

Commonwealth of Pennsylvania
Office of Liquidations, Rehabilitations
and Special Funds



Statutory Liquidator
Of
FIRST SEALORD SURETY, INC.

PLEASE CAREFULLY READ THIS MATERIAL IN ITS ENTIRETY
AND RETAIN IT FOR YOUR RECORDS

IF YOU DO NOT FOLLOW THESE CLAIMS
SUBMISSION INSTRUCTIONS
YOUR CLAIM WILL BE DENIED.

NOTICE
TO THE SURETY BONDHOLDERS, DEBTORS, PRINCIPALS, OBLIGEEES,
CLAIMANTS, CREDITORS AND ALL OTHER PERSONS INTERESTED IN THE
AFFAIRS OF
FIRST SEALORD SURETY, INC. (FSSI)
(IN LIQUIDATION)

NOTICE IS HEREBY GIVEN:

The Commonwealth Court of Pennsylvania ordered First Sealord Surety, Inc. (FSSI) into liquidation effective February 8, 2012. Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania, was appointed the Statutory Liquidator, and was ordered to take possession of FSSI's property and to liquidate its business. Deputy Insurance Commissioner Joseph DiMemmo oversees the liquidation on his behalf.

This information is important. It is recommended that you read it carefully before contacting the Liquidator's Office with questions. You may also want to consult your attorney or insurance advisors before you proceed.

Certain claims may be covered by guaranty associations in the obligee's state of residence or where the loss occurred. Guaranty associations and funds were created by state law to provide protection in the case of a liquidation. The various state laws governing the guaranty associations include eligibility requirements and limits on the amount of coverage available. Obligees that are covered by a FSSI surety bond may be entitled to the protection of the property and casualty insurance guaranty association in the state where they reside or where the loss occurred.

If you have a claim against FSSI that you intend to pursue, you must file a proof of claim in order to have your claim considered. Detailed instructions for filing a proof of claim are compiled in a separate enclosed document. Proofs of claim must be filed no later than October 5, 2012.

A proof of claim must be filed even if a claim was made against FSSI prior to liquidation. Also, a separate proof of claim form must be filed for each claim you have. A proof of claim must include:

- proof of claim form containing the original signature of the claimant
- description of the claim and any security interest
- whether collateral security or personal security is pledged in accordance with the terms of the surety bond
- documentation of any payments made on the claim;
- a statement that the amount is justly owed the claimant.

If you require additional proof of claim forms, you may make copies of the one attached, request them from the Statutory Liquidator at the address below, or download them from the Department website: www.insurance.pa.gov.

It may be several years before all of FSSI's assets are collected and distribution amounts can be determined. To participate in a distribution, you must file a proof of claim. This is particularly important where there is no guaranty association coverage or where the claim exceeds the limits of such coverage. It is important that you keep FSSI fully advised of all developments in any cases that impact your claim so that FSSI can use this information to recover funds from reinsurers and thereby potentially increase the distribution to surety bondholders and creditors.

If a claim is based upon an "instrument in writing," that document should be attached to the proof of claim. If the document has been destroyed, a statement of the facts and circumstances of the loss must be filed, under oath, with the claim.

The Order of Liquidation enjoins all persons from instituting or continuing any action at law or in equity or any attachment or execution against FSSI, or the Statutory Liquidator. All persons indebted to, or having any property of, FSSI in their possession, directly or indirectly, are hereby notified to tender an

account of the indebtedness. Payment of the debt or delivery of the property should then be made to the Statutory Liquidator.

CHANGE OF ADDRESS NOTIFICATION

YOU ARE REQUIRED BY ARTICLE V OF THE INSURANCE DEPARTMENT ACT TO NOTIFY THE STATUTORY LIQUIDATOR OF YOUR CHANGE OF ADDRESS. IF YOU FAIL TO DO SO YOU MAY JEOPARDIZE RECOVERY FROM THIS ESTATE.

Included with this Notice are some frequently asked questions which may assist in your understanding of the liquidation process. Please review this material carefully.

This notice and the information are in summary form and may not contain all necessary information for your particular situation. You are urged to consult an attorney if you have any questions. All claims are subject to payment only in accordance with applicable law.

General questions about the liquidation procedure should be addressed to the Statutory Liquidator at:

Statutory Liquidator of FSSI
Capital Associates Building
901 N. 7th Street
Harrisburg, PA 17102
(717) 787-7823

Information about the Liquidation of FSSI

The Commonwealth Court of Pennsylvania has ordered FSSI (FSSI) into liquidation effective February 8, 2012. This booklet will help to answer frequently asked questions about making claims and the liquidation procedure.

The Office of Liquidations, Rehabilitations and Special Funds of the Pennsylvania Insurance Department has been assigned the responsibility of liquidating FSSI, and all questions concerning the liquidation of FSSI should be directed to the Statutory Liquidator for FSSI, Capitol Associates Building, 901 N. 7th Street, Harrisburg, PA 17102. Phone: (717) 787-7823.

1. What happens when a company becomes insolvent and is liquidated?

Liquidation is similar to bankruptcy. When a company is liquidated, the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds gathers the company's assets and determines what liabilities, such as bills and claim payments, it has. The Statutory Liquidator then develops a plan to distribute the company's assets according to law and submits the plan to the Court for approval. The liquidation process is very complex and is expected to take several years.

2. Will my surety bond be canceled because of the liquidation?

A paid FSSI surety bond will terminate at its normal expiration, upon replacement or March 9, 2012 (30 days from the date of liquidation), whichever is soonest.

3. You say FSSI was ordered to be liquidated. Does this mean my surety bond is worthless?

No. Although FSSI has been placed into liquidation, the guaranty association in the state where you reside or where the loss occurred may be obligated to provide coverage under surety bonds issued by FSSI subject to certain limitations. Any claim or portion of it that is not covered by a guaranty association becomes a claim against the FSSI estate. The amount deemed to be an allowed claim will be paid to the extent funds are available, on an equal basis with all other claims in the same category. These claims may be paid in full, in part, or not at all, depending on the available assets. These claims may not be paid for several years.

4. Does guaranty fund/association protection exist for surety claims?

Guaranty fund coverage is afforded for surety claims in a few states (Arkansas, Kansas, Kentucky, Maryland, Michigan and New York). Where available, the Liquidator will forward open claims to the affected guaranty fund/association for payment consideration. A listing of guaranty funds/associations is included for your reference.

5. What is a guaranty fund/association?

A guaranty association is an association of all insurers licensed to write property and casualty or life and health insurance in a state. Subject to statutory eligibility and claims payment limits, a guaranty association assumes the obligations of licensed insolvent insurers in that state for residents or property insurance in that state. A guaranty association obtains funds to meet its obligations by assessing the member companies.

6. Since my company has been placed into liquidation, who will pay my claims?

Valid and substantiated claims incurred prior to the termination of the surety bond will be paid, where covered, by the appropriate guaranty association, subject to surety bond limits and the limits of the guaranty association. The Statutory Liquidator of FSSI will forward your proof of claim to the appropriate guaranty association where coverage is afforded. Claims which are not covered by a guaranty association or portions of claims which exceed the statutory obligations of the guaranty association become claims against the estate of FSSI and will be paid at some time in the future to the extent funds are available.

7. Will my claims be paid in full by the guaranty associations?

All payments are subject to certain statutory limits contained in the various state laws creating the guaranty associations. However, payments cannot exceed the applicable surety bond coverage.

8. How long will it take for my claims to be paid by the guaranty association?

When a company is placed into liquidation, the guaranty associations are typically activated to pay claims. The waiting period from the time of submission will vary based on the number of claims received, and the time claims are submitted.

If you are a surety bondholder or claimant and you currently have a claim pending with FSSI, you need to complete and return the enclosed proof of claim form as soon as possible. While your claim file will be forwarded to the guaranty association, failure to file your proof of claim form may delay your payments.

9. I have questions about what is and is not covered by the guaranty association. Who can answer these questions for me?

You can address your questions about your property and casualty guaranty association's responsibilities to the guaranty association in the state in which you reside. A list of the property and casualty guaranty associations is enclosed.

10. I believe I have a claim against FSSI but I am not a surety bondholder or a claimant under a FSSI surety bond. How do I make a claim?

Claims filed against FSSI by general creditors, stockholders, trade creditors, governmental agencies, reinsurers, cedants, agents, employees, former officers and directors and other persons interested in the affairs of FSSI are handled by the Statutory Liquidator. To file a claim for monies owed to you by FSSI, you must file a proof of claim form with the Statutory Liquidator no later than 5:00 p.m. EST on October 5, 2012. If you fail to file a proof of claim form by this date, your claim may not be considered to be timely filed. Failure to file a timely claim may result in denial of your claim or consideration of your claim at a lower priority level.

11. How do I file a claim against FSSI?

If you believe you have a claim against FSSI you must file a proof of claim with the Statutory Liquidator using the enclosed proof of claim form. Even if you have a claim already pending with FSSI you must file a proof of claim. If your claim is a new claim, you should attach documentation to the proof of claim to document your claim. If your claim has already been submitted to FSSI, you must complete the proof

of claim form, but it is not necessary for you to attach additional documentation. Your claim file will be shipped to the appropriate guaranty association. If additional information is needed at a later date, you will be contacted.

If you have more than one claim against FSSI, you may duplicate the proof of claim form to submit each claim separately.

12. Can I file a claim against a FSSI bond?

You may still file claims against a FSSI bond that was in force at the time of the Liquidation Order. Please note, the filing deadline is October 5, 2012. FSSI will continue to accept any and all claims filed on the prescribed proof of claim form after the filing deadline, but they will be considered late. Failure to file a timely claim may result in denial of your claim or consideration of your claim at a lower priority level

13. Does the cancellation of all FSSI bonds affect my ability to make a claim?

No. All FSSI bonds were cancelled as of March 9, 2012. However, the cancellation of the FSSI bonds does not impact your right to make a claim.

14. Will my claim continue to be investigated?

Yes. The Liquidator will adjust all FSSI proof of claims. Even though all litigation and non-litigation matters have been stayed, the Liquidator will continue to investigate claims to determine each claim's validity and value.

15. For bonds that do not have claims filed against them, will collateral be returned to the principal?

Will the Liquidator pay claims from any bond specific or account specific collateral that has been deposited with FSSI?

I was under the impression that since my bond was cancelled on March 9, 2012, collateral is no longer needed. Can you provide me instructions on how I can receive it back?

The liability on my bond was still open at the time of cancellation. Will the obligee sign a full release and discharge of liability so that I can get my collateral back?

One of the primary responsibilities of the Statutory Liquidator is to become familiar with the workings of the company, including the various collateral/escrow accounts. As the issue of collateral is a top priority for everyone involved in a surety company liquidation, the Liquidator will work diligently to formulate a policy and procedure to address these issues.

16. What about claims other than surety?

Claims for agent commissions.

If you were a FSSI agent and have a claim for earned commission, it will be necessary for you to complete a proof of claim form. If you have documentation to support your claim, including your most recent statement, you should provide a copy of that documentation with your proof of claim. If you do

not have documentation, you should complete the information requested on the proof of claim form and submit it as directed.

Claims of general creditors.

General creditors are persons or organizations, including law firms, trade creditors, etc., who provided services to FSSI prior to the February 8, 2012 Order of Liquidation, for which they were not paid, any person or organization who believes they are owed money by FSSI (In Liquidation) regardless of the time period in which these services were incurred, etc. If you believe you have a claim, it will be necessary for you to complete a proof of claim form. If you have documentation to support your claim, you should provide a copy of that documentation with your proof of claim.

Claims of former employees, officers and directors.

If you are a former employee, officer or director of FSSI (In Liquidation) and you believe you have a claim, you must file a proof of claim with FSSI. Use Item 3 (Other) on the proof of claim form to provide the necessary information about your claim. You should attach documentation to support your claim to the proof of claim and submit it as directed.

17. May I file a contingent claim?

Yes. Under Pennsylvania law a person may file a claim even if it is a “contingent claim.” A “contingent claim” is one where the liability of the company is not yet determined or is dependent on the outcome of another event. In many of the bonds FSSI issued, persons may have coverage if a loss occurred during the surety bond period, regardless of when the claim was made against or was discovered by the bondholder. Under these types of circumstances, a bondholder may have claims made against them or have claims brought to their attention in the future, even though the basis for the claim itself occurred during the surety bond period. Such claimants are entitled to file a claim at any time during the claim filing period. Some guaranty associations require the filing of a claim before the end of the claim filing period. For maximum protection, a claimant should promptly file a proof of claim for a “contingent claim” that seeks to cover any claim that is unknown at this time but may arise under their surety bond at a later date. If you do so, you should file a separate proof of claim for each contingent claim. When such a claim arises the claimant should immediately inform the Liquidator of the particulars and supplement the proof of claim by providing documentation of the claim. These types of claims are also known as “surety bondholder protection claims.” This is because a surety bondholder is claiming for the full protection afforded under the terms of their surety bond regardless of when they become aware of such claim. Contingent claims are not limited to only surety bondholder claims. If you file a contingent claim, complete the proof of claim form, and indicate Amount of Claim as, “unknown.”

18. What is the deadline for filing a claim?

The Commonwealth Court of Pennsylvania has established October 5, 2012, 5:00 p.m. EST, as the deadline for filing claims against FSSI (In Liquidation). If you fail to file a proof of claim form by this date, your claim may not be considered to be timely filed. Failure to file a timely claim may result in denial of your claim or consideration of your claim at a lower priority level. Some guaranty associations have an earlier deadline.