

REPORT ON EXAMINATION

OF

AGIC, INC

SARASOTA, FLORIDA

AS OF

JUNE 30, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
HISTORY	2
GENERAL	2
DIVIDENDS TO STOCKHOLDERS.....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
COST ALLOCATION AGREEMENT	9
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	11
LOSS EXPERIENCE	12
REINSURANCE	12
ACCOUNTS AND RECORDS	12
CUSTODIAL AGREEMENT	13
MANAGING GENERAL AGENT AGREEMENTS.....	13
INDEPENDENT AUDITOR AGREEMENT	13
INFORMATION TECHNOLOGY REPORT	14
STATUTORY DEPOSITS	14
FINANCIAL STATEMENTS PER EXAMINATION	14
ASSETS.....	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	18

COMMENTS ON FINANCIAL STATEMENTS.....19
ASSETS.....22
LIABILITIES19
CAPITAL AND SURPLUS19
SUMMARY OF RECOMMENDATIONS.....20
CONCLUSION.....21

March 9, 2012

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of June 30, 2011, of the financial condition and corporate affairs of:

AGIC, INC.
4054 SAWYER ROAD
SARASOTA, FLORIDA 34233

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of September 28, 2009, through June 30, 2011. This is a first year examination of the Company. This examination commenced with planning at the Florida Office of Insurance Regulation Office on August 8, 2011. The fieldwork commenced on August 22, 2011, and concluded as of March 9, 2012.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Agent Appointments

The Company did not appoint agents in a timely manner. This was not in compliance with Section 626.112 or Section 626.752 (Exchange of Business), Florida Statutes.

HISTORY

General

The Company was incorporated in Florida on September 28, 2009, commenced business on October 1, 2009, as AGIC, Inc and began writing business on February 23, 2010.

The Company was party to Consent Order 106077-09-CO, filed August 28, 2009, regarding the application for the issuance of a Certificate of Authority. The Company met the requirements of this order.

The Company was authorized to transact the following insurance coverage in Florida on June 30, 2011:

Private passenger auto physical damage
Private passenger auto liability

The articles of incorporation and the bylaws were adopted during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of June 30, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Ask Gary Holdings, LLC, who owned 100% of the stock issued by the Company, who in turn was 75% owned by Dr. Gary Kompothecras and 25% owned by ABSAK, a trust which is controlled by Dr. Gray Kompothecras.

The parent contributed \$4,999,000 in cash upon incorporation.

The Company reported on the June 30, 2011, Quarterly statement, a value of \$5,000,000 for its capital stock. Only \$1,000 was capital stock and the remaining \$4,999,000 should have been reported as Gross Paid in and Contributed Surplus. **Subsequent Event:** The Company's March 31, 2012 Quarterly statement correctly reported the Capital Stock and Gross Paid in and Contributed Surplus.

Surplus Notes

The Company received \$2,500,000 in the form of a surplus note upon incorporation from its parent, Ask Gary Holdings, LLC. In addition, the Company reported a receivable in the amount of \$2,000,000 from its parent on the June 30, 2011 financial statement. The Company failed to file these two surplus notes issued during July and August 2011 for prior approval with the Office in violation of Section 628.402(3), Florida Statutes. Documents revealing the filing for approval of surplus contributions were provided. Approval was granted by the Office; however, there was no notice in the initial request that such contributions were to be made as surplus notes. The Company represented that there would be cash contributions of \$2 million made during July and August 2011, and failed to state that it would be in form of surplus notes requiring filing and a approval by the Office prior to the issuance of such notes. **Subsequent Event:** The Company filed the surplus note agreements for review by the Office and they were approved on December 15, 2011.

The Company did not disclose the amount of accrued interest relating to its outstanding surplus notes as of June 30, 2011 in its filed financial statement as required by Section 628.401(2), Florida Statutes. **Subsequent Event:** The amount of accrued interest relating to surplus notes was properly disclosed in the Annual Statement as of December 31, 2011.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The Company appointed agents per Section 626.752 Florida Statutes, Exchange of Business, rather than the normal appointment process per Section 626.112, Florida Statutes. Under this process, agents were required to be appointed once they placed 25 policies with the Company. During a review of new business, there were 59 instances of failure to appoint agents timely in 2010 and an additional 8 instances during 2011 through June 30.

The Company's investment activities could not be verified as required by Section 625.304, Florida Statutes due to the lack of Board minutes.

Conflict of Interest

The Company provided a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The Company did not maintain minutes of the annual shareholder meeting for the election of directors. **Subsequent Event:** The Company minutes, dated August 1, 2011 documented the election of directors. Directors serving as of June 30, 2011, were:

Directors

Name and Location	Principal Occupation
Dr. Gary Kompothecras Sarasota, Florida	President/Chairman, Physicians Group LLC
Vincent J. Payne Sarasota, Florida	President, AGIC Inc
Michael Smyth Sarasota, Florida	Regional Sales Representative, Pella Corp.
Jay Burmer Tampa, Florida	Owner, Green Wolf Group LLC
Howard T. Johnson, Jr Leesburg, Florida	Exec VP, IB Green and Associates

The Board did not maintain minutes. According to alternative Company source documents, senior officers appointed were the following:

Senior Officers

Name	Title
Gary Kompothecras	Chairman of the Board
Michael Smyth	Vice Chairman of the Board
James Brown (a)	President
Americo Borza (b)	President
Vincent Payne	President
Howard T. Johnson, Jr	Vice President
Jay Burmer	Secretary/Treasurer

- (a) Resigned on December 4, 2009, and was replaced by Americo Borza as President on December 4, 2009.
- (b) Resigned on August 21, 2010, and was replaced by Vincent Payne as President on August 21, 2010.

The Company's management had no documentation of the Board appointment of one internal committee. Following was the principal internal board committee and its members as of June 30, 2011:

Audit Committee

Vincent Payne, Chairman
Laura Lopez
Jay Burner

Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

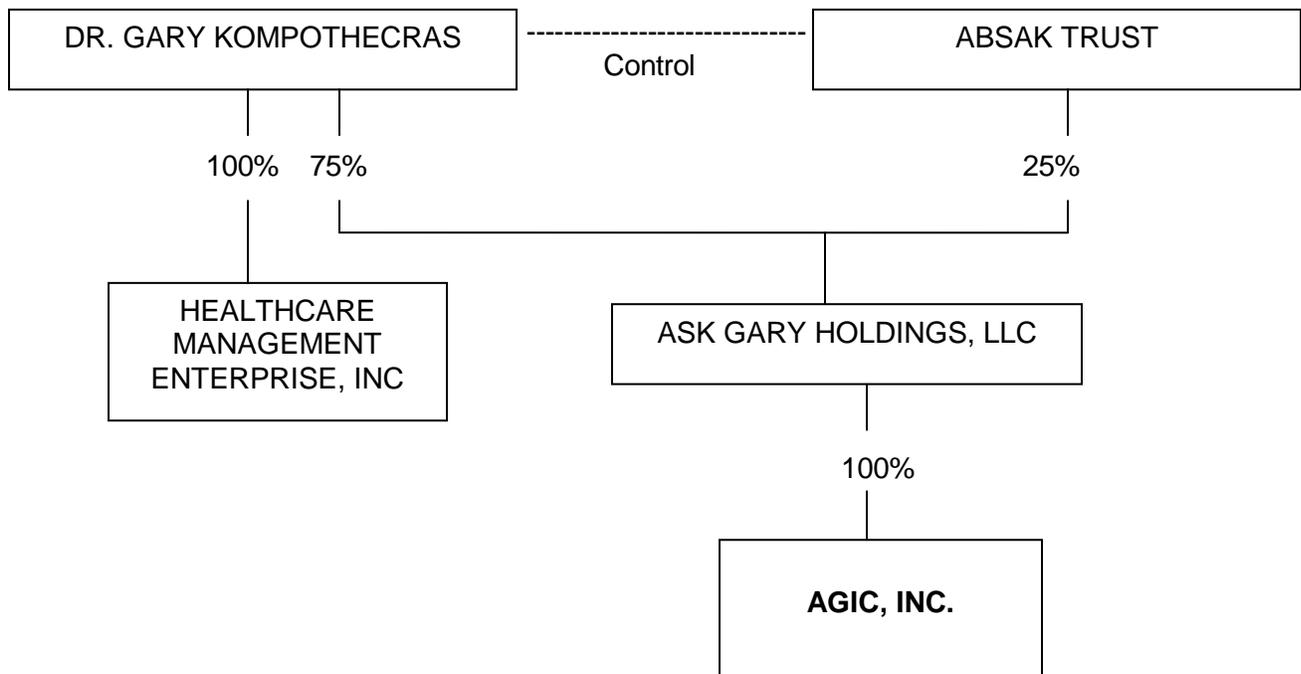
The Company did not disclose all related parties in its financial statements. Dr. Gary Kompothecras, the ultimate owner of the Company, had multiple ownership interests in companies which were not disclosed on Schedule Y or in the notes to the annual statement. The non-disclosure of related party interests was not in compliance with the 2010 NAIC Annual Statement Instructions in regard to presentation of Schedule Y, Part 1-Organizational Chart and Schedule Y, Part 2-Summary of Insurer's Transactions with Any Affiliates.

Subsequent Event: All related parties that had common ownership interests were disclosed in the Annual Statement as of December 31, 2011, both in the Footnotes and Schedule Y. However, it was not reported correctly. It is recommended that this information is correctly reported on future filings.

A simplified organizational chart as of June 30, 2011, reflecting the holding company system, is shown below. (Additional 25% of Ask Gary Holdings, LLC is owned by ABSAK Trust.)

**AGIC, INC.
ORGANIZATIONAL CHART**

June 30, 2011



The following agreements were in effect between the Company and its affiliates:

Cost Allocation Agreement

The Company had a Cost Allocation Agreement with an affiliate, Healthcare Management Enterprise, Inc, dated October 7, 2009. The agreement allocated cost of office space, equipment, supplies, and certain non-management personnel for the Company. Fees incurred during the first 6 months of 2011 amounted to \$6,500.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There was no pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company began writing business in February of 2010. It has been identified that the initial rate filings were inadequate for the business written. The cancellation rates and claim filings were also much higher than anticipated. In response to the deteriorating financial results in the first half of 2011, the Company tightened underwriting criteria and filed for premium rate increases which caused a decrease in business. Additional surplus contributions were required to maintain minimum surplus levels at June 30, 2011. Subsequent to the examination date, the Company began a review of its underwriting guidelines, an evaluation of its agency force and a review of the adequacy of its premium rates before writing any new business.

The following table reflects the premium volumes for 2010 and 2011 for comparison and is intended to present the rapid policy growth and cancellation experience during 2010 and early 2011 (amounts are cumulative):

Date	New & Renewal Policies	Written Premium	Cancelled Policies	# of Claims
2010	7,318	\$7,334,257	4,280	397
Jan 2011	9,508	\$9,036,580	4,940	512
Feb 2011	13,068	\$11,996,244	5,570	671
Mar 2011	15,930	\$14,353,756	6,698	942
Apr 2011	19,920	\$17,021,734	7,959	1,219
May 2011	21,958	\$18,739,588	9,556	1,514
June 2011	23,979	\$20,301,480	11,008	1,795
July 2011	25,628	\$21,429,609	12,385	2,024
Aug 2011	26,679	\$22,290,625	13,659	2,252

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual and quarterly statements.

	June, 2011	2010
Premiums Earned	6,570,717	1,941,257
Net Underwriting Gain/(Loss)	(3,334,268)	(2,555,097)
Net Income	(2,865,907)	(2,075,522)
Total Assets	16,395,837	11,172,760
Total Liabilities	11,846,397	5,310,805
Surplus As Regards Policyholders	4,549,440	5,861,955

LOSS EXPERIENCE

Loss experience was high. Subsequent to the examination period, new business writings decreased as management developed a strategic plan.

REINSURANCE

The Company had no reinsurance agreements in place as of June 30, 2011.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Sarasota, Florida.

An independent CPA audited the Company's statutory basis financial statements for 2010, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records are maintained using manual Excel spreadsheets. Data is downloaded monthly from the two administrators in the areas of premiums and claims and loaded into a database for reporting and analysis by the statutory accounting clerk.

Examiners experienced delays in obtaining requested information in several areas of the examination. During the planning phase of the examination, information requested by the IT examiner was not timely submitted causing a delay of the IT review. Information requested in the Corporate Governance area related to Board of Directors and Committee minutes was not provided causing additional delays and added procedures. Due to the lack of documented controls at the home office, it was determined that on-site reviews at the Third Party Administrators ("TPAs")

would be necessary to gain comfort over the operations conducted in the premium and claims processing areas.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Merrill Lynch, executed on June 10, 2011.

The Company was in compliance with Rule 69O-143.042, Florida Administrative Code.

Premium and Claims Servicing Agreements

The Company had a non-affiliated premium services agreement (MGA) to produce insurance business with Irvin B. Green and Associates (IB Green). The MGA was responsible for underwriting, billing, collecting premiums, paying commissions, and had binding authority on behalf of the Company. IB Green was responsible for maintaining complete and accurate files and records.

The Company had a Claims Service Agreement with North American Risk Services, Inc. (NARS), a Delaware claim services company with principal offices in Maitland, Florida. Under the terms of this agreement, NARS was responsible for providing claims adjusting and administrative services to the Company.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Eide Bailly performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes :

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 750,000</u>	<u>\$ 750,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 750,000</u>	<u>\$ 750,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$750,000</u>	<u>\$750,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of June 30, 2011, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

AGIC, Inc

Assets

JUNE 30, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$6,060,040		\$6,060,040
Cash and Short-Term Investments	2,513,184		2,513,184
Interest and dividend income due and accrued	103,478		103,478
Agents' Balances:			
Uncollected premium	1,254,748		1,254,748
Deferred premium	3,412,519		3,412,519
Current federal tax recoverable	4,417		4,417
Net deferred tax asset	89,539		89,539
EDP equipment	8,876		8,876
Receivable from parents, subsidiaries and affiliates	2,000,000		2,000,000
Aggregate write-in for other than invested assets	949,036		949,036
			<hr/>
Totals	<u>\$16,395,837</u>		<u>\$16,395,837</u>

AGIC, Inc
Liabilities, Surplus and Other Funds

JUNE 30, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,583,030		\$4,583,030
Loss adjustment expenses	852,592		852,592
Commissions payable	1,032,344		1,032,344
Other expenses	27,907		27,907
Unearned premium	5,333,178		5,333,178
Advance premium	17,346		17,346
Total Liabilities	\$11,846,397		\$11,846,397
Common capital stock	\$5,000,000	(\$4,999,000)	\$1,000
Surplus notes	2,500,000	2,000,000	4,500,000
Gross paid in and contributed surplus	2,000,000	2,999,000	4,999,000
Unassigned funds (surplus)	(4,950,560)		(4,950,560)
Surplus as regards policyholders	\$4,549,440		\$4,549,440
Total liabilities, surplus and other funds	\$16,395,837	\$0	\$16,395,837

AGIC, Inc
Statement of Income

JUNE 30, 2011

Underwriting Income

Premiums earned		\$6,570,717
	Deductions:	
Losses incurred		\$5,581,033
Loss expenses incurred		1,478,002
Other underwriting expenses incurred		2,845,951
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$9,904,985</u>
Net underwriting gain or (loss)		(\$3,334,268)

Investment Income

Net investment income earned		\$146,629
Net realized capital gains or (losses)		(19,450)
Net investment gain or (loss)		<u>\$127,179</u>

Other Income

Finance and service charges not included in premiums		<u>\$341,182</u>
Total other income		<u>\$341,182</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,865,907)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,865,907)
Federal & foreign income taxes		0
Net Income		<u><u>(\$2,865,907)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$5,861,956
Net Income		(\$2,865,907)
Change in net deferred income tax		823,579
Change in non-admitted assets		(1,270,187)
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		2,000,000
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$1,312,515</u>
Surplus as regards policyholders, June current year		<u><u>\$4,549,440</u></u>

A comparative analysis of changes in surplus is shown below.

AGIC, Inc
Comparative Analysis of Changes in Surplus

JUNE 30, 2011

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders June 30, 2011, per Annual Statement	\$4,549,440
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustments			
LIABILITIES:			
Losses			\$0
No Adjustments			
Net Change in Surplus:			<hr/>
Surplus as Regards Policyholders June 30, 2011, Per Examination			<hr/> <hr/> <u>\$4,549,440</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$5,435,622

An independent actuarial analysis was conducted as part of this examination by EVP Advisors (EVP). EVP performed an independent calculation of reserves as of June 30, 2011 based upon information provided by the Company. The result of this calculation indicated that a reserve range from \$5,282,300 on the low-end to \$6,451,103 on the high-end would be appropriate. The mid-point of the range in this case would be \$5,866,701. Reserves per the June 30, 2011 Quarterly Statement filed by the Company reported \$5,435,622. The amount reported was less than the mid-point of the range, which was not in compliance with Section 625.091, Florida Statutes.

Subsequent Event: The reserves were reviewed again during the 12/31/2011 examination and will be addressed in the examination report as of December 31, 2011.

Capital and Surplus

The Company's surplus reported in the June 30, 2011 Quarterly Statement of \$4,549,440 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Agent Appointments

We recommend that the Company appoint agents in compliance with Section 626.112 or Section 626.752, Exchange of Business, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AGIC, Inc.** as of June 30, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,549,440, which is above the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Rick Nelson, Principal CFE CIE, Ryan Havick, Senior Manager CFE, Examiners-In-Charge and Derek Petersen and Tim Klemz, Participating Examiners, of Eide Bailly, LLP participated in the examination. In addition, Chuck Emma, FCAS MAAA and Sarah Petersen, FCAS MAAA, consulting actuaries of EVP Advisors, Zac Wanzek, CPA CISA, IT Senior Associate of Eide Bailly, LLP also participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation