

REPORT ON EXAMINATION
OF
GULFSTREAM PROPERTY & CASUALTY
INSURANCE COMPANY

SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 8, 2007

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 in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2006, of the financial condition and corporate affairs of:

GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
6964 Professional Parkway, East
SARASOTA, FLORIDA 34240

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, 2006. 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 March 26, 2007, to March 30, 2007. The fieldwork commenced on April 2, 2007, and was concluded as of June 8, 2007.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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 accounts:

- Reinsurance Recoverable from Reinsurers
- Net Deferred Tax Asset
- Aggregate Write-ins for other than Invested Assets
- Taxes, Licenses and Fees
- Current Federal and Foreign Income Taxes
- Ceded Reinsurance Premiums Payable
- Provision for Reinsurance
- Aggregate Write-ins for Liabilities

Status of Adverse Findings from Prior Examination

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

Holding Company Registration Statement

The Company did not timely report changes as required by Rule 69O-143.046(4), Florida Administrative Code, regarding the holding company registration statement. **Resolution:** The Company complied with Rule 69O-143.046(4), Florida Administrative Code, which requires the Company to report changes within 15 days after the end of the month in which the Company learns of a change.

Managing General Agent Agreement

Gulfstream Property and Casualty MGA, Inc. (GMGA) did not comply with the terms of the Managing General Agent (MGA) agreement with regards to timely settlement of amounts due to the Company. **Resolution:** GMGA took the necessary actions to comply with the MGA agreement with regard to timely settlements of amounts due to the Company.

Financial

Cash

The Company did not submit a trust agreement for the premium deposit account to the Office for approval. **Resolution:** The Company submitted the premium trust agreement for approval to the Office seeking compliance with Section 625.012(5)(a)(1), Florida Statutes.

Agents' Balances

The Company reported various errors within the amount recorded for Agents' balances. The Company reported the balance incorrectly, did not account for balances due that were over ninety (90) days old and included various line items which should have been recorded on the line item for Receivable due from parent, subsidiaries and affiliates. A net adjustment to Surplus as regards policyholders was made in the amount of \$156,886. **Resolution:** In September 2006, the Company began non-admitting its Agents' balances over 90 days past due.

HISTORY

General

The Company was incorporated in Florida on October 8, 2004, and commenced business on January 18, 2005 as Gulfstream Property and Casualty Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on November 30, 2004:

Fire
Allied Lines
Homeowners Multi Peril
Inland Marine
Other Liability
Mobil Home Multi Peril
Mobil Home Physical Damage

The Company has not written insurance coverage in inland marine. However, the Company requested that this line of business be retained in its Certificate of Authority because this coverage will be offered in the Florida independent agent market within 60 days.

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

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100
Total common capital stock	\$100
Par value per share	\$1.00

Control of the Company was maintained by New Holdings, Inc. (NHI), a Delaware corporation, who owned 100% of the stock issued by the Company, who in turn was 64.6% owned by Charles H. Powers, 24.6% owned by Seibels, Bruce & Co. (SBC), and 10.8% owned by Philip L. DeRosa.

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.

	2006	2005	2004
Premiums Earned	34,058,282	38,456,157	0
Net Underwriting Gain/(Loss)	(6,953,048)	(1,482,940)	(3,265)
Net Income (Loss)	(3,113,011)	(2,479,365)	14,091
Total Assets	78,043,912	68,489,224	10,019,843
Total Liabilities	65,391,236	54,631,985	5,752
Surplus As Regards Policyholders	12,652,676	13,857,239	10,014,091

Dividends to Stockholders

There were no dividends declared or paid to stockholders during the years covered by 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, 2006, were:

Directors

Name and Location	Principal Occupation
Elizabeth Rose Monts Nokomis, FL	Vice President, CFO & Treasurer of Company, GMGA and NHI
Charles Heath Powers Florence, SC	Ownership interest in SBC and Insurance Network Services, Inc. (INS)
Bryan Douglas Rivers Lexington, SC	Chairman Director/Chairman of GMGA and NHI Controller & Treasurer of SBC and INS
Philip Louis DeRosa Sarasota, FL	President, CEO, and Secretary of Company, NHI and GMGA
Kyle Lee Redfearn Tallahassee, FL	Director of GMGA and NHI

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

Senior Officers

Name	Title
Philip Louis DeRosa	President, CEO and Secretary
Elizabeth Rose Monts	Vice President, CFO & Treasurer

The Company had an audit committee in accordance with Section 624.424(8)(c), Florida Statutes. Following were the audit committee members as of December 31, 2006:

Kyle Lee Redfearn - Chairman
Charles Health Powers
Bryan Douglas Rivers

The audit committee members were free from any relationship that would interfere with the exercise of his or her independent judgment.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholders, board of directors, and audit 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 acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

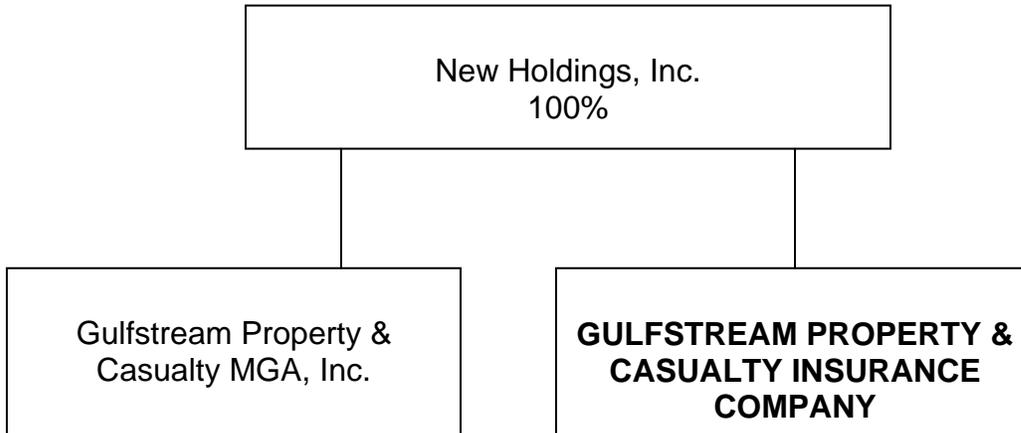
AFFILIATED COMPANIES

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 1, 2006 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Tax Allocation Agreement

The Company had a tax allocation agreement with NHI and GMGA, entered into on October 1, 2004. The parties were members of an affiliated group as defined in Section 1504(a) of the Internal Revenue Code of 1986. NHI was required to file a consolidated federal income tax return.

MGA Agreement

The Company entered into an MGA agreement with GMGA effective October 15, 2004. The agreement indicated that GMGA shall act as the MGA for the insurance policies issued in the State

of Florida and further indicated that it had the authority to handle claims and negotiate reinsurance on behalf of the Company.

Executive Management Agreement

The Company maintained an executive management agreement with NHI to provide the Company with management and administration services as of October 15, 2004.

Underwriting Policy Administration and Processing Management Agreement

GMGA subcontracted policy administration and processing to SBC, an affiliate of NHI, through common ownership. The agreement was effective on November 1, 2004 and required SBC to provide certain policy administration, underwriting and information technology services.

Claims Administration Services Agreement

GMGA subcontracted claims servicing to INS, an affiliate of SBC and NHI, through common ownership. The agreement was effective on November 1, 2004, and required INS to provide claims administration for the Company.

FIDELITY BOND

The Company maintained a fidelity bond with coverage of up to \$1,000,000 with a deductible of \$25,000 per loss, which adequately covered the suggested minimum amount of coverage of \$800,000 for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans. All employees providing the services were employed by either GMGA or NHI.

STATUTORY DEPOSITS

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

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	Cash Deposit			\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS				<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance 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.

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 per policy basis from Citizens Property Insurance Company that was approved by the Office by Consent Order No. 79430-04, dated December 8, 2004. The Company did not assume any premiums in 2006.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various authorized and unauthorized reinsurers. All unauthorized reinsurers utilized letters of credit.

All reinsurance agreements 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 office in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the current examination year, 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 statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson, P.A. of Tallahassee, Florida to perform an audit of its statutory financial statements for 2006.

Independent Actuarial Agreement

The Company had an agreement with Milliman Consultants and Actuaries of San Francisco, California for actuarial services.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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 the report captioned, "Comparative Analysis of Changes in Surplus."

GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash and Short-term investments	\$53,965,914		\$53,965,914
Agents' Balances:			
Uncollected premium	5,479,270		5,479,270
Deferred premiums	6,980,052		6,980,052
Interest and dividend income due & accrued	442,836		442,836
Reinsurance recoverable from reinsurers	5,020,276		5,020,276
Net deferred tax asset	1,819,396		1,819,396
Receivable from parents, subsidiaries and affiliates	71,100		71,100
Aggregate write-ins for other than invested assets	4,265,068		4,265,068
Totals	\$78,043,912	\$0	\$78,043,912

GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,133,117		\$7,133,117
Loss adjustment expenses	2,546,471		2,546,471
Other expenses	168,530		168,530
Taxes, licenses and fees	435,182		435,182
Current federal & foreign income taxes	122,538		122,538
Unearned premium	44,692,599		44,692,599
Ceded reinsurance premiums payable	3,926,465		3,926,465
Provision for reinsurance	52,000		52,000
Payable to parents, subsidiaries and affiliates	2,964,258		2,964,258
Aggregate write-ins for liabilities	3,350,076		3,350,076
Total Liabilities	\$65,391,236	\$0	\$65,391,236
Common capital stock	\$100		\$100
Gross paid in and contributed surplus	16,999,900		16,999,900
Unassigned funds (surplus)	(4,347,324)		(4,347,324)
Surplus as regards policyholders	\$12,652,676	\$0	\$12,652,676
Total Liabilities, Surplus and Other Funds	\$78,043,912	\$0	\$78,043,912

GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$34,058,282
DEDUCTIONS:		
Losses incurred	14,619,444	
Loss expenses incurred	5,244,952	
Other underwriting expenses incurred	21,146,934	
Aggregate write-ins for underwriting deductions	0	
Total underwriting deductions	\$41,011,330	
Net underwriting gain or (loss)		(\$6,953,048)
Investment Income		
Net investment income earned	\$3,219,664	
Net realized capital gains or (losses)	0	
Net investment gain or (loss)	\$3,219,664	
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(\$44,089)	
Aggregate write-ins for miscellaneous income	0	
Total other income	(\$44,089)	
Net income before dividends to policyholders and before federal & foreign income taxes	(\$3,777,473)	
Dividends to policyholders	0	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$3,777,473)	
Federal & foreign income taxes incurred	(664,462)	
Net Income		(\$3,113,011)
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$13,857,239
Gains and (Losses) in Surplus		
Net Income	(\$3,113,011)	
Change in non-admitted assets	(1,926,948)	
Change in provision for reinsurance	76,000	
Change in net deferred income tax	759,396	
Surplus adjustments: Paid in	3,000,000	
Change in surplus as regards policyholders for the year	(\$1,204,563)	
Surplus as regards policyholders, December 31 current year		\$12,652,676

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **\$9,679,588**

Nancy P. Watkins, FCAS, MAAA with Milliman USA, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, 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.

**GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, Annual Statement	\$	12,652,676
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$ 12,652,676

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2005 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 this examination as of December 31, 2006.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **GULFSTREAM PROPERTY & CASUALTY INSURANCE COMPANY** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$12,652,676, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor and Joseph Boor, Office Actuary, participated in the examination.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation