



STATE OF NEW YORK INSURANCE DEPARTMENT  
REPORT ON EXAMINATION  
OF THE  
PORTSMOUTH SETTLEMENT COMPANY I, LLC

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

MAY 31, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

PORTSMOUTH SETTLEMENT COMPANY I, LLC

AS OF

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EXAMINER:

DENNIS G. BENSON

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

George E. Pataki  
Governor

Howard Mills  
Superintendent

May 31, 2007

Honorable Eric Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22564, dated October 30, 2006 and annexed hereto, an examination has been made into the condition and affairs of Portsmouth Settlement Company I, LLC., hereinafter referred to as "the Company," at the underwriting office located at 3201 New Mexico Avenue, NW, Suite 249, Washington, DC 20016.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

## 1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement. (See item 5 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2006 to determine whether the Company's 2006 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Territory and plan of operation
- Market conduct activities
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violation contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated under the laws of Georgia on October 10, 1995 and commenced business on January 1, 1996. The Company was issued a viatical settlement company license by the superintendent on November 5, 1996. Effective November 6, 2006 the Company converted under Georgia law from a corporation to a limited liability company.

#### B. Holding Company

The Company is a wholly owned subsidiary of Portsmouth Holdings Company, LLC, a Delaware limited liability holding company.

#### C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than three members. The by-laws were amended on April 26, 1999, to provide that the board shall consist of two directors. The by-laws were replaced by an operating agreement on November 6, 2006, as part of the conversion to a limited liability company. The operating agreement provides for a management board, which shall consist of at least one member. Currently the management board consists of three members. The operating agreement provides for an annual meeting which is held annually (no specific date is mentioned).

The three management members and their principal business affiliation, as of December 31, 2006, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John P. Collins Washington, DC	President and Treasurer Portsmouth Settlement Company I, LLC	1995
Amy L. Jones Fayetteville, GA	Vice President and Secretary Portsmouth Settlement Company I, LLC	2003
Jose Garcia Washington, DC	Vice President Portsmouth Settlement Company I, LLC	2006

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended all of the meetings.

The following is a listing of the principal officers of the Company as of December 31, 2006:

<u>Name</u>	<u>Title</u>
John P. Collins*	President and Treasurer
Amy Lynn Jones	Vice President and Secretary
Jose Garcia	Vice President

\* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

#### D. Territory and Plan of Operation

The Company is authorized to purchase life insurance policies as defined in Section 7801(a) of the New York Insurance Law.

The Company is licensed as a viatical settlement company in 12 states, namely New York, California, Colorado, Georgia, Illinois, Kansas, Louisiana, Mississippi, North Carolina, Oklahoma, Texas, and Washington. The Company also transacts such business nationwide, in jurisdictions where no license is required.

The Company renewed its viatical settlement company license in New York in 2002, six months after the renewal date due to an oversight. Since 1999, the Company has not entered into any new viatical settlements. Currently, the Company is active in the purchase of senior life insurance policies, Life Settlements, which are outside the scope of Article 78 of the New York Insurance Law.

#### 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, <u>2001</u>	December 31, <u>2006</u>	<u>Increase</u>
Admitted assets	\$ <u>14,138,501</u>	\$ <u>17,225,135</u>	\$ <u>3,086,634</u>
Liabilities	\$ <u>13,421,380</u>	\$ <u>15,445,545</u>	\$ <u>2,024,165</u>
Common capital stock	\$ 10	\$ 10	\$ 0
Paid-in capital	1,647,422	1,647,422	0
Partner's capital	3,219,707	3,219,707	0
Retained Earnings	<u>(4,150,018)</u>	<u>(3,087,549)</u>	<u>1,062,469</u>
Total capital and surplus	\$ <u>717,121</u>	\$ <u>1,779,590</u>	\$ <u>1,062,469</u>
Total liabilities, capital and surplus	\$ <u>14,138,501</u>	\$ <u>17,225,135</u>	\$ <u>3,086,634</u>

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and partner's equity as of December 31, 2006, as contained in the Company's 2006 filed annual statement and a condensed summary of operations for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement.

### A. ASSETS, LIABILITIES, CAPITAL AND PARTNER'S EQUITY AS OF DECEMBER 31, 2006

#### Admitted Assets

Cash on hand and on deposit	\$ 2,410,556
Cost of purchased policies	7,720,179
Life Insurance policy benefits receivable	7,000,000
Origination fees receivable	<u>94,400</u>
 Total admitted assets	 <u><u>\$17,225,135</u></u>

#### Liabilities, Capital and Surplus

Commission to brokers due or accrued	\$ 136,900
General expenses due or accrued	128,641
Amounts withheld by company as agent or trustee	15,028,443
Payable to parent	<u>151,561</u>
 Total Liabilities	 <u><u>\$15,445,545</u></u>
 Common capital stock	 \$ 10
Paid in capital	1,647,422
Partner's capital	3,218,707
Retained earnings	<u>(3,087,549)</u>
 Total partner's equity	 <u><u>\$ 1,779,590</u></u>
 Total liabilities, capital and partner's equity	 <u><u>\$17,225,135</u></u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues from matured policies	\$1,631,740	\$ 803,150	\$ 269,500	\$220,000	\$ 613,080	\$ 7,510,528
Net investment income	15,443	15,405	942	582	22,487	80,217
Policy origination fees	1,594,520	759,293	840,038	406,802	2,475,279	16,170,118
Policy service fees	91,852	96,589	32,215	62,594	133,834	284,763
Total income	<u>\$3,333,555</u>	<u>\$1,674,437</u>	<u>\$1,142,695</u>	<u>\$689,978</u>	<u>\$3,244,680</u>	<u>\$24,045,626</u>
Viatical Settlements	\$1,023,345	\$ 593,483	\$ 165,620	\$143,250	\$ 457,956	\$ 4,451,415
Insurance premiums	127,989	28,447	24,066	3,215	6,195	588,148
Interest expense	416,460	153,262	60,444	69,935	142,434	1,941,041
Compensation to brokers	63,946	27,958	19,370	3,600	6,495	529,924
General expenses	1,425,077	644,142	623,784	269,968	508,883	3,559,814
Taxes, licenses and fees	21,002	26,480	3,061	11,378	11,480	9,699
Total deductions	<u>\$3,077,819</u>	<u>\$1,473,772</u>	<u>\$896,345</u>	<u>\$501,346</u>	<u>\$1,133,443</u>	<u>\$11,080,041</u>
Net income (loss)	<u>\$ <u>255,736</u></u>	<u>\$ <u>200,665</u></u>	<u>\$ <u>246,350</u></u>	<u>\$ <u>188,632</u></u>	<u>\$ <u>2,111,237</u></u>	<u>\$ <u>12,965,585</u></u>

The large increase in revenues, income, and expenses are a result of an increase in the Company's writing of life settlement business during 2006. Life settlements are not currently regulated by the Department.

## 6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting viators to determine compliance with applicable statutes and regulations and the operating rules of the Company.

### A. Advertising and Sales Activities

The Company did not advertise in New York during the period under examination.

### B. Underwriting and Policy Forms

The Company did not underwrite any new viatical settlement contracts during the period under examination.

### C. Treatment of Policyholders

The examiner reviewed the policy forms the Company would use if a settlement contract were to be underwritten in the future. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the policy forms and the accounting data reviewed, no significant findings were noted.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent actions taken by the Company in response to this violation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 7804(a) of the New York Insurance Law by using forms that were not filed with and approved by the superintendent.</p> <p>The Company put in place practices and procedures (controls) that will insure that its prior approved New York policy forms will be used in underwriting viatical settlement contracts.</p>



APPOINTMENT NO. 22564

STATE OF NEW YORK  
**INSURANCE DEPARTMENT**

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**DENNIS BENSEN**

as a proper person to examine into the affairs of the

**PORTSMOUTH SETTLEMENT CO. 1, INC.**

and to make a report to me in writing of the condition of the said

**COMPANY**

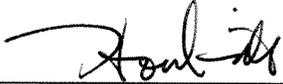
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 30th day of October, 2006



HOWARD MILLS  
Superintendent of Insurance

  
Superintendent

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HOWARD MILLS  
Superintendent of Insurance

  
Superintendent