

REPORT ON EXAMINATION
OF
COURTESY INSURANCE COMPANY
DEERFIELD BEACH, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 5, 2011

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2010, of the financial condition and corporate affairs of:

**COURTESY INSURANCE COMPANY
100 JIM MORAN BOULEVARD
DEERFIELD BEACH, FLORIDA 33442**

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, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on June 20, 2011, to June 24, 2011. The fieldwork commenced on June 27, 2011, and concluded as of October 5, 2011.

This financial examination was an association zone 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

There were no material findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2005.

HISTORY

General

The Company was incorporated in Florida on December 21, 1987, and commenced business on May 24, 1988, as Courtesy Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Auto Warranties	Surety
Miscellaneous Casualty	

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, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100

Control of the Company was maintained by its parent, JM Family Enterprises, Inc. (JMFE), a Delaware corporation, which owned 100% of the stock issued by the Company.

Surplus Debentures

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

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by Section 625.304, Florida Statutes.

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, 2010, were:

Directors

Name and Location	Principal Occupation
Colin W. Brown Boca Raton, Florida	Chief Executive Officer JM Family Enterprises, Inc.
Brent D. Burns Sea Lakes Ranch, Florida	Executive Vice President and Chief Financial Officer, JM Family Enterprises, Inc.
Forrest W. Heathcott III Boca Raton, Florida	President, Courtesy Insurance Company
Ronald M. Coombs Boca Raton, Florida	Senior Vice President and Chief Operating Officer, Courtesy Insurance Company
William F. Curran Plantation, Florida	Senior Vice President Courtesy Insurance Company
Robert J. Haeffner Ft. Lauderdale, Florida	Vice President and Chief Financial Officer, Courtesy Insurance Company
Donna C. McWilliams Boca Raton, Florida	Vice President and Assistant Treasurer, Courtesy Insurance Company

Maria K. Guttuso
Boca Raton, Florida

Vice President, General Counsel &
Secretary, Courtesy Insurance Company

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

Senior Officers

Name	Title
Forrest W. Heathcott, III	President
Ronald M. Coombs	Senior Vice President & Chief Operating Officer
William F. Curran	Senior Vice President
Raymond V. DeJaco	Vice President
Jorge E. Gonzalez	Vice President
Maria K. Guttuso	Vice President, General Counsel & Secretary
Robert J. Haeffner	Vice President and Chief Financial Officer
Donna C. McWilliams	Vice President and Assistant Treasurer
Patrick H. Sreenan	Vice President
Eric M. Gebhard	Treasurer
Todd Q. Clark	Assistant Secretary

Following were the principal internal Board committees and their members as of December 31, 2010:

Audit Committee

Colin W. Brown
Brent D. Burns
Forrest W. Heathcott, III
Ronald M. Coombs

Investment Committee

Alan J. Browdy
James M. Burdin
Brent D. Burns
Ronald M. Coombs
William F. Curran
Robert J. Haeffner
Donna C. McWilliams
David W. Reid

There was no Chair of either committee.

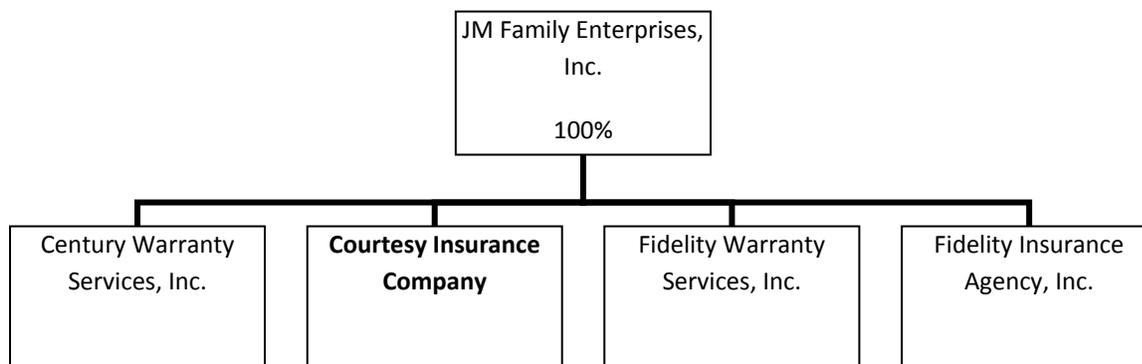
Affiliated Companies

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 February 25, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

COURTESY INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2010



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent, JM Family Enterprises, Inc. (JMFE), and other affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the Company and its parent was to compute its separate tax liability as if it had filed a separate return. Each member of the group recorded an inter-company income tax receivable or payable with JMFE within thirty (30) days of JMFE filing the tax return. Within fifteen (15) days of the remittance by JMFE of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Administrative Services Agreement

The Company had a services agreement with JMFE, at December 31, 2010. The agreement stipulated that the Company pay an allocated fee based on their revenue as a percent of total revenue of the services provided. Fees incurred under this agreement during 2010 amounted to \$4,423,410.

Contractual Liability Insurance Agreement

The Company had contractual liability insurance agreements with two of its affiliates, Fidelity Warranty Services, Inc. (FWS) and Century Warranty Services, Inc. (CWS). Under the agreements, FWS and CWS bought automotive mechanical service policies from the Company. The Company agreed to pay 100% of the reasonably incurred costs. The aggregate premium for the policies was the sum of the designated contract premiums attributable to each designated contract issued by the Company during the policy term.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$10 million, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers liability insurance and Errors and Omissions coverage with limits of \$20 million as well as General Liability insurance, Workers' Compensation and Umbrella coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

JMFE, sponsored a defined benefit pension plan that covered substantially all employees of the Company. In addition, JMFE provided medical benefits to Company employees, including a post-retirement medical benefits plan to former employees meeting established requirements. Contributions allocated to the Company in 2010 were approximately \$285,400 to the defined benefit plan; \$766,700 in medical benefits, including post-retirement benefits; and \$788,000 in profit sharing/long-term incentives. Provisions were made in Part 3 of the Underwriting and Investment Exhibit of the 2010 financial statement for contributions allocated to the Company under such plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the 49 states and the District of Columbia and Puerto Rico.

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 growth is heavily dependent on the automotive industry. The Company's assets increased by \$41.6 million between 2009 and 2010 due to improved market conditions and an increase in cash from operations of \$29.7 million. At the same time, liabilities remained steady. An increase in direct unearned premium reserves of \$23 million was largely offset by \$14.7 million in ceded unearned premium reserves as well as a decrease in assumed unearned premium reserves of \$7.3 million. Loss reserves also decreased by \$2.7 million due to a decrease in the loss ratio for the Miscellaneous Casualty (Total Loss Protection) line of business. Net income increased by \$16.9 million in 2010 resulting from a \$7 million decrease in earned premium offset by a \$10.5 million increase in realized capital gains, a \$16 million decrease in loss and loss adjustment expenses and \$2.6 million increase in taxes, other investments and a small decrease in investment income. The increase in Capital and Surplus resulted largely from the \$31.2 million in net income, an increase in unrealized capital gains and a decrease in non-admitted assets.

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.

	2010	2009	2008	2007	2006
Premiums Earned	93,291,735	100,287,244	102,028,380	89,719,780	76,054,696
Net Underwriting Gain	22,421,655	13,614,454	18,656,543	22,434,281	16,801,504
Net Income	31,202,724	14,302,371	8,805,065	24,824,144	17,763,859
Total Assets	490,348,502	448,773,675	420,597,931	431,035,495	373,185,884
Total Liabilities	287,988,530	286,834,290	292,298,955	294,752,860	262,002,898
Surplus As Regards Policyholders	202,359,973	161,939,385	128,298,976	136,282,635	111,182,987

LOSS EXPERIENCE

During the current examination period, the Company's loss experience reflected an increase from 2006 to 2008, followed by a steady decrease in 2009 and 2010. This was largely a result of a decrease in the amount of claims being reported for Miscellaneous Casualty, which included total loss protection (TLP). The one and two-year net loss developments at the end of the current examination period were \$2.9 million redundancy and \$575,000 deficiency, respectively. The following table represents the 5-year history of the Company's loss reserves:

	2010	2009	2008	2007	2006
Losses	7,681,579	10,351,269	11,419,036	7,577,181	5,768,908
Loss adjustment expense	854,796	738,475	901,501	36,298	27,565

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 risk on a 100% quota share basis from five unaffiliated insurance companies.

Ceded

The Company ceded risk on a quota share basis to various unauthorized reinsurers. All unauthorized reinsurers utilized a trust agreement or letter of credit.

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 Deerfield Beach, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008, 2009 and 2010, 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 accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the Annual Statements submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon throughout the examination period, which was updated and executed on December 15, 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

Scott Langstein, CISA, IT Manager, of Cerebres, LLC (subcontractor of Lewis & Ellis) 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	USTBDS, 8.75%, 08/15/20	1,470,000	2,147,348
FL	USTBDS, 6.00%, 02/15/26	<u>1,540,000</u>	<u>1,904,066</u>
TOTAL FLORIDA DEPOSITS		\$ 3,010,000	\$ 4,051,414
AZ	USTBDS, 8.75%, 08/15/20	\$ 125,000	\$ 182,598
GA	USTBDS, 8.75%, 08/15/20	35,000	51,127
MA	USTBDS, 6.00%, 02/15/26	100,000	123,641
NC	USTBDS, 6.00%, 02/15/26	300,000	370,922
NH	USTBDS, 6.00%, 02/15/26	500,000	618,203
OK	USTBDS, 6.00%, 02/15/26	310,000	383,286
OR	USTBDS, 6.00%, 02/15/26	300,000	370,922
SC	USTBDS, 6.00%, 02/15/26	150,000	185,461
VA	USTBDS, 6.00%, 02/15/26	225,000	278,191
NM	USTBDS, 6.25%, 02/15/26	200,000	257,063
NV	CD, 4.13%, 01/31/12	<u>200,126</u>	<u>200,126</u>
TOTAL OTHER DEPOSITS		<u>\$ 2,445,126</u>	<u>\$ 3,021,540</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 5,455,126</u>	<u>\$ 7,072,954</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

COURTESY INSURANCE COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$354,487,389		\$354,487,389
Stocks:			
Preferred	7,684		7,684
Common	55,172,729		55,172,729
Cash and Short-Term Investments	51,488,530		51,488,530
Other investments	392,276		392,276
Receivables for securities	1,962,708		1,962,708
Investment income due & accrued	3,089,912		3,089,912
Agents' Balances:			
Uncollected premium	18,853		18,853
Reinsurance recoverable	4,624,615		4,624,615
Net deferred tax asset	12,022,249		12,022,249
Receivable from parents, subsidiaries and affiliates	7,024,029		7,024,029
Aggregate write-in for other than invested assets	57,529		57,529
	<hr/>		<hr/>
Totals	\$490,348,502	\$0	\$490,348,502
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COURTESY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,681,579		\$7,681,579
Loss adjustment expenses	864,796		864,796
Commissions payable, contingent commissions and other similar charges	(44)		(44)
Other expenses	774,835		774,835
Taxes, licenses and fees	2,072,891		2,072,891
Current federal and foreign income taxes	7,517,683		7,517,683
Unearned premium	238,828,056		238,828,056
Ceded reinsurance premiums payable	15,997,752		15,997,752
Funds held under reinsurance treaties	236,280		236,280
Provision for reinsurance	186,755		186,755
Payable for securities	13,552,667		13,552,667
Aggregate write-ins for liabilities	275,279		275,279
Total Liabilities	\$287,988,530	\$0	\$287,988,530
Aggregate write-ins for special surplus funds	\$6,336,675		\$6,336,675
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	1,650,000		1,650,000
Unassigned funds (surplus)	191,373,298		191,373,298
Surplus as regards policyholders	\$202,359,973	\$0	\$202,359,973
Total liabilities, surplus and other funds	\$490,348,502	\$0	\$490,348,502

COURTESY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$93,291,735
	Deductions:	
Losses incurred		\$50,128,105
Loss expenses incurred		3,502,282
Other underwriting expenses incurred		17,239,692
Total underwriting deductions		\$70,870,080
Net underwriting gain or (loss)		\$22,421,655

Investment Income

Net investment income earned		\$14,319,713
Net realized capital gains or (losses)		6,152,434
Net investment gain or (loss)		\$20,472,147

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes		\$42,893,802
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$42,893,802
Federal & foreign income taxes		11,691,078
Net Income		\$31,202,724

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$161,939,385
Net Income		\$31,202,724
Net unrealized capital gains or losses		6,238,123
Change in net deferred income tax		(1,050,937)
Change in non-admitted assets		4,063,521
Change in provision for reinsurance		31,242
Aggregate write-ins for gains and losses in surplus		(64,085)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$40,420,589
Surplus as regards policyholders, December 31 current year		\$202,359,973

A comparative analysis of changes in surplus is shown below.

COURTESY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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

Surplus as Regards Policyholders
December 31, 2010, per Annual Statement \$202,359,973

	<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>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$202,359,973</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$8,546,375

An internal actuary, employed by JMFE, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, 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, Gregory Wilson, FCAS, MAAA of Lewis and Ellis, LLC reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$202,359,973, exceeded the minimum of \$28,798,853 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Courtesy Insurance Company**, as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$202,359,973, which exceeded the minimum of \$28,798,853 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Evelyn Grim, CFE, Examiner-In-Charge, Sarah Lucibello and Amy Carter, Participating Examiners, of Lewis & Ellis, Inc. participated in the examination. In addition, Greg Wilson, FCAS MAAA and Patrick Glenn, ACAS, ASA, MAAA, consulting actuaries of Lewis & Ellis, Inc.; Scott Langstein, CISA, IT Manager of Cerebres, LLC; Kethessa Carpenter, Financial Examiner/Analyst Supervisor, Sara Baylock, Reinsurance Financial Specialist and Chibueze Alutu, CISA, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

Mary James, CFE
Chief Examiner
Florida Office of Insurance Regulation