

**REPORT ON EXAMINATION**  
**OF**  
**AMERICAN STRATEGIC INSURANCE**  
**CORP.**

**ST. PETERSBURG, FLORIDA**

**AS OF**  
**DECEMBER 31, 2011**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

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April 5, 2013

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 December 31, 2011, of the financial condition and corporate affairs of:

**AMERICAN STRATEGIC INSURANCE CORP.  
805 EXECUTIVE CENTER DRIVE WEST, SUITE 300  
ST. PETERSBURG, FLORIDA 33702**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on January 7, 2013, to January 11, 2013. The fieldwork commenced on January 28, 2013, and concluded as of April 5, 2013.

This financial examination was an association 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**

There were no material findings or exceptions noted during the examination as of December 31, 2011.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2006.

## **HISTORY**

### **General**

The Company was incorporated in Florida on August 18, 1997, and commenced business on December 18, 1997, as American Strategic Insurance Corp.

The Company was authorized to transact the following insurance coverage in Florida on various dates, and continued to be authorized as of December 31, 2011:

Fire	Allied lines
Homeowners multiple peril	Commercial multi peril
	Other liability

Both the Articles of Incorporation and Bylaws were amended during the period covered by this examination. The first amendment to the Articles of Incorporation was dated April 11, 2007 to increase the number of authorized shares of common stock to one million shares. The second amendment to the Articles of Incorporation, effective July 30, 2007, increased the number of authorized shares to five million. The amendment to the Bylaws was dated March 14, 2008 and it stated that the same individual could not hold the offices of president and secretary.

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2009 and 2008 in the amounts of \$19,000,000 and \$10,000,000, respectively.

### **Capital Stock and Capital Contributions**

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, ARX Holding Corporation, which owned 100% of the stock issued by the Company. ARX Holding Corporation is owned 46% by XL Re Ltd., a Bermuda company, 25% by ARX Executive Holdings, LLLP, a Florida company, 10% by Marc Fasteau, a New York resident, 10% by Fasteau Insurance Holdings, LLC, a Delaware company, and the remaining 9% was owned by various other individuals and entities.

The parent contributed \$70,800,001 gross paid in and contributed surplus to the Company as of December 31, 2011.

## **Surplus Notes**

The Company did not have any surplus notes during the period of this examination.

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

On March 15, 2008, the Company invested \$4,000,000 for a 40% interest in a newly formed subsidiary, ASI Preferred Insurance Corp. ARX Holding Corp. owns the remaining 60% of ASI Preferred Insurance Corp.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted 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 annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

#### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
John Franklin Auer St. Petersburg, Florida	American Strategic Insurance Corp. President, Director and CEO
Susan Cross (a) Hamilton, Bermuda	XL Re, Ltd. Senior Vice President
Marc Fasteau New York, New York	Fulcrum Partners, LLC Managing Director
Gregory Scott Hendrick Hamilton, Bermuda	XL Re, Ltd. Senior Vice President
Kevin Robert Milkey St. Petersburg, Florida	American Strategic Insurance Corp. Executive Vice President

(a) Resigned effective January 1, 2013, and was replaced by Charles Cooper effective January 1, 2013.

The Board in accordance with the Company's bylaws appointed the following senior officers:

#### Senior Officers

<b>Name</b>	<b>Title</b>
John Franklin Auer	President and Treasurer
Kevin Robert Milkey	Executive Vice President
Angel Bostick	Vice President and General Counsel
Mary Frances Fournet	Vice President
Antonio Scognamiglio	Vice President
Marc Fasteau	Chairman and Secretary

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

**Audit Committee**

Marc Fasteau <sup>1</sup>  
Susan Cross  
Gregory Scott Hendrick

**Investment Committee**

Marc Fasteau <sup>1</sup>  
John Franklin Auer  
Gregory Scott Hendrick

<sup>1</sup> Chairman

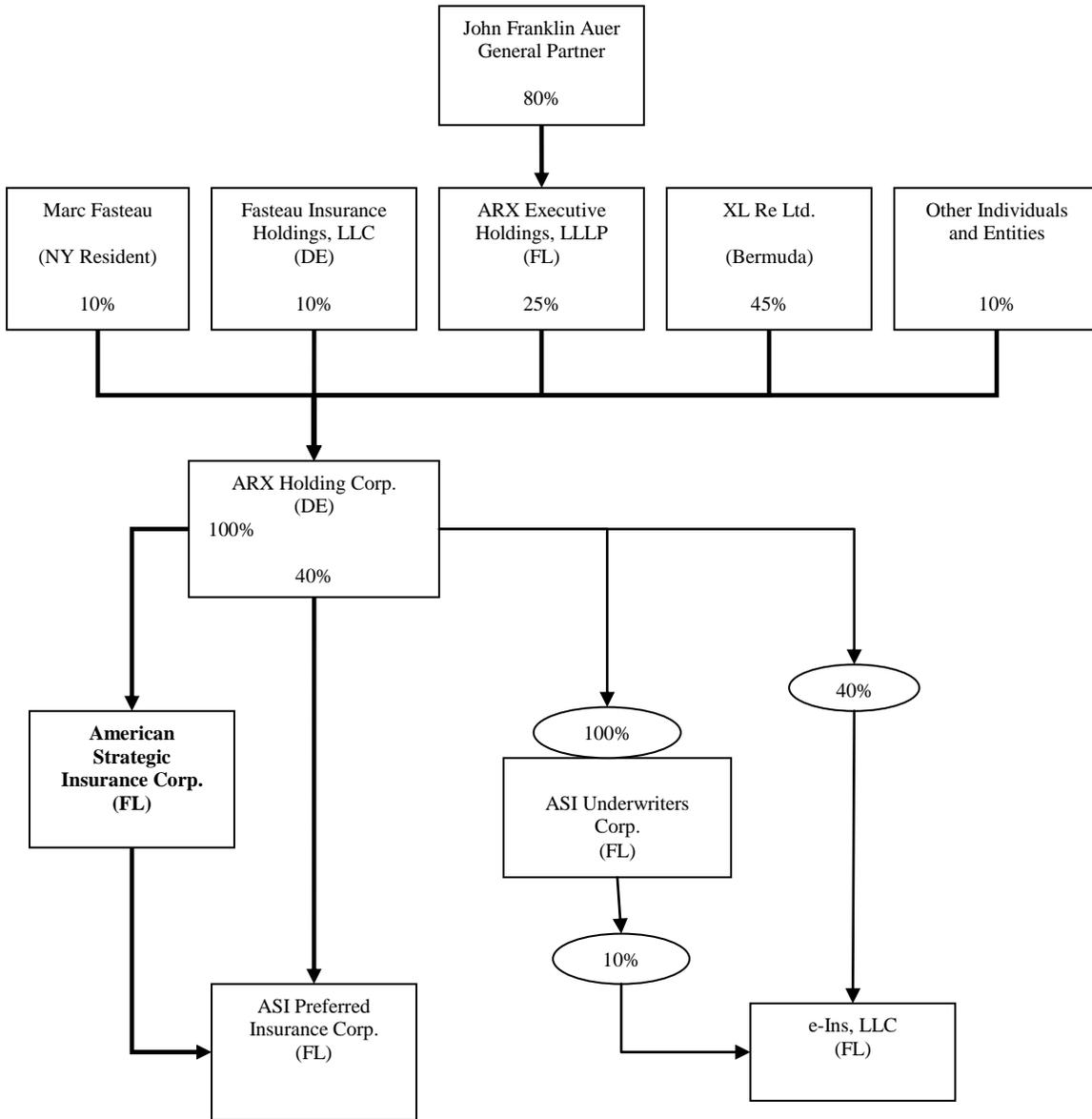
**Affiliated Companies**

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 January 24, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**AMERICAN STRATEGIC INSURANCE CORP.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2011**



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

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2011, the method of allocation between the Company and its parent was in an amount not to exceed that which would have been due had the Company and its subsidiary filed a separate income tax return. Within ninety (90) days of the remittance by the Company of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

### **Intercompany Settlement Agreement**

The Company entered into an agreement, effective December 1, 2010, with related parties through common ownership, ARX Holding Corp. and Safe Harbour Holding, LLC, whereby the Companies mutually acknowledge that in the ordinary course of business, it may become feasible for one company to pay expenses on behalf of another company. In such cases, the companies shall submit a monthly bill for any expenses incurred on behalf of another and shall remit payment in full no later than ninety (90) days after receipt.

### **Managing General Agent Agreement**

The managing general agent (MGA) audit report was obtained and no significant findings were noted. The Company entered into a Managing General Agency Agreement with its affiliate, ASI Underwriters, Inc. on November 1, 2006. The agreement was originally for a one-year term and automatically renews each successive year, unless otherwise terminated within the guidelines of the agreement. For underwriting and premium processing services, the Company pays a monthly commission based on 8% of premium written for all lines of business except commercial and a

monthly commission based on 10% of premium written for Commercial business plus a \$25 policy fee. Claims administration services were included in the agreement. For claims processing, the Company paid a monthly commission based on 5% of non-catastrophe paid losses and 1% for catastrophe paid losses.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,500,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability insurance, commercial package liability and property insurance coverage during the period of this examination.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company's employees were covered by a qualified, defined-contribution plan sponsored by the Company. The assets were commingled under one plan with its affiliates, ASI Underwriters of Texas, Inc., American Capital Assurance Corp., ASI Preferred Insurance Corp., ASI Underwriters Corp., ASI Lloyds, Safe Harbour Underwriters, LLC and Sunshine Security Insurance Agency, Inc. Contributions of up to 6% of each employee's compensation were made each pay period. The Company's contribution for 2011 was \$38,765.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states:

Alabama	Illinois	Pennsylvania
Arizona	Maryland	South Carolina
Colorado	Massachusetts	Tennessee
Connecticut	Minnesota	Utah
Delaware	Nevada	Virginia
District of Columbia	New Jersey	Washington
Florida	North Carolina	Wisconsin
Georgia	Oregon	

### **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's gross written premiums have averaged approximately \$266 million during the examination period as compared to approximately \$291 million during 2006. The Company is the twentieth largest in Florida with regards to homeowners' premiums with 71,871 policies in force. The Company has generated a profit each year during the period under examination.

## Profitability of Company

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Premiums Earned	204,932,239	176,423,571	131,653,818	119,257,613	127,985,054
Net Underwriting Gain/(Loss)	(11,647,753)	13,459,839	17,844,293	23,341,115	45,944,696
Net Income	338,356	16,044,269	18,449,886	20,451,960	39,426,020
Total Assets	438,012,004	393,096,699	323,966,426	278,831,130	259,280,528
Total Liabilities	272,760,511	230,231,018	188,707,596	144,015,974	136,496,858
Surplus As Regards Policyholders	165,251,493	162,865,681	135,258,830	134,815,157	122,783,669

## LOSS EXPERIENCE

The Company has experienced a negative trend regarding its loss experience during the past five years. Listed on the following page is a table that details the Company's one year and two year loss development during the period of this examination.

Description	2011	2010	2009	2008	2007
One Year Loss Development (000):					
Development in estimated losses and loss expenses	(10,677)	(9,680)	(11,844)	(7,382)	(4,424)
Percent of development to policyholders' surplus	(6.6)	(7.2)	(8.8)	(6.0)	(5.8)
Two Year Loss Development (000):					
Development in estimated losses and loss expenses	(17,258)	(17,078)	(12,663)	(6,639)	(5,172)
Percent of development to policyholders' surplus	(12.8)	(12.7)	(10.3)	(8.7)	(12.6)

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### Assumed

As of December 31, 2011, the Company assumed risk on a quota share basis from two affiliated companies, ASI Preferred Insurance Corp. and ASI Lloyds.

### Ceded

The Company ceded risk on an excess of loss basis to a variety of authorized and unauthorized affiliate and non-affiliate reinsurers. The Company's reinsurance program consisted of multiple layers of excess catastrophe coverage, multi-line excess per risk coverage and excess catastrophe coverage (hurricane only – Florida Hurricane CAT Fund).

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in St. Petersburg, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011, 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 were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with JP Morgan Chase Bank National Association effective October 22, 2007. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code.

## 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 690-137.002 (7) (c), Florida Administrative Code.

## INFORMATION TECHNOLOGY REPORT

Steven R. Sigler, CFE, AES, CISA, of Examination Resources, LLC, 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	\$2,023,395	\$2,023,395
FL	RIO RANCHO TAX, 5.0%, 06/15/15	<u>325,000</u>	<u>364,553</u>
TOTAL FLORIDA DEPOSITS		\$2, 348,395	\$2, 387,948
TOTAL OTHER DEPOSITS		<u>1,014,562</u>	<u>1,051,298</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$3,362,957</u></u>	<u><u>\$3,439,246</u></u>

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 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."

**AMERICAN STRATEGIC INSURANCE CORP.**

**Assets**

**DECEMBER 31, 2011**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$388,393,143	\$0	\$388,393,143
Stocks:			
Common	6,216,896		6,216,896
Cash and Short-Term Investments	20,973,576		20,973,576
Agents' Balances:			
Uncollected premium	(4,361,098)		(4,361,098)
Deferred premium	4,640,610		4,640,610
Reinsurance recoverable	674,397		674,397
Current federal and foreign income tax recoverable and interest thereon	4,233,435		4,233,435
Net deferred tax asset	13,362,061		13,362,061
EDP Equipment	318,846		318,846
Interest and dividend income due & accrued	3,195,569		3,195,569
Receivable from parents, subsidiaries and affiliates	161,079		161,079
Aggregate write-in for other than invested assets	203,490		203,490
	<hr/>		<hr/>
Totals	<u>\$438,012,004</u>	<u>\$0</u>	<u>\$438,012,004</u>

**AMERICAN STRATEGIC INSURANCE CORP.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2011**

	Per Company	Examination Adjustments	Per Examination
Losses	\$83,812,591		\$83,812,591
Reinsurance payable on paid losses and loss adjustment expenses	5,288,109		5,288,109
Loss adjustment expenses	9,813,411		9,813,411
Commissions payable, conringent commissic	2,263,530		2,263,530
Other expenses	767,296		767,296
Taxes, licenses and fees	2,462,248		2,462,248
Unearned premium	130,953,327		130,953,327
Advance premium	7,749,049		7,749,049
Ceded reinsurance premiums payable	12,805,394		12,805,394
Funds held under reinsurance treaties	12,981,186		12,981,186
Provision for reinsurance	254,000		254,000
Payable to parent, subsidiaries and affiliates	1,714,630		1,714,630
Aggregate write-ins for liabilities	1,895,740		1,895,740
<b>Total Liabilities</b>	<b>\$272,760,511</b>	<b>\$0</b>	<b>\$272,760,511</b>
Aggregate write-ins for special surplus funds	\$736,871		\$736,871
Common capital stock	5,000,000		5,000,000
Gross paid in and contributed surplus	70,800,001		70,800,001
Unassigned funds (surplus)	88,714,621		88,714,621
<b>Surplus as regards policyholders</b>	<b>\$165,251,493</b>	<b>\$0</b>	<b>\$165,251,493</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$438,012,004</b>	<b>\$0</b>	<b>\$438,012,004</b>

**AMERICAN STRATEGIC INSURANCE CORP.**  
**Statement of Income**

**DECEMBER 31, 2011**

**Underwriting Income**

Premiums earned		\$204,932,239
	<b>Deductions:</b>	
Losses incurred		\$124,844,007
Loss expenses incurred		14,202,153
Other underwriting expenses incurred		77,533,833
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$216,579,993
Net underwriting gain or (loss)		(\$11,647,754)

**Investment Income**

Net investment income earned		\$10,642,980
Net realized capital gains or (losses)		408,703
Net investment gain or (loss)		\$11,051,683

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$10,316
Finance and service charges not included in premiums		756,489
Aggregate write-ins for miscellaneous income		(3,567)
Total other income		\$763,238

Net income before dividends to policyholders and before federal & foreign income taxes		\$167,168
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$167,168
Federal & foreign income taxes		(171,189)
Net Income		\$338,357

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$162,865,681
Net Income		\$338,356
Net unrealized capital gains or losses		494,697
Change in net deferred income tax		1,921,316
Change in non-admitted assets		(114,557)
Change in provision for reinsurance		(254,000)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$2,385,812
Surplus as regards policyholders, December 31 current year		\$165,251,493

A comparative analysis of changes in surplus is shown below.

**AMERICAN STRATEGIC INSURANCE CORP.  
Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 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 December 31, 2011, per Annual Statement	\$165,251,493
-----------------------------------------------------------------------------	---------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment	\$0	\$0	\$0
LIABILITIES:			
No Adjustment	\$0	\$0	\$0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$165,251,493</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$93,626,002

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Brent M. Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

### Capital and Surplus

The amount of Capital and surplus reported by the Company of \$165,251,493, exceeded the minimum of \$26,555,281 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Strategic Insurance Corp.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$165,251,493, which exceeded the minimum of \$26,555,281 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Scott R. Kalna, CFE, MCM, Examiner-In-Charge, Beverly A. Dale, CFE, CIE, FLMI, CPA, Participating Examiner, Bradley R. Hazelwood, CPA, MCM, Participating Examiner, Steven R. Sigler, CFE, MCM, AES, CISA, IT Specialist, all of Examination Resources, LLC, participated in the examination. In addition, Brent M. Sallay, FCAS, MAAA, consulting actuary of Taylor-Walker & Associates, Inc., Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Kyra D. Brown, APIR, Financial Specialist and Joycelyn A. Galletta, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation