

REPORT OF EXAMINATION
OF
MAUZEY ENTERPRISES, INC.
(DBA HISCO HOME WARRANTY)

AS OF
DECEMBER 31, 2008

Filed September 14, 2009

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San Francisco, California
May 20, 2009

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

MAUZEY ENTERPRISES, INC. (DBA HISCO HOME WARRANTY)

(also referred to as the Company) at its home office located at 7567 Amador Valley Road, Suite 200, Dublin, California 94568.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008.

The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

Subsequent to the examination date, ALLCAM Home Warranty, Inc. (ALLCAM) submitted a Form A filing with a proposal to acquire 100% of the Company. ALLCAM's parent company is ALLCAM Holdings, LLC (ALLCAM Holdings) which also owns and controls CRES Insurance Services, LLC (CRES), and Superior Claim Services, LLC. ALLCAM Holdings is co-owned and controlled by James N. Allison and Douglas A. Campbell. Under the Stock Purchase Agreement, the Company's shares will be purchased for \$1.3 million in cash. The source of the purchase price is a loan from the California Bank and Trust to CRES. The loan is guaranteed by the owners of ALLCAM Holdings, James N. Allison and Douglas A. Campbell.

The Company is in a transition period since the California Department of Insurance approved the acquisition of the Company by ALLCAM on April 20, 2009. A condition of the approval required that the purchaser infuse additional capital in order to increase stockholders' equity to above \$600,000 within three days after the closing of the transaction. The purchase of the issued shares of the Company by ALLCAM was completed on May 1, 2009.

COMPANY HISTORY

The Company was incorporated under the laws of the State of California in March 1977, and received its license on September 18, 1980 to operate as a home protection company. The Company has 200,000 shares of common stock authorized, with 50,500 shares issued and outstanding with no par value. Pursuant to California Insurance Code (CIC) Section 690, the Company's shares of stock, authorized or issued should have a par value. It is recommended that the Company take corrective action and comply with CIC Section 690. This is a repeat of the recommendation from the prior examination.

MANAGEMENT AND CONTROL

The Company is wholly-owned by DeWayne R. Mauzey and Susan A. Mauzey. The following are the members of the board of directors and principal officers as of December 31, 2008:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
DeWayne R. Mauzey Danville, California	President Mauzey Enterprises, Inc.
Susan A. Mauzey Danville, California	Treasurer Mauzey Enterprises, Inc.
James M. Armstrong * Pleasanton, California	Vice President and Secretary Mauzey Enterprises, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
DeWayne R. Mauzey	President
Susan A. Mauzey	Treasurer
James M. Armstrong *	Vice President and Secretary

*According to the Company's May 6, 2008 board minutes, James M. Armstrong was removed from the Board due to a permanent leave from the Company. Michelle Dobbertin replaced Mr. Armstrong effective 2009.

CORPORATE RECORDS

The Company was not in compliance with California Insurance Code (CIC) Section 735, which requires that the board of directors be informed of the receipt of the examination report, that the report be available for inspection by any member of the board, and that these disclosures be recorded in the board of directors' minutes. It is recommended that the Company comply with CIC Section 735.

FIDELITY BONDS AND OTHER INSURANCE

The Company had no fidelity bond coverage in 2008. However, subsequent to December 31, 2008, the Company purchased fidelity bond coverage from the Hartford Casualty Insurance Company for the period from January 6, 2009 through January 16, 2010. The fidelity bond coverage is for \$50,000, the minimum coverage as suggested in the National Association of Insurance Commissioners' Examiners Handbook.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to issue home protection contracts in California. The Company writes in both Northern and Southern California. In Northern California, the Company produces business in the cities of San Jose, Monterey, San Francisco, Daly City, Santa Rosa, Bakersfield and Sacramento and also in the counties of Sacramento, Alameda, and Contra Costa. In Southern California, it produces its business in the cities of Long Beach and Riverside and in Orange County.

In 2008, direct contract fees written totaled \$1,662,762. Business is produced by account managers, who are paid a salary plus a percentage bonus based on closed orders.

REINSURANCE

The Company does not utilize reinsurance.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Contract Holders from December 31, 2004
through December 31, 2008

Reconciliation of Examination Changes as of December 31, 2008

Statement of Financial Condition
as of December 31, 2008

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash on deposit	\$1,216,531	\$1,216,531	(1)
Home protection contract fees receivable	24,150	24,150	
Electronic data processing equipment	1,859	1,859	
Premiums tax receivable	<u>6,926</u>	<u>6,926</u>	
Total assets	<u>\$1,249,466</u>	<u>\$1,249,466</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Claims adjusted and unpaid or in the process of adjustment		\$ 52,152	(2)
Claims service expense		6,741	(3)
Other expenses due and accrued		5,750	
Unearned home protection fees		<u>664,597</u>	
Total liabilities		<u>729,240</u>	
Common capital stock	\$ 75,072		
Gross paid-in and contributed surplus	92,076		
Unassigned funds (surplus)	<u>353,078</u>		
Surplus as regards contract holders		<u>520,226</u>	
Total liabilities, surplus and other funds		<u>\$1,249,466</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income

Home protection contract fees earned		\$1,774,083
Deductions:		
Claims incurred	\$ 858,917	
Claims service expenses incurred	223,278	
Other expenses incurred	<u>792,222</u>	
Total underwriting deductions		<u>1,874,417</u>
Net underwriting loss		(100,334)

Investment Income

Net investment income earned	<u>\$ 5,600</u>	
Net investment gain		<u>5,600</u>
Net loss		<u>\$ (94,734)</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2007		\$ 612,565
Net loss	\$ (94,734)	
Change in non-admitted assets	<u>2,395</u>	
Change in surplus as regards contract holders for the year		<u>(92,339)</u>
Surplus as regards contract holders, December 31, 2008		<u>\$ 520,226</u>

Reconciliation of Surplus as Regards Contract Holders
from December 31, 2004 through December 31, 2008

Surplus as regards contract holders, December 31, 2004, per Examination				\$294,388
	<u>Gain in</u>	<u>Loss in</u>		
	<u>Surplus</u>	<u>Surplus</u>		
Net income	\$ 61,533	\$		
Change in nonadmitted assets	223,960			
Net decrease in unrealized	<u> </u>	<u>59,655</u>		
Total gains and losses in surplus	<u>\$285,493</u>	<u>\$59,655</u>		
Increase in surplus as regards contract holders				<u>225,838</u>
Surplus as regards contract holders, December 31, 2008, per Examination				<u>\$520,226</u>

Reconciliation of Examination Changes
as of December 31, 2008

	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Surplus</u> <u>Increase</u> <u>(Decrease)</u>	<u>Note</u>
<u>Liabilities</u>				
Claims adjusted and unpaid or in process of adjustment	\$ 0	\$ 3,854	\$ (3,854)	(2)
Claims service expense	0	6,741	<u>(6,741)</u>	(3)
Net decrease to surplus as regards contract holders			(10,595)	
Surplus as regards contract holders, December 31, 2008, per Company			<u>530,821</u>	
Surplus as regards contract holders, December 31, 2008, per Company			<u>\$ 520,226</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash on Deposit

As of December 31, 2008, the Company has cash investment in a brokerage account in the amount \$1,090,471 with Morgan Stanley & Co. Incorporated (Morgan Stanley). Morgan Stanley is not a qualified custodian or bank as defined under California Insurance Code (CIC) Section 1104.9. It is recommended that the Company move its investment account to a qualified custodian or bank in compliance with CIC Section 1104.9.

The Company does not have any written procedures related to unclaimed property. In addition, it has not filed unclaimed property reports and/or remitted unclaimed property to the California State Controller's Office (SCO) for stale dated checks in accordance with the California Unclaimed Property Act. The amount that is subject to be escheated to the SCO totaled \$16,166 which represents uncashed checks from December 2001 through December 2005. It is recommended that the Company establish follow-up procedures to locate payees of uncashed checks. It is recommended that the Company move its stale dated checks to an unclaimed property liability account after 6 months. It is also recommended that the Company remit unclaimed property to the State of California in compliance with the California Unclaimed Property Act.

(2) Claims Adjusted and Unpaid or in the Process of Adjustment

The Company's reserve for claims adjusted and unpaid was tested by using a 3-month loss development. Based on the results of the test, the Company's claims reserve was increased by \$3,854. It is recommended that the Company review its reserving methodology periodically to determine if the methodology remains valid in producing a reasonable estimate of its unpaid claims.

(3) Claims Service Expenses

The Company did not establish a reserve for claims service expenses. An examination adjustment of \$6,741 was established by applying 50% of the Company's paid-to-paid ratio (paid claims service expenses to the paid claims) for 2008 to the examination reserve for claims adjusted and unpaid or in the process of adjustment. It is recommended that the Company establish a reserve for claims service expense. Similar comments and recommendations were made in the last two examinations.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Company History (Page 2): It is recommended that the Company take corrective action and comply with California Insurance Code (CIC) Section 690.

Corporate Records (Page 3): It is recommended that the Company comply with CIC Section 735.

Comments on Financial Statement Items – Cash on Deposit – (Page 10): It is recommended that the Company move its investment account to a qualified custodian or bank in compliance with CIC Section 1104.9. It is recommended that the Company establish follow-up procedures to locate payees of uncashed checks. It is recommended that the Company move its staled dated checks to an unclaimed property liability account after 6 months. It is also recommended that the Company remit unclaimed property to the State of California in compliance with the California Unclaimed Property Act.

Comment on Financial Statement Items – Claims Adjusted and Unpaid or in Process of Adjustment (Page 10): It is recommended that the Company review its reserving methodology periodically to determine if the methodology remains valid in producing a reasonable estimate of its unpaid claims.

Comments on Financial Statement Items – Claims Service Expense – (Page 11): It is recommended that the Company establish a reserve for claims service expense on claims adjusted and unpaid or in the process of adjustment.

Previous Report of Examination

Company History (Page 2): It was recommended that the Company take corrective action and comply with California Insurance Code (CIC) Section 690. The Company has not complied with this recommendation.

Management and Control – Conflict of Interest (Page 3): It was recommended that the Company adopt a more comprehensive conflict of interest policy that is completed on an annual basis. The Company has complied with this recommendation.

Corporate Records (Page 3): It was recommended that the Company take corrective action to comply with its by-laws. The Company has complied with this recommendation.

Comments on Financial Statement Items – Bonds and Stocks (Page 9): It was recommended that the Company move its securities to a qualified custodian to comply with CIC 1104.9. The Company had converted all its bonds and stocks to cash in 2007; however, its cash and cash equivalents remains with Morgan Stanley, a brokerage firm, which is not a qualified custodian.

Comments on Financial Statement Items – Claims Adjusted and Unpaid or in the Process of Adjustment - (Page 10): It was recommended the Company revise its methodology on reserves for claims adjusted and unpaid or in the process of adjustment. For its 2008 Annual Statement, the Company used the November and December 2008 service calls received and claim payments made from January 1 through 19, 2009 as the basis for its claim reserve.

Comments on Financial Statement Items – Claims Service Expense – (Page 11): It was recommended that the Company establish a claims service expense on claims adjusted and

unpaid or in the process of adjustment. The Company has not complied with this recommendation.

ACKNOWLEDGMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

_____/s/_____
Elisa Fontanilla, AFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California