

REPORT ON EXAMINATION
OF
AMERICAN TRADITIONS INSURANCE COMPANY

PINELLAS PARK, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 05, 2009

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, 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, 2008, of the financial condition and corporate affairs of:

**AMERICAN TRADITIONS INSURANCE COMPANY
7785 66TH STREET
PINELLAS PARK, FLORIDA 33781**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on June 29, 2009, to July 2, 2009. The fieldwork commenced on July 6, 2009, and was concluded as of November 05, 2009.

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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Demotech Financial Stability Ratings report and the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA)

and other reports, as considered necessary, were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no exceptions or findings in the examination as of December 31, 2007.

HISTORY

General

The Company was incorporated in Florida on August 9, 2005, as a stock property and casualty insurer and commenced business on January 1, 2006, as American Traditions Insurance Company.

The Company was party to Consent Order 82430-05-CO filed August 1, 2005, with the Office regarding the application for the issuance of a Certificate of Authority.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

| | |
|------------------------|-----------------------------|
| Allied Lines | Mobile Home Multi Peril |
| Fire | Mobile Home Physical Damage |
| Homeowners Multi Peril | Other Liability |
| Inland Marine | |

The Company wrote Homeowners, Mobile Homeowners and Inland Marine during 2008. The Company has been in contact with the Office concerning an extension of time to start writing Other

Liability line of business. The Company was also licensed to write Allied Lines and Fire but had not written any business in those lines during 2008. The Company was not in compliance with Section 624.430, Florida Statutes.

Subsequent event: The Company requested from the Office the retention of its Allied and Fire lines of business on its Certificate of Authority.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

| | |
|--|---------|
| Number of authorized common capital shares | 1,000 |
| 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, Jerger Holding Corporation, a Florida Corporation, who owned 100% of the stock issued by the Company.

Profitability of Company

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

| | 2008 | 2007 | 2006 |
|----------------------------------|-------------|-------------|-------------|
| Premiums Earned | 18,552,092 | 15,406,394 | 2,970,167 |
| Net Underwriting Gain/(Loss) | 2,140,418 | 1,813,771 | (2,884,935) |
| Net Income | 2,029,692 | 1,604,488 | (2,342,967) |
| Total Assets | 27,925,997 | 23,316,474 | 17,137,204 |
| Total Liabilities | 19,086,236 | 16,676,957 | 12,767,372 |
| Surplus As Regards Policyholders | 8,839,761 | 6,639,517 | 4,369,832 |

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

Management

The annual shareholders meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

| Name and Location | Principal Occupation |
|---|--|
| Thomas John Jerger Pinellas Park, FL | Chairman and CEO American Traditions and Modern USA Insurance Companies |
| Thomas John Jerger, Jr. Clearwater, FL | President American Traditions and Modern USA Insurance Companies |
| Doug Francis Vatter Cornwall on Hudson, NY | President West Point Underwriters, LLC |
| Brian James Adamski Lutz, FL | Treasurer and CFO American Traditions and Modern USA Insurance Companies |
| Raymond Mark Blacklidge Wesley Chapel, FL | Senior Vice President, Secretary and General Counsel American Traditions and Modern USA Insurance Companies |
| Richard Mitchell Jerger St. Petersburg, FL | Director American Traditions and Modern USA Insurance Companies |
| Christopher Alan Morson Miami, FL | Financial Advisor Janney Montgomery Scott, LLC |
| Joel Peter Yanchuck Treasure Island, FL | Attorney Yanchuck, Berman, Wadley & Zervos PA |

Dan Lee Hurley
Ellenton, FL

Vice President of Compliance
American Traditions and Modern USA
Insurance Companies

The Board of Directors, in accordance with the Company's bylaws, appointed the following senior officers that were serving at December 31, 2008:

Senior Officers

| Name | Title |
|-------------------------|--|
| Thomas John Jerger | CEO |
| Thomas John Jerger, Jr. | President |
| Brian James Adamski | Treasurer and CFO |
| Dan Lee Hurley | Vice President of Compliance |
| Justin Darby Locke | Controller |
| Raymond Mark Blacklidge | Senior Vice President, Secretary and General Counsel |

Following are the principal internal board committees and their members as of December 31, 2008:

Investment Committee

Thomas John Jerger ¹
Brian James Adamski
Christopher Alan Morson

¹ Chairman

Audit Committee

Christopher Alan Morson ¹
Richard Mitchell Jerger, Jr.
Thomas John Jerger
Joel Peter Yanchuck

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

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 accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

Surplus Debenture

The Company had no surplus debentures during the period covered by this examination.

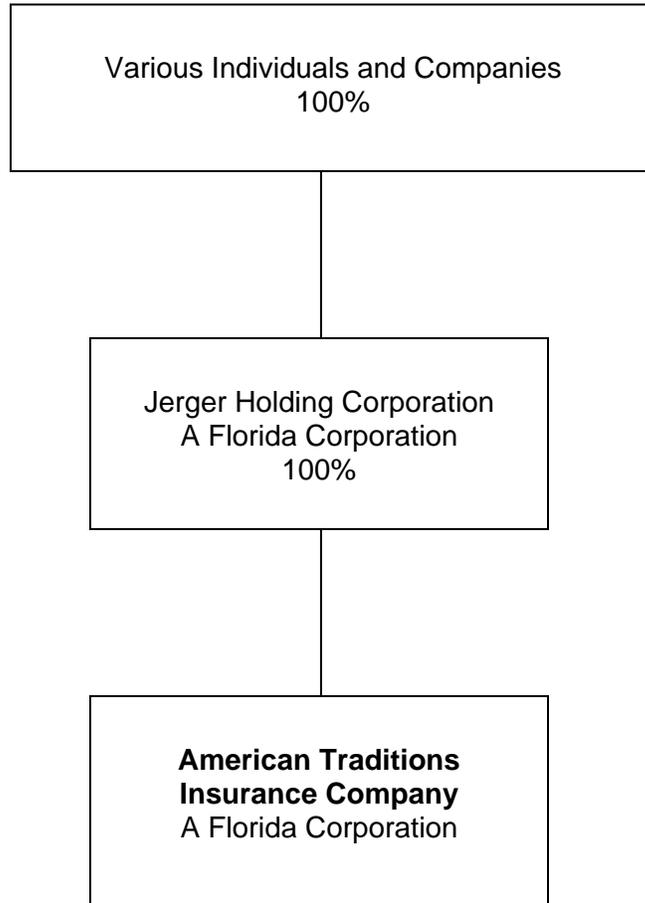
AFFILIATED COMPANIES

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 11, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 Annual Statement provided a list of all related companies of the holding company group.

**AMERICAN TRADITIONS INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



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

Consolidated Income Tax Agreement

The Company and its parent Jerger Holding Corporation, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was such that each entity should contribute its fair and equitable share of the taxes paid, provided that they should not be required to pay more than they would have paid if they had computed and paid their tax liabilities on a separate basis.

Facilities Agreement

The Company had a Facilities Agreement effective November 1, 2007, with its affiliates, West Point Underwriters, LLC, T.J. Jerger MGA, LLC, Modern USA Insurance Company and MUSA MGA, LLC. The agreement served to establish the cost of running the facilities of the companies that were party to the agreement and established procedures for the allocation of the cost of such facilities. The agreement called for invoices to be sent to each company for any reimbursable charges or expenses by the 15th day of the following month. Monthly invoices were paid on or before the last day of the following month.

Cost Allocation Agreement

The Company had a Cost Allocation Agreement effective October 1, 2007, with its affiliate, Modern USA Insurance Company. The agreement served to delineate the costs of services provided to each of the companies, but still allowed such cost to be shared by them or allocated among them, as appropriate. The agreement called for invoices to be sent to each company for any

reimbursable charges or expenses by the 15th day of the following month. Monthly invoices were paid on or before the last day of the following month.

MGA Agreement

The Company had a Managing General Agent Agreement with T.J. Jerger MGA, LLC, (MGA) effective September 1, 2005, to administer 100% of the policies written by the Company and to provide services for managing and administering the affairs of the Company. Services included, but were not limited to, policy issuance, underwriting, marketing, premium billing and collection, and the adjustment and payment of claims. Contract terms included commission of 20% and a \$25 per policy MGA fee.

The MGA outsourced the policy issuance, underwriting, marketing, premium billing and collection servicing to the affiliate West Point Underwriters, LLC, through a Policy Administration Agreement effective September 1, 2005. The MGA outsourced the claims servicing on behalf of the Company through a Claims Administration Services Agreement with affiliate Storm King Claims Service, effective January 1, 2006.

Florida Commercial Lease Agreement

The Company entered into a Florida Commercial Lease Agreement with an affiliate, 66 Investors LLC, effective June 25, 2008. 66 Investors is the owner of the Company's home office building located in Pinellas Park, Florida. The term of the agreement was for one year with the lease amount due in monthly installments by the 15th of each month.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which was considered adequate for the Company according to NAIC guidelines.

The Company also maintained Directors and Officers, General Liability, Commercial Property, Crime Liability and Umbrella insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had a safe harbor 401(K) plan that was administered by American Funds at December 31, 2008. The plan covered all eligible employees of the Company and offered 100% vesting immediately upon participation.

STATUTORY DEPOSITS

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

| STATE | Description | Book Value | Fair Value |
|------------------------|-------------------|-------------------|-------------------|
| FL | CD, 3.5%, 2/28/09 | <u>\$ 300,000</u> | <u>\$ 300,000</u> |
| TOTAL SPECIAL DEPOSITS | | <u>\$ 300,000</u> | <u>\$ 300,000</u> |

INSURANCE PRODUCTS

Territory

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) 3.a., Florida Statutes.

REINSURANCE

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

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

The Company did not assume risk.

Ceded

The Company ceded risk of 25% of written premium on a quota share basis to a group of reinsurers pursuant to the terms of a quota share agreement covering the period June 1, 2008, through May 31, 2009. The quota share partners also assumed 25% of CAT coverage provided by the Florida Hurricane Catastrophe Fund. The ceding commission percentage was 27.5% of ceded written premium.

The Company used the services of John B. Collins Associates, a reinsurance intermediary, for its reinsurance placement.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Pinellas Park, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year ending December 31, 2008, 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 in effect at December 31, 2008:

Custodial Agreements

The Company had securities held under two Custody Agreements at December 31, 2008. One of the Custody Agreements was with Janney Montgomery Scott, LLC and the other was with Morgan Stanley & Company. Both of these agreements were in compliance with Rule 690-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company's financial statements were audited on a statutory basis by the independent certified public accounting firm of Strawn, Marshall, Cunningham, Condon and Sweat, P.A. of St. Petersburg, FL.

Subsequent event: On October 9, 2009, the Company informed the Office that its Board of Directors had replaced its former auditor and had appointed Johnson Lambert & Company, LLP, as its new auditor. In accordance with the NAIC's Model Audit Rule, the Company and its former auditor informed the Office that there were no disagreements between the parties that led to the Company's change in auditors.

Client Service Agreement

The Company entered into an agreement with Modern Business Associates (MBA) for its leased employees in Florida. MBA agreed to provide services of human resource management, workers' compensation insurance, employee benefits, retirement plan, payroll functions and other personnel services that might be deemed necessary from time to time. The Company's employees were employees of MBA.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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 TRADITIONS INSURANCE COMPANY Assets

DECEMBER 31, 2008

| | Per Company | Examination Adjustments | Per Examination |
|---|--------------|----------------------------|-----------------|
| Bonds | \$15,269,988 | | \$15,269,988 |
| Cash | 6,850,194 | | 6,850,194 |
| Investment income due and accrued | 176,628 | | 176,628 |
| Agents' Balances: | | | |
| Uncollected premiums and agents' balances | 714,709 | | 714,709 |
| Deferred premium | 2,221,241 | | 2,221,241 |
| Reinsurance | | | |
| Amounts recoverable from reinsurers | 847,787 | | 847,787 |
| Current federal income tax recoverable | 739,834 | | 739,834 |
| Net deferred tax asset | 803,615 | | 803,615 |
| Guaranty funds receivable | 223,948 | | 223,948 |
| Receivable from parent, subs and affiliates | 84,009 | | 84,009 |
| Aggregate write-ins | (5,956) | | (5,956) |
| Totals | \$27,925,997 | \$0 | \$27,925,997 |

AMERICAN TRADITIONS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

| | Per Company | Examination Adjustments | Per Examination |
|--|----------------------------|------------------------------------|----------------------------|
| Losses | \$2,280,267 | | \$2,280,267 |
| Loss adjustment expenses | 286,994 | | 286,994 |
| Commissions payable | 0 | | 0 |
| Other expenses | 310,849 | | 310,849 |
| Taxes, licenses and fees | 570,256 | | 570,256 |
| Current federal and foreign income taxes | 300,461 | | 300,461 |
| Unearned premiums | 13,914,221 | | 13,914,221 |
| Advance premium | 1,310,122 | | 1,310,122 |
| Ceded reinsurance premiums payable | (683,802) | | (683,802) |
| Funds held by company under reinsurance treaties | 796,868 | | 796,868 |
| Total Liabilities | <u>\$19,086,236</u> | <u>\$0</u> | <u>\$19,086,236</u> |
| Common capital stock | \$1,000 | | \$1,000 |
| Surplus Notes | 0 | | 0 |
| Gross paid in and contributed surplus | 7,001,084 | | 7,001,084 |
| Unassigned funds (surplus) | <u>1,837,677</u> | | <u>1,837,677</u> |
| Surplus as regards policyholders | <u>\$8,839,761</u> | | <u>\$8,839,761</u> |
| Total liabilities, surplus and other funds | <u><u>\$27,925,997</u></u> | | <u><u>\$27,925,997</u></u> |

AMERICAN TRADITIONS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

| | |
|--------------------------------------|-------------------|
| Premiums earned | \$18,552,092 |
| Deductions | |
| Losses incurred | 6,760,265 |
| Loss expenses incurred | 1,185,351 |
| Other underwriting expenses incurred | 8,466,058 |
| Total underwriting deductions | 16,411,674 |
| Net underwriting gain or (loss) | 2,140,418 |

Investment Income

| | |
|-------------------------------------|----------------|
| Net investment income earned | 718,793 |
| Net realized capital gains (losses) | 81 |
| Net investment gain or (loss) | 718,874 |

Other Income

| | |
|--|----------------|
| Net gain or (loss) | (21,295) |
| Finance and service charges not included in premiums | 153,720 |
| Total other income | 132,425 |

| | |
|--|------------------|
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | 2,991,717 |
| Federal income taxes | 962,025 |
| | 2,029,692 |

Net Income \$2,029,692

Capital and Surplus Account

| | |
|--|--------------------|
| Surplus as regards policyholders, December 31 prior year | \$6,639,517 |
| Net Income | 2,029,692 |
| Change in net unrealized capital gains | (27,004) |
| Change in net deferred income tax | 17,732 |
| Change in non-admitted assets | 179,824 |
| Change in provision for reinsurance | 0 |
| Capital changes | 0 |
| Paid in surplus | 0 |
| Aggregate write-ins for gains and losses in surplus | 0 |
| Change in surplus as regards policyholders for the year | 2,200,244 |
| Surplus as regards policyholders, December 31 current year | \$8,839,761 |

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 2,567,261

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Actuarial Review

The Office contracted with independent actuaries, INS Consultants, Inc., to perform an actuarial review. The independent actuaries reported that the recorded December 31, 2008, reserves made reasonable provisions for the gross and net unpaid loss and loss adjustment expenses.

Capital and Surplus

The amount reported by the Company of \$8,839,761 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN TRADITIONS INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement | \$8,839,761 |
|---|-------------|

| | <u>PER COMPANY</u> | <u>PER EXAM</u> | <u>INCREASE (DECREASE) IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS: | | | |
| No adjustment | | | |
| LIABILITIES: | | | |
| No adjustment | | | |
| Net Change in Surplus: | | | 0 |
| Surplus as Regards Policyholders December 31, 2008, Per Examination | | | \$8,839,761 |

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2007.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Traditions Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$8,839,761 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Greg Taylor, CFE, INSRIS Examiner in Charge, Patricia Casey Davis, CFE, CPA, INSRIS Supervisor and Richard A. Shaffer, OIR Financial Specialist participated in the examination. We also recognize INS Consultants, Inc. and INS Services, Inc.'s participation in the examination.

Respectfully submitted,

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