REPORT ON EXAMINATION

OF THE

COURTESY INSURANCE COMPANY

DEERFIELD BEACH, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
January 9, 2004

Honorable Janie A. Miller
Chairperson, Southeastern Zone, NAIC Commissioner
Kentucky Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517

Kevin M. McCarty
Director
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0300

Dear Sir and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), an examination has been made as of December 31, 2002 of the financial condition and corporate affairs of the:

COURTESY INSURANCE COMPANY
100 N.W. 12TH AVENUE
DEERFIELD BEACH, FLORIDA

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, 2000 through December 31, 2002. The last examination of the Company by representatives of the Florida Office of Insurance Regulation (Office) was as of December 31, 1999. This examination commenced with planning at the Office on November 12, 2003. The fieldwork commenced on November 17, 2003 and was concluded as of January 9, 2004. 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 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, (formerly 4-137.001(4) and 4-138.001), Florida Administrative Code (FAC) 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.

The Company's assets and liabilities were valued and/or verified as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 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 Payable

Status of Adverse Findings from Prior Examination

There were no items of material importance which required corrective actions to be taken by the Company.

HISTORY

General

The Company was incorporated under the laws of Florida on December 21, 1987 as a stock insurer. The Company commenced business on May 24, 1988. The Company's paid in capital was $4,650,000, which consisted of $3,000,000 of common stock and $1,650,000 in contributed surplus.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in the State of Florida on December 31, 2002:

Inland Marine	Auto Warranties
Other Liability	Surety
Credit	

The Company did not write business in the lines of other liability and credit for the previous years. The Company was licensed in 45 states and the District of Columbia. The Company's ability to write certain business in other states is dictated by what lines of authority it has in those particular states. In certain states the Company writes Auto Warranty and/or Total Loss Protection under "Other Liability" and/or "Credit". However, when going through the Certificate of Application process those states would not approve the Company for the lines of business it needed unless the domiciliary state had given it the same approvals.

Capital Stock

As of December 31, 2002, 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

JM Family Enterprises, Inc., owns 100 percent of the stock issued by the Company.

Profitability of Company

The Company's net underwriting gain for 2000, 2001, 2002 was $6,379,773, $5,680,188, and $8,252,701, respectively. Net income during the same period was $8,647,078, $8,297,613, and $9,841,399, respectively.

Dividends to Shareholders/Policyholders

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

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

Directors

Name and Location	Principal Occupation
Patricia G. Moran Boca Raton, Florida	Chairman JM Family Enterprises, Inc.
Colin W. Brown Boca Raton, Florida	President, COO JM Family Enterprises, Inc.
William F. Curran Boca Raton, Florida	Director JM Family Enterprises, Inc.
Louis R. Feagles Boca Raton, Florida	Officer & Director JM Family Enterprises, Inc.
Robert Morgan Coombs Boca Raton, Florida	Director JM Family Enterprises, Inc.
Maria K. Guttuso Boca Raton, Florida	Director JM Family Enterprises, Inc.
Donna C. McWilliams Deerfield Beach, Florida	Director JM Family Enterprises, Inc.

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

Senior Officers

Name	Title
Louis R. Feagles	President and CEO
John J. Whelan	Secretary
Donna C. McWilliams	Vice President/Asst. Treasurer
Ronald M. Coombs	Vice President
Patrick H. Sreenan	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

Investment Committee

Alan Browdy, Chairman
Donna McWilliams
Patrick C. Ossenbeck
William F. Curran
Ronald M. Coombs

Audit Committee

Colin W. Brown, Chairman
William F. Curran
Corliss J. Nelson
Louis R. Feagles

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder, Board of Directors and Investment Committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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, 2002.

Surplus Debentures

The Company had no surplus debentures as of December 31, 2002,

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC, (formerly 4-143.045(3)). The latest holding company registration statement was filed with the State of Florida on August 20, 2002, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, (formerly 4-143.046).

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

Tax Allocation Agreement

The Company, along with its parent, JM Enterprises, Inc., and its affiliates filed a consolidated federal income tax return. On December 31, 2002, the method of allocation between the Company and its parent was based upon separate return calculations with current credit for net losses, in accordance with Treasury Regulation Sections. Inter-company tax balances were settled annually in the first quarter.

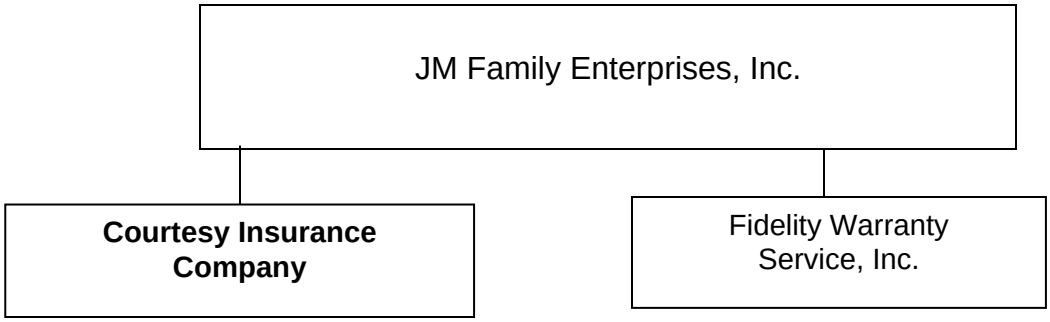
Contractual Liability Insurance Agreement

As of December 31, 2002, the Company was party to a Contractual Liability Insurance Agreement with its affiliate, Fidelity Warranty Service, Inc. (FWS), a licensed service warranty association. Under the agreement, FWS buys automotive mechanical service policies from the Company. The Company agrees to pay 100% of FWS's reasonably incurred costs. The aggregate premium for these policies is 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, 2002, reflecting the holding company system is shown below. Schedule Y of the 2002 Annual Statement provided a list of all related companies of the holding company group.

COURTESY INSURANCE COMPANY

ORGANIZATIONAL CHART
DECEMBER 31, 2002



FIDELITY BOND AND OTHER INSURANCE

The Company's parent maintained fidelity bond coverage up to $10,000,000 with a single loss deductible of $100,000, which adequately covered the suggested amount as recommended by the NAIC.

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

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401(2), FS.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company was a wholly owned subsidiary of JM Family Enterprises, Inc. The Company did not have any employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description			Par Value	Market Value
AZ	USTBDS	8.75%	8/15/20	$ 125,000	$ 147,627
NM	USTBDS	6.25%	5/15/30	200,000	218,081
FL	USTBDS	6.00%	2/15/26	500,000	537,677
GA	USTBDS	8.75%	8/15/20	35,000	41,336
LA	USTBDS	6.00%	2/15/26	20,000	21,507
MA	USTBDS	6.00%	2/15/26	525,000	564560
NV	CD	2.18%	1/31/07	200,000	200,000
NC	USTBDS	6.00%	2/15/26	100,000	107,535
OK	USTBDS	6.00%	2/15/26	310,000	333,359
OR	USTBDS	6.00%	2/15/26	300,000	322,606
SC	USTBDS	6.00%	2/15/26	150,000	161,303
VA	USTBDS	6.00%	2/15/26	225,000	241,954
FL	USTBDS	6.00%	2/15/26	1,040,000	1,118,368
FL	USTBDS	8.75%	8/15/20	1,470,000	1,736,098
Total Special Deposits				$ 5,200,000	$5,752,011

REINSURANCE

The reinsurance agreements reviewed met NAIC standards with respect to the standard insolvency clause, arbitration clause, and 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 were utilizing 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

An independent CPA audited the Company's statutory basis financial statement for the year 2002 in accordance with Section 624.424(8), FS. The supporting work papers prepared by the CPA were in accordance with Rule 69O-137.002, FAC, (formerly 4-137.002).

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.

The Company had no agreements with non-affiliated companies.

Risk-Based Capital

The Company reported its Risk-Based Capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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, 2002

Classification	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$127,203,302		$127,203,302
Stocks:			
Common stock	$14,257,416		$14,257,416
Cash:			
On deposit	(371,394)		(371,394)
Short-term Investments	12,641,078		12,641,078
Receivable for securities	167,125		167,125
Agents' Balances:			
Uncollected premium	4,834,239	$4,834,239	0
Funds held by or deposited with reinsurance companies	3,289,155		3,289,155
Federal income tax recoverable	7,024,008	4,140,836	2,883,172
Interest and dividend income due & accrued	1,792,965		1,792,965
Receivable from PSA	1,287		1,287
Aggregate write-in for other than invested assets	2,744,800		2,744,800
Totals	$173,583,981	$8,975,075	$164,608,906

COURTESY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities

Losses		$5,583,946
Loss adjustment expenses		12,973
Commissions payable		16,501
Other expenses		238,588
Taxes, licenses and fees		675,856
Unearned premium		98,032,678
Ceded reinsurance premiums payable		8,612,461
Payable to parent, subsidiaries and affiliates		720,330
Payable for securities		158,581
Aggregate write-ins for liabilities		198,388
Total Liabilities		$114,250,302
Common capital stock	$3,000,000	
Gross paid in and contributed surplus	1,650,000	
Unassigned funds (surplus)	45,708,605	
Surplus as regards policyholders		50,358,605
Total liabilities, capital and surplus		$164,608,907

COURTESY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2002

Underwriting Income

Premiums earned	$47,450,784
DEDUCTIONS:	
Losses incurred	27,536,615
Loss expenses incurred	(32,714)
Other underwriting expenses incurred	11,694,181
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$39,198,082
Net underwriting gain or (loss)	$8,252,702

Investment Income

Net investment income earned	$7,138,919
Net realized capital gains or (losses)	243,189
Net investment gain or (loss)	$7,382,108

Other Income

Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	0
Total other income	$0
Net income before dividends to policyholders and before federal & foreign income taxes	$15,634,810
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$15,634,810
Federal & foreign income taxes	5,793,410
Net Income	$9,841,400

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$43,752,761

Gains and (Losses) in Surplus

Net Income	$9,841,400
Net unrealized capital gains or losses	(1,507,508)
Change in net deferred income tax	909,339
Change in non-admitted assets	(2,860,292)
Change in provision for reinsurance	222,906
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$6,605,845
Surplus as regards policyholders, December 31 current year	$50,358,606

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses **$5,596,919**

The Company's actuary rendered an opinion that the amounts carried on the balance sheet as of December 31, 2002, 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 Actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

COURTESY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2002

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, 2002, Annual Statement			$50,358,605
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			$0
Surplus as Regards Policyholders December 31, 2002, Per Examination			$50,358,605

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office.

Current examination comments and corrective action

There are no material findings.

SUBSEQUENT EVENTS

There were no material subsequent events.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Courtesy Insurance Company** as of December 31, 2002, consistent with the Insurance Laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $50,358,605, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Examiner/Analyst Supervisor, Joel Bengo, Financial Examiner/Analyst II, and March Fisher, Senior Actuarial Analyst, participated in the examination.

Respectfully submitted,

_____
James D. Collins
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

_____
Stephen J. Szypula, CFE
Financial Administrator
Florida Office of Insurance Regulation