

REPORT ON EXAMINATION
OF
ICAT SPECIALTY INSURANCE
COMPANY
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 12, 2008

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 as of December 31, 2007, of the financial condition and corporate affairs of:

**ICAT SPECIALTY INSURANCE COMPANY
2701 WEST BUSCH BOULEVARD, SUITE 102
TAMPA, FLORIDA 33618**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of July 1, 2006 through December 31, 2007. This is the first year that the Company has been examined by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on September 15, 2008, to September 18, 2008. The fieldwork commenced on September 22, 2008, and was concluded as of November 12, 2008.

This financial examination was a statutory risk focused 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.

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, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, 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.

HISTORY

General

The Company was incorporated in Florida on May 24, 2006 and commenced business on July 1, 2006 as ICAT Specialty Insurance Company.

The Company was party to Consent Order 85523-06-CO filed April 14, 2006 with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with all of the provisions of this consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Allied Lines

Inland Marine

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	15,000,000
Number of shares issued and outstanding	3,000,000
Total common capital stock	\$3,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, ICAT Holdings, LLC (Holdings), a limited liability company, organized under Delaware law. The shareholders of Holdings include Vulcan Insurance Managers, LLC (Vulcan) (82%), John Collins Graham (12%), and other key employees. Paul Gardner Allen is the ultimate controlling person of Vulcan.

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.

	2007	2006
Premiums Earned	4,086,287	803,925
Net Underwriting Gain/(Loss)	(2,314,534)	(700,803)
Net Income	(1,488,853)	(279,058)
Total Assets	19,771,894	19,233,084
Total Liabilities	6,212,334	4,672,753
Surplus As Regards Policyholders	13,559,560	14,560,331

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, 2007, were:

Directors

Name and Location	Principal Occupation
David Nicholas Capobianco Boulder, Colorado	Portfolio Manager, Vulcan
Jeff Rowe Baker Boulder, Colorado	President, Boulder Claims
Jeff Patrick Dunn Boulder, Colorado	Portfolio Manager, Vulcan
John Collins Graham Boulder, Colorado	Chairman and Chief Executive Office, Holdings
Derek Alan Cochems Boulder, Colorado	Chief Financial Officer, Holdings

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

Senior Officers

Name	Title
John Collins Graham	President
Alan Barry Litner	Secretary
Derek Alan Cochems	Treasurer

The Company's Board of Directors appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007:

Audit Committee

Derek Alan Cochems¹
 Jeff Patrick Dunn
 Mike Connors

¹ Chairman

Compensation Committee

John Collins Graham¹
 Jeff Patrick Dunn
 David Nicholas Capobianco

¹ Chairman

Claims Committee

Jeff Rowe Baker¹
 John Collins Graham
 Alan Barry Litner
 Ron Davies
 Derek Alan Cochems

¹ Chairman

Steering Committee

John Collins Graham¹

 Ron Davies
 Bob Rose
 Megan McConnell
 Isaac McLean
 Derek Alan Cochems
 Jean Verrier
 Alan Barry Litner

¹ Chairman

Risk Management Committee

Chris Austin¹

 Jeff Rowe Baker
 Greg Butler
 Derek Alan Cochems
 Bonner Culp²
 Ron Davies
 John Collins Graham
 Alan Barry Litner
 Thomas Mercer
 Bob Rose

¹ Chairman

² Secretary

The Company's audit committee was not comprised solely of independent board members as required by Section 624.424(8)(c), Florida Statutes. The audit committee was comprised of the Company's CFO, and two representatives for the major shareholder.

Subsequent event: On December 10, 2008 the Board of Directors of the Company selected a new audit committee comprised of Geoff McKay, Jeff Dunn, and William Schmidt to comply with Section 624.424(8)(c), Florida Statutes.

Conflict of Interest Procedure

The Company's employees are required to conduct business within guidelines that prohibit actual or potential conflicts of interest and employees must disclose conflicts of interest or potential conflicts of interest to their supervisor and the Director of Human Resources.

The Company's conflict of interest policy does not require its officers, directors, or key employees to complete conflict of interest statements annually, and are therefore was not in compliance with the NAIC Financial Condition Examiners Handbook regarding conflict of interest statements.

Subsequent Event: On October 29, 2008, the Company's Board of Directors considered and approved the Company's sample conflict of interest statement and required the Company's officers, directors, or key employees to complete the conflict of interest statements annually.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The Company was not in compliance with Sections 607.1601 and 625.304, Florida Statutes, concerning Board of Directors Meetings and Minutes. The timing of the meetings and number was not held consistent with the requirements contained within the Company's Bylaws, since the Board of Directors did not hold a meeting in 2007. There were no documented approvals of Company's 2007 significant transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Subsequent Event: On October 29, 2008, the Board of Directors ratified and approved the Company's 2007 significant transactions and events by unanimous written consent in lieu of a meeting.

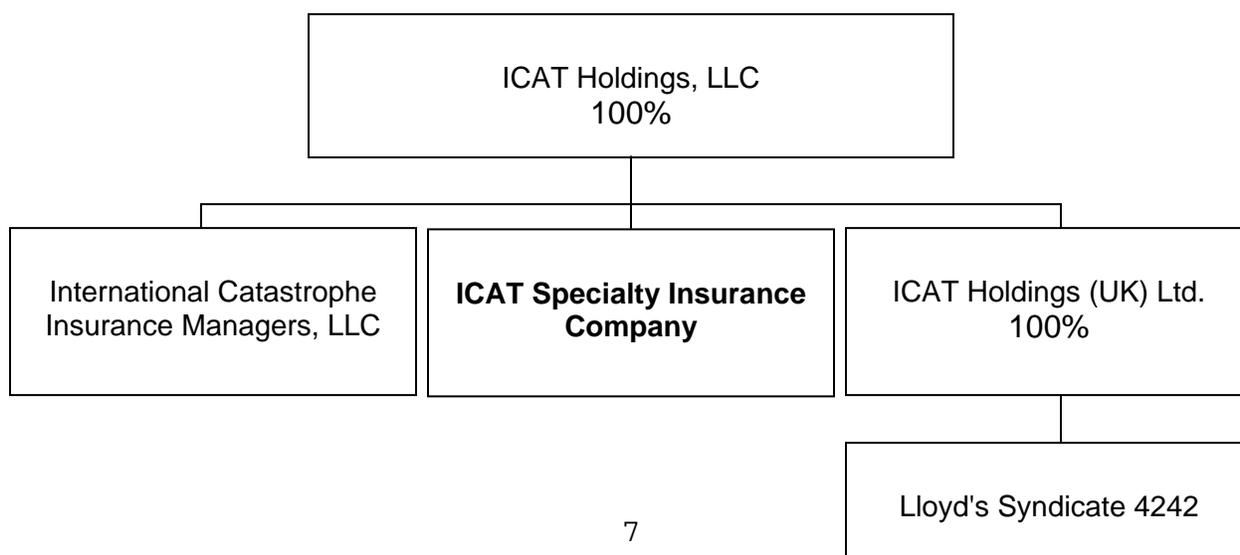
AFFILIATED COMPANIES

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 March 21, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

ICAT SPECIALTY INSURANCE COMPANY, INC. ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

PROGRAM MANAGER AGREEMENT

The Company had a Program Manager Agreement with its affiliate, ICAT Managers, LLC (Managers), at December 31, 2007, which had a base commission rate of 23.00 percent and only covered the policies written in the state of Florida. The Company had another Program Manager Agreement with Managers, at December 31, 2007, which had a base commission rate of 25.25 percent and only covered the policies written in the state of Hawaii.

Both agreements were effective on June 1, 2006, and stipulated that Managers was authorized to market, produce, underwrite, quote, issue, and administer insurance policies, binders, and endorsements subject to the terms, limitations, and conditions set forth in the Agreement. Under the terms of the agreement, Managers shall bind coverage, issue, endorse, cancel, and non-renew policies as well as bill and collect premium. Subject to the limitations contained in this agreement, Managers is required to take any actions necessary to administer the policies as well as to issue the policies in compliance with the Company's guidelines.

Effective June 1, 2007, the Company's Program Manager Agreements with Managers were amended to increase the commissions paid to Managers from twenty three percent of net written premium to twenty six and one-half percent.

CLAIMS ADMINISTRATION AGREEMENT

The Company entered into a claims administration agreement with an affiliate, Boulder Claims, LLC (Boulder), effective June 1, 2006. The agreement stipulated that Boulder would examine all reported claims, maintain a claim file for each reported claim, and investigate all reported claims as

necessary using a vendor from a list approved in writing by the Company. Boulder is required to provide information to the Company upon request and will determine and evaluate any insurance coverage issues arising out of or in connection with such claims. Boulder will also make timely payment of claims and ALAE from the Claim Trust Account in accordance with payment procedures established by the Company.

The agreement also stipulated that Boulder has no authority to deny coverage unless and until it has received authorization from the Company. Boulder is required to report suspected fraud as required by any applicable law or regulation and will coordinate with Managers as requested or required by Company. Boulder is required to respond directly to any State Insurance Department complaint or inquiry regarding a claim or policy after preparing a response and obtaining the Company's authorization for such response.

Effective June 1, 2007, the Company's Claims Administration Agreement with Boulder was amended to increase the commissions paid to Boulder from three-quarters of one percent of net written premium to one percent.

REINSURANCE AGREEMENT

Effective January 1, 2007, the Company entered into a reinsurance agreement with an affiliate, Lloyd's Syndicate 4242, (Syndicate 4242). The agreement specified that the Syndicate 4242 would accept a 44.615 percent share in the interests and liabilities of the Company as set forth in the Quota Share Reinsurance Agreement. The agreement shall continue in force until terminated in accordance with the provisions of the Contract.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$500,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained a professional liability insurance policy with limits of \$5,000,000 per loss and per policy period with a deductible of \$250,000. The policy only covered claims first made against the Company during the policy period.

STATUTORY DEPOSITS

The Company had a cash deposit in the amount of \$300,000 with the State of Florida as required by Section 624.411, Florida Statute.

The Company had a cash deposit in the amount of \$1,450,000 with the State of Florida as required by Section 625.51(2), Florida Statute.

INSURANCE PRODUCTS

The Company wrote commercial multi peril coverage for catastrophe-exposed commercial and residential risks including both wind only policies and wrap around policies to provide coverage for perils excluded by standard all risks policies in the State of Florida. The Company also wrote residential named hurricane insurance for dwellings, apartments, town homes and condominiums in the State of Hawaii.

Territory

The Company was authorized to transact insurance in Florida and Hawaii.

Treatment of Policyholders

The Company's claim administrator, Boulder, had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

Boulder maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(i)3a, 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 did not assume any business during the examination period.

Ceded

The Company entered into a layered excess of loss agreement with twelve participating reinsurers providing protection from the severe accumulation of commercial property losses arising out of a single catastrophic occurrence in Florida up to a maximum limit of \$32.5 million per occurrence and \$65.0 million in the aggregate after the Company's retention of \$2.0 million per occurrence and \$85.0 million in the aggregate from December to June only.

The Company entered into a net excess of loss agreement with Syndicate 4242, which reduced the Company's retention in the event of a catastrophic event to \$250,000 per occurrence, subject to a \$2.5 million aggregate retention.

The Company entered into a reinstatement premium protection agreement with Syndicate 4242, indemnifying the Company for 100% of any reinstatement premium paid to reinstate the net excess of loss contract after an event.

The Company ceded risk on a 97.5 percent quota share basis to twelve participating reinsurers, including Syndicate 4242, that assumed a 35 percent share, for Hawaii residential property policies covering named hurricanes. The reinsurers' liability under the agreement is limited to 15 and 25 times the amount of direct written premiums subject to a maximum of \$165.0 million per occurrence and \$275.0 million in the aggregate, respectively. The Company was notified that it was in violation of Rule 69O-143.047, Florida Administrative Code, by the Office, on June 20, 2008, with respect to the execution of the reinsurance agreement with Syndicate 4242, without the proper notification to the Office. On July 21, 2008, the Company acknowledged by letter that it had reviewed the applicable statute and that it would comply with the statute in the future with respect to its reinsurance agreements.

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 has no employees so all production, underwriting, administration and risk management functions are delivered by Managers through the previously mentioned related party

agreement. Boulder is the claims administration company for the Company through the previously mentioned related party agreement. However, Boulder has no employees, so Boulder entered into a related party agreement with Managers, its immediate parent, to provide the claims services promised under the agreement with the Company. Managers has its principal operational offices in Boulder, Colorado, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006 and 2007, 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 Managers' 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:

REIMBURSEMENT CONTRACT

On June 1, 2007 the Company entered into a reimbursement contract with the State Board of Administration of the State of Florida (SBA) which administers the Florida Hurricane Catastrophe Fund (FHCF). This contract provides reimbursement to the Company under certain circumstances, and does not provide or extend insurance or reinsurance coverage to any person, firm, corporation or other entity. Under the terms of the contract, the SBA is required to reimburse the Company for its ultimate net loss on covered policies in excess of the Company's retention as a result of each loss occurrence commencing during the contract year, to the extent funds are available.

REINSURANCE BROKERAGE AGREEMENT

Managers entered into a reinsurance brokerage agreement with Benfield, Inc. (Benfield) on June 1, 2006, which also included the Company as a party to the agreement. Under the terms of the agreement, Benfield was to facilitate the placement of reinsurance contracts that provide coverage to business underwritten or generated by or through Managers for insurers and/or Syndicates at Lloyd's of London. In consideration for Managers providing certain assistance and services to Benfield, Benfield agreed to share with Managers, Benfield's earned brokerage revenues that were derived from the placement of the subject reinsurance agreements, excluding any brokerage paid to corresponding brokers or sub-brokers not affiliated with Benfield.

INVESTMENT MANAGEMENT AGREEMENT

Effective April 1, 2006, the Company entered into an investment management agreement with Gen Re-New England Asset Managers (Gen Re-New England). The agreement stipulated that Gen Re-New England will manage and determine all investment decisions for the account, in their sole discretion and without first consulting or notifying the Company, in accordance with the investment restrictions and guidelines set by the Company. Effective September 1, 2007, the agreement was amended by deleting the Investment Accounting Fees language in Section III entirely and replacing the language in Section III with a new fee schedule.

CUSTODY AGREEMENT

The Company had a custodial agreement with JP Morgan Chase Bank (Chase) in Columbus, Ohio, effective August 18, 2006. The custodial agreement contained the required clauses and was in compliance with Rule 69O-143.042, Florida Administrative Code. Chase is a national bank therefore it was a qualified custodian as defined by Rule 69O-143.041, Florida Administrative Code.

Information Technology Report

Adam Sarote, RSM McGladrey Manager, performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (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, 2007, and the results of its operations for the year then ended as determined by this examination.

ICAT SPECIALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 10,495,330	\$ -	\$ 10,495,330
Cash, cash equivalents and short-term investments	3,466,525		3,466,525
Investment income due and accrued	101,946		101,946
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	2,717,143		2,717,143
Current federal and foreign income tax recoverable and interest thereon	2,428,158		2,428,158
Net deferred tax asset	562,792		562,792
Totals	<u>\$ 19,771,894</u>	<u>\$ -</u>	<u>\$ 19,771,894</u>

ICAT SPECIALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Loss adjustment expenses	\$ 2,700	\$ -	\$ 2,700
Other expenses	13,227		13,227
Taxes, licenses and fees	(124,939)		(124,939)
Unearned premiums	2,786,127		2,786,127
Ceded reinsurance premiums payable	2,771,186		2,771,186
Payable to parent, subsidiaries and affiliates	710,263		710,263
Aggregate write-ins for liabilities	53,770		53,770
	<hr/>		
Total liabilities	\$ 6,212,334	\$ -	\$ 6,212,334
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000
Gross paid in and contributed surplus	12,000,000		12,000,000
Unassigned funds (surplus)	(1,440,440)		(1,440,440)
	<hr/>		
Surplus as regards policyholders	\$ 13,559,560		\$ 13,559,560
	<hr/>		
Total liabilities, surplus and other funds	\$19,771,894	\$0	\$19,771,894
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ICAT SPECIALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$ 4,086,287
	Deductions:	
Loss expenses incurred		127,868
Other underwriting expenses incurred		6,272,953
Total underwriting deductions		<u>\$ 6,400,821</u>
Net underwriting gain (loss)		\$ (2,314,534)

Investment Income

Net investment income earned		\$ 779,246
Net realized capital gains (losses) less capital gains tax		18,277
Net investment gain (loss)		<u>\$ 797,523</u>
Net income before dividends to policyholders, but before all other federal and foreign income taxes		\$ (1,517,011)
Federal and foreign income taxes incurred		<u>(28,158)</u>
Net income		\$ (1,488,853)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$ 14,560,331
Net Income		\$ (1,488,853)
Net unrealized capital gains or losses		612,721
Change in non-admitted assets		(230,639)
Change in provision for reinsurance		106,000
Examination Adjustment		-
Change in surplus as regards policyholders for the year		<u>\$ (1,000,771)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$ 13,559,560</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$2,700

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, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The RSM actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$13,559,560, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**ICAT SPECIALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$ 13,559,560
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			-
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$ 13,559,560

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective actions to be taken by the Company with regards to this examination.

SUBSEQUENT EVENTS

On March 20, 2008, the Company notified the Office that effective January 1, 2008, the Company moved its statutory home office from 2701 West Busch Boulevard, Tampa, Florida, to 10150 Highland Manor Drive, Tampa, Florida.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ICAT Specialty Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$13,559,560, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Richard Shaffer, Financial Specialist, Shawn Towchik, CFE, RSM McGladrey (RSM) Manager, Jen Quasnitschka, RSM Supervisor, Adam Sarote, RSM Information Systems Manager, and Steve Lacke, RSM Actuarial Manager, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation