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1 FSS 2012

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

IN RE: First Sealord Surety, Inc.,	:	
In Liquidation	:	No. 1 FSS 2012

ANNUAL REPORT OF THE LIQUIDATOR ON THE STATUS OF THE LIQUIDATION OF FSSI INSURANCE COMPANY AS OF DECEMBER 31, 2014

I. INTRODUCTION

Teresa D. Miller, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of First Sealord Surety, Inc. ("FSSI" or "Estate"), through her undersigned counsel, hereby submits this Annual Report on the status of the liquidation of FSSI for the period from January 1, 2014 through December 31, 2014 ("Report").

II. REPORT

A. Financial Statements.

FSSI has prepared Special Purpose Statements of Assets, Cash Flows and Operations for the period from January 1, 2014 through December 31, 2014 ("Statements"). The Statements include estimates as noted below and may not fully reflect the effects of the liquidation upon some assets and liabilities. Consequently, the ultimate distribution to creditors is unknown at

this time. For this reason, third parties should not rely on the financial information contained herein as providing any certainty as to the ultimate distribution that will be made from FSSI.

The Statements are addressed in more detail in sections 1 through 2 below.

1. **Special Purpose Statements of Assets, Liabilities and Deficit – EXHIBIT A.**

As of December 31, 2014, the attached Special Purpose Statement of Assets shows estimated total assets were $6,645,573.

a. **Cash.**

FSSI had a cash and cash equivalents balance of $5,122,089, including brokered certificates of deposit amounting to $4,248,456, as of December 31, 2014. See Exhibit B — Special Purpose Statement of Cash Flows and Changes in Cash, for reconciliation between beginning and ending cash equivalent balances.

b. **Premium Receivable.**

As of December 31, 2014, approximately $76,032 remains outstanding from agents on bonds issued by the company prior to liquidation. At the time of liquidation, this balance was approximately $2,232,000. During 2014, the Liquidator collected $187,611 in premium payments. The Liquidator continues to pursue the collection of these funds through internal efforts as well as coordinating collection through other third parties.

c. **Inter-company Receivables.**

FSSI was a wholly owned subsidiary of Sealord Holdings, Inc. FSSI holds a note from Sealord Holdings, Inc. in the amount of $4.275 million. The status of Sealord Holdings is unknown to FSSI at this time. Therefore, the Liquidator has established a valuation reserve amounting to 100% of the asset value. Also, FSSI recorded, in December 2010, an

intercompany balance related to Federal Income Taxes recoverable from an affiliate in the amount of $81,736. This amount has not been recovered and is part of another intercompany account balance totaling $90,475 at the date of liquidation. A valuation loss reserve of 100% has also been established for this account. Accordingly these assets are not listed as of December 31, 2014.

d. Reinsurance Recoverable.

The company maintained excess reinsurance under several treaties with reinsurers. All of the affected reinsurers have agreed to rescind the 2011 policies, resulting in a return of premium to FSSI of $924,398. As of the end of the year approximately $606,000 remains to be collected in loss recoveries in connection with commutations with the reinsurers. In addition to returned premium, we collected other amounts due from reinsurers totaling $1,169,184.

e. State Deposits.

Various states are holding deposits on behalf of FSSI in the amount of $528,553.

f. Salvage and Subrogation Recoveries.

FSSI has entered into an agreement with Kazlow and Fields, LLC, a collections firm, to collect the available Salvage and Subrogation, on a contingent fee basis. In addition, FSSI has engaged a former employee of the company as a consultant and he is also collecting subrogation and salvage for the estate. The total gross amount collected for 2014 was $308,259. Since inception of the liquidation, the estate has collected $1,661,718. The projected amount to be collected going forward, is approximately $ 200,915.

2. Liabilities – Exhibit A.

Total estimated liabilities at December 31, 2014, were $39,024,350. FSSI liquidation expenses are class (a) first priority payments under the Insurance Department Act of 1921, 40

P.S. §221.1 et seq. ("Act"), as are certain GA expenses, to the extent permitted by the Act. Both Liquidator and GA expenses will be paid before distributions for claims under lower priority classes. As of December 31, 2014, there was $496,344 in reserves for unpaid Liquidator administrative expenses and GA administrative expenses.

However the most significant liability is the $38,155,118 assigned to priority class (e) POCs. This category includes direct surety benefits reported by the GAs as paid of $1,198,257, and reserves of $1,925,093. As of December 31, 2014, FSSI's liability for non-guaranty fund Notices of Determination ("NODs") accepted was $35,031,768.

a. Priority Class A.

The Operating Statement Analysis attached as Exhibit C lists $693,435 of Liquidator administrative operating expenses paid by FSSI for January 1, 2014 through December 31, 2014. Total administrative expenses incurred since inception of the liquidation amounted to $3,711,568.

b. Priority Classes Below Class E.

Also included in total liabilities are estimated liabilities for Proofs of Claim ("POC") assigned to priority classifications below class (e), which total $372,888.

3. Special Purpose Statement of Operations – EXHIBIT C.

Attached is the Statement of Operations ("Operations Report") for the year 2014, which reports FSSI experienced a net operating gain of $8,174,947, due mainly to the release, or revision of Class (e) Liquidator reserves. Since the date of liquidation through December 31, 2014, FSSI reflects a net loss of $37,982,209.

4. **Operating Expense Analysis.**

The operating expenses of FSSI relate to efforts by the Liquidator to marshal and maximize the assets of the Estate for the benefit of all FSSI policyholders and claimants, as well as to review and determine the ultimate liabilities of the Estate, to fulfill the public policies and purposes of the Act and the liquidation process, and to investigate and hold accountable those third parties alleged to have contributed to the insolvency of FSSI. Additional significant time was allocated to the disposition of managed escrow funds and collateral held in the form of cash and Irrevocable Letters of Credit held as additional security.

a. **Legal Fees.**

Attached as Exhibit D is a schedule containing the legal expense detail by firm.

b. **Professional Services Expenses.**

Attached as Exhibit E is a schedule containing the professional service expense detail by vendor name for the period of the Report. The individual entities listed in the schedule provided services including collateral review, reinsurance analysis and collection, salvage and subrogation collection, escrow disbursing account administration and premium collection fees.

c. **Real Estate Expenses.**

Until March 30, 2012, FSSI did business at its location in Villanova, Pennsylvania. Thereafter, operations were moved to the Pennsylvania Insurance Department.

d. **Guaranty Association Claims and Expense Information.**

Guaranty Association ("GA") coverage for surety claims is limited to six states: Arkansas, Kansas, Kentucky, Maryland, Michigan and New York. Claim and expense information, as reported by the GAs, is reflected in Exhibit C.

5. Claims Process.

The deadline for filing POCs was October 5, 2012. As of December 31, 2014, FSSI had received a total of 1047 POCs. Of those, 90 were received after the filing deadline.

a. Proofs of Claim Statistics – (Inception-to-Date).

As of December 31, 2014, FSSI had issued NODs for 1035 of the 1047 POCs received for a total allowed amount of $36,008,718. Of the 1,035 NODs issued, 1,014 have been accepted for a total allowed amount of $ 35,404,655.35.

Issued NODs accounted for 98.8% of the POCs filed with the Estate.

b. Notice of Claim Determination Objection Statistics.

As of December 31, 2014, the Liquidator had received a total of 77 objections to the 1035 NODs issued. Of those 77 objections, the Liquidator has resolved 64 without the need to seek the appointment of a referee.

c. Claims Bar Date.

The claims bar date was February 7, 2014. The Court also approved the establishment of an Estimated Claims Value Process, on May 16, 2014.

6. FSSI Operations Moved to PA Insurance Department.

Effective April 2, 2012, FSSI operations and reporting were transferred "in house" to the Pennsylvania Insurance Department's Office of Liquidations, Rehabilitations and Special Funds. FSSI staff trained Liquidator staff prior to the transfer and three former FSSI employees became consultants to assist with the Estate closure. As of December 31, 2014, one former FSSI employee remains on a part-time consulting basis.

7. **Disposition of Escrowed Funds.**

At the time of liquidation, FSSI was under agreement to administer construction funds as a pass through entity receiving funds from the obligee and subsequently making payments to the principal. The primary purpose of funds control was to control job funds and to help minimize payment bond risk. These funds were maintained individually for each construction project and were disbursed upon review of the project status. The Liquidator is involved in the eventual disposition of the escrowed funds. At the time of the liquidation there were approximately $7 million in funds under administration, or about 250 individual escrow accounts. As of December 31, 2014 amounts remaining to be distributed total approximately $288,641 representing 34 accounts.

8. **Collateral.**

Under certain construction projects, FSSI required that principals provide collateral in the form of cash or an Irrevocable Letter of Credit (ILOC) to secure FSSI's interests in the bond in the event the principal failed to perform as required and to help offset the bond exposure to the company. Under the collateral arrangement, cash funds were set aside in separate bank accounts identified by project while the ILOCs were secured in a local bank safe deposit box for safekeeping. The Liquidator has released some of the cash collateral to the principals, where there were funds remaining in the accounts, as well as the ILOCs for projects with no claims, or where all claims have been settled.

9. **Federal Income Taxes.**

FSSI federal income taxes were filed as part of a consolidated group of affiliated companies with its parent company Sealord LLC. The company has a tax-sharing agreement with its parent entity whereby each company shares in proportion to amounts calculated as if

they filed individual returns. Due to this arrangement, FSSI is currently unable to file its own, independent federal tax return without the parent company's involvement. The Liquidator is exploring alternatives that would allow FSSI to file a return.

Respectfully submitted:

By: _____

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Attorney for Teresa D. Miller, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator of FSSI

Dated: 3/18/15

EXHIBIT A

First Sealord Surety, Inc. (In Liquidation)

SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND DEFICIT - Unaudited
As of December 31, 2014 and 2013

	12/31/2014	12/31/2013
Assets		
Cash	$ 873,633	$ 1,918,995
Brokered Certificates of Deposit at Market Value	4,248,456	-
Accounts Receivable	76,032	84,254
Other Assets, principally Salvage and Subrogation	302,910	176,725
Reinsurance	606,173	2,012,256
Amounts due from escrow fund	9,816	189,816
State Deposits	528,553	1,214,143
Total Assets	$ 6,645,573	$ 5,596,189
Liabilities		
Class A Liquidator Administrative Expenses Unpaid	$ (99,997)	$ (113,260)
Class A GA Administrative Expenses	(396,347)	(211,886)
Class E GA LAE and LAE Reserves	(360,299)	(253,781)
Class E GA Claims	(1,006,745)	(628,791)
Class E GA Claim Reserves	(1,756,306)	(2,406,844)
Class E Claims - Liquidator	(35,031,768)	(33,075,179)
Class E Claims Reserve - Liquidator	-	(9,247,053)
Class F Claims - Liquidator	(213,195)	(214,195)
Class G Claims - Liquidator	(159,693)	(17,698)
Total Liabilities	$ (39,024,350)	$ (46,168,687)
Deficit		
Beginning Deficit Amount January 1st	$ 40,572,498	$ 72,502,185
Dormant Cash Account Adjustments	(20,323)	(398,200)
Unrealized loss on Brokered Certificates of Deposit	1,549	-
(Gain) from Operations	(8,174,947)	(31,531,487)
Total Deficit	$ 32,378,777	$ 40,572,498
Total Liabilities and Deficit	$ (6,645,573)	$ (5,596,189)

See accompanying report.

EXHIBIT B

First Sealord Surety, Inc. (In Liquidation)

SPECIAL PURPOSE STATEMENT OF CASH FLOWS AND CHANGES IN CASH - Unaudited
FOR THE PERIOD FEBRUARY 8, 2012 to DECEMBER 31, 2014 (ITD) and
FOR THE PERIOD JANUARY 1, 2014 to DECEMBER 31, 2014

	2014	ITD
Beginning Cash and Cash Equivalent Balance 1/1/14 and 2/8/12	$ 1,918,995	$ 296,535
Sources of Cash:		
Premium payments	$ 187,611	$ 541,549
Reinsurance recoveries	2,093,582	2,142,123
State Deposits	273,000	2,085,660
Salvage & Subrogation Collections	308,259	1,661,718
State Premium Taxes Recovered	29,808	64,820
Commission Rights	10,016	165,336
Premiums and Other Fees Collected from Escrow Account	180,000	180,000
Other	969,581	1,736,341
Total Sources	$ 4,051,857	$ 8,577,547
Uses of Cash:		
Claim settlements and GA payments made	$ 139,326	$ 139,326
Payroll, Taxes and Benefits	266,284	1,208,866
Professional and Consulting Fees	55,096	785,774
Legal Expenses	158,029	848,863
Asset Collection Fees	125,099	240,678
Real Estate related	30,031	162,361
Furniture and Equipment	1,367	8,172
Postage, Telephone and Supplies	5,922	38,687
Data Processing and Software	35,569	121,851
Unrealized Loss on Brokered Certificates of Deposit	1,549	1,549
Other Operating	30,491	195,866
Total Uses	$ 848,763	$ 3,751,993
Net Increase in Funds	$ 3,203,094	$ 4,825,554
Ending Cash and Cash Equivalent Balance 12/31/14	$ 5,122,089	$ 5,122,089

See accompanying report.

EXHIBIT C

First Sealord Surety, Inc. (In Liquidation)

SPECIAL PURPOSE STATEMENT OF OPERATIONS - Unaudited
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2014 and
FOR THE PERIOD FEBRUARY 8, 2012 to DECEMBER 31, 2014 (ITD)

	2014	ITD
Income		
Premium collections, net of cancellations	$ 179,389	$ (622,293)
Salvage and Subrogation	357,937	1,862,633
Commission Rights earned	3,715	165,627
Reinsurance	687,498	2,645,524
Other Income	1,061,984	1,388,407
Total Income	$ 2,290,523	$ 5,439,898
Claims		
Class A GA Administrative Expenses	$ 194,159	$ 406,045
Class E GA LAE & LAE Reserves	106,518	360,299
Class E GA Claims	377,954	1,006,745
Class E GA Claim Reserves	(650,538)	1,756,306
Class E NOD's Accepted - Liquidator	1,956,589	35,031,769
Class E Reserves - Liquidator	(9,247,053)	-
Class F NOD's Accepted - Liquidator	(1,000)	213,195
Class G NOD's Accepted - Liquidator	141,995	159,693
Liquidator Collateral Settlements	131,584	131,584
Surety claims paid by Other States	411,933	644,903
Total Claims	$ (6,577,859)	$ 39,710,539
Expenses		
Payroll, Taxes and Benefits	$ 257,809	$ 1,276,831
Professional and Consulting Fees	51,109	789,826
Legal Fees	158,946	857,715
Asset Collection Fees	125,099	240,679
Real Estate related	26,548	168,519
Furniture and Equipment	1,162	8,415
Postage, Telephone and Supplies	6,561	39,872
Data Processing and Software	35,125	125,769
Other Operating Expenses	31,075	203,942
Total Expenses	$ 693,435	$ 3,711,568
Net (Loss) Gain	$ 8,174,947	$ (37,982,209)

See accompanying report.

EXHIBIT D

FIRST SEALORD SURETY, INC. (IN LIQUIDATION)

LEGAL FEE EXPENSES - Unaudited
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2014 and
FOR THE PERIOD FEBRUARY 8, 2012 TO DECEMBER 31, 2014 (ITD)

VENDOR NAME	2014	ITD
Dreifuss Bonacci & Parker	$ -	$ 10,035
Eckert Seamans Cherin & Mellott, LLC	-	3,250
Kazlow & Fields, LLC	10,735	28,575
Statutory Liquidator	229	542
Stradley Ronon Stevens & Young LLP	143,907	811,238
Scribner Hall	4,075	4,075
TOTAL	$ 158,946	$ 857,715

See accompanying report.

EXHIBIT E

FIRST SEALORD SURETY, INC. (IN LIQUIDATION)

PROFESSIONAL SERVICE EXPENSES - Unaudited
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2014 and
FOR THE PERIOD FEBRUARY 8, 2012 TO DECEMBER 31, 2014 (ITD)

VENDOR NAME	2014	ITD
Baker Tilly Virchow Krause, LLP	$ 810	$ 810
Crowne Plaza - Harrisburg	-	12,591
DeVito Consulting, Inc.	2,775	61,438
INS Regulatory Ins Services	-	8,090
Invotex Group	3,390	228,697
James L Chokas	-	31,461
Michael McNulty	-	20,738
Morroni Technologies	-	9,000
Nancy M. Mucchetti	-	46,655
ParenteBeard	9,878	9,878
Salil P. Patel	21,692	332,549
Barry S. Slosberg	-	429
Statutory Liquidator	2,871	9,797
WeisersMazars LLP	9,693	13,693
Wm. F.Comly & Son, Inc	-	4,000
TOTAL	$ 51,109	$ 789,826

See accompanying report.

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 1 Pa. Code Chapter 33 in the following manner:

Service by first-class mail, addressed as follows:

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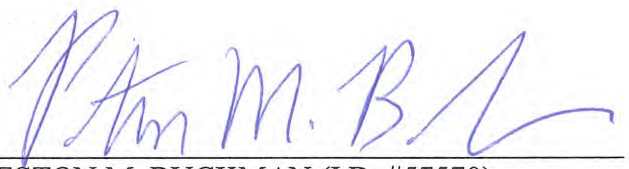

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Attorney for Teresa D. Miller, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator of FSSI

Dated: 3/18/15

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE OF GENERAL COUNSEL

March 18, 2015

Michael F. Krimmel, Chief Clerk
Commonwealth Court of Pennsylvania
601 Commonwealth Avenue, Suite 2100
P.O. Box 69185
Harrisburg, PA 17120-9185

Re: In Re: First Sealord Surety, Inc. (In Liquidation)
No. 1 FSS 2012

Dear Mr. Krimmel:

Attached please find the Report of the Liquidator on the Status of the Liquidation of First Sealord Surety, Inc., as of December 31, 2014, with regard to the above-referenced liquidation.

Thank you for your assistance in this matter.

Very truly yours,

Preston M. Buckman
Insurance Department Counsel

PMB:drh

Enclosures