

**REPORT ON EXAMINATION**

**OF**

**COURTESY INSURANCE COMPANY,**

**INC.**

**DEERFIELD BEACH, FLORIDA**

**AS OF**

**DECEMBER 31, 2005**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

October 13, 2006

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Honorable Eleanor Kitzman  
Secretary, Southeastern Zone, NAIC  
Director of Insurance  
300 Arbor Lake Drive, Suite 1200  
Columbia, South Carolina 29223

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, 2005, of the financial condition and corporate affairs of:

**COURTESY INSURANCE COMPANY  
100 N.W. 12<sup>TH</sup> AVENUE  
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, 2003 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced, with planning at the Office, on August 7, 2006 to August 11, 2006. The fieldwork commenced on August 14, 2006, and was suspended as of October 6, 2006. The examination was placed in pending status due to coordination with the Office for additional information. The examination recommenced on October 9, 2006 and concluded on October 13, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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. Other than Florida, there were no zone examiners participating in this examination.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the

A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following account:

Ceded Reinsurance Premiums Payable

### **Status of Adverse Findings from Prior Examination**

There were no adverse findings contained in the prior examination report.

## HISTORY

### General

The Company was incorporated in Florida on December 21, 1987 and commenced business on May 24, 1988 as Courtesy Insurance Company. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Inland Marine	Auto Warranty
Other Liability	Surety
Credit	

The Company did not write business in the lines of Other liability and credit for the period of this examination. The Company was licensed in 47 states and Puerto Rico. The Company's ability to write certain business in other states was dictated by the lines of authority it had in those particular states. In certain states the Company writes Auto Warranty and/or Total Loss Protection under "Other Liability" and/or "Credit". In order to write in these lines the other states also required that the Certificate of Authority for these lines of business be approved by the domiciliary state.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### Capital Stock

As of December 31, 2005, 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	\$100.00

JM Family Enterprises, Inc., a Delaware corporation owned 100 percent of the stock issued by the Company.

### **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 Statement.

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Premiums Earned	62,369,133	52,924,901	48,421,931
Net Underwriting Gain/(Loss)	11,851,081	5,728,350	6,070,314
Net Income	13,153,863	9,802,260	9,691,072
Total Assets	317,424,834	253,534,634	215,887,900
Total Liabilities	225,498,342	174,808,810	145,459,223
Surplus As Regards Policyholders	91,926,492	78,725,823	70,428,677

### **Dividends to Stockholders**

Dividends were not paid to policyholders or shareholders during the period of this examination.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Patricia G. Moran Deerfield Beach, Florida	Director, Courtesy Insurance Company Chairman, JM Family Enterprises, Inc.
Colin W. Brown Boca Raton, Florida	Director, Courtesy Insurance Company President & CEO, JM Family Enterprises
Louis R. Feagles Boca Raton, Florida	Director & President, Courtesy Insurance Company
Mark S. Walter Weston, Florida	Director, Courtesy Insurance Company Sr. VP & CFO, JM Family Enterprises
William F. Curran Plantation, Florida	Director & Chief Operating Officer, Courtesy Insurance Company
Ronald M. Coombs Boca Raton, Florida	Director & Chief Financial Officer, Courtesy Insurance Company
Donna C. McWilliams Boca Raton, Florida	Director & Vice President of Finance, Courtesy Insurance Company
Maria K. Guttuso Boca Raton, Florida	Director, Vice President & Secretary, Courtesy Insurance Company

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

## Senior Officers

<b>Name</b>	<b>Title</b>
Louis R. Feagles	President
William F. Curran	Senior Vice President, COO
Ronald M. Coombs	Sr. Vice President, CFO, Assistant Treasurer
Donna C. McWilliams	Vice President, Assistant Treasurer
Maria K. Guttuso	VP, General Counsel, Asst Secretary
Patrick H. Sreenan	Vice President
Jorge E. Gonzalez	Vice President
Patrick C. Ossenbeck	Treasurer
John J. Whelan (a)	Secretary

(a) Resigned on April 28, 2006 and was replaced by Maria K. Guttuso as Secretary.

The Company's board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

**Audit Committee**

Colin W. Brown  
Louis R. Feagles  
Mark S. Walter  
William F. Curran

**Investment Committee**

Mark S. Walter  
William F. Curran  
Ronald M. Coombs  
Donna C. McWilliams  
Patrick C. Ossenback  
Alan J. Browdy

The Company maintained an audit committee, as required by Section 624.424(8), Florida Statutes.

**Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

**Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committee adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

**Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no mergers, disposals, dissolutions, purchase or sales through reinsurance as of December 31, 2005.

## **Surplus Debentures**

The Company had no surplus debentures as of December 31, 2005.

## **AFFILIATED COMPANIES**

The latest holding company registration statement for the period of this examination was filed with the State of Florida on April 26, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company filed an updated holding company registration statement on February 24, 2006.

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

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company and its parent was to compute its separate tax liability as if it had filed a separate tax return.

### **Administrative Services Agreement**

The Company had a services agreement with JM Family Enterprises, Inc., (JMFE), the parent, at December 31 2005. The agreement stipulated that the Company pay an allocated fee based on their revenue as a percent of total revenue of the services provided.

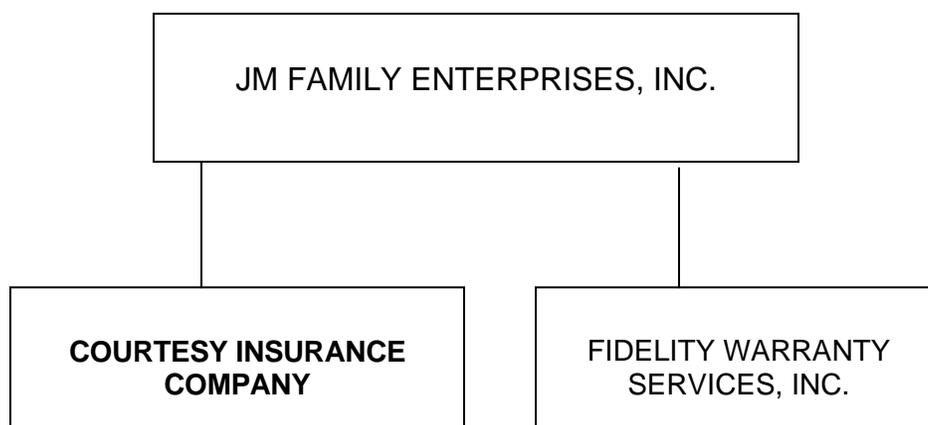
## **Contractual Liability Insurance Agreement**

The Company had contractual liability insurance agreements with Fidelity Warranty Services, Inc. (FWS) and Century Warranty Services, Inc. (CWS), affiliates. 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.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**COURTESY INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2005**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$10,000,000 with a deductible of \$100,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company directors and officers were covered by a separate fiduciary bond.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

JM Family Enterprises, Inc., the parent company, sponsored a defined benefit pension plan and a non-contributory profit sharing plan that covered substantially all employees of the Company. A deferred compensation plan was available to a select group of senior management and key employees. Also, a post retirement medical benefits plan was offered to former employees meeting established requirements. Provisions were made in the financial statement for contributions allocated to the Company under such plans.

## **STATUTORY DEPOSITS**

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<b>STATE</b>	<b>DESCRIPTION</b>		<b>RATE</b>	<b>MATURITY DATE</b>	<b>PAR VALUE</b>	<b>MARKET VALUE</b>
FL	US TREASURY BONDS		6.00%	02/15/26	\$ 500,000	\$ 550,450
FL	US TREASURY BONDS		8.75%	08/15/20	1,470,000	1,993,173
FL	US TREASURY BONDS		6.00%	02/15/26	1,040,000	1,144,936
<b>TOTAL FLORIDA DEPOSITS</b>					<b>\$ 3,010,000</b>	<b>\$ 3,688,559</b>
AZ	US TREASURY BONDS		8.75%	08/15/20	\$125,000	\$179,824
GA	US TREASURY BONDS		8.75%	08/15/20	35,000	50,351
LA	US TREASURY BONDS		6.00%	08/15/26	20,000	23,584
MA	US TREASURY BONDS		6.00%	08/15/26	525,000	619,090
NV	CDS		4.31%	01/31/07	201,570	201,570
NM	US TREASURY BONDS		6.25%	05/15/30	200,000	248,390
NC	US TREASURY BONDS		6.00%	08/15/26	300,000	353,766
OK	US TREASURY BONDS		6.00%	08/15/26	310,000	365,558
OR	US TREASURY BONDS		6.00%	08/15/26	300,000	353,766
SC	US TREASURY BONDS		6.00%	08/15/26	150,000	176,883
VA	US TREASURY BONDS		6.00%	08/15/26	225,000	265,324
<b>TOTAL OTHER DEPOSITS</b>					<b>\$ 2,391,570</b>	<b>\$ 2,838,105</b>
<b>TOTAL SPECIAL DEPOSITS</b>					<b>\$ 5,401,570</b>	<b>\$ 6,526,664</b>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance business in the State of Florida, in accordance with Section 624.401(2), Florida Statutes. The Company's main business consisted of auto warranties. The Company used the contract system of Fidelity Warranty Services, an affiliate, to record all business processed.

## **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 626.954(1)(i)3,a, Florida Statutes.

## **REINSURANCE**

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The reviewed contracts 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.

### **Ceded**

The Company ceded risk on a quota share basis. The Company ceded its written business 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's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

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 2003, 2004 and 2005, 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 and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with The Bank of New York updated on June 26, 2006. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code, with the exception of two of the requirements outlined in Rule 69O-143.042, Florida Administrative Code: paragraph (2) (j) regarding using and making available to OIR, forms OIR-DO-341(A), (B), or (C) and also paragraph (2) (o), regarding the termination of the agreement.

Subsequent event: The Company executed an amendment to the custodial agreement on October 5, 2006 to clear the exceptions.

### **Independent Auditor Agreement**

The Company had an agreement with PricewaterhouseCoopers LLP to perform an audit of its GAAP and statutory financial statements for 2005.

### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

### **Information Technology (IT) Report**

PricewaterhouseCoopers LLP performed a computer systems evaluation on the Company. There were no significant findings noted in the IT report provided to the Company.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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, INC.**  
**Assets**

**DECEMBER 31, 2005**

	<b>Per Company</b>	<b>Examination Adjustments</b>		<b>Per Examination</b>
Bonds	\$ 230,956,825		\$	230,956,825
Stocks:				
Preferred	90,000			90,000
Common	33,885,894			33,885,894
Cash and short-term investments	41,719,372			41,719,372
Receivables for securities	75,198			75,198
Interest and dividend income due & accrued	2,207,757			2,207,757
Reinsurance recoverable	3,553,267			3,553,267
Funds held or deposited with reinsured companies	527,957			527,957
Other amounts receivable under reinsurance contracts	112,370			112,370
Net deferred tax asset	4,288,983			4,288,983
Aggregate write-ins for other than invested assets	7,211			7,211
Totals	\$ 317,424,834		\$	317,424,834

**COURTESY INSURANCE COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2005**

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$5,881,893		\$5,881,893
Loss adjustment expenses	27,378		27,378
Commissions payable, contingent commissions and other simliar charges	1,007		1,007
Other expenses	578,609		578,609
Taxes, licenses and fees	620,068		620,068
Unearned premium	189,732,302		189,732,302
Ceded reinsurance premiums payable	12,568,255		12,568,255
Provision for reinsurance	114,992		114,992
Payable to parent, subsidiaries and affiliates	13,977,393		13,977,393
Payable for securities	1,576,909		1,576,909
Aggregate write-ins for liabilities	<u>419,536</u>		<u>419,536</u>
Total Liabilities	\$225,498,342		\$225,498,342
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	1,650,000		1,650,000
Unassigned funds (surplus)	<u>87,276,492</u>		<u>87,276,492</u>
Surplus as regards policyholders	<u>\$91,926,492</u>		<u>\$91,926,492</u>
Total liabilities, capital and surplus	<u>\$317,424,834</u>	<u>\$0</u>	<u>\$317,424,834</u>

**COURTESY INSURANCE COMPANY, INC.**  
**Statement of Income**

**DECEMBER 31, 2005**

<b>Underwriting Income</b>	
Premiums earned	\$62,369,133
DEDUCTIONS:	
Losses incurred	26,068,418
Loss expenses incurred	20,057
Other underwriting expenses incurred	24,429,577
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$50,518,052</u>
Net underwriting gain or (loss)	\$11,851,081
<b>Investment Income</b>	
Net investment income earned	\$9,382,732
Net realized capital gains or (losses)	1,521,508
Net investment gain or (loss)	<u>\$10,904,240</u>
<b>Other Income</b>	
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$22,755,321
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$22,755,321
Federal & foreign income taxes	<u>9,601,458</u>
Net Income	\$13,153,863
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$78,725,824
<b>Gains and (Losses) in Surplus</b>	
Net Income	\$13,153,863
Net unrealized capital gains or losses	(481,119)
Change in net deferred income tax	3,106,307
Change in non-admitted assets	(3,229,485)
Change in provision for reinsurance	651,102
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$13,200,668</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$91,926,492</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$5,909,271

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion. No material exceptions were noted in the Actuarial Closing Memo.

### CAPITAL AND SURPLUS

The Company met the surplus requirement. A Comparative analysis of changes in surplus is shown below.

**COURTESY INSURANCE COMPANY, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2005**

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 per December 31, 2005, Annual Statement	\$	91,926,492
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustments needed.			
<b>LIABILITIES:</b>			
No adjustments needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 91,926,492

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company had no adverse findings in the 2002 examination report issued by the Office.

### **Current examination comments and corrective action**

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Courtesy Insurance Company, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$91,926,492, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Mike Young, Financial Examiner/Analyst I, and Joe Boor, FCAS, Office Actuary participated in the examination.

Respectfully submitted,

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Jerry T. Golden  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation

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Mary M. James, CFE, CPM  
Financial Administrator  
Florida Office of Insurance Regulation