

**REPORT ON EXAMINATION**  
**OF**  
**SEVEN SEAS INSURANCE COMPANY,**  
**INC.**  
**RIVIERA BEACH, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

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

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Tallahassee, Florida

July 16, 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:

**SEVEN SEAS INSURANCE COMPANY, INC.  
5 East 11<sup>th</sup> STREET  
RIVIERA BEACH, FLORIDA 33404**

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, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Office on April 27, 2009, to May 1, 2009. The fieldwork commenced on May 4, 2009, and concluded July 16, 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 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, 2003, along with resulting action taken by the Company in connection therewith.

#### **Accounts and Records**

The Company reported incorrect bond designations for some of its "PE" securities. **Resolution:** The Company reported its "PE" bond designations correctly.

The Company did not complete Schedule E, Part 3 of the annual statement. **Resolution:** The Company failed to complete Schedule E – Part 3 – Special Deposits in each of the five annual statements during the period under examination.

**Subsequent event:** The Company filed and restated Schedule E, 2008 Annual Statement, on August 18, 2009.

The Company reported the items and amounts that make up commissions payable on the wrong line of the annual statement. **Resolution:** This was not an issue during this examination.

## HISTORY

### General

The Company was incorporated in Florida on April 21, 1989, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on June 1, 1989, under the name of Seven Seas Insurance Company, Inc.

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

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

### Capital Stock

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

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	10,010
Total common capital stock	\$750,750
Par value per share	\$75.00

Control of the Company was maintained by its parent, Birdsall, Inc., which owned 100% of the stock issued by the Company. Birdsall, Inc. was 100% owned by Nicor, Inc. which was a publicly traded 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 filed annual statements.

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	19,221,255	15,089,682	13,745,026	12,236,777	9,904,358
Net Underwriting Gain/(Loss)	11,568,682	10,231,427	7,864,432	6,982,313	6,273,029
Net Income	7,825,264	6,945,020	5,358,908	4,747,605	4,324,554
Total Assets	13,914,152	10,414,948	9,981,569	8,713,365	9,211,973
Total Liabilities	3,174,977	2,114,737	1,855,496	1,744,703	1,654,930
Surplus As Regards Policyholders	10,739,175	8,300,212	8,126,072	6,968,663	7,557,043

## Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder during the period under examination as follows:

<b>YEAR</b>	<b>AMOUNT</b>
2008	\$5,000,000
2007	7,000,000
2006	6,200,000
2005	4,300,000
2004	<u>2,700,000</u>
<b>TOTAL</b>	<b>\$25,200,000</b>

## 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, 2008, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
John Holmes Birdsall, III Charlottesville, Virginia	Private Investor and Director of Nicor, Inc., Birdsall, Inc. and Tropical Shipping and Construction Co. Ltd.
Paul Clement Gracey, Jr. Naperville, Illinois	Senior Vice President & General Counsel & Secretary of Nicor, Inc.
Richard Leroy Hawley Naperville, Illinois	Executive Vice President & Chief Financial Officer of Nicor, Inc.
Russ Martin Strobel Naperville, Illinois	Chairman, President and Chief Executive Officer of Nicor, Inc.
Gerald Patrick O'Connor Naperville, Illinois	Vice President Finance & Treasurer of Nicor, Inc.

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

### Senior Officers

<b>Name</b>	<b>Title</b>
Russ Martin Strobel	Chairman
Paul Clement Gracey, Jr.	Co-Vice Chairman
Richard Leroy Hawley	Co-Vice Chairman
James Michael Culpepper	President
Gerald Patrick O'Connor	Vice President and Treasurer
Neil John Maloney	Secretary

The Company's Board appointed one internal committee in accordance with Section 607.0825, Florida Statutes. Following is the Board committee and its members as of December 31, 2008:

### **Executive Committee**

Paul Clement Gracey, Jr.<sup>1</sup>

Richard Leroy Hawley

Gerald Patrick O'Connor

<sup>1</sup> Chairman

### **Conflict of Interest Procedure**

The Company provided signed Conflict of Interest questionnaires from the members of the Board of Directors, the President and the Secretary. However, the Company did not have a policy statement requiring annual disclosures of conflicts of interest as recommended in the NAIC Financial Condition Examiners Handbook.

**Subsequent event:** On August 21, 2009, the Board of Directors executed a resolution that required annual disclosures of conflicts of interest.

### **Corporate Records**

The recorded minutes of the shareholder and the Board of Directors were reviewed for the period under examination. The Executive Committee held no meetings during the period under examination.

The Board of Directors (Board) failed to elect an Audit Committee during the period under examination. Also, there was no mention in the Board minutes of the hiring of the certified public accountant that prepared the Company's audit. Both inactions were violations of Section 624.424(8)(c), Florida Statutes.

**Subsequent events:** The Board of Directors established the Audit Committee of the Board by resolution dated September 1, 2009. The Board executed a resolution on August 21, 2009 designating Deloitte & Touche as the Company's independent auditor.

The Board of Directors approved an Investment Policy for the Company. However, the review of the minutes of the Board of Directors' meetings for the period under examination failed to indicate any authorization or approval of any of the investments made by the Company during that five-year period. This is in violation of Section 625.304, Florida Statutes which required such approval by the Board of Directors or by a committee authorized by the Board and charged with the supervision or making of such investment. As noted above, the only Committee authorized by the Board was an Executive Committee and they held no meetings during the period under examination.

**Subsequent event:** On August 21, 2009, the Board of Directors executed a resolution approving the portfolio holdings as of June 1, 2008, and June 1, 2009.

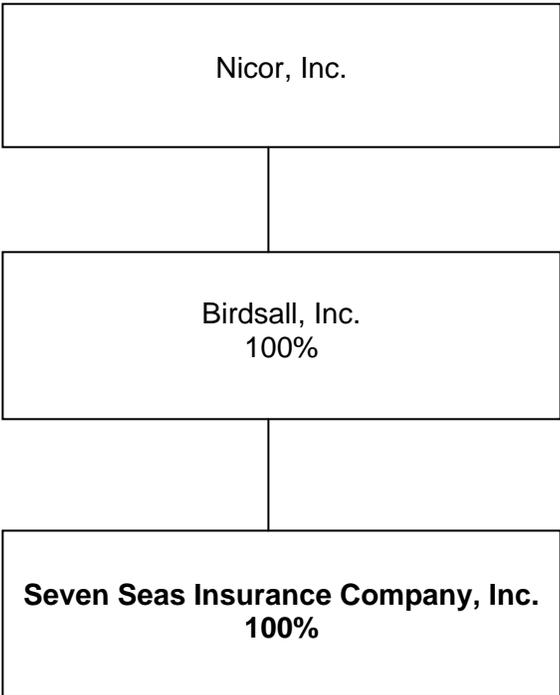
## **AFFILIATED COMPANIES**

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 April 14, 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.

**SEVEN SEAS INSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



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

### **Tax and Cost Sharing Service Contract**

The Company had an agreement, effective October 1, 1999, with Birdsall, Inc. (Birdsall). According to the terms of the agreement, Birdsall provided administrative services for which the Company agreed to reimburse Birdsall 100% of the costs incurred by Birdsall on behalf of the Company. This agreement also describes the manner in which income taxes will be allocated between Birdsall and the Company.

### **Services Agreement**

The Company had an agreement, effective January 1, 2006, with Tropical Shipping USA, LLC (TSU). According to the terms of the agreement, TSU provided accounting, auditing, administrative and regulatory filing, financial planning and reporting and IS services. For these services (except payroll), the Company paid 105% of costs incurred in providing the services. For payroll services, the compensation paid by the Company was based on the percentage of the number of Company employees to total TSU and Company employees.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2008, the group of companies to which the Company was a member had a crime policy that covered employee dishonesty in an amount considered adequate for the Company as recommended by the NAIC. However, the Company was not a named insured.

**Subsequent event:** During the course of this examination, the crime policy was amended to indicate the Company as a named insured.

The Company was a named insured on other policies for workers compensation, automobile, errors and omissions and other types of liability.

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

The Company had a pension/retirement savings plan through its parent, Birdsall Inc.

### **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	Certificate of Deposit	<u>\$ 150,000</u>	<u>\$ 150,000</u>
TOTAL FLORIDA DEPOSITS		<u><u>\$ 150,000</u></u>	<u><u>\$ 150,000</u></u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 150,000</u></u>	<u><u>\$ 150,000</u></u>

### **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 agreement 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 utilized a reinsurance broker to place reinsurance. However, it did not have a written agreement with that broker. That violated Section 626.7492(4), Florida Statutes which required such an agreement.

**Subsequent event:** A copy of the reinsurance agreement was provided on July 29, 2009.

The Company's only reinsurance treaty was an excess of loss agreement with Lloyd's Underwriters and Hannover Ruckversicherung AG. The Company's retention was \$250,000 for

losses arising from named Atlantic windstorms and \$100,000 for other losses. Reinsurers' limits were in four layers up to a total loss of \$10,000,000.

The Company failed to file the "Reinsurance Summary Statement" for this treaty with the OIR as required by Section 624.610(11)(a), Florida Statutes and Florida Administrative Rule 69O-137.011.

**Subsequent event:** The Company filed the required Reinsurance Summary Statements for 2009 and 2008 on July 24, 2009, and on July 29, 2009.

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statement for the year ended December 31, 2007. However, the Company failed to file the required CPA audited financial report for the year ended December 31, 2008, by the required due date of June 1, 2009. This is a violation of Section 624.424(8)(a), Florida Statutes and Florida Administrative Rule 69O-137.002(4).

**Subsequent event:** The CPA report was filed on July 27, 2009.

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 review of the Company's premium data files indicated premiums in the course of collection that were overdue in excess of 90 days at December 31, 2008. The amount was not material. Consequently, no change has been made in the financial statements of this Report. However, the Company did not show these premiums in the 2008 Annual Statement as a nonadmitted asset. That is a violation of Section 625.012(5)(a), Florida Statutes and Florida Administrative Rule 69O-138.024(4).

In the 2008 Annual Statement, the Company indicated a balance of \$416,807 for the asset, Receivable from parent, subsidiaries and affiliates. The total amount was shown as a nonadmitted asset. It became evident that this account was not being presented in the filed statements in accordance with Annual Statement Instructions and SSAP No. 64. This is in violation of Florida Administrative Rule 69O-137.001(4)(a) which required such compliance.

**Subsequent event:** In the 2<sup>nd</sup> Quarter 2009 financial statement, the Company presented balances on a gross basis. Costs are being incurred and balances settled. The Company is now in compliance.

The Board modified the Services Agreement to address the receivable correctly in future statements.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Bank of America for the safekeeping of its securities. The custodial agreement was effective October 21, 2004 and met the requirements of Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company had an agreement with Deloitte and Touche LLP to audit the Company's statutory financial statements for the year 2008.

### **Actuarial Services Agreement**

The Company had an agreement with Alliance Actuarial Services, Inc. to perform an actuarial analysis and opinion of the Company's loss and loss adjustment expense reserves as of December 31, 2008.

## **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."

**SEVEN SEAS INSURANCE COMPANY, INC.**  
**Assets**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,865,238		\$4,865,238
Cash	8,157,464		8,157,464
Investment income due and accrued	88,941		88,941
Premiums and considerations:			
Uncollected premiums	739,449		739,449
EDP equipment and software	6,427		6,427
Aggregate write-ins for other than invested assets	56,633	0	56,633
Totals	\$13,914,152	\$0	\$13,914,152

**SEVEN SEAS INSURANCE COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,789,505		\$1,789,505
Loss adjustment expenses	48,282		48,282
Other expenses	646,744		646,744
Taxes, licenses and fees	139,512		139,512
Current federal and foreign income taxes	375,990		375,990
Unearned premiums	174,944		174,944
<b>Total Liabilities</b>	<b>\$3,174,977</b>	<b>\$0</b>	<b>\$3,174,977</b>
Common capital stock	\$750,750		750,750
Gross paid in and contributed surplus	1,000,000		1,000,000
Unassigned funds (surplus)	8,988,425		8,988,425
<b>Surplus as regards policyholders</b>	<b>\$10,739,175</b>	<b>\$0</b>	<b>\$10,739,175</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$13,914,152</b>	<b>\$0</b>	<b>\$13,914,152</b>

**SEVEN SEAS INSURANCE COMPANY, INC.**  
**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$19,221,255
	<b>Deductions:</b>	
Losses incurred		4,147,155
Loss expenses incurred		864,393
Other underwriting expenses incurred		2,641,025
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$7,652,573
Net underwriting gain or (loss)		\$11,568,682

**Investment Income**

Net investment income earned		\$408,644
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$408,644

**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		\$11,977,326
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$11,977,326
Federal & foreign income taxes incurred		4,152,062
Net Income		\$7,825,264

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$8,300,211
Net Income		\$7,825,264
Change in non-admitted assets		(365,290)
Dividends to stockholders		(5,000,000)
Aggregate write-ins for gains and losses in surplus		(21,009)
Change in surplus as regards policyholders for the year		\$2,438,965
Surplus as regards policyholders, December 31 current year		\$10,739,176

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$1,837,787

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.

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, 2008, in conjunction with the financial condition examination.

INS found the Company's gross and net loss and loss adjustment expense reserves at December 31, 2008 to be reasonably stated.

### Capital and Surplus

The amount reported by the Company of \$10,739,175, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**SEVEN SEAS INSURANCE COMPANY, INC.  
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	\$10,739,175
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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, 2008, Per Examination			\$10,739,175

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company had taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

### **Current examination comments and corrective action**

There are no findings for this examination.

## **SUBSEQUENT EVENTS**

On April 22, 2009, the Board of Directors declared a cash dividend of \$2,500,000, payable May 15, 2009.

On May 12, 2009, the Company's sole shareholder, Birdsall, Inc., re-elected the same five individuals as Directors, effective May 15, 2009, that were the Directors at December 31, 2008.

On May 18, 2009, the Board of Directors re-elected the same six individuals as Officers, with the same titles, that were the Officers at December 31, 2008.

On August 21, 2009, the Board of Directors executed a number of resolutions to:

- Ratify and approve the Investment Portfolio as of June 1, 2009.
- Adopt a Business Code of Conduct and Ethics.
- Appoint an Audit Committee and an Independent Auditor.

On August 28, 2009, the Company and its affiliate, Tropical Shipping USA, LLC, modified the services agreement to define the method of payment for services, Timing of payments and the percentage charge related to various services.

On September 1, 2009, The Board of Directors further defined the Audit Committee's role and named individuals to the committee.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Seven Seas Insurance Company, Inc.** 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 \$10,739,175, in compliance with Section 624.408, Florida Statutes.

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

Patricia Casey Davis, CFE, CPA, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE, CPCU, FLMI, CIE, CFSA, Insurance Examiner-in-Charge, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Michael W. Morro, ACAS, MAAA, Actuary, INS Consultants, Inc.; and Claude B. Granese, CPA, Director of Finance and Quality Control, INS Services, Inc.

Respectfully submitted,

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James M. Pafford, Jr.  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation