



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE OF GENERAL COUNSEL

August 10, 2012

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

RECEIVED & FILED
COMMONWEALTH COURT
OF PENNSYLVANIA
2012 AUG 10 A 9 39

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

Dear Mr. Krimmel:

Attached please find an original and two copies of the Liquidator's Report Pursuant to 40 P.S. § 221.36 Regarding the Distribution of Assets to Guaranty Associations with regard to the above-referenced liquidation.

As directed by the Court's Order, we are also enclosing copies of the documents on a computer disk.

Very truly yours,

Preston M. Buckman
Insurance Department Counsel

PMB:drh

Enclosures

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

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

LIQUIDATOR'S REPORT PURSUANT TO 40 P.S. § 221.36
REGARDING THE DISTRIBUTION OF ASSETS TO GUARANTY ASSOCIATIONS

1. First Sealord Surety, Inc. ("FSSI"), was placed into liquidation by the Commonwealth Court of Pennsylvania by Order dated February 8, 2012 ("Liquidation Order"), based on the unanimous consent of FSSI's Board of Directors and of the Board of Directors of First Sealord Holdings, Inc., the sole shareholder of FSSI. The Liquidation Order appointed the Insurance Commissioner and his successors as the Statutory Liquidator of FSSI ("Liquidator"). (A copy of the Liquidation Order is attached hereto as Exhibit "A".)

2. On April 17, 2012, the Commonwealth Court entered an Order declaring FSSI to be insolvent. (A copy of said Order is attached hereto as Exhibit "B".)

3. Pursuant to Article V of the Insurance Department Act of 1921 ("Article V") at § 221.36, the Liquidator of FSSI is required to file with the Court an application for approval to distribute assets to guaranty associations (hereinafter referred to as "an early access distribution") within 120 days of a final determination that the insurer is insolvent or in such condition that its further transaction of business will be hazardous to, *inter alia*, its policyholders.

4. Section 221.36 also provides that the Liquidator need not make application for approval to distribute assets to guaranty associations in instances where it is reasonable to

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conclude that the assets of the insolvent insurer will not exceed the amounts necessary to pay, *inter alia*, the costs of liquidation.

5. Pursuant to § 221.36, the Liquidator's proposal must provide, *inter alia*, provisions for reserving amounts for the payment of expenses of liquidation; disbursement of assets marshaled to date and subsequent disbursement as assets become available; and equitable allocation of disbursements to each of the guaranty associations entitled thereto.

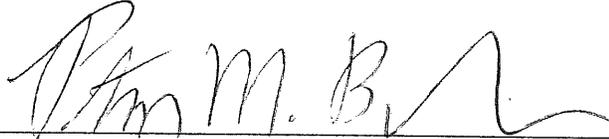
6. Based on the information currently available, the Liquidator anticipates that there will be sufficient assets in the FSSI estate to seek the approval of an early access distribution to the guaranty associations. However, the Liquidator believes that it is in the best interests of all interested parties to wait until the information that is needed to propose a fully informed early access distribution is available, rather than filing an early access distribution proposal that is based on incomplete information and data.

7. Accordingly, in recognition of § 221.36, the Liquidator files this report to inform all interested parties, including the guaranty associations, that he anticipates that an informed proposal regarding an early access distribution will be filed after October 5, 2012, the date of the claims filing deadline as established by this Court in the Liquidation Order.

WHEREFORE, the Liquidator respectfully submits this report in recognition of 40 P.S. § 221.36, and with the intention of filing a fully informed early access distribution proposal subsequent to the October 5, 2012 claims filing deadline for the FSSI estate, at which time the

Liquidator anticipates that the information that is required to formulate such a proposal will be available.

Respectfully submitted,



PRESTON M. BUCKMAN (I.D. #57570)
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Office of Liquidations, Rehabilitations
& Special Funds
Governor's Office of General Counsel
Capital Associates Building
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(717) 787-6009

Attorney for Michael F. Consedine, Insurance
Commissioner of the Commonwealth of
Pennsylvania, in his capacity as Statutory
Liquidator of First Sealord Surety, Inc. In
Liquidation

Dated: _____

8/10/12

EXHIBIT A

ASSETS OF THE ESTATE

4. The Liquidator is vested with title to all property, assets, contracts and rights of actions (collectively "assets") of First Sealord of whatever nature and wherever located, as of the date of filing of the Petition for Liquidation. All assets of First Sealord are hereby found to be *in custodia legis* of this Court and this Court asserts jurisdiction as follows: (a) *in rem* jurisdiction over all assets of First Sealord wherever they may be located and regardless of whether they are held in the name of First Sealord or in any other name; (b) exclusive jurisdiction over all determinations as to whether assets belong to First Sealord or to another party; (c) exclusive jurisdiction over all determinations of the validity and amounts of claims against First Sealord; and (d) exclusive jurisdiction over the determination of the priority of all claims against First Sealord.

5. The filing or recording of this Order with the Clerk of the Commonwealth Court or with the Recorder of Deeds of the county in which First Sealord's principal office or place of business is located (Delaware County), shall impart the same notice as is imparted by any deed, bill of sale or other evidence of title duly filed or recorded with that Recorder of Deeds.

6. The Liquidator is directed to take possession of all assets that are the property of First Sealord.

7. The Liquidator is directed to continue telephone, data-processing, water, electric, sewage, garbage, delivery, trash removal and utility services needed by the estate of First Sealord by establishing a new account for the Liquidator as of the date of this Order.

8. First Sealord's directors, officers and employees shall: (a) surrender peaceably to the Liquidator the premises where First Sealord conducts its business; (b) deliver all keys or access codes thereto and to any safe deposit boxes;

(c) advise the Liquidator of the combinations and access codes of any safe or safekeeping devices of First Sealord or any password or authorization code or access code required for access to data processing equipment; and (d) deliver and surrender peaceably to the Liquidator all the assets, books, records, files, credit cards, and other property of First Sealord in their possession or control, wherever located, and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

9. First Sealord's directors, officers and employees are enjoined from taking any action, without approval of the Liquidator, to transact further business on behalf of First Sealord. They are further enjoined from taking any action that would waste the assets of First Sealord or would interfere with the Liquidator's efforts to wind up the affairs of First Sealord.

10. Except as otherwise provided in this Order, executory contracts to which First Sealord is a party as of the date of this Order may be affirmed or disavowed by the Liquidator.

11. All banks, investment bankers, companies, other entities or other persons having in their possession assets which are, or may be, the property of First Sealord, shall, unless otherwise instructed by the Liquidator, deliver the possession of the same immediately to the Liquidator, and shall not disburse, convey, transfer, pledge, assign, hypothecate, encumber or in any manner dispose of the same without the prior written consent of, or unless directed in writing by, the Liquidator.

12. All persons and entities are enjoined from disposing of or destroying any records pertaining to any transactions between First Sealord and any party.

13. The amount recoverable by the Liquidator from any reinsurer shall not be reduced as a result of this Order of Liquidation, regardless of any provision in a reinsurance contract or other agreement. Payment made directly by the reinsurer to an insured or other creditor of First Sealord shall not diminish the reinsurer's obligation to First Sealord, except to the extent provided by law.

TERMINATION OF POLICIES

14. Any First Sealord surety bond, surety undertaking or policy still in force at the time of the Liquidation will continue only until the earlier of the following: (1) thirty (30) days after the entry of this order; (2) the expiration of the bond, undertaking or policy by its own terms; or (3) the date when the obligee or insured replaces the surety bond, surety undertaking or policy with equivalent coverage in another reinsurer or surety, or otherwise terminates the policy.

PROOF OF CLAIM FILING

15. All claims against the estate of First Sealord, together with proper proof thereof, shall be filed on or before October 5, 2012. No person shall participate in any distribution of the assets of First Sealord unless his, her or its claim has been filed with the Liquidator in accordance with the time limit established by the Liquidator, subject to the provisions for the late filing of claims pursuant to Section 537 of the Act, 40 P.S. §221.37.

16. No judgment or order against First Sealord or its insureds entered after the date of filing of the Petition for Liquidation, and no judgment or order against First Sealord or its insureds entered at any time by default or by collusion, will be considered as evidence of liability or quantum of damages by the Liquidator in evaluating a claim against the estate of First Sealord.

17. In addition to the notice requirements of Section 524 of the Act, 40 P.S. §221.24, the Liquidator shall publish notice in newspapers of general circulation, where First Sealord has its principal places of business, and in the national edition of a national publication such as USA Today that: (a) specifies the last day for the filing of claims; (b) explains the procedure by which claims may be submitted to the Liquidator; (c) provides the address of the Liquidator's office for the submission of claims; and (d) notifies the public of the right to present a claim, or claims, to the Liquidator.

18. Within thirty (30) days of giving notice of the order of liquidation, as set forth in Section 524 of the Act, 40 P.S. §221.24, and of the procedures for filing claims against the estate of First Sealord, the Liquidator shall file a compliance report with the Court noting, in reasonable detail, the date that and manner by which these notices were given.

ADMINISTRATIVE EXPENSES

19. The Liquidator shall pay as costs and expenses of administration pursuant to Section 544 of the Act, 40 P.S. §221.44, the actual, reasonable and necessary costs of preserving or recovering the assets of First Sealord.

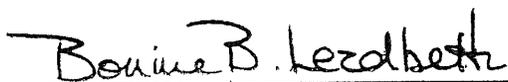
20. Distribution of the assets of First Sealord in payment of the costs and expenses of estate administration including, but not limited to, compensation for services of employees and professional consultants, such as attorneys, actuaries and accountants, shall be made under the direction and approval of the Court. This includes reimbursement to the Pennsylvania Insurance Department for expenses it has incurred in compensating professional consultants,

attorneys and other persons it has engaged on behalf of First Sealord for the preservation of its assets.

STAY OF LITIGATION

21. Unless the Liquidator consents thereto in writing, no action at law or in equity, including, but not limited to, an arbitration or mediation, the filing of any judgment, attachment, garnishment, lien or levy of execution process against First Sealord or its assets, shall be brought against First Sealord or the Liquidator, whether in this Commonwealth or elsewhere, nor shall any such existing action be maintained or further prosecuted after the effective date of this Order. All above-enumerated actions currently pending against First Sealord in the courts of the Commonwealth of Pennsylvania or elsewhere are hereby stayed; relief sought in these actions shall be pursued, as is appropriate, either by filing a proof of claim against the estate of First Sealord pursuant to Section 538 of the Act, 40 P.S. §221.38, or by applying to intervene.

22. All secured creditors or parties, pledges, lienholders, collateral holders or other person claiming secured, priority or preferred interests in any property or assets of First Sealord are hereby enjoined from taking any steps whatsoever to transfer, sell, assign, encumber, attach, dispose of, or exercise, purported rights in or against any property or assets of First Sealord except as provided in Section 543 of the Act, 40 P.S. §221.43.


BONNIE BRIGANCE LEADBETTER,
Judge

Certified from the Record

FEB 08 2012

And Order Exit

EXHIBIT B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

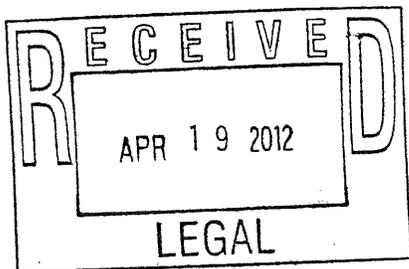
In Re: First Sealord Surety, Inc. :
in Liquidation : No. 1 FSS 2012

ORDER

AND NOW, this 17th day of April, 2012, upon consideration of the Application for a Declaration of Insolvency, the Application is hereby GRANTED. First Sealord Surety, Inc. is hereby declared to be insolvent, as defined in Section 503 of Article V of the Insurance Department Act of 1921, 40 P.S. § 221.3, as of the date of liquidation, February 8, 2012.

Bonnie B. Leadbetter

BONNIE BRIGANCE LEADBETTER,
Judge



Certified from the Record

APR 18 2012

And Order Exit

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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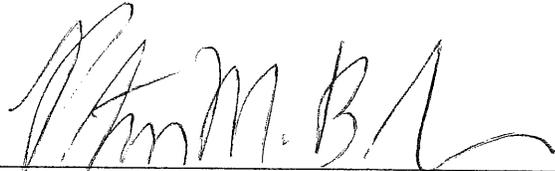
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DATED: _____

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Counsel for the Statutory Liquidator of First
Sealord Surety, Inc. (In Liquidation)