

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.

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