REPORT ON EXAMINATION

OF

MOBILE USA INSURANCE COMPANY

PINELLAS PARK, FLORIDA

AS OF

DECEMBER 31, 2003

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 18, 2005

Honorable John Morrison, Commissioner
Secretary, Western Zone
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Walter Bell, Commissioner
Secretary, Southeastern Zone
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Kevin M. McCarty, Commissioner
Office of Insurance Regulation
State of Florida
200 E. Gaines Street
Tallahassee, Florida 32399-0305

Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Company (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

MOBILE USA INSURANCE COMPANY
814 A1A NORTH, SUITE 200
PINELLAS PARK, FLORIDA 32082-9973

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, 2001 through December 31, 2003. The Florida Office of Insurance Regulation (Office) last examined the Company as of December 31, 2000. This examination commenced with planning at the Office on January 11, 2005. The fieldwork commenced on January 13, 2005 and was concluded as of March 18, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001 (4) and 69O-138.001, Florida Administrative Code (FAC), 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 assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices, and in addition, the NAIC IRIS ratio report, the Company's independent certified public accountant (CPA) audit reports.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination was 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.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2000, along with resulting action taken by the Company in connection therewith.

General and Management

The Company maintained an audit committee consisting of three directors who were also officers of the Company. This did not necessarily comprise an independent audit committee in compliance with Section 624.424(8)(c), FS.

Resolution:

In accordance with Section 624.424(8)(c), FS the Board reviewed the qualifications of the members of the audit committee and it was the opinion of the Board of Directors that the members of the audit committee were free from any relationship that would interfere with the exercise of independent judgment as a committee member.

Prior Examination Review

There were no Board of Directors or committee minutes that documented the review of the year end 1997 examination report.

Resolution:

The review of the year end 2000 examination report was documented in the Board minutes.

Affiliated Agreements

The Company did not comply with all of the terms of their tax sharing agreement.

Resolution:

The Company has now complied with the terms of the tax sharing agreement.

The Company did not follow all of the terms of its pooling agreement with Philadelphia Indemnity Insurance Company, (PIIC).

Resolution:

The Company has now complied with the terms of the inter-company pooling agreement.

Financial Statements

The Company incorrectly classified amounts for Aggregate Write-ins for Other Than Invested Assets, Other Expenses, Taxes, Licenses and Fees, Federal and Foreign Income Taxes, Payable to Parent, Subsidiaries and Affiliates, and Aggregate Write-ins for Liabilities. Also the Company did not accrue for other expenses and advance premiums.

Resolution:

The Company has properly classified all balance sheet and income statement items in its financial statement. The Company has accrued for other expenses and advanced premiums.

HISTORY

General

The Company was incorporated February 22, 1989 under the laws of the State of Florida, as a stock property and casualty insurer. The Company commenced business on March 1, 1989 as Mobile USA Insurance Company, Inc. The Company was a wholly owned subsidiary of The Jerger Company, Inc. On December 14, 1989, the Company changed its name to Mobile USA Insurance Company. On March 31, 1999, the Philadelphia Consolidated Holding Corporation (PCHC) and its wholly owned subsidiary TJC Acquisition Corp. signed a definitive agreement that also included the Company. At March 31, 1999, PCHC acquired 100 percent of the stock of The Jerger Company, Inc. Richard M. Jerger, Jr., Thomas J. Jerger, and Dean W. Jerger of The Jerger Company resigned in 1999. Also, in 1999, The Jerger Company, Inc. changed its name to Liberty American Insurance Group, Inc.

On July 1, 1999 the Company along with PIIC, Philadelphia Insurance Company (PIC), and Liberty American Insurance Company (LAIC) entered into an inter-company reinsurance and pooling agreement.

At December 31, 2003, Frances M. Maguire was reported as acquiring 13.6 percent of PCHC on the proxy statement submitted with the holding company registration statement dated April 19, 2004. This acquisition was not in compliance with Section 628.461 (1), FS.

The Company was 100 percent owned by Liberty American Insurance Group, Inc. (LAIG), which in turn was owned by PCHC, a Pennsylvania corporation.

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

Private Passenger Auto Liability	Commercial Multi Peril - Reinsurance
Allied Lines	Workers Compensation – Reinsurance
Home Owners Multi-Peril	Mobile Home Multi Peril
Inland Marine	Commercial Automobile Liability - Reinsurance
Other Liability	Commercial Auto Physical Damage - Reinsurance
Fire	Accident and Health - Reinsurance
Mobile Home Physical Damage – Reinsurance	

The Company did not write fire or other liability types of business during 2003 and is not in compliance with Section 624.430(1), FS.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	3,000,000
Number of shares issued and outstanding	1,500,000
Total common capital stock	$ 1,500,000
Par value per share	$ 1.00

Profitability of Company

The Company reported the following (in dollars) for the three years covering this examination:

	2001	2002	2003
Premiums Earned	29,609,341	42,118,635	57,157,884
Net Underwriting Gain/(Loss)	2,225,102	1,763,564	5,747,308
Net Income	2,128,264	2,356,878	3,669,311
Total Assets	62,343,782	84,568,707	118,195,718
Total Liabilities	45,244,199	67,310,494	96,750,527
Surplus As Regards Policyholders	17,099,582	17,258,213	21,445,191

Risk-Based Capital

The Company's risk-based control level was at an adequate level.

Dividends to Stockholders

The Company's Board of Directors authorized a stockholders dividend for 2001, 2002, and 2003 of $1,900,000, $2,225,000, and $1,760,000 respectively.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

Name and Location	**Principal Occupation**
Phillip Daniel Eldridge Clearwater, FL	President and CEO
Craig Philip Keller Havertown, PA	Executive VP & Secretary
Thomas Bruce Meyer Lutz, FL	Senior VP & Treasurer
James Joseph Maguire, Jr. Ft. Washington, PA	Executive VP & Chairman
Charles Blaine Sadler Seminole, FL	Vice President, Director

In accordance with the Company's bylaws, the board of directors appointed the following senior officers:

Senior Officers

Name	Title
Philip D. Eldridge	President/CEO
Craig P. Keller	Executive VP/Secretary
Thomas B. Meyer	Senior VP/Treasurer/CFO
James J. Maguire, Jr.	Executive Vice President
Charles B. Sadler	Vice President

The Board established an audit committee in accordance with Section 624.424 (8), FS. The following are members of the committee as of December 31, 2003:

Audit Committee

James J. Maguire, Jr., Chairman

Craig P. Keller

Philip D. Eldridge

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder, board of directors, and committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section

607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures at December 31, 2003.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143-045(3), FAC. The latest holding company registration statement was filed with the State of Florida, with an effective date of April 19, 2004 as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

On December 31, 2003, the following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its parent and subsidiaries, filed a consolidated federal income tax return. As of December 31, 2003, the method of allocation between the Company and its parent was based upon a separate return calculation with current credit for net losses. Inter-company tax balances were settled within thirty days of filing estimated or final consolidated federal income tax return.

Managing General Agent (MGA) Agreement

The Company had a MGA agreement with Mobil Home Insurance Agencies (MHIA), an affiliate. The agreement has been continuous since July 17, 1997.

The Company, in consideration for the services rendered, agreed to pay MHIA a $25.00 per policy MGA fee plus a percentage of premium based on the line of business written.

A simplified organizational chart as of December 31, 2003 reflecting the holding company system is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

MOBILE USA INSURANCE COMPANY

ORGANIZATIONAL CHART

DECEMBER 31, 2003

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $2,000,000 with a deductible of $25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company did not maintain other insurance coverage usual to the operation of an insurer because the Company did not have any physical assets or employees.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	U.S. Treasury Note 6.5%. 5/15/2005	$ 125,000	$ 133,594
FL	U.S. Treasury Note 4.375%. 5/15/2007	550,000	482,483
FL	U.S. Treasury Note 2.265%. 5/15/2008	500,000	492,500
TOTAL FLORIDA DEPOSITS		$1,175,000	$1,108,577
NV	Certificate of Deposit	$ 200,000	$200,000
NM	U.S. Treasury Note 1.625%. 3/32/2005	125,000	125,430
NM	U.S. Treasury Note 2.625%. 5/15/2008	100,000	98,500
SC	Certificate of Deposit	125,000	125,000
TOTAL OTHER DEPOSITS		$ 550,000	$ 548,930
TOTAL SPECIAL DEPOSITS		$1,725,000	$1,1657,507

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

At December 31, 2003, the Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Alaska	Arizona	Florida	Idaho
Mississippi	Nevada	New Mexico	South Carolina
Tennessee	Texas	Kentucky	

Treatment of Policyholders

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

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, and transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed 10 percent of the pooled written premiums from PIIC.

Ceded

The Company along with LAIG and PIC ceded 100 percent of written premiums to PIIC through a pooling agreement.

Effective April 1, 2003, the Company entered into a quota share reinsurance agreement. Under this agreement, the Company ceded 22% of its net written premiums and loss and loss adjustment expenses for substantially all of the Company's lines of business on policies effective April 1, 2003 through December 31, 2003. The Company received a provisional commission of 33% adjusted pro-rata based upon the ratio of losses incurred to premiums earned. Pursuant to this reinsurance agreement, the Company withheld the reinsurance premium owed to the reinsurer reduced by the reinsurer expense allowance, and the Company's ceding commission allowance in a funds held payable to reinsurer account. The funds held payable to reinsurer account was also reduced by ceded paid losses and loss adjustment expenses under this agreement, and increased by an interest credit. In addition, the agreement provided that a profit commission would be paid to the Company upon commutation equal to the positive balance in the funds held payable to reinsurer account.

The Company also had a 15% quota share agreement with Empire Fire and Marine Insurance Company.

Excess of loss agreement

The Company ceded insurance by excess of loss treaties with various reinsurers. The Company also reinsured under the Florida Hurricane Catastrophe Fund and the National Flood Insurance Program.

The reinsurance contracts were reviewed by the Company’s appointed actuary and were utilized in determining the ultimate loss opinion.

The Company provided documentation to assist in determining whether reinsurance contracts provided adequate transfer of risk in both underwriting and timing aspects.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2001, 2002 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-4-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Pinellas Park, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with CTC Illinois Trust Company. The agreement did not contain all the requirements of Rule 69O-143.042, FAC. The custodial agreement stated that the parties may terminate the agreement with 90 days written notice. Rule 69O-143.042(2)(o), FAC states that a 30 day notice is required. Also, there was no provision stating the funds shall be withdrawn on demand from the Company.

Asset Management Agreement

On July 1, 1999, the Company entered into an asset management agreement with General Re – New England Asset Management, Inc. for investment advice, portfolio management, and investment accounting and reporting services for an annual fee, paid quarterly in arrears. The annual fees payable by the Company were calculated on the basis points assessed to asset value at the close of the billing period.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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."

MOBILE USA INSURANCE COMPANY
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$96,657,306		$96,657,306
Stocks:			
Preferred Stocks	$516,640		516,640
Common Stocks	$345,541		345,541
Cash:			
On deposit	141,660		141,660
Short-term investments	7,354,919		7,354,919
Receivaable for securities	28,884		28,884
Investment income due and accrued	1,060,044		1,060,044
Agents' Balances:	4,837,036		4,837,036
Reinsurance:			
Amounts recoverable from reinsurers	1,098,491		1,098,491
Other amounts recoverable	282,767		282,767
Receivable from PSA	2,945,401		2,945,401
Net deferred tax asset	2,927,029		2,927,029
Totals	$118,195,718	$0	$118,195,718

MOBILE USA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$37,295,802		$37,295,802
Reinsurance payable on LAE	5,358,563		5,358,563
Loss adjustment expenses	10,969,758		10,969,758
Other expenses	101,396		101,396
Taxes, licenses and fees	634,280		634,280
Federal income taxes	629,792		629,792
Unearned premium	29,975,535		29,975,535
Advanced premiums	1,970,946		1,970,946
Ceded reinsurance premiums payable	6,538,628		6,538,628
Funds held by company under reinsurance treaties	3,179,124		3,179,124
Payable to parent, subsidiaries and affiliates	58,713		58,713
Aggregate write-ins for liabilities	37,990		37,990
Total Liabilities	$96,750,527	$0	$96,750,527
Common capital stock	$1,500,000		$1,500,000
Gross paid in and contributed surplus	7,050,000		7,050,000
Unassigned funds (surplus)	12,895,191		12,895,191
Surplus as regards policyholders	$21,445,191		$21,445,191
Total liabilities, capital and surplus	$118,195,718	$0	$118,195,718

MOBILE USA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2003

Underwriting Income	
Premiums earned	$57,157,884
DEDUCTIONS:	
Losses incurred	26,246,404
Loss expenses incurred	9,808,675
Other underwriting expenses incurred	16,167,402
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$52,222,481
Net underwriting gain or (loss)	$4,935,403
Investment Income	
Net investment income earned	$3,721,402
Net realized capital gains or (losses)	634,862
Net investment gain or (loss)	$4,356,264
Other Income	
Finance and service charges not included in premiums	$211,794
Aggregate write-ins for miscellaneous income	(86,845)
Total other income	$124,949
Net income before dividends to policyholders and before federal & foreign income taxes	$9,416,616
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$9,416,616
Federal & foreign income taxes	3,669,311
Net Income	$5,747,305
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$17,258,213
Gains and (Losses) in Surplus	
Net Income	$5,747,305
Change in net unrealized capital gains or losses	(154,079)
Change in non-admitted assets	(303,585)
Change in provision for reinsurance	12,000
Change in deferred income tax	645,332
Dividends to Stockholders	(1,760,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$4,186,973
Surplus as regards policyholders, December 31 current year	$21,445,186

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses **$48,265,560**

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, 2003 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.

MOBILE USA INSURANCE COMPANY

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2003

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, 2003, Annual Statement				$21,445,191
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustments needed				
LIABILITIES:				
No adjustments needed				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2003, Per Examination				$21,445,191

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the all the necessary actions to comply with the comments made in the 2000 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2003.

Ownership Holdings

A stockholder acquired and held greater than 5 percent of the Company's stock without approval from the Office; therefore, the Company was not in compliance with Section 628.461 (1), FS. **It is recommended that the parent PCHC submit an Acquisition Application to the Office within 90 days of the issuance of this report.**

Lines of Business

The Company did not write in the Accident and Health – Reinsurance line for a period of one year and greater. **It is recommended that the Company notify the Office within 90 days of the issuance of this report, to have these lines of business removed from its certificate of authority.**

Custodial Agreement

The Company's custodial agreement with CTC Illinois Trust was not in compliance with Rule

69O-143.042(2) (o), FAC. **It is recommended that the Company amend the agreement and provide a copy to the Office within 90 days of the issuance of this report.**

SUBSEQUENT EVENTS

Custodial Agreement

The Company drafted an amended custodial agreement and is seeking approval of its parent company.

During 2004, four major hurricanes have impacted the insurance industry in the State of Florida. These hurricanes occurred subsequent to the period of this examination and may have affected the Company's financial position. This examination does not include any assessment of the potential impact of the Company of the hurricanes; however, based upon preliminary information, anticipated losses are not expected to result in regulatory violations.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of MOBILE USA INSURANCE COMPANY as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $21,445,191, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Analyst Supervisor and Joe Boor, FCAS, Actuary, participated in the examination.

Respectfully submitted,

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

____
Stephen Szypula, CFE
Financial Administrator
Florida Office of Insurance Regulation