

**REPORT ON EXAMINATION**

**OF**

**PREPARED INSURANCE COMPANY**

**TAMPA, FLORIDA**

**AS OF**

**DECEMBER 31, 2010**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

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January 6, 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 690-138.005, 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, 2010, of the financial condition and corporate affairs of:

**PREPARED INSURANCE COMPANY  
1715 N WESTSHORE BLVD, STE 930  
TAMPA, FLORIDA 33607**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of September 18, 2009, through December 31, 2010. This is the first examination of the Company conducted by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on October 4, 2011, to October 6, 2011. The fieldwork commenced on October 10, 2011, and concluded as of January 6, 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**

There were no material findings or exceptions noted during the examination as of December 31, 2010.

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 16, 2009, and commenced business on September 18, 2009, as Prepared Insurance Company.

The Company was party to Consent Order 103593-09-CO, filed April 7, 2009, regarding the application for the issuance of a Certificate of Authority and amended Consent Order 106603-09-CO, filed September 18, 2009. The Company was in compliance with these Consent Orders.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners multi peril  
Fire

Allied Lines  
Inland Marine

The Company had not written insurance coverage in the previous two years in the line of business of Inland Marine. The Company was not in compliance with section 624.430 (1), Florida Statutes,

which requires that a company not writing premiums in a line of business in a calendar year, shall remove the line of business from its Certificate of Authority. **Subsequent Event:** On December 5, 2011, the Company filed a request with the Office that Inland Marine be removed from their Certificate of Authority.

The Company assumed 3,366 policies from Citizens Property Insurance Corporation (Citizens). The “opt out” rate on the policies assumed from Citizens was approximately 36% at December 31, 2010. Of the insured’s that chose not to “opt out”, approximately 78% renewed their policies with the Company. The Company has taken steps to generate new business and does not plan to do any further Citizens depopulation. At December 31, 2010, Citizens policies represented approximately 10% of all policies in force.

The Articles of Incorporation and the Bylaws were not amended 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 December 31, 2010, 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	\$10,000
Par value per share	\$10

Control of the Company was maintained by its parent, Prepared Holdings, LLC (Holdings), who owned 100% of the stock issued by the Company.

The parent contributed \$10,504,000 in cash to the Company as of December 31, 2010.

### **Surplus Debentures**

On December 31, 2009, the Company issued a qualified surplus note to Holdings, in exchange for \$800,000, of which \$400,000 was received during 2010 and 2009, respectively. Interest accrues on the unpaid balance at an annual rate equal to prime, adjusted quarterly, plus 2% not to exceed 12% per year. The principal and unpaid interest are due and payable on December 31, 2014, upon approval by the Office. **Subsequent Event:** On July 15, 2011, the Company issued another qualified surplus note to Holdings, in exchange for \$1,400,000. Interest accrues on the unpaid balance at an annual rate equal to prime, adjusted quarterly, plus 3% not to exceed 12% per year. The principal and unpaid interest are due and payable on December 31, 2015, upon approval by the Office.

### **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 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, 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 690-138.001, 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, 2010, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Martin Schaffel Tampa, Florida	Executive Chairman, Audio Visual Innovations, Inc.
John Sykes Tampa, Florida	Chairman of the Board, NorthStar Bank
Eric Gobble Lutz, Florida	President, Chief Executive Officer, & Chief Risk Officer, Prepared Insurance Company
Panayiotis Vasiloudes Tampa, Florida	President, Academic Alliance in Dermatology
Varnavas Zagaris Tarpon Spring, Florida	Owner, Sulco Corp (Real Estate Development)
Danny Correa Coral Gables, Florida	Chief Executive Officer of ACGG Development Group
Oscar Garcia Miami, Beach, Florida	Chief Operating Officer of ACGG Development Group

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

### Senior Officers

Name	Title
Eric Gobble (a)	Chief Executive Officer & Chief Risk Officer
Douglas Raucy (a)	Chief Operating Officer & President
John Hill (b)	Chief Financial Officer, Treasurer & Secretary
Michael Rubio	Vice President Claims
Stephanie Siewert	Vice President Marketing

(a) Douglas Raucy resigned and was replaced by Eric Gobble as President and Chief Executive Officer on April 12, 2011. The position title of Chief Operating Officer was not utilized upon this change.

(b) John Hill resigned and was replaced by Jeffrey Myers as Chief Financial Officer, Treasurer and Secretary on September 29, 2011.

The Company's Board appointed several internal committees. Following were the principal internal Board committees and their members as of December 31, 2010:

Executive Committee	Audit Committee	Investment Committee	Governance Committee	Compensation Committee
Danny Correa <sup>1</sup> Panayiotis Vasiloudes	Danny Correa <sup>1</sup> John Sykes	Oscar Garcia <sup>1</sup> Panayiotis Vasiloudes	Oscar Garcia <sup>1</sup> Panayiotis Vasiloudes Varnavas Zagaris	Panayiotis Vasiloudes <sup>1</sup> Oscar Garcia Varnavas Zagaris
Martin Schaffel Oscar Garcia Douglas Raucy (b)	Martin Schaffel	John Hill (a)		

<sup>1</sup> Chairman

(a) Jeffrey Myers replaced John Hill effective September 29, 2011.

(b) Eric Gobble replaced Douglas Raucy effective April 12, 2011.

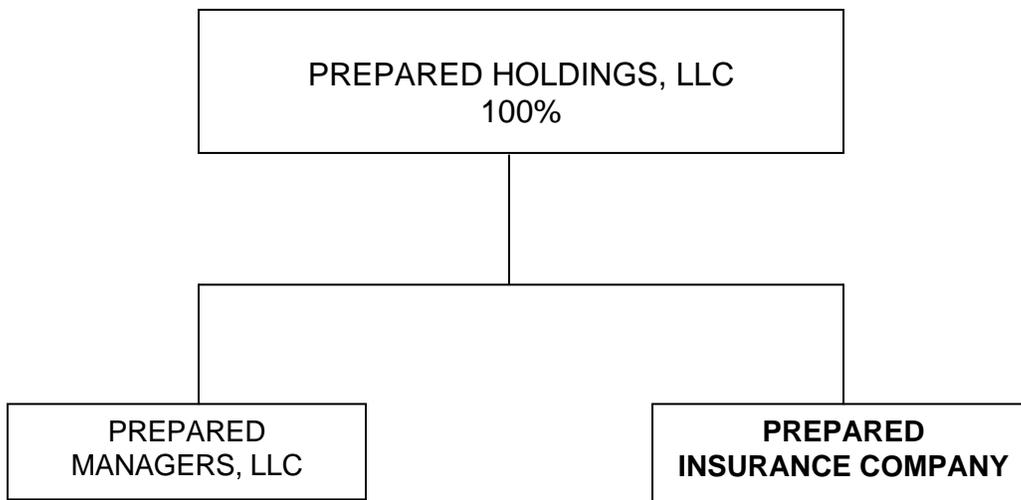
## **Affiliated Companies**

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.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

### **PREPARED INSURANCE COMPANY ORGANIZATIONAL CHART**

**DECEMBER 31, 2010**



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

### **Cost Sharing Agreement**

The Company entered into a Cost Sharing Agreement with Holdings, and Prepared Managers, LLC (Managers) on September 20, 2010. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Fees incurred under this agreement during 2010 amounted to \$1,425,167.

### **Managing General Agent and Claims Administration Agreement**

The Company entered into a Managing General Agent (MGA) and Claims Administration Agreement with its affiliate, Managers. The agreement continues in force for a term of three years with the option to renew for additional one-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 25% of written annual premium. MGA fees for policies assumed from Citizens were based on the difference between the 25% commission and the ceded commissions retained by Citizens. The MGA also charged a fee of \$25 per policy for new and renewal business. Claims administration services were included in the agreement. Claims administration fees were included in the MGA fee with additional charges for catastrophe management services and subrogation and salvage. Fees incurred under this agreement during 2010 amounted to \$6,533,360.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$5,000,000 and

a deductible of \$100,000, Errors and Omissions (E&O) liability insurance with coverage up to \$5,000,000 with a deductible of \$250,000, as well as Employment Practices Liability coverage with limits of \$1,000,000 and a deductible of \$100,000.

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

The Company participated in a 401(k) savings plan that covered substantially all employees sponsored by Managers. The Company paid its respective share of expenses to Managers through the cost sharing agreement. The Company also provided employees with health, life and disability insurance through Managers.

## **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 started business with the Citizens depopulation program. The Company then grew in the voluntary market through an independent agency distribution system. The Company issued their first policy in November 2009 and experienced significant growth in 2010 with approximately 17,200 policies in force at December 31, 2010, compared to 12 policies in force at December 31, 2009. In an effort to restrict rapid new business growth, the Company ceased writing new business on May 31, 2011, and began writing new business again on September 21, 2011.

### 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.

	<b>2010</b>	<b>2009</b>
Premiums Earned	9,755,687	(40,933)
Net Underwriting Gain/(Loss)	(2,107,193)	(44,296)
Net Income	(2,061,845)	2,535
Total Assets	24,888,382	10,470,005
Total Liabilities	14,845,168	70,995
Surplus As Regards Policyholders	10,043,214	10,399,010

## **LOSS EXPERIENCE**

The 2010 reporting year was the Company's first full year of operations. Losses throughout 2010 were substantially greater than 2009 due to the volume and duration of the in-force policies. Based on the age of the Company, significant loss development history and patterns have yet to emerge.

## **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 assumed 3,366 policies from Citizens in 2010. As of December 31, 2010, the Company reported \$69,891 in opt out payables attributable to these assumed policies. No other policies were assumed during the examination period.

### **Ceded**

The Company had four layers of property catastrophe excess of loss reinsurance in place. Additionally, the Company had reinstatement premium protection and an excess per risk agreement. The largest reinsurer of the Company was the Florida Hurricane Catastrophe Fund, with approximately 35% of premiums ceded to it by the Company. Reinsurance with private reinsurers was purchased through intermediary Aon Benfield and consists of unaffiliated reinsurers, of which 14 were authorized (11 of which are Lloyd's Syndicates) and 5 were unauthorized. The Company ceded approximately 16% of premiums to the largest private reinsurer.

The reinsurance coverage provided to the Company was taken into account by the Company's appointed actuary in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements for the 2010 year in accordance with Section 624.424(8), Florida Statutes. The Company was automatically exempt from filing audited financial statements for 2009 as permitted by Section 624.424(8)(b), 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 largely held in spreadsheets during the examination period. Subsequently, the Company started and has continued to implement a web-based general ledger system. The Company outsourced their primary business transaction processes (claims, policy and premiums administration) to third-party service providers. These third-party service providers also hosted and maintained the IT environment and the systems that processed the Company's policies, premiums and claims.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with the Morgan Stanley Trust, N.A., effective November 6, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Policy Administration Services Agreement**

Effective June 19, 2009, the Company's affiliate, Managers, entered into a Policy Administration Services Agreement with WaterStreet Company. These services included system services, policy issuance, premium billing and collection, commission handling, data access and reporting, accounting and other third party services.

### **Claims Services Agreement**

Effective April 20, 2009, Managers entered into an agreement for claims administration services with CatManDo, Inc. (CatManDo) to provide claims services for claims that arose out of policies issued by the Company through its MGA, Managers. CatManDo was to act as administrator and fully investigate, evaluate and handle each claim reported. CatManDo had no settlement authority; claims settlements required approval by the Company. **Subsequent event:** Managers entered into an additional Claims Services Agreement on May 1, 2011, with Cunningham Lindsey U.S. Inc. to handle claims and provide service call center capabilities.

## 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

Scott Langstein, CISA, IT Manager, of Cerebres, 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 as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	CD, 1.59%, 05/20/11	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

**PREPARED INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination</b>	<b>Per Examination</b>
		<b>Adjustments</b>	
Bonds	\$ 15,494,509		\$ 15,494,509
Cash and Short-Term Investments	6,589,392		6,589,392
Investment income due & accrued	144,819		144,819
Agents' Balances:			
Uncollected premium	254,146		254,146
Deferred premium	1,413,709		1,413,709
Net deferred tax asset	790,000		790,000
Receivable from parents, subsidiaries and affiliates	201,807		201,807
	<hr/>		<hr/>
Totals	\$ 24,888,382		\$ 24,888,382
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**PREPARED INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$ 2,038,376		\$ 2,038,376
Loss adjustment expenses	405,742		405,742
Other expenses	40,000		40,000
Taxes, licenses and fees	136,000		136,000
Federal income tax payable	222,000		222,000
Unearned premium	11,192,965		11,192,965
Advance premium	261,413		261,413
Ceded reinsurance premium payable	364,288		364,288
Amounts withheld	93,485		93,485
Remittances	21,008		21,008
Aggregate write-ins for liabilities	69,891		69,891
<b>Total Liabilities</b>	<b>\$ 14,845,168</b>		<b>\$ 14,845,168</b>
Common capital stock	\$ 10,000		\$ 10,000
Surplus notes	800,000		800,000
Gross paid in and contributed surplus	10,504,000		10,504,000
Unassigned funds (surplus)	(1,270,786)		(1,270,786)
Surplus as regards policyholders	<u>\$ 10,043,214</u>		<u>\$ 10,043,214</u>
<b>Total liabilities, surplus and other funds</b>	<b><u>\$ 24,888,382</u></b>		<b><u>\$ 24,888,382</u></b>

**PREPARED INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$	9,755,687
	<b>Deductions:</b>		
Losses incurred		\$	3,502,805
Loss expenses incurred			663,870
Other underwriting expenses incurred			7,696,205
Total underwriting deductions		<u>\$</u>	<u>11,862,880</u>
Net underwriting gain or (loss)		\$	(2,107,193)

**Investment Income**

Net investment income earned		\$	258,144
Net realized capital gains or (losses)			10,579
Net investment gain or (loss)		<u>\$</u>	<u>268,723</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$	(20,852)
Finance and service charges not included in premiums			14,030
Total other income		<u>\$</u>	<u>(6,822)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$	(1,845,292)
Federal & foreign income taxes			216,553
Net Income		<u>\$</u>	<u>(2,061,845)</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$	10,399,010
Net Income		\$	(2,061,845)
Change in net deferred income tax			826,763
Change in non-admitted assets			(38,239)
Change in provision for reinsurance			3,525
Change in surplus notes			400,000
Surplus adjustments: Paid in			514,000
Change in surplus as regards policyholders for the year		<u>\$</u>	<u>(355,796)</u>
Surplus as regards policyholders, December 31 current year		<u>\$</u>	<u>10,043,214</u>

A comparative analysis of changes in surplus is shown below.

**PREPARED INSURANCE COMPANY  
Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

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, 2010, per Annual Statement	\$10,043,214
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$10,043,214</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$2,444,118

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, 2010, 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 actuaries, Greg Wilson, FCAS MAAA, and Patrick Glenn, ACAS, ASA, MAAA, of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and were in concurrence with this opinion.

#### Capital and Surplus

The amount reported by the Company of \$10,043,214, exceeded the minimum of \$10,000,000 required by Consent Order 103593-09-CO.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Prepared Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$10,043,214, which exceeded the minimum of \$10,000,000 required by Consent Orders.

In addition to the undersigned, Sarah Lucibello, CFE, Examiner-In-Charge, Amy Carter, CPA, Lindsey Pittman, CPA, and David Palmer, CFE, of Lewis & Ellis, Inc. participated in the examination. In addition, Greg Wilson, FCAS, MAAA, and Patrick Glenn, ACAS, ASA, MAAA, consulting actuaries of Lewis & Ellis, Inc., and Scott Langstein, CISA, IT Manager of Cerebres, LLC also participated in the examination.

Respectfully submitted,

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