

REPORT ON EXAMINATION
OF
MAIN STREET AMERICA PROTECTION
INSURANCE COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 19, 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; 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 of December 31, 2010, of the financial condition and corporate affairs of:

**MAIN STREET AMERICA PROTECTION INSURANCE COMPANY
4601 TOUCHTON ROAD EAST, SUITE 3400
JACKSONVILLE, FLORIDA 32246**

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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on June 13, 2011, to June 17, 2011. The fieldwork commenced on June 20, 2011, and concluded as of October 19, 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 material 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, 2009, along with resulting action taken by the Company in connection therewith.

General

With the exception of Workers' Compensation, the Company has not written insurance coverage in the sixteen (16) other authorized lines of business for a period of two years. However, there had been ongoing discussions with the Office concerning this matter to fully comply with Section 624.430, Florida Statutes. **Resolution:** The Company requested that six (6) lines of business be removed from their Certificate of Authority on April 12, 2011. The Company has been engaged with the Office to roll out a new business owner policy which would incorporate the other ten (10) lines of business.

SUBSEQUENT EVENTS

On September 15, 2011, an agreement was finalized with affiliate Spring Valley Mutual Insurance Company of Minnesota (Spring Valley). Effective January 1, 2012, Spring Valley will begin participation in the Intercompany Quota Share Reinsurance arrangement, under which the Company is a participant.

HISTORY

General

The Company was organized on June 28, 2007 under the laws of Florida as a stock property and casualty company.

Following are the lines of business that the Company was authorized to transact in Florida on December 31, 2010:

Fire	Allied Lines
Homeowners Multi Peril	Commercial Multi Peril
Inland Marine	Workers' Compensation
Burglary and Theft	Private Passenger Auto Physical Damage
Other Liability	Private Passenger Auto Liability
Commercial Automobile Liability	Commercial Auto Physical Damage
Fidelity	Surety
Boiler and Machinery	Glass
Earthquake	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay any dividends during the period under examination.

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	10,000,000
Total common capital stock	\$10,000,000
Par value per share	\$1.00

The Company is a wholly owned subsidiary of Main Street American Financial Corporation (MSAFC), which was organized under New Hampshire law. Control of the Company was maintained by its parent, MSAFC. MSAFC was owned 100% by NGM Insurance Company (NGM), a Florida insurance company. The ultimate parent of NGM was Main Street America Group Mutual Holding, Inc.

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
Terry Lawrence Baxter Lyme, New Hampshire	Retired Insurance Executive
Cotton Mather Cleveland New London, New Hampshire	Sr. Associate/Mgt. Consulting, Mather Associates
John Adrian Delaney Neptune Beach, Florida	University President, University of North Florida
Albert Henry Elfner III Boston, Massachusetts	Retired Investment Management
David (NMN) Freeman Canton, Connecticut	Retired President and CEO, Lydall, Inc.
William Dawson Gunter, Jr. Tallahassee, Florida	Insurance Agency Executive and Consultant
Karl Thomas Kemp Hanover, New Hampshire	Retired Insurance Executive
Philip Donald Koerner Tipp City, Ohio	Retired Insurance Executive
James Everitt Morley, Jr. Annapolis, Maryland	Retired President and CEO, Nat'l. Assoc. for College and University Business Officers
Thomas Mark Van Berkel Ponta Vedra Beach, Florida	Chairman, CEO and President, all Main Street America Group affiliated companies
Idalene Fay Kesner Bloomington, Indiana	Associate Dean of Faculty & Research and Professor of Strategic Management, Indiana University

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

Senior Officers

Name	Title
Thomas Mark Van Berkel	CEO, Chairman and President
Edward John Kuhl	Treasurer and Controller
Bruce Robert Fox	Secretary

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

Executive Committee

Thomas M. Van Berkel¹
John A. Delaney
Albert H. Elfner III
David Freeman
William D. Gunter, Jr.

¹ Chairman

Audit Committee

David Freeman ¹
John A. Delaney
William D. Gunter, Jr.
Philip D. Koerner

Finance Committee

Albert H. Elfner III ¹
Terry L. Baxter
Cotton M. Cleveland
James E. Morley, Jr.

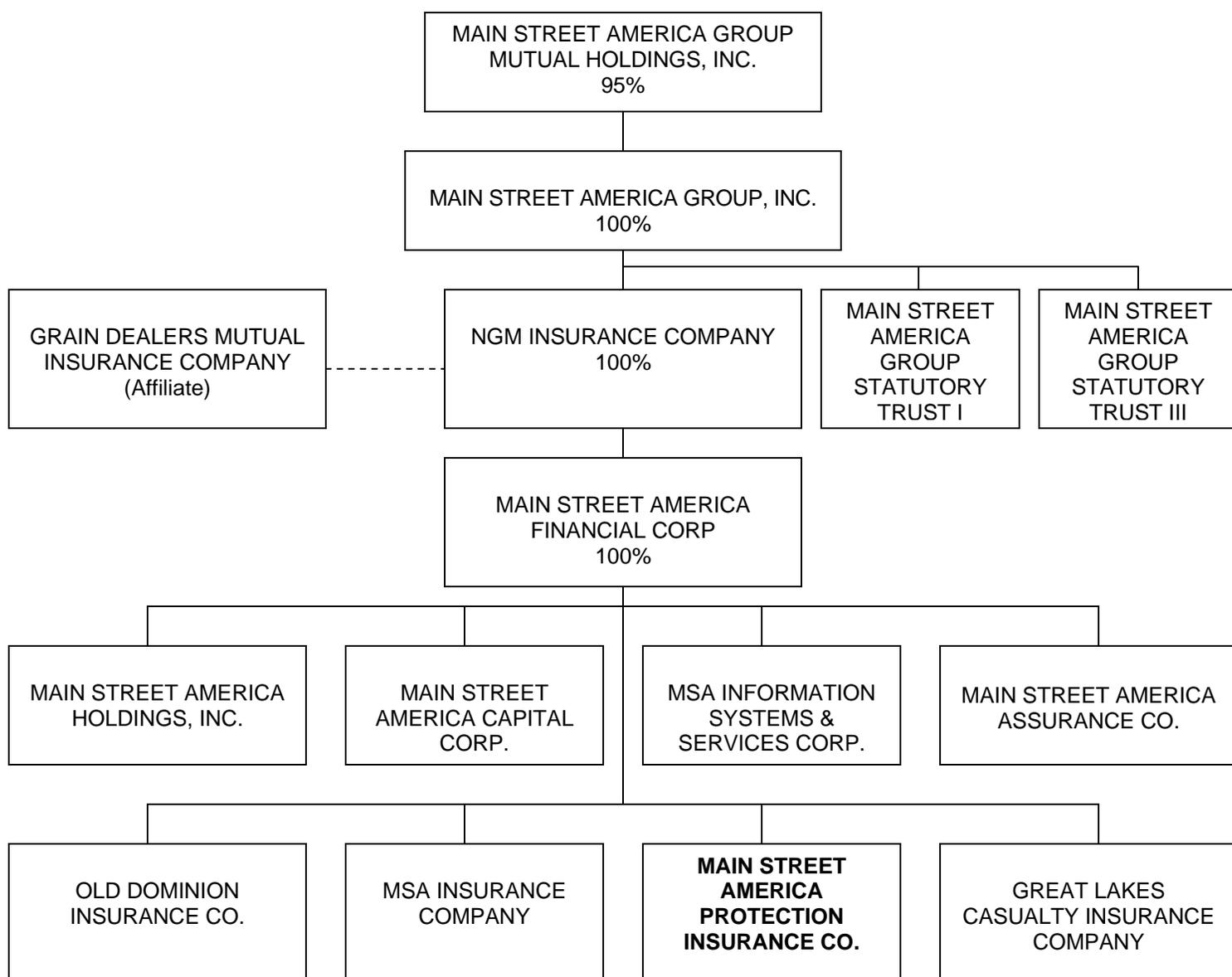
Affiliated Companies

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 February 15, 2011, 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.

MAIN STREET AMERICA PROTECTION INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2010



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

Intercompany Quota Share Reinsurance Agreements

The Company was a participant in the intercompany pooling arrangement for the Main Street America Group (MSA Group) of insurers. Pursuant to the agreement, the Company cedes 100% of its net underwriting results to the lead company, NGM.

Tax Allocation Agreement

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the companies was subject to a written agreement dated March 30, 1998, and was approved by the Board. Allocation was based upon separate return calculations with current credit for net losses recoverable on a consolidated basis.

Cost Sharing Agreement

The Company entered into an intercompany expense allocation agreement with its indirect parent company, NGM, and affiliates to receive administrative and managerial services. Indirect costs were allocated based upon a uniform and reasonable basis for all affiliated companies. On a quarterly basis, NGM furnished all affiliated companies with an accounting of costs and expenses paid on behalf of each affiliate named as a party to the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a fidelity bond providing coverage up to \$10,000,000 with a deductible of \$150,000, per loss, which reached the suggested minimum as recommended by the NAIC. In addition, the Company was a named insured for fiduciary liability coverage with limits

up to \$10,000,000 with a \$150,000 deductible, per loss. The Company also maintained other property and liability insurance coverage necessary for the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

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

For the current period of operations, the Company did not write any new business.

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
Premiums Earned	0	0
Net Underwriting Gain/(Loss)	0	0
Net Income	334,698	697,900
Total Assets	11,692,903	11,530,414
Total Liabilities	25,700	197,909
Surplus As Regards Policyholders	11,667,203	11,332,505

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.

The Company was party to an intercompany quota share reinsurance agreement with NGM and its subsidiaries. Under the terms of the agreement, all direct and assumed business of the participating companies was pooled and assumed 100% by NGM. No amount was ceded back to the Company under this pooling arrangement.

Assumed

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

Ceded

Although a participant in the affiliated pooling arrangement, the Company had not written any new business for the current period of operations. Therefore, no business was ceded to the pool during 2010.

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 Keene, New Hampshire and Jacksonville, Florida. The examination was conducted from both locations.

An independent CPA firm audited the Company's statutory basis financial statements for the year 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 and several subsystems which were able to generate reports and statements sufficient for management of the Company.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement for the safekeeping of the securities. The Agreement was in compliance with all requirements of Rule 69O-143.042 (2), Florida Administrative Code.

Investment Management Agreements

The Company was a party to multiple investment advisory agreements for this period of operations. NGM, as the ultimate controlling insurer of the MSA Group, had a Chief Financial Officer and support staff to oversee the management of the MSA Group's investments. The Chief Investment Officer, operating under the investment guidelines set by the Finance Committee of the Board, invested Company assets through third party, unaffiliated investment managers.

The third party investment managers and the investment management agreements included Prospector Partners, LLC, Asset Allocation and Management Col, LLC and Municrest. MSA Group also invested in certain mutual funds with Vanguard.

Subsequent to December 31, 2010, the Company amended its Investment Management Agreements to reflect the name change of the ultimate controlling insurer to NGM Insurance Company dating retroactively to August 2005.

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.

INFORMATION TECHNOLOGY REPORT

Samuel BowerCraft, MSIS, CISA of McKonly & Asbury, LLP 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	US Treasury, 6.25%, 08/15/23	<u>\$ 325,000</u>	<u>\$ 408,484</u>
TOTAL FLORIDA DEPOSITS		\$ 325,000	\$ 408,484
TOTAL SPECIAL DEPOSITS		<u>\$ 325,000</u>	<u>\$ 408,484</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."

MAIN STREET AMERICA PROTECTION INSURANCE COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$10,409,815	\$0	\$10,409,815
Cash and Short-Term Investments	1,100,487		1,100,487
Investment income due and accrued	182,601		182,601
Aggregate write-in for other than invested assets	0		0
Totals	<u>\$11,692,903</u>	<u>\$0</u>	<u>\$11,692,903</u>

MAIN STREET AMERICA PROTECTION INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$0	\$0	\$0
Loss adjustment expenses	0		0
Current FIT income taxes	22,453		22,453
Payable to parent, subsidiaries and affiliates	727		727
Aggregate write-ins for liabilities	2,520		2,520
Total Liabilities	\$25,700	\$0	\$25,700
Common capital stock	\$10,000,000		\$10,000,000
Gross paid in and contributed surplus	0		0
Unassigned funds (surplus)	1,667,203	\$0	1,667,203
Surplus as regards policyholders	\$11,667,203	\$0	\$11,667,203
Total liabilities, surplus and other funds	\$11,692,903	\$0	\$11,692,903

MAIN STREET AMERICA PROTECTION INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned \$0

Deductions

Losses incurred	\$0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	0
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$0
Net income of protected cells	0
Net underwriting gain	\$0

Investment Income

Net investment income earned	\$416,337
Net realized capital gains or (losses)	(59,186)
Net investment gain or (loss)	\$357,151

Other Income

Net gain from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	\$0

Net income before dividends to policyholders and before federal & foreign income taxes	\$357,151
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$357,151
Federal & foreign income taxes	22,453
Net Income	\$334,698

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$11,332,505
Net Income	\$334,698
Change in surplus as regards policyholders for the year	\$334,698
Surplus as regards policyholders, December 31 current year	\$11,667,203

A comparative analysis of changes in surplus is shown below.

MAIN STREET AMERICA PROTECTION INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement \$11,667,203

	<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>\$11,667,203</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 0

The Company's actuary 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, Richard Lo, FCAS, MAAA, FCS of Alliance 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 \$11,667,203, exceeded the minimum of \$4,000,000 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 **Main Street America Protection 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 \$11,667,203, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, James E. Salter, CFE, CPA, Examiner-In-Charge and Roshanak Fekrat, CPA, CFE, CIA, MCM; Cynthia Sikorski, CFE, MCM; Charles Black, CFE; Randall Dillow; and Aram Morvari, MCM, Participating Examiners, of Global Insurance Enterprises, Inc. participated in the examination. In addition, Richard Lo, FCAS MAAA, FCS consulting actuary of Alliance Actuarial Services Inc.; Samuel BowerCraft, CISA, IT Manager, and Diane Rudy, CPA, CIA of McKonly & Asbury LLP; and Samita Lamsal, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

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