

**REPORT ON EXAMINATION**  
**OF**  
**SUNSHINE STATE INSURANCE**  
**COMPANY**  
**ST. AUGUSTINE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2006**

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

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL .....</b>	<b>-</b>
<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
<b>HISTORY .....</b>	<b>3</b>
GENERAL .....	3
CAPITAL STOCK .....	4
PROFITABILITY OF COMPANY .....	5
DIVIDENDS TO STOCKHOLDERS .....	5
MANAGEMENT .....	6
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS .....	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	8
SURPLUS DEBENTURES .....	8
<b>AFFILIATED COMPANIES .....</b>	<b>9</b>
<b>ORGANIZATIONAL CHART .....</b>	<b>10</b>
TAX ALLOCATION AGREEMENT .....	11
POLICY ADMINISTRATION SERVICE AGREEMENT .....	11
MGA AGREEMENT .....	11
MANAGEMENT AGREEMENT .....	11
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>12</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....</b>	<b>12</b>
<b>STATUTORY DEPOSITS.....</b>	<b>12</b>
<b>INSURANCE PRODUCTS.....</b>	<b>13</b>
TERRITORY .....	13
TREATMENT OF POLICYHOLDERS.....	13
<b>REINSURANCE .....</b>	<b>13</b>
<b>ACCOUNTS AND RECORDS.....</b>	<b>14</b>
CUSTODIAL AGREEMENT .....	15
INDEPENDENT AUDITOR AGREEMENT.....	15
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>15</b>
ASSETS .....	17
LIABILITIES, SURPLUS AND OTHER FUNDS .....	18
STATEMENT OF INCOME.....	19
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>20</b>

LIABILITIES .....	20
CAPITAL AND SURPLUS .....	20
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>21</b>
<b>SUMMARY OF FINDINGS .....</b>	<b>22</b>
<b>CONCLUSION .....</b>	<b>24</b>

Tallahassee, Florida

June 8, 2007

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, 2006, of the financial condition and corporate affairs of:

**SUNSHINE STATE INSURANCE COMPANY  
475 WEST TOWN PLACE, SUITE 210  
ST. AUGUSTINE, FLORIDA 32092**

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, 2006. 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 March 12, 2007, to March 16, 2007. The fieldwork commenced on March 19, 2007, and was concluded as of June 8, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 report, the A.M. Best Report, 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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are 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.

### **Risk Based Capital**

The Company's risk based capital level was less than the level allowed by Section 624.4085(3)(a), Florida Statutes. **Resolution:** The Company monitored its risk based capital level and took action to maintain the minimum of 2.0 level required.

### **Lines of Business**

The Company had not written business in the lines of fire and other liability in 2003 which was violation of Section 624.430(1), Florida Statutes. **Resolution:** The Company has written fire and other liability lines of business in 2006 and is now in compliance with Section 624.430(1) Florida Statutes.

### **Par Value of Capital Stock**

The Company was not in compliance with Section 628.081(3)(d), Florida Statutes. **Resolution:** The Company continued to incorrectly report the par value of the common capital stock in the articles of incorporation and the capital stock record book. The par value of the Company's common capital stock was changed as a result of Agreement and Plan of Merger but the

articles of incorporation were never amended to reflect such. Also, the capital stock record book reflected that there were 5,000,000 shares authorized at \$1.00 per share. The correct par value per share is \$100.

## HISTORY

### General

The Company was incorporated in Florida on November 4, 1997 and commenced business on November 21, 1997 as Sunshine State Insurance Company.

Effective February 14, 2005, QualSure Insurance Corporation merged with and into the Company. The QualSure Insurance Corporation became dormant.

The Company was party to Consent Order 76825-04-CO filed June 30, 2004 with the Office regarding the application for the approval of the direct acquisition of 100% of the outstanding voting securities of Sunshine State Holding Company. This is the immediate parent of an authorized domestic insurer, Sunshine State Insurance Company, by QualSure Insurance Corporation, an authorized domestic insurer, pursuant to Section 628.461, Florida Statutes.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire	Allied Lines
Homeowners Multi Peril	Inland Marine
Other Liability	

The Company had 5 portfolio assumptions from Citizens Property Insurance Corporation (Citizens) for a total of 32,000 policies. Prior to the merger of Sunshine State with QualSure Insurance

Corporation, Qualsure had assumed a total of 83,449 policies from the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the Florida Windstorm Underwriting Association (FWUA) in the amounts of \$42,979 and 40,470 respectively. In 2002, the Florida Legislature passed a law that combined these two organizations that resulted in the creation of Citizens. Of the total 115,442 portfolio assumption of policies from Citizens, the Company retained 9,470 for a retention rate of 8%. The company had a marketing program to generate new business.

The articles of incorporation and the bylaw were not amended during the period covered by this examination. The change in the Company's common capital stock par value and change of address requires that amendments be made to both of these documents to comply with Section 628.271(1)(b), Florida Statutes.

## **Capital Stock**

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	15,200
Total common capital stock	\$1,520,000
Par value per share	\$100

Control of the Company was maintained by its parent, Sunshine State Holding Corporation, a Delaware corporation, which owned 100% of the stock issued by the Company which was 100% owned by QualSure Holding Corporation, a Florida Corporation, which was 100% owned by Fenelon Ventures, LLC, a Delaware limited liability company, which was 100% owned by nine individuals and one trust.

The following individuals have control of Fenelon Vetures, LLC: Tal P. Piccione, 32% of the shares, First Trust Corporation for the benefit of Sanford D. Elsass, 17% of the stock and Peter S. Rawlings, 15% of the shares.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	(17,904,132)	(3,408,897)	9,958,418
Net Underwriting Gain/(Loss)	(4,506,763)	(6,112,814)	(21,945,101)
Net Income	(2,523,917)	(4,072,140)	(21,497,120)
Total Assets	27,281,578	34,225,069	33,369,524
Total Liabilities	19,375,067	28,486,170	28,123,147
Surplus As Regards Policyholders	7,906,511	5,738,899	5,246,377

The Company's gross written premium ratio was 12:1 which was higher than the maximum of 10:1 established by Section 624.4095, Florida Statutes.

### **Dividends to Stockholders**

The Company did not declare or pay dividends to its stockholder in 2006, 2005 or 2004.

## 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, 2006, were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
John E. Rogan St. Augustine, FL	Chairman Sunshine State Insurance Company
Tal Piccone New York, NY	Director US RE Agencies, Inc.
Sanford Elsass New York, NY	Director US RE Agencies, Inc.
Richard Davies New York, NY	Director US RE Agencies, Inc.
Peter Rawlings Ardmore, PA	Director Logan Capital

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

### Senior Officers

<b>Name</b>	<b>Title</b>
John E. Rogan	President & CEO
Richard Ervin, Jr.	Executive VP & CFO
Jeffery Vanderpool	Vice President-Claims

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

<b>Compensation Committee</b>	<b>Audit Committee</b>	<b>Investment Committee</b>
John Lombardo <sup>1</sup>	Richard Davis <sup>1</sup>	Peter Rawlings <sup>1</sup>
Tal Piccione	Peter Rawlings	Richard Davis
Sanford Elsass	Rick Ervin	

<sup>1</sup> Chairman

The Company maintained an independent audit committee, as required by Section 624.424(8), 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, 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 in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. However, the minutes were not properly executed.

There was no documentation in the minutes reviewed that the Company's directors reviewed the previous examination report as required by the NAIC Financial Condition Examiners Handbook.

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

On July 20, 2004, the Company's parent, Sunshine State Holding Corporation, was acquired by QualSure Insurance Corporation. This acquisition was approved by the Office on June 30, 2004.

On December 31, 2004 QualSure Insurance Corporation transferred 100% of the stock of Sunshine State Holding Corporation to its parent, QualSure Holding Corporation and merged with the Company. The Company became the surviving entity. The merger was approved by the Office on December 31, 2004.

On December 31, 2004, Fenelon Ventures, LLC, acquired QualSure Holding Corporation, and became the parent of the Sunshine State Holding Corporation, the Company's parent. The acquisition was approved by the Office on December 31, 2004.

### **Surplus Debentures**

The Company issued a \$3,000,000 surplus note to be held by QualSure Underwriting Agencies, Inc. on September 29, 2006. The interest rate was the prime rate and the maturity date was December 31, 2011. No principal or interest payments are made unless such payment is approved in advance by the Office.

## **AFFILIATED COMPANIES**

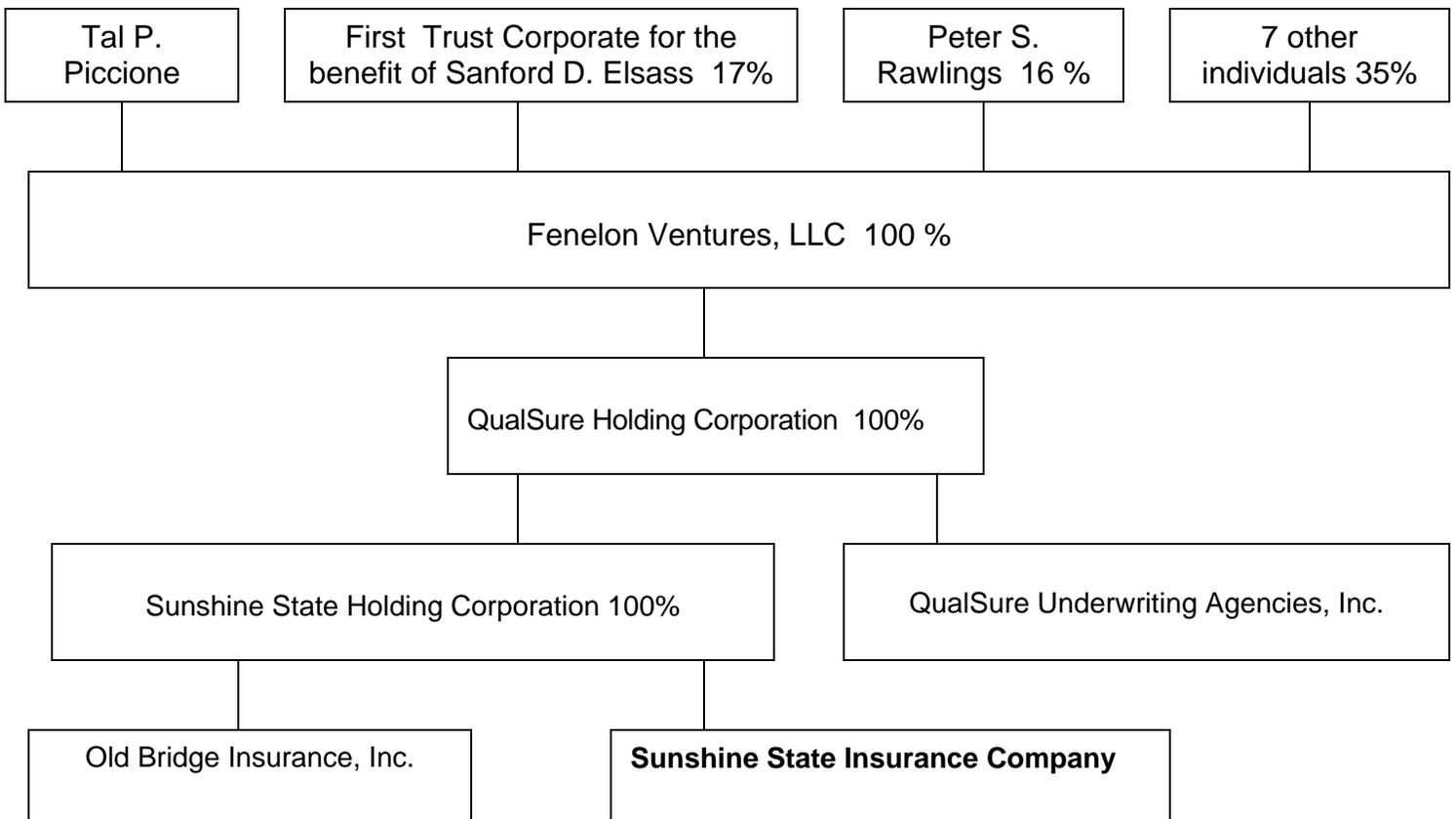
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report subsequent changes in ownership as required by Section 628.801, Florida Statutes and Rule 69O-143.046(4) Florida Administrative Code.

**Subsequent event:** The Company filed an updated holding company registration statement on January 18, 2006.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**Sunshine State Insurance Company  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



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

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was based upon each company's tax position as if filed on a separate return basis.

### **Policy Administration Service Agreement**

The Company had an agreement with Computer Science Corporation of Columbia, SC, to provide substantially all of the Company's underwriting, policy issuance and customer service functions, cash collection and disbursement and claim management. The cost of this service was the responsibility of the managing general agent (MGA).

### **Managing General Agent Agreement**

The Company had a managing general agent (MGA) agreement with an affiliate, QualSure Underwriting Agencies, Inc. This agreement met the requirements of Section 626.7451, Florida Statutes.

### **Management Agreement**

The Company had a management agreement with QualSure Underwriting, an affiliate, to provide administrative management services for the Company.

## FIDELITY BOND

The Company maintained fidelity bond coverage up to \$600,000 with a deductible of \$25,000, which did not adequately cover the suggested minimum amount of coverage of \$700,000 for the Company as recommended by the NAIC Financial Condition Examiners Handbook which was adopted in Rule 69O-137.001, Florida Administrative Code.

**Subsequent event:** The Company increased its fidelity bond coverage to \$700,000 effective June 8, 2007.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

## STATUTORY DEPOSITS

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

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	CD	4.0%	08/19/07	\$ 300,000	\$ 300,000
FL	USTNTS	4.8%	05/15/14	\$ 1,100,000	\$ 1,120,038
FL	USTNTS TIPS	2.0%	07/15/14	\$ 1,100,000	\$ 1,190,028
TOTAL FL DEPOSITS				\$ 2,500,000	\$ 2,610,066
SC	CD	3.1%	12/12/07	\$ 25,000	\$ 25,000
SC	CD	5.4%	10/30/07	\$ 100,000	\$ 103,978
TOTAL OTHER DEPOSITS				\$ 125,000	\$ 128,978
TOTAL SPECIAL DEPOSITS				\$ 2,625,000	\$ 2,739,044

## **INSURANCE PRODUCTS**

### **Territory**

The Company was authorized to transact insurance in Florida and South Carolina.

### **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.

## **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 risks.

### **Ceded**

The Company ceded reinsurance through quota share and excess of loss treaties using authorized and unauthorized reinsurers. Homeowners insurance represented 86% of the

business written and commercial building risk represented 7%. The Company's homeowner line of business was reinsured through a 90% quota share reinsurance agreement with Lloyds Syndicate, Transatlantic Reinsurance, Everest Reinsurance, and Allied Word Reinsurance, which were brokered through U.S. Re Corporation. The Company's maximum retention on an individual "Per Risk" homeowner's property loss was \$25,000 and its maximum retention on an individual homeowner's liability loss was \$50,000. The Company was also reinsured through a 50% quota share reinsurance treaty and a per risk excess of loss treaty for individual builder's risk losses in excess of \$200,000 up to \$5,000,000.

The Company also maintained catastrophe reinsurance covering losses up to \$222 million which provided coverage up to four major occurrences, with its net retained loss limited to \$167,500 per occurrence.

The Company ceded 100% of its direct written premium in order to cover the cost of its reinsurance program. The reinsurance cost was \$11 million greater than direct business written. Hence, the Company's net earned premium was negative. This was offset with \$30 million from ceding commissions.

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

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006, 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, with the exception of two accounts, were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

#### **Custodial Agreement**

The Company had an agreement with the U. S. Bank National Association. This agreement met the requirements of Rule 69O-143.042, Florida Administrative Code.

#### **Independent Auditor Agreement**

QualSure Holding Corporation and its subsidiaries, of which the Company was a part of, had an agreement with Johnson Lambert & Co. to provide an independent auditors report with consolidated financial statements.

### **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

**SUNSHINE STATE INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,437,453		\$7,437,453
Cash:			
On hand	500		500
On deposit	9,810,115		9,810,115
Investment Income due and accrued	115,226		115,226
Agents' Balances:			
Uncollected premium	2,824,298		2,824,298
Deferred premium	2,191,244		2,191,244
Reinsurance Recoverable	3,086,195		3,086,195
Net deferred tax asset	694,436		694,436
Aggregate write-in for other than invested assets	1,122,111		1,122,111
Totals	\$27,281,578	\$0	\$27,281,578

**SUNSHINE STATE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,011,319		\$3,011,319
Loss adjustment expenses	1,278,673		1,278,673
Commissions payable, contingent commissions	719,708		719,708
Other expenses	35,841		35,841
Taxes, licenses and fees	621,286		621,286
Unearned premium	10,242,776		10,242,776
Advance premiums	1,466,064		1,466,064
Remittances and items not allocated	68,783		68,783
Ceded reinsurance premiums payable	167,526		167,526
Payable for security	177,397		177,397
Payable to parent, subsidiaries and affiliates	79,305		79,305
Aggregate write-ins for liabilities	<u>1,506,389</u>		<u>1,506,389</u>
Total Liabilities	\$19,375,067		\$19,375,067
Common capital stock	\$1,520,000		\$1,520,000
Surplus notes	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	53,092,686		53,092,686
Unassigned funds (surplus)	<u>(49,706,175)</u>		<u>(49,706,175)</u>
Surplus as regards policyholders	<u>\$7,906,511</u>		<u>\$7,906,511</u>
Total liabilities, surplus and other funds	<u>\$27,281,578</u>	<u>\$0</u>	<u>\$27,281,578</u>

**SUNSHINE STATE INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2006**

**Underwriting Income**

Premiums earned	(17,904,132)
<b>Deductions:</b>	
Losses incurred	917,411
Loss expenses incurred	1,766,710
Other underwriting expenses incurred	(16,081,490)
Total underwriting deductions	<u>(13,397,369)</u>
Net underwriting gain or (loss)	(4,506,763)

**Investment Income**

Net investment income earned	<u>686,668</u>
Net investment gain or (loss)	686,668

**Other Income**

Aggregate write-ins for miscellaneous income	<u>350</u>
Total other income	350

Net income before dividends to policyholders and before federal & foreign income taxes	(3,819,745)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(3,819,745)
Federal & foreign income taxes	<u>(1,295,829)</u>
Net Income	(2,523,917)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	<u>5,738,900</u>
Net Income	(2,523,917)
Net unrealized capital gains or losses	15,180
Change in net deferred income tax	351,613
Change in non-admitted assets	(119,549)
Change in surplus notes	3,000,000
Capital changes, paid in	(10,000)
Surplus adjustments: Paid in	1,454,286
Change in surplus as regards policyholders for the year	<u>\$2,167,613</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,906,513</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$4,289,992

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

#### Capital and Surplus

The amount reported by the Company of \$7,906,511, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

**SUNSHINE STATE INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2006**

Surplus as regards policyholders  
per December 31, 2006, Annual Statement \$7,906,511

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment.			\$0
<b>LIABILITIES:</b>			
No adjustment.			\$0
Net Change in Surplus:			<u>0</u>
Surplus as regards policyholders December 31, 2006, Per Examination			<u><u>\$7,906,511</u></u>

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office, except for the following:

The Company continues to incorrectly report the par value of the common capital stock in the articles of incorporation and the capital stock record book.

### **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, 2006.

The Company did not amend its articles of incorporation, by-laws and capital stock record book to indicate the change in par value of its capital common stock from \$2,000 per share to \$100 per share, which was agreed to in the "Agreement and Plan of Merger", in order to comply with Section 628.081(d), Florida Statutes. **We recommend that the Company amend its articles of incorporation, by laws and capital stock record book to reflect the \$100 per share par value of its capital common stock, to comply with the requirements of Section 628.081(d), Florida Statutes.**

**Further the Company should include its current address in the amendment to the articles of incorporation and by laws to comply with Section 628.271(1)(b), Florida Statutes.**

The Company's gross written premium ratio was 12:1 which was higher than the maximum of 10:1 required by Section 624.4095, Florida Statutes. **We recommend the Company maintain its gross written premium ratio at 10:1 or less or provide documentation to the Office that exceeding the ratio does not compromise the financial condition of the insurer or risk the interests of the insurer's policyholders.**

There was no documentation in the Corporate minutes evidencing that the Company's board of directors reviewed the previous examination report of the Office as required by the NAIC Financial Condition Examiners Handbook. **We recommend that the board of directors timely review and document in the board minutes, the review of all current and future examination reports as required by the NAIC Financial Condition Examiners Handbook.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sunshine State Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,906,511, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Jay Ambler, Financial Examiner/Analyst II, James Collins, Reinsurance Specialist, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

---

Roger Kelley  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation