

INCREASE IN CAPITAL EXAMINATION  
  
OF THE  
USAGENCIES DIRECT INSURANCE COMPANY  
  
AS OF  
  
DECEMBER 9, 2010

DATE OF REPORT

DECEMBER 9, 2010

EXAMINER

GILBERT DENTON

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

December 9, 2010

Honorable James J. Wrynn  
Superintendent of Insurance  
State of New York  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30618, dated November 16, 2010 attached hereto, I have made an examination into the capital increase as of December 9, 2010 of the USAgencies Direct Insurance Company, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate USAgencies Direct Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's attorney's office located at 7 Times Square, New York, New York 10036.

### **1. AUTHORIZATION**

The sole shareholder of the Company, Affirmative Insurance Company (“AIC”) resolved to make a capital contribution to the Company in the amount of \$1,000,000 by purchasing 1,000,000 shares of \$1.00 par value per share of retired common stock of the Company at the price of \$1.00 per share. The purpose of the capital contribution was to meet the minimum surplus requirements for certain other states. There were no additional shares created and no change in par value of any shares as a result of the transaction.

### **2. INSURANCE DEPARTMENT APPROVAL**

By letter dated October 8, 2010, the Company requested permission to issue 1,000,000 shares of its retired shares, which have a par value of \$1.00 per share, to its parent at a purchase price of \$1.00 per share. The Department approved this transaction on October 19, 2010

Pursuant to its charter, the Company has 2,500,000 authorized shares, of which only 1,500,000 shares were issued prior to the capital increase. Therefore, no charter amendment was necessary to issue the 1,000,000 additional shares.

### **3. INCREASED CAPITALIZATION**

On November 5, 2010, the Company completed the sale of 1,000,000 shares of capital stock to its parent, Affirmative Insurance Company. Examiner’s review of the stock register revealed that the Company issued stock certificate No. 6, representing 2,500,000 shares of the Company’s stock with a par value of \$1.00 per share to Affirmative Insurance Company. On November 5, 2010, Affirmative Insurance Company transferred \$1,000,000 from its Frost National Bank account to the Company’s account in UBS Financial Services, New York, New York. The said amount was subsequently invested in money market funds.

The following is a comparison of the capital of the Company prior to, and subsequent to,

the stock issue:

	<u>Prior to November 5, 2010</u>	<u>Paid-in Capital Increases</u>	<u>November 5, 2010</u>
Paid In Capital	\$1,500,000	\$1,000,000	\$2,500,000

#### **4. AFFIDAVIT**

As required by Section 1206(c) of the New York Insurance Law, Gary Y. Kusumi and Joseph G. Fisher, the President and Secretary, respectively, of the Company, have executed an affidavit to the effect that the amount of \$1,000,000 was received by USB Financial Services, New York, New York on November 5, 2010, being the property, solely and wholly of USAgencies Direct Insurance Company and representing \$1,000,000 of paid-in capital.

#### **5. CONCLUSION**

As a result of this examination, I hereby certify that the Company's paid-in capital was increased from \$1,500,000 consisting of 1,500,000 shares of \$1.00 par value per share common stock, to \$2,500,000 consisting of 2,500,000 shares of \$1.00 par value per share common stock, and that consideration of \$1,000,000 was received in connection with the issuance of the 1,000,000 additional shares.

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Gilbert Denton  
Senior Insurance Examiner

STATE OF NEW YORK     )  
                                  )SS:  
                                  )  
COUNTY OF NEW YORK )

GILBERT DENTON, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/\_\_\_\_\_  
Gilbert Denton

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

STATE OF ILLINOIS            )  
  ) ss.:  
COUNTY OF DUPAGE        )

On 12-13-2010, the undersigned, each an executive officer of USAgencies Direct Insurance Company ("Company"), duly sworn, depose and say under oath:

1. That they are, respectively, the President and Secretary of the Company.
2. That by affirmative vote of the Company's Board of Directors BY UNANIMOUS WRITTEN CONSENT IN LIEU OF A MEETING DATED 11/04/2010, and by affirmative vote of the Company's shareholder, the Company was authorized to issue 1,000,000 retired shares of common capital stock of the Company.
3. That on 11/05/2010, the Company received from Affirmative Insurance Company the sum of \$1,000,000, which was deposited with USB Financial Services Inc. (Comerica Bank & Trust, N.A.)
4. That on 11/05/2010, the Company issued to Affirmative Insurance Company, a stock certificate worth 2,500,000 shares, representing an increase of 1,000,000 shares of \$1 par value per share common stock at a purchase price of \$1 per share, resulting in an increase in the Company's Capital in the amount of \$1,000,000.
5. That said transaction was genuine and bona-fide.
6. That no part of said proceeds has been loaned or advanced to said stockholder and there is no agreement or understanding, express or implied, to repurchase all or part of the issued shares.
7. No part of the issued shares has been withdrawn, pledged, or in any way impaired.
8. No part of the Capital is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
9. There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it.
10. Neither the Company nor any of its officers is in any way, manner or form, pledged or committed to make any investment, loan or disposition of the Capital, or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.
11. The Capital is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.

Gary A. Kusumi  
Gary A. Kusumi  
President

12-13-2010  
Date

Joseph G. Fisher  
Joseph G. Fisher  
Secretary

12-13-2010  
Date

Subscribed and sworn to before me this  
13 day of DECEMBER, 2010  
Elizabeth Romero



Appointment No. 30618

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Gilbert Denton**

*as proper person to examine into the affairs of the*

**USAGENCIES DIRECT INSURANCE COMPANY**

*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 16th day of November 2010*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRYNN

Superintendent of Insurance