

REPORT ON EXAMINATION
OF THE
BRENTWOOD NATIONAL INSURANCE COMPANY
BRENTWOOD, TENNESSEE

AS OF
DECEMBER 31, 2008

THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
NASHVILLE, TENNESSEE

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Company Examinations

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Brentwood, Tennessee
November 24, 2009

Honorable Alfred W. Gross
Chair, Financial Condition Committee
NAIC
Commissioner of Insurance
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable James J. Donelson
Secretary, Southeastern Zone
NAIC
Commissioner of Insurance
Louisiana Department of Insurance
1702 North 3rd Street
Baton Rouge, Louisiana 70802

Honorable Leslie Newman
Commissioner
State of Tennessee
Department of Commerce and
Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners, (NAIC), a financial examination has been made concerning the condition and affairs of the

BRENTWOOD NATIONAL INSURANCE COMPANY
BRENTWOOD, TENNESSEE

hereinafter generally referred to as the "Company", and a report thereon is submitted as follows:

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on July 22, 2009. The examination was conducted under the association plan of the NAIC by examiners from the State of Tennessee.

The examination was conducted at the Company's office in Brentwood, Tennessee where all books and records are located. The period covered by this examination is from July 1, 2004, to the close of business on December 31, 2008, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Examiners Handbook.

During the course of examination, assets were verified and valued and liabilities were determined or estimated as of December 31, 2008. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus as regards policyholders. Additionally, an examination of the following items was made:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Affiliated Companies
- Fidelity Bond
- Employee Benefits
- Territory & Plan of Operation
- Loss Experience
- Reinsurance
- Statutory Deposits
- Commitments and Contingencies
- Accounts and Records
- Subsequent Events

In the interest of making the examination more efficient, certain audit work performed by the Company's independent auditors was relied on.

Previous Examination Comments and Recommendations:

The previous examination of the Company was made as of June 30, 2004, by examiners of the Tennessee Department of Commerce and Insurance (the Department). The adverse finding and its resolution is as follows:

Comments:

- The Company does not maintain a fidelity bond. Minimum fidelity coverage suggested in the NAIC Financial Condition Examiners Handbook for a company of its size and premium volume is not less than \$75,000.

The Company disputed the above comment, noting that all of the Company's business was administered by employees of Physicians Insurance Company of Wisconsin, Inc. through a service agreement. The employees of PICW were covered by a \$1 million financial institution bond.

COMPANY HISTORY

The Company was incorporated as a pure captive on October 30, 1986, under the provisions of the Tennessee General Corporation Act and the Tennessee Captive Insurance Company Act. Effective December 29, 1992, the Company converted from a captive insurance company to a fully licensed property and casualty insurance company.

On June 2, 1994, the Company acquired all of the outstanding stock of Lawyers Surety Corporation, a Texas domiciled property and casualty company. On November 4, 1994, the name of Lawyers Surety was changed to Century American Casualty Company (CACC).

On May 22, 1998, Professional Service Network, Inc. (PSN), an insurance holding company, acquired 100% of the outstanding common stock of the Company from American Alliance Holding Company. PSN is a subsidiary of Physicians' Insurance Company of Wisconsin (PICW), which is a Wisconsin domiciled property and casualty company. In connection with this acquisition, the Company moved its operations from Durham, North Carolina to Madison, Wisconsin.

In 2002, the Company transferred ownership of CACC to PSN through a dividend of all of CACC's common stock.

Effective May 31, 2006, the Company was acquired by Brentwood Services Holdings, Inc. (BSHI). The name was then changed to Brentwood National Insurance Company.

The Company ceased writing new and renewal business in 2000. As of the examination date, its only business had been acquired through loss portfolio transfers.

At December 31, 2008, the Company's authorized capital stock was 2,000,000 shares of \$3 par value Class A common capital stock, of which 833,252 shares were outstanding and 2,000,000 shares of \$3 par value Class B common capital stock, none of which is outstanding.

The Company's development, as taken from Annual Statement filings since the previous examination, is shown in the following table:

| Date | Gross Premiums Written | Net Premiums Written | Net Income | Admitted Assets | Total Liabilities | Capital & Surplus |
|----------|------------------------------|----------------------------|---------------|--------------------|----------------------|----------------------|
| 12/31/04 | 0 | 0 | (9,013) | 5,620,780 | 54,718 | 5,566,062 |
| 12/31/05 | 0 | 0 | 55,242 | 5,675,270 | 53,649 | 5,621,621 |
| 12/31/06 | 0 | 0 | 49,544 | 4,979,734 | 83,930 | 4,895,804 |
| 12/31/07 | 0 | 0 | (435,472) | 9,962,210 | 5,601,033 | 4,361,177 |
| 12/31/08 | 0 | 0 | 31,211 | 9,770,224 | 6,156,899 | 3,613,325 |

CHARTER AND BYLAWS

Charter:

The general provisions and powers enumerated in the Company's charter are usual in nature and consistent with corporations of this type. The Company's charter states the purposes for which the corporation is organized as follows:

"To engage as a principal in the insurance business in the State of Tennessee and elsewhere.

To make insurance and reinsurance, both in the State of Tennessee and elsewhere, to protect against casualty, loss or damage to property and liability under the Tennessee Insurance Law.

To do all things the Board of Directors determines to be necessary or appropriate in connection with or associated with any of the foregoing purposes.

To engage in any lawful business."

Bylaws:

The bylaws of the Company, as revised on July 12, 2006, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors and the shareholders. The bylaws may be altered, amended, repealed or restated at any meeting of the shareholders by the affirmative vote of a majority of the stock represented at such meeting, or by the affirmative vote of a majority of the members of the Board of Directors who are present at any regular or special meeting.

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors which is elected annually by the stockholders. The Board of Directors of the Company will consist of not less than two nor more than five members. The duly elected directors serving at December 31, 2008, were as follows:

| <u>Name</u> | <u>Address</u> | <u>Occupation</u> |
|------------------------|----------------------|-------------------------------------|
| Richard Douglas Hammer | Brentwood, Tennessee | President, Brentwood Services, Inc. |
| Vicki Lynn Hammer | Brentwood, Tennessee | Secretary, Brentwood Services, Inc. |

The bylaws provide that the Board of Directors may create one or more committees. All members of committees of the Board of Directors which exercise powers of the Board, must be members of the Board of Directors, with the exception of the Investment Committee, which may include one or more members who are not members of the Board of Directors in accordance with Tenn. Code Ann. § 56-3-408.

During the period under examination, the Investment and Loan Committee was the only committee that had been established. The duly appointed members at December 31, 2008 were as follows:

Richard D. Hammer Jeffrey P. Pettus G. Everett Sinor, Jr.

The Board of Directors will appoint officers of the Company. The officers shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer and such other officers as may be from time to time appointed by the Board of Directors. The duly appointed officers of the Company at December 31, 2008, were as follows:

| <u>Name</u> | <u>Office Held</u> |
|---------------------------|-------------------------------------|
| Richard Douglas Hammer | President and Chairman of the Board |
| George Everett Sinor, Jr. | Secretary |
| Jeffrey Patt Pettus | Treasurer |

As of December 31, 2008, the Company had no employees of its own. Personnel and services are provided by the Company's parent, BSHI and its affiliate, BSA, in accordance with agreements which are described in this report under the heading Affiliated Companies.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. §56-3-103 found that the Company does not have a written Conflict of Interest policy in place and formal disclosures of potential conflicts are not required.

Control:

At December 31, 2008, 100% of the outstanding shares of the Company were owned by BSHI, the Company's parent. The following dividends were paid by the Company during the examination period:

| Year | Paid To | Amount |
|-------------|------------------------------------|---------------|
| 2006 | Professional Service Network, Inc. | \$ 621,621 |
| 2004 | Professional Service Network, Inc. | \$1,600,000 |

The above dividends were approved by the Department and were paid to the former parent, prior to the Company being sold to BSHI.

CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board of Directors held prior to the Company's acquisition by BSHI were not available for review. The minutes of meetings held following the transfer of ownership were reviewed and were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective bodies.

AFFILIATED COMPANIES

An organizational chart of the Company and its parent is attached to this report as Exhibit A. The following agreements between the Company and its affiliates were in effect at December 31, 2008:

Service Agreement:

The Company entered into an Agreement to Provide Specified Service Company Services with its affiliate, Brentwood Services Administrators, Inc. (BSA) effective May 31, 2006. The original term of the agreement was three years, to be renewed automatically on a monthly basis unless terminated by either party. Under the terms of the agreement, BSA will provide to the Company the following services:

- claims services, including review, investigation, adjustment, utilization management, case management, claim file maintenance, and claim payments using the Company's claims fund account;
- loss control services, including providing qualified loss control consultants to visit policyholders, assisting policyholders in developing and modifying their loss control programs, and performing on-site surveys for hazard identification and work practice evaluation, to identify trends and problem areas for loss control focus;

- account management services, including developing underwriting rules and guidelines, developing appropriate premiums for each policyholder, issuing premium quotes to prospective policyholders, presenting premium billings, collecting premiums, making any regulatory filings necessary, and providing general accounting and bookkeeping services;
- clerical, secretarial and administrative support, including necessary equipment and supplies

In consideration of the services provided, the Company pays BSA an annual service fee of ten percent of its annual direct written plus assumed premium. This fee is paid in monthly installments.

Pursuant to Tenn. Code Ann. § 56-11-206(a)(2)(D), the agreement was filed with the Tennessee Department of Commerce and Insurance prior to becoming effective and was approved on May 19, 2006. On July 5, 2007 the Company filed an amendment which reflected the Company's new name, as well as amending the fee paid to BSA to include assumed premium. This amendment was approved on August 3, 2007.

Consulting, Business Development and Management Agreement:

The Company entered into a Consulting, Business Development and Management Agreement with its parent, BSHI, effective May 31, 2006. The original term of the agreement was three years, to be renewed automatically on a monthly basis unless terminated by either party. Under the terms of the agreement, BSHI will provide to the Company the following services:

- management and underwriting services;
- business development services;
- marketing services;
- reinsurance consulting services;
- general consulting services:

In consideration of the services provided, the Company pays BSHI an amount equal to four percent of the first \$4,000,000 of annual direct written plus assumed premium, plus two percent of the annual direct written plus assumed premium in excess of \$4,000,000. This fee is paid in monthly installments.

Pursuant to Tenn. Code Ann. § 56-11-206(a)(2)(D), the agreement was filed with the Tennessee Department of Commerce and Insurance prior to becoming effective and was approved on May 19, 2006. On July 5, 2007 the Company filed an amendment which reflected the Company's new name, as well as amending the fee paid to BSHI BSA to include assumed premium. This amendment was approved on August 3, 2007.

Tax Allocation Agreement:

The Company entered into a Tax Sharing Agreement with its parent, BSHI, effective May 31, 2006; however, the agreement was not executed until February 20, 2009. The agreement specifies that the Company shall pay to the parent the amount (if any) of its "Separate Tax Return Liability", which shall mean the federal income taxes for which the Company would have been liable if the Company were filing a separate tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company's affiliate, BSA, is a named insured on the Commercial Crime policy issued to Brentwood Services, Inc. and its affiliates. This fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook and is written by an insurer who is licensed in Tennessee. However, the Company was not a named insured.

EMPLOYEE BENEFITS

As of December 31, 2008, the Company had no employees of its own. Personnel and services are provided by the Company's parent, BSHI, and its affiliate, BSA, in accordance with agreements described in this report under the heading Affiliated Companies.

TERRITORY

As of December 31, 2008, the Company was licensed to transact business in Arizona, Delaware, Florida, Georgia, Indiana, Kentucky, Mississippi, Montana, North Carolina, Tennessee and Texas. Certificates of authority for the various jurisdictions were reviewed and found to be valid.

The figures below show the premiums by state in which the Company operated for the year ending December 31, 2008, as reported in Schedule T of the Company's Annual Statement:

| State | Direct Premiums Written | Direct Premiums Earned | Direct Losses Paid | Direct Losses Incurred | Direct Losses Unpaid | Finance and Service Charges not Included in Premiums |
|-------------|-------------------------------|------------------------------|-----------------------|---------------------------|-------------------------|---------------------------------------------------------------|
| Arizona | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Delaware | - | - | - | - | - | - |
| Florida | - | - | - | - | - | - |
| Georgia | - | - | 250,000 | 250,000 | - | - |
| Indiana | - | - | - | - | - | - |
| Kentucky | - | - | - | - | - | - |
| Mississippi | - | - | - | - | - | - |

| | | | | | | |
|----------------|------|------|--------------|------------|------|------|
| Montana | - | - | - | - | - | - |
| North Carolina | - | - | 870,000 | 619,999 | - | - |
| Tennessee | - | - | - | (35,000) | - | - |
| Texas | - | - | - | - | - | - |
| Totals | \$ - | \$ - | \$ 1,120,000 | \$ 809,999 | \$ - | \$ - |

PLAN OF OPERATION

The Company is authorized to write property and casualty insurance, principally workers' compensation. The Company has focused its marketing efforts on assuming insurance risks from other insurers using a retroactive reinsurance strategy commonly referred to as loss portfolio transfer.

LOSS EXPERIENCE

The loss experience of the Company for the period under examination, as reported in its Annual Statements, is as follows:

| <u>Year</u> | <u>Losses Incurred</u> | <u>Loss Expenses Incurred</u> | <u>Premiums Earned</u> | <u>Loss Ratio</u> |
|-------------|------------------------|-------------------------------|------------------------|-------------------|
| 2004 | \$ 0 | \$ 27,527 | \$ 0 | 0% |
| 2005 | 0 | 28,098 | 0 | 0% |
| 2006 | 0 | 0 | 0 | 0% |
| 2007 | 0 | 0 | 0 | 0% |
| 2008 | 0 | 0 | 0 | 0% |
| Total | \$ 0 | \$ 55,625 | \$ 0 | 0% |

REINSURANCE

Reinsurance Ceded:

On December 29, 1999, the Company, which was then known as Century American Insurance Company, entered into an Indemnity Reinsurance Agreement with its then-affiliate, Century American Casualty Company (now known as Access Insurance Company), herein referred to as CACC. Pursuant to this agreement, the Company ceded and CACC assumed 100% of the direct and assumed obligations of the Company, effective November 1, 1999. CACC also agreed to reinsure its obligations under this agreement with PICW and Cologne Reinsurance Company (Dublin), LTD.

In conjunction with its 2006 acquisition by BSHI, the Company entered into a "wraparound reinsurance agreement" with PICW, effective as of May 30, 2006. Under this agreement, the Company ceded and PICW assumed the net retained liability for

any and all claims and related loss adjustment expenses attributable to policies issued by the Company on or before the effective date.

The wraparound agreement provides that PICW shall only be liable for payments of losses and loss adjustment expenses after the Company is unable to collect such amounts from any other insurer or reinsurer that is obligated to make such claims payments. Also, the Company shall assign and make payable to PICW all reinsurance proceeds from other insurers and reinsurers related to claims payments made by PICW, and shall subrogate its rights and claims in regard to such policy claims to PICW. The wraparound agreement is to continue until such time as all liabilities for covered policy claims have been extinguished.

Reinsurance Assumed:

Effective December 31, 2007, the Company entered into a "Self-Insurance Loss Portfolio Transfer Assumption Agreement" with MHA Workers' Compensation Trust (MHA Trust), a self-insurance trust domiciled in Montana. Pursuant to this agreement, the Company assumed 100% of the liabilities for workers' compensation and employers' liability losses that were pooled by the MHA Trust on behalf of its member employers from January 1, 1992 through September 1, 2005. In addition the Company assumed the liability for any state guaranty fund assessments related thereto.

Effective August 15, 2008, the Company entered into a "Self-Insurance Loss Portfolio Transfer Assumption Agreement" with Clarksville Volunteer Health, Inc. (CVH), formerly known as Gateway Health System, Inc., a Tennessee not-for-profit corporation. Pursuant to this agreement, the Company assumed 100% of the liabilities for workers' compensation and employers' liability losses, including unpaid losses and loss adjustment expenses, and existing and incurred but not reported claims that were pooled by CVH from July 1, 1994 through February 1, 2006.

The following table summarizes the effect of these retroactive reinsurance assumptions:

| | Retroactive Reinsurance Reserves Assumed | Initial Surplus Gain from Retroactive Reinsurance | Ratio |
|------|------------------------------------------|---------------------------------------------------|-------|
| 2007 | \$5,026,627 | \$203,156 | 4.04% |
| 2008 | 5,386,383 | 16,476 | 0.31% |

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2008:

Deposits Which Are Not for the Benefit of all Policyholders:

| State Where Deposit is Held | Description | Par Value | Statement Value | Market Value |
|-----------------------------------------------------------------------|---------------------------------------------------|------------------|----------------------------|-------------------------|
| Arizona | Certificate of Deposit, 3.51%, Due 2/22/09 | \$100,000 | \$100,301 | \$100,301 |
| Georgia | Evergreen Inst. Treasury Money Market, 0.12% | 75,000 | 75,106 | 75,106 |
| North Carolina | First American Treasury Obligation Fund, 1.23% | <u>200,000</u> | <u>200,897</u> | <u>200,897</u> |
| Total deposits which are not for the benefit of all policyholders: | | <u>\$375,000</u> | <u>\$376,304</u> | <u>\$376,304</u> |

Deposits Which are for the Benefit of All Policyholders:

| State Where Deposit is Held | Description | Par Value | Statement Value | Market Value |
|-------------------------------------------------------------------|-----------------------------------------------|--------------------|----------------------------|-------------------------|
| Tennessee | Certificate of Deposit, 3.5%, Due 2/25/10 | \$ 250,000 | \$ 257,432 | \$ 257,432 |
| | Certificate of Deposit, 3.05%, Due 6/05/10 | 800,000 | 800,000 | 800,000 |
| Total deposits which are for the benefit of all policyholders: | | <u>\$1,050,000</u> | <u>\$1,057,432</u> | <u>\$1,057,432</u> |
| Total Deposits | | <u>\$1,425,000</u> | <u>\$1,433,736</u> | <u>\$1,433,736</u> |

COMMITMENTS AND CONTINGENCIES

Litigation:

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

Retroactive Reinsurance Agreement:

In late 2007, the Company entered into a "Self-Insurance Loss Portfolio Transfer Assumption Agreement" with the Tennessee Restaurant Association Self-Insurance Workers' Compensation Trust in Receivership (TRA Trust), subject to receiving regulatory approval. Pursuant to this agreement, the Company will assume 100% of the liabilities retained by the TRA Trust for its workers' compensation and employers' liability losses from May 1, 1993 through January 1, 2006.

Regulatory approval was received on February 6, 2008. However, the agreement provides that the risk of loss shall not pass to the Company until it has received payment of the stated consideration. As of December 31, 2008, this payment had not been received. As noted in this report under the heading Subsequent Events, said consideration was received on March 6, 2009.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2007 and 2008. Records for the prior years were not available.

The Company is in compliance with Risk-Based Capital requirements.

The Company is audited annually by Faulkner, Mackie & Cochran, P.C., Nashville, Tennessee. This firm performed the annual audit of the Company for both 2007 and 2008. The Company was exempted from filing an audited financial statement in 2006. Prior to its acquisition by BSHI, the Company was audited by Pricewaterhouse Coopers, Chicago, Illinois. The Company appears to meet the requirements of Tenn. Comp. R. & Reg. § 0780-1-65.

SUBSEQUENT EVENTS

As noted in this report under the heading Commitments and Contingencies, the Company entered into a "Self-Insurance Loss Portfolio Transfer Assumption Agreement with the TRA Trust that provided that the risk of loss shall not pass to the Company until it had received payment of the stated consideration. Said consideration was received on March 6, 2009.

The Company received its Certificate of Authority to transact business in the State of Alabama on June 17, 2009.

In July 2009, the Company entered into a "Self-Insurance Loss Portfolio Transfer Assumption Agreement" with Norwalk Furniture Corporation of Tennessee in Receivership (Norwalk), subject to receiving regulatory approval. Pursuant to this agreement, the Company will assume 100% of the liabilities retained by the Norwalk for its workers' compensation and employers' liability losses from January 1, 1992 through July 1, 2007. The risk of loss passed to the Company on July 22, 2009.

The Company's Custodial Agreement with Pinnacle National Bank did not contain the required language as referenced in Tenn. Comp. R. & Regs. § 0780-1-46. An amendment containing the language required by the regulation was executed on November 13, 2009.

On July 17, 2009, the Company and its parent, BSHI, signed a merger agreement with SUNZ Holdings, LLC, and its wholly owned subsidiary, SUNZ Insurance Company (SUNZ), which is a Florida domiciled property and casualty insurance company. Under the terms of the agreement, SUNZ Holdings will acquire the Company and merge the operations of SUNZ with and into the Company. The Company will then be redomesticated to the State of Florida, and its name will be changed back to SUNZ Insurance Company.

Notice of the acquisition and merger has been provided to the Tennessee Department of Commerce and Insurance through a Form A filing. A hearing was held on October 27, 2009. On November 16, 2009, an order was issued approving the Agreement and Plan of Merger filed by the Company to merge SUNZ with and into the Company.

Prior to the closing date, the Company must provide evidence that the liability for losses emerging from the Company's existing book of business has been reinsured with an unaffiliated entity. BSHI must also indemnify SUNZ for three years after the closing date against any and all liability from current book of business not satisfied by reinsurance. On November 16, 2009, the Company and Safety National Casualty Corporation (SNCC) executed Assumption and Novation Agreements whereby SNCC assumes all of the Company's obligations under the "Self-Insurance Loss Portfolio Transfer Assumption Agreements" with MHA Trust, CVH, TRA Trust and Norwalk. The four agreements represent the Company's existing book of business.

On November 16, 2009, Assistant Commissioner for Insurance Larry Knight issued a letter on behalf of the Tennessee Department of Commerce and Insurance to the Florida Commissioner of Insurance, Kevin McCarty, stating that the Department had no objections to the Company's redomestication to Florida.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2008, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

| | Ledger <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|-------------------------------------------------------|-------------------------|------------------------------|-------------------------------|
| Bonds | \$ 800,000 | \$ | \$ 800,000 |
| Common stocks | 19,460 | | 19,460 |
| Cash and short-term investments | 8,567,815 | 376,304 | 8,191,511 |
| Subtotal cash and invested assets | 9,387,275 | 376,304 | 9,010,971 |
| Investment income due and accrued | 4,683 | | 4,683 |
| Amounts recoverable from reinsurers | 55,920 | | 55,920 |
| Net deferred tax asset | 428,705 | 227,648 | 201,057 |
| Aggregate write-ins for other than Invested assets | <u>1,163,232</u> | <u>665,639</u> | <u>497,593</u> |
| Totals | <u>\$11,039,815</u> | <u>\$1,269,591</u> | <u>\$9,770,224</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | | |
|-----------------------------------------------|---------------------|---------------------|
| Other expenses | | \$ 19,755 |
| Current federal and foreign income taxes | | 18,843 |
| Borrowed money | | 675,998 |
| Aggregate write-ins for liabilities | | <u>5,442,303</u> |
| Total liabilities | | \$6,156,899 |
| Aggregate write-ins for special surplus funds | 16,476 | |
| Common capital stock | 2,499,756 | |
| Gross paid in and contributed surplus | 18,062,026 | |
| Unassigned funds (surplus) | <u>(16,964,933)</u> | |
| Surplus as regards policyholders | | <u>\$ 3,613,325</u> |
| Totals | | <u>\$ 9,770,224</u> |

STATEMENT OF INCOME

UNDERWRITING INCOME

| | | |
|--------------------------------------|----------------|-------------------|
| Premiums earned | | \$ - |
| Deductions | | |
| Other underwriting expenses incurred | <u>161,817</u> | |
| Total underwriting deductions | | <u>\$ 161,817</u> |
| Net underwriting gain | | \$ (161,817) |

INVESTMENT INCOME

| | | |
|-------------------------------|----------------|------------|
| Net investment income earned | <u>316,434</u> | |
| Net investment gain or (loss) | | \$ 316,434 |

OTHER INCOME

| | | |
|-------------------------------------------------------|------------------|------------------|
| Aggregate write-ins for miscellaneous income | <u>(123,406)</u> | |
| Total other income | | \$ (123,406) |
| Net income before federal and foreign income taxes | | 31,211 |
| Federal and foreign income taxes incurred | | <u>-</u> |
| Net income | | <u>\$ 31,211</u> |

CAPITAL AND SURPLUS ACCOUNT

GAINS AND LOSSES IN SURPLUS

| | | |
|----------------------------------------------------------------|------------------|--------------------|
| Surplus as regards policyholders, December 31 previous year | | \$4,361,177 |
| Net income | 31,211 | |
| Change in net deferred income tax | 120,393 | |
| Change in non-admitted assets | (708,250) | |
| Aggregate write-ins for gains and losses in surplus | <u>(191,206)</u> | |
| Net change in surplus for the year | | <u>(747,852)</u> |
| Surplus as regards policyholders, December 31 current year | | <u>\$3,613,325</u> |

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION**

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Surplus as regards policyholders, December 31 previous year | \$6,875,633 | \$5,566,062 | \$5,621,621 | \$4,895,804 | \$4,361,177 |
| Net income | (9,013) | 55,242 | 49,544 | (435,472) | 31,211 |
| Change in net deferred income tax | (233) | 317 | 79,402 | 164,109 | 120,393 |
| Change in non-admitted assets | 299,675 | - | (233,142) | (263,264) | (708,250) |
| Dividends to stockholders | (1,600,000) | - | (621,621) | - | - |
| Aggregate write-ins for gains and losses in surplus | - | - | - | - | (191,206) |
| Net change for the year | <u>(1,309,571)</u> | <u>55,559</u> | <u>(725,817)</u> | <u>(534,627)</u> | <u>(747,852)</u> |
| Surplus as regards policyholders, December 31 current year | <u>\$5,566,062</u> | <u>\$5,621,621</u> | <u>\$4,895,804</u> | <u>\$4,361,177</u> | <u>\$3,613,325</u> |

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT
AND COMMENTS RESULTING FROM EXAMINATION**

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds as regards policyholders, either singly or in the aggregate.

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES
IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION"
AS THEY AFFECT SURPLUS**

No schedule or comment is applicable. All noted differences were below the threshold established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

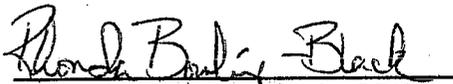
- The Custodial Agreement with Pinnacle National Bank did not contain the required language as referenced in Tenn. Comp. R. & Regs. § 0780-1-46. It was recommended to the Company during the course of the examination that the agreement be modified to comply with this regulation. An amendment containing the language required by Tenn. Comp. R. & Regs. § 0780-1-46 was executed prior to the completion of the examination.
- At December 31, 2008, the Company was not a named insured on the fidelity bond coverage carried by its affiliates.
- General ledgers and trial balances for the years 2004 through 2006 were not available.
- The Company does not have a formal Conflict of Interest policy for its officers and directors.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that as of December 31, 2008, the Company had net admitted assets of \$9,770,224 and liabilities, exclusive of capital, of \$6,156,899. Thus, there existed for the additional protection of the policyholders, the amount of \$3,613,325 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

Respectfully submitted,



Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC



Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Brentwood National Insurance Company dated November 24, 2009, and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black
Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

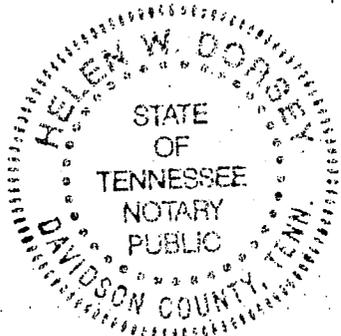
Subscribed and sworn to before me this
24th day of November, 2009

Notary Helen W. Dorsey

County Davidson

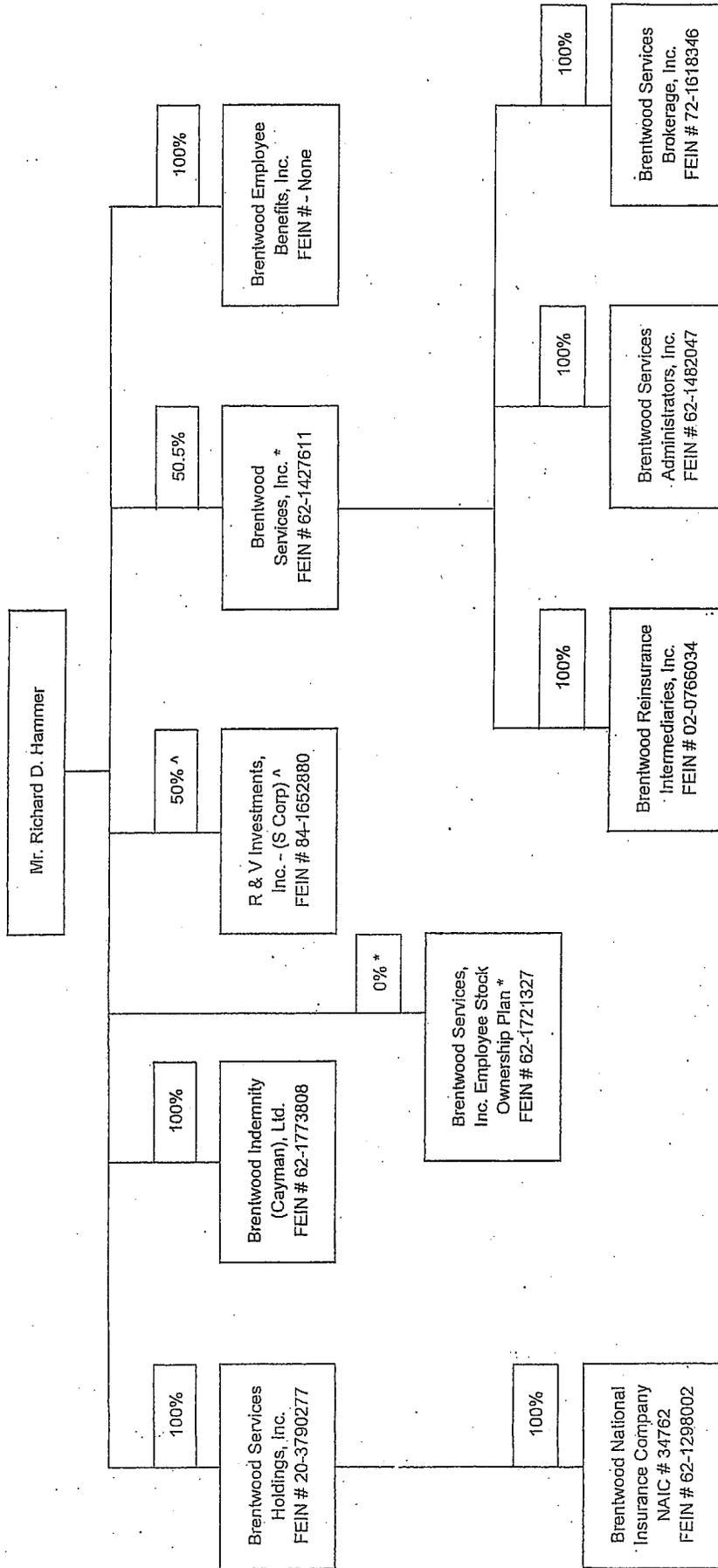
State Tennessee

Commission Expires 05/22/2010



My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART



* Brentwood Services, Inc. is settlor of a trust named Brentwood Services, Inc. Employee Stock Ownership Plan, a trust that constitutes an ESOP, created as such pursuant to applicable federal tax laws. The ESOP was created to provide beneficial ownership of Brentwood Services, Inc. for its employees. 49.5% of Brentwood Services, Inc.'s stock has been set aside for this purpose. Mr. Hammer is the current trustee of the BSI stock that is currently held by the ESOP.

^ Mr. Hammer's wife, Vicki L. Hammer, owns the remaining 50% of this entity.

▲
BRENTWOOD NATIONAL
INSURANCE COMPANY



RECEIVED

NOV 24 2009

Dept. of Commerce & Insurance
Company Examinations

November 24, 2009

The Honorable Leslie A. Newman
Commissioner
Department of Commerce and Insurance
State of Tennessee
Fifth Floor, Davy Crockett Tower
Nashville, Tennessee 37243

Attn: The Honorable Mark Jaquish
Financial Affairs Director

The Honorable Horace Gaddis
Insurance Examinations Director

RE: Brentwood National Insurance Company Examination

HAND-DELIVERED

Dear Commissioner Newman:

I have had a chance to review the examination report that you transmitted to Brentwood National Insurance Company. BNIC officials have reviewed the examination report, and BNIC waives its rights of rebuttal granted to insurance companies pursuant to Tenn. Code Ann. § 56-1-411(d)(1).

I would like to thank Assistant Commissioner Knight and Messrs. Jaquish and Gaddis, as well as the examiners in the field, Ms. Bowling-Black and Mr. Bacon, for their consideration of this matter and the professionalism they demonstrated throughout this process. If you have any questions, please do not hesitate to contact me.

Yours sincerely,

G. Everett Sinor, Jr.
General Counsel

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