

REPORT ON EXAMINATION
OF
FLORIDA FAMILY INSURANCE
COMPANY

BONITA SPRINGS, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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October 7, 2011

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2010, of the financial condition and corporate affairs of:

**FLORIDA FAMILY INSURANCE COMPANY
27599 RIVERVIEW CENTER BOULEVARD, SUITE 100
BONITA SPRINGS, FLORIDA 34134**

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 21, 2011 to June 24, 2011. The fieldwork commenced on June 28, 2011, and concluded as of October 7, 2011.

This financial examination was a 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 findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

Loss and Loss Adjustment Expenses

The Company was recording outside adjuster costs paid to an affiliate as Defense Cost Containment (DCC) rather than Adjusting and Other Expense (AOE) costs. This was not in compliance with the Annual Statement Instructions that are adopted by Rule 69O-137.001, Florida Administrative Code. **Resolution:** The Company correctly records these costs as AOE.

Electronic data processing equipment and software

The Company purchased computer software and hardware in 2005 for less than \$25,000 in value that did not meet the criteria of an asset in accordance with Section 625.012 (11), Florida

Statutes. **Resolution:** The Company correctly records computer hardware and software as an asset in accordance with the criteria of an asset included in Section 625.012 (11), Florida Statutes.

HISTORY

General

The Company was incorporated in Florida on March 19, 1996, and commenced business on May 1, 1996, as Florida Family Mutual Insurance Company. During 2001, in conjunction with approval of the Office, the policyholders of Florida Family Mutual Insurance Company approved a conversion of the Company from a non-assessable mutual insurer to a stock insurer. Under the terms of the demutualization offering and a separate related agreement between the Company and Florida Family Insurance Services, LLC (FFIS), a \$5 million debenture was exchanged for approximately 98.9% of the Company.

The Company was party to two Consent Orders during the exam period. Consent Order 89888-07, filed August 27, 2007, required the Company to correctly record and report DCC and AOE Costs and correctly record and report computer and software pursuant to section 625.012, Florida Statutes. Consent Order 107152-09, filed December 2, 2010, required the Company to timely submit "file and use" filings in the future, pursuant to Section 627.062, Florida Statutes, refund all amounts received in excess of the assessment and submit a certification signed by an officer of the Company that all refunds required by the Consent Order have been made. The Company complied with the provisions of these consent orders.

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

Homeowners multi peril
Fire

Allied Lines
Inland Marine

The Bylaws were not amended during the period covered by this examination.

Subsequent Event:

The Company amended the Articles of Incorporation in September 2011 to allow for a reverse stock split.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2009, 2008 and 2007 in the amounts of \$1,000,000, \$6,999,993 and \$2,499,980, respectively.

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	6,000,000
Number of authorized preferred capital shares	10,000,000
Number of shares issued and outstanding - common	449,737
Number of shares issued and outstanding – preferred	0
Total common and preferred capital stock	\$4,497,370
Par value per common share	\$10.00
Par value per preferred share	\$1.00

Control of the Company was maintained by its parent, Emery Holding, Inc, (Emery), who owned 99.4% of the stock issued by the Company, who in turn was 100% owned by Florida Family Insurance Services, LLC (FFIS) a Delaware limited liability company. Individual shareholders owned the remaining 0.6% of the Company. FFIS in turn was 100% owned by Barrington Capital, LLC, a Delaware limited liability 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
Walter Dale Hardy Naples, Florida	CEO, Florida Family Insurance Company
William Tuttle Montei Middleton, Wisconsin	Director, Echo Ridge Partners
William Henry Wiggs Arlington Heights, Illinois	CFO, Florida Family Insurance Company
Timothy James McKay Glen Ellyn, Illinois	Director, Wilson, Elser, Moskowitz, Edelman & Dicker, LLP
David Paul Behnke Roselle, Illinois	Director, CPA
Amy Houghton Bash Barrington, Illinois	Director, Clinical Social Worker

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

Senior Officers

Name	Title
Walter Dale Hardy	Chief Executive Officer
Peter Joseph Corrigan	President
William Henry Wiggs	Chief Financial Officer
Robert Allen Liggett	Controller

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

Audit Committee

William Tuttle Montei ¹
Timothy James McKay
David Paul Behnke
Amy Houghton Bash

Investment Committee

David Paul Behnke ¹
Walter Dale Hardy
William Tuttle Montei
Timothy James McKay
Amy Houghton Bash
William Henry Wiggs

¹ Chairman

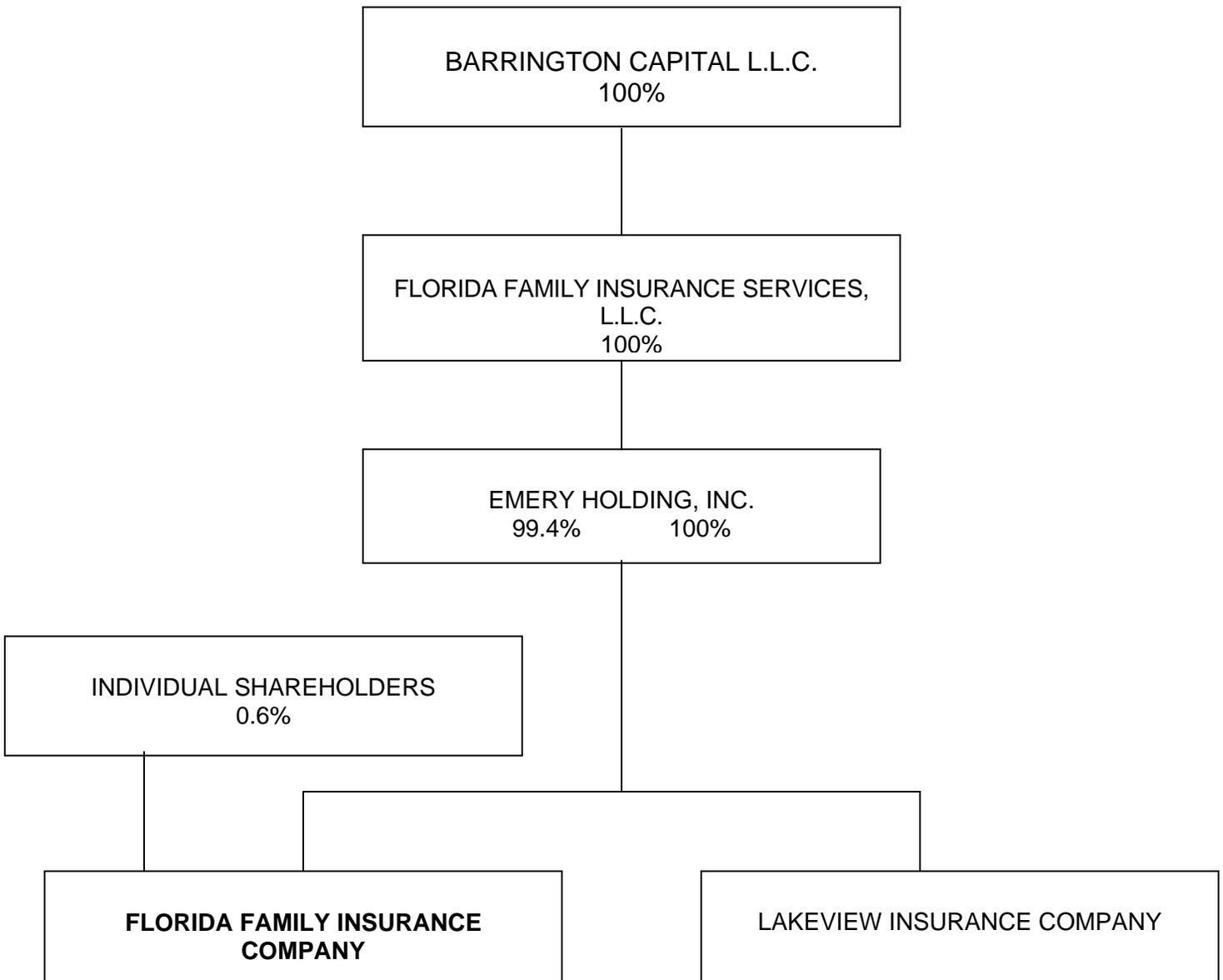
Affiliated Companies

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 August 11, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An 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.

**FLORIDA FAMILY 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, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the Company and its parent was based on a determination of separate return tax liability or tax savings. On or before April 30 of such taxable year, the Company shall estimate its Separate Return Tax Liability, Tax Savings or the Tax Increase for such taxable year. To the extent that the amounts paid are subsequently determined to be different when the final Consolidated Return of the Insurance Company affiliated Group for the taxable year is filed, the difference shall be paid to the appropriate Member within 30 days from the date such return is filed.

Cost Allocation Agreement

The Company entered into a Cost sharing Agreement with Florida Family Insurance Services, LLC (FFIS) and its wholly-owned subsidiaries, Halogen Software, LLC (Halogen), Barrington Insurance Group, LLC (BIG), and Lakeview Underwriting Managers, LLC (Lakeview), and Emery on January 1, 2008. The agreement indicates that the allocations and charges will be determined on the basis of generally accepted cost accounting principles. Fees incurred under this agreement during 2010 amounted to \$14,566,610.

Managing General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, FFIS on September 1, 2000. The agreement continues in force for a term of five years and will automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. The MGA fees were based on 18% of direct written premium and included the \$25 policy fee. Claims administration services were included in the agreement. Claims administration fees are paid on a flat dollar amount per claim for the work performed by the MGAs field adjusters adjusting and settling claims. Fees incurred under this agreement during 2010 amounted to \$17,525,345.

Reinsurance and Pooling Agreement

The Company entered into a Reinsurance and Pooling Agreement (Agreement) with Lakeview Insurance Company (LIC) on July 1, 2009. The Agreement requires LIC to Cede 100% of policies written by LIC to the Company. The LIC policies and policies written by the Company are ceded 75% to the Company and 25% to LIC. The Company reinsures the net outstanding insurance business of LIC and the Company agrees to serve as the lead entity of the Pooling Plan without any form of additional compensation.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$2,000,000 and

a deductible of \$50,000 as well as an Insurance Company Professional Liability Policy (E&O) with limits of \$2,000,000 and a deductible of \$250,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have a defined benefit retirement plan. Company employees are eligible to participate in a qualified defined contribution plan (401K) sponsored by FFIS. The Company's share of contributions under the intercompany pooling agreement to the plan was \$83,708 for 2010.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

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 premiums written have remained consistent throughout the exam period. The Company incurred an underwriting loss during 2009 and 2010 but was profitable throughout the

exam period. The Company paid dividends to the parent in 2009, 2008 and 2007 and surplus increased in 4 of the 5 years of the exam period.

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	24,099,514	21,503,291	23,373,954	20,700,055	15,319,987
Net Underwriting Gain/(Loss)	(152,610)	(696,779)	6,116,114	7,913,623	1,933,951
Net Income	1,660,772	1,375,720	6,173,226	7,049,046	3,260,752
Total Assets	64,286,030	60,270,815	69,547,631	71,838,900	66,232,959
Total Liabilities	42,697,611	40,620,617	50,528,779	52,045,275	51,090,575
Surplus As Regards Policyholders	21,588,419	19,650,198	19,018,852	19,793,625	15,142,384

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. The one and two-year net loss developments at the end of the current examination period were \$76,000 and (\$179,000), respectively.

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 did not assume any reinsurance during the period of this examination.

Ceded

The Company ceded risk on a quota share and excess of loss basis to related and unrelated reinsurers. The Company has a Multi-line Quota-Share Reinsurance Contract (QSA) with an unrelated reinsurer on all property lines of business. During 2010, the QSA was reduced from 60% to 50%. The Company also maintains a Reinsurance and Pooling Agreement with a related reinsurer, LIC. The Company cedes 25% of the direct written policies to LIC. The Company also purchases catastrophe reinsurance from unrelated private reinsurers and the Florida Hurricane Catastrophe Fund. The Company follows a practice of purchasing levels of catastrophe reinsurance that, in conjunction with the QSA, limit the Companies' losses net of reinsurance to \$1,000,000.

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 Bonita Springs, Florida.

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 and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association executed on May 20, 2009. 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. The Company received approval to file audited Consolidated Financial Statements with Lakeview Insurance Company.

INFORMATION TECHNOLOGY REPORT

ParenteBeard LLC, IT Examiners 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:

STATE	Description	Par Value	Market Value
FL	Certificate of Deposit	<u>\$300,000</u>	<u>\$300,000</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$300,000</u></u>	<u><u>\$300,000</u></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."

FLORIDA FAMILY INSURANCE COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$49,214,681		\$49,214,681
Cash and Short-Term Investments	10,684,094		10,684,094
Agents' Balances:			
Uncollected premium	1,788,908		1,788,908
Reinsurance recoverable	4,272		4,272
Current federal income tax recoverable	321,546		321,546
Net deferred tax asset	1,491,144		1,491,144
Guaranty funds receivable or on deposit	317,588		317,588
EDP Equipment	226,477		226,477
Investment Income due & accrued	237,320		237,320
<hr/>			
Totals	<u>\$64,286,030</u>	<u>\$0</u>	<u>\$64,286,030</u>

FLORIDA FAMILY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,553,554		\$3,553,554
Loss adjustment expenses	517,272		517,272
Other expenses	604,536		604,536
Taxes, licenses and fees	226,959		226,959
Unearned premium	21,597,811		21,597,811
Ceded reinsurance premiums payable	8,636,656		8,636,656
Funds held under reinsurance treaties	6,208,914		6,208,914
Amounts withheld	6,172		6,172
Provision for Reinsurance	138		138
Payable to parent, subsidiaries and affiliates	1,345,599		1,345,599
Total Liabilities	\$42,697,611	\$0	\$42,697,611
Common capital stock	\$4,497,370		\$4,497,370
Gross paid in and contributed surplus	8,058,923		8,058,923
Unassigned funds (surplus)	9,032,126		9,032,126
Surplus as regards policyholders	\$21,588,419	\$0	\$21,588,419
Total liabilities, surplus and other funds	\$64,286,030	\$0	\$64,286,030

FLORIDA FAMILY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$24,099,514
	Deductions:	
Losses incurred		\$9,842,069
Loss expenses incurred		2,136,201
Other underwriting expenses incurred		12,273,854
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$24,252,124
Net underwriting gain or (loss)		(\$152,610)

Investment Income

Net investment income earned		\$1,820,078
Net realized capital gains or (losses)		819,465
Net investment gain or (loss)		\$2,639,543

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$4,615
Finance and service charges not included in premiums		82,928
Total other income		\$87,543
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,574,476
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,574,476
Federal & foreign income taxes		913,704
Net Income		\$1,660,772

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$19,650,198
Net Income		\$1,660,772
Net unrealized capital gains or losses		(8,001)
Change in net unrealized capital gains or losses		4,224
Change in provision for reinsurance		522
Change in net deferred income Tax		280,704
Change in surplus as regards policyholders for the year		\$1,938,221
Surplus as regards policyholders, December 31 current year		\$21,588,419

A comparative analysis of changes in surplus is shown below.

FLORIDA FAMILY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

Surplus as Regards Policyholders
December 31, 2010, per Annual Statement \$21,588,419

	<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>\$21,588,419</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$4,070,826

The Company's actuary, an employee, appointed by the Board of Directors, 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, Ronald T. Kuehn, FCAS, MAAA of Huggins Actuarial Services, Inc, 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 \$21,588,419, exceeded the minimum of \$4,051,435 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 **Florida Family 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 \$21,588,419, which exceeded the minimum of \$4,051,435 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge and Richard Sowalsky, Participating Examiner, of ParenteBeard LLC participated in the examination. In addition, Ronald T. Kuehn, FCAS MAAA, consulting actuary of Huggins Actuarial Services, Inc., Jen Walker, CISA, IT Manager of ParenteBeard LLC and Maurice Fuller, Financial Examiner/Analyst II, Kyra D. Brown, Financial Specialist and Gary Farmer, Financial Examiner/Analyst Supervisor, of the Office also participated in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation