

REPORT ON EXAMINATION
OF
PEACHTREE CASUALTY INSURANCE
COMPANY
LONGWOOD, FLORIDA

AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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January 11, 2013

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, 2011, of the financial condition and corporate affairs of:

**PEACHTREE CASUALTY INSURANCE COMPANY
755-F WEST STATE ROAD 434
LONGWOOD, FLORIDA 32750**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2007, through December 31, 2011. 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 October 15, 2012, to October 19, 2012. The fieldwork commenced on October 22, 2012, and concluded as of January 11, 2013.

This financial examination was a multi-state 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

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

General

There were significant delays in the delivery of documentation requested from the Company during the course of the examination.

Prior Exam Findings

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

General

The Company did not have a custodial agreement with Morgan Keegan, custodian, for the Company's securities. **Resolution:** The Company executed a custodial agreement that was in compliance with Rule 690-143.042, Florida Administrative Code .

Management

The Company did not have an independent audit committee. All members of the audit committee were members of management. **Resolution:** The Company established a new audit committee since the acquisition.

Information Technology Report

Various IT findings noted in the prior examination were resolved.

HISTORY

General

The Company was incorporated in Florida on November 29, 1983, and commenced business on July 1, 1985, as a stock property and casualty insurer.

The Company was authorized to transact private passenger auto physical damage and private passenger auto liability insurance coverage in Florida on August 22, 1989. The Company was authorized to transact other liability and surety insurance coverage in Florida on March 19, 2010. The Company continued to be authorized in the four named lines of business on December 31, 2011.

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, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	1,466,667
Total common capital stock	\$2,200,000
Par value per share	\$1.50

Control of the Company was maintained by its parent, Network Holdings, Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Personable Holdings, Inc., a Delaware corporation.

The parent contributed \$8,225,000 to the Company as of December 31, 2011.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

The acquisition of the Company's parent, Network Holding, Inc., by Personable Holding Inc., was approved by consent order on December 9, 2011. On December 16, 2011, Personable Holdings, Inc. acquired 100% ownership of Network Holdings, Inc. and its wholly-owned subsidiaries First Insurance Network, Inc. and Peachtree Casualty Insurance Company.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented the meetings. The Company removed its corporate records from its Florida office. The Company did not request an exemption from keeping its records in Florida.

Subsequent Event: The Company requested permission for an exemption on November 29, 2012 and it was approved by the Office on January 24, 2013.

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 69O-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, 2011, were:

Directors

Name and Location	Principal Occupation
Kieran Anthony Sweeney San Diego, CA	President & CEO, Align General Insurance Agency
Andrew Michael Swindall San Diego, CA	President & CEO, Peachtree Casualty Insurance Company
Steven Ryan Heckman Denver, CO	Managing Partner, Excellere Partners
Bradford Joseph Cornell Denver, CO	Principal, Excellere Capital Management
Jairam Venkata Yerramilli Deluth, GA	Additional Secretary/Treasurer, Peachtree Casualty Insurance Company
Grant Edward Lippincott Omaha, NE	Manager, Rockbrook Advisors
David Lawrence Kessenich Denver, CO	Managing Partner, Excellere Partners

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

Senior Officers

Name	Title
Andrew Michael Swindall	President & CEO
Steven Ryan Heckman	Treasurer
Bradford Joseph Cornell	Secretary
Kieran Anthony Sweeney	Chairman of the Board
Jairam Venkata Yerramilli	Additional Secretary/Treasurer

Following were the principal internal board committees and their members as of December 31, 2011:

Regulatory Committee	Audit Committee	Compensation Committee
Andy Swindall ¹	Kieran Sweeney ¹	Kieran Sweeney ¹
Grant Lippincott	Ryan Heckman	Rob Martin
Ryan Heckman	Brad Cornell	Ryan Heckman

¹ Chairman

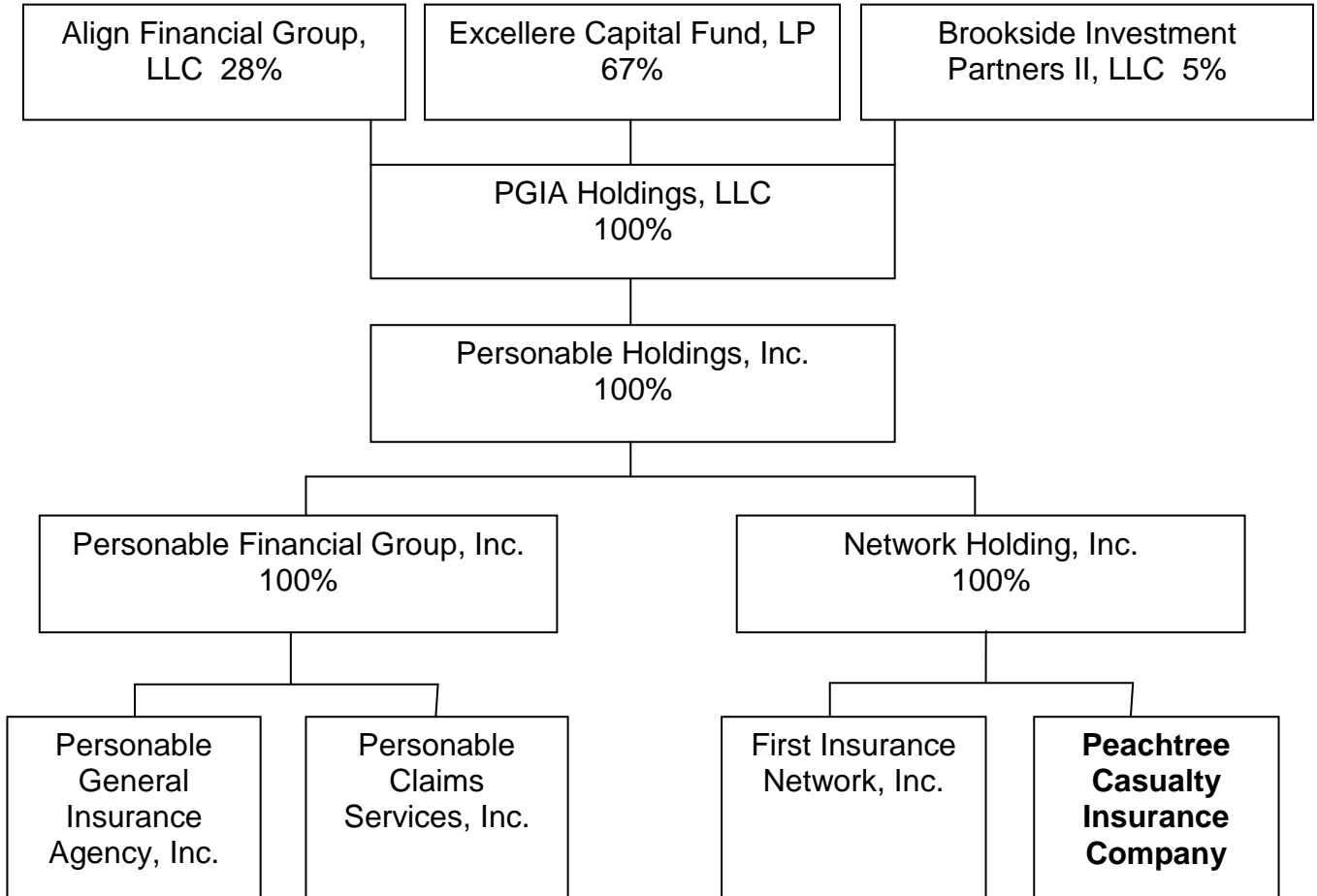
Affiliated Companies

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 January 13, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**PEACHTREE CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



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, 2011, the method of allocation between the Company and its parent was that the tax charge or tax refund allocated to the Company shall be the amount that the Company would have paid or received if it had filed a separate income tax return with the Internal Revenue Service.

Executive Management Agreement

The Company and its indirect parent, PGIA Holdings, LLC., had an executive management agreement in which the parent provided the Company management and administration services, such as regulatory and rating agency liaison, policy advisor and consultant, retention of professionals, marketing, investment advice, record keeping, personnel matters, tax matters, and ministerial functions. The agreement stated that the Company shall pay for costs of PGIA Holdings incurred for the benefit of the Company up to, but not to exceed, one percent (1%) of direct net written premium.

Claims Assignment Agreement

The Company had an agreement with First Insurance Network, Inc., the managing general agent, who had the authority and responsibility to administer and supervise the claims function for its client companies. The agreement stated that in the course of its claims duty, First Insurance Network, Inc. may make claim assignments to qualified claims adjusters, damage appraisers, other service companies, and attorneys to carry out its duty. Qualification Insurance Services, Inc. was an independent adjusting company utilized in this agreement, under the common ownership of the previous owner of the Company, William A. Dial, Jr.

The Company is in the process of transitioning from First Insurance Network, Inc. to Personable General Insurance Agency, Inc. Effective April 1, 2012, all new and renewal policies of the Company will be managed by Personable General Insurance Agency, Inc. Once the transition is complete, Personable General Insurance Agency, Inc. will serve as the exclusive Managing General Agent for the Company.

Managing General Agency Agreement

The Company had a Managing General Agency Agreement dated December 29, 2011, with Personable General Insurance Agency, Inc. (Personable), an affiliate, in which Personable was to act as its exclusive managing general agent. Personable's responsibilities included producing, administering and managing the policies, marketing, claims analysis, general ledger accounting, information services, product and underwriting development, and management and catastrophe risk management on behalf of the Company.

Insurance Management Agreement

During the examination period, the Company had a Managing General Agency Agreement with First Insurance Network, Inc. (First Insurance), an affiliate, in which First Insurance was responsible for the production, underwriting, premium collection, claims handling, and all operating functions of all authorized types and kinds of insurance.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2011, the Company maintained fidelity bond coverage of \$1,000,000 with a deductible of \$10,000, which exceeded the suggested minimum amount recommended by the NAIC. Network Holdings, Inc., also maintained a professional liability insurance policy naming the Company as an insured.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore, no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama	Iowa	Oklahoma
Alaska	Kansas	Oregon
Arizona	Kentucky	Pennsylvania
Arkansas	Louisiana	Rhode Island
Connecticut	Maryland	South Carolina
Delaware	Minnesota	South Dakota
District of Columbia	Mississippi	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Hawaii	Nevada	Washington
Idaho	New Mexico	West Virginia
Illinois	New York	Wyoming
Indiana	North Dakota	

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's gross premium written to surplus ratio and net premium written to surplus ratio both increased since 2007, but are maintained within Florida's statutory limitations. Net retention increased from 50% in 2007 to 68% in 2011. Net premium written increased in 2009 and 2010 primarily due to an increase in exposures written versus increased rate levels. The Company's assets and surplus remained relatively stable from 2006 to 2010. The increase in admitted assets in 2011 was due to the \$7.8 million capital contribution, which was made to improve the Company's surplus strength and reserves. There were net underwriting losses in each of the last five years,

and net losses in each of the last four years, due to increased losses. The Company's losses incurred increased significantly in 2011, due to an increase in IBNR. IBNR was increased as a result of fraudulent claims activity in accident years 2008 and 2009. The Company's combined ratio increased in 2009 due to fraudulent claims activity.

Profitability of Company

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

	2011	2010	2009	2008	2007
Premiums Earned	13,054,266	9,855,350	5,363,845	4,236,200	4,493,550
Net Underwriting Gain/(Loss)	(3,302,367)	(516,250)	(1,082,061)	(270,213)	(71,290)
Net Income (Loss)	(2,773,176)	(239,842)	(758,318)	(16,294)	199,784
Total Assets	21,589,854	14,303,125	12,799,745	11,689,289	10,682,519
Total Liabilities	10,505,822	8,296,979	6,614,360	5,234,145	4,050,445
Surplus As Regards Policyholders	11,084,032	6,006,146	6,185,385	6,455,144	6,632,074

LOSS EXPERIENCE

During the current examination period, the Company showed unfavorable development overall. This was a result of more claims being reported for prior accident years than management had anticipated. The one and two-year net loss developments at the end of the current examination period were both unfavorable at \$2.8 million and \$1.7 million, respectively.

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 37.5% (60% of a 62.5%) in a quota share reinsurance cession of non-standard auto business, written by its affiliate First Insurance Network, Inc. as the underwriting manager, for WACO Fire & Casualty Insurance Company in the State of Georgia.

Ceded

The Company's significant reinsurance contract in place to protect against losses was a 35% Quota Share Reinsurance Agreement with two authorized reinsurers.

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 Smyrna, Georgia.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010, and 2011, 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 books and records were computerized. The accounting system, which was fully automated, produced a general ledger, subsidiary ledgers and other reports as required for the preparation of financial statements and other management or regulatory reporting. The Company's accounting records provided an adequate audit trail.

The Company recorded a receivable from their direct parent, Network Holding, Inc. for \$7.8 million dollars as of December 31, 2011. The Company did not obtain Office approval for this receivable prior to filing their annual statement on March 5, 2012. This was a violation of SSAP #72.

Subsequent Event: The Office was presented with supporting documentation for payment of the receivable on February 29, 2012.

There were significant delays in the delivery of documentation requested from the Company during the course of the examination. This resulted in an extension of the completion date. Pursuant to Rule 69O-142.011 (8)(d) Florida Administrative Code, fines may be assessed for the "failure of insurer or any of its officers to properly respond to or cooperate with the Office in reporting, or providing information to the Office, or producing or making reasonably available, any of its accounts, records, or files, as requested by the Office, pursuant to Sections 624.318 and 624.418(2)(b), Florida Statutes.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with US Bank, N.A. executed on April 30, 2010. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

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

Tracy Gates, CISA, 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 for the benefit of all policyholders, and with various state officials as required or permitted by law:

State(s)	Description	Par Value	Market Value
FL	Elkhart, 5.750%, 7/6/12	\$ 400,000	\$ 406,640
FL	Frisco Obg B, 4.500%, 2/15/13	100,000	103,350
FL	New Jersey, 4.750%, 6/1/13	400,000	419,200
FL	Frisco Obg B, 4.500%, 2/15/13	<u>110,000</u>	<u>113,685</u>
TOTAL DEPOSITS (for the benefit of all policyholders)		\$ 1,010,000	\$ 1,042,875
AZ	US Treasury, 1.500%, 9/30/12	\$ 212,000	\$ 211,578
IN	Community Bank of the South, CD #40692	100,000	105,974
KS	Capital City Bank, CD #31570	43,175	43,175
KY	US Treasury, 1.375%, 10/15/12	200,000	201,946
LA	Regions Bank, CD #0442888614	20,000	20,000
NM	US Treasury, 1.350%, 10/15/12	100,000	100,989
NM	GEORGIA ST SER, 5.250%, 10/1/15	5,000	4,450
OK	US Treasury, 1.350%, 10/15/12	300,000	300,000
RI	US Treasury, 1.350%, 10/15/12	200,000	200,000
SC	VIRGINIA ST RES AUTH, 5.020%, 8/1/12	<u>155,000</u>	<u>158,887</u>
TOTAL OTHER DEPOSITS		<u>\$ 1,335,174</u>	<u>\$ 1,346,999</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$2,345,174</u></u>	<u><u>\$2,389,874</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

PEACHTREE CASUALTY INSURANCE COMPANY

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,174,245		\$7,174,245
Cash and Short-Term Investments	3,545,410		3,545,410
Investment income due or accrued	85,196		85,196
Premiums and considerations: Uncollected premiums and agents' balances	617,703		617,703
Deferred premiums	1,446,389		1,446,389
Reinsurance recoverable	389,908		389,908
Net deferred tax asset	531,003		531,003
Receivable from parents, subsidiaries and affiliates	7,800,000		7,800,000
Totals	<u>\$21,589,854</u>	<u>\$0</u>	<u>\$21,589,854</u>

PEACHTREE CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,349,417		\$3,349,417
Loss adjustment expenses	3,425,000		3,425,000
Other expenses	70,115		70,115
Taxes, licenses and fees	99,604		99,604
Unearned premiums	2,540,776		2,540,776
Advance premium	807		807
Ceded reinsurance premiums payable	988,988		988,988
Aggregate write-ins for liabilities	31,116		31,116
Total Liabilities	\$10,505,822	\$0	\$10,505,822
Common capital stock	\$2,200,000		\$2,200,000
Gross paid in and contributed surplus	8,225,000		8,225,000
Unassigned funds (surplus)	659,032		659,032
Capital and surplus	\$11,084,032	\$0	\$11,084,032
Total liabilities, surplus and other funds	\$21,589,854	\$0	\$21,589,854

PEACHTREE CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$13,054,266
	Deductions:	
Losses incurred		\$8,471,784
Loss expenses incurred		5,017,004
Other underwriting expenses incurred		2,867,846
Total underwriting deductions		\$16,356,633
Net underwriting gain or (loss)		(\$3,302,367)

Investment Income

Net investment income earned		\$217,090
Net realized capital gains or (losses)		312,100
Net investment gain or (loss)		\$529,190

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,773,176)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,773,176)
Federal & foreign income taxes		0
Net Income		(\$2,773,176)

Capital and Surplus Account

Capital and surplus, December 31 prior year		\$6,006,146
Net Income		(\$2,773,176)
Change in net deferred income tax		823,237
Change in non-admitted assets		(772,175)
Surplus adjustments: Paid in		7,800,000
Change in surplus as regards policyholders for the year		\$5,077,886
Capital and surplus, December 31 current year		\$11,084,032

A comparative analysis of changes in surplus is shown below.

PEACHTREE CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Capital and Surplus
December 31, 2011, per Annual Statement \$11,084,032

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Capital and Surplus December 31, 2011, Per Examination			<u><u>\$11,084,032</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$6,774,417

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, 2011, 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 actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of Capital and Surplus reported by the Company of \$11,084,032, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

General

We recommend that the Company respond accurately and in a timely manner to all requests made during financial examinations in accordance with Section 624.318 (2) (b), Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Peachtree Casualty Insurance Company**, as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's capital and surplus was \$11,084,032, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Diane Carter, CFE, Examiner-In-Charge, Tracy Gates, CISA, IT Examiner, and Travis Harrison, Participating Examiner, all of Highland Clark, participated in the examination. Dennis Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc. and Sarah Lucibello, CPA, CFE, CIA, Examination Manager of Lewis & Ellis, Inc., also participated in the examination. In addition, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Syntia King, APIR, Financial Examiner/Analyst II, of the Office participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation