

REPORT ON EXAMINATION

OF

HOMEWISE INSURANCE COMPANY

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 24, 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, 2007, of the financial condition and corporate affairs of:

**HOMEWISE INSURANCE COMPANY
18302 HIGHWOODS PRESERVE PARKWAY
SUITE 110
TAMPA, FLORIDA 33647**

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, 2007. 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 5, 2009, to January 8, 2009. The fieldwork commenced on January 12, 2009, and concluded April 24, 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.

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, 2007. Transactions subsequent to year-end 2007 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 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

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

Conflict of Interests

The Company did not have a policy statement requiring annual disclosures of conflicts of interest as recommended in the NAIC Financial Condition Examiners Handbook. **Resolution:** The Company adopted a conflict of interest policy requiring annual disclosures of conflicts of interest.

HISTORY

General

The Company was incorporated in Florida on November 30, 2005, as a stock property and casualty insurer under the applicable provisions of the Florida Statutes. During 2007, the Company decided to stop writing new business in Florida, but continued to renew its Florida policies.

The Company was party to Consent Order 83996-05-CO, dated November 21, 2005, with the Office regarding the application for the issuance of a Certificate of Authority. Our review of the Managing General Agency Contract and the Service Agreement indicated they were not in compliance with a Consent Order (Case No. 83996-05-CO) issued by the Office and agreed to by the Company on November 21, 2005. Those two agreements failed to contain the following provisions as required by that Consent Order.

- All claims paid by the MGA from funds collected on behalf of the Company shall be paid only on drafts of, and as authorized by the Company;
- The Company must have the right to terminate the Service Agreement contract for cause;
- The Service Agreement contract shall be retained as part of the official records of both the MGA and the Company for the term of the contract and five (5) years afterward;
- The Company shall retain the right of continuing access to books and records maintained by the MGA.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Homeowners multi peril

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	650,000
Total common capital stock	\$650,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, HomeWise Holdings, Inc., which owned 100% of the stock issued by the Company. HomeWise Holdings, Inc. was 100% owned by HBK Fund L.P., a Delaware limited partnership.

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 statements.

	2007	2006	2005
Premiums Earned	2,651,949	4,337,033	0
Net Underwriting Gain/(Loss)	436,426	(996,498)	0
Net Income	775,921	(384,202)	31,287
Total Assets	13,635,171	28,566,558	9,538,660
Total Liabilities	3,947,773	19,414,204	7,373
Surplus As Regards Policyholders	9,687,398	9,152,354	9,531,287

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2007.

Management

The annual shareholder 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, 2007, were:

Directors

Name and Location	Principal Occupation
Jamiel Andrew Akhtar Dallas, Texas	Managing Director, HBK Services LLC
Todd Christopher Hart Dallas, Texas	Investment Manager, HBK Services LLC
Dale Stephen Hammond New London, Connecticut	President, HomeWise Insurance Company
William Edward Rose Dallas, Texas	Managing Director, HBK Services LLC
Daniel Emmett Case Dallas, Texas	Analyst, HBK Services LLC

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Dale Stephen Hammond	President and Chief Executive Officer
William Irving Sparkes	Executive Vice President and Chief Operating Officer
Dennis Francis Plante	Treasurer and Chief Financial Officer
Diane Eileen Falcone	Secretary and General Counsel

Holmes Peyton Hurst, Jr.
Stephen Clay Backman
Dorothy Ann Brink
Stephen Michael Sandford
Martha Etta Joiner

Vice President and Chief Marketing Officer
Vice President and Chief Claims Officer
Vice President and Underwriting Officer
Vice President Product and Compliance
General Manager - Texas

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2007:

Executive Committee

Dale Stephen Hammond
Todd Christopher Hart

Audit Committee

Todd Christopher Hart¹
Dale Stephen Hammond
Jamiel Andrew Akhtar

Investment Committee

Jamiel Andrew Akhtar¹
William Edward Rose
Todd Christopher Hart

¹ Chairman

One of the members of the Audit Committee was part of the Company's management. This was in violation of Section 624.424 (8) (c), Florida Statutes which provides that the members of the Audit Committee are to be independent.

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, and certain internal committees were reviewed for the period under examination.

The Audit Committee held no meetings during the period under examination. Consequently, there was no indication that the Audit Committee interacted with the external auditors. This was in violation of Section 624.424 (8) (c), Florida Statutes which requires such interaction with the external auditors.

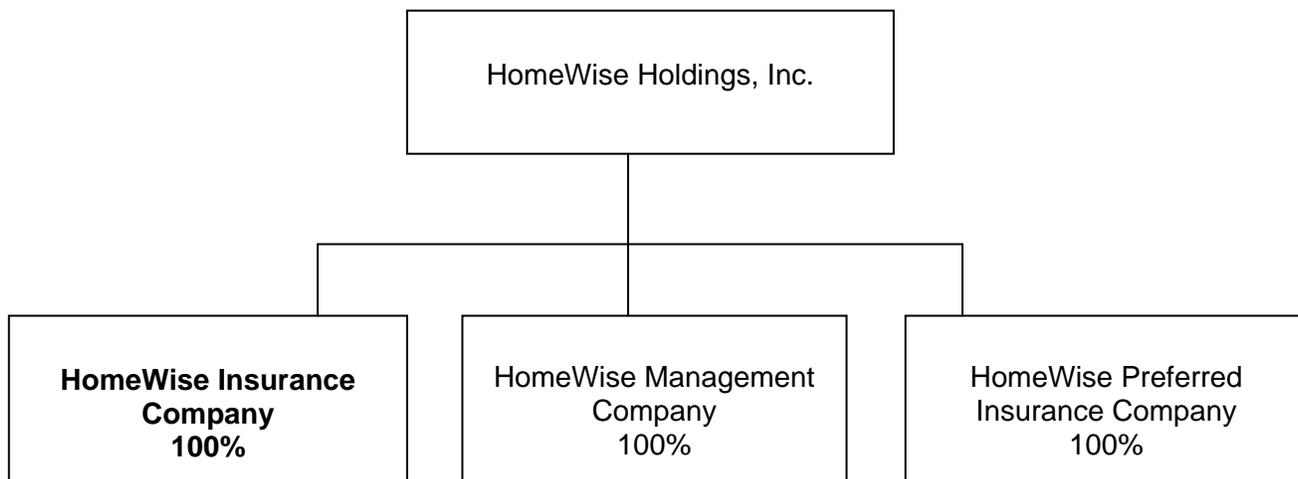
AFFILIATED COMPANIES

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 March 4, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below:

HOMEWISE INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

Managing General Agency Contract

The Company had a managing general agency contract with HomeWise Management Company (MGA) dated January 1, 2006 and amended December 12, 2007. The MGA provided comprehensive management and administration of the Company's insurance business. This included but was not limited to rate, quote and issue policies of insurance, comprehensive claim services, premium collections, reinsurance advice and other services. The MGA received 32.5% of direct written premiums and 4% of assumed premiums. A portion of the 32.5% compensation may be forgiven by the MGA if the Company's expense ratio would otherwise exceed 32.5%.

Service Agreement

The Company had a Service Agreement with HomeWise Holdings, Inc. (HHI). According to the terms of the agreement, HHI, upon request, was to assist in reinsurance negotiations, provide capital management, handle investor relations, assist with overall general management and advance the interests of the Company. For these services, HHI received a fee of 1% of direct written premiums.

As indicated earlier in the History section of this report, the Managing General Agency Contract and the Service Agreement indicated were not in compliance with Consent Order 83996-05-CO issued by the Office on November 21, 2005. These agreements failed to include terms specified in the Consent Order regarding the details of claims payment drafts, termination rights in the MGA agreement, record retention timeframes, and access to MGA books and records.

Cost Allocation Agreement

The Company had an agreement with HomeWise Holdings, Inc., HomeWise Management Company and HomeWise Preferred Insurance Company that described the allocation methods used for allocating expenses incurred by one or more of the companies conferring a direct benefit on another of the companies.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company was identified as a named insured on the fidelity bond. The Company also maintained commercial general liability coverage, commercial umbrella coverage and other appropriate insurance. HomeWise Holdings, Inc., the Company's immediate parent, maintained Directors and Officers liability insurance with a liability limit of \$10,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. Consequently, there were no pension, stock ownership or insurance plans.

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>\$ 329,760</u>	<u>\$ 329,760</u>
TOTAL FLORIDA DEPOSITS		\$ 329,760	\$ 329,760

INSURANCE PRODUCTS

Territory

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

Treatment of Policyholders

The Company had 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(i) 3a, Florida Statutes.

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

The Company did not assume business during the period under examination.

Ceded

The Company ceded risk on a quota share basis to Harlequin Insurance (Bermuda) SAC Limited, an unauthorized reinsurer. The amount ceded was 75% and the reinsurer's per event limit was 34.1% of the subject earned premium. The maximum amount recoverable from the reinsurer under the agreement was 150% of the subject earned premium. The Company, the reinsurer and

a bank participated in a Trust Agreement that covered funds held in trust as collateral to secure Harlequin's obligations to the Company.

The Company also ceded risk under an excess of loss agreement to authorized and unauthorized reinsurers.

Coverage was provided by the Florida Hurricane Catastrophe Fund at the 90% level. The Company purchased Temporary Increase in Coverage Limit at the \$12 billion coverage option.

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 Tampa, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006 and 2007, 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, its affiliated managing general agent, HomeWise Management Company (MGA) and non-affiliates had the following agreements:

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson P.A. to audit the Company's statutory financial statements for the year 2007.

Reinsurance Intermediary Agreement

The Company had an agreement with Benfield, Inc. to provide services for the Company in the placement and servicing of reinsurance agreements.

Processing Services Agreement

Effective August 22, 2006, the MGA entered into a services agreement with Blue Cod Technologies, Inc. (Blue Cod). Services performed by Blue Cod included policy services, processing claim activity, premium billing, check writing, statistical reporting, management reports and other services.

Risk Management Agreement

Effective December 1, 2005, the MGA entered into a services agreement with Insight Catastrophe Solutions, LLC (Insight). Services performed by Insight included providing risk management and other consulting services, primarily software.

Claims Services Agreement - Allcat

Effective January 1, 2006, the Company and the MGA entered into a claims services agreement with Allcat Claims Services LLC (Allcat) under which Allcat was to provide claim adjusting services.

Claims Services Agreement - CSP

Effective September 10, 2007, the Company, the MGA and affiliate HomeWise Preferred Insurance Company entered into a claims services agreement with Claims Service Professionals (CSP) under which CSP was to provide claim adjusting services in the event of a catastrophe.

Investment Management Agreement

The Company had an agreement with Evergreen Investment Management Company (Evergreen), dated January 17, 2006, under which Evergreen managed and invested specified assets of the Company in accordance with the Company's investment guidelines.

Custodial Agreement

The Company had an agreement with U.S. Bank, National Association (U.S. Bank), dated January 17, 2006, under which U.S. Bank acted as custodian for Company securities.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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."

HOMEWISE INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Cash	\$6,642,357		\$6,642,357
Investment income due and accrued	13,866		13,866
Premiums and considerations:			
Uncollected premiums	936,039		936,039
Deferred premiums	33,560		33,560
Amounts recoverable from reinsurers	4,288		4,288
Current federal and foreign income tax recoverable	660,278		660,278
Net deferred tax asset	24,658		24,658
EDP equipment and software	111,750		111,750
Receivables from parent, subs and affiliates	4,401,316		4,401,316
Miscellaneous deposits	48,652		48,652
Taxes, licenses and fees recoverable	2,881		2,881
FIGA assessment recoverable	755,526	0	755,526
	<hr/>		
Totals	\$13,635,171	\$0	\$13,635,171
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HOMEWISE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$54,272		\$54,272
Loss adjustment expenses	15,918		15,918
Other expenses	101,794		101,794
Unearned premium	1,358,639		1,358,639
Ceded reinsurance premiums payable	1,390,154		1,390,154
Payable to parent, subsidiaries and affiliates	295,464		295,464
Surcharges payable	7,482		7,482
Assumed premiums payable - Citizens Property Ins Co	533,176		533,176
Florida Hurricane Cat Fund Assessment	21,853		21,853
Citizens Emergency Assessment Payable	33,920		33,920
Contingent commissions	135,101		135,101
Total Liabilities	\$3,947,773	\$0	\$3,947,773
Common capital stock	\$650,000		650,000
Gross paid in and contributed surplus	8,850,000		8,850,000
Unassigned funds (surplus)	187,398		187,398
Surplus as regards policyholders	\$9,687,398	\$0	\$9,687,398
Total liabilities, surplus and other funds	\$13,635,171	\$0	\$13,635,171

HOMEWISE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$2,651,949
	Deductions:	
Losses incurred		(51,015)
Loss expenses incurred		36,587
Other underwriting expenses incurred		2,229,951
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$2,215,523
Net underwriting gain or (loss)		\$436,426

Investment Income

Net investment income earned		\$522,919
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$522,919

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		\$959,345
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$959,345
Federal & foreign income taxes incurred		183,424
Net Income		\$775,921

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,152,354
Net Income		\$775,921
Change in net deferred income tax		(158,353)
Change in non-admitted assets		(82,524)
Capital changes: Paid in		550,000
Surplus adjustments: Paid in		(550,000)
Change in surplus as regards policyholders for the year		\$535,044
Surplus as regards policyholders, December 31 current year		\$9,687,398

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$70,190

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, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. (INS) was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2007, in conjunction with the financial condition examination.

INS found the Company's gross and net loss and loss adjustment expense reserves at December 31, 2007 to be reasonably stated.

Capital and Surplus

The amount reported by the Company of \$9,687,398, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**HOMEWISE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$9,687,398
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$9,687,398

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2006 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

Management

The Audit Committee did not consist entirely of independent directors as provided for by Section 624.424 (8) (c), Florida Statutes.

We recommend that the Company comply with Section 624.424(8)(c), Florida Statutes in appointing its Audit Committee.

Corporate Records

The Audit Committee held no meetings during the period under examination. Consequently, there was no indication that the Audit Committee interacted with the external auditors. This was in violation of 624.424 (8) (c), Florida Statutes which requires such interaction with the external auditors.

We recommend that the Company comply with Section 624.424(8)(c), Florida Statutes the aforementioned statute regarding interaction between the Audit Committee and the external auditors.

Affiliated Companies

The Managing General Agency Contract and the Service Agreement were not in compliance with a Consent Order 86299-06-CO issued by the Office on May 31, 2006. These two agreements, previously detailed in the History section failed to contain provisions as required by the Consent Order which specifies details of claims payment drafts, termination rights regarding the MGA agreement, records retention timeframes, and access to MGA books and records after the contract period. **We recommend that the Company comply with the Consent Order 86299-06-CO regarding the inclusion of the stated provisions in affiliated agreements.**

SUBSEQUENT EVENTS

As of January 8, 2008, HBK Master Fund, L.P., a Cayman Islands Limited Partnership, became owner of 100% of the outstanding voting securities of HomeWise Holdings, Inc., the Company's immediate parent.

On April 29, 2008, the Company obtained a license to write insurance in the State of Louisiana.

On May 15, 2008, Timothy Lyons Journy was elected Treasurer and Chief Financial Officer.

Effective June 1, 2008, the Company and its affiliate HomeWise Preferred Insurance Company entered into a 75% quota share agreement with Swiss Reinsurance America Corporation (Swiss Re). In connection with that agreement, an affiliate of Swiss Re requested the Company to execute an indemnification agreement under which the Company will indemnify Swiss Re and certain affiliates of Swiss Re to the extent any such indemnified party suffers losses or other damages as the result of any untrue statement or alleged untrue statement of a material fact provided by or on behalf of the Company relevant to the quota share agreement and/or the purchase by a Swiss Re affiliate of certain notes issued by another Swiss Re affiliate. The indemnification agreement was terminated in November 2008.

Subsequent event: On February 23, 2009, Thomas Anthony Lee was elected to the Board of Directors by the Company's shareholder.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **HomeWise Insurance Company**, as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$9,687,398, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:

Fidel S. Gonzalez, Financial Examiner/Analyst Supervisor, Florida Office of Insurance Regulation; Patricia Casey Davis, CFE, CPA, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE, CPCU, FLMI, CIE, CFSA, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Eugene G. Thompson, FCAS, MAAA, Actuary, INS Consultants, Inc.; Brian Dunn, CFE, ACL Audit Specialist, INS Consultants, Inc.; Lawrence R. Lentini, CPA, President, INS Services, Inc.

Respectfully submitted,

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