

REPORT ON EXAMINATION
OF
SUNZ INSURANCE COMPANY
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 17, 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:

**SUNZ INSURANCE COMPANY
100 SECOND AVENUE NORTH, SUITE 300
ST. PETERSBURG, FLORIDA 33701**

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

SCOPE OF EXAMINATION

This examination covered the period from 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 6, 2009, to January 8, 2009. The fieldwork commenced on January 12, 2009, and was concluded as of April 17, 2009.

This examination was a risk-focused 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. 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

There were no exceptions or findings in the examination as of December 31, 2006.

HISTORY

General

The Company was incorporated in Florida on February 23, 2005, and commenced business on May 12, 2005, as Sunz Insurance Company.

The Company was party to Consent Order 80814-CO-05 filed March 22, 2005 with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of the consent order.

The Company was authorized to transact Workers' Compensation insurance coverage in Florida.

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	10,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, SUNZ Group, LLC, who owned 100% of the stock issued by the Company.

Profitability of Company

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

	2007	2006	2005
Premiums Earned	\$ 2,922,866	\$ 4,071,096	\$ 3,710,871
Net Underwriting Gain/(Loss)	(186,781)	(1,406,284)	213,151
Net Income	489,799	(521,285)	242,640
Total Assets	25,586,817	28,848,189	11,567,408
Total Liabilities	19,229,792	23,214,224	5,731,693
Surplus As Regards Policyholders	6,357,025	5,633,965	5,835,715

Dividends to Shareholders

The Company did not declare or pay any dividends to its shareholder during the examination period.

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

Gregory Branch
Ocala, Florida

Hugo Crawley
Hants, England

Shelli Elmer
Bradenton, Florida

Principal Occupation

Chairman of Board
United Property & Casualty Insurance Co.

Director
BMS, London, UK

Chief Operating Officer and Executive Vice
President, Sunz Insurance Company

Douglas F. Lilak
Parrish, Florida

President and Chief Executive Officer
Sunz Insurance Company

Sam Oswald
Orlando, Florida

Partner
Oswald & Scott CPAs

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

Senior Officers

Name	Title
Douglas F. Lilak	Chief Executive Officer/President
Shelli Elmer	Executive Vice President, Chief Operating Officer & Secretary
Sam Oswald	Chief Financial Officer/Treasurer

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:

Reinsurance/ Underwriting Committee	Compensation Committee	Audit Committee²	Investment Committee
Gregory Branch ¹ Hugo Crawley Neil Savage Alec Poitevint Sam Oswald Douglas Lilak Shelli Elmer	Gregory Branch ¹ Hugo Crawley Jean Irwin Sam Oswald Douglas Lilak Shelli Elmer	Pat Delacey ¹ Sam Oswald Neil Savage Bob Banks Gregory Branch Douglas Lilak Shelli Elmer	Sam Oswald ¹ Bob Banks Pat Delacey Alec Poitevint Gregory Branch Douglas Lilak Shelli Elmer

¹ Chairman

² **Audit Committee- As of March 18, 2009, the Committee was reduced to the following three members: Glen Distefano, Nathan Ward and Hugo Crawley.**

Corporate governance

The audit committee was primarily comprised of individuals involved in the daily management of the Company. In accordance with Section 624.424(8)(c) Florida Statutes, the audit committee should be comprised of members who are free from any relationship that would interfere with the exercise of

independent judgment. The Company subsequently appointed audit committee members who were independent to be in compliance with Section 624.424(8)(c) Florida Statute .

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

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

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

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

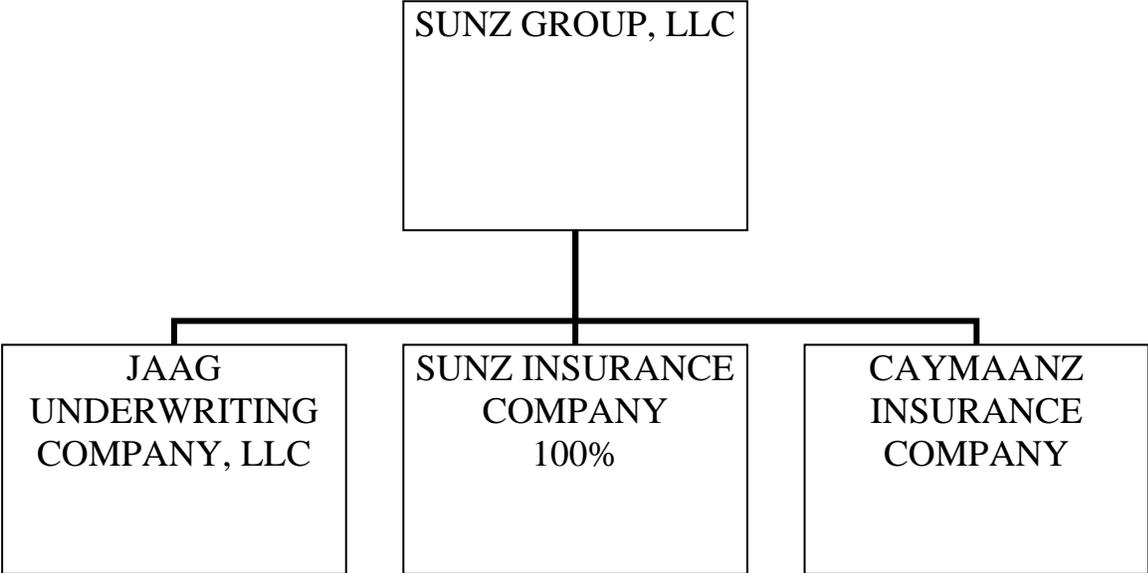
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed

with the State of Florida on February 29, 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. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**SUNZ INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Employee Agreement

The Company had employee agreements with its President and Vice President, Douglas Lilak and Shelli Elmer, respectively. The agreements were entered into on November 16, 2005, to document the services to be provided in return for a stated compensation. Mr. Lilak and Ms. Elmer were employees of JAAG Underwriting Company, LLC and were paid by JAAG. The terms of the agreement were for Mr. Lilak and Ms. Elmer to have general charge of the management and affairs of the Company, subject to the directions of the Board of Directors of the Company. Also, other duties and responsibilities may be assigned or delegated from time to time by the Board of Directors.

Managing General Underwriting (MGU) Agreement

The Company had an agreement with JAAG Underwriting Company, LLC, dated March 1, 2005, in which the MGU acted as the Company agent and representative for the production, servicing and acceptance of the classes and kinds of insurance set forth in the agreement. The agreement also called for JAAG to provide staff to perform the general operations of the Company. This original agreement was still in-force and effective as of December 31, 2007.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$100,000, which adequately covered the suggested minimum amount for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance in the amount of \$1,000,000 with a deductible of \$50,000 and Professional Liability insurance in the amount of \$1,000,000 with a deductible of \$100,000. Workers Compensation insurance coverage included \$100,000 for each accident, \$100,000 for each disease with disease policy limits of \$500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had 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:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	SYNOVUS BANK, CD 3.910%, 3/01/09	<u>\$ 250,000</u>	<u>\$ 250,000</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS

The Company provided workers' compensation insurance mainly for Professional Employer Organizations (PEO). A PEO, also referred to as an employee leasing company or staff leasing company, provides human resources and administrative services to businesses that elect to outsource functions such as human resources support, benefits administration, payroll and federal and state employment tax filings. Additionally, a PEO purchases workers' compensation coverage for all leased employees.

Territory

The Company was authorized to transact insurance in the state of Florida as of December 31, 2007.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(2)(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 any risk through reinsurance during the time covered by this exam.

Ceded

The Company ceded risk on an excess of loss basis through three layers of reinsurance with Lloyds of London Syndicates. The following is a summary by layer of reinsurance.

The following contracts were for the period of July 1, 2007 – July 1, 2008.

First Excess - Section A of the first excess of layer coverage is limited to \$4,500,000 ultimate net loss per each occurrence in excess of \$500,000 ultimate net loss each

occurrence above the original policy deductibles. Section B is limited to \$4,000,000 ultimate net loss each occurrence in excess of \$1,000,000 ultimate net loss per each occurrence. Section A and Section B was limited to \$4,500,000 and \$4,000,000 total recovery, respectively. Additionally, both Sections are subject to a maximum recoverable of 250% of reinsurance premium ceded but not less than \$7,500,000.

Second Excess - The second excess layer of coverage was limited to \$5,000,000 per occurrence in excess of \$5,000,000. This layer was limited to a \$10,000,000 total recovery.

Third Excess - The third excess layer of coverage was limited to \$10,000,000 per occurrence in excess of \$10,000,000. This layer was limited to a \$10,000,000 total recovery.

The Company ceded risk on an excess of loss basis through three layers of reinsurance effective from July 1, 2006 – July 1, 2007.

First Excess - Section A of the first excess of layer coverage is limited to \$4,500,000 ultimate net loss per each occurrence in excess of \$500,000 ultimate net loss each occurrence above the original policy deductibles. Section B is limited to \$4,000,000 ultimate net loss each occurrence in excess of \$1,000,000 ultimate net loss per each occurrence. Section A and Section B was limited to \$4,500,000 and \$4,000,000 total recovery, respectively. The maximum recoverable under the treaty was the lesser of 225% of the ceded premium or \$12,000,000.

Second Excess - The second excess layer of coverage was limited to \$5,000,000 per occurrence in excess of \$5,000,000. This layer was limited to a \$10,000,000 total recovery.

Third Excess - The third excess layer of coverage was limited to \$10,000,000 per occurrence in excess of \$10,000,000. This layer was limited to a \$20,000,000 total recovery.

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. Petersburg, Florida, where this examination was conducted.

An independent certified public accountant (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 and non-affiliates had the following agreements:

Claims Processing Agreement

Effective June 13, 2005, the Company entered into a contract with United Self Insured Services to provide claim processing services for a one year term. In return for the services provided by United Self Insured Services, the Company agreed to pay fees based on a defined service schedule to equal at least 2.38% of earned standard premium and not to exceed 2.87% of earned standard premium for new workers compensation claims, and fees for managed care claims handling based on a defined service schedule. Payments were made monthly based on an installment plan. The Company had the right to perform an audit of claims paid at any time. Cancellation of the contract could be initiated only by the Company.

Addendum #2, effective July 1, 2006 through June 30, 2007, changed the administration fee from \$2,000 per month to \$3,200 per month. All other provisions remained unchanged.

Addendum #3, effective July 1, 2007 through June 30, 2008, was a renewal agreement in which all provisions remained unchanged.

Independent Auditor Agreement

The Company engaged Thomas Howell Ferguson P.A. to perform an audit of its generally accepted accounting principles and statutory financial statements for the years 2006 and 2007.

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."

SUNZ INSURANCE COMPANY
Assets

December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Cash:	\$ 20,098,934	\$ -	\$ 20,098,934
Interest and dividend income due & accrued	45,225	-	45,225
Agents' Balances:			
Uncollected premium	4,060	-	4,060
Deferred premium	-	-	-
Current federal income recoverable	26,078	-	26,078
Net deferred tax asset	180,162	-	180,162
Receivable from parents, subsidiaries and affiliates	11,250	-	11,250
Aggregate write-in for other than invested assets	5,221,108	-	5,221,108
	<hr/>		
Totals	\$ 25,586,817	\$ -	\$ 25,586,817
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SUNZ INSURANCE COMPANY
Liabilities, Surplus and Other Funds

December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 10,660,757	\$ -	\$ 10,660,757
Loss adjustment expenses	2,151,310	-	2,151,310
Other expenses	765,584	-	765,584
Taxes, licenses and fees	183,514	-	183,514
Unearned premium	1,023,322	-	1,023,322
Advance premiums	36,640	-	36,640
Amounts withheld	4,144,834	-	4,144,834
Payable to parent, subsidiaries and affiliates	163,807	-	163,807
Aggregate write-ins for liabilities	100,024	-	100,024
Total Liabilities	\$ 19,229,792	\$ -	\$ 19,229,792
Common capital stock	\$ 1,000	\$ -	\$ 500,000
Gross paid in and contributed surplus	5,999,000	-	1,200,000
Unassigned funds (surplus)	357,025	-	4,564,923
Surplus as regards policyholders	\$ 6,357,025	\$ -	\$ 6,357,025
Total liabilities, surplus and other funds	\$ 25,586,817	\$ -	\$ 25,586,817

SUNZ INSURANCE COMPANY
Statement of Income

December 31, 2007

Underwriting Income

Premiums earned		\$	2,922,866
	Deductions:		
Losses incurred			(774,054)
Loss expenses incurred			410,758
Other underwriting expenses incurred			3,472,943
Total underwriting deductions		\$	<u>3,109,647</u>
Net underwriting gain or (loss)		\$	(186,781)

Investment Income

Net investment income earned		\$	1,510,577
Net realized capital gains or (losses)			-
Net investment gain or (loss)		\$	<u>\$1,510,577</u>

Other Income

Aggregate write-ins for miscellaneous income			123,924
Total other income		\$	<u>123,924</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$	1,447,720
Dividends to policyholders			-
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$	<u>1,447,720</u>
Federal & foreign income taxes			<u>957,921</u>
Net Income		\$	489,799

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$	5,633,965
Net Income		\$	489,799
Change in non-admitted assets			(235,871)
Change in net deferred income tax			469,132
Examination Adjustment			-
Change in surplus as regards policyholders for the year		\$	<u>723,060</u>
Surplus as regards policyholders, December 31 current year		\$	<u><u>6,357,025</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$12,812,067

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.

The examiners contracted with an independent actuarial firm for the review of the actuarial report and related workpapers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$6,357,025, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**SUNZ 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	\$	6,357,025
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustments			\$ -
LIABILITIES:			
No Adjustments			\$ -
Net Change in Surplus:			<u>\$ -</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination			<u><u>\$6,357,025</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2006.

Current examination comments and corrective action

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

SUBSEQUENT EVENTS

Management Buyout

The Company's parent company, Sunz Group, LLC, entered into an agreement with a member of senior management in the Company, whereby it agreed to remit certain proceeds to that individual in exchange for the purchase of all of that individual's outstanding stock in the parent company and in the full amounts owed to and claims made by that individual. As a result of this agreement, the Company accrued approximately \$312,000 in expenses related to the settlement as of December 31, 2007. This agreement was fully executed on March 8, 2008.

Indirect Acquisition of Controlling Interest of Sunz Insurance Company

In April 2008, Sunz Insurance Company and Sunz Holdings, LLC entered into an "Agreement for the Indirect Acquisition of Sunz," whereby all individuals and entities with an ownership in Sunz Group, LLC, which is the immediate parent of Sunz Insurance Company, agreed to sell ninety-seven and six thousand four hundred eighty-two ten thousandths percent (97.6482%) of interest of in Sunz Group, LLC to Sunz Holdings, LLC for an agreed upon price. The remaining two and three thousand five hundred eighteen ten thousandths percent (2.3518%) was converted to an ownership interest in Sunz Holdings, LLC, via a "Membership Interest Redemption Agreement," and along with a contribution of one hundred

thousand U.S. dollars (\$100,000), resulted in an ultimate ownership percentage of Sunz Holdings, LLC being ten percent (10%). The agreement was approved by the Florida Office of Insurance Regulation on June 13, 2008.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement on September 29, 2008, with Alliance Insurance Solutions, LLC, (MGA) formerly known as JAAG Underwriting, LLC, an affiliated company owned 100% by Sunz Group, LLC. The Agreement provided the MGA with the ability to enter into and issue on behalf of the Company insurance policies, binders, endorsements and other forms of insurance contracts. The agreement provides the MGA the full authority to collect premiums, and take necessary action, including legal proceedings and the cancellations of policies, with regard to the collection of premiums. The Agreement authorizes the MGA to pay claims and claims expense, either directly or through third party vendors meeting the approval of the Company. The MGA is responsible for maintaining a sufficient staff of competent, trained personnel and adequate supplies and equipment, to develop, underwrite, produce and supervise the business covered under the Agreement. The compensation entitled to the MGA is twenty-five percent (25%) of the Company's direct earned premiums, less pass through surcharges, and net of cancellations payable within thirty (30) days after the end of each calendar month.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sunz 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 \$6,357,025, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, J. Adam Fisher, Financial Examiner, Matthew Howell, Financial Examiner, Bradley Wright, Financial Examiner, Jennifer Burton, CPA, all of Dixon Hughes PLLC, and David Shepherd, FCAS, MAAA, of Merlinos & Associates, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Florida Office of Insurance Regulation