

BLUE DOLPHIN ENERGY CO

Form 10-Q

November 14, 2018

BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

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 No. 0-15905

BLUE DOLPHIN ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

73-1268729

(I.R.S. Employer Identification No.)

801 Travis Street, Suite 2100, Houston, Texas 77002

(Address of principal executive offices) (Zip Code)

713-568-4725

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
No

Number of shares of common stock, par value \$0.01 per share outstanding as of November 14, 2018: 10,925,513



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## INTRODUCTION

This Quarterly Report for the quarterly period ended September 30, 2018 (this “Quarterly Report”) is a document that U.S. public companies file with the Securities and Exchange Commission (“SEC”) each quarter. Part I, Item 1. of the Quarterly Report contains financial information, including consolidated financial statements and related notes. Part I, Item 2. of this Quarterly Report provides management’s discussion and analysis of our financial condition and results of operations. We hope investors will find it useful to have this information in a single document.

In this Quarterly Report, “Blue Dolphin,” “we,” “our,” and “us” are used interchangeably to refer to Blue Dolphin Energy Company individually or to Blue Dolphin Energy Company and its subsidiaries collectively, as appropriate to the context and unless otherwise indicated. Information in this Quarterly Report is current as of the filing date, unless otherwise indicated.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this Quarterly Report, and from time to time throughout the year, we share our expectations for our future performance. These forward-looking statements include statements about our business plans; our expected financial performance, including the anticipated effect of strategic actions; previously reported material weakness in our internal control over financial reporting; economic, political and market conditions; and other factors that could affect our future results of operations or financial condition, including, without limitation, statements under the section entitled “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Part II, Item 1. Legal Proceedings,” and “Part II, Item 1A. Risk Factors.” Any statements we make that are not matters of current reportage or historical fact should be considered forward-looking. Such statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “will,” and similar expressions. By their nature, these types of statements are uncertain and are not guarantees of our future performance. Our forward-looking statements represent our estimates and expectations at the time of disclosure. However, circumstances change constantly, often unpredictably, and investors should not place undue reliance on these statements. Many events beyond our control will determine whether our expectations will be realized. We disclaim any current intention or obligation to revise or update any forward-looking statements, or the factors that may affect their realization, whether considering new information, future events or otherwise, and investors should not rely on us to do so.

In accordance with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, “Part I, Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “Annual Report”), “Part II, Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, “Part II, Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the period ended June 30, 2018, and “Part II, Item 1A. Risk Factors” in this Quarterly Report explain some of the important factors that may cause actual results to be materially different from those that we anticipate.

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## GLOSSARY OF SELECTED ENERGY AND FINANCIAL TERMS

Below are abbreviations and definitions of certain commonly used oil and gas industry terms, as well as key financial performance measures used by management, that are used in this Quarterly Report.

Regarding financial terms, management uses U.S. generally accepted accounting principles (“GAAP”) and certain non-GAAP performance measures to assess our results of operations. Certain performance measures used by management to assess our operating results and the effectiveness of our business segment are considered non-GAAP performance measures. These performance measures may differ from similar calculations used by other companies within the petroleum industry, thereby limiting their usefulness as a comparative measure. We refer to certain refinery throughput and production data in the explanation of our period over period changes in results of operations. For our consolidated results, we refer to our consolidated statements of operations in the explanation of our period over period changes in results of operations.

### Energy Terms

Atmospheric gas oil (“AGO”). The heaviest product boiled by a crude distillation tower operating at atmospheric pressure. This fraction ordinarily sells as distillate fuel oil, either in pure form or blended with cracked stocks. Certain ethylene plants, called heavy oil crackers, can take AGO as feedstock.

Barrel (“bbl”). A unit of volume equal to 42 U.S. gallons.

Barrels per Day (“bpd”). A measure of the bbls of daily output produced in a refinery or transported through a pipeline.

Complexity. A numerical score that denotes, for a given refinery, the extent, capability, and capital intensity of the refining processes downstream of the crude distillation tower. Refinery complexities range from the relatively simple crude distillation tower (“topping unit”), which has a complexity of 1.0, to the more complex deep conversion (“coking”) refineries, which have a complexity of 12.0.

Condensate. Liquid hydrocarbons that are produced in conjunction with natural gas. Although condensate is sometimes like crude oil, it is usually lighter.

Crude distillation tower. A tall column-like vessel in which crude oil and condensate is heated and its vaporized components are distilled by means of distillation trays. This process turns crude oil and other inputs into intermediate and finished petroleum products. (Commonly referred to as a crude distillation unit or an atmospheric distillation unit.)

Crude oil. A mixture of thousands of chemicals and compounds, primarily hydrocarbons. Crude oil quality is measured in terms of density (light to heavy) and sulfur content (sweet to sour). Crude oil must be broken down into its various components by distillation before these chemicals and compounds can be used as fuels or converted to more valuable products.

Depropanizer unit. A distillation column that is used to isolate propane from a mixture containing butane and other heavy components.

Distillates. The result of crude distillation and therefore any refined oil product. Distillate is more commonly used as an abbreviated form of middle distillate. There are mainly four (4) types of distillates: (i) very light oils or light distillates (such as naphtha), (ii) light oils or middle distillates (such as our jet fuel), (iii) medium oils, and (iv) heavy



oils (such as our low-sulfur diesel and heavy oil-based mud blendstock (“HOBM”), reduced crude, and AGO).

**Distillation.** The first step in the refining process whereby crude oil and condensate is heated at atmospheric pressure in the base of a distillation tower. As the temperature increases, the various compounds vaporize in succession at their various boiling points and then rise to prescribed levels within the tower per their densities, from lightest to heaviest. They then condense in distillation trays and are drawn off individually for further refining. Distillation is also used at other points in the refining process to remove impurities.

**Feedstocks.** Crude oil and other hydrocarbons, such as condensate and/or intermediate products, that are used as basic input materials in a refining process. Feedstocks are transformed into one or more finished products.

**Finished petroleum products.** Materials or products which have received the final increments of value through processing operations, and which are being held in inventory for delivery, sale, or use.

**Intermediate petroleum products.** A petroleum product that might require further processing before it is saleable to the ultimate consumer. This further processing might be done by the producer or by another processor. Thus, an intermediate petroleum product might be a final product for one company and an input for another company that will process it further.

**Jet fuel.** A high-quality kerosene product primarily used in aviation. Kerosene-type jet fuel (including Jet A and Jet A-1) has a carbon number distribution between about 8 and 16 carbon atoms per molecule; wide-cut or naphtha-type jet fuel (including Jet B) has between about 5 and 15 carbon atoms per molecule.

**Leasehold interest.** The interest of a lessee under an oil and gas lease.

**Light crude.** A liquid petroleum that has a low density and flows freely at room temperature. It has a low viscosity, low specific gravity, and a high American Petroleum Institute gravity due to the presence of a high proportion of light hydrocarbon fractions.

**Naphtha.** A refined or partly refined light distillate fraction of crude oil. Blended further or mixed with other materials it can make high-grade motor gasoline or jet fuel. It is also a generic term applied to the lightest and most volatile petroleum fractions.

**Petroleum.** A naturally occurring flammable liquid consisting of a complex mixture of hydrocarbons of various molecular weights and other liquid organic compounds. The name petroleum covers both the naturally occurring unprocessed crude oils and petroleum products that are made up of refined crude oil.



**Product Slate.** Represents type and quality of products produced.

**Propane.** A byproduct of natural gas processing and petroleum refining. Propane is one of a group of liquefied petroleum gases. Others include butane, propylene, butadiene, butylene, isobutylene and mixtures thereof.

**Refined petroleum products.** Refined petroleum products are derived from crude oil and condensate that have been processed through various refining methods. The resulting products include gasoline, home heating oil, jet fuel, diesel, lubricants and the raw materials for fertilizer, chemicals, and pharmaceuticals.

**Refinery.** Within the oil and gas industry, a refinery is an industrial processing plant where crude oil and condensate is separated and transformed into petroleum products.

**Sour crude.** Crude oil containing sulfur content of more than 0.5%.

**Stabilizer unit.** A distillation column intended to remove the lighter boiling compounds, such as butane or propane, from a product.

**Sweet crude.** Crude oil containing sulfur content of less than 0.5%.

**Sulfur.** Present at various levels of concentration in many hydrocarbon deposits, such as petroleum, coal, or natural gas. Also, produced as a byproduct of removing sulfur-containing contaminants from natural gas and petroleum. Some of the most commonly used hydrocarbon deposits are categorized per their sulfur content, with lower sulfur fuels usually selling at a higher, premium price and higher sulfur fuels selling at a lower, or discounted, price.

**Topping unit.** A type of petroleum refinery that engages in only the first step of the refining process -- crude distillation. A topping unit uses atmospheric distillation to separate crude oil and condensate into constituent petroleum products. A topping unit has a refinery complexity range of 1.0 to 2.0.

**Throughput.** The volume processed through a unit or a refinery or transported through a pipeline.

**Turnaround.** Scheduled large-scale maintenance activity wherein an entire process unit is taken offline for a week or more for comprehensive revamp and renewal.

**Yield.** The percentage of refined petroleum products that is produced from crude oil and other feedstocks.

#### Financial and Performance Measures

**Capacity Utilization Rate.** A percentage measure that indicates the amount of available capacity that is being used in a refinery or transported through a pipeline. With respect to the crude distillation tower, the rate is calculated by dividing total refinery throughput or total refinery production on a bpd basis by the total capacity of the crude distillation tower (currently 15,000 bpd).

**Downtime.** Scheduled and/or unscheduled periods in which the crude distillation tower is not operating. Downtime may occur for a variety of reasons, including bad weather, power failures, and preventive maintenance.

EBITDA. Reflects earnings before: (i) interest income (expense), (ii) income taxes, and (iii) depreciation and amortization.

Final Arbitration Award. Damages and attorney fees and related expenses awarded to GEL Tex Marketing, LLC (“GEL”) by an arbitrator on August 11, 2017, in arbitration proceedings between LE and GEL related to a contractual dispute.

Gross Profit. Calculated as total revenue less cost of sales; reflected as a dollar (\$) amount.

Gross Margin. Calculated as gross profit divided by total revenue; reflected as a percentage (%).

Operating Days. Represents the number of days in a period in which the crude distillation tower operated. Operating days is calculated by subtracting downtime in a period from calendar days in the same period.

Other Operating Expenses. Represents costs associated with our pipeline assets and leasehold interests in oil and gas properties.

Refining Gross Profit per Bbl. Calculated as refined petroleum product sales less cost of sales divided by the volume, in bbls, of refined petroleum products sold during the period; reflected as a dollar (\$) amount per bbl.

Total Refinery Production. Refers to the volume processed as output through the crude distillation tower. Refinery production includes finished petroleum products, such as jet fuel, and intermediate petroleum products, such as naphtha, HOBM and AGO.

Total Refinery Throughput. Refers to the volume processed as input through the crude distillation tower. Refinery throughput includes crude oil and condensate and other feedstocks.



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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Consolidated Balance Sheets (Unaudited)

	September 30,	December 31,
	2018	2017
	(in thousands, except share amounts)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$24	\$495
Restricted cash	49	49
Accounts receivable, net	1,669	1,357
Accounts receivable, related party	-	653
Prepaid expenses and other current assets	447	1,207
Deposits	194	129
Inventory	2,627	3,089
Refundable federal income tax, current	108	-
Total current assets	5,118	6,979
<b>LONG-TERM ASSETS</b>		
Total property and equipment, net	65,109	64,597
Restricted cash, noncurrent	1,602	1,602
Surety bonds	230	230
Deferred tax assets, net	108	-
Total long-term assets	67,049	66,429
<b>TOTAL ASSETS</b>	<b>\$72,167</b>	<b>\$73,408</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Long-term debt less unamortized debt issue costs, current portion, in default	\$34,988	35,544
Long-term debt, related party, current portion, in default	6,532	4,000
Interest payable, in default	2,734	2,135
Interest payable, related party, in default	1,374	892
Accounts payable	2,617	2,344

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Accounts payable, related party	1,378	974
Asset retirement obligations, current portion	2,519	2,315
Accrued expenses and other current liabilities	863	1,160
Accrued arbitration award payable	23,128	27,128
Total current liabilities	76,133	76,492
<b>LONG-TERM LIABILITIES</b>		
Deferred revenues and expenses	10	42
Capital lease obligation, net of current portion	10	-
Long-term debt, related party, net of current portion	-	1,608
Total long-term liabilities	20	1,650
<b>TOTAL LIABILITIES</b>	<b>76,153</b>	<b>78,142</b>
Commitments and contingencies (Note 18)		
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock (\$0.01 par value, 20,000,000 shares authorized; 10,925,513 shares issued at September 30, 2018 and December 31, 2017, respectively)	109	109
Additional paid-in capital	36,907	36,907
Retained earnings (deficit)	(41,002)	(41,750)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(3,986)</b>	<b>(4,734)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$72,167</b>	<b>\$73,408</b>

See accompanying notes to consolidated financial statements.





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## Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands, except share and per-share amounts)				
<b>REVENUE FROM OPERATIONS</b>				
Refinery operations	\$94,468	\$66,133	\$254,245	\$174,668
Tolling and terminaling	1,075	766	2,659	2,174
Total revenue from operations	95,543	66,899	256,904	176,842
<b>COST OF OPERATIONS</b>				
Cost of sales	93,195	58,786	245,786	165,185
Refinery operating expenses	1,085	1,758	4,384	6,223
Other operating expenses	33	68	133	183
Arbitration award and associated fees	-	-	-	24,339
General and administrative expenses	929	1,240	2,277	2,854
Depletion, depreciation and amortization	478	455	1,396	1,356
Accretion of asset retirement obligations	61	72	205	216
Total cost of operations	95,781	62,379	254,181	200,356
Income (loss) from operations	(238)	4,520	2,723	(23,514)
<b>OTHER INCOME (EXPENSE)</b>				
Easement, interest and other income	18	27	20	410
Interest and other expense	(760)	(601)	(2,255)	(2,028)
Gain on disposal of property	-	-	-	1,834
Total other income (expense)	(742)	(574)	(2,235)	216
Income (loss) before income taxes	(980)	3,946	488	(23,298)
Income tax benefit	43	-	260	-
Net income (loss)	\$(937)	\$3,946	\$748	\$(23,298)
Income (loss) per common share:				
Basic	\$(0.09)	\$0.36	\$0.07	\$(2.19)
Diluted	\$(0.09)	\$0.36	\$0.07	\$(2.19)

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Weighted average number of common shares outstanding:

Basic	10,925,513	10,818,371	10,925,513	10,644,654
Diluted	10,925,513	10,818,371	10,925,513	10,644,654

Dividends declared per common share outstanding	\$0.00	\$0.00	\$0.00	\$0.00
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See accompanying notes to consolidated financial statements.



## BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18

## Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2018	2017
	(in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$748	\$(23,298)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	1,396	1,356
Deferred income tax	(216)	-
Amortization of debt issue costs	96	96
Accretion of asset retirement obligations	205	216
Common stock issued for services	-	30
Changes in operating assets and liabilities		
Accounts receivable	(312)	1,395
Accounts receivable, related party	653	101
Prepaid expenses and other current assets	760	(585)
Deposits and other assets	(65)	(25)
Inventory	462	(700)
Accrued arbitration award	(4,000)	27,628
Accounts payable, accrued expenses and other liabilities	1,023	(12,804)
Accounts payable, related party	404	454
Net cash provided by (used in) operating activities	1,154	(6,136)
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,826)	(1,777)
Net cash used in investing activities	(1,826)	(1,777)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of debt	-	3,678
Payments on debt	(723)	(1,120)
Net activity on related-party debt	924	968
Net cash provided by financing activities	201	3,526
Net change in cash, cash equivalents, and restricted cash	(471)	(4,387)
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD</b>	<b>2,146</b>	<b>6,083</b>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$1,675</b>	<b>\$1,696</b>

Supplemental Information:

Non-cash investing and financing activities:

Financing of capital expenditures via accounts payable and capital leases	\$82	\$1,651
Financing of guaranty fees via long-term debt, related party	\$485	\$171
Conversion of accounts payable to short-term notes	\$-	\$-
Conversion of related-party notes to common stock	\$-	\$831
Interest paid	\$2,173	\$1,574
Income taxes paid	\$-	\$-

See accompanying notes to consolidated financial statements.



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Notes to  
Consolidated  
Financial  
Statements

(1) Organization

**Nature of Operations.** Blue Dolphin Energy Company is a publicly-traded Delaware corporation primarily engaged in the refining and marketing of petroleum products. We also provide tolling and storage terminaling services. Our assets, which are located in Nixon, Texas, primarily include a 15,000-bpd crude distillation tower and approximately 1.1 million bbls of petroleum storage tanks (collectively the “Nixon Facility”). Pipeline transportation and oil and gas operations are no longer active.

**Structure and Management.** Blue Dolphin is controlled by Lazarus Energy Holdings, LLC (“LEH”). LEH operates and manages all Blue Dolphin properties pursuant to an Amended and Restated Operating Agreement (the “Amended and Restated Operating Agreement”). Jonathan Carroll is Chairman of the Board of Directors (the “Board”), Chief Executive Officer, and President of Blue Dolphin, as well as a majority owner of LEH. Together LEH and Jonathan Carroll own 80.2% of our common stock, par value \$0.01 per share (the “Common Stock”). (See “Note (9) Related Party Transactions,” “Note (11) Long-Term Debt, Net” and “Note (18) Commitments and Contingencies – Financing Agreements” for additional disclosures related to LEH, the Amended and Restated Operating Agreement, and Jonathan Carroll.)

We have the following active subsidiaries:

Blue Dolphin Pipe Line Company, a Delaware corporation (“BDPL”);

Blue Dolphin Petroleum Company, a Delaware corporation;

Blue Dolphin Services Co., a Texas corporation (“BDSC”);

Lazarus Energy, LLC, a Delaware limited liability company (“LE”);

Lazarus Refining & Marketing, LLC, a Delaware limited liability company (“LRM”); and

Nixon Product Storage, LLC, a Delaware limited liability company (“NPS”).

In June 2018, Blue Dolphin acquired 100% of the issued and outstanding membership interests of NPS from Lazarus Midstream Partners, L.P., an affiliate of LEH, pursuant to an Assignment Agreement. The assignment was accounted for as a combination of entities under common control. See “Note (5) NPS Assignment” of this Quarterly Report for further information related to the NPS assignment.

See “Part I, Item 1. Business” and “Item 2. Properties” in the Annual Report for additional information regarding our operating subsidiaries, principal facilities, and assets.







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Notes to Consolidated Financial Statements (Continued)

Going Concern. Management has determined that certain factors raise substantial doubt about our ability to continue as a going concern. These factors include the following:

Final Arbitration Award and Settlement Agreement – As previously disclosed, LE was involved in arbitration proceedings (the “GEL Arbitration”) with GEL Tex Marketing, LLC (“GEL”), an affiliate of Genesis Energy, LP (“Genesis”), related to a contractual dispute involving a Crude Oil Supply and Throughput Services Agreement (the “Crude Supply Agreement”) and a Joint Marketing Agreement (the “Joint Marketing Agreement”), each between LE and GEL and dated August 12, 2011. On August 11, 2017, the arbitrator delivered its final award in the GEL Arbitration (the “Final Arbitration Award”). The Final Arbitration Award denied all of LE’s claims against GEL and granted substantially all the relief requested by GEL in its counterclaims. Among other matters, the Final Arbitration Award awarded damages and GEL’s attorneys’ fees and related expenses to GEL in the aggregate amount of approximately \$31.3 million. As of the date of this report, LE has paid \$9.2 million to GEL towards reducing the outstanding balance of the Final Arbitration Award. After the \$3.7 million initial payment to GEL in September 2017, LE has made payments to GEL at \$0.5 million per month.

As previously disclosed, a hearing on confirmation of the Final Arbitration Award was scheduled to occur on September 18, 2017 in state district court in Harris County, Texas. Prior to the scheduled hearing, LE and GEL jointly notified the court that the hearing would be continued for a period of no more than 90 days after September 18, 2017 (the “Continuance Period”), to facilitate settlement discussions between the parties. On September 26, 2017, LE and Blue Dolphin, together with LEH and Jonathan Carroll, entered into a Letter Agreement with GEL, effective September 18, 2017 (the “GEL Letter Agreement”), confirming the parties’ agreement to the continuation of the confirmation hearing during the Continuance Period, subject to the terms of the GEL Letter Agreement. The GEL Letter Agreement was subsequently amended nine times to extend the Continuance Period through July 2018.

On July 20, 2018, LE, NPS, and Blue Dolphin, together with LEH, Carroll & Company Financial Holdings, L.P. (“C&C”), and Jonathan Carroll (collectively referred to herein as the “Lazarus Parties”), entered into a Settlement Agreement with GEL (the “Settlement Agreement”), whereby GEL and the Lazarus Parties agreed to mutually release all claims against each other and to file a stipulation of dismissal with prejudice in connection with the GEL Arbitration (the “Settlement”), subject to the terms and conditions set forth in the Settlement Agreement. The Settlement is conditioned upon payment by the Lazarus Parties to GEL of \$10.0 million in cash (the “Settlement Payment”) and \$0.5 million in cash at the end of each calendar month until the Settlement Payment is paid (the “Interim Payments”) or the Settlement Agreement is terminated. The Interim Payments will not be applied to reduce the amount of the Settlement Payment, but such payments will reduce the Final Arbitration Award. At September 30, 2018 and December 31, 2017, accrued arbitration award payable on our consolidated balance sheet was \$23.1 million and \$27.1 million, respectively. At the time of the Settlement, the difference between the Settlement Payment and the amount we have accrued on our consolidated balance sheet for arbitration award payable will be recognized as a gain on our consolidated statement of operations.

The Settlement Agreement restricts the Lazarus Parties from taking certain actions without the prior written consent of GEL, including: (i) the incurrence of any debt not specifically excepted in the Settlement Agreement, (ii) the establishment of any liens not specifically excepted in the Settlement Agreement, (iii) the disposition of any assets other than certain ordinary course sales to unaffiliated third parties, payments to unaffiliated third-party trade creditors and scheduled debt payments, (iv) the entrance into any transactions with affiliates not specifically excepted in the Settlement Agreement, (v) the failure to pay debts generally as they become due, and (vi) the entrance into a bankruptcy, reorganization or similar proceeding. A violation of any of the restrictions in the Settlement Agreement, as well as the failure of the Lazarus Parties to make Interim Payments as they become due, will constitute an event of default under the Settlement Agreement which, subject to certain cure periods, would allow GEL to terminate the

Settlement Agreement and enforce its rights under the Final Arbitration Award.

The Lazarus Parties are exploring the possibility of obtaining a commercial loan or other financing in an aggregate principal amount equal to the Settlement Payment (the “Settlement Financing”), subject to obtaining the consent of Veritex Community Bank (“Veritex”), as lender under certain loan agreements with the Lazarus Parties and their affiliates. Under the Settlement Agreement, the Lazarus Parties are required to work in good faith and take reasonable actions necessary to obtain the Settlement Financing in accordance with the terms of the Settlement Agreement. Prior to the consummation of the Settlement Financing, the Lazarus Parties are required to: (i) cause NPS to consummate the Settlement Financing and restrict its ability to commence a bankruptcy case, (ii) assign to NPS certain tank leases that will constitute collateral for the Settlement Financing, and (iii) cause NPS to assume joint and several liability for all or a portion of the Final Arbitration Award. The failure to achieve certain milestones in connection with obtaining the Settlement Financing will constitute an event of default under the Settlement Agreement, which would allow GEL to terminate the Settlement Agreement and enforce its rights under the Final Arbitration Award.

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BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18  
Notes to Consolidated Financial Statements (Continued)

Simultaneously with the execution of the Settlement Agreement, Jonathan Carroll and C&C entered into a Security Agreement pursuant to which Jonathan Carroll and C&C agreed to secure up to \$10.0 million of LE's obligations under the Final Arbitration Award with a security interest in their equity in LEH.

The Settlement Agreement will terminate, unless extended in writing by GEL, on December 31, 2018 if the Settlement Payment is not made on or before such date, and the Settlement Agreement may be terminated by GEL following the occurrence of an event of default under the Settlement Agreement, as described above. Pursuant to the Settlement Agreement, the parties agreed to terminate the Letter Agreement, and GEL agreed not to take any action to execute or collect on the Final Arbitration Award and to take all action necessary to continue the District Court Action until the earlier of: (i) the date on which the Settlement Payment is paid or (ii) the termination of the Settlement Agreement.

Blue Dolphin can provide no assurance that the conditions necessary for consummation of the Settlement will be met. If certain conditions are not met or the Settlement Agreement is terminated, GEL may seek to enforce the Final Arbitration Award against the Lazarus Parties, in which case: (i) our business operations, including crude oil and condensate procurement and our customer relationships; financial condition; and results of operations will be materially affected, and (ii) Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.

Veritex Secured Loan Agreement Event of Default – Veritex, as successor in interest to Sovereign Bank by merger, delivered to obligors notices of default under secured loan agreements with Veritex, stating that the Final Arbitration Award constitutes an event of default under the secured loan agreements. The occurrence of an event of default permits Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under these loan agreements, and/or exercise any other rights and remedies available. Veritex informed obligors that it is not currently exercising its rights and remedies under the secured loan agreements considering the Settlement Agreement. However, Veritex expressly reserved all of its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. Additionally, Veritex must ultimately approve the Settlement. The debt associated with loans under secured loan agreements was classified within the current portion of long-term debt on our consolidated balance sheet at September 30, 2018 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM's ability to meet financial covenants in the secured loan agreements in the future.

We can provide no assurance as to whether Veritex, as first lienholder, will approve the Settlement. If Veritex does not approve the Settlement Agreement, any exercise by Veritex of its rights and remedies under the secured loan agreements would have a material adverse effect on our business, financial condition, and results of operations, and Blue Dolphin would likely be required to seek protection under bankruptcy laws.

Operating Risks. Successful execution of our business plan depends on several key factors, including the Settlement with GEL, having adequate crude oil and condensate supplies, maintaining safe and reliable operations at the Nixon Facility, having favorable margins on refined petroleum products, and meeting contractual obligations. (See "Part I, Item 1. Business – Business Strategies" in the Annual Report for information related to our business plan.)

For the three months ended September 30, 2018, we reported a net loss of \$0.9 million, or a loss of \$0.09 per share, compared to net income of \$3.9 million, or income of \$0.36 per share, for the three months ended September 30, 2017. Net loss for the three months ended September 30, 2018 was primarily the result of lower and sometimes

negative margins on refined petroleum products, while net income for the three months ended September 30, 2017 was primarily the result of favorable margins for refined petroleum products.



BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18  
Notes to Consolidated Financial Statements (Continued)

For the nine months ended September 30, 2018, we reported net income of \$0.7 million, or income of \$0.07 per share, compared to a net loss of \$23.3 million, or a loss of \$2.19 per share, for the nine months ended September 30, 2017. The nine months ended September 30, 2017 included the net effect to our consolidated statement of operations of the Final Arbitration Award, which was an expense of \$24.3 million in arbitration award and associated fees and represented an expense of \$2.29 per share. Including the Final Arbitration Award, net income (loss) on a per share basis improved \$2.26 between the periods. Excluding the Final Arbitration Award, net income (loss) on a per share basis declined \$0.03 between the periods, which was primarily the result of slightly lower margins for refined petroleum products.

Execution of our business plan was hindered during the three months ended September 30, 2018 by several factors, including:

**Working Capital Deficits** – We had a working capital deficit of \$71.0 million at September 30, 2018 compared to a working capital deficit of \$69.5 million at December 31, 2017. Excluding the current portion of long-term debt, we had a working capital deficit of \$29.5 million at September 30, 2018 compared to a working capital deficit of \$30.0 million at December 31, 2017.

**Crude Supply** – Operation of the Nixon Facility depends on our ability to purchase adequate amounts of crude oil and condensate, which is primarily dependent on our liquidity and access to capital. We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate on favorable terms, and we expect the supplier to continue to do so for the foreseeable future. Our ability to purchase adequate amounts of crude oil and condensate could be adversely affected if the Settlement Agreement is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, and other factors, as noted above.

**Financial Covenant Defaults** – In addition to existing events of default related to the Final Arbitration Award, at September 30, 2018 LE and LRM were in violation of certain financial covenants in secured loan agreements with Veritex. Covenant defaults under the secured loan agreements would permit Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under these loan agreements, and/or exercise any other rights and remedies available. The debt associated with these loans was classified within the current portion of long-term debt on our consolidated balance sheet at September 30, 2018 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM's ability to meet the financial covenants in the future. There can be no assurance that Veritex will provide a waiver of events of default related to the Final Arbitration Award, consent to the Settlement Agreement with GEL, or provide future waivers of any financial covenant defaults, which would have an adverse impact on our financial position and results of operations.

We are continuing aggressive actions to improve operations and liquidity. Management believes that it is continuing to take the appropriate steps to improve operations at the Nixon Facility and our overall financial stability. However, there can be no assurance that our business plan will be successful, that LEH and its affiliates will continue to fund our working capital needs, or that we will be able to obtain additional financing on commercially reasonable terms or at all. If Veritex does not approve the Settlement or if the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.



For additional disclosures related to the Final Arbitration Award, the GEL Letter Agreement, the Settlement Agreement, defaults under secured loan agreements, and risk factors that could materially affect our future business, financial condition and results of operations, refer to the following sections in this Quarterly Report:

Part I, Item 1. Financial Statements, Notes to Consolidated Financial Statements:

Note (9) Related Party Transactions

Note (11) Long-Term Debt, Net

Note (18) Commitments and Contingencies – Legal Matters



BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18  
Notes to Consolidated Financial Statements (Continued)

Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Final Arbitration Award

Results of Operations

Liquidity and Capital Resources

Part II, Item 1. Legal Proceedings

Part II, Item 1A. Risk Factors

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements, which include Blue Dolphin and its subsidiaries, have been prepared in accordance with GAAP for interim consolidated financial information pursuant to the rules and regulations of the SEC under Articles 8 and 10 of Regulation S-X and the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in our audited financial statements have been condensed or omitted pursuant to the SEC's rules and regulations. Significant intercompany transactions have been eliminated in the consolidation. In management's opinion, all adjustments considered necessary for a fair presentation have been included, disclosures are adequate, and the presented information is not misleading.

The consolidated balance sheet as of December 31, 2017 was derived from the audited financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018, or for any other period.

(3) Significant Accounting Policies

The summary of significant accounting policies of Blue Dolphin is presented to assist in understanding our consolidated financial statements. Our consolidated financial statements and accompanying notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of our consolidated financial statements.

Use of Estimates. We have made several estimates and assumptions related to the reporting of our consolidated assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. We believe our current estimates are reasonable and appropriate; however, actual results could differ from those estimated.

Cash and Cash Equivalents. Cash and cash equivalents represent liquid investments with an original maturity of three months or less. Cash balances are maintained in depository and overnight investment accounts with financial institutions that, at times, may exceed insured deposit limits. We monitor the financial condition of the financial institutions and have experienced no losses associated with these accounts.

Restricted Cash. Restricted cash (current portion) primarily represents: (i) amounts held in our disbursement account with Veritex attributable to construction invoices awaiting payment from that account, (ii) a payment reserve account held by Veritex as security for payments under a loan agreement, and (iii) a construction contingency account under which Veritex will fund contingencies. Restricted cash, noncurrent represents funds held in the Veritex disbursement account for payment of future construction related expenses to build new petroleum storage tanks.

Inventory. Our inventory primarily consists of refined petroleum products, crude oil and condensate, and chemicals. Inventory is valued at lower of cost or net realizable value with cost being determined by the average cost method, and net realizable value being determined based on estimated selling prices less any associated delivery costs. If the net realizable value of our refined petroleum products inventory declines to an amount less than our average cost, we record a write-down of inventory and an associated adjustment to cost of sales. (See “Note (7) Inventory” for additional disclosures related to our inventory.)



BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18  
Notes to Consolidated Financial Statements (Continued)

Property and Equipment.

Refinery and Facilities. Management expects to continue making improvements to the crude distillation tower based on operational needs and technological advances. Additions to refinery and facilities assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred and included as operating expenses under the Amended and Restated Operating Agreement.

We record refinery and facilities at cost less any adjustments for depreciation or impairment. Adjustment of the asset and the related accumulated depreciation accounts are made for the refinery and facilities asset's retirement and disposal, with the resulting gain or loss included in the consolidated statements of operations. For financial reporting purposes, depreciation of refinery and facilities assets is computed using the straight-line method using an estimated useful life of 25 years beginning when the refinery and facilities assets are placed in service. As a result of the Final Arbitration Award, which represents a significant adverse change that could affect the value of a long-lived asset, management performed potential impairment testing of our refinery and facilities assets in the fourth quarter of 2017. Upon completion of that testing, we determined that no impairment was necessary at December 31, 2017. We did not record any impairment of our refinery and facilities assets for the periods presented.

Pipelines and Facilities. Our pipelines and facilities are recorded at cost less any adjustments for depreciation or impairment. Depreciation is computed using the straight-line method over estimated useful lives ranging from 10 to 22 years. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance on accounting for the impairment or disposal of long-lived assets, management performed periodic impairment testing of our pipeline and facilities assets in the fourth quarter of 2016. Upon completion of that testing, our pipeline assets were fully impaired. All pipeline transportation services to third parties have ceased, existing third-party wells along our pipeline corridor have been permanently abandoned, and no new third-party wells are being drilled near our pipelines.

Oil and Gas Properties. Our oil and gas properties are accounted for using the full-cost method of accounting, whereby all costs associated with acquisition, exploration and development of oil and gas properties, including directly related internal costs, are capitalized on a cost center basis. Amortization of such costs and estimated future development costs are determined using the unit-of-production method. All leases associated with our oil and gas properties have expired, and our oil and gas properties were fully impaired in 2011.

Construction in Progress. Construction in progress expenditures, which relate to construction and refurbishment activities at the Nixon Facility, are capitalized as incurred. Depreciation begins once the asset is placed in service.

(See "Note (8) Property, Plant and Equipment, Net" for additional disclosures related to our refinery and facilities assets, oil and gas properties, pipelines and facilities assets, and construction in progress.)

Intangibles – Other. Trade name, an intangible asset, represents the "Blue Dolphin Energy Company" brand name. We account for intangible assets under FASB ASC guidance related to intangibles, goodwill, and other. Under the guidance, we determined trade name to have an indefinite useful life, and we test intangible assets with indefinite lives annually for impairment. Management performed its regular annual impairment testing of trade name in the fourth quarter of 2017. Upon completion of that testing, our trade name asset was fully impaired at December 31, 2017.

Debt Issue Costs. We have debt issue costs related to certain refinery and facilities assets debt. Debt issue costs are capitalized and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Debt issue costs are presented net with the related debt liability. (See "Note (11) Long-Term Debt, Net" for additional disclosures related to debt issue costs.)







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Notes to Consolidated Financial Statements (Continued)

Revenue Recognition.

We adopted the provisions of FASB ASU (defined below) 2014-09, Revenue from Contracts with Customers (ASC 606), on January 1, 2018, as described below in “New Pronouncements Adopted.” Accordingly, our revenue recognition accounting policy has been revised to reflect the adoption of this standard.

**Refinery Operations Revenue.** Revenue from the sale of refined petroleum products is recognized when the product is sold to a customer in fulfillment of performance obligations. Each barrel of refined petroleum product, or other unit of measure, is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are met when control is transferred to the customer in accordance with the terms of the respective sales agreement. We consider a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the refined petroleum product, the transfer of significant risks and rewards, our rights to payment, and transfer of legal title. In each case, the term between delivery and when payments are due is not significant. Transportation, shipping, and handling costs incurred are included in cost of sales. Excise and other taxes that are collected from customers and remitted to governmental authorities are not included in revenue.

**Tolling and Terminating Revenue.** Revenues for tolling and terminating include fees pursuant to: (i) tolling agreements, whereby a customer agrees to pay a certain fee per gallon or barrel for throughput volumes moving through the naphtha stabilizer unit and a fixed monthly reservation fee for use of the naphtha stabilizer unit and (ii) tank storage agreements, whereby a customer agrees to pay a certain fee per tank based on tank size over a period of time for the storage of products. We typically satisfy performance obligations for tolling and terminating operations with the passage of time. We determine the transaction price at agreement inception based on the guaranteed minimum amount of revenue over the term of the agreement. We allocate the transaction price to the single performance obligation that exists under the agreement, and we recognize revenue in the amount for which we have a right to invoice. Generally, payment terms do not exceed 30 days.

Revenue from tank storage customers may, from time to time, include fees for ancillary services, such as in-tank and tank-to-tank blending. These services are considered optional to the customer, and the price we charge for such services is not included in the fixed cost under the customer’s tank storage agreement. Ancillary services are considered a separate performance obligation by us under the tank storage agreement. The performance obligation is satisfied when the requested service has been performed in the applicable period.

**Income Taxes.** We account for income taxes under FASB ASC guidance related to income taxes, which requires recognition of income taxes based on amounts payable with respect to the current reporting period and the effects of deferred taxes for the expected future tax consequences of events that have been included in our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities, as well as for operating losses and tax credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse.

As of each reporting date, management considers new evidence, both positive and negative, to determine the realizability of deferred tax assets. Management considers whether it is more likely than not that a portion or all of the deferred tax assets will be realized, which is dependent upon the generation of future taxable income prior to the expiration of any net operating loss (“NOL”) carryforwards. When management determines that it is more likely than not that a tax benefit will not be realized, a valuation allowance is recorded to reduce deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2017. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. Based on this evaluation, we recorded a valuation allowance against the deferred tax

assets for which realization was not deemed more likely than not as of September 30, 2018 and December 31, 2017. We expect to recover deferred tax assets related to the Alternative Minimum Tax (“AMT”).



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Notes to Consolidated Financial Statements (Continued)

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At September 30, 2018 and December 31, 2017, there were no uncertain tax positions for which a reserve or liability was necessary. (See “Note (16) Income Taxes” for further information related to income taxes.)

**Impairment or Disposal of Long-Lived Assets.** In accordance with FASB ASC guidance on accounting for the impairment or disposal of long-lived assets, we periodically evaluate our long-lived assets for impairment. Additionally, we evaluate our long-lived assets when events or circumstances indicate that the carrying value of these assets may not be recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or group of assets. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset or group of assets is recognized. Significant management judgment is required in the forecasting of future operating results that are used in the preparation of projected cash flows and, should different conditions prevail or judgments be made, material impairment charges could be necessary. As a result of the Final Arbitration Award, which represents a significant adverse change that could affect the value of a long-lived asset, management performed potential impairment testing of our refinery and facilities assets in the fourth quarter of 2017. Upon completion of that testing, we determined that no impairment was necessary at December 31, 2017. We did not record any impairment of our refinery and facilities assets for the periods presented.

**Asset Retirement Obligations.** FASB ASC guidance related to asset retirement obligations (“AROs”) requires that a liability for the discounted fair value of an ARO be recorded in the period in which incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted towards its future value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Management has concluded that there is no legal or contractual obligation to dismantle or remove the refinery and facilities assets. Further, management believes that these assets have indeterminate lives under FASB ASC guidance for estimating AROs because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a legal or contractual obligation to dismantle or remove the refinery and facilities assets arises and a date or range of dates can reasonably be estimated for the retirement of these assets, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using present value techniques.

We recorded an ARO liability related to future asset retirement costs associated with dismantling, relocating, or disposing of our offshore platform, pipeline systems, and related onshore facilities, as well as for plugging and abandoning wells and restoring land and sea beds. We developed these cost estimates for each of our assets based upon regulatory requirements, structural makeup, water depth, reservoir characteristics, reservoir depth, equipment demand, current retirement procedures, and construction and engineering consultations. Because these costs typically extend many years into the future, estimating future costs are difficult and require management to make judgments that are subject to future revisions based upon numerous factors, including changing technology, political, and regulatory environments. We review our assumptions and estimates of future abandonment costs on an annual basis. (See “Note (12) Asset Retirement Obligations” for additional information related to our AROs.)

**Computation of Earnings Per Share.** We apply the provisions of FASB ASC guidance for computing earnings per share (“EPS”). The guidance requires the presentation of basic EPS, which excludes dilution and is computed by

dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The guidance requires dual presentation of basic EPS and diluted EPS on the face of our consolidated statements of operations and requires a reconciliation of the denominator of basic EPS and diluted EPS. Diluted EPS is computed by dividing net income available to common stockholders by the diluted weighted average number of common shares outstanding, which includes the potential dilution that could occur if securities or other contracts to issue shares of common stock were converted to common stock that then shared in the earnings of the entity.



BLUE DOLPHIN ENERGY COMPANY FORM 10-Q 9/30/18  
Notes to Consolidated Financial Statements (Continued)

The number of shares related to options, warrants, restricted stock, and similar instruments included in diluted EPS is based on the “Treasury Stock Method” prescribed in FASB ASC guidance for computation of EPS. This method assumes theoretical repurchase of shares using proceeds of the respective stock option or warrant exercised, and, for restricted stock, the amount of compensation cost attributed to future services that has not yet been recognized and the amount of any current and deferred tax benefit that would be credited to additional paid-in-capital upon the vesting of the restricted stock, at a price equal to the issuer’s average stock price during the related earnings period. Accordingly, the number of shares includable in the calculation of EPS in respect of the stock options, warrants, restricted stock, and similar instruments is dependent on this average stock price and will increase as the average stock price increases. (See “Note (17) Earnings Per Share” for additional information related to EPS.)

**New Pronouncements Adopted.** The FASB issues an Accounting Standards Update (“ASU”) to communicate changes to the FASB ASC, including changes to non-authoritative SEC content. Recently adopted ASUs include:

ASU 2014-09, Revenue from Contracts with Customers (ASC 606). We adopted this accounting pronouncement effective January 1, 2018, using a modified retrospective approach, which required us to apply the new revenue standard to: (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018. In accordance with this approach, our consolidated revenues for the periods prior to January 1, 2018 will not be revised. Our implementation activities related to ASC 606 are complete, and we will not have any material differences in the amount or timing of revenues as a result of the adoption of ASC 606. Our largest revenue streams consist of orders received from our customers for crude-oil derived specialty products based on market prices. These revenues are recognized at a point in time upon transfer of control of the product in accordance with contractual terms.

**New Pronouncements Issued, Not Yet Effective.** The following are recently issued, but not yet effective, ASU’s that may influence our consolidated financial position, results of operations, or cash flows:

ASUs 2018-11, 2018-10, and 2016-02, Leases (Topic 842). In February 2016, FASB issued ASU 2016-02. This guidance increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In July 2018, FASB issued ASUs 2018-11 and 2018-10. ASU 2018-11 provides entities with relief from the costs of implementing certain aspects of ASU 2016-02 (codified as ASC 842). Specifically, under the amendments in ASU 2018-11: (i) Entities may elect not to recast the comparative periods presented when transitioning to ASC 842 (Issue 1), and (ii) Lessors may elect not to separate lease and non-lease components when certain conditions are met (Issue 2). ASU 2018-10 made 16 separate amendments to ASC 842. For a public business entity, the amendments in ASUs 2018-11 and 2018-10 affect the amendments in ASU 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of ASUs 2018-11 and 2018-10, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842. Adoption of this guidance affects leases with a term of greater than 12-months and will result in: (i) the recognition of a liability to make lease payments and a right-to-use asset representing our right to use the underlying asset on our consolidated balance sheets and (ii) the recognition of an expense on our consolidated statements of operations each month as we amortize the right-to-use asset.

ASU 2018-09, Codification Improvements. In July 2018, FASB issued ASU 2018-09. This guidance affects a wide variety of topics in the codification and represents changes to clarify, correct errors in, or make minor improvements to the codification. The amendments make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The amendments apply to all reporting entities within the scope of the affected accounting guidance. Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance. However, many of the amendments do have transition guidance with effective dates for

annual periods beginning after December 15, 2018, for public business entities. We are currently evaluating the impact ASU 2018-09 may have on our consolidated financial statements.





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Notes to Consolidated Financial Statements (Continued)

ASU 2018-07, Compensation – Stock Compensation (Topic 718). In June 2018, FASB issued ASU 2018-07. This guidance expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The amendments in ASU 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. We do not expect adoption of this guidance to have a significant impact on our consolidated financial statements.

ASU 2018-05, Income Taxes (Topic 740). In March 2018, FASB issued ASU 2018-05. This guidance amends SEC paragraphs in ASC 740, Income Taxes, to reflect SAB 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. This guidance also includes amendments to the XBRL Taxonomy. For public business entities, the amendments in ASU 2018-05 are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. We do not expect adoption of this guidance to have a significant impact on our consolidated financial statements.

Other new pronouncements issued but not yet effective are not expected to have a material impact on our financial position, results of operations, or liquidity.

(4) Business Segment Information

We have two reportable business segments: (i) Refinery Operations and (ii) Tolling and Terminaling. Refinery operations relate to the refining and marketing of petroleum products at our 15,000-bpd crude distillation tower. Tolling and terminaling operations relate to tolling and storage terminaling services under related-party and third-party lease agreements. Both operations are conducted at the Nixon Facility.

Business segment information for the periods indicated (and as of the dates indicated) was as follows:

Three Months Ended September 30,						
2018			2017			
(in thousands)						
Segments			Segment			
Refinery	Tolling and	Corporate	Refinery	Corporate		
Operations	Terminaling &	Other	Operations	& Other	Total	Total
\$94,468	\$1,075	\$-	\$95,543	\$66,899	\$-	\$66,899

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Net revenues (excluding intercompany fees and sales)							
Intercompany fees and sales	(873)	873	-	-	-	-	-
Operation costs and expenses(1)							
Cost of materials and other	(92,571)	-	-	(92,571)	(58,786)	-	(58,786)
Operating expenses (excluding depreciation and amortization and general and administrative expenses presented below)	(1,085)	(624)	(94)	(1,803)	(1,758)	(140)	(1,898)
Segment contribution margin	\$(61)	\$1,324	\$(94)	\$1,169	\$6,355	\$(140)	\$6,215
General and administrative expenses	(375)	(65)	(489)	(929)	(913)	(327)	(1,240)
Depreciation and amortization	(432)	(46)	-	(478)	(452)	(3)	(455)
Interest and other non-operating expenses, net				(742)			(574)
Income (loss) before income taxes				(980)			3,946
Income tax benefit				43			-
Net income (loss)				\$(937)			\$3,946
Capital expenditures	\$372	\$223	\$-	\$595	\$539	\$-	\$539
Identifiable assets	\$51,816	\$19,425	\$926	\$72,167	\$70,792	\$2,068	\$72,860

(1) Operation costs within Refinery Operations includes the arbitration award and associated fees. Operation cost within Tolling and Terminaling includes terminal operating expenses, an allocation of other costs (e.g. insurance and maintenance), and associated refinery fuel costs. Operation cost within Corporate and Other includes expenses associated with our pipeline assets and oil and gas leasehold interests (such as accretion).



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Notes to Consolidated Financial Statements (Continued)

Nine Months Ended September 30,

2018

2017

(in thousands)

Segments

Segment

Refinery Tolling and Corporate

Refinery Corporate

Operations Terminaling & Other Total

Operations & Other Total

Net revenues (excluding intercompany fees and sales)	\$254,245	\$2,659	\$-	\$256,904	\$176,842	\$-	\$176,842
Intercompany fees and sales	(2,419)	2,419	-	-	-	-	-
Operation costs and expenses(1)							
Cost of materials and other	(244,380)	-	-	(244,380)	(189,525)	-	(189,525)
Operating expenses (excluding depreciation and amortization and general and administrative expenses presented below)	(3,698)	(2,092)	(338)	(6,128)	(6,223)	(399)	(6,622)
Segment contribution margin	\$3,748	\$2,986	\$(338)	\$6,396	\$(18,906)	\$(399)	\$(19,305)
General and administrative expenses	(929)	(156)	(1,192)	(2,277)	(1,960)	(894)	(2,854)
Depreciation and amortization	(1,258)	(138)	-	(1,396)	(1,348)	(8)	(1,356)
Interest and other non-operating income (expenses), net(2)				(2,235)			217
Income (loss) before income taxes				488			(23,298)

Successfully  
transitioned the  
role of General  
Counsel to Ling  
Chow.

Mr. Michener resigned as our General Counsel and Secretary, effective December 31, 2017, in accordance with the terms of a separation agreement described under Compensation Discussion and Analysis Separation Agreement . Mr. Michener remains employed by our Company in a non-executive officer position, serving as the Senior Advisor to the Chief Executive Officer of the Company.

*Russell B. Brewer II, Chief Surveillance Officer*

Mr. Brewer was responsible in the 2017 performance year for ensuring that all of our insured exposures are reviewed annually and assigned appropriate internal ratings, for managing loss mitigation strategies for our troubled credits, and for overseeing our information technology department. Mr. Brewer also manages our rating agency relationships. More specifically, Mr. Brewer:

- Led the surveillance process for our \$265 billion net par insured portfolio and the timely review and update of internal ratings for our insured portfolio, helping to identify and intervene in deteriorating situations before losses developed to avoid losses altogether or mitigate them if they cannot be avoided;
- Oversaw the smooth update of the software platform for our exposure systems while maintaining functionality;
- Oversaw the successful defense of our systems from headline cyberattacks and our compliance with new cybersecurity regulations;
- Developed and implemented strategies on a number of transactions where we are experiencing loss or could possibly experience loss;
- Was active in our discussions with the Commonwealth of Puerto Rico and its advisors and was instrumental in helping the Company develop its approach to these credits; and
- Led the smooth integration into our Company of surveillance oversight and information systems of the insured portfolio and financial information related to MBIA UK in connection with the consummation of the acquisition of MBIA UK.

**Table of Contents***Bruce E. Stern, Executive Officer*

Mr. Stern was responsible in the 2017 performance year for workouts of troubled transactions and the extraction of significant value from our insured portfolio and other relationships. Mr. Stern applied creative approaches to troubled transactions to mitigate losses. Mr. Stern is also responsible for governmental affairs and our participation in an industry group. More specifically, Mr. Stern:

Was deeply involved in our efforts to mitigate losses in Puerto Rico, playing a particularly valuable role in advocating our viewpoint to various government officials;

Led our effort to purchase insured bonds of poorly performing credits for loss mitigation and risk remediation;

Led our effort to remove the insurance from insured bonds of poorly performing credits we had purchased and sell them into the market at opportune times;

Identified and implemented approaches to reshape our insured portfolio by purchasing insured bonds in the open market and procuring the termination of financial guaranty insurance executed in credit default swap form; and

Negotiated reassumption agreements with three reinsurers, resulting in aggregate commutation gains of \$328 million.

**Compensation Decisions for the Other Named Executive Officers**

In the case of the other named executive officers, for the 2017 performance year the Compensation Committee calculated and aggregated the weighted achievement scores for the financial performance goals (which were the same as Mr. Frederico's) and their non-financial objectives (which were a combination of their contribution to Mr. Frederico's non-financial objectives and their achievement of their own individual non-financial objectives), taking into account the level of difficulty of achieving particular goals or objectives. Based on their achievements, after applying the formula, the Compensation Committee awarded them the cash incentives calculated as shown in the table below.

	2017 Individual Target Cash	2017 Financial Goal Achievement Score	Individual Non- Financial Objective Achievement Score	2017 Cash Incentive
	( Base Salary X Multiple )	( weighted 67%) X ( weighted 33%) )	( weighted 33%) + ( weighted 67%) )	= Incentive Payout
Robert A. Bailenson	\$ 625,000 2.00x	83.8%	54.0%	\$ 1,728,125
	\$ 625,000 2.00x	83.8%	54.0%	\$ 1,728,125

James M. Michener

Russell B. Brewer II	\$ 500,000	2.00x	83.8%	66.0%	\$ 1,498,000
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Bruce E. Stern	\$ 470,000	2.00x	83.8%	33.0%	\$ 1,097,920
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The Compensation Committee awarded all of the other named executive officers long-term incentive compensation in the form of performance share units and RSUs. The target nominal amount of long-term equity reflected the Compensation Committee's desire that each of the other named executive officers have a strong incentive to help generate long-term, sustained growth for our Company. The amounts of performance share units and RSUs awarded to each other named executive officer vary by individual and are based on their respective positions and levels of responsibility, historic compensation levels and Cook's advice about the compensation practices of companies in our comparison group.

The Compensation Committee considered Cook's analysis of the compensation paid to executive officers in our comparison group when evaluating the compensation of our executive officers. According to Cook, for the 2016 performance year, which is the most recent data available, on average, the target total direct compensation for our named executive officers approximated the comparable median to 75th percentile amounts for the named executive officers of our comparison group, reflecting the experience, leadership, specialized skill sets and sustained performance of the senior executive team. Actual total direct compensation for the named executive officers as a group paid for the 2016 performance year was near the 75th percentile of our comparison group, reflecting our above target bonus payouts for 2016 performance, which were aligned with our 2016 performance relative to our key business goals and strategies, as well as our strong financial and total shareholder returns relative to our comparison group during that period. For the 2016 performance year our one-year growth in book value was the highest in our comparison group and our return on average equity as well as one-year growth in operating income were both above the 75th percentile of our comparison group, while one-year growth in net income and growth in diluted earnings per share approximated the median of our comparison group. Also for the 2016 performance year our one-year TSR was above the 75th percentile and our three-year TSR was the highest in our comparison group.



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In summary, the Compensation Committee approved the following compensation decisions for the named executive officers other than Mr. Frederico for the 2017 performance year:

	<b>Robert A. Bailenson</b>	<b>James M. Michener</b>	<b>Russell B. Brewer II</b>	<b>Bruce E. Stern</b>
Fixed Compensation Base Salary <sup>(1)</sup>	\$625,000	\$625,000	\$500,000	\$470,000
Incentive Compensation				
Cash Incentive Compensation	\$ 1,728,125	\$ 1,728,125	\$ 1,498,000	\$ 1,097,920
Long-Term Performance-Based Equity and Time-Based Equity Target Values <sup>(2)</sup>	\$ 1,500,000	\$ 1,000,000	\$ 1,100,000	\$ 800,000
Total Direct Compensation	\$ 3,853,125	\$ 3,353,125	\$ 3,098,000	\$ 2,367,920

(1) These base salaries were set by the Compensation Committee in February 2017.

(2) For the executive officers other than Mr. Michener, half of the award consists of performance share units and the other half consists of RSUs. The U.S. GAAP values of the awards are: Mr. Bailenson, \$1,791,111; Mr. Brewer, \$1,313,465 and Mr. Stern, \$955,293. In the case of Mr. Michener, the entire award consists of RSUs, with a U.S. GAAP value of \$1,084,092.

The Compensation Committee also decided to increase the base salaries of three of the named executive officers other than Mr. Frederico based on their increased roles and responsibilities.

Mr. Bailenson's base salary was increased to \$700,000 in 2018 from \$625,000 in 2017 in recognition of his expansion of his role beyond that of a typical chief financial officer, including his involvement evaluating and implementing acquisitions and alternative investments and overseeing the successful financial integration of our recent acquisitions.

Mr. Brewer's base salary was increased to \$525,000 in 2018 from \$500,000 in 2017 in recognition of his accomplishments in overseeing our information technology function and his management of our surveillance

function, including the successful integration of the information technology and surveillance aspects of our recent acquisitions, and his deep credit insight and advice and counsel in connection with our major loss mitigation initiatives, including Puerto Rico.

Mr. Stern's base salary was increased to \$500,000 in 2018 from \$470,000 in 2017 in recognition of his contributions to our strategic initiatives, including reinsurance reassumptions, and the active role he is playing in our loss mitigation activities, especially with regard to Puerto Rico.

The Compensation Committee believed that it was critical for these three executive officers to remain highly motivated in 2018, especially in light of demands it anticipates will be made on them in connection with the consummation of the reinsurance transaction with SGI, continued focus on developments in Puerto Rico and potential additional alternative investment activity.

The 2018 base salary of Mr. Michener, who remains employed as the Senior Advisor to the Chief Executive Officer of our Company through December 31, 2018, like Mr. Frederico's 2018 base salary, remains the same as it was in 2017.

### **Separation Agreement**

As further disclosed in our quarterly report on Form 10-Q for the quarter ended September 20, 2017, Mr. Michener resigned as the General Counsel and Secretary and as an executive officer of AGL, effective December 31, 2017, in accordance with the terms of a separation agreement, which we refer to as the Separation Agreement, which he and the Company entered into on November 1, 2017. The Company entered into the Separation Agreement in recognition of Mr. Michener's successful years of service with the Company and to encourage him to work through December 31, 2018 in order to facilitate the transition of his duties to his successor, to advise the Company regarding ongoing litigation (including both litigation against, and litigation commenced by, the Company), and to have him otherwise remain available to consult on matters related to his experience with the Company. The Compensation Committee consulted with Cook and considered its advice with respect to the terms of the Separation Agreement with Mr. Michener.

Pursuant to the Separation Agreement, Mr. Michener remains employed by our Company in a non-executive officer position, serving as the Senior Advisor to the Chief Executive Officer of the Company, for a transition period, which we refer to as the Transition Period, that began on January 1, 2018 and ends upon his retirement on December 31, 2018, which we refer to as the Retirement Date. The Separation Agreement provides that if Mr. Michener remains employed through the Retirement Date, his base salary and cash and equity incentive opportunities during the Transition Period will be equal to his current base salary and cash and equity incentive opportunities. The portion of the 2018 incentive award amount, if any, attributable to an equity grant will be paid in cash, 50% in 2019 and the remaining 50% in 2020. If Mr. Michener remains employed through the Retirement Date, any unvested equity awards that he holds on the Retirement Date will vest in accordance with the terms of the original applicable award agreement for retirement. However, any previously granted cash and equity awards, including the performance share units granted to Mr. Michener in 2016 and 2017, that include Company or individual performance-based vesting conditions (*e.g.*, the achievement of certain pre-established share price

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targets) remain subject to satisfaction of such applicable performance conditions. The Separation Agreement addresses the timing of payments and distributions to Mr. Michener so that they remain exempt from or comply with the provisions of Sections 409A and 457A of the Internal Revenue Code. The Separation Agreement also contains covenants by Mr. Michener relating to protection of the Company's confidential information, cooperation, non-competition, non-solicitation and non-disparagement and other standard provisions, as well as a release of claims by Mr. Michener. Payments pursuant to the Separation Agreement are subject to forfeiture and/or clawback in the event of violation of such covenants.

## **EXECUTIVE COMPENSATION CONCLUSION**

We made changes to our executive compensation program in early 2015 in response to shareholder engagement. For example, the Compensation Committee's discretion with respect to the cash incentive was reduced and the link between pay and performance was enhanced. We received advisory shareholder approval of over 98% of the compensation we paid to our named executive officers in the three years since that time, and have not made any major changes to our executive compensation program since then.

The Compensation Committee believes that our executive compensation program rewards performance and motivates the officers to increase shareholder value, and that it is therefore appropriate and in the best interests of our Company and our shareholders. Our strategy requires exceptionally qualified and experienced management in senior financial guaranty executive, finance and legal positions, including personnel with skills and experience in reinsurance, acquisitions and corporate integration as well as asset management, and the ability to deal with adverse market conditions and take advantage of market opportunities. During this critical period in our Company's history, the Compensation Committee believes that retaining and motivating our executive officers and staff is essential, and that the various elements of total compensation have worked well to attract, retain and properly reward management for their performance.

## **PAYOUT UNDER PERFORMANCE RETENTION PLAN**

The Performance Retention Plan, which we refer to as the PRP, had been utilized as a form of incentive compensation for the executive officers until 2015. Its focus on adjusted book value and operating return on equity over a multi-year performance period reduced the incentive to concentrate on short-term gain and fostered a long-term view that minimized unnecessary or excessive risk taking.

In response to shareholder feedback that we should simplify our executive compensation program and emphasize equity rather than cash for incentive compensation, the Compensation Committee stopped granting our executive officers new PRP awards beginning in 2015.

However, the executive officers did receive PRP awards in February 2014, the final installment of which vested on December 31, 2017, so each of the executive officers received a cash distribution in March 2018 resulting from those awards.

The principal amount of each PRP award is divided into three installments. The portion of principal associated with each installment and the performance period relating to such installment are set out in the terms of the award.

The award payment for each installment is the product of:

- Principal amount of award
- Portion of principal associated with installment

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50% of the sum of 1 and the percentage change in the core ABV per share for the relevant performance period

50% of the sum of 1 and the core operating ROE for the relevant performance period

For the executive officers, no amount is payable if our core ABV per share has declined for the applicable performance period and if our core operating ROE is not at least 3% on average for each year in the applicable performance period. However, if, in a subsequent performance period, there is either positive growth in our core ABV per share or our core operating ROE is at least 3% on average for each year in the applicable performance period, each executive officer who remains employed at our Company will receive the recalculated payment.

The following table sets forth the calculation of the returns on the installment of the PRP award granted in February 2014 that vested on December 31, 2017:

Grant Date	Performance Period Beginning Date	Performance Period End Date	Portion of Principal Associated with Installment	Percentage Change in Core ABV per Share	Core Operating ROE	50% of Percentage Change in Core ABV per Share	50% of Core Operating ROE
February 2014	January 1, 2014	December 31, 2017	50%	57%	43%	50%	

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The individual PRP payouts for amounts that vested on December 31, 2017 are set forth in footnote 2 to the Summary Compensation Table. Those PRP payouts were a function of decisions made by the Compensation Committee in February 2014 regarding the amount of PRP to award relating to the executive officers' achievements during the 2013 performance years, as well as growth in core ABV per share and the core operating ROE during the relevant performance periods.

The strong growth in core ABV per share and the core operating ROE during the performance periods shown in the table above was driven in large part by achievements of our named executive officers during those performance periods. For example, the efficient management of capital, the various acquisitions, recoveries from our loss mitigation activities, gains on reassumptions of previously ceded business and the generation of PVP through the writing of new business each contributed to both the increase in core ABV per share and core operating ROE, while the core operating ROE was also impacted by terminations of insured transactions.

## **COMPENSATION GOVERNANCE**

### **The Role of the Board's Compensation Committee**

The Compensation Committee oversees all aspects of our executive compensation program. The Compensation Committee has responsibility for:

- Establishing executive compensation policies
- Determining the compensation of our CEO
- Reviewing our CEO's compensation recommendations regarding other senior officers and determining appropriate compensation for such officers

Our Board has adopted a Compensation Committee Charter to govern the Compensation Committee's activities. The charter, which may be found on our website at [www.assuredguaranty.com/governance](http://www.assuredguaranty.com/governance), is reviewed annually by the Compensation Committee. Under its charter, the Compensation Committee is authorized to retain compensation, legal, accounting and other expert consultants at our expense.

### **The Role of the Independent Consultant**

For more than ten years, including in 2017, the Compensation Committee has engaged Cook as its independent compensation consultant and considered advice and information from that firm in determining the amount and form of compensation for the executive officers. As part of its engagement, Cook advised the Compensation Committee in 2014 and 2015 about the changes to the cash incentive portion of our executive compensation program. Every two years, the Nominating and Governance Committee also engages Cook to review the compensation package for the independent directors; Cook last undertook such a review in 2017. The Compensation Committee also consulted with Cook and considered its advice with respect to the terms of the Separation Agreement with Mr. Michener. Cook has not provided any additional consulting service to us beyond its role as consultant to the Compensation Committee and the Nominating and Governance Committee.

In 2017, Cook's work for the Compensation Committee included analyzing our compensation practices in light of best practices, providing compensation risk assessment, reviewing our comparison group of companies, collecting and providing relevant market data, reviewing data and analyses provided by other consultants, and updating the Compensation Committee with respect to evolving governance trends.

The Compensation Committee has considered the independence of Cook in light of SEC rules and NYSE listing standards. It has requested and received a letter from Cook in 2017 affirming factors relevant to assessing Cook's

independence. The Compensation Committee discussed the content of the letter and concluded that Cook's work did not raise any independence or conflict of interest issues.

**Executive Compensation Comparison Group**

The Compensation Committee examines pay data for the following 12 companies to review pay practices, identify compensation trends, and benchmark its executive compensation decisions:

Ambac Financial Group

Eaton Vance

Radian Group

Arch Capital Group

Everest Re Group

RenaissanceRe Holdings

Aspen Insurance Holdings

MBIA

Validus

Axis Capital Holdings

MGIC Investment

White Mountains Insurance Group

The Compensation Committee has long recognized that the comparison group has limitations. Notably, the comparison group consists primarily of mortgage finance and casualty insurance and reinsurance companies. Despite the specialized nature of our business, our Compensation Committee looks for companies domiciled in Bermuda or with a similar size, business model and compensation mix to

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ours. Although the factors the Compensation Committee considers for its compensation decisions and the level of compensation may differ from those for the comparison group, the Compensation Committee finds it useful to consider the pay practices at these companies.

In November 2017, Cook met with members of the Compensation Committee to review the comparison group from the prior year, and to discuss whether other companies should be considered for inclusion in the group. The Compensation Committee had added Ambac Financial Group to the comparison group the prior year, to replace Partner Re, which had been acquired earlier in the year. Cook advised the Compensation Committee that the current comparison group consists of companies that, like our Company, have a business model that involves underwriting risk, a holding company structure, and similar size as measured by revenues, assets and market capitalization. Since November 2016, Endurance Specialty and Allied World Assurance were acquired and therefore have been removed from the comparison group. Cook performed an independent review to determine whether to change or add to the remaining 12 companies in the comparison group, and ultimately concluded the remaining companies continue to be reasonable for competitive comparison purposes.

Cook advised the Compensation Committee that, as of September 30, 2017, our one-year TSR ranked in the 91<sup>st</sup> percentile of the current comparison group and our three-year TSR was the highest in the comparison group. Cook also informed the Compensation Committee that, as of September 30, 2017, our latest four quarters of revenue approximate the median of the current comparison group; our latest quarter of assets and market capitalization fall between the median and the 75<sup>th</sup> percentile; our net income is near the comparison group's high number; and the number of employees at our Company is below the 25<sup>th</sup> percentile.

Based on Cook's recommendation, the Compensation Committee agreed that the 12 companies listed above would continue to constitute the Company's comparison group for 2018.

## **Executive Officer Recoupment Policy**

Our Board of Directors adopted a recoupment (or clawback) policy in February 2009 pursuant to which the Compensation Committee may rescind or recoup certain of the compensation of an executive officer if such person engages in misconduct related to a restatement of our financial results or of objectively quantifiable performance goals, and the achievement of those goals is later determined to have been overstated.

In connection with Rule 10D-1 proposed by the SEC, the Compensation Committee amended the recoupment policy in November 2015 so that it would apply, to the extent required by law, to incentive compensation received in the three year period before a determination that a material restatement is required. The amended recoupment policy allows the Company to recoup incentive compensation which is granted before the adoption and effectiveness of a final Rule 10D-1, but which may be subject to the three year look-back period of any such final rule.

## **Stock Ownership Guidelines**

To demonstrate our commitment to building shareholder value, the Board of Directors adopted management stock ownership guidelines. Our guidelines do not mandate a time frame by which this ownership must be attained, but each executive officer must retain 100% of his after-tax receipt of Company stock until he reaches his ownership goal. Please see [Information About Our Common Share Ownership How Much Stock is Owned by Directors and Executive Officers](#) for detailed information on the executive officers' stock ownership.

The chart below shows the guideline for each of our named executive officers and each executive's stock ownership as of March 8, 2018, the record date, using \$34.49, the closing price of one of our Common Shares on the NYSE on such

date.

Named Executive Officer	Guideline	Current Ownership
Dominic J. Frederico	7 × Salary	35.5 × Salary
Robert A. Bailenson	5 × Salary	9.0 × Salary
James M. Michener	5 × Salary <sup>(1)</sup>	11.4 × Salary <sup>(1)</sup>
Russell B. Brewer II	5 × Salary	8.3 × Salary
Bruce E. Stern	5 × Salary	7.5 × Salary

- (1) During 2017, Mr. Michener, as an executive officer of the Company, was subject to a stock ownership guideline of five times his base salary. The Separation Agreement specifies that during the Transition Period, Mr. Michener will be required to own AGL shares having a value equal to two times his base salary, which is the level applicable to certain managing directors, group heads and equivalent positions under the Company's stock ownership guidelines.



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These ownership levels include shares owned and, in the case of Mr. Bailenson, vested share units credited to his non-qualified retirement plan. Unvested RSUs, unvested performance share units and unexercised options do not count towards the guidelines. Some of the executive officers who have reached their share ownership goals have made gifts of shares to family or to charitable or educational institutions.

**Anti-Hedging Policy**

We adopted an anti-hedging policy in 2013 that explicitly prohibits employees and directors from hedging our Common Shares.

**Anti-Pledging Policy**

Our stock trading policy prohibits employees and directors from pledging our Common Shares without approval of both our General Counsel and the Nominating and Governance Committee. There have been no such transactions to date.

**Award Timing**

The Compensation Committee meets during our February board meeting to make executive compensation decisions with respect to the previous year's performance and to make its compensation recommendations to the other directors. After consulting with the Board, the Compensation Committee approves executive officer salary increases (if any), cash incentive compensation, and equity awards. Payments under existing PRP awards (if any) and cash incentives are not paid until after we file our Annual Report on Form 10-K for the previous calendar year with the SEC.

**POST-EMPLOYMENT COMPENSATION**

**Retirement Benefits**

We maintain tax-qualified and non-qualified defined contribution retirement plans for our executive officers and other eligible employees. We do not maintain any defined benefit pension plans. The Compensation Committee and our management believe that it is important to provide retirement benefits to employees who reach retirement in order to attract and retain key employees. All retirement benefits are more fully described under Potential Payments Upon Termination or Change in Control.

Benefit Under Defined Contribution Plans	Description
Core contribution	We contribute 6% of each employee's salary and cash bonus compensation, which we refer to as eligible compensation

Company match

We match 100% of each employee's contribution, up to 6% of eligible compensation

### **Severance**

Under our severance policy for executive officers, following the executive's involuntary termination without cause or voluntary termination for good reason and subject to the executive signing a release of claims, the executive will receive a lump-sum payment in an amount equal to one year's salary plus his average cash incentive amount over the preceding three-year period, plus a pro-rata annual cash incentive amount for the year of termination and an amount equal to one year of medical and dental premiums. The executive officer's receipt of severance benefits is subject to his compliance with non-competition, non-solicitation, and confidentiality restrictions during his employment and for a period of one year following termination of employment. We, in our discretion, may choose to pay one year of base salary to an executive who terminates employment for a reason other than involuntary termination without cause or voluntary termination for good reason, in which case the executive will also be subject to non-competition, non-solicitation, and confidentiality restrictions following his termination of employment. In accordance with his Separation Agreement, Mr. Michener will

remain eligible for our severance policy for any termination prior to the Retirement Date specified in such agreement.

### **Change In Control Benefits**

We provide change in control benefits to encourage executives to consider the best interests of shareholders by mitigating any concerns about their own personal financial well-being in the face of a change in control of our Company. Based on shareholder input and changing market trends, since 2011, in the event of a change in control:

- Long-term incentive awards will vest only upon certain terminations of employment following a change in control (double-trigger)

- Such awards will vest upon a change in control (single-trigger) if the acquirer does not assume the awards

- We do not provide excise tax reimbursements and gross-up payments in the case of a change in control

Detailed information is provided under Potential Payments Upon Termination or Change in Control.

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**TAX TREATMENT**

Section 162(m) of the Internal Revenue Code limits the deductibility of annual compensation in excess of \$1 million paid to covered employees of the Company, unless the compensation satisfied an exception, such as the exception for performance-based compensation. Performance-based compensation generally includes only payments that are contingent on achievement of performance objectives, and excludes fixed or guaranteed payments. On December 22, 2017, the 2017 Tax Act was enacted, which, among other things, repealed the performance-based compensation exception and expanded the definition of covered employee. The changes to Section 162(m) are effective for taxable years beginning after December 31, 2017. The 2017 Tax Act includes a transition rule so that these changes do not apply to compensation paid pursuant to a binding written contract that was in effect on November 2, 2017 and that was not materially modified on or after such date.

Because of the performance-based compensation exception repeal, amounts paid pursuant to a contract effective after November 2, 2017 will not be deductible as performance-based compensation, and the Compensation Committee will not need to consider the requirements of the performance-based compensation exception when considering the design of any such future contracts as part of our compensation program. For amounts paid under contracts in effect on November 2, 2017 that were intended to constitute performance-based compensation, the Compensation Committee will continue to consider the performance-based compensation exception when making determinations of performance under those contracts.

The 2017 Tax Act also expands the definition of covered employee. For 2017, our covered employees included our CEO and other named executive officers (but not the chief financial officer) who were executive officers as of the last day of our fiscal year. For 2018 and thereafter, our covered employees will generally include anyone who (i) was our CEO or chief financial officer at any time during the year, (ii) was one of the other named executive officers who was an executive officer as of the last day of the fiscal year, and (iii) was a covered employee for any previous year after 2016.

As with prior years, although the Compensation Committee will consider deductibility under Section 162(m) with respect to the compensation arrangements for executive officers, deductibility will not be the sole factor used in determining appropriate levels or methods of compensation. The Compensation Committee considers many factors when designing its compensation arrangements in addition to the deductibility of the compensation, and maintains the flexibility to grant awards or pay compensation amounts that are non-deductible if they believe it is in the best interest of our Company and our shareholders.

In addition, Section 409A of the Internal Revenue Code imposes restrictions on nonqualified deferred compensation plans. We maintain deferred compensation plans for the benefit of our employees, including nonqualified deferred compensation plans that provide for employee and employer contributions in excess of the IRS defined contribution plan limits. The deferred compensation plans we maintain are intended to be exempt from the requirements of Section 409A or, if not exempt, to satisfy the requirements of Section 409A, and we have reviewed and, where appropriate, have amended each of our deferred compensation plans to meet the requirements.

Finally, Section 457A of the Internal Revenue Code imposes restrictions on nonqualified deferred compensation plans maintained by a nonqualified entity (which generally includes an entity in a jurisdiction that is not subject to U.S. income tax or a comprehensive foreign income tax). The deferred compensation plans we maintain are intended to be exempt from the requirements of Section 457A for benefits accrued or awards granted on or after January 1, 2009 (the effective date of Section 457A). Also, we had amended certain deferred compensation plans in which benefits were accrued or awards granted prior to January 1, 2009 to provide that such benefits would be distributed in a single lump-sum payment in January 2017 (to the extent not previously distributed) to satisfy the requirements of

Section 457A, and such benefits were distributed on January 6, 2017.

## **NON-GAAP FINANCIAL MEASURES**

This proxy statement references financial measures that are not determined in accordance with U.S. GAAP, and are identified as core, operating, PVP or non-GAAP. Although these non-GAAP financial measures should not be considered substitutes for U.S. GAAP measures, our management and Board consider them important performance indicators and have employed them as well as other factors in determining senior management incentive compensation.

We referenced in the *Management's Discussion and Analysis* in our Annual Report on Form 10-K for the year ended December 31, 2017 certain of the non-GAAP financial measures we use in this proxy statement. The definitions for those non-GAAP financial measures, which are listed below, and how they may be calculated from the most directly comparable GAAP financial measures, may be found on pages 92 to 96 of our Annual Report on Form 10-K for the year ended December 31, 2017.

*non-GAAP operating income*  
*non-GAAP operating shareholders' equity*  
*non-GAAP adjusted book value (ABV)*  
*PVP or present value of new business production*

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This proxy also references certain non-GAAP financial measures, which are identified as *core*, that our management and Board also consider important performance indicators and have employed, as well as other factors, in determining senior management incentive compensation. These *core* measures, and how they are calculated from our GAAP financial statements, are as follows:

*Core operating income per diluted share.* After making the adjustments to net income described on pages 92 to 93 of the Company's Annual Report on Form 10-K, *Management's Discussion and Analysis, Non-GAAP Financial Measures* to arrive at non-GAAP operating income, the Company subtracts the gain (or loss) related to FG VIE consolidation, net of the tax provision, also disclosed in such section of the Form 10-K, and to calculate the per diluted share amount divides the result by the weighted average diluted Common Shares during the period.

*Core operating shareholders' equity per share.* After making the adjustments to shareholders' equity described on pages 93 to 95 of the Company's Annual Report on Form 10-K, *Management's Discussion and Analysis, Non-GAAP Financial Measures* to arrive at non-GAAP operating shareholders' equity, the Company subtracts the gain (or loss) related to FG VIE consolidation, net of the tax provision, also disclosed in such section of the Form 10-K, and to calculate the per share amount divides by the number of Common Shares outstanding.

*Core ABV.* After making the adjustments to shareholders' equity described on pages 93 to 95 of the Company's Annual Report on Form 10-K, *Management's Discussion and Analysis, Non-GAAP Financial Measures* to arrive at non-GAAP adjusted book value (ABV), the Company subtracts the gain (or loss) related to FG VIE consolidation, net of the tax provision, also disclosed in such section of the Form 10-K, and to calculate the per share amount divides by the number of Common Shares outstanding.

*Core operating ROE.* Core operating ROE is calculated as core operating income divided by the average of core operating shareholders' equity at the beginning and end of the period.

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**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our Company's Annual Report on Form 10-K for the year ended December 31, 2017 and this proxy statement. The foregoing report has been approved by the Compensation Committee.

Patrick W. Kenny, Chairman

G. Lawrence Buhl

Simon W. Leathes

**Table of Contents****2017 SUMMARY COMPENSATION TABLE**

The following table provides compensation information for 2017, 2016 and 2015 for our named executive officers.

Name and Principal Position	Year	Salary	Stock Awards <sup>(1)</sup>	Non-Equity Incentive		Total
				Plan Compensation <sup>(2)</sup>	All Other Compensation <sup>(3)</sup>	
<b>Dominic J. Frederico,</b> President and Chief Executive Officer	2017	\$1,250,000	\$6,588,270	\$4,862,500	\$826,014	\$13,526,784
	2016	\$1,150,000	\$5,090,589	\$5,717,851	\$768,875	\$12,727,315
	2015	\$1,150,000	\$4,708,445	\$5,609,813	\$711,731	\$12,179,989
<b>Robert A. Bailenson,</b> Chief Financial Officer	2017	\$625,000	\$1,557,236	\$1,953,125	\$286,085	\$4,421,446
	2016	\$600,000	\$1,119,915	\$2,207,475	\$230,530	\$4,157,920
	2015	\$550,000	\$1,046,351	\$1,920,375	\$191,279	\$3,708,005
<b>James M. Michener,</b> General Counsel	2017	\$625,000	\$1,197,815	\$1,964,375	\$505,545	\$4,292,735
	2016	\$600,000	\$1,018,118	\$2,355,089	\$487,858	\$4,461,065
	2015	\$550,000	\$941,700	\$2,338,881	\$443,359	\$4,273,940
<b>Russell B. Brewer II,</b> Chief Surveillance Officer	2017	\$500,000	\$1,317,654	\$1,734,250	\$253,803	\$3,805,707
	2016	\$450,000	\$1,119,915	\$1,762,939	\$223,481	\$3,556,335
	2015	\$400,000	\$941,700	\$1,784,931	\$191,288	\$3,317,919

<b>Bruce E. Stern,</b> Executive Officer	2017	\$470,000	\$838,490	\$1,255,420	\$192,864	\$2,756,774
	2016	\$450,000	\$712,678	\$1,274,087	\$184,236	\$2,621,001
	2015	\$400,000	\$627,800	\$1,259,694	\$139,415	\$2,426,909

- (1) This column represents the grant date value of performance share unit awards and restricted share unit awards granted in 2017, 2016 and 2015 for 2016, 2015 and 2014 performance, respectively.
- (2) This column represents cash incentive compensation for 2017, 2016 and 2015 paid in 2018, 2017 and 2016, respectively and the vesting date value of awards under our Performance Retention Plan (PRP) granted in 2014, 2013 and 2012 that vested on December 31 of 2017, 2016 and 2015 and were paid in March 2018, 2017 and 2016, respectively, as further described in the table below. As discussed in Compensation Discussion and Analysis Payout Under Performance Retention Plan above, beginning in February 2015, the executive officers no longer receive grants of PRP awards. The last PRP award to the executive officers was granted in February 2014 for the 2013 performance year and the last installment of that award vested on December 31, 2017.

	<b>D. Frederico</b>	<b>R. Bailenson</b>	<b>J. Michener</b>	<b>R. Brewer</b>	<b>B. Stern</b>
2017 Cash Incentive Compensation	\$4,525,000	\$1,728,125	\$1,728,125	\$1,498,000	\$1,097,920
2017 PRP Payout	\$337,500	\$225,000	\$236,250	\$236,250	\$157,500
<b>Total</b>	<b>\$4,862,500</b>	<b>\$1,953,125</b>	<b>\$1,964,375</b>	<b>\$1,734,250</b>	<b>\$1,255,420</b>

- (3) All Other Compensation for 2017 consists of the benefits set forth in the table below. Contributions to defined contribution retirement plans include contributions with respect to salary and cash incentive



compensation. The Miscellaneous category within All Other Compensation includes Bermuda club fees, Bermuda health insurance, gym fees, and executive physicals.

	D. Frederico	R. Bailenson	J. Michener	R. Brewer	B. Stern
Employer Contribution to Retirement Plans	\$689,753	\$276,528	\$276,528	\$207,582	\$173,060
Bermuda Housing Allowance	\$23,688		\$132,000		
Bermuda Car Allowance	\$20,000		\$15,000		
Bermuda Travel Allowance	\$15,000		\$15,000		
Tax Preparation/Financial Planning	\$32,732	\$1,100	\$28,458	\$20,465	
Matching Gift Donations	\$15,000		\$15,000	\$15,000	\$8,300
Business-Related Spousal Travel	\$8,054	\$7,757	\$13,359	\$4,571	\$1,263
Miscellaneous	\$21,787	\$700	\$10,200	\$6,185	\$10,241

<b>Total</b>	\$826,014	\$286,085	\$505,545	\$253,803	\$192,864
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### **EMPLOYMENT AGREEMENTS**

None of our named executive officers currently have any employment agreements with the Company. See Compensation Disclosure and Analysis Separation Agreement for a description of Mr. Michener's Separation Agreement.

### **PERQUISITE POLICY**

Our Company has established a perquisite policy pursuant to which we provide executive officers certain perquisites that are not available to employees generally. We believe that perquisites we provide to our named executive officers meet certain business objectives and that the benefit our Company receives from providing these perquisites significantly outweighs the cost of providing them. We feel these perquisites minimize distractions to our named executive officers, thereby enabling them to perform their responsibilities more efficiently. These include tax preparation, financial planning, annual executive medical exams and, for our executive officers located in Bermuda, housing and car allowances, Bermuda club memberships, and family travel stipend. We provide tax preparation and financial planning services to maximize the value of Company-provided compensation and to assist our named executive officers with tax compliance in various jurisdictions, especially since some of our named executive officers fulfill their responsibilities to the Company by working outside their home country for a portion of their time. In light of the challenges of the Bermuda market, including travel to and from the island, and the cost of living and maintaining a residence, the Bermuda perquisites are consistent with competitive practices in the Bermuda market and have been necessary for recruitment and retention purposes. Any of these perquisites may be modified by the Compensation Committee without the consent of the executive officers.

In determining the total compensation payable to our named executive officers, the Compensation Committee considers perquisites in the context of the total compensation which our named executive officers are eligible to receive. However, given the fact that perquisites represent a relatively small portion of the executive's total compensation, the availability of these perquisites does not materially influence the decisions made by the Compensation Committee with respect to other elements of the total compensation to which our named executive officers are entitled to or which they are awarded.

### **SEVERANCE POLICY**

Our Company has adopted a severance policy for executive officers. For further detail, see the discussion in Compensation Discussion and Analysis Post-Employment Compensation Severance and Potential Payments Upon Termination or Change of Control Change-in-Control Severance. A severance policy enables us to attract and retain top candidates for our executive positions and enables us to have good relations with those executives.

### **EMPLOYEE STOCK PURCHASE PLAN**

We maintain a broad based employee stock purchase plan that gives our eligible employees the right to purchase our Common Shares through payroll deductions at a purchase price that reflects a 15% discount to the market price of our Common Shares on the first or last day of the relevant subscription period, whichever is lower. No participant may purchase more than \$25,000 worth of Common Shares under this plan in any calendar year. In 2017, Mr. Frederico, Mr. Stern and another executive officer participated in the employee stock purchase plan to the maximum extent possible.

### **INDEMNIFICATION AGREEMENTS**

We enter into indemnification agreements with our directors and executive officers. These agreements are in furtherance of our Bye-Laws which require us to indemnify our directors and officers for acts done, concurred in or omitted in or about the execution of their duties in their respective offices.

The indemnification agreements provide for indemnification arising out of specified indemnifiable events, such as events relating to the fact that the indemnitee is or was one of our directors or officers or is or was a director, officer, employee or agent of another entity at our request or relating to anything done or not done by the indemnitee in such a capacity.

The indemnification agreements provide for advancement of expenses.

These agreements provide for mandatory indemnification to the extent an indemnitee is successful on the merits. To the extent that indemnification is unavailable, the agreements provide for contribution.

The indemnification agreements set forth procedures relating to indemnification claims.

The agreements also provide for maintenance of directors and officers liability insurance.

**Table of Contents****2017 GRANTS OF PLAN-BASED AWARDS**

The following table sets forth information concerning grants of plan-based awards for our named executive officers made during 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Threshold	Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards <sup>(1)</sup>
		Target	Maximum		Target	Maximum		
Dominic J. Frederico	Feb. 22, 2017 <sup>(1)</sup>	\$3,125,000	\$6,250,000					
	Feb. 22, 2017 <sup>(2)</sup>			34,635	69,270	138,540		\$3,722,570
	Feb. 22, 2017 <sup>(3)</sup>						69,270	\$2,865,700
Robert A. Bailenson	Feb. 22, 2017 <sup>(1)</sup>	\$1,250,000	\$2,500,000					
	Feb. 22, 2017 <sup>(2)</sup>			8,187	16,373	32,746		\$879,880
	Feb. 22, 2017 <sup>(3)</sup>						16,373	\$677,350
James M. Michener	Feb. 22, 2017 <sup>(1)</sup>	\$1,250,000	\$2,500,000					
	Feb. 22, 2017 <sup>(2)</sup>			6,297	12,594	25,188		\$676,800
	Feb. 22, 2017 <sup>(3)</sup>						12,594	\$521,010
Russell B. Brewer II	Feb. 22, 2017 <sup>(1)</sup>	\$1,000,000	\$2,000,000					
	Feb. 22, 2017 <sup>(2)</sup>			6,927	13,854	27,708		\$744,510
	Feb. 22, 2017 <sup>(3)</sup>						13,854	\$573,140
Bruce E. Stern	Feb. 22, 2017 <sup>(1)</sup>	\$940,000	\$1,880,000					
	Feb. 22, 2017 <sup>(2)</sup>			4,408	8,816	17,632		\$473,770
	Feb. 22, 2017 <sup>(3)</sup>						8,816	\$364,710

- (1) Represents a grant of a non-equity incentive compensation award. As described in Compensation Discussion and Analysis Executive Compensation Program Structure and Process Components of Our Executive Compensation Program Cash Incentive Compensation, the Compensation Committee uses a two-step process for granting and paying annual non-equity incentive compensation awards to executive officers. On the February 22, 2017 grant date, the Compensation Committee granted such non-equity incentive compensation awards to the executive officers pursuant to the LTIP with such awards subject to the satisfaction of a performance goal related to certain performance metrics of the Company. Assuming

that such performance goal was met, the second step consists of the Compensation Committee using negative discretion to determine the actual amount of the cash payment. On the grant date, the Compensation Committee adopted the target and maximum payment amounts listed in the table above for any payments pursuant to such awards, as well as a formula for using negative discretion to determine the actual amount of payment. Following certification that the adjusted income goal was met and the application of the formula to each of the executive officers, the Compensation Committee approved the payments described in the Summary Compensation Table for payment of such non-equity incentive compensation awards.

- (2) Represents a performance share unit award. The performance share units will vest at the end of a three-year vesting period based on the highest 40-day average share price during the last eighteen months of such period and continued employment through the end of the applicable three-year period, with limited exceptions. The number of performance share units listed in the Threshold column represents the number of performance share units which shall become vested based on achievement of 50% of the performance target (a 40-day average share price of \$42 during the last eighteen months of the performance period); the number of performance share units listed in the Target column represents the number of performance share units which shall become vested based on achievement of 100% of the performance target (a 40-day average share price of \$46 during the last eighteen months of the performance period); and the number of performance share units listed in the Maximum column represents the number of performance share units which shall become vested based on achievement of 200% of the performance target (a 40-day average share price of \$50 during the last eighteen months of the performance period). If at least 50% of the performance target is not achieved during the performance period, all of the performance share units will be forfeited.
- (3) Represents a time-based RSU award. Restrictions lapse on the third anniversary of the grant date of the award, subject to continued employment, with limited exceptions.
- (4) This column discloses the aggregate grant date fair market value computed in accordance with U.S. GAAP, which is \$53.74 per target share for performance share units and \$41.37 per share for RSUs. For the assumptions used in the valuation, see note 19 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

**Table of Contents****OUTSTANDING EQUITY AWARDS**

The following table sets forth the outstanding equity awards held by our named executive officers as of December 31, 2017.

Name	Option Awards			Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Option Exercise Price (per share)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Dominic J. Frederico	200,000	\$23.27	2/14/2018				
	100,000	\$7.44	2/5/2019				
	100,000	\$19.79	2/24/2020				
	112,055	\$17.44	2/9/2019				
				87,959	(1)	\$2,979,171	
				175,918	(2)	\$5,958,343	
				102,965	(3)	\$3,487,425	
				205,930	(4)	\$6,974,849	
				69,270	(5)	\$2,346,175	
						34,635	(6) \$1,173,087
Robert A. Bailenson	10,000	\$7.44	2/5/2019				
	20,000	\$19.79	2/24/2020				
	6,723	\$17.44	2/9/2019				
	6,835	\$19.24	2/7/2020				
				19,547	(1)	\$662,057	
				39,094	(2)	\$1,324,114	
				22,652	(3)	\$767,223	
				45,304	(4)	\$1,534,446	
				16,373	(5)	\$554,554	
						8,187	(6) \$277,294
James M. Michener				17,592	(1)	\$595,841	
				35,184	(2)	\$1,191,682	
				20,593	(3)	\$697,485	
				41,186	(4)	\$1,394,970	

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				12,594	(5)	\$426,559			
							6,297	(6)	\$213,279
Russell B.	10,000	\$19.79	2/24/2020						
Brewer II	8,964	\$17.44	2/9/2019						
	10,398	\$19.24	2/7/2020						
				17,592	(1)	\$595,841			
				35,184	(2)	\$1,191,682			
				22,652	(3)	\$767,223			
				45,304	(4)	\$1,534,446			
				13,854	(5)	\$469,235			
							6,927	(6)	\$234,617



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Name	Option Awards			Stock Awards			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options Exercisable	Option Price (per share)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested	
Bruce E. Stern	10,000	\$19.79	2/24/2020					
	6,723	\$17.44	2/9/2019					
	8,202	\$19.24	2/7/2020					
				11,728	(1)	\$397,227		
				23,456	(2)	\$794,455		
				14,415	(3)	\$488,236		
				28,830	(4)	\$976,472		
				8,816	(5)	\$298,598		
							4,408	(6) \$149,299

(1) These units vested on February 4, 2018.

(2) These units vested on February 4, 2018. Vesting was based on the highest 40-day average price of our Common Shares during the last eighteen months of the three year performance period. As of December 31, 2017, the highest 40-day average price of our Common Shares during the last eighteen months of the performance period was \$43.85. Accordingly, 200% of the units vested.

(3) These units will vest on February 24, 2019, subject to continued employment, with limited exceptions.

(4) These units will vest on February 24, 2019, subject to continued employment, with limited exceptions and achievement of performance goals, as defined. These units will vest based on the highest 40-day average price of our Common Shares during the last eighteen months of the three year performance period. As of December 31, 2017, the highest 40-day average price of our Common Shares during the last eighteen months of the performance period was \$43.85. Accordingly, 200% of the units will vest, subject to the other conditions of the performance equity and not before the end of the three-year performance period.

- (5) These units will vest on February 22, 2020, subject to continued employment, with limited exceptions.
- (6) These units will vest on February 22, 2020, subject to continued employment, with limited exceptions and achievement of performance goals, as defined. These units will vest based on the highest 40-day average price of our Common Shares during the last eighteen months of the three year performance period. Accordingly, none of the units will vest unless the highest 40-day average price of our Common Shares during the last eighteen months of the three year performance period exceeds \$42, subject to the other conditions of the performance equity and not before the end of the three-year performance period.

#### 2017 OPTION EXERCISES AND STOCK VESTED

The following table provides information concerning option exercises by, and vesting of restricted stock awards of, our named executive officers during 2017.

Name	Option Awards		Stock Awards	
	Number of Shares		Number of Shares	
	Acquired on Exercise <sup>(1)</sup>	Value Realized on Exercise <sup>(2)</sup>	Acquired on Vesting <sup>(3)</sup>	Value Realized on Vesting <sup>(4)</sup>
Dominic J. Frederico			225,717	\$9,030,937
Robert A. Bailenson	10,000	\$184,800	42,133	\$1,685,741
James M. Michener	89,362	\$1,832,050	44,239	\$1,770,002
Russell B. Brewer II			44,239	\$1,770,002
Bruce E. Stern			29,192	\$1,167,972

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- (1) This column represents gross shares exercised, not reduced by shares withheld to pay for personal income tax and not reduced by shares swapped to pay for the option price.
- (2) The value realized on exercise represents the value of gross shares received, not reduced by shares withheld to pay for personal income tax, but reduced by shares swapped to pay for the option price.
- (3) This column represents gross shares vesting, not reduced by shares withheld to pay for personal income tax.
- (4) The value of a restricted share upon vesting is the fair market value of the stock on the vesting date. This column represents the value of gross shares vesting, not reduced by shares withheld to pay for personal income tax.

**NON-QUALIFIED DEFERRED COMPENSATION**

The following table sets forth information concerning nonqualified deferred compensation of our named executive officers. The amounts set forth in this table include only contributions made and earnings received during 2017 and do not include contribution and earnings with respect to the 2017 non-equity incentive compensation paid in 2018.

Name	Executive Contributions in Last FY <sup>(1)</sup>	Registrant Contributions in Last FY <sup>(2)</sup>	Aggregate Withdrawals/Distributions <sup>(3)</sup>	Aggregate Earnings in Last FY	Aggregate Balance at Last FYE <sup>(4)</sup>
Dominic J. Frederico	\$328,676	\$657,353	\$12,577,909	\$575,820	\$8,050,735 <sup>(5)</sup>
Robert A. Bailenson	\$122,064	\$244,128		\$231,945	\$3,804,903
James M. Michener	\$122,064	\$244,128	\$1,375,257	\$154,725	\$3,145,630
Russell B. Brewer II	\$87,591	\$175,182		\$464,927	\$3,993,480
Bruce E. Stern	\$70,330	\$140,660		\$42,048	\$2,307,554

- (1) The amounts in this column are also included in the Summary Compensation Table, in the Salary column and in the Non-Equity Incentive Plan Compensation column.
- (2) The amounts in this column are included in the Summary Compensation Table, in the All Other Compensation column as the employer contribution to the retirement plans.
- (3) The amounts in this column represent the benefits that were distributed on January 6, 2017 to satisfy Sections 409A and 457A of the Internal Revenue Code as described in greater detail below on pages 57 to 58 in the Non-Qualified Retirement Plans section.
- (4) Of the totals in this column plus, for Mr. Frederico and Mr. Michener, the amounts distributed on January 6, 2017 as described in footnote 3 above, the following totals have been previously reported in the Summary Compensation Table for previous years:

Name	2017 Amount	2016 Amount
Dominic J. Frederico	\$8,472,020	\$7,592,360
Robert A. Bailenson	\$1,639,319	\$1,355,675
James M. Michener	\$2,551,073	\$2,228,225
Russell B. Brewer II	\$876,354	\$644,910
Bruce E. Stern	\$344,439	\$150,300

- (5) \$1,612,387 was assumed from the ACE Limited Supplemental Retirement Plan at our 2004 initial public offering.

#### POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following tables quantify the potential payments upon termination that our named executive officers would receive assuming that the relevant termination event had occurred on December 31, 2017. The last table quantifies the potential payments upon an involuntary termination without cause and a change of control that our named executive officers would receive assuming that both the termination without cause and change in control had occurred on December 31, 2017.

#### TERMINATION DUE TO DEATH OR DISABILITY

Name	Unvested RSUs	Unvested PSUs <sup>(1)</sup>	Total
Dominic J. Frederico	\$8,812,771	\$10,738,572	\$19,551,343
Robert A. Bailenson	\$1,983,834	\$2,386,268	\$4,370,102
James M. Michener <sup>(2)</sup>	\$1,719,885	\$2,135,568	\$3,855,453
Russell B. Brewer II	\$1,832,299	\$2,233,755	\$4,066,054
Bruce E. Stern	\$1,184,061	\$1,456,441	\$2,640,502

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- (1) The value of the PSUs for this table was determined as if the applicable performance period ended on December 31, 2017. The portion of the PSUs which ultimately would become vested may vary from this assumed amount depending on the actual price of our Common Shares through the remainder of the actual performance period and the value of our Common Share on the date of distribution.
- (2) In addition to the amounts listed, pursuant to the Separation Agreement which he and the Company entered into on November 1, 2017, in the event of a termination of Mr. Michener's employment prior to the payment date of the cash incentive compensation for 2017 due to death or disability, Mr. Michener will remain eligible for a payment for his cash incentive compensation for 2017.

**TERMINATION DUE TO RETIREMENT**

Name	Unvested RSUs	Unvested PSUs <sup>(1)</sup>	Total
Dominic J. Frederico	\$5,703,535	\$10,738,572	\$16,442,107
Robert A. Bailenson <sup>(2)</sup>			
James M. Michener <sup>(3)</sup>			
Russell B. Brewer II	\$1,183,727	\$2,233,755	\$3,417,482
Bruce E. Stern	\$770,760	\$1,456,441	\$2,227,201

- (1) The value of the PSUs for this table was determined as if the applicable performance period ended on December 31, 2017. The portion of the PSUs which ultimately would become vested may vary from this assumed amount depending on the actual price of our Common Shares through the remainder of the actual performance period and the value of our Common Share on the date of distribution.
- (2) Mr. Bailenson had not reached retirement age by December 31, 2017. Upon retirement, Mr. Bailenson will become pro-rata vested in respect of his unvested RSUs and PSUs.
- (3) Pursuant to the Separation Agreement, Mr. Michener would not be entitled to any vesting of outstanding equity awards in the event of his voluntary termination for any reason prior to the agreed retirement date of December 31, 2018.

**TERMINATION WITHOUT CAUSE PAYMENTS**

Name	Salary Continuation	Cash Incentive Compensation	Benefits	Unvested RSUs	Unvested PSUs <sup>(1)</sup>	Total
Dominic J. Frederico	\$1,250,000	\$4,042,979	\$42,846	\$8,812,771	\$10,738,572	\$24,887,168
Robert A. Bailenson	\$625,000	\$1,290,557	\$31,644	\$1,983,834	\$2,386,268	\$6,317,303
James M. Michener <sup>(2)</sup>	\$625,000	\$1,479,333	\$42,846	\$1,719,885	\$2,135,568	\$6,002,632
Russell B. Brewer II	\$500,000	\$1,077,827	\$31,644	\$1,832,299	\$2,233,755	\$5,675,525
Bruce E. Stern	\$470,000	\$855,240	\$21,644	\$1,184,061	\$1,456,441	\$3,987,386

- (1) The value of the PSUs for this table was determined as if the applicable performance period ended on December 31, 2017. The portion of the PSUs which ultimately would become vested may vary from this assumed amount depending on the actual price of our Common Shares through the remainder of the actual performance period and the value of our Common Share on the date of distribution.
- (2) In the event of a termination without cause prior to the agreed retirement date of December 31, 2018, Mr. Michener shall remain eligible for all payments and accelerated vesting of equity awards consistent with other executive officers without any change as a result of the Separation Agreement.

**CHANGE-IN-CONTROL SEVERANCE**

Name	Salary Continuation	Cash Incentive Compensation	Benefits	Unvested RSUs	Unvested PSUs <sup>(1)</sup>	Total
Dominic J. Frederico	\$1,250,000	\$4,042,979	\$42,846	\$8,812,771	\$14,645,899	\$28,794,495
Robert A. Bailenson	\$625,000	\$1,290,557	\$31,644	\$1,983,834	\$3,263,384	\$7,194,419
James M. Michener <sup>(2)</sup>	\$625,000	\$1,479,333	\$42,846	\$1,719,885	\$2,898,040	\$6,765,104
Russell B. Brewer II	\$500,000	\$1,077,827	\$31,644	\$1,832,299	\$3,068,670	\$6,510,440
Bruce E. Stern	\$470,000	\$855,240	\$21,644	\$1,184,061	\$1,988,903	\$4,519,848

- (1) For PSUs, the applicable performance period would end on the date of a change in control and the amount which would become vested would be determined based on the performance through such date.

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- (2) In the event of a termination without cause on or after a change in control prior to the agreed retirement date of December 31, 2018, Mr. Michener shall remain eligible for all payments and accelerated vesting of equity awards consistent with other executive officers without any change as a result of the Separation Agreement.

The salary continuation, cash incentive compensation and benefits columns in the Termination Without Cause Payments table and the Change-in-Control Severance table represent amounts that would be payable to each executive officer under the terms of the severance policy for executive officers. Under the terms of the policy, each named executive officer receives one year of salary, the average of the last three annual cash incentive compensation amounts, a pro-rata annual cash incentive compensation payment for the year of termination and one year of benefits which represent medical plan and dental plan premiums paid by our Company at the same level as was paid just prior to termination.

For the purpose of these tables, the value of RSUs and PSUs has been determined by multiplying the number of shares of that would have become vested on December 31, 2017 based on each applicable termination described above and based on target performance or the actual performance determined as if the performance period ended on such date by the closing price of our Common Shares on December 31, 2017, which was \$33.87.

In addition to the amounts listed in the tables, upon a termination of employment for any of the reasons described above, the executives would be entitled to distributions from the qualified and non-qualified defined contribution retirement plans maintained by the Company and affiliates. For the named executive officers, the aggregate qualified and non-qualified defined contribution retirement account balances as of December 31, 2017 for Messrs. Frederico, Bailenson, Michener, Brewer and Stern are as follows, respectively: \$8,823,458, \$6,043,347, \$4,213,889, \$7,336,359 and \$3,667,991. Retirement account balances will be paid upon termination in accordance with the terms of the plans, as described below.

If an executive officer had been terminated for cause on December 31, 2017, he would not have received any severance payments and would have forfeited all unvested RSUs and PSUs, receiving only salary payments through the termination date and vested retirement benefits under our Company's retirement plans.

Severance payments, restricted stock vesting and retirement plan contributions assume no subsequent employment after termination. Certain rights to vesting and distributions following retirement or a termination without cause are subject to continued compliance with applicable restrictive covenants and may be forfeited by the executive in the event of a violation of such covenants (and in certain circumstances, the executive may be required to repay certain amounts in the event of a violation of such covenants).

See Compensation Disclosure and Analysis Separation Agreement for a description of Mr. Michener's Separation Agreement.

## **CEO PAY RATIO**

In 2017, the annual total compensation of Dominic J. Frederico, our President and Chief Executive Officer was \$13,526,784. The annual total compensation of our median employee was \$234,048. As a result, the ratio of the annual total compensation of our CEO to our median employee was 57.8 to 1.

We identified the median employee by examining the 2017 annual total compensation for all individuals, excluding our CEO, who were employed by us on December 31, 2017. We included all employees, whether employed on a full-time or part-time basis, and including all employees resident outside of the U.S. We did not make any assumptions, adjustments or estimates with respect to annual total compensation. We annualized the compensation for

any full-time employees who were not employed by us for all of 2017. We calculated the total compensation for our CEO and all of our employees excluding our CEO using the same methodology we use to calculate Total Annual Compensation for our named executive officers as set forth in the 2017 Summary Compensation table earlier in this proxy statement.

### **NON-QUALIFIED RETIREMENT PLANS**

All the executive officers participate in a non-qualified defined contribution retirement plan through an Assured Guaranty employer. These plans generally permit distributions only following a participant's termination of employment, and each of the plans imposes some additional restrictions on distributions as described below. A change in control under the current provisions of these plans does not entitle a participant to payment. Below is an overview of each plan.

#### **AG US GROUP SERVICES INC. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (AGUS SERP)**

The AG US Group Services Inc. Supplemental Executive Retirement Plan, which we refer to as the AGUS SERP, is a non-qualified retirement plan for higher-paid employees. Internal Revenue Code provisions, such as the annual limit on employee deferrals, limit the amount of contributions that these employees may make or have made on their behalf to the qualified AG US Group Services Inc.



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Employee Retirement Plan. Contributions credited to this supplemental plan mirror the employee contributions, employer matching contributions, and 6% employer contributions that would have been made under the AG US Group Services Inc. Employee Retirement Plan had the Internal Revenue Code provisions not limited the contributions. The plan also permits discretionary employer contributions.

A participant does not vest in employer contributions until he or she has completed one year of service, but the participant will vest earlier if he or she dies or attains age 65 while employed by a specified Assured Guaranty employer.

Distribution of a participant's account balances will be made as a lump sum. However, a participant may elect to receive payment of his or her account balances in annual installments over a period not exceeding five years, but only if, at the time of termination, the participant has attained age 55 and completed at least five years of service, and the amount of the participant's account balances is at least \$50,000.

A participant who is considered to be a specified employee as defined in Section 409A of the Internal Revenue Code and whose payment of benefits begins by reason of termination of employment may not begin to receive such payment until six months after termination of employment.

Benefits that were accrued prior to January 1, 2009 that would otherwise have been subject to Section 457A of the Internal Revenue Code were distributed in a single lump-sum payment on January 6, 2017 to satisfy the requirements of Sections 409A and 457A of the Internal Revenue Code.

**ASSURED GUARANTY LTD. SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN (AGL SERP)**

The Assured Guaranty Ltd. Supplemental Executive Retirement Plan, which we refer to as the AGL SERP, is a non-qualified retirement plan for higher-paid employees. Internal Revenue Code provisions, such as the annual limit on employee deferrals, limit the amount of contributions that these employees may make or have made on their behalf to the qualified Assured Guaranty Ltd. Employee Retirement Plan. To satisfy the requirements of Section 457A of the Internal Revenue Code, U.S. taxpayers did not accrue additional benefits under the AGL SERP on and after January 1, 2009, and, as permitted by Sections 409A and 457A of the Internal Revenue Code, the AGL SERP was amended to require the distribution in 2017 of all benefits that were accrued prior to January 1, 2009 and that would otherwise have been subject to Section 457A of the Internal Revenue Code. Accrued benefits of executive officers in the AGL SERP (other than participant account balances invested in the employer stock fund) were transferred from the AGL SERP to the Assured Guaranty Corp. Supplemental Executive Retirement Plan, which we refer to as the AGC SERP, in 2012. Accrued benefits of executive officers in the AGC SERP were transferred from the AGC SERP to the AGUS SERP effective January 1, 2017. The remaining balances held by executive officers in the AGL SERP were invested in the employer stock fund and were distributed as Common Shares in a single lump-sum payment on January 6, 2017 to satisfy the requirements of Sections 409A and 457A of the Internal Revenue Code. On the day such distributions were made to the Company's Chief Executive Officer and to the Company's General Counsel, the Company repurchased a like number of Common Shares from such officers. See "What Related Person Transactions Do We Have?" Following such distribution, no executive officers have any accrued benefits remaining in the AGL SERP. Any additional benefits for the executive officers accrue in the AGUS SERP described above.

**INCENTIVE PLANS**

All the executive officers have previously received awards pursuant to our Company's long-term incentive plan and in prior years received awards under our Company's PRP. For the 2017 performance year, in 2018, the executive officers received a grant of performance share units and RSUs as described below, but did not receive a grant of PRP. Below is an overview of the plans.

**ASSURED GUARANTY LTD. 2004 LONG-TERM INCENTIVE PLAN**

The 2004 Long-Term Incentive Plan, as amended, provides for the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards, which include awards such as restricted shares, RSUs or performance share units, and cash incentive awards to employees selected by the Compensation Committee. The Compensation Committee specifies the terms of the award, including the vesting period applicable to the award, at the time it grants the award to the employee, and includes the terms in an award agreement between the employee and our Company.

Performance share units were granted in 2015 through 2018 that will vest at the end of a three-year performance period if certain performance conditions (based on the highest 40-day average share price during the last eighteen months of such period exceeding certain share price hurdles) are satisfied and if the participant continues to be employed through the end of such three-year period, with limited exceptions as described below.

The participant is entitled to pro-rata vesting of the performance share units in the event of termination prior to the end of the vesting period due to death or disability, an involuntary termination without cause, a voluntary termination for good reason or, a voluntary termination due to retirement, if certain requirements are met and if, and only to the extent that, the performance conditions are satisfied at the end of the applicable performance period. In the event of a change in control, the performance share units vest only to the extent that the performance conditions are satisfied at the time of the change in control and only if the participant remains employed through the end of the three-year performance period, provided, however that the vesting of the performance share units shall be accelerated following such change in control in the event of termination following the change in control but prior to the end of the vesting period due to death or disability, an involuntary termination without cause, a voluntary termination for good reason or in the event that the acquirer does not agree to continue such award following the change in control.

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RSUs were granted from 2015 through 2018 that will vest at the end of a three-year vesting period if the participant remains employed through the end of such period. Such vesting may be accelerated in the event of termination prior to the end of the vesting period due to death or disability or in the event of a change in control where the acquirer does not agree to continue such award following the change in control. Additionally, the participant may remain entitled to continued vesting of such RSUs following an involuntary termination without cause, a voluntary termination for good reason or a voluntary termination due to retirement during the vesting period if certain requirements are met, including the participant signing of a release of claims against our Company and continuing to comply with applicable restrictive covenants.

**ASSURED GUARANTY LTD. PERFORMANCE RETENTION PLAN**

The Performance Retention Plan was established in 2006 to permit the grant of cash-based awards to selected employees and give to the Compensation Committee greater flexibility in establishing the terms of performance retention awards, including the ability to establish different performance periods and performance objectives. PRP awards may be treated as nonqualified deferred compensation subject to the rules of Section 409A of the Internal Revenue Code. The PRP is a sub-plan under our Company's Long-Term Incentive Plan (enabling awards under the plan to be performance based compensation exempt from the \$1 million limit on tax deductible compensation).

From 2008 through 2014, our Company integrated PRP awards into its long-term incentive compensation program for the executive officers and certain selected employees. The executive officers stopped receiving PRP awards beginning in 2015 and the last outstanding PRP award to anyone who was an executive officer as of December 31, 2017 vested on December 31, 2017. Generally, each PRP award is divided into three installments, with 25% of the award allocated to a performance period that includes the year of the award and the next year, 25% of the award allocated to a performance period that includes the year of the award and the next two years, and 50% of the award allocated to a performance period that includes the year of the award and the next three years. Each installment of an award vests if the participant remains employed through the end of the performance period for that installment (or vests on the date of the participant's death, disability, or retirement if that occurs during the performance period). Payment for each performance period is made at the end of that performance period. One half of each installment is increased or decreased in proportion to the increase or decrease of core ABV per share during the performance period, and one half of each installment is increased or decreased in proportion to the core operating ROE during the performance period. However, if, during the performance period, a participant dies or becomes permanently disabled while employed, the amount for any such incomplete performance period shall equal the portion of the award allocated to such performance period. Core operating ROE and core ABV are defined in each PRP award agreement.

In the case of outstanding PRP awards granted to the executive officers, if a payment would otherwise be subject to the \$1 million limit on tax deductible compensation, no payment will be made unless performance satisfies a minimum threshold for the applicable performance period, there must be positive growth in our core ABV per share and our core operating ROE must have been at least 3% on average for each year in the applicable performance period. If a payment is forfeited because the minimum threshold is not satisfied, but in a subsequent performance period, there is either positive growth in our core ABV per share or our core operating ROE is at least 3% on average for each year in the applicable performance period, and the executive officer remains employed at our Company, then the executive officer will receive the forfeited payment.

Table of Contents**EQUITY COMPENSATION PLANS INFORMATION**

The following table summarizes our equity compensation plans as of December 31, 2017:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,029,855 <sup>(1)</sup>	\$ 17.48	10,124,066 <sup>(2)</sup>
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>TOTAL</b>	<b>1,029,855</b>	<b>\$ 17.48</b>	<b>10,124,066</b>

- (1) Includes Common Shares to be issued upon exercise of outstanding stock options and performance stock options granted under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan. Does not include purchase rights currently accruing under the Assured Guaranty Ltd. Employee Stock Purchase Plan because the purchase price (and therefore the number of shares to be purchased) will not be determined until the end of the purchase period, which is June 30, 2018. The purchase price under such plan is generally 85% of the

lower of the fair market value of a Common Share on the first day of the subscription period or on the exercise date.

- (2) Includes 89,171 Common Shares reserved for issuance under the Assured Guaranty Ltd. Employee Stock Purchase Plan. Includes 10,034,895 Common Shares available for stock options, restricted stock awards, RSUs, performance stock options and performance share units reserved for future issuance under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan. The grants of dividend equivalents of RSUs have reduced the number of shares available for future issuance.

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**AUDIT COMMITTEE REPORT**

The Audit Committee consists of four members of the Board of Directors. After reviewing the qualifications of the current members of the Audit Committee and any relationships they may have with our Company that might affect their independence from our Company, the Board of Directors has determined that:

each Audit Committee member is independent, as that concept is defined in Section 10A of the Exchange Act, the SEC rules promulgated thereunder, and the NYSE listing standards, of our Company and our management;

each Audit Committee member is financially literate, as contemplated by the NYSE listing standards; and

Mr. Buhl, Mr. Jones and Mr. O Kane are audit committee financial experts, as that term is defined under Item 407(d) of Regulation S-K.

The Audit Committee operates under a written charter approved by the Board of Directors, a copy of which is available on our website at [www.assuredguaranty.com/governance](http://www.assuredguaranty.com/governance). Each year, the Audit Committee reviews the charter and reports to the Board of Directors on its adequacy. As more fully described in the charter, the primary purpose of the Audit Committee is to assist the Board of Directors in its oversight of the integrity of our financial statements and financial reporting process; our compliance with legal and regulatory requirements and ethics programs as established by management; the system of internal accounting and financial controls; the audit process; the role and performance of our internal audit process; and the performance, qualification and independence of our independent auditor.

The Audit Committee annually evaluates the performance of our Company's independent auditor and provides assistance to the members of the Board of Directors in fulfilling their oversight of the financial reporting practices, including satisfying obligations imposed by Section 404 of the Sarbanes Oxley Act of 2002, and the financial statements of our Company. The Audit Committee selects the independent auditor for the Board of Directors to recommend to the shareholders to appoint. Our Company's current independent auditor is PricewaterhouseCoopers LLP, which we refer to as PwC.

PwC has served as our independent auditor since 2003. The Audit Committee believes there are significant benefits to having an independent auditor with an extensive history with the Company, including higher quality audit work and accounting advice, due to PwC's institutional knowledge of our business and operations, accounting policies and financial systems, and internal control framework and operational efficiencies.

Subject to our Company's shareholders' statutory right to set the terms of engagement for our independent auditor, including setting the remuneration of the independent auditor and authorizing the Board of Directors, through the Audit Committee, annually to set such terms of engagement, the Audit Committee contracts with and sets the fees paid to our independent auditor. The fees for services for PwC's audit services the past two fiscal years are set forth under Proposal No. 3: Appointment of Independent Auditor. Audit fees relate to professional services rendered for the audit of our consolidated financial statements, audits of the statutory financial statements of certain subsidiaries, review of quarterly consolidated financial statements and audit of internal control over financial reporting as required under Sarbanes Oxley Section 404.

The Audit Committee also determines that the non-audit services provided to our Company by the independent auditor are compatible with maintaining the independence of the independent auditor. The Audit Committee's pre-approval policies and procedures are discussed under Proposal No. 3: Appointment of Independent Auditor.

The Audit Committee annually conducts an evaluation of the independent auditor to determine if it will recommend the retention of the independent auditor. The Audit Committee is also involved in evaluating the qualifications and performance of the engagement team and lead partner. As part of the evaluation of the independent auditor, the engagement team and lead partner, the Audit Committee surveys select Company management and all members of the Audit Committee to evaluate the historical and recent performance of the independent auditor and to determine if the independent auditor is meeting our Company's expectations. Among other things, the Audit Committee considers PwC's independence, professional skepticism and objectivity, the quality and candor of PwC's communications with the Audit Committee and management, the quality and efficiency of the services provided by PwC, and the depth of PwC's understanding of the Company's business, operations and systems, including the potential effect on the financial statements of major risk and exposures facing the Company. In addition, the Audit Committee obtains and reviews, at least annually, a report by the independent auditor describing:

the firm's internal quality-control procedures;

any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation of the firm by governmental or professional authorities, within the preceding five years, and any steps taken to deal with any such issues; and

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to assess the independent auditors' independence, all relationships between the independent auditor and the Company.

The Audit Committee is also involved in evaluating the qualifications and performance of the engagement team and the lead partner. The Audit Committee considers the experience of the independent auditor in auditing companies in the financial guaranty insurance industry and considers the effect of changing independent auditors when assessing whether to retain the current independent auditor. Based upon the foregoing, and in light of the quality of audit services and sufficiency of resources provided, the Audit Committee believes choosing PwC as our Company's independent auditor would be in the best interest of the Company and its shareholders and recommends the retention of PwC as our Company's independent auditor for 2017.

Our Company's management prepares our consolidated financial statements in accordance with U.S. GAAP and is responsible for the financial reporting process that generates these statements. Management is also responsible for establishing and maintaining adequate internal controls over financial reporting and for performing an assessment of the effectiveness of these controls. PwC audits our year-end financial statements and reviews interim financial statements. PwC also audits the effectiveness of our internal controls over financial reporting. The Audit Committee, on behalf of the Board of Directors, monitors and reviews these processes, acting in an oversight capacity relying on the information provided to it and on the representations made to it by our management, PwC and other advisors. We have also retained Ernst & Young LLP, which we refer to as E&Y, to provide services to support our Company's internal audit program and compliance with Section 404 of the Sarbanes Oxley Act of 2002.

During the last year, and earlier this year in preparation for the filing with the SEC of the Company's Form 10-K, the Audit Committee:

reviewed and discussed the audited financial statements contained in the Form 10-K with management and PwC;

reviewed and discussed our quarterly earnings press releases and related materials;

reviewed the overall scope and plans for the internal and independent audits and the results of such audits;

reviewed critical accounting estimates and policies and the status of our loss reserves;

reviewed and discussed our compliance with our conflict of interest, regulatory compliance and code of conduct policies with the General Counsel or Deputy General Counsel;

reviewed and discussed our underwriting and risk management with the Chief Risk Officer, the Chief Surveillance Officer and the Chief Credit Officer, coordinating the oversight of underwriting and risk management with the Risk Oversight Committee;



reviewed our compliance with the requirements of Sarbanes Oxley Section 404 and our internal controls over financial reporting, including controls to prevent and detect fraud;

reviewed our whistleblower policy and its application;

discussed with PwC all the matters required to be discussed by U.S. GAAP, including those described in Auditing Standard No. 1301, Communications with Audit Committees, such as:

PwC's judgments about the quality, not just the acceptability, of our Company's accounting principles as applied in our financial reporting;

methods used to account for significant unusual transactions;

the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

the process used by management in formulating particularly sensitive accounting estimates and the basis for PwC's conclusions regarding the reasonableness of those estimates;

disagreements with management (of which there were none) over the application of accounting principles, the basis for management's accounting estimates, and disclosures in the financial statements; and

any significant audit adjustments and any significant deficiencies in internal control;

reviewed all other material written communications between PwC and management; and

discussed with PwC their independence from our Company and management, including a review of audit and non-audit fees, and reviewed in that context the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence.

At each quarterly meeting, E&Y has the opportunity to address pending issues with the Audit Committee and semi-annually specifically reviews the results of internal audits and the overall internal audit program.

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At each meeting, the Audit Committee meets in executive session (*i.e.*, without management present) with representatives of PwC to discuss the results of their examinations and their evaluations of our internal controls and overall financial reporting. Similar executive sessions are held at least semi-annually with representatives of E&Y. In addition, the Audit Committee meets regularly with certain members of senior management in separate sessions.

Based on the review and discussions referred to above, and in reliance on the information, opinions, reports or statements presented to the Audit Committee by our Company's management and PwC, the Audit Committee recommended to the Board of Directors that the December 31, 2017 audited consolidated financial statements be included in our Company's Annual Report on Form 10-K.

The foregoing report has been approved by the Audit Committee.

G. Lawrence Buhl, Chairman

Thomas W. Jones

Alan J. Kreczko

Michael T. O Kane

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**PROPOSAL NO. 2:**

**ADVISORY APPROVAL OF EXECUTIVE COMPENSATION**

Our shareholders have the opportunity to cast an advisory (nonbinding) vote to approve the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's compensation disclosure rules. This vote is being conducted in accordance with the requirements of Section 14A of the Exchange Act and the related rules of the SEC. Proposal No. 2 is Item 2 on the proxy card.

As described in detail under the heading "Executive Compensation Compensation Discussion and Analysis," our executive compensation program is designed to attract, motivate, and retain talented executives who possess the skills required to formulate and drive our Company's strategic direction and achieve annual and long-term performance goals necessary to create shareholder value. The program seeks to align executive compensation with shareholder value on an annual and long-term basis through a combination of base pay, annual incentives and long-term incentives. The Compensation Committee continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our shareholders' interests and current market practices. Please read the "Compensation Discussion and Analysis" discussion for additional details about our executive compensation programs, including information about the fiscal year 2017 compensation of our named executive officers.

We believe that our executive compensation programs are structured in the best manner possible to support our Company and our business objectives. We are asking our shareholders to indicate their support for our named executive officer compensation as described on pages 19 to 59 of this proxy statement, which include the "Compensation Discussion and Analysis" section and the compensation tables and related narrative disclosure. This proposal, commonly known as a "say-on-pay" proposal, gives our shareholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement.

**The board of directors recommends that you vote FOR  
the following resolution at the Annual General Meeting:**

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, the compensation tables and any related material disclosed in this proxy statement, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

The say-on-pay vote is advisory, and therefore not binding on our Company, the Compensation Committee or the Board of Directors. However, the Board of Directors and the Compensation Committee value the opinions of our shareholders and will review the voting results carefully. To the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

**Table of Contents****PROPOSAL NO. 3:****APPOINTMENT OF INDEPENDENT AUDITOR**

The appointment of our independent auditor is approved annually by our shareholders, who also annually authorize the Board of Directors, acting through its Audit Committee, to set the remuneration for our independent auditor. Proposal No. 3 is Item 3 on the proxy card.

At the recommendation of the Audit Committee, the Board of Directors recommends that shareholders appoint PricewaterhouseCoopers LLP as our independent auditor for the year ending December 31, 2018 and that shareholders authorize the Board of Directors, acting through its Audit Committee, to set the fees for our independent auditor. In making its recommendation with respect to the engagement of our independent auditor, the Audit Committee reviewed both the audit scope and estimated fees for professional services for the coming year.

PwC served as our independent auditor for the year ended December 31, 2017. Our audited financial statements for the year ended December 31, 2017 will be presented at the Annual General Meeting. Representatives of PwC will attend the Annual General Meeting and will have an opportunity to make a statement if they wish. They will also be available to answer questions at the meeting.

**INDEPENDENT AUDITOR FEE INFORMATION**

The following table presents fees for professional audit services rendered by PwC for the audit of our annual consolidated financial statements for 2017 and 2016 and fees for other services rendered by PwC in 2017 and 2016.

	2017	2016
Audit fees <sup>(1)</sup>	\$ 8,353,000	\$ 6,571,000
Audit-related fees <sup>(2)</sup>	\$553,000	\$ 1,164,000
Tax fees <sup>(3)</sup>	\$169,500	\$878,500
All other fees <sup>(4)</sup>	\$4,000	\$55,532

- (1) We paid audit fees, including costs, for the years ended December 31, 2017 and December 31, 2016 for professional services rendered in connection with:
- the audits of our consolidated financial statements, of management's assessment of internal controls over financial reporting and of the effectiveness of these controls
  - the statutory and GAAP audits of various subsidiaries
  - review of quarterly financial statements
- (2) Audit-related fees for the year ended December 31, 2017 related to audits of our employee benefit plans, agreed upon procedures related to our proxy statement, due diligence services for potential acquisitions and attestation procedures on Solvency II calculations of our U.K. subsidiaries.

Audit-related fees for the year ended December 31, 2016 related to audits of our employee benefit plans, agreed upon procedures related to our proxy statement, due diligence services for the acquisitions of CIFG Holding Inc. (the parent of CIFG Assurance North America, Inc.) and of MBIA UK Insurance Limited, and a balance sheet audit of our U.K. subsidiaries for Solvency II reporting.

- (3) Of the total amount of tax fees for 2017, \$146,500 related to tax compliance and \$23,000 related to tax advice. Of the total amount of tax fees for 2016, \$460,500 related to tax compliance and \$418,000 related to tax advice.

Compliance-related tax fees for 2017 and 2016 were for professional services rendered in connection with the preparation of the 2016 and 2015 federal tax returns. Compliance-related tax fees for 2016 also included tax compliance services related to the 2015 and 2016 stub-period returns of CIFG Holding Inc.

Tax advice-related fees for 2016 were primarily related to advice for the tax domicile of one of our Company's subsidiaries and tax diligence services.

In addition, in 2017 and 2016, PwC provided advice to us on various other tax matters.

- (4) Fees for 2016 primarily related to compliance services relating to the capital impact to beneficiaries of guarantees issued by the Company's U.K. subsidiaries.

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**PRE-APPROVAL POLICY OF AUDIT AND NON-AUDIT SERVICES**

The Audit Committee pre-approved all of the fees described above. The Audit Committee has adopted policies and procedures for the pre-approval of all audit and permissible non-audit services provided by our independent auditor, PwC. The Audit Committee provides a general pre-approval of certain audit and non-audit services on an annual basis. The types of services that may be covered by a general pre-approval include other audit services, audit-related services and permissible non-audit services. If a type of service is not covered by the Audit Committee's general pre-approval, the Audit Committee must review the service on a specific case by case basis and pre-approve it if such service is to be provided by the independent auditor. Annual audit services engagement terms and fees require specific pre-approval of the Audit Committee and management and the auditor will report actual fees versus the budget periodically throughout the year by category of service. Any proposed services exceeding pre-approved costs also require specific pre-approval by the Audit Committee. For both types of pre-approval, the Audit Committee will consider whether such services are consistent with the SEC's rules on auditor independence. Either the Audit Committee Chairman or the entire Audit Committee must pre-approve the provision of any significant additional audit fees in excess of the budgeted amount and/or any excess related to non-audit fees over the budgeted amount. All fees related to internal control work are pre-approved by the Audit Committee before such services are rendered. The Audit Committee pre-approved all of the fees described above pursuant to its pre-approval policies and procedures.

**The Board of Directors and the Audit Committee recommends that you vote FOR the appointment of PwC as the Company's independent auditor for the year ending December 31, 2018 and the authorization of the Board of Directors, acting through its Audit Committee, to set the fees for the independent auditor.**

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**PROPOSAL NO. 4:**

**PROPOSALS CONCERNING OUR SUBSIDIARY, ASSURED GUARANTY RE LTD.**

In accordance with AGL's By-Laws, if AGL is required or entitled to vote at a general meeting of any direct non-United States subsidiary of AGL, AGL's directors must refer the matter to the shareholders of AGL and seek authority from AGL's shareholders for AGL's representative or proxy to vote in favor of the resolution proposed by the subsidiary. AGL's directors must cause AGL's representative or proxy to vote AGL's shares in the subsidiary pro rata to the votes received at the general meeting of AGL. In addition, AGL's Board of Directors, in its discretion, may require that the organizational documents of each subsidiary of AGL organized under the laws of a jurisdiction outside the United States contain provisions substantially similar to these provisions. As a consequence, we are proposing that our shareholders authorize AGL to vote in favor of the following matters to be presented at the next annual general meeting of our subsidiary, Assured Guaranty Re Ltd., which we refer to as AG Re.

**PROPOSAL 4.1 ELECTION OF AG RE DIRECTORS**

We propose that AGL be directed to elect the following eight directors of AG Re: Howard W. Albert, Robert A. Bailenson, Russell B. Brewer, II, Gary Burnet, Ling Chow, Stephen Donnarumma, Dominic J. Frederico, and Walter A. Scott, with such persons constituting the entire board of directors of AG Re, to serve for one year terms commencing at the annual general meeting of AG Re. Other than Mr. Scott, each nominee is an officer of AGL or one of its subsidiaries and has consented to serve as a director of AG Re without fee if elected. Mr. Scott will receive director's fees of \$5,000 per annum if elected. We do not expect that any of the nominees will become unavailable for election as a director of AG Re, but if any nominees should become unavailable prior to the meeting, proxy cards, whether submitted by telephone, via the Internet or by mail, authorizing the proxies to vote for the nominees will instead be voted for substitute nominees recommended by AG Re's board of directors. Proposal 4.1 is Item 4A on the proxy card.

The biographies for these nominees are set forth below:

**Howard W. Albert**, age 58, has been Chief Risk Officer of AGL since May 2011. Prior to that, he was Chief Credit Officer of AGL from 2004 to April 2011. Mr. Albert joined Assured Guaranty in September 1999 as Chief Underwriting Officer of Capital Re Company, the predecessor to AGC. Before joining Assured Guaranty, he was a Senior Vice President with Rothschild Inc. from February 1997 to August 1999. Prior to that, he spent eight years at Financial Guaranty Insurance Company from May 1989 to February 1997, where he was responsible for underwriting guaranties of asset-backed securities and international infrastructure transactions. Prior to that, he was employed by Prudential Capital, an investment arm of The Prudential Insurance Company of America, from September 1984 to April 1989, where he underwrote investments in asset-backed securities, corporate loans and project financings.

Mr. Albert's experience in risk management, underwriting and credit and his position as the Chief Risk Officer of AGL make him valuable to the Board of Directors of AG Re.

**Robert A. Bailenson**, age 51, has been the Chief Financial Officer of AGL since June 2011. Mr. Bailenson has been with Assured Guaranty and its predecessor companies since 1990. Mr. Bailenson became Chief Accounting Officer of AGM in July 2009 and has been Chief Accounting Officer of AGL since May 2005 and Chief Accounting Officer of AGC since 2003. He was Chief Financial Officer and Treasurer of AG Re from 1999 until 2003 and was previously the Assistant Controller of Capital Re Corp., the Company's predecessor.

Mr. Bailenson's background as the Chief Financial Officer of AGL and as an accountant provides an important perspective to the Board of Directors of AG Re.

**Russell B. Brewer II**, age 61, has been Chief Surveillance Officer of AGL since November 2009 and Chief Surveillance Officer of AGC and AGM since July 2009 and has also been responsible for information technology at AGL since April 2015. Mr. Brewer has been with AGM since 1986. Mr. Brewer was Chief Risk Management Officer of AGM from September 2003 until July 2009 and Chief Underwriting Officer of AGM from September 1990 until September 2003. Mr. Brewer was also a member of the Executive Management Committee of AGM. He was a Managing Director of Assured Guaranty Municipal Holdings Inc. from May 1999 until July 2009. From March 1989 to August 1990, Mr. Brewer was Managing Director, Asset Finance Group, of AGM. Prior to joining AGM, Mr. Brewer was an Associate Director of Moody's Investors Service, Inc.



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Mr. Brewer's risk management and surveillance expertise and his position as the Chief Surveillance Officer of AGL enhance the deliberations of the Board of Directors of AG Re.

**Gary Burnet**, age 47, has been President of AG Re since August 2012, and prior to that he served as the Managing Director Chief Credit Officer of AG Re from 2006 until his appointment as President. Mr. Burnet also served as the Vice President Risk Management and Operations of AG Re from 2002 to 2005. Prior to joining our Company, Mr. Burnet's previous experience included two years at ACE Asset Management, where he was Investment Officer with responsibility for developing and modeling the ACE group's consolidated investment and insurance credit risk. Prior to ACE Asset Management, he was an Assistant Vice President Investments at ACE Bermuda. Mr. Burnet trained as a Chartered Accountant with Geoghegan & Co. CA from 1993 to 1996 in Edinburgh Scotland and also worked as an audit senior for Coopers & Lybrand from 1996 to 1998 in Bermuda.

As the President of AG Re, Mr. Burnet has the most comprehensive knowledge of its operations, including the key areas of underwriting credit risk, accounting and risk management.

**Ling Chow**, age 47, has been General Counsel and Secretary of AGL since January 1, 2018. Ms. Chow previously served as Deputy General Counsel and Assistant Secretary of AGL from May 2015 and as Assured Guaranty's U.S. General Counsel from June 2016. Prior to that, Ms. Chow served as Deputy General Counsel of Assured Guaranty's U.S. subsidiaries in several capacities from 2004. Before joining Assured Guaranty in 2002, Ms. Chow was an associate at Brobeck, Phleger & Harrison LLP, Cahill Gordon & Reindel and LeBoeuf, Lamb, Greene & MacRae, L.L.P.

Ms. Chow's experience as an attorney and her position as the General Counsel of AGL enables her to make valuable contributions as a member of the Board of Directors of AG Re.

**Stephen Donnarumma**, age 55, was appointed as a director of AG Re on September 11, 2012. Mr. Donnarumma has been the Chief Credit Officer of AGC since 2007, of AGM since its 2009 acquisition, and of MAC since its 2012 capitalization. Mr. Donnarumma has been with Assured Guaranty since 1993. Over the past 25 years, Mr. Donnarumma has held a number of positions at Assured Guaranty, including Deputy Chief Credit Officer of AGL, Chief Operating Officer and Chief Underwriting Officer of AG Re, Chief Risk Officer of AGC, and Senior Managing Director, Head of Mortgage and Asset-backed Securities of AGC. Prior to joining Assured Guaranty, Mr. Donnarumma was with Financial Guaranty Insurance Company from 1989 until 1993, where his responsibilities included underwriting domestic and international financial guaranty transactions. Prior to that, he served as a Director of Credit Risk Analysis at Fannie Mae from 1987 until 1989. Mr. Donnarumma was also an analyst with Moody's Investors Services from 1985 until 1987.

Mr. Donnarumma's experience with credit analysis and risk management, and his position as the Chief Credit Officer of AGM, MAC and AGC, provide important perspective to the Board of Directors of AG Re.

**Dominic J. Frederico** See Mr. Frederico's biography in Election of Directors Nominees for Director. The benefits of his experience described therein with respect to the Board of Directors of AGL also make him valuable as a director of AG Re.

**Walter A. Scott**, age 80, was the Chairman of the AGL Board of Directors from May 2005 until his retirement in May 2013, and a director of AGL from 2004 through 2013. Mr. Scott was Chairman, President and Chief Executive Officer of ACE from 1991 until his retirement in 1994, and President and Chief Executive Officer of ACE from 1989 to 1991. Subsequent to his retirement he served as a consultant to ACE until 1996. Mr. Scott was a director of ACE from 1989 through May 2005. Prior to joining ACE, Mr. Scott was President and Chief Executive Officer of Primerica's

financial services operations. Mr. Scott was also the Chairman of Vermont Hard Cider Company, LLC from 2003 until 2012, when that company was sold. Mr. Scott is an Emeritus Trustee of Lafayette College and a founding trustee of the Bermuda Foundation for Insurance Studies.

Mr. Scott's tenure on the AGL Board of Directors and lengthy experience at senior levels in the financial services industry allow him to provide valuable perspective to the Board of Directors of AG Re.

#### **PROPOSAL 4.2 APPOINTMENT OF AG RE AUDITOR**

We propose that AGL be directed to appoint PwC as the independent auditor of AG Re for the fiscal year ending December 31, 2018, subject to PwC being appointed as our Company's independent auditor. We expect representatives of PwC to be present at AGL's Annual General Meeting with an opportunity to make a statement if they wish and to be available to respond to appropriate questions. Proposal 4.2 is Item 4B on the proxy card.

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The following table presents fees for professional audit services rendered by PwC for the audit of AG Re's financial statements for 2017 and 2016.

	2017	2016
Audit fees	\$ 89,900	\$ 89,900
Audit related fees	\$	\$
Tax fees	\$	\$
All other fees	\$	\$

The above audit fees are also included in the audit fees shown in Proposal No. 3: Appointment of Independent Auditor.

*Other Matters.* The Board of Directors of AGL does not know of any matter to be brought before the annual general meeting of AG Re that we have not described in this proxy statement. If any other matter properly comes before the annual general meeting of AG Re, AGL's representative or proxy will vote in accordance with his or her judgment on such matter.

**The board of directors recommends that you direct AGL to vote  
FOR each of the proposals concerning AGL's subsidiary, AG Re.**

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**SHAREHOLDER PROPOSALS FOR 2019 ANNUAL MEETING**

**HOW DO I SUBMIT A PROPOSAL FOR INCLUSION IN NEXT YEAR S PROXY MATERIAL?**

If you wish to submit a proposal to be considered for inclusion in the proxy material for the next Annual General Meeting, please send it to the Secretary, Assured Guaranty Ltd., 30 Woodbourne Avenue, Hamilton HM 08, Bermuda. Under the rules of the SEC, proposals must be received no later than November 21, 2018 and otherwise comply with the requirements of the SEC to be eligible for inclusion in AGL s 2019 Annual General Meeting proxy statement and form of proxy.

**HOW DO I SUBMIT A PROPOSAL OR MAKE A NOMINATION AT AN ANNUAL GENERAL MEETING?**

Our Bye-Laws provide that if a shareholder desires to submit a proposal for consideration at an Annual General Meeting, or to nominate persons for election as directors, the shareholder must provide written notice of an intent to make such a proposal or nomination which the Secretary of the Company must receive at our principal executive offices no later than 90 days prior to the anniversary date of the immediately preceding Annual General Meeting. With respect to the 2019 Annual General Meeting, such written notice must be received on or prior to February 1, 2019. The notice must meet the requirements set forth in our Bye-Laws. Under the circumstances described in, and upon compliance with, Rule 14a-4(c) under the Exchange Act, management proxies would be allowed to use their discretionary voting authority to vote on any proposal with respect to which the foregoing requirements have been met.

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**INFORMATION ABOUT THE ANNUAL GENERAL MEETING AND VOTING**

**WHY DID I RECEIVE A NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS IN THE MAIL INSTEAD OF A FULL SET OF PROXY MATERIALS?**

In accordance with the rules of the SEC, instead of mailing a printed copy of the proxy statement, annual report and other materials (which we refer to as proxy materials) for our Annual General Meeting, we are furnishing proxy materials to shareholders on the Internet by providing a Notice Regarding the Availability of Proxy Materials (which we refer to as a Notice) to inform shareholders when the materials are available on the Internet.

If you receive the Notice by mail, you will not receive a printed copy of the proxy materials unless you specifically request one. Instead, the Notice instructs you on how you may access and review all of our proxy materials, as well as how to submit your proxy, over the Internet.

We will first make available the proxy statement, form of proxy card and 2017 annual report to shareholders at [www.assuredguaranty.com/annualmeeting](http://www.assuredguaranty.com/annualmeeting). The proxy materials will also be available at [www.proxyvote.com](http://www.proxyvote.com) on or about March 21, 2018 to all shareholders entitled to vote at the Annual General Meeting. You may also request a printed copy of the proxy solicitation materials by any of the following methods: via Internet at [www.proxyvote.com](http://www.proxyvote.com); by telephone at 1-800-579-1639; or by sending an e-mail to [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com). Our 2017 annual report to shareholders will be made available at the same time and by the same methods. If requesting materials by e-mail, please send a blank e-mail with the information that is printed in your Notice in the box marked by the arrow in the subject line.

g        XXXX   XXXX   XXXX   XXXX

We elected to use electronic notice and access for our proxy materials because we believe it will reduce our printing and mailing costs related to our Annual General Meeting.

**WHY HAS THIS PROXY STATEMENT BEEN MADE AVAILABLE?**

Our Board of Directors is soliciting proxies for use at our Annual General Meeting to be held on May 2, 2018, and any adjournments or postponements of the meeting. The meeting will be held at 8:00 a.m. London Time at 6 Bevis Marks, London, EC3A 7BA, United Kingdom.

This proxy statement summarizes the information you need to vote at the Annual General Meeting. You do not need to attend the Annual General Meeting to vote your shares.

**WHAT PROPOSALS WILL BE VOTED ON AT THE ANNUAL GENERAL MEETING?**

The following proposals are scheduled to be voted on at the Annual General Meeting:

The election of directors

An advisory vote to approve the compensation paid to our named executive officers

The appointment of PwC as our independent auditor for 2018 and the authorization of our Board of Directors, acting through its Audit Committee, to set the fees for the independent auditor

The direction of AGL to vote for the election of the directors of, and the appointment of the independent auditor for, our subsidiary AG Re

Our Board of Directors recommends that you vote your shares **FOR** each of the nominees and each of the foregoing proposals.

#### **ARE PROXY MATERIALS AVAILABLE ON THE INTERNET?**

#### **Important Notice Regarding the Availability of Proxy Materials for the Annual General Meeting to be Held on Wednesday, May 2, 2018**

Yes. Our proxy statement for the 2018 Annual General Meeting, form of proxy card and 2017 annual report to shareholders are available at [www.assuredguaranty.com/annualmeeting](http://www.assuredguaranty.com/annualmeeting). The proxy materials will also be available at [www.proxyvote.com](http://www.proxyvote.com) on or about March 21, 2018 to all shareholders entitled to vote at the Annual General Meeting.

You can obtain directions to attend the 2018 Annual General Meeting by contacting Virginia Reynolds at + 44 020 7562 1920 or at [vreynolds@agltd.com](mailto:vreynolds@agltd.com).

#### **WHO IS ENTITLED TO VOTE?**

March 8, 2018 is the record date for the Annual General Meeting. If you owned our Common Shares at the close of business on March 8, 2018, you are entitled to vote. On that date, 114,967,800 of our Common Shares were outstanding and entitled to vote at the Annual General Meeting, including 50,225 unvested restricted Common Shares. Our Common Shares are our only class of voting stock. On March 8, 2018, the closing price of our Common Shares on the New York Stock Exchange, which we refer to as the NYSE, was \$34.49.

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**HOW MANY VOTES DO I HAVE?**

You have one vote for each of our Common Shares that you owned at the close of business on March 8, 2018.

However, if your shares are considered controlled shares, which our Bye-Laws define generally to include all of our Common Shares directly, indirectly or constructively owned or beneficially owned by any person or group of persons, or owned by any United States person, as defined in the Internal Revenue Code, and such shares constitute 9.5% or more of our issued Common Shares, the voting rights with respect to your controlled shares will be limited, in the aggregate, to a voting power of approximately 9.5%, pursuant to a formula specified in our Bye-Laws.

The Notice indicates the number of Common Shares you are entitled to vote, without giving effect to the controlled share rule described above.

**WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A SHAREHOLDER OF RECORD AND AS A BENEFICIAL OWNER?**

Many of our shareholders are beneficial owners since they hold their shares through a stockbroker, bank or other nominee rather than as shareholders of record when they own shares directly in their own name. As summarized below, there are some differences between shares held of record and those owned beneficially.

**Shareholder of Record.** If your shares are registered directly in your name with our transfer agent, Computershare, you are the shareholder of record of those shares and these proxy materials are being sent to you directly. As the shareholder of record, you have the right to grant your voting proxy directly to AGL or to vote in person at the Annual General Meeting. You may vote by telephone or via the Internet as described below under the heading Information About the Annual General Meeting and Voting May I Vote by Telephone or via the Internet? or you may request a paper copy of the proxy materials and vote your proxy card by mail.

**Beneficial Owner.** If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and our proxy materials are being forwarded to you by your broker, bank or other nominee who is considered, with respect to those shares, the shareholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares and are also invited to attend the Annual General Meeting. However, since you are not the shareholder of record, you may only vote these shares in person at the Annual General Meeting if you follow the instructions described below under the heading How do I Vote in Person at the Annual General Meeting? Your broker, bank or other nominee has provided a voting instruction form for you to use in directing your broker, bank or other nominee as to how to vote your shares. You may also vote by telephone or on the Internet as described below under the heading May I Vote by Telephone or via the Internet?

**HOW DO I VOTE BY PROXY IF I AM A SHAREHOLDER OF RECORD?**

If you are a shareholder of record and you properly submit your proxy card (by telephone, via the Internet or by mail) so that it is received by us in time to vote, your proxy (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card (including electronic signatures in the case of Internet or telephonic voting) but do not make specific choices, your proxy will vote your shares as recommended by our Board of Directors (also referred to as our Board or the Board):

**FOR** each nominee for election of directors

**FOR** approval, on an advisory basis, of the compensation paid to our named executive officers

**FOR** the appointment of PwC as our independent auditor for 2018 and the authorization of our Board of Directors, acting through its Audit Committee, to set the fees for the independent auditor

**FOR** directing AGL to vote for each nominee for election of directors of, and the appointment of the independent auditor for, our subsidiary, AG Re

If any other matter is presented, your proxy will vote in accordance with the best judgment of the individuals named on the proxy card. As of the date of printing this proxy statement, we knew of no matters that needed to be acted on at the Annual General Meeting other than those discussed in this proxy statement.

#### HOW DO I GIVE VOTING INSTRUCTIONS IF I AM A BENEFICIAL OWNER?

If you are a beneficial owner of shares, your broker, bank or other nominee will ask you how you want your shares to be voted. If you give the broker, bank or other nominee instructions, the broker, bank or other nominee will vote your shares as you direct. If your broker, bank or other nominee does not receive instructions from you about how your shares are to be voted, one of two things can happen, depending on the type of proposal. According to rules of the NYSE:

Brokers, banks and other nominees have discretionary power to vote your shares with respect to routine matters  
Brokers, banks and other nominees do not have discretionary power to vote your shares on non-routine matters (such as the elections of directors or the advisory vote on executive compensation) unless they have received instructions from the beneficial owner of the shares

It is therefore important that you provide instructions to your broker, bank or other nominee if your shares are held by a broker, bank or other nominee so that your shares can be voted with respect to directors and executive compensation, and any other matters treated as non-routine by the NYSE.



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### **MAY I VOTE BY TELEPHONE OR VIA THE INTERNET?**

Yes. If you are a shareholder of record, you have a choice of voting over the Internet, voting by telephone using a toll-free telephone number or voting by requesting and completing a proxy card and mailing it in the return envelope provided. We encourage you to vote by telephone or over the Internet because your vote is then tabulated faster than if you mailed it. There are separate telephone and Internet arrangements depending on whether you are a shareholder of record (that is, if you hold your stock in your own name), or whether you are a beneficial owner and hold your shares in street name (that is, if your stock is held in the name of your broker, bank or other nominee).

If you are a shareholder of record, you may vote by telephone using the telephone number on the proxy card, or electronically through the Internet, by following the instructions provided on the Notice

If you are a beneficial owner and hold your shares in street name, you may need to contact your broker, bank or other nominee to determine whether you will be able to vote by telephone or electronically through the Internet. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' instructions have been recorded properly. If you vote via telephone or the Internet, you may incur costs, such as usage charges from Internet access providers and telephone companies. You will be responsible for those costs.

Whether or not you plan to attend the Annual General Meeting, we urge you to vote. Voting by telephone or over the Internet or by returning your proxy card by mail will not affect your right to attend the Annual General Meeting and vote. In order to assure that your votes, as a record holder, are tabulated in time to be voted at the Annual General Meeting, you must complete your voting over the Internet or by telephone or submit your proxy card so that it is received by 12:00 noon Eastern Daylight Time on May 1, 2018. Similarly, in order to assure that your votes, as a beneficial holder, are tabulated in time to be voted at the Annual General Meeting, you must submit your voting instructions so that your broker will be able to vote by 11:59 a.m. Eastern Daylight Time on April 30, 2018.

### **MAY I REVOKE MY PROXY?**

Yes. If you change your mind after you vote, you may revoke your proxy by following any of the procedures described below. If you are a shareholder of record, to revoke your proxy:

Send in another signed proxy with a later date or resubmit your vote by telephone or the Internet,

Send a letter revoking your proxy to our Secretary at 30 Woodbourne Avenue, Hamilton HM 08, Bermuda, or

Attend the Annual General Meeting and vote in person.

Beneficial owners who wish to change the votes submitted on their voting instruction cards should contact their respective broker, bank or other nominee to determine how and when

changes must be submitted so that the nominee can revoke and change their votes on their behalf.

If you wish to revoke your proxy or make changes to your voting instruction card, as applicable, you must do so in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the vote is taken.

### **HOW DO I VOTE IN PERSON AT THE ANNUAL GENERAL MEETING?**

You may vote shares held directly in your name as the shareholder of record in person at the Annual General Meeting. If you choose to vote your shares in person at the Annual General Meeting, please bring the Notice Regarding the Availability of Proxy Materials containing your control number or proof of identification. Shares held in street name

through your broker, bank or other nominee may be voted in person by you only if you obtain a signed proxy from the shareholder of record giving you the right to vote the shares. You must bring such signed proxy to the Annual General Meeting, along with an account statement or letter from the broker, bank or other nominee indicating that you are the beneficial owner of the shares and that you were the beneficial owner of the shares on March 8, 2018.

Even if you plan to attend the Annual General Meeting, we recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual General Meeting. However, while proxy voting is subject to the time deadlines described above, shareholders attending the meeting in person may vote during the Annual General Meeting as long as they satisfy the requirements described in this section.

#### **WHAT VOTES NEED TO BE PRESENT TO HOLD THE ANNUAL GENERAL MEETING?**

To have a quorum for our Annual General Meeting, two or more persons must be present, in person or by proxy, representing more than 50% of the Common Shares that were outstanding on March 8, 2018.

#### **WHAT VOTE IS REQUIRED TO APPROVE EACH PROPOSAL?**

The affirmative vote of a majority of the votes cast on such proposal at the Annual General Meeting is required for each of:

The election of each nominee for director

The appointment of PwC as our independent auditor for 2018 and the authorization of our Board of Directors, acting through its Audit Committee, to set the fees for the independent auditor

Directing AGL to vote for the election of directors of, and the appointment of the independent auditor for, our subsidiary, AG Re

The vote on the compensation paid to our named executive officers is advisory in nature so there is no specified requirement

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for approval. However, the Board of Directors and the Compensation Committee value the opinions of our shareholders and will review the voting results carefully. To the extent there is any significant vote against the named executive officers' compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns. In addition, the Compensation Committee and the Board of Directors will consider the outcome of the most recent vote on the frequency of the vote on named executive officer compensation when determining how frequently such vote will be submitted to shareholders.

### **HOW ARE VOTES COUNTED?**

Your vote may be cast **FOR** or **AGAINST**, or you may **ABSTAIN**, with respect to each of the nominees for AGL director, with respect to directing AGL to vote for each of the nominees for director of its subsidiary AG Re, and with respect to each of the other proposals on the agenda.

If you sign (including electronic signatures in the case of Internet or telephonic voting) your proxy card with no further instructions, your shares will be voted in accordance with the recommendations of the Board. If you sign (including electronic signatures in the case of Internet or telephonic voting) your broker, bank or other nominee voting instruction card with no further instructions, your shares will be voted in the broker's, bank's or nominee's discretion with respect to routine matters but will not be voted with respect to non-routine matters. As described in **How do I Give Voting Instructions if I am a Beneficial Owner?**, elections of directors and the advisory vote on executive compensation are considered non-routine matters. We will appoint one or more inspectors of election to count votes cast in person or by proxy.

### **WHAT IS THE EFFECT OF BROKER NON-VOTES AND ABSTENTIONS?**

A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Common Shares that are beneficially owned and are voted by the beneficiary through a broker, bank or other nominee will be counted towards the presence of a quorum, even if there are broker non-votes with respect to some proposals, as long as the broker, bank or nominee votes on at least one proposal. Common Shares owned by shareholders electing to abstain from voting with respect to any proposal also will be counted towards the presence of a quorum.

Although broker non-votes will be counted towards the presence of a quorum, broker non-votes will not be included in the tabulation of the shares voting with respect to elections of

directors or other matters to be voted upon at the Annual General Meeting. Therefore, broker non-votes will have no direct effect on the outcome of any proposal to be voted upon at the Annual General Meeting.

While abstentions will be counted towards the presence of a quorum, abstentions will not be included in the tabulation of the shares voting with respect to elections of directors or other matters to be voted upon at the Annual General Meeting. Therefore, abstentions will have no direct effect on the outcome of any proposal to be voted upon at the Annual General Meeting.

### **WHAT ARE THE COSTS OF SOLICITING THESE PROXIES AND WHO WILL PAY THEM?**

We will pay all the costs of soliciting these proxies. Our directors and employees may also solicit proxies by telephone, by fax or other electronic means of communication, or in person. We will reimburse banks, brokers, nominees and other fiduciaries for the expenses they incur in forwarding the proxy materials to you. Alliance Advisors, 200 Broadacres Drive, Bloomfield, New Jersey 07003, is assisting us with the solicitation of proxies for a fee of \$20,000 plus out-of-pocket expenses.

**WHERE CAN I FIND THE VOTING RESULTS?**

We will publish the voting results in a Form 8-K that we will file with the SEC by May 8, 2018. You will also be able to find this Form 8-K on our website at [www.assuredguaranty.com/sec-filings](http://www.assuredguaranty.com/sec-filings) by May 8, 2018.

**DO DIRECTORS ATTEND THE ANNUAL GENERAL MEETING?**

Our Corporate Governance Guidelines provide that directors are expected to attend our Annual General Meeting and any special meeting of shareholders we call to consider extraordinary business transactions, unless they are unable to do so as a result of special circumstances. All of our directors then in office attended the Annual General Meeting that was held on May 3, 2017.

**CAN A SHAREHOLDER, EMPLOYEE OR OTHER INTERESTED PARTY COMMUNICATE DIRECTLY WITH OUR BOARD? IF SO, HOW?**

Our Board provides a process for shareholders, employees or other interested parties to send communications to our Board.

Shareholders, employees or other interested parties wanting to contact the Board concerning accounting or auditing matters may send an e-mail to the Chairman of the Audit Committee at [chmaudit@agltd.com](mailto:chmaudit@agltd.com)

Shareholders, employees or other interested parties wanting to contact the Board, the independent directors, the

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Chairman of the Board, the chairman of any Board committee or any other director, as to other matters may send an e-mail to corpsecy@agltd.com. The Secretary has access to both of these e-mail addresses

Shareholders, employees or other interested parties may send written communications to the Board c/o Secretary, 30 Woodbourne Avenue, Hamilton HM 08, Bermuda. Mail to Bermuda is not as prompt as e-mail

Communication with the Board may be anonymous. The Secretary will forward all communications to the Board to the Chairman of the Audit Committee or the Chairman of the Nominating and Governance Committee, who will determine when it is appropriate to distribute such communications to other members of the Board or to management.

## **WHOM SHOULD I CALL IF I HAVE ANY QUESTIONS?**

If you have any questions about the Annual General Meeting or voting, please contact Ling Chow, our Secretary, at (441) 279-5725 or at generalcounsel@agltd.com. If you have any questions about your ownership of our Common Shares, please contact Robert Tucker, our Managing Director, Investor Relations and Corporate Communications, at (212) 339-0861 or at rtucker@agltd.com.

## **HOW DOES HOUSEHOLDING WORK?**

Please note we may deliver a single copy of the Notice and, if applicable, a single set of our 2017 annual report to shareholders and our proxy statement, to households at which two or more shareholders reside, unless an affected shareholder has provided contrary instructions. Individual proxy cards or voting instruction forms (or electronic voting facilities), as applicable, will, however, continue to be provided for each shareholder account. This procedure, referred to as householding, reduces the volume of duplicate information received by shareholders, as well as our expenses. Upon written or oral request, we will promptly deliver, or arrange for delivery, of a separate copy of the Notice and, if applicable, a separate set of our annual report and other proxy materials to any shareholder at a shared address to which a single copy of any of those documents was delivered. To receive a separate copy of the Notice and, if applicable, a separate set of our annual report and proxy materials, you may write or call Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, New York 11717, Attention: Householding Department, telephone (866) 540-7095. Shareholders currently sharing an address with another shareholder who wish to have only one copy of our Notice or annual report and other proxy materials delivered to the household in the future should also contact Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, New York 11717, Attention: Householding Department, telephone (866) 540-7095.

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**OTHER MATTERS**

The Board of Directors of AGL does not know of any matters which may be presented at the Annual General Meeting other than those specifically set forth in the Notice of Annual General Meeting. If any other matters properly come before the meeting or any adjournment thereof, the persons named in the accompanying form of proxy and acting thereunder will vote in accordance with their best judgment with respect to such matters.

By Order of the Board of Directors,

Ling Chow

Secretary

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