION 13.3. RIGHTS OF BOND INSURER. (A) Notwithstanding anything to the contrary contained herein, so long as the Bond Insurer is not in default on its payment obligations under the Bond Insurance Policy, such Bond Insurer shall at all times be deemed to be the exclusive owner of the Bonds insured pursuant to the Bond Insurance Policy issued by such Bond Insurer for the purposes of all approvals, consents, waivers or institution of any action and the direction of all remedies. To the extent that the Bond Insurer makes payment of principal of or interest on the Bonds, it shall become the owner of such Bonds, or shall be entitled to the right to payment of principal of or interest on such Bonds and shall be fully subrogated to all of the registered owner's rights thereunder, including the registered owner's right to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt of proof from the Bond Insurer as to payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt of proof from the Bond Insurer of the surrender or transfer of the Bonds by the registered owners thereof to the Bond Insurer. The Trustee shall deliver to the Bond Insurer or its designated agent a document in form and substance acceptable to the Trustee and the Bond Insurer or its designated agent confirming such subrogation rights.

(B) In the event that the principal of and/or interest on the Bonds shall be paid by the Bond Insurer pursuant to the terms of the Bond Insurance Policy, the Bonds shall remain Outstanding, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners shall continue to exist and the Bond Insurer shall be fully subrogated to all of the rights of such registered owners in accordance with the terms and conditions of subparagraph (A) above and the Bond Insurance Policy.

(C) Notwithstanding any provision in this Indenture or the Agreement to the contrary, the Bond Insurer shall have no rights under this Indenture or the Agreement, other than rights of subrogation

as herein provided to the extent that the Bond Insurer has made payments under the Bond Insurance Policy, in the event that the Bond Insurance Policy is not in effect or the Bond Insurer is in default on its payment obligations under the Bond Insurance Policy.

SECTION 13.4. BOND INSURER CONSENT. Notwithstanding any other provisions of this Indenture, unless the Bond Insurer is in default under the Bond Insurance Policy, the consent of the owners of Bonds for which a Bond Insurance Policy has been issued shall for purposes of this Indenture be deemed to have been obtained when the consent of the Bond Insurer is obtained, except in the cases where approval of all Bondowners is required as provided in Section

10.3 (A) hereof, in which case the consents of the Bondowners and the Bond Insurer shall be required. Notwithstanding any provision in this Indenture or the Agreement to the contrary, all provisions in this Indenture or the Financing Documents requiring the consent of the Bond Insurer shall have no force and effect if the Bond Insurance Policy is not in effect or if the Bond Insurer is in default under such Bond Insurance Policy.

SECTION 13.5. NOTICES TO THE BOND INSURER. While the Bond Insurance Policy is effect, the Trustee shall furnish to the Bond Insurer a copy of any notice to be given to the registered owners of the Bonds or any other party to this Indenture, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this Indenture relating to the security for the Bonds; and such additional information it may reasonably request.

Notwithstanding any other provision of this Indenture, the Trustee shall immediately notify the Bond Insurer at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default hereunder.

SECTION 13.6. PARTIES INTERESTED HEREIN. Except as otherwise specifically provided herein, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Authority, the Trustee, the Bond Insurer, the Borrower, the Paying Agent and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee, the Bond Insurer, the Borrower, the Paying Agent and the registered owners of the Bonds.

SECTION 13.7. BOND INSURER AS THIRD PARTY BENEFICIARY. To the extent that this Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this Indenture, the Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 13.8. EFFECTIVE DATE; COUNTERPARTS. This Indenture shall become effective on delivery. It may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 13.9. DATE FOR IDENTIFICATION PURPOSES ONLY. The date of this Indenture shall be for identification purposes only and shall not be construed to imply that this Indenture was executed on such date.

SECTION 13.10. SEPARABILITY OF INVALID PROVISIONS. In case any one or more of the provisions contained in this Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, but this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Connecticut Development Authority has caused these presents to be signed in its name and behalf by an Authorized Representative, and to evidence its acceptance of the trusts hereby created, U.S. Bank National Association, has caused these presents to be signed in its name and behalf by its duly authorized officer, as of the date first above written.

CONNECTICUT DEVELOPMENT AUTHORITY

By _____
Name: Francis T. Gagliardo
Authorized Representative

U.S. BANK NATIONAL ASSOCIATION

By _____
Name: Cauna M. Silva
Title: Vice President

BOND PURCHASE AGREEMENT

among

CONNECTICUT DEVELOPMENT AUTHORITY,

THE CONNECTICUT WATER COMPANY

and

A.G. EDWARDS & SONS, INC.

Dated October 10, 2003

\$8,000,000

Connecticut Development Authority
Water Facilities Revenue Refunding Bonds
(The Connecticut Water Company Project - 2003A Series)

\$14,930,000

Connecticut Development Authority
Water Facilities Revenue Refunding Bonds
(The Connecticut Water Company Project - 2003C Series)

BOND PURCHASE AGREEMENT

AGREEMENT, dated October 10, 2003, among the Connecticut Development Authority (the "Authority"), The Connecticut Water Company (the "Borrower") and A.G. Edwards & Sons, Inc. (the "Underwriter"), with respect to the sale and purchase of the Authority's \$8,000,000 Water Facilities Revenue Refunding Bonds (The Connecticut Water Company Project - 2003A Series) (the "Series 2003A Bonds") and the Authority's \$14,930,000 Water Facilities Revenue Refunding Bonds (The Connecticut Water Company Project - 2003C Series) (the "Series 2003C Bonds"; and, together with the Series 2003A Bonds, the "Bonds") on the terms and subject to the conditions herein set forth:

1. The Borrower has previously filed with the Authority its application for the issuance of the Bonds by the Authority, and the Authority has authorized the Bonds by a resolution duly adopted June 18, 2003 (the "Resolution"). The Bonds will be special obligations of the Authority payable solely out of the revenues or other receipts, funds or moneys pledged therefor, and from any amounts otherwise available to the Trustee for the payment thereof under the indentures referred to below. The proceeds of the sale of the Series 2003A Bonds will be used to refund the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1993 Series) (the "Series 1993 Prior Obligations"), the proceeds of which were used to refund tax exempt debt previously issued by the Authority in 1983, the proceeds of which were loaned to the Borrower for use in the acquisition, construction and installation of certain additions to the water system of the Borrower located in certain municipalities within the State (the "Series 2003A Project"). The proceeds of the sale of the Series 2003C Bonds will be used to refund the Authority's Water Facilities Revenue Bonds (The Connecticut Water Company Project - 1992 Series) (the "Series 1992 Prior Obligations"; and, together with the Series 1993 Prior Obligations, the "Prior Obligations"), the proceeds of which were used to refund tax exempt debt previously issued by the Authority in 1987, the proceeds of which were loaned to the Borrower for use in the acquisition, construction and installation of certain additions to the water system of the Borrower located in certain municipalities within the State (the "Series 2003C Project"; and, together with the Series 2003A Project and the Series 2003B Project, the "Project"). All such projects are to be used for water facilities purposes, all as more particularly described in the Loan Agreements (the "Agreements"), each dated as of October 1, 2003 and by and between the Authority and the Borrower. Pursuant to the Agreements, the Borrower will execute and deliver to the Authority the Borrower's notes (the "Notes") to evidence its indebtedness thereunder. Payments on the Notes shall be applied to the amounts due on the Bonds.

The Series 2003A Bonds shall be in all respects as described in, and shall be issued under and pursuant to, an Indenture of Trust (the "Series 2003A Indenture"), dated as of October 1, 2003, between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Series 2003C Bonds shall be in all respects as described in, and shall be issued under and pursuant to, an Indenture of Trust (the "Series 2003C Indenture"; and, together with the Series 2003A Indenture, the "Indentures"), dated as of October 1, 2003, between the Authority and the Trustee. In connection with the execution and delivery of the Indentures, the Authority and the Trustee will execute and deliver a Letter of Representation (the "Letter of Representation") to The Depository Trust Company ("DTC"). In order to assure the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, the Borrower, the Authority

and the Trustee will enter into Tax Regulatory Agreements relating to each series of Bonds, each dated as of the date of issuance of the Bonds (the "Tax Regulatory Agreements").

The Agreements, the Tax Regulatory Agreements and the Indentures shall be in substantially the forms approved by the Authority in connection with the authorization of the Bonds.

In this Bond Purchase Agreement, the term "Financing Documents", (1) when used with respect to the Borrower, means the Agreements, the Notes, the Tax Regulatory Agreements, the Disclosure Agreement and the general certificate of the Borrower delivered in connection with the issuance of the Bonds and (2) when used with respect to the Authority, means any of the foregoing documents and agreements referred to in (1) above to which the Authority is a direct party. The Financing Documents when such term is used with respect to the Borrower, do not include any documents or agreements to which the Borrower is not a direct party, including the Bonds, the Indentures or the Letter of Representation.

2. Subject to the terms and conditions and upon the basis of the representations hereinafter set forth, the Authority hereby agrees to sell the Series 2003A Bonds to the Underwriter and the Underwriter hereby agrees to purchase the Series 2003A Bonds from the Authority at the purchase price of \$8,000,000.00, plus accrued interest from October 1, 2003. The Series 2003A Bonds shall be dated October 1, 2003, shall mature on December 15, 2020 and shall bear interest at a rate of 4.40% per annum, payable on June 15 and December 15, in each year commencing December 15, 2003. It will be a condition to the Authority's obligation to sell the Series 2003A Bonds to the Underwriter and the obligation of the Underwriter to purchase the Series 2003A Bonds that all Series 2003A Bonds be sold and delivered by the Authority and paid for by the Underwriter on the Closing Date, as hereinafter defined.

3. [Reserved].

4. Subject to the terms and conditions and upon the basis of the representations hereinafter set forth, the Authority hereby agree to sell the Series 2003C Bonds to the Underwriter and the Underwriter hereby agrees to purchase the Series 2003C Bonds from the Authority at the purchase price of \$14,930,000.00, plus accrued interest from October 1, 2003. The Series 2003C Bonds shall be dated October 1, 2003, shall mature on September 1, 2022 and shall bear interest at a rate of 5.00% per annum, payable on March 1 and September 1, in each year commencing March 1, 2004. It will be a condition to the Authority's obligation to sell the Series 2003C Bonds to the Underwriter and the obligation of the Underwriter to purchase the Series 2003C Bonds that all Series 2003C Bonds be sold and delivered by the Authority and paid for by the Underwriter on the Closing Date, as hereinafter defined.

5. The date of delivery and payment for the Bonds (the "Closing Date") will be October 30, 2003 unless not later than the fifth day preceding such date the Borrower and the Underwriter agree that the Closing Date will be a specified date not later than the thirtieth day subsequent to such date, in which event the Closing Date will be the date so specified. The Bonds shall be available for inspection and packaging at least twenty-four hours before the Closing Date.

The Authority will authorize the Trustee to authenticate and deliver the Bonds to the Underwriter through the facilities of DTC, 55 Water Street, New York, New York, utilizing the

FAST System pursuant to which the Trustee will take custody of the Bonds as agent for DTC, at approximately 11:00 A.M., New York City time on the Closing Date, in typewritten form, bearing CUSIP numbers, duly executed and authenticated, registered in the name of Cede & Co., as nominee for DTC, against payment therefor by wire transfer or other manner payable in immediately available funds to the Trustee for the account of the Authority. The payment for the Bonds to the Authority and the delivery thereof to the Underwriter shall be made at the offices of Murtha Cullina LLP, City Place I, 185 Asylum Street, Hartford, Connecticut. The Bonds will be delivered in the form and denominations and shall be otherwise as described in the Indenture.

6. The Authority hereby represents and warrants that:

(a) It is a body corporate and politic constituting a public instrumentality and political subdivision of the State of Connecticut duly organized and existing under the laws of the State of Connecticut, particularly the State Commerce Act, constituting Connecticut General Statutes, Sections 32-1a through 32-23yy, as amended (the "Act"). The Authority is authorized to issue the Bonds in accordance with the Act and to lend the proceeds thereof to the Borrower to refund the Prior Obligations of the Authority thereby refinancing the improvements described in the Indenture.

(b) The Authority has complied with the provisions of the Act and has full power and authority pursuant to the Act to consummate all transactions contemplated by this Bond Purchase Agreement, the Bonds, the Resolution, the Indentures and the Financing Documents, and to issue, sell and deliver the Bonds to the Underwriter as provided herein.

(c) By resolution duly adopted by the Authority and still in full force and effect, the Authority has authorized the execution, delivery and due performance of this Bond Purchase Agreement, the Bonds, the Indentures and the Financing Documents, and the taking of any and all action as may be required on the part of the Authority to carry out, give effect to and consummate the transactions contemplated by this Bond Purchase Agreement, and all approvals necessary in connection with the foregoing have been received, except the State Treasurer's approval.

(d) When delivered to and paid for by the Underwriter in accordance with the terms of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed, authenticated, issued and delivered and will constitute valid and binding special obligations of the Authority payable solely from revenues or other receipts, funds or moneys pledged therefor under the respective Indentures and from any amounts otherwise available therefor under the Indentures, and will be entitled to the benefit of the Indentures. Neither the State nor any municipality thereof will be obligated to pay the Bonds or the interest thereon. Neither the faith and credit nor the taxing power of the State nor any municipality thereof is pledged for the payment of the principal, and premium, if any, of and interest on the Bonds.

(e) The execution and delivery of this Bond Purchase Agreement, the Bonds, the Indentures and the Financing Documents, and compliance with the provisions thereof, will not conflict with or constitute on the part of the Authority a violation of, breach of or default under its by-laws or any statute, indenture, mortgage, deed of trust, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound, or, to the knowledge of the Authority, any order, rule or regulation of any court or governmental agency or

body having jurisdiction over the Authority or any of its activities or properties, and all consents, approvals, authorizations and orders of governmental or regulatory authorities which are required for the consummation by the Authority of the transactions contemplated thereby have been obtained, except the State Treasurer's approval.

(f) Subject to the provisions of the Agreements and the Indentures, the Authority will apply the proceeds from the sale of the Bonds to the purposes specified in the respective Indentures and the Financing Documents.

(g) To the best knowledge of the Authority, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting the Authority, or to the best knowledge of the Authority, any basis therefor, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated hereby and by the Indentures, or which, in any way, would adversely affect the validity of the Bonds, the Resolution, the Indentures, the Financing Documents, this Bond Purchase Agreement, any agreement or instrument to which the Authority is a party and which is used or contemplated for use in consummation of the transactions contemplated hereby and by the Indentures or the exemption from taxation as set forth therein.

(h) Any certificate signed by any Authorized Representative of the Authority under the Resolution or this Bond Purchase Agreement and delivered to the Underwriter or to the Trustee shall be deemed a representation and warranty by the Authority to the Underwriter and the Borrower as to the statements made therein.

(i) The information with respect to the Authority in the Official Statement of the Authority (the "Official Statement"), dated the date hereof, is correct and complete, except that none of the representations and warranties herein apply to statements in or omissions from the Official Statement made in reliance on or in conformity with information furnished, to the Authority by the Borrower, or to information under the headings "THE PROJECT", "THE BONDS--Book-Entry Only System", "BOND INSURANCE", "TAX MATTERS", "LEGAL MATTERS" and "INDEPENDENT ACCOUNTANTS", or to anything contained or incorporated by reference in the appendices to the Official Statement or otherwise with respect to the Borrower. The Authority has authorized the use of the Official Statement in both its preliminary and final forms and delivered duly executed copies thereof in final form to the Underwriter.

It is specifically understood and agreed that the Authority makes no representation as to the financial position or business condition of the Borrower or any other person and does not, with respect to the Official Statement or otherwise, except to the extent the Authority deems the Preliminary Official Statement to be final as provided in Section 11 hereof, represent or warrant as to any of the statements, materials (financial or otherwise), representations or certifications furnished or to be made and furnished by the Borrower or any other person in connection with the sale of the Bonds, or as to the correctness, completeness or accuracy of any of such statements, materials, representations or certificates.

7. The Borrower represents and warrants that:

(a) The Borrower has been duly organized and validly exists as a corporation under the laws of the State of Connecticut, having all requisite corporate power to carry on its business as now constituted.

(b) The execution and delivery by the Borrower of the Financing Documents and this Bond Purchase Agreement, and all other agreements herein contemplated to be performed by the Borrower, and the performance of the conditions herein contained and those in each of such instruments to be performed are not in contravention of law and will not conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute a default under any indenture, mortgage deed of trust or other agreement or instrument to which the Borrower is a party, or the Certificate of Incorporation and any special acts incorporated by reference therein or Bylaws of the Borrower, or any order, rule or regulation applicable to the Borrower of any court or of any federal or State regulatory body or administrative agency or other governmental body having jurisdiction over the Borrower or over any of its properties, or any statute, rule or regulation of any jurisdiction applicable to the Borrower, or result in the creation or imposition of any lien, charge or encumbrance upon any of the properties or assets of the Borrower pursuant to the terms of any indenture, agreement or undertaking binding upon it; and, to the extent required by law, the Connecticut Department of Public Utility Control (the "DPUC") has approved or waived approval of all matters relating to the Borrower's participation in the transactions contemplated in the Financing Documents which require such approval or waiver of approval; such approval or waiver of approval remains in full force and effect in the form issued; and, assuming that the Bonds are securities described in Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Sections 3(a)(12) and (29) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no other consent, approval, authorization or other order of any regulatory body or administrative agency or other governmental body is legally required for the Borrower's participation in connection therewith, except as have been obtained.

(c) Except as disclosed or incorporated by reference in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending, or to the knowledge of the Borrower threatened, wherein an unfavorable decision, ruling or finding would (i) in the opinion of the Borrower, involve the possibility of any judgment or liability to the extent not covered by insurance which would result in any material adverse change in the business, properties or operations of the Borrower, (ii) materially adversely affect the transactions contemplated by this Bond Purchase Agreement or (iii) materially adversely affect the validity or enforceability of the Bonds, the Indentures, the Financing Documents or this Bond Purchase Agreement.

(d) The Borrower will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided in the Indentures and the Financing Documents, as in force from time to time.

(e) Except as disclosed or incorporated by reference in the Official Statement, the Borrower is not a party to or bound by any contract, agreement or other instrument, or subject to any judgment, order, writ, injunction, decree, rule or regulation which, in the Borrower's opinion, materially adversely affects, or in the future may, so far as the Borrower can now

reasonably foresee, materially adversely affect the business, operations, properties, assets or condition, financial or otherwise, of the Borrower.

(f) Neither this Bond Purchase Agreement, other than Section 6 hereof as to which no representation is made, nor any other document, certificate or written statement furnished to the Underwriter or the Authority by or on behalf of the Borrower, when read together with the information disclosed or incorporated by reference in Appendix A to the Official Statement, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made, not misleading or incomplete.

(g) The Borrower has not taken and will not take any action and knows of no action that any other person, firm or corporation has taken or intends to take, which would cause interest on the Bonds to be includable in the gross income of the recipients thereof for federal income tax purposes.

(h) The Borrower will deliver or cause to be delivered all opinions, certificates, letters and other instruments and documents required to be delivered by the Borrower pursuant to this Bond Purchase Agreement.

(i) The Financing Documents and this Bond Purchase Agreement, when executed and delivered, will be legal, valid, binding and enforceable obligations of the Borrower, except to the extent that such enforceability may be limited by bankruptcy or insolvency or other laws affecting creditors' rights generally or by general principles of equity.

(j) [Reserved].

(k) (i) The information with respect to the Borrower included or incorporated by reference in Appendix A to the Preliminary Official Statement and the descriptions contained therein of the Agreements, the Indentures and the Financing Documents and the Borrower's participation in the transactions contemplated thereby, with such additions or amendments as heretofore have been agreed upon between the Authority, the Borrower and the Underwriter and which are reflected in the Official Statement, are correct and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein in light of circumstances under which they were made not misleading except that the Borrower makes no representation as to (A) the information contained in Appendices D and F of the Preliminary Official Statement or the information contained in the Preliminary Official Statement under the captions "INTRODUCTION - The Authority", "THE AUTHORITY", "THE BONDS - Book Entry Only System", "TAX MATTERS", "BOND INSURANCE" and "UNDERWRITING" or (B) the information with respect to DTC and its book-entry system. The financial statements included in Appendix B to the Preliminary Official Statement have been prepared in accordance with generally accepted accounting principles as applied in the case of rate-regulated public utilities, comply with the Uniform System of Accounts and ratemaking practices prescribed by the DPUC (except as otherwise disclosed in the notes to such financial statements) and fairly present the financial position, results of operations, retained earnings and statements of cash flows of the Borrower at the respective dates and for the respective periods indicated.

(ii) The Borrower has authorized and consents to the use of the Official Statement by the Underwriter. The information with respect to the Borrower included or incorporated by reference in Appendix A to the Official Statement and the descriptions contained therein of the Agreements, the Indentures and the Financing Documents and the Borrower's participation in the transactions contemplated thereby, are correct and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein in light of the circumstances under which they were made not misleading, except that the Borrower makes no representation as to (A) the information contained in Appendices D and F to the Official Statement or the information contained in the Official Statement under the captions "INTRODUCTION - The Authority", "THE AUTHORITY", "THE BONDS - Book Entry Only System", "TAX MATTERS", "BOND INSURANCE" and "UNDERWRITING" or (B) the information with respect to DTC and its book-entry system. The financial statements included in Appendix B to the Official Statement have been prepared in accordance with generally accepted accounting principles as applied in the case of rate-regulated public utilities, comply with the Uniform System of Accounts and ratemaking practices prescribed by the DPUC (except as otherwise described in the notes to such financial statements) and fairly present the financial position, results of operations, retained earnings and statements of cash flows of the Borrower at the respective dates and for the respective periods indicated.

(l) There has been no material adverse change in the business, properties, operations or financial condition of the Borrower from that shown or incorporated by reference in the Official Statement.

(m) The Borrower will use its best efforts to cause the delivery of the Policies (as hereinafter defined).

(n) The representations and warranties of the Borrower contained in Section 2.2 of each of the Loan Agreements are true and correct as of the date hereof.

(o) The Borrower has obtained all approvals required in connection with the execution and delivery of, and performance by the Borrower of its obligations under, this Bond Purchase Agreement and the Financing Documents.

(p) Any certificate signed by an officer of the Borrower and delivered to the Underwriter at the time of the purchase and sale of the Bonds shall be deemed a representation and warranty by the Borrower to the Underwriter as to the statements made therein.

(q) The Borrower deems the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 of the SEC.

(r) No material event of default or event which, with notice or lapse of time or both, would constitute a material event of default or default under any material agreement or material instrument to which the Borrower is a party or by which the Borrower is bound or to which any of the property or assets of the Borrower is subject has occurred and is continuing.

(s) The Borrower will undertake, pursuant to the Agreements and a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

The Borrower agrees to indemnify and hold harmless the Authority, the Underwriter, any member, officer, official, employee or agent of the Authority or the State of Connecticut or the Underwriter, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the Securities Act of 1933 (the "Act"), as amended (for purposes of this paragraph, collectively the "Indemnified Parties"), to the extent permitted under the applicable law, against any and all losses, claims, damages, liabilities or expenses whatsoever, joint or several, cause by (1) any breach of any representation or warranty made by the Borrower in this Bond Purchase Agreement or the Financing Documents or (2) any untrue statement or misleading statement or allegedly misleading statement of a material fact contained in the Official Statement or caused by any omission or alleged omission from the Official Statement of any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue or misleading statement or omission or allegedly untrue or misleading statement or omission in the information contained under the captions "INTRODUCTION - The Authority", "THE AUTHORITY", "THE BONDS - Book Entry Only System", "BOND INSURANCE", "UNDERWRITING" or "TAX MATTERS" or in Appendices D and F thereto (except to the extent that the information set forth in such section is premised on facts and representations made in writing by the Borrower); provided, however, that in the case of clause (2) above such indemnity shall not inure to the benefit of the Underwriter (or any person controlling the Underwriter or any officer or employee of the Underwriter) if the Borrower has caused to be delivered to the Underwriter on a timely basis sufficient quantities of the Official Statement, as amended or supplemented, and a copy of the Official Statement, as then so amended or supplemented, was not sent or given by or on behalf of the Underwriter to the person asserting any such loss, claim, damage, liability or expense prior to or with written confirmation of the sale of such Bonds to such person by the Underwriter and the receipt of the Official Statement, as then so supplemented or amended, would have been a valid defense to the loss, claim, damage, liability or expense asserted. This indemnity agreement shall not be construed as a limitation on any other liability which the Borrower may otherwise have to any Indemnified Party.

The Underwriter agrees to indemnify and hold harmless the Authority and the Borrower, and each director, officer, or employee of the Authority and the Borrower, and each person who controls either of them within the meaning of the Act (for purposes of this paragraph, an "Indemnified Party") to the same extent as the foregoing indemnity from the Borrower to the Underwriter, but only with reference to written information furnished to the Borrower by or on behalf of the Underwriter specifically for inclusion in the Official Statement under the caption "UNDERWRITING". This indemnity agreement shall not be construed as a limitation on any other liability which the Underwriter may otherwise have to any Indemnified Party.

An Indemnified Party will, promptly after receiving notice of the commencement of any action against such Indemnified Party in respect of which indemnification may be sought against the Borrower or the Underwriter, as the case may be (in any case the "Indemnifying Party"), notify the Indemnifying Party in writing of the commencement of the action, enclosing a copy of all papers served, but the omission so to notify the Indemnifying Party of any such action shall not relieve the Indemnifying Party of any liability which it may have to any Indemnified Party otherwise than under this Section. If such action is brought against an Indemnified Party and such Indemnified Party notifies the Indemnifying Party of its commencement, the Indemnifying Party may, or if so requested by the Indemnified Party shall, participate in it or assume its

defense, with counsel reasonably satisfactory to the Indemnified Party, and after notice from the Indemnifying Party to the Indemnified Party of an election to assume the defense, the Indemnifying Party will not be liable to the Indemnified Party under this Section for any legal or other expenses subsequently incurred by such Indemnified Party in connection with the defense other than reasonable costs of investigation subsequently incurred by the Indemnified Party in connection with the defense thereof. Until the Indemnifying Party assumes the defense of any such action at the request of the Indemnified Party, the Indemnifying Party may participate at its own expense in the defense of the action. If the Indemnifying Party does not employ counsel to have charge of the defense or if any Indemnified Party reasonably concludes that there may be defenses available to it or them which are different from or in addition to those available to the Indemnifying Party or the Indemnified Party and the Indemnifying Parties may have conflicting interests which would make it inappropriate for the same counsel to represent both of them, reasonable legal and other expenses incurred by such Indemnified Party will be paid by the Indemnifying Party and the Indemnifying Party shall not have the right to direct the defense of such action on behalf of such Indemnified Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) approved by the Underwriter in the case of paragraph (a) representing all Indemnified Parties who are parties to such action). Any obligation under this Section 7 of an Indemnifying Party to reimburse an Indemnified Party for expenses includes the obligation to reimburse the Indemnified Party to cover such expenses in reasonable amounts and at reasonable periodic intervals upon receipt by the Indemnifying Party of an invoice for such expenses not more often than monthly as requested by the Indemnifying Party. Notwithstanding the foregoing, the Indemnifying Party shall not be liable for any settlement of any action or claim effected without its consent, which consent shall not be unreasonably withheld.

In order to provide for just and equitable contribution in circumstances in which the indemnification provided for above is due in accordance with its terms but is for any reason held by a court to be unavailable from the Borrower or Underwriter on grounds of policy or otherwise, the Borrower and the Underwriter shall contribute to the total losses, claims, damages and liabilities (including reasonable legal or other expenses of investigation or defense) to which they may be subject (i) in such proportion as is appropriate to reflect the relative benefits received by the Borrower and the Underwriter from the offering of the Bonds or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Borrower and the Underwriter in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The respective relative benefits received by the Borrower and the Underwriter shall be deemed to be in the same proportion as the proceeds from the sale (i.e., the principal amount of the Bonds) bears to the discount or fee in connection with such sale received by the Underwriter as an underwriting fee, as set forth in Section 14 hereof. The relative fault of the Borrower and the Underwriter shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Borrower or by the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. However, no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section, each person who controls the Underwriter within the meaning of

Section 15 of the Securities Act will have the same rights to contribution as the Underwriter, and each person who controls the Borrower within the meaning of the Securities Act and each officer and each director of the Borrower will have the same rights to contribution as the Borrower, subject to the foregoing sentence. Any party entitled to contribution will, promptly after receiving notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made under this paragraph, notify each party from whom contribution may be sought, but the omission to notify such party shall not relieve any party from whom contribution may be sought from any other obligation it may have otherwise than pursuant to this paragraph.

8. [Reserved].

9. The Borrower's obligations hereunder, except those contained in Sections 7 and 14, will be conditioned upon the approval by the Department of Public Utility Control (the "DPUC") of the issuance of the Notes, the loans under the Agreements and the transactions of the Borrower contemplated by the Financing Documents; the purchase of and payment for the Bonds in accordance herewith on the Closing Date; the performance of the obligations of the Authority and the Underwriter not dependant on the performance of the Borrower; and the delivery to the Authority of the approving opinion of Winston & Strawn LLP, Bond Counsel, in form and substance substantially in the form set forth as Appendix D to the Official Statement.

10. The Authority's obligation to deliver the Bonds and to accept payment therefor are subject to the performance of the obligations of the Borrower and the Underwriter not dependent on the performance of the Authority, and will be conditioned upon the approval by the DPUC of the issuance of the Notes, the loans under the Agreements and the transactions of the Borrower contemplated by the Financing Documents; the purchase of and payment for the Bonds in accordance herewith on the Closing Date; the delivery by the Underwriter to the Authority of a certificate substantially in the form of Schedule I to the Tax Regulatory Agreement; and the delivery to the Authority of the approving opinion of Winston & Strawn LLP, Bond Counsel, in form and substance substantially in the form set forth as Appendix D to the Official Statement, and will be subject to the further condition that all documents, certificates, opinions and other items to be delivered at the closing pursuant hereto and as otherwise may reasonably be requested by Bond Counsel not be unsatisfactory in form and substance to Bond Counsel.

11. The Underwriter's obligations hereunder to purchase and pay for the Bonds will be subject to (i) the approval by the DPUC of the issuance of the Notes, the loans under the Agreements and the transactions of the Borrower contemplated by the Financing Documents, (ii) the performance by the Authority of its obligations to be performed hereunder at or prior to the Closing Date, (iii) the performance by the Borrower of its obligations to be performed hereunder at or prior to the Closing Date, (iv) the continued accuracy in all material respects of the representations and warranties of the Authority and the Borrower contained herein and in the Agreements as of the date hereof and as of the Closing Date, and (v) in the reasonable judgment of the Underwriter, the following conditions:

(a) after the date hereof, no litigation may be threatened or pending in any court (i) seeking to restrain or enjoin the issuance or delivery of the Bonds or the payment, collection or application of the proceeds thereof or loan payments and other moneys and securities pledged or to be pledged under the Indentures, or (ii) in any way questioning or affecting the validity of

the Bonds or any provisions of the Indentures, the Financing Documents or this Bond Purchase Agreement or any proceedings taken by the Authority with respect to the foregoing, or (iii) questioning the Authority's creation, organization or existence or the titles to office of any of its officers authorized under the Resolution, or its power to lend or provide money in connection with the Project as referred to in the Indentures and the Agreements, or (iv) questioning the Borrower's power to enter into and perform as applicable the Financing Documents or this Bond Purchase Agreement;

(b) The market value of the Bonds has not been adversely affected by reason of the fact that between the date hereof and the Closing Date:

(1) legislation has been enacted by the Congress or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either House of the Congress by any Committee of such House to which such legislation has been referred for consideration, or

(2) a decision has been rendered by a Court of the United States, or the United States Tax Court, or

(3) an order, ruling, regulation or official statement has been made by the Treasury Department of the United States or the Internal Revenue Service,

with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such revenues or other income as would be derived by the Authority under the Agreements or such interest on the Bonds as would be received by the true owners and holders thereof, other than a person who, with the meaning of

Section 147(a) of the Internal Revenue Code of 1986, as amended, is a "substantial user" or "related person."

(c) The market value of the Bonds has not in the opinion of the Underwriter been materially adversely affected by reason of the fact that between the date hereof and the Closing Date any legislation, ordinance, rule or regulation has been introduced in or enacted by any governmental body, department or agency in the State of Connecticut, or a decision has been rendered by any court of competent jurisdiction within the State of Connecticut with the purpose or effect, directly or indirectly, of imposing state income taxation upon such revenues or other income as would be derived by the Authority under the Agreements or such interest on the Bonds as would be received by the true owners and holders thereof;

(d) No stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission may have been issued or made after the date hereof to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby or by the Official Statement, is in violation or would be in violation unless registered or otherwise qualified under any provisions of the Securities Act of 1933, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect;

(e) After the date hereof, no legislation may have been introduced in or enacted by the House of Representatives or the Senate or the Congress of the United States of America, nor shall a decision by a court of the United States of America have been rendered, or a ruling, regulation or official statement by or on behalf of the Securities and Exchange Commission or

other governmental agency having jurisdiction of the subject matter have been made or proposed to the effect that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration, qualification or other requirements of the Securities Act of 1933, as amended and as then in effect, or of the Securities Act of 1934, as amended and then in effect, or of the Trust Indenture Act of 1939, as amended and as then in effect;

(f) (i) No event shall have occurred after the date hereof, which, in the opinion of the Underwriter, makes untrue, incorrect or inaccurate, in any material respect, any statement or information contained or incorporated by reference in the Official Statement (including the Appendices thereto), or the financial statements contained or referred to therein, or which is not reflected in the Official Statement or such financial statements but should be reflected therein for the purpose for which the Official Statement or such financial statements are to be used in order to make the statements and information contained therein in light of the circumstances under which they were made not misleading in any material respect, (ii) and there shall be no material adverse change (not in the ordinary course of business) in the condition of the Borrower from that set forth in or incorporated by reference in the Official Statement and the Appendix A thereto;

(g) In the judgment of the Underwriter, the market price of the Bonds, or the market price generally of obligations of the general character of the Bonds, shall not have been adversely affected because: (a) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; (b) the New York Stock Exchange, Inc. or other national securities exchange, or any governmental authority, shall impose, as to the Bonds or similar obligations, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, underwriters; (c) a general banking moratorium shall have been established by federal, New York or Connecticut authorities; or (d) a war involving the United States of America shall have been declared, or any other national calamity shall have occurred, or any conflict involving the armed forces of the United States of America has escalated to such a magnitude as to materially adversely affect the Underwriter's ability to market the Bonds;

(h) All matters relating to this Bond Purchase Agreement, the Bonds and the sale thereof, the Indentures, the Financing Documents and the consummation of the transactions contemplated by this Bond Purchase Agreement must be approved by the Underwriter but such approval may not be unreasonably withheld; and

(i) At or prior to the Closing Date the Underwriter must have received the following documents:

(1) Certified copies of the Financing Documents and the Indentures;

(2) The legal opinions of the following, dated the Closing Date, in the form and substance satisfactory to Bond Counsel and the Underwriter:

(A) Murtha Cullina LLP, counsel to the Borrower.

(B) Day Berry & Howard LLP, counsel to the Trustee.

(C) Winston & Strawn LLP, Bond Counsel, substantially in the form set forth as Appendix C to the Official Statement.

(D) Winston & Strawn LLP, Bond Counsel, concerning supplementary matters.

(E) Opinion of the counsel to the Bond Insurer, as described herein below.

The respective forms of such opinions above are subject, in each case, only to such changes therein as Bond Counsel and counsel to the Underwriter approve;

(3) the legal opinion of Palmer & Dodge LLP, counsel to the Underwriter, addressed to the Underwriter in the form and substance satisfactory to the Underwriter;

(4) A certificate of an Authorized Representative of the Authority, dated the Closing Date, to the effect that (i) on and as of the Closing Date, each of the representations and warranties of the Authority set forth in Section 5 hereof is true, accurate and complete and all agreements of the Authority herein provided and contemplated to be performed on or prior to the Closing Date have been so performed; (ii) the executed copies of the Financing Documents and the Indentures and the certified copies of the resolution authorizing the Bonds are true, correct and complete copies of such documents and have not been modified, amended, superseded or rescinded but remain in full force and effect as of the Closing Date; (iii) the Bonds have been duly authorized, executed and delivered by the Authority; (iv) this Bond Purchase Agreement, the Indentures and the Financing Documents and any and all other agreements and documents required to be executed and delivered by the Authority in order to carry out, give effect to and consummate the transactions contemplated hereby and by the Indentures have each been duly authorized, executed and delivered by the Authority, and as of the Closing Date each is in full force and effect and substantially all right, title and interest inuring to the Authority under the Agreements have been duly pledged, and the loan payments thereunder assigned, to the Trustee under the Indentures for the benefit of the holders of the Bonds; (v) no litigation is pending or threatened to restrain or enjoin the issuance or sale of the Bonds or in any way contesting the validity or affecting the authority for the issuance of the Bonds, the authorization, execution or performance of the Indentures and the Financing Documents, or the existence or powers of the Authority or the right of the Authority to finance the Project; and (vi) the Treasurer of the State of Connecticut has approved all matters and resolutions of the Authority required by the Act to be approved by the Treasurer with respect to the issuance, sale and delivery of the Bonds;

(5) A certificate of the Chairman, President and Chief Executive Officer, Vice President-Chief Financial Officer and Treasurer, any Vice President, Assistant Treasurer or Secretary of the Borrower, dated the Closing Date, as to the due incorporation, valid existence of the Borrower under the laws of the State of

Connecticut, and the due authorization, execution and delivery by the Borrower of this Bond Purchase Agreement, the Financing Documents, the Disclosure Agreement and annexing resolutions of the Board of Directors or Executive Committee or both with respect to such authorizations;

(6) A certificate of the Chairman, President and Chief Executive Officer, Vice President-Chief Financial Officer and Treasurer, any Vice President, Assistant Treasurer or Secretary of the Borrower, dated the Closing Date, certifying severally that (i) the Borrower does not have any material contingent obligations or any material contractual agreements which are not disclosed or incorporated by reference in the Official Statement; (ii) so far as is known to the Borrower, there are no material pending or threatened legal proceedings to which the Borrower is or may be made a party or to which any of its property is or may become subjected, which has not been fully disclosed or incorporated by reference in the Official Statement; (iii) there is no action or proceeding pending, or to its best knowledge threatened, looking toward the dissolution or liquidation of the Borrower and there is no action or proceeding pending, or to its best knowledge threatened, by or against the Borrower affecting the validity and enforceability of the terms of the Financing Documents or this Bond Purchase Agreement; (iv) since December 31, 2002, there has been no material adverse change in the financial condition of the Borrower not disclosed or incorporated by reference in the Official Statement; and (v) the representations and warranties of the Borrower contained herein are true, complete and correct as of the Closing Date, with the same effect as if those representations and warranties had been made on and as of such date;

(7) A certificate, satisfactory in form and substance to the Underwriter, of one or more duly authorized officers of the Trustee, dated the Closing Date, as to the due acceptance of the Indentures by the Trustee and the due authentication and delivery of the Bonds by the Trustee thereunder;

(8) Letters from Standard & Poor's Ratings Service, the rating agency, indicating that the rating for the Bonds is no less than "AAA";

(9) Evidence, in form and substance satisfactory to the Authority and the Underwriter, that XL Capital Assurance Inc. (the "Bond Insurer") has delivered insurance policies and any appropriate endorsements thereupon guaranteeing the timely payment of principal of an interest on the Bonds (such policies and any appropriate endorsements are herein called the "Policies");

(10) A certificate of the Bond Insurer stating that the information concerning the Bond Insurer as set forth in the Official Statement under the heading "BOND INSURANCE" and in "Appendix F" thereto is accurate;

(11) An opinion of counsel to the Bond Insurer, dated the date of the Closing and addressed to the Authority, the Borrower and the Underwriter, to the effect that: (i) the Bond Insurer is a stock insurance corporation duly incorporated and validly existing under the laws of the State of New York and is licensed and

authorized under the laws of the State of Connecticut to issue the Policies under the laws of the State of Connecticut; and
(ii) the Policies have been duly executed and is a valid and binding obligation of the Bond Insurer, enforceable in accordance with its terms, except that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, receivership and other similar laws affecting creditors' rights generally and general principles of equity;

(12) A letter from PricewaterhouseCoopers LLP, independent auditors for the Borrower, dated the Closing Date and addressed to the Underwriter;

(13) A copy of the order of the DPUC approving the issuance of the Notes, the loans under the Agreements and the transactions of the Borrower contemplated by the Financing Documents;

(14) Certificates or policies of insurance evidencing the insurance required to be obtained pursuant to the Agreements;

(15) A letter or other written evidence satisfactory to Bond Counsel that the State Treasurer has approved the issuance of the Bonds in accordance with the Act.

(16) A letter or other written evidence satisfactory to Bond Counsel that an elected official has approved the issuance of the Bonds in accordance with the applicable provisions of the Code.

(17) A certificate satisfactory to the trustee for the Prior Obligations with respect to moneys deposited with the trustee for the Prior Obligations being sufficient to pay the Prior Obligations.

(18) Such additional certificates, instruments or other documents as the Authority or the Underwriter may reasonably require to evidence the accuracy, as of the Closing Date, of the representations and warranties herein contained, and the due performance and satisfaction by the Authority and the Borrower at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by any one or all of them in connection with this Bond Purchase Agreement, the Financing Documents, or the Indentures.

In addition:

The Authority hereby represents that the Preliminary Official Statement, with such additions and amendments as have been heretofore agreed upon between the Authority and the Underwriter, is deemed final as of the date thereof, except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters. Such representation is made in reliance upon the Borrower's representation herein that material relating to the Borrower included in the Preliminary Official Statement is true and correct. The Borrower has contracted with a printer acceptable to the Underwriter for the delivery to the Underwriter at Borrower's expense of the number of copies requested by the Underwriter of the

Official Statement and will cooperate with the Underwriter to secure the delivery thereof with reasonable promptness and within seven business days. The Underwriter agrees to file a copy of such Official Statement with a nationally recognized municipal securities information repository within five (5) days after such final Official Statements are made available to the Underwriter and to advise the Authority as to the location and time of such filing. Should the Underwriter require additional copies of the Official Statement, the Authority agrees to cooperate with the Underwriter in obtaining such copies at Borrower's expense if such request is made within 90 days from the date hereof and at the Underwriter's expense if such request is made thereafter. The Underwriter has taken and will continue to take action to comply with the Securities Exchange Commission Municipal Securities Disclosure Rule, 17 C.F.R. Section 240.15c2-12 and the provisions of this paragraph shall survive the expiration hereof to the extent necessary for such purpose.

Except as provided in Paragraphs 7, 8 and 14 hereof, if the Authority or the Borrower shall fail or be unable to satisfy the conditions of their obligations contained in this Bond Purchase Agreement, or if the Underwriter's obligations hereunder shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Authority nor the Underwriter nor the Borrower shall be under any further obligation hereunder.

SIMULTANEOUSLY WITH OR BEFORE DELIVERY OF THE BONDS, THE UNDERWRITER SHALL FURNISH TO THE CONNECTICUT DEVELOPMENT AUTHORITY A CERTIFICATE SUBSTANTIALLY IN FORM ATTACHED TO THE TAX REGULATORY AGREEMENT ACCEPTABLE TO BOND COUNSEL TO THE EFFECT THAT (I) THE UNDERWRITER HAS MADE A BONA FIDE PUBLIC OFFERING OF THE BONDS TO THE PUBLIC AT INITIAL OFFERING PRICES NOT GREATER THAN THE RESPECTIVE PRICES SHOWN ON THE COVER OF THE OFFICIAL STATEMENT, OR IN THE CASE OF DISCOUNT OBLIGATIONS SOLD ON A YIELD BASIS, AT YIELDS NO LOWER THAN THOSE SHOWN ON THE COVER, INCLUDING INTEREST ACCRUED ON THE BONDS FROM THE DATE THEREOF, AND (II) A SUBSTANTIAL AMOUNT OF THE FINAL AMOUNT OF EACH MATURITY OF THE BONDS WAS SOLD TO THE FINAL UNDERWRITER THEREOF (NOT INCLUDING BOND HOUSES AND BROKERS OR SIMILAR PERSONS OR ORGANIZATIONS ACTING IN THE CAPACITY OF UNDERWRITER OR WHOLESALERS) AT PRICES NOT GREATER THAN SUCH OFFERING PRICES OR YIELDS. Bond Counsel advises that (i) such certificate must be made on the best knowledge, information and belief of the Underwriter, (ii) the sale to the public of 10% or more of each maturity of the Bonds at prices or yields not greater than the Initial Offering Prices or Yields would be sufficient for the purpose of certifying as to the sale of a substantial amount of the Bonds, and (iii) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement.

12. The Authority and the Borrower agree that all representations, warranties and covenants made by them herein, and in certificates or other instruments delivered pursuant hereto or in connection herewith, shall be deemed to have been relied upon by the Underwriter notwithstanding any investigation heretofore or hereafter made by the Underwriter on its behalf, and that all representations, warranties and covenants made by the Authority and the Borrower herein and therein and all of the Underwriter's rights hereunder and thereunder shall survive the delivery of the Bonds.

13. The Underwriter has received reasonable assurances that the Borrower will comply with its written undertaking, set forth in Section 6.11 of each of the Agreements, to provide certain required disclosure information to the Trustee for the benefit of the bondholders and that procedures are, or will be, in place such that the Underwriter will receive prompt notice of any material event or Borrower's failure, in any material respect, to comply with its undertaking.

14. The Authority shall pay, but only from proceeds of the Bonds or moneys to be provided by the Borrower, any expenses incident to the performance of its obligations hereunder including but not limited to (a) the cost of the preparation and printing (for distribution on or prior to the Date hereof) of the Financing Documents, the Indentures, the Preliminary Official Statement and the final Official Statement (in such numbers as the Authority, the Borrower and the Underwriter shall mutually agree upon), and this Purchase Contract; (b) the cost of the preparation and printing of the Bonds; (c) the fees and disbursements of Winston & Strawn LLP, Bond Counsel; (d) the fees of any other attorneys, experts or consultants retained by the Authority; and (e) any fee to the rating agencies.

The Underwriter shall pay (a) the cost of the preparation and printing of the Blue Sky Survey; (b) all advertising expenses in connection with the public offering of the Bonds; (c) the fees and disbursements of Palmer & Dodge LLP, counsel to the Underwriter; and (d) all other expenses incurred by the Underwriter in connection with their public offering and distribution of the Bonds, including the fees and disbursements of all attorneys, experts and consultants retained by them.

On or prior to the Closing Date, the Borrower shall pay the fees and disbursements of the Underwriter in the aggregate amount of \$489,810.00 (\$236,000.00 with respect to the Series 2003A Bonds and \$253,810.00 with respect to the Series 2003C Bonds).

15. All communications hereunder shall be in writing and, unless otherwise directed in writing, shall be addressed as follows: if to the Authority at 999 West Street, Rocky Hill, Connecticut 06067, Attention: Senior Vice President - Public Finance; if to the Borrower at 93 West Main Street, Clinton, Connecticut 06413, Attention: Vice President--Chief Financial Officer and Treasurer; if to the Underwriter at One North Jefferson, St. Louis, Missouri, 63103, Attention: Municipal Securities.

16. This Agreement shall be construed and enforceable in accordance with the laws of the State of Connecticut.

17. All terms used but not defined herein shall have the meanings set forth in the Agreements.

18. This Bond Purchase Agreement may be executed in any number of counterparts, each of which, when so executed and delivered shall be an original; but such counterparts shall together constitute but one and the same Bond Purchase Agreement.

19. In case any one or more of the provisions contained in this Bond Purchase Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Bond Purchase Agreement, but this Bond Purchase Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

20. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Underwriter, the Authority and the Borrower. This Agreement may be signed in several counterparts each of which shall be an original and all of which shall constitute but one and the same instrument.

CONNECTICUT DEVELOPMENT AUTHORITY

By: _____
Authorized Representative

THE CONNECTICUT WATER COMPANY

By: _____
Authorized Representative

A.G. EDWARDS & SONS, INC.

By: _____
Name:
Title:

Exhibit 10.7.1a

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and Marshall T. Chiaraluce (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of December 16, 1991 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 6.A. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

1. The second paragraph of Section 1.a. and the second paragraph of Section 1.b. of the Agreement are deleted and the following two paragraphs are substituted in each place in lieu thereof:

"For purposes of the foregoing, `Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment of December 17, 2003.

EMPLOYEE

/s/ Marshall T. Chiaraluce

Marshall T. Chiaraluce

THE CONNECTICUT WATER COMPANY

/s/ [ILLEGIBLE]

Corporate Secretary

Exhibit 10.7.2a

**FIRST AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and Michele G. DiAcri (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of February 28, 2000 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 5.a. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

1. The second paragraph of Section 1.a. of the Agreement is deleted and the following two paragraphs are substituted in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

2. A new Section 1.b. shall be inserted into Section 1 of the Agreement, immediately following Section 1.a. Sections 1.b. and 1.c. shall be re-designated as Sections 1.c. and 1.d. respectively. The new Section 1.b. shall read in its entirety as follows:

"b. Early Retirement. If, upon or after the Employee's attainment of age 55 and prior to attainment of age 65, the Employee's employment shall be terminated and she shall be eligible to receive a benefit under the Retirement Plan, the Employee shall be entitled to receive pursuant to this Agreement a benefit having a value equal to an annual benefit for her life of (a) 60% of the Employee's Average Earnings reduced by (b) the annual benefit payable to the Employee

under the Retirement Plan in the form of a single life annuity for the life of the Employee (whether or not the benefit under the Retirement Plan is actually paid in such form) commencing at age 65 (whether or not the benefit under the Retirement Plan commences at such time). If such benefit shall commence to be paid prior to the Employee's attainment of age 62, such benefit shall be reduced by 4% for each complete year by which the date of benefit commencement precedes her attainment of age 62.

For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

3. The last sentence of the newly designated Section 1.c. (entitled "Disability Benefits") is hereby amended by substituting therein the number 62 where the number 65 appears.

4. The second sentence of Section 2. is hereby amended to read in its entirety as follows:

"Such installments shall commence to be paid on the first such day which coincides with or follows the day upon which the Employee's benefit under the Retirement Plan shall commence to be paid; provided, however, that benefits pursuant to Section 1.b. hereof shall commence at such later date as shall be requested by the Employee and approved by the Committee under the Retirement Plan, in its sole discretion."

5. The second paragraph of Section 2. is hereby amended by deleting the reference to "Section 1.a. or 1.b." therein and substituting in lieu thereof reference to "Section 1.a., 1.b. or 1.c."

6. A new Section 3. shall be inserted into the Agreement, immediately following Section 2. Existing Sections 3., 4., and 5. shall be re-designated as Sections 4., 5., and 6. respectively. The new Section 3. shall read in its entirety as follows:

"3. DEATH BENEFIT. If the Employee has attained age 55 while in service with the Employer and dies thereafter prior to the commencement of benefits pursuant to this Agreement, and if the Employee's spouse or other beneficiary is entitled to a death benefit under the Retirement Plan, said spouse or other beneficiary shall be entitled to receive a death benefit pursuant to this Plan. The amount of said death benefit shall be determined as if the Employee had retired on the day prior to her death with either a Joint and Survivor Annuity in effect, if her spouse is her beneficiary under the Retirement Plan, or a five years certain and life annuity (as described in the Retirement Plan) in effect, if her beneficiary is other than her spouse. If the benefit is determined under a five years certain and life annuity, it shall be paid in an actuarially equivalent lump sum, as determined by the Committee under the Retirement Plan using the appropriate factors set forth in the Retirement Plan.

No other death benefits shall be payable in the event of the Employee's death prior to the commencement of benefits hereunder."

7. Newly designated Section 6.a. of the Agreement (entitled "Miscellaneous") is hereby amended to read in its entirety as follows:

"a. This Agreement may be amended at any time by mutual written agreement of the parties hereto, but no amendment shall operate to give the Employee, her spouse, her estate or any other beneficiary, either directly or indirectly, any interest whatsoever in any funds or assets of the Employer, except the right to receive the payments herein provided and the right to receive such payments from assets held in the Trust."

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment as of December 17, 2003.

EMPLOYEE THE CONNECTICUT WATER COMPANY

/s/ Michele G. DiAcri

Michele G. DiAcri

/s/ [ILLEGIBLE]

President / CEO

Exhibit 10.8.2

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and David C. Benoit (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of April 28, 1996 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 5.a. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

1. The second paragraph of Section 1.a. of the Agreement is deleted and the following two paragraphs are substituted in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

2. A new Section 1.b. shall be inserted into Section 1 of the Agreement, immediately following Section 1.a. Sections 1.b. and 1.c. shall be re-designated as Sections 1.c. and 1.d. respectively. The new Section 1.b. shall read in its entirety as follows:

"b. Early Retirement. If, upon or after the Employee's attainment of age 55 and prior to attainment of age 65, the Employee's employment shall be terminated and he shall be eligible to receive a benefit under the Retirement Plan, the Employee shall be entitled to receive pursuant to this Agreement a benefit having a value equal to an annual benefit for his life of (a) 60% of the Employee's Average Earnings reduced by (b) the annual benefit payable

to the Employee under the Retirement Plan in the form of a single life annuity for the life of the Employee (whether or not the benefit under the Retirement Plan is actually paid in such form) commencing at age 65 (whether or not the benefit under the Retirement Plan commences at such time) and further reduced by

(c) the annual benefit payable to the Employee under the Yankee Energy System, Inc. Retirement Plan in the form of a single life annuity for the life of the Employee (whether or not the benefit under such Plan is actually paid in such form) commencing at age 65 (whether or not the benefit under such Plan commences at that time). If such benefit shall commence to be paid prior to the Employee's attainment of age 62, such benefit shall be reduced by 4% for each complete year by which the, date of benefit commencement precedes his attainment of age 62.

For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

3. The last sentence of the newly designated Section 1.c. (entitled "Disability Benefits") is hereby amended by substituting therein the number 62 where the number 65 appears.

4. The second sentence of Section 2. is hereby amended to read in its entirety as follows:

"Such installments shall commence to be paid on the first such day which coincides with or follows the day upon which the Employee's benefit under the Retirement Plan shall commence to be paid; provided, however, that benefits pursuant to Section 1.b. hereof shall commence at such later date as shall be requested by the Employee and approved by the Committee under the Retirement Plan, in its sole discretion."

5. A new Section 3. shall be inserted into the Agreement, immediately following Section 2. Existing Sections 3., 4., and 5. shall be re-designated as Sections 4., 5., and 6. respectively. The new Section 3. shall read in its entirety as follows:

"3. DEATH BENEFIT. If the Employee has attained age 55 while in service with the Employer and dies thereafter prior to the commencement of benefits pursuant to this Agreement, and if the Employee's spouse or other beneficiary is entitled to a death benefit under the Retirement Plan, said spouse or other beneficiary shall be entitled to receive a death benefit pursuant to this Plan. The amount of said death benefit shall be determined as if the Employee had retired on the day prior to his death with either a Joint and Survivor Annuity in effect, if his spouse is his beneficiary under the Retirement Plan, or a five years certain and life annuity (as described in the Retirement Plan) in effect, if his beneficiary is other than his spouse. If the benefit is determined under a five years certain and life annuity, it shall be paid in an actuarially equivalent lump sum, as determined by the Committee under the Retirement Plan using the appropriate factors set forth in the Retirement Plan.

No other death benefits shall be payable in the event of the Employee's death prior to the commencement of benefits hereunder."

6. Newly designated Section 6.a. of the Agreement (entitled "Miscellaneous") is hereby amended to read in its entirety as follows:

"a. This Agreement may be amended at any time by mutual written agreement of the parties hereto, but no amendment shall operate to give the Employee, his spouse, his estate or any other beneficiary, either directly or indirectly, any interest whatsoever in any funds or assets of the Employer, except the right to receive the payments herein provided and the right to receive such payments from assets held in the Trust."

IN WITNESS WHEREOF, the Employer and the Employee have executed this

Amendment as of December 17, 2003

EMPLOYEE

/s/ David C. Benoit

David C. Benoit

THE CONNECTICUT WATER COMPANY

/s/[ILLEGIBLE]

Corporate Secretary

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and Peter J. Bancroft (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of December 4, 1991 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 6.A. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

The second paragraph of Section 1.a. and the second paragraph of Section 1.b. of the Agreement are deleted and the following two paragraphs are substituted in each place in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account. "

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment as of December 17, 2003.

EMPLOYEE

/s/ Peter J. Bancroft

Peter J. Bancroft

THE CONNECTICUT WATER COMPANY

/s/ [ILLEGIBLE]

Corporate Secretary

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and James R. McQueen (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of December 4, 1991 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 6.A. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

The second paragraph of Section 1.a. and the second paragraph of Section 1.b. of the Agreement are deleted and the following two paragraphs are substituted in each place in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment of December 17, 2003.

EMPLOYEE

/s/ James R. McQueen

James R. McQueen

THE CONNECTICUT WATER COMPANY

/s/ [ILLEGIBLE]

Corporate Secretary

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and Terrance P. O'Neill (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of March 31, 1995 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 6.A. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

The second paragraph of Section 1.a. and the second paragraph of Section 1.b. of the Agreement are deleted and the following two paragraphs are substituted in each place in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment as of December 19, 2003.

EMPLOYEE

/s/ Terrance P. O'Neill

Terrance P. O'Neill

THE CONNECTICUT WATER COMPANY

/s/ [ILLEGIBLE]

Corporate Secretary

**SECOND AMENDMENT TO
SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

WHEREAS, the Connecticut Water Company (hereinafter referred to as "Employer") and Maureen P. Westbrook (hereinafter referred to as the "Employee") entered into a Supplement Executive Retirement Agreement dated as of July 1, 1997 (hereinafter referred to as the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement in accordance with the provisions of Section 5.a. thereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the Agreement is hereby amended effective as of the date first above written as follows:

1. The second paragraph of Section 1.a. of the Agreement is deleted and the following two paragraphs are substituted in lieu thereof:

"For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

2. A new Section 1.b. shall be inserted into Section 1 of the Agreement, immediately following Section 1.a. Sections 1.b. and 1.c. shall be re-designated as Sections 1.c. and 1.d. respectively. The new Section 1.b. shall read in its entirety as follows:

"b. Early Retirement. If, upon or after the Employee's attainment of age 55 and prior to attainment of age 65, the Employee's employment shall be terminated and she shall be eligible to receive a benefit under the Retirement Plan, the Employee shall be entitled to receive pursuant to this Agreement a benefit having a value equal to an annual benefit for her life of (a) 60% of

the Employee's Average Earnings reduced by (b) the annual benefit payable to the Employee under the Retirement Plan in the form of a single life annuity for the life of the Employee (whether or not the benefit under the Retirement Plan is actually paid in such form) commencing at age 65 (whether or not the benefit under the Retirement Plan commences at such time). If such benefit shall commence to be paid prior to the Employee's attainment of age 62, such benefit shall be reduced by 4% for each complete year by which the date of benefit commencement precedes her attainment of age 62.

For purposes of the foregoing, 'Average Earnings' shall have the meaning set forth in the Retirement Plan, except that in determining Average Earnings, Annual Earnings (as defined in the Retirement Plan) shall not be limited to the OBRA '93 annual compensation limit, the annual compensation limit imposed under the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), or any similar limit on annual compensation under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), imposed by any future legislation.

In determining Average Earnings, if the Employee retires under this Agreement on or after attainment of age 62, Annual Earnings shall include the value of all of the following: (1) Performance Shares, (2) Cash Units, and (3) Restricted Stock awarded to a Participant under the Connecticut Water Service, Inc. Performance Stock Program for any year in which such awards are made, including awards made prior to the date this change in the definition of Average Earnings is adopted. The value of such awards shall be included within Annual Earnings in the year in which such amounts are finally determined and actually awarded. Such amounts, if credited to a Performance Share Account, shall not be counted a second time when payment is made from such Account."

3. The last sentence of the newly designated Section 1.c. (entitled "Disability Benefits") is hereby amended by substituting therein the number 62 where the number 65 appears.

4. The second sentence of Section 2. is hereby amended to read in its entirety as follows:

"Such installments shall commence to be paid on the first such day which coincides with or follows the day upon which the Employee's benefit under the Retirement Plan shall commence to be paid; provided, however, that benefits pursuant to Section 1.b. hereof shall commence at such later date as shall be requested by the Employee and approved by the Committee under the Retirement Plan, in its sole discretion."

5. The second paragraph of Section 2. is hereby amended by deleting the reference to "Section 1. a. or 1.b." therein and substituting in lieu thereof reference to "Section 1.a., 1.b. or 1.c."

6. A new Section 3. shall be inserted into the Agreement, immediately following Section 2. Existing Sections 3., 4., and 5. shall be re-designated as Sections 4., 5., and 6.

respectively. The new Section 3. shall read in its entirety as follows:

"3. DEATH BENEFIT. If the Employee has attained age 55 while in service with the Employer and dies thereafter prior to the commencement of benefits pursuant to this Agreement, and if the Employee's spouse or other beneficiary is entitled, to a death benefit under the Retirement Plan, said spouse or other beneficiary shall be entitled to receive a death benefit pursuant to this Plan. The amount of said death benefit shall be determined as if the Employee had retired on the day prior to her death with either a Joint and Survivor Annuity in effect, if her spouse is her beneficiary under the Retirement Plan, or a five years certain and life annuity (as described in the Retirement Plan) in effect, if her beneficiary is other than her spouse. If the benefit is determined under a five years certain and life annuity, it shall be paid in an actuarially equivalent lump sum, as determined by the Committee under the Retirement Plan using the appropriate factors set forth in the Retirement Plan.

No other death benefits shall be payable in the event of the Employee's death prior to the commencement of benefits hereunder."

7. Newly designated Section 6.a. of the Agreement (entitled "Miscellaneous") is hereby amended to read in its entirety as follows:

"a. This Agreement may be amended at any time by mutual written agreement of the parties hereto, but no amendment shall operate to give the Employee, her spouse, her estate or any other beneficiary, either directly or indirectly, any interest whatsoever in any funds or assets of the Employer, except the right to receive the payments herein provided and the right to receive such payments from assets held in the Trust."

IN WITNESS WHEREOF, the Employer and the Employee have executed this Amendment as of December 17, 2003.

EMPLOYEE THE CONNECTICUT WATER COMPANY

/s/ Maureen P. Westbrook

Maureen P. Westbrook

/s/ [ILLEGIBLE]

Corporate Secretary

Exhibit 10.12.1

TRUST AGREEMENT

BETWEEN

CONNECTICUT WATER COMPANY

AND

RIGGS BANK N.A.

TRUSTEE

This Trust Agreement, hereinafter referred to as the `Agreement', is made as of the date appearing at the end hereof but effective for all purposes as of June 1, 2002, between Connecticut Water Company hereinafter referred to as the "Employer", and Riggs Bank NA., a national banking association organized and existing under the laws of the United States and having its principal office and place of business in Washington, D.C., hereinafter referred to as the "Trustee".

WITNESSETH

WHEREAS, the Employer has adopted Savings Plan of Connecticut Water Company, hereinafter collectively referred to as the "Plan", for the benefit of eligible employees and alternate payees and beneficiaries of deceased eligible employees, hereinafter referred to as "Participants"; and

WHEREAS, the Plan provides that the assets thereof be held, IN TRUST, by a trustee, subject to the provisions of a trust agreement to be entered into between the Employer and a trustee or trustees;

WHEREAS, the Employer and its designated agent have entered into a DCXchange Brokerage Agreement with PFPC Distributors, Inc., providing for daily trading of certain assets of a trust to be established under the Plan;

WHEREAS, the Employer wishes to appoint the Trustee to hold and administer the Plan assets subject to the DCXchange Brokerage Agreement and other assets as agreed upon, as a directed trustee pursuant to the terms of this Trust Agreement, and the Trustee is willing to serve in such capacity;

NOW THEREFORE, the Employer and the Trustee agree as follows:

1. Fund.

The Employer hereby appoints the Trustee to serve as Trustee for the assets of the Plan subject to the DCXchange Brokerage Agreement and other assets as agreed to by the Trustee, and establishes with the Trustee a trust account or accounts consisting of such sums of money and such other property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee pursuant to this Agreement. All such money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less any payments or distributions made by the Trustee pursuant to the terms of this Agreement, are referred to herein as the "Fund".

2. Contributions and Distributions.

(a) The Employer shall make contributions to the Fund pursuant to the terms of the Plan in such manner as agreed to by the Trustee. The Trustee shall have no duty to determine or to enforce payment of any contribution due under the Plan or any responsibility for the adequacy of the funding policy adopted by the Employer to meet and discharge liabilities under the Plan.

(b) The Trustee shall make such payments and distributions as directed in writing by the Employer. Such written direction of the Employer shall be deemed a certification that such payments and distributions comply with the terms of the Plan and the Employee Retirement Income Security Act of 1974 as now in effect or as it may hereafter be amended (hereinafter referred to as "ERISA"), and (except as provided in Section 20 of this Agreement), the Trustee shall have no duty to verify that such payments and distributions comply with the provisions of the Plan and applicable law.

3. Investments.

(a) The Employer by written direction to the Trustee shall designate the investment options to be offered to the Participants and an agent (the "Agent"), who shall be authorized to determine the allocation of available moneys for investment among such investment options and initiate transactions for such investment. The Trustee shall have no duty to question any action or direction of the Employer or its Agent or any failure to give directions, or to review the securities which are held pursuant to the Employer's directions, or to make any suggestions to the Employer on the investment and reinvestment of, or disposing of, such assets. The Trustee shall not have any liability or responsibility for any loss to or depreciation of such assets because of the purchase, retention or sale of assets in accordance with the Employer's direction.

(b) If authorized by the Employer, the Trustee may invest available cash balances with itself so that the cash balances may be credited with interest paid in accordance with the Trustee's usual procedures. However, nothing herein shall confer any authority or obligation upon the Trustee to invest or reinvest such cash balances under an Employer's control until the Trustee receives directions acceptable to the Trustee from the Employer.

(c) The transactions directed by the Employer shall be made upon such terms and conditions and from or through such principals and agents, including the Agent, as the Employer shall direct, provided that no transaction shall be executed through the facilities of the Trustee without its consent.

(d) The Trustee shall execute any instruments necessary or appropriate to enable the Trustee to carry out its powers hereunder. The Employer shall give all directions to the Trustee in writing, signed by its authorized officer, the Agent or any other such person or persons designated in writing by the Employer, provided that the Trustee may accept oral directions for purchases or sales from such designated person or persons subject to confirmation in writing. The Trustee is to authorized to act and rely upon any document delivered to it by facsimile transmission as if such documents were originals, provided that the Trustee may request that the original document be subsequently delivered to it by mail.

(e) The Trustee shall not be liable for and the Employer will indemnify and hold harmless the Trustee (and any employee of the Trustee) of and from all liability or expense (including reasonable counsel fees) because of (1) any investment action taken or omitted by the Trustee in good faith in accordance with any direction of the Employer or any investment inaction in the absence of directions from the Employer, or (2) any investment action taken in good faith by the Trustee pursuant to an order to purchase or sell securities placed by the Employer directly to a broker or dealer.

(f) The Trustee shall not be liable for any losses to the Fund resulting from the disposition of any investment received from the Employer. Until receipt of any written notice of the Employer pertaining to employer investments, the Trustee shall be fully protected in relying upon the latest prior written notice of the Employer received by it.

4. Insurance Policies and Contracts. Unless the Plan is part of a profit sharing and/or 401(k) plan which does not provide for annuities as an optional form of benefit payment, the Employer may direct the Trustee to enter into a contract or contracts or an agreement or agreements with one or more legal reserve life insurance companies for the purchase of retirement income and retirement annuity contracts (or policies), five-year renewable term life insurance, one year renewable term life insurance or other form of life insurance or other benefits, on an individual or group basis, in such manner and in such form as the Employer may deem appropriate. Such retirement annuities and other benefits may be purchased under one or more deposit administration type group annuity contracts. In giving instructions concerning policies and insurance contracts, the Employer shall give the Trustee written instructions acceptable to the Trustee which shall include the name of the Participant, the type of policy to be purchased, the amount of the premium or funds to be forwarded, and the name of the insurance company. The Trustee shall not be obligated to take any action on any policy or contract except upon Employer written instructions acceptable to the Trustee and shall not be liable for its acts in following the Employer's directions. The Employer shall give instructions when requested to do so by the Trustee for any action the Trustee must take as the contract holder or owner of a policy or insurance contract. If the insurer denies liability under its policies or contracts, the Trustee shall be under no obligation to bring an action unless the Employer so instructs and has indemnified the Trustee to its satisfaction for all anticipated costs, expenses and attorneys' fees. The Trustee is not a guarantor of any amounts due or payable to a participant or beneficiary under any insurance contract. Notwithstanding anything herein to the contrary, if the Plan is part of a profit sharing and/or 401(k) plan which does not provide for annuities as an optional form of benefit payment, the provisions of this paragraph shall neither apply nor be enforceable.

5. Insurance Investment Contracts. The Employer or its agent may direct the Trustee to invest all or a portion of the Fund in contracts issued by insurance companies, including but not limited to contracts under which the insurance company holds Fund assets in a separate account or commingled separate account managed by the insurance company. Notwithstanding any provisions of such contract, the Trustee's responsibilities shall be limited solely to receiving and forwarding monies

and other properties to and from the insurance company as the Employer directs. The Employer shall assume all other duties, responsibilities, rights, or obligations under the contract not expressly assumed by the insurance company for the management, control, or administration of such assets. The Trustee may rely upon statements made by any insurance company as they affect the Trustee's duties hereunder. The Trustee shall not be liable or responsible for the acts or omissions of any insurance company for the portion of the Fund over which the insurance company has control.

6. Investment Powers. The Trustee shall have the following powers and authority in the administration of the Trust; provided, however, that such powers and authority shall be exercised by the Trustee only upon the receipt of direction from the Employer or its Agent:

(a) To invest and reinvest the Fund free from any limitations imposed by state law on investments of trust funds and without distinction between income and principal in any property, real or personal, including, but not limited to the following: common and preferred stocks (including stock of the Employer, or any associated, affiliated or subsidiary company of the Employer, to the extent permitted by ERISA; governmental obligations; equipment trust certificates; participation certificates; investment companies or trusts; collateral trust notes; savings and time deposits (including any deposit bearing a reasonable rate of interest that a bank or similar financial institution named in this Agreement makes in itself or an affiliate); mutual funds including open-end investment companies registered under the Investment Company Act of 1940 to which Trustee or an affiliate provides investment advisory, investment management or other similar services for a fee; commercial paper including participation in variable amount notes of borrowers of prime credit; leasebacks; mortgages and other interests in realty; corporate bonds, debentures, notes, and other evidences of indebtedness, secured or unsecured (including bonds, debentures or notes, whether secured or unsecured, of the Employer or any associated, affiliated or subsidiary company of the Employer, to the extent permitted by ERISA); non-income producing securities or property; options; and participation in any group or common trust funds held or maintained by the Trustee for commingling assets of participating trusts and exempt from Federal Income tax including, but not limited to, any group or common trust fund which is qualified under the provisions of Section 401(a) of the Internal Revenue Code of 1986 as amended or any successor provisions thereto, the instrument of trust creating any such qualified group or common trust fund, to the extent of the Fund's equitable share thereof, being deemed adopted hereby.

(b) To vote in person or by proxy, general or special, any securities held in the Fund; to exercise conversion privileges, subscription rights or other options; to participate in reorganizations or other changes in property rights.

(c) To hold property hereunder in bearer form or to hold such property in its own name or the name of its nominee, to combine certificates representing investments hereunder with certificates of the same issue the Trustee holds in other fiduciary capacities, to hold securities in definitive form on a segregated or non-segregated basis or with a correspondent bank or depository (including The Depository Trust Company (New York)) on a segregated or non-segregated basis with such correspondent bank or depository empowered to hold registrable securities in its nominee, to hold obligations of the United States government and agencies thereof on a book entry basis at the appropriate Federal Reserve bank; provided that the books and records of the Trustee shall at all times show that all such property and securities are held hereunder, and the trustee shall not hold any property or securities hereunder in the same account as any individual property of the Trustee.

(d) To enter into contracts for or to make commitments either alone or in company with others to purchase or sell at any future date any property acquired for the Fund or which it may be authorized to acquire under this Agreement.

(e) To retain, to exchange for any other property, to sell from time to time in any manner (public or private), to convey or transfer any property held in the Fund, and at any time, to divide, subdivide, partition, mortgage, improve, alter, remodel, repair, and develop in any manner any property, real or personal, to lease all or part of such property for any period of time, without regard to the duration of the Trust, and to grant options to buy or lease any such property, without regard to restrictions and without the approval of any court.

(f) To delegate to a property manager or the holder or holders of a majority interest in any real property or mortgage on real property at any time constituting the Fund, the management and operation of any interest in such real property or mortgage and the authority to sell such real property or mortgage or otherwise carry out the decisions of such property manager or holder or holders of such majority interest.

(g) To enforce by suit or otherwise, or to waive its rights on behalf of the Fund, and to defend claims asserted against it or the Fund; to compromise, adjust and settle any and all claims against or for the Fund.

(h) To borrow money from any source as may be necessary or advisable to effectuate the purposes of the Fund.

(i) To organize corporations under the laws of any state for the purpose of acquiring or holding title to any property for the Fund.

(j) To employ and pay suitable agents and counsel, provided that the Trustee is reimbursed for such expenses by the Employer.

(k) To do all other acts that the Employer may deem necessary or proper to carry out any of the foregoing powers or otherwise in the best interests of the Fund.

7. **Income Collection and Payments on Instructions.** The Trustee shall collect the income from the Fund and shall make payments from the Fund in such amounts and in such manner as the Employer may direct from time to time in writing; but the obligation of the Trustee to make payments hereunder shall not be for an amount in excess of the realizable value of the Fund at the time, and such directions need not specify the application to be made of such payments.

8. **Trustee's Records and Statements.** The Trustee shall keep accurate and detailed records of all transactions hereunder, and all its accounts, books and records relating thereto shall be open at all reasonable times to the inspection of the Employer or its agents. The Trustee shall furnish its usual reports of cash transactions and statements of assets and such other reports as the Employer and the Trustee mutually agree.

9. **Reports and Collective Fund Valuation.**

(a) Within 90 days after the close of the Plan's fiscal year or such other period as the Employer and Trustee may agree and within 90 days after either the resignation or the removal of the Trustee as provided herein, the Trustee shall file with the Employer a written account setting forth all investments, receipts, disbursements and other transactions effected by it during such fiscal year or during the period from the close of the last fiscal year to the date of such resignation or removal.

(b) Whenever the Fund holds units of any group or common trust fund, and the Trustee must value the Fund, the Trustee may use the most recently available unit value determined in accordance with the rules and regulations pertaining to each group or common trust fund.

(c) If the Trustee shall be required to value the assets of any portion of the Fund under the direction of the Employer, the Trustee may rely for all purposes of this Agreement on any valuation which the Employer furnishes to the Trustee.

10. Certifications. Instructions and Indemnification.

(a) Any action of the Employer pursuant to any of the provisions of this Agreement shall be evidenced by a copy of a resolution of the Board of Directors of the Employer, certified by the Secretary or an Assistant Secretary of the Board of Directors and the Trustee shall be fully protected in relying upon such resolutions so certified to it as actions of the Employer. If the Employer designates a committee or administrator to perform duties with respect to the Plan involving contact with the Trustee, the Employer shall promptly certify to the Trustee from time to time the name or names of the members of such committee or of the administrator together with specimen signatures, and for all purposes hereunder the Trustee shall be entitled to rely upon such certificates as evidence of the identity and authority of the committee or administrator to act for the Employer. In the absence of any written notification of change, the Trustee may assume that the committee or administrator is the same as last reported to the Trustee. Any communication to the Trustee by the committee or the administrator shall be in writing and shall be signed by a majority of the committee or the administrator or by such person as may be designated in writing by the committee or administrator to sign on its behalf. The Trustee shall not be liable and the Employer shall indemnify and hold harmless the Trustee of and from any liability or expense (including Trustee reasonable counsel's fees) because of any disbursement of any part of the Fund made by the Trustee in good faith at the direction of the Employer, the committee or the administrator or any action taken or omitted in accordance with directions of the Employer, the committee, or the administrator.

(b) The Employer shall indemnify and save the Trustee (and any employee of the Trustee) harmless from and against any liability, cost or other expense, including but not limited to the payment of reasonable attorneys' fees, that the Trustee may incur in connection (whether direct or indirect) with this Agreement or the Plan unless such liability, cost or other expense arises from the Trustee's own negligence or willful misconduct. The Employer recognizes that a burden of litigation may be imposed upon the Trustee as a result of some act or transaction for which it has no responsibility or over which it has no control under this Agreement. Therefore, the Employer agrees to indemnify and hold harmless and, if requested, defend the Trustee (and any employee of the Trustee) from any expenses (including reasonable counsel fees, liabilities, claims, damages, actions, suits or other charges) incurred by the Trustee (or its employees) in defending against any such litigation.

11. Expenses and Compensation. All expenses of the Trustee relating to the acquisition, servicing, and disposition of investments constituting part of the Fund, and all taxes of any kind whatsoever that may be assessed under existing or future laws against the Fund or the income thereof shall be charged to the Fund. All other expenses incurred by the Trustee in the administration of this Agreement, including fees for legal services rendered to the Trustee (whether or not rendered in connection with a judicial or administrative proceeding and whether or not incurred while it is acting as Trustee), such compensation to the Trustee as may be agreed upon from time to time between the Trustee and the Employer, and all other proper charges and disbursements of the Trustee, shall be paid from the Fund unless paid by the Employer. Anything in the preceding sentences to the contrary notwithstanding,

the Employer shall reimburse the Trustee for any such expenses incurred by it if for any reason such expenses cannot be paid out of the Fund or, if paid by the Fund, are subsequently required to be restored to the Fund or to the Plan. Nothing in this Section 11 shall be deemed to prevent the Fund from bearing any management fees and expenses that may be charged on any investment made in or through a group or common trust fund, an insurance company, an investment company or any other medium for group investment. To the extent that the Fund is invested in mutual funds to which Trustee or an affiliate provides investment advisory and other services, Trustee or an affiliate may receive fees from the mutual funds for such services.

12. Removal and Resignation.

(a) Resignation or removal of the Trustee will not terminate the Trust. In the event of any vacancy in the position of Trustee, whether by the resignation or removal of the Trustee, the Employer will appoint a successor trustee and such appointment will become effective upon the acceptance of its office by the successor trustee. If the Employer does not appoint such a successor within 60 days after notice of resignation or removal is given, the Trustee may apply to a court of competent jurisdiction for such appointment. Each successor Trustee so appointed and accepting a Trusteeship hereunder will have all the rights and powers and all of the duties and obligations of the original trustee under the provisions hereof.

(b) The Employer may remove the Trustee at any time upon sixty (60) days notice in writing to the Trustee unless the Trustee agrees to a shorter period. The Trustee may resign at any time upon sixty (60) days notice in writing to the Employer unless the Employer agrees to a shorter period. Upon such removal or resignation of the Trustee, the Employer shall appoint a successor trustee and, upon the successor trustee's acceptance of such appointment, the Trustee shall assign, transfer and pay over to such successor trustee the funds and properties under its control, or if the Employer establishes an alternative funding medium, the Trustee shall assign, transfer and pay over the funds and properties under its control as the Employer directs. The Trustee is authorized, however, to reserve such amount as it may deem advisable for payments of fees and expenses for the settlement of its account or otherwise, and any balance of such reserve remaining after the payment of such fees and expenses shall be paid as the Employer directs.

(c) No trustee will be liable or responsible for anything done or omitted to be done in the administration of the Fund before it became Trustee or after it ceases to be Trustee.

13. Amendment. The Employer and the Trustee may amend this Agreement at any time by a written agreement between them; provided, however, that no such amendment shall make it possible for any part of the corpus or income of the Fund to be used for or diverted to purposes other than the exclusive benefit of Participants.

14. Termination. The Employer reserves the right at any time to terminate this Agreement upon sixty (60) days notice to the Trustee unless the Trustee agrees to a shorter period. In the event of such termination of this Agreement (or of the Plan under which it was established), the Trustee shall continue to administer the Fund as herein provided until all of the purposes for which it has been established have been accomplished or dispose of the Fund after the payment or other provision for all expenses incurred in the administration and termination of the Trust (including any compensation to which the Trustee may be entitled), all in accordance with the written order of the Employer or any successor thereto. Until the final distribution of such Fund, the Trustee, and the Employer shall continue to have and exercise all of the powers and discretions conferred upon them by this Agreement.

15. Successor Employer and Merger or Consolidation of Trustee. The term "Employer" shall include its successors in business, and the term "Trustee" shall apply to any trustee or trustees acting hereunder, whether signatory hereto or subsequently designated by the Employer. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger, reorganization, or consolidation to which the Trustee may be a party, or any corporation to which all or substantially all of the trust business of the Trustee may be transferred shall be the successor of the Trustee hereunder without the execution or filing of any instrument or the performance of any further act.

16. Return of Contributions. Contributions are conditional on initial qualification of the Plan under Section 401(a), of the Internal Revenue Code of 1986, and if the Plan and Trust do not so qualify, the Trustee may return such contribution to the Employer upon the Employer's written direction within one year after the date of denial of qualification. Contributions are conditioned upon deductibility under Section 404 of the Internal Revenue Code of 1986 and to the extent such deductions are disallowed, or are made by a mistake of fact, the Trustee may return said contribution (to the extent disallowed or to the extent made by mistake of fact) to the Employer upon the Employer's written direction. In making returns of contributions upon the Employer's direction, the Trustee may accept such direction as the Employer's warranty that such payment is provided for in the Plan and complies with both the provisions of the Plan and with the provisions of this paragraph, and the Trustee need make no further investigation.

17. Law Governing. This agreement shall be administered, construed and enforced according to the laws of the District of Columbia and applicable Federal law.

18. Exclusive Benefit of Participants. Except in the case of a Qualified Domestic Relations Order as defined in Section 414(p) of the Internal Revenue Code of 1986, as amended, it shall be impossible at any time prior to the satisfaction of all liabilities to the Participants for any part of the Fund, other than such part as is required to pay taxes, administrative expenses or refund contributions as provided elsewhere herein, to be used for, or diverted to, purposes other than the exclusive benefit of the Participants.

19. Non-alienation of Benefits. Except in the case of a Qualified Domestic Relations Order as defined in Section 414(p) of the Internal Revenue Code of 1986, as amended, no rights or claims to any of the monies or other assets of the Fund shall be assignable, nor shall such rights or claims be subject to garnishment, attachment, execution or levy of any kind; and any attempt to transfer, assign or pledge the same shall not be recognized by the Trustee.

20. Distribution. Notwithstanding any other provisions of this Agreement, the Trustee may condition its delivery, transfer or distribution of any assets upon the Trustee's receiving assurances satisfactory to it that the approval of appropriate governmental or other authorities has been secured and that all notice and other procedures required by applicable law have been complied with.

21. Trustee not Liable for Duties not Assigned Herein. The duties of the Trustee to the Plan are limited to those assumed by the Trustee by the terms of this Agreement. The Trustee shall not be deemed by virtue hereof to be the Administrator or Sponsor of the Plan, and shall not be responsible for filing reports, returns or disclosures with any government agency except as may be required of the Trustee under applicable law or regulation.

22. Separability. If any provision of this Agreement is found, held or deemed to be void, unlawful or unenforceable under any applicable statute or other controlling law, the remainder of this Agreement shall continue in full force and effect.

23. Dealing with the Trustee. No person dealing with the Trustee will be obliged to see to the application of any property paid or delivered to the Trustee or to inquire into the expediency or propriety of any transaction or the Trustee's authority to consummate the same, except as may specifically be required of such person under ERISA.

24. Payment by Mail. If any check in payment of a benefit hereunder, which had been mailed by regular U.S. mail to the last address of the payee is returned undelivered, the Trustee shall so notify the Employer and shall discontinue further payments to such payee until it receives further instructions from the Employer. The Trustee shall have no duty to locate participants.

25. Signature Authority and Conformity with Plan. The person executing this agreement on behalf of the Employer certifies thereby that he or she is duly authorized by the Employer consistent with the terms of the Plan to do so. The Employer, by executing this Agreement, certifies that the Plan has been duly adopted, that the provisions hereof are consistent with the terms of the Plan, that all conditions and limitations in the Plan which would limit the actions of the Trustee are expressly contained herein, and that the Employer will promptly notify the Trustee of any amendments made to the Plan.

IN WITNESS WHEREOF, the parties hereto have caused the respective duly authorized officers to execute this Agreement in duplicate and affix their corporate seals hereto this 29th day of May, 2002.

ATTEST:

/s/ Catherine Bokus

ATTEST:

/s/ Suzanna Fouelles

Employer

*By: /s/ David C. Benoit
CFO*

Riggs Bank N.A., Trustee

By: /s/ Richard H. Deuber

ATTEST:
ATTEST:

EXHIBIT 10.12.2

SAVINGS PLAN OF THE CONNECTICUT WATER COMPANY

POST-EGTRRA AMENDMENT

**ARTICLE I
PREAMBLE**

1.1 Adoption and effective date of amendment. This amendment of the plan is adopted to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), the Job Creation and Worker Assistance Act of 2002, and other IRS guidance. This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, this amendment shall be effective as of the first day of the first plan year beginning after December 31, 2001.

1.2 Suppression of inconsistent provisions. This amendment shall supersede the provisions of the plan to the extent those provisions are inconsistent with the provisions of this amendment.

**ARTICLE II
ADOPTION AGREEMENT ELECTIONS**

THE QUESTIONS IN THIS ARTICLE II ONLY NEED TO BE COMPLETED IN ORDER TO OVERRIDE THE DEFAULT PROVISIONS SET FORTH BELOW. IF ALL OF THE DEFAULT PROVISIONS WILL APPLY, THEN THESE QUESTIONS SHOULD BE SKIPPED.

UNLESS THE EMPLOYER ELECTS OTHERWISE IN THIS ARTICLE II, THE FOLLOWING

DEFAULTS APPLY:

1. IF CATCH-UP CONTRIBUTIONS ARE PERMITTED, THEN THE CATCH-UP CONTRIBUTIONS ARE TREATED LIKE ANY OTHER ELECTIVE DEFERRALS FOR PURPOSES OF DETERMINING MATCHING CONTRIBUTIONS UNDER THE PLAN.
2. FOR PLANS SUBJECT TO THE QUALIFIED JOINT AND SURVIVOR ANNUITY RULES, ROLLOVERS ARE AUTOMATICALLY EXCLUDED IN DETERMINING WHETHER THE \$5,000 THRESHOLD HAS BEEN EXCEEDED FOR AUTOMATIC CASH-OUTS (IF THE PLAN PROVIDES FOR AUTOMATIC CASH-OUTS). THIS IS APPLIED TO ALL PARTICIPANTS REGARDLESS OF WHEN THE DISTRIBUTABLE EVENT OCCURRED.
3. AMOUNTS THAT ARE "DEEMED 125 COMPENSATION" ARE NOT INCLUDED IN THE DEFINITION OF COMPENSATION.

2.1 EXCLUSION OF ROLLOVERS IN APPLICATION OF INVOLUNTARY CASH-OUT PROVISIONS. If the plan is subject to the joint and survivor annuity rules and includes involuntary cash-out provisions, then unless one of the options below is elected, effective for distributions made after December 31, 2001, rollover contributions will be excluded in determining the value of a participant's nonforfeitable account balance for purposes of the plan's involuntary cash-out rules.

- a. Rollover contributions will not be excluded.
- b. Rollover contributions will be excluded only with respect to distributions made after _____ (Enter a date no earlier than December 31, 2001).
- c. Rollover contributions will only be excluded with respect to participants who separated from service after _____ (Enter a date. The date may be earlier than December 31, 2001.)

2.2 CATCH-UP CONTRIBUTIONS (FOR 401(K) PROFIT SHARING PLANS ONLY): The plan permits catch-up contributions effective for calendar years beginning after December 31, 2001, (Article V) unless otherwise elected below.

- a. The plan does not permit catch-up contributions to be made
- b. Catch-up contributions are permitted effective as of: 06/01/02
(enter a date no earlier than January 1, 2002).

AND, catch-up contributions will be taken into account in applying any matching contribution under the Plan unless otherwise elected below.

c. Catch-up contributions will not be taken into account in applying any matching contribution under the Plan.

2.3 DEEMED 125 COMPENSATION. Article VI of this amendment shall not apply unless otherwise elected below.

Article VI of this amendment (Deemed 125 Compensation) shall apply effective as of Plan Years and Limitation Years beginning on or after _____ (insert the later of January 1, 1998, or the first day of the first plan year the Plan used this definition).

POST-EGTRRA AMENDMENT

**ARTICLE III
INVOLUNTARY CASH-OUTS**

3.1 Applicability and effective date. If the plan is subject to the qualified joint and survivor annuity rules and provides for involuntary cash-outs of amounts less than \$5,000, then unless otherwise elected in Section 2.1 of this amendment, this Article shall apply for distributions made after December 31, 2001, and shall apply to all participants.

3.2 Rollovers disregarded in determining value of account balance for involuntary distributions. For purposes of the Sections of the plan that provide for the involuntary distribution of vested accrued benefits of \$5,000 or less, the value of a participant's nonforfeitable account balance shall be determined without regard to that portion of the account balance that is attributable to rollover contributions (and earnings allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code. If the value of the participant's nonforfeitable account balance as so determined is \$5,000 or less, then the plan shall immediately distribute the participant's entire nonforfeitable account balance.

**ARTICLE IV
HARDSHIP DISTRIBUTIONS**

Reduction of Section 402(c) of the Code following hardship distribution. If the plan provides for hardship distributions upon satisfaction of the safe harbor (deemed) standards as set forth in Treas. Reg. Section 1.401(k)-1(d)(2)(iv), then effective as of the date the elective deferral suspension period is reduced from 12 months to 6 months pursuant to E.GTRRA, there shall be no reduction in the maximum amount of elective deferrals that a Participant may make pursuant to Section 402(g) of the Code solely because of a hardship distribution made by this plan or any other plan of the Employer.

**ARTICLE V
CATCH-UP CONTRIBUTIONS**

Catch-up Contributions. Unless otherwise elected in Section 2.2 of this amendment, effective for calendar years beginning after December 31, 2001, all employees who are eligible to make elective deferrals under this plan and who have attained age 50 before the close of the calendar year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of, Section 414(v) of the Code. Such catch-up contributions shall not be taken into account for purposes of the provisions of the plan implementing the required limitations of Sections 402(g) and 415 of the Code. The plan shall not be treated as failing to satisfy the provisions of the plan implementing the requirements of Sections 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such catch-up contributions.

If elected in Section 2.2, catch-up contributions shall not be treated as elective deferrals for purposes of applying any Employer matching contributions under the plan.

**ARTICLE VI
DEEMED 125 COMPENSATION**

If elected, this Article shall apply as of the effective date specified in Section 2.3 of this amendment. For purposes of any definition of compensation under this Plan that includes a reference to amounts under Section 125 of the Code, amounts under Section 125 of the Code include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 of the Code only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

This amendment has been executed this 17th day of December 2003.

Name of Plan: Savings Plan of The Connecticut Water Company

Name of Employer. Connecticut Water

By: /s/ Maureen P. Westbrook

Employer

SAVINGS PLAN OF THE CONNECTICUT WATER COMPANY

MINIMUM DISTRIBUTION REQUIREMENTS AMENDMENT

ARTICLE I GENERAL RULES

1.1 **Effective Date.** Unless a later effective date is specified in Section 6.1 of this Amendment, the provisions of this Amendment will apply for purposes of determining required minimum distributions for calendar years beginning with the 2002 calendar year.

1.2 **Coordination with Minimum Distribution Requirements Previously in Effect.** If the effective date of this Amendment is earlier than calendar years beginning with the 2003 calendar year, required minimum distributions for 2002 under this Amendment will be determined as follows. If the total amount of 2002 required minimum distributions under the Plan made to the distributee prior to the effective date of this Amendment equals or exceeds the required minimum distributions determined under this Amendment, then no additional distributions will be required to be made for 2002 on or after such date to the distributee. If the total amount of 2002 required minimum distributions under the Plan made to the distributee prior to the effective date of this Amendment is less than the amount determined under this Amendment, then required minimum distributions for 2002 on and after such date will be determined so that the total amount of required minimum distributions for 2002 made to the distributee will be the amount determined under this Amendment.

1.3 **Precedence.** The requirements of this Amendment will take precedence over any inconsistent provisions of the Plan.

1.4 **Requirements of Treasury Regulations Incorporated.** All distributions required under this Amendment will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Internal Revenue Code.

1.5 **TEFRA Section 242(b)(2) Elections.** Notwithstanding the other provisions of this Amendment, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

1.6 **Adoption by prototype sponsor.** Except as otherwise provided herein, pursuant to Section 5.01 of Revenue Procedure 2000-20, the sponsoring organization hereby adopts this amendment on behalf of all adopting employers.

ARTICLE II TIME AND MANNER OF DISTRIBUTION

2.1 **Required Beginning Date.** The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

2.2 **Death of Participant Before Distributions Begin.** If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) If the Participant's surviving spouse is the Participant's sole designated beneficiary, then, except as provided in Article VI, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70-1/2, if later.

(b) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then, except as provided in Article VI, distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this Section 2.2, other than Section 2.2(a), will apply as if the surviving spouse were the Participant.

For purposes of this Section 2.2 and Article IV, unless Section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If Section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under Section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3 Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with Articles III and IV of this Amendment. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations.

ARTICLE III REQUIRED MINIMUM DISTRIBUTIONS DURING PARTICIPANT'S LIFETIME

3.1 Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

(b) if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401 (a)(9)-9 of the Treasury regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

3.2 Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this Article 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

ARTICLE IV REQUIRED MINIMUM DISTRIBUTIONS AFTER PARTICIPANT'S DEATH

4.1 Death On or After Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year,

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

4.2 Death Before Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. Except as provided in Article VI, if the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in Section 4.1.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under Section 2.2(a), this Section 4.2 will apply as if the surviving spouse were the Participant.

ARTICLE V DEFINITIONS

5.1 Designated beneficiary. The individual who is designated as the Beneficiary under the Plan and is the designated beneficiary under Section 401(a)(9) of the Internal Revenue Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

5.2 Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under Section 2.2. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3 Life expectancy. Life expectancy as computed by use of the Single Life Table in Section 1.401 (a)(9)-9 of the Treasury regulations.

5.4 Participant's account balance. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year Includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in the Plan when distributions under Section 401(a)(9) of the Internal Revenue Code are required to begin.

ARTICLE VI ADOPTION AGREEMENT ELECTIONS

THE QUESTIONS IN THIS ARTICLE VI ONLY NEED TO BE COMPLETED IN ORDER TO OVERRIDE THE DEFAULT PROVISIONS SET FORTH BELOW. IF ALL OF THE DEFAULT PROVISIONS WILL APPLY, THEN THESE QUESTIONS SHOULD BE SKIPPED.

UNLESS THE EMPLOYER ELECTS OTHERWISE III THIS ARTICLE VI, THE FOLLOWING DEFAULTS APPLY:

1) THE MINIMUM DISTRIBUTION REQUIREMENTS ARE EFFECTIVE FOR DISTRIBUTION CALENDAR YEARS BEGINNING WITH THE 2002 CALENDAR YEAR UNLESS A LATER DATE IS SPECIFIED IN SECTION 6.1 OF THIS AMENDMENT.

2) PARTICIPANTS OR BENEFICIARIES MAY ELECT ON AN INDIVIDUAL BASIS WHETHER THE 5-YEAR RULE OR THE LIFE EXPECTANCY RULE IN THE PLAN APPLIES TO DISTRIBUTIONS AFTER THE DEATH OF A PARTICIPANT WHO HAS A DESIGNATED BENEFICIARY.

6.1 EFFECTIVE DATE OF PLAN AMENDMENT FOR SECTION 401(A)(9) FINAL AND TEMPORARY TREASURY REGULATIONS.

[] This Amendment applies for purposes of determining required minimum distributions for distribution calendar years beginning with the 2003 calendar year, as well as required minimum distributions for the 2002 distribution calendar year that are made on or after _____ (leave blank if this Amendment does not apply to any minimum distributions for the 2002 distribution calendar year).

6.2 ELECTION TO NOT PERMIT PARTICIPANTS OR BENEFICIARIES TO ELECT 5-YEAR RULE.

Unless elected below, Participants or beneficiaries may elect on an individual basis whether the S-year rule or the life expectancy rule in Sections 2.2 and 4.2 of this Amendment applies to distributions after the death of a Participant who has a designated beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under Section 2.2 of this Amendment, or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death. If neither the Participant nor beneficiary makes an election under this paragraph, distributions will be made in accordance with Sections 2.2 and 4.2 of this Amendment and, if applicable, the elections in Section 6.3 of this Amendment below.

() The provision set forth above in this Section 6.2 shall not apply. Rather, Sections 2.2 and 4.2 of this Amendment shall apply except as elected in Section 6.3 of this Amendment below.

6.3 ELECTION TO APPLY 5-YEAR RULE TO DISTRIBUTIONS TO DESIGNATED BENEFICIARIES.

[] If the Participant dies before distributions begin and there is a designated beneficiary, distribution to the designated beneficiary is not required to begin by the date specified in the Plan, but the Participant's entire interest will be distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the Participant's death. If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to either the Participant or the surviving spouse begin, this election will apply as if the surviving spouse were the Participant.

If the above is elected, then this election will apply to:

[] All distributions.

[] The following distributions: _____

6.4 ELECTION TO ALLOW DESIGNATED BENEFICIARY RECEIVING DISTRIBUTIONS UNDER 5-YEAR RULE TO ELECT LIFE EXPECTANCY DISTRIBUTIONS.

[] A designated beneficiary who is receiving payments under the 5-year rule may make a new election to receive payments under the life expectancy rule until December 31, 2003, provided that all amounts that would have been required to be distributed under the life expectancy rule for all distribution calendar years before 2004 are distributed by the earlier of December 31, 2003 or the end of the 5-year period.

Except with respect to any election made by the employer in Article VI, this amendment is hereby adopted by the prototype sponsoring organization on behalf of all adopting employers on

Sponsor Name: _____

By: _____

NOTE: THE EMPLOYER ONLY NEEDS TO EXECUTE THIS AMENDMENT IF AN ELECTION HAS BEEN MADE IN ARTICLE VI OF THIS AMENDMENT.

This amendment has been executed this 17th day of December, 2003.

<i>Name of Plan:</i>	<i>Savings Plan of the Connecticut Water Company</i>
<i>Name of Employer:</i>	<i>Connecticut Water</i>
<i>By:</i>	<i>/s/ Maureen P. Westbrook _____</i>
	<i>EMPLOYER</i>

Exhibit 10.12.3

SUPPLEMENTAL PARTICIPATION AGREEMENT

A Participation Agreement made and entered into this 30th day of December, 2003, between The Unionville Water Company (hereinafter referred to as the "Participating Employer"), Connecticut Water Company (hereinafter referred to as the "Employer") and Riggs Bank NA. (hereinafter referred to as the "Trustees").

WHEREAS, the Participating Employer desires to reward its employees for faithful service, to establish a bond between employer and employee, to provide an incentive for efficient and conscientious work, to provide a fund for retirement, disability, or death, and to retain high-calibre fellow employees; and

WHEREAS, there exists a 401(k) Profit Sharing Plan entered into on the 30th day of December, 2003 namely the SAVINGS PLAN OF THE CONNECTICUT WATER COMPANY, called the "Plan," between the Employer and the Trustees (a copy being attached hereto as Exhibit "A" and made a part hereof by reference); and

WHEREAS, the Plan provides that any other Participating Employer may, with the consent of the Employer, adopt the Plan and participate therein by a properly executed document evidencing said intent of said Participating Employer;

NOW, THEREFORE, the Participating Employer hereby becomes a party to the Plan, effective the 1st day of January, 2004, and the Employer and the Trustees hereby consent to such adoption a participation upon the following terms:

(1) Wherever a right or obligation is imposed upon the Employer by the terms of the Plan, the same shall extend to the Participating Employer as the "Employer" under the Plan and shall be separate and distinct from that imposed upon the Employer. It is the intention of the parties that the Participating Employer shall be a party to the Plan and treated in all respects as the Employer thereunder, with its employees to be considered as the Employees or Participants, as the case may be, thereunder. However, the participation of the Participating Employer in the Plan shall in no way diminish, augment, modify, or in any way affect the rights and duties of the Employer, its Employees, or Participants, under the Plan.

(2) The Trustees hereby agree to receive and allocate contributions made to the Plan by the Employer and by the Participating Employer, as well as to do and perform all acts that are necessary to keep records and accounts of all funds held for Participants who are Employees of the respective employers.

Exhibit 10.12.3

(3) The execution of this Agreement by this Participating Employer shall be construed as the adoption of the Plan in every respect as if said Plan had this date been executed between the Participating Employer and the Trustees, except as otherwise expressly provided herein or in any amendment that may subsequently be adopted hereto.

(4) All actions required by the Plan and Trust to be taken by the Employer shall be effective with respect to the Participating Employer if taken by the Employer and pursuant to the Plan, the Participating Employer hereby irrevocably designates the Employer as its agent for such purposes.

IN WITNESS WHEREOF, the Participating Employer, the Employer and the Trustees have caused this Supplemental Participation Agreement to be executed in their respective names on the day and date first above written.

The Unionville Water Company

By: /s/ Maureen P. Westbrook

Exhibit 10.12.4

SUPPLEMENTAL PARTICIPATION AGREEMENT

A Participation Agreement made and entered into this 30th day of December, 2003, between The Crystal Water Company of Danielson (hereinafter referred to as the Participating Employer"), Connecticut Water Company (hereinafter referred to as the 'Employer') and Riggs Bank N.A. (hereinafter referred to as the "Trustees").

WHEREAS, the Participating Employer desires to reward its employees for faithful service, to establish a bond between employer and employee, to provide an incentive for efficient and conscientious work, to provide a fund for retirement, disability, or death, and to retain high-calibre fellow employees; and

WHEREAS, there exists a 401(k) Profit Sharing Plan entered into on the 30th day of December, 2003, namely the SAVINGS PLAN OF THE CONNECTICUT WATER COMPANY, called the "Plan," between the Employer and the Trustees (a copy being attached hereto as Exhibit "A" and made a part hereof by reference); and

WHEREAS, the Plan provides that any other Participating Employer may, with the consent of the Employer, adopt the Plan and participate therein by a properly executed document evidencing said intent of said Participating Employer;

NOW, THEREFORE, the Participating Employer hereby becomes a party to the Plan, effective the 1st day of January, 2004, and the Employer and the Trustees hereby consent to such adoption and participation upon the following terms:

(1) Wherever a right or obligation is imposed upon the Employer by the terms of the Plan, the same shall extend to the Participating Employer as the "Employer" under the Plan and shall be separate and distinct from that imposed upon the Employer. It is the intention of the parties that the Participating Employer shall be a party to the Plan and treated in all respects as the Employer thereunder, with its employees to be considered as the Employees or Participants, as the case may be, thereunder. However, the participation of the Participating Employer in the Plan shall in no way diminish, augment, modify, or in any way affect the rights and duties of the Employer, its Employees, or Participants, under the Plan.

(2) The Trustees hereby agree to receive and allocate contributions made to the Plan by the Employer and by the Participating Employer, as well as to do and perform all acts that are necessary to keep records and accounts of all funds held for Participants who are Employees of the respective employers.

Exhibit 10.12.4

(3) The execution of this Agreement by this Participating Employer shall be construed as the adoption of the Plan in every respect as if said Plan had this date been executed between the Participating Employer and the Trustees, except as otherwise expressly provided herein or in any amendment that may subsequently be adopted hereto.

(4) All actions required by the Plan and Trust to be taken by the Employer shall be effective with respect to the Participating Employer if taken by the Employer and pursuant to the Plan, the Participating Employer hereby irrevocably designates the Employer as its agent for such purposes.

IN WITNESS WHEREOF, the Participating Employer, the Employer and the Trustees have caused this Supplemental Participation Agreement to be executed in their respective names on the day and date first above written.

Unionville Water Company

By: /s/ Maureen P. Westbrook

Exhibit 10.13.6

**SIXTH AMENDMENT TO
THE CONNECTICUT WATER COMPANY
EMPLOYEES' RETIREMENT PLAN**

(as amended and restated as of January 1, 1997, except as otherwise provided therein)

1. The following sentence is added to Section 2.15, as amended by the Second Amendment, at the end thereof:

"Notwithstanding anything to the contrary contained in Section 2.15, Section 2.32, or elsewhere in the Plan, in no event shall any Employee of The Unionville Water Company receive credit for Credited Service hereunder prior to January 1, 2004."

2. The following sentence is added to Section 2.40 at the end thereof:

"In calculating an Employee's Vesting Service, service with The Unionville Water Company, both before and after October 31, 2002, shall be taken into account."

3. The following paragraph is added to Section 3.2, as amended by the Second Amendment, at the end thereof:

"Employees of The Unionville Water Company shall be eligible to participate hereunder effective January 1, 2004, provided they have satisfied the service requirements hereunder as of that date and are otherwise eligible to participate hereunder. Service with The Unionville Water Company both before and after October 31, 2002 shall count as Service for purposes of meeting the eligibility requirements hereunder. In no event shall any Employee of The Unionville Water Company receive credit for Credited Service hereunder prior to January 1, 2004."

4. Section 4.2, as set forth in the Second Amendment, is amended by the addition of the following unnumbered paragraph at the end thereof:

"In the case of Participants who either (1) have not attained a Vested Percentage of one hundred percent (100%) as of December 31, 2003, or (2) have first become eligible to participate in this Plan after December 31, 2003, or both, no more than thirty-seven and one half (37 1/2) years of Credited Service shall be taken into account. This amendment to Section 4.2 is effective as of January 1, 2004. In no event shall this change reduce the accrued benefit of any Participant as of December 31, 2003."

5. Section 5.2 is amended to read as follows:

"5.2 Early Commencement. A Participant who retires in accordance with the provisions of Section 5.1 and elects to have payment of his Retirement Income commence on his Early Retirement Date shall be entitled to receive a reduced Annual Retirement Income in the form stated in Section 4.3. The amount of such reduced Retirement Income shall equal (a) times (b) where:

(a) equals such Participant's Normal Retirement Income as determined under Section 4.3 based on his Average Earnings and his Credited Service as of his Early Retirement Date and with the Actuarial Equivalent factors described in Subsections 4.3(b) and 4.3 (c) being determined as of his Early Retirement Date; and

(b) (1) In the case of Participants who are Participants as of December 31, 2003 and have attained a Vested Percentage of one hundred percent (100%) as of December 31, 2003, equals the appropriate percentage factor from the following table:

Complete Years by Which Early Retirement Date Precedes Normal Retirement Date -----	Early Retirement Percentage Factors -----
10	.72
9	.76
8	.80
7	.84
6	.88
5	.92
4	.96
3	1.00
2	1.00
1	1.00
0	1.00

(2) In the case of Participants who either (A) have not attained a Vested Percentage of one hundred percent (100%) as of December 31, 2003, or (B) first become eligible to participate in this Plan after December 31, 2003, or both, equals the appropriate percentage factor from the following table:

Complete Years by Which Early Retirement Date Precedes Normal Retirement Date -----	Early Retirement Percentage Factors -----
10	.40
9	.46
8	.52
7	.58
6	.64
5	.70
4	.76
3	.82
2	.88
1	.94
0	1.00

(c) This amendment to Section 5.2 is effective as of January 1, 2004. In no event shall this change reduce the amount of a Participant's benefit at Early Retirement Date below the amount of the benefit that the Participant would have been entitled to receive based upon the early retirement factors set forth in subparagraph (b)(1) of this Section 5.2, based upon his accrued benefit under the Plan as of December 31, 2003."

6. Except as hereinabove modified and amended, the Plan as amended shall remain in full force and effect.

7. This Amendment is effective as of January 1, 2004.

CERTIFICATE

The undersigned hereby certifies that The Connecticut Water Company Employees' Retirement Plan, as amended and restated effective as of January 1, 1997, except as otherwise provided therein, was duly amended by the Board of Directors of The Connecticut Water Company by a Sixth Amendment on November 12, 2003, and the Plan, as so amended, is in full force and effect.

November 12, 2003 [ILLEGIBLE] Michele G. DiAcri Corporate Secretary

EXHIBIT 10.28

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding dated December 4, 2002 is made between the State of Connecticut (the "State"), acting through its Department of Environmental Protection ("DEP"), and Connecticut Water Service, Inc. and its Connecticut subsidiaries including Crystal Water Company and Gallup Water Service (collectively ("Utility").

WITNESSETH THAT:

WHEREAS, Utility has land holdings in Connecticut;

WHEREAS, the State has established a goal to preserve 21% of Connecticut's land as open space;

WHEREAS, the State, in 1997, intensified its efforts to preserve open space in Connecticut by establishing a goal for the State to have at least ten percent of the State's land area held by the State as open space land;

WHEREAS, the State's legislature, in 1998 passed Public Act 98-157, which created the Protected Open Space and Watershed Land Acquisition Grant Program, to provide matching grants for municipalities, nonprofit land organizations and water companies to preserve open space;

WHEREAS, the State legislature, in 1999, passed Public Act 99-173, which established the goal of having municipalities, land conservation organizations, and water utilities hold 11% of Connecticut's land as open space;

WHEREAS, in 2001, the Connecticut General Assembly passed Public Act 01-024, which stated that the DEP shall conduct an evaluation of lands of Class A water companies as defined in Section 16-1 of the general statutes, to determine the resource value and potential desirability of such lands for purchase for open space or passive public outdoor recreation or natural resource conservation or preservation;

WHEREAS, the State and Utility agree that preserving open spaced throughout the state is an important goal;

WHEREAS, the State and Utility now wish to memorialize their present understandings and intentions:

NOW THEREFORE, the State and Utility hereby agree as follows:

1. There will be a voluntary two-year moratorium on the sale of all undeveloped land holdings of the Utility that are categorized as Class I, II and III land, other than land under contract for sale or where the sale has been approved by the Department of Public Utility Control ("DPUC") as of the date of this Memorandum, approximately 7117 acres.
2. During the moratorium period, the DEP, in cooperation with the Utility will undertake the assessment and evaluation of all Utility Class 1, Class II and Class III land holdings to determine the desirability of purchasing such land for open space and shall develop strategies to fund the acquisition of such properties in fee or by easement from the Company. DEP will consult with the State Department of Public Health ("DPH") regarding the importance of such Class I and Class II land to the public drinking supply watershed needs in accordance with applicable regulations. Utility agrees to provide the DEP with maps and any other documents that will assist in the assessment. The parties agree to begin the assessment without undue delay, including developing strategies to fund the acquisition of such properties, during the moratorium period.

EXHIBIT 10.28

3. Notwithstanding the moratorium period, the Utility may sell to the State, the town in which the land is located, or any non-profit land holding organization consistent with the Connecticut General Statutes and regulations, any Class I, Class II and Class III land for the purposes of preserving open space, consistent with watershed needs. The parties agree to negotiate in good faith to determine a price for Utility's Class I, Class II and Class III land holdings based on appraised values.
4. Notwithstanding the moratorium period, upon the determination by the DEP that certain parcels of Class I, Class II and Class III land do not meet the conservation needs of the Recreation and Natural Heritage Trust Fund or the Protected Open Space and Watershed Land Acquisition Grant Program, and upon determination by the DPH that, in the case of Class I and Class II land, said land is not required for public drinking supply watershed needs, the Utility may apply to the DPUC to sell said parcels in accordance with the statutory approval procedures for sales of water company lands.
5. A determination by the DEP that it is desirable to purchase land for open space and by the DPH that said land is not required for public drinking supply watershed needs, does not commit the utility to sell such land or the DEP to acquire such land, and the utility specifically reserves the right to make use of any such land for its business purposes.
6. Nothing in this MOU including the moratorium period shall apply to the acquisition by a third party of substantially all of the assets of Connecticut Water Service, Inc. and its subsidiaries or substantially all of the stock of Connecticut Water Service, Inc.
7. In any purchase by the State of land owned by the Utility, the State intends to finance such purchases through the Recreation and Natural Heritage Trust Fund, the Protected Open Space and Watershed Land Acquisition Grant Program or any other public or quasi-public financing alternative. Any sales of Class I, Class II or Class III land to the State shall occur according to a schedule agreed upon by the parties and in compliance with the Connecticut General Statutes.

IN WITNESS WHEREOF, the parties have executed this Memorandum of Understanding as of the 4th day of December 2002.

*STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL
PROTECTION*

*By: /s/ Arthur J. Roèque, Jr.
Arthur J. Roèque, Jr.
Commissioner*

Date: November 22, 2002

CONNECTICUT WATER SERVICE

*By: /s/ Marshall T. Chiaraluce
Marshall T. Chiaraluce
President and CEO*

Date: December 4, 2002

EXHIBIT 21

CONNECTICUT WATER SERVICE, INC.

SUBSIDIARIES

Following is a list of the subsidiaries of Connecticut Water Service, Inc., each of which, unless otherwise indicated, is wholly owned by the company either directly or through another subsidiary. Second-tier subsidiaries are listed under the name of the parent subsidiary.

NAME	STATE OF INCORPORATION
REGISTRANT:	
Connecticut Water Service, Inc.	Connecticut
SUBSIDIARIES:	
The Connecticut Water Company	Connecticut
Chester Realty, Inc.	Connecticut
New England Water Utility Services, Inc.	Connecticut
Connecticut Water Emergency Services, Inc.	Connecticut
The Unionville Water Company	Connecticut
The Gallup Water Service, Incorporated	Connecticut
Crystal Water Utilities Corporation	Connecticut
The Crystal Water Company of Danielson	Connecticut
Barnstable Holding Company	Connecticut
The Barnstable Water Company	Massachusetts
BARLACO	Massachusetts

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 33-53211, 333-94525, 333-51702, and 333-88544) of Connecticut Water Service, Inc. of our reports dated February 11, 2004 relating to the financial statements and financial statement schedules, which appear in this Form 10-K.

/s/ PricewaterhouseCoopers, LLP

Boston, Massachusetts

February 11, 2004

EXHIBIT 23.2

EXPLANATION CONCERNING ABSENCE OF CURRENT WRITTEN CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Annual Report on Form 10-K is incorporated by reference into the Registration Statements File Nos. 33-53211, 333-94525, 333-51702 and 333-88554 on Form S-8 (collectively, the "Registration Statements") of Connecticut Water Service, Inc. (the "Company") and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

As recommended by the Company's Audit Committee, the Company's Board of Directors on June 18, 2002 decided to dismiss Arthur Andersen LLP ("Andersen") as the Company's independent accountants. See the Company's Current Report on Form 8-K filed June 20, 2002 for more information. After reasonable efforts, the Company has been unable to obtain Andersen's written consent to the incorporation by reference into the Registration Statements of its audit reports with respect to the Company's financial statements as of and for the fiscal year ended December 31, 2001, though Andersen did consent on February 8, 2002 to the incorporation by reference of its audit report contained in the filing of the Company on Form 10-K for the fiscal year ended December 31, 2001.

Under these circumstances, Rule 437a under the Securities Act permits the Company to file this Form 10-K without a written consent from Andersen. However, as a result, with respect to transactions in the Company securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen may not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you may be unable to assert a claim against Andersen under Section 11(a) of the Securities Act because it has not consented to the incorporation by reference of its previously issued reports into the Registration Statements. To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who may become liable under Section 11(a) of the Securities Act, including the Company's officers and directors, may still rely on Andersen's original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

The following is a copy of Arthur Andersen's consent which was filed in connection with Connecticut Water Service, Inc.'s Form 10-K on March 25, 2002. This consent has not been reissued by Arthur Andersen.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements File Nos. 33-53211, and 333-54418.

*/s/ Arthur Andersen LLP
Hartford, Connecticut
March 21, 2002*

EXHIBIT 31.1

**RULE 13a-14 CERTIFICATION
FORM 10-K**

CERTIFICATIONS

I, Marshall T. Chiaraluce, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Connecticut Water Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted pursuant to SEC Release No. 33-8238];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Marshall T. Chiaraluce

*Marshall T. Chiaraluce
Chief Executive Officer
March 12, 2004*

EXHIBIT 31.2

**RULE 13A-14 CERTIFICATION
FORM 10-K**

CERTIFICATIONS

I, David C. Benoit, Chief Financial Officer, certify that:

6. I have reviewed this annual report on Form 10-K of Connecticut Water Service, Inc.;
7. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
8. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
9. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [intentionally omitted pursuant to SEC Release No. 33-8238];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
10. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ David C. Benoit

*David C. Benoit
Chief Financial Officer
March 12, 2004*

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Connecticut Water Service, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marshall T. Chiaraluce, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Marshall T. Chiaraluce

*Marshall T. Chiaraluce
Chief Executive Officer
March 12, 2004*

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Connecticut Water Service, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Benoit, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David C. Benoit

David C. Benoit
Chief Financial Officer
March 12, 2004