

**REPORT ON EXAMINATION**  
**OF**  
**OCEAN HARBOR CASUALTY**  
**INSURANCE COMPANY**  
**TALLAHASSEE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2009**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	<b>-</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
CURRENT EXAM FINDINGS .....	2
PRIOR EXAM FINDINGS .....	3
<b>SUBSEQUENT EVENTS</b> .....	<b>4</b>
<b>HISTORY</b> .....	<b>5</b>
GENERAL .....	5
DIVIDENDS TO STOCKHOLDERS .....	5
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	6
SURPLUS DEBENTURES .....	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	6
<b>CORPORATE RECORDS</b> .....	<b>6</b>
CONFLICT OF INTEREST .....	7
<b>MANAGEMENT AND CONTROL</b> .....	<b>7</b>
MANAGEMENT .....	7
AFFILIATED COMPANIES .....	8
ORGANIZATION CHART.....	9
TAX ALLOCATION AGREEMENT .....	10
COST ALLOCATION AGREEMENT.....	10
<b>FIDELITY BOND INSURANCE</b> .....	<b>10</b>
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>11</b>
TREATMENT OF POLICYHOLDERS.....	11
<b>COMPANY GROWTH</b> .....	<b>11</b>
PROFITABILITY OF COMPANY.....	11
<b>LOSS EXPERIENCE</b> .....	<b>12</b>
<b>REINSURANCE</b> .....	<b>12</b>
ASSUMED .....	12
CEDED .....	12
<b>ACCOUNTS AND RECORDS</b> .....	<b>13</b>
CUSTODIAL AGREEMENT .....	13
MANAGING GENERAL AGENT AGREEMENT .....	14
INDEPENDENT AUDITOR AGREEMENT .....	15
<b>INFORMATION TECHNOLOGY REPORT</b> .....	<b>15</b>

<b>STATUTORY DEPOSITS.....</b>	<b>16</b>
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>16</b>
ASSETS .....	17
LIABILITIES, SURPLUS AND OTHER FUNDS .....	18
STATEMENT OF INCOME .....	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	20
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>21</b>
LIABILITIES.....	21
CAPITAL AND SURPLUS .....	21
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>22</b>
<b>CONCLUSION.....</b>	<b>23</b>

**TALLAHASSEE, FLORIDA**

December 15, 2010

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 as of December 31, 2009, of the financial condition and corporate affairs of:

**OCEAN HARBOR CASUALTY INSURANCE COMPANY  
2549 BARRINGTON CIRCLE  
TALLAHASSEE, FLORIDA 32308**

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on October 4, 2010, to October 8, 2010. The fieldwork commenced on October 11, 2010, and concluded as of December 15, 2010.

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**

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

### **Authorized Lines of Business**

The Company had not written Commercial Automobile insurance coverage for the period under review and did not request those lines be removed from their COA in violation of Section 624.430 Florida Statutes.

### **Custodial Agreement**

The Company's custodial agreement with Morgan Stanley entered in on November 1, 2006 was not in compliance with all requirements of Rule 69O-143.042(2), Florida Administrative Code. The Company's custodial agreement did not include the provisions of Rule 69O-143.042 (2) (j) (o), Florida Administrative Code.

**Subsequent event:** In April 2010, the Company terminated the agreement with Morgan Stanley and entered into a new Custodial Agreement with Pershing, LLC. The new agreement, submitted to the Office on February 23, 2011, was accepted on March 2, 2011.

### **Holding Company Registration Statement**

The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code.

**Subsequent event:** The Company's, Holding Company Registration Statement, filed with the 2010 Annual Report, addressed the changes regarding affiliates.

### **Prior Exam Findings**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company.

#### **Investment Income Due and Accrued**

The Company incorrectly recorded the accrued interest on a sample of bonds' accrued interest calculations for the 2004 year. It was recommended that the Company correctly report accrued interest on all future annual statements filings. **Resolution:** The Company correctly reported accrued interest on all bonds for the period under review.

#### **Loss Adjustment Expense**

The Company did not properly classify all unpaid loss adjustment expenses. It was recommended that the Company correctly report all unpaid loss adjustment expenses on future annual statement filings. **Resolution:** The Company correctly reported all unpaid loss adjustment expenses for the period under review.

### **Aggregate Write-in for Liabilities**

The Company classified certain unpaid loss adjustment expenses as other liabilities. It was recommended that the Company correctly report other liabilities on all future annual statements.

**Resolution:** The Company correctly classified and reported all unpaid loss adjustment expenses and other liabilities for the period under review.

### **Loss Reserves Actuarial Report**

The Company's actuary did not properly prepare the actuarial opinion in accordance with the NAIC annual statement instructions. It was recommended that the Company follow the 2005 NAIC annual statement instructions in the issuance of future actuarial opinions. **Resolution:** The Company's actuary properly prepared the actuarial opinion in accordance with NAIC annual statement instructions for the period under review.

## **SUBSEQUENT EVENTS**

Subsequent to the date of examination, during the second quarter of 2010, the Company acquired an additional 75,129.30 shares of the issued and outstanding 2,000,000 shares of Safe Harbor Insurance Company (Safe Harbor), which is an additional 3.76% interest, in a series of transactions with the members of Blue Fin Investment Company, LLC (Blue Fin). As a result of these transactions, the Company's ownership interest in Safe Harbor increased from 83.333% to 87.09% and Blue Fin's Ownership interest was reduced from 16.667% to 12.91%.

As a result of these transactions, Blue Fin's ownership structure also changed. Cabrillo General Insurance Company, which owned 60.199% of Blue Fin, is no longer a member of Blue Fin and Robert Jester, a controlling person of Blue Fin, is no longer a member. The sole controlling member of Blue Fin is now Michael L. McNitt, who has a 56.4% interest in Blue Fin.

## HISTORY

### General

The Company was incorporated on June 17, 1986, under the laws of the State of Oklahoma, and was subsequently re-domesticated to the state of Florida effective March 17, 1994. The Company commenced business on June 26, 1986, and began writing business in Florida in 1994.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Allied Lines	Fire
Mobile Home Multi Peril	Mobile Home Physical Damage
Private Passenger Auto Liability	Private Passenger Auto Physical Damage
Commercial Auto Physical Damage	Commercial Automobile Liability
Homeowners Multi Peril	

The Company had not written Commercial Automobile Liability or Physical Damage insurance coverage during the five (5) year period under review. The Company was not in compliance with Section 624.430 (1), Florida Statutes, which states that *“Any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority”*.

The Articles of Incorporation and the Bylaws were amended during the period covered by this examination and were submitted to the Office as required. The amendment to the Articles of Incorporation and Bylaws changed the address from a past location to the current home office at: 2549 Barrington Circle, Tallahassee, Florida.

### Dividends to Stockholders

The Company did not pay dividends to stockholders during the period under review.

## **Capital Stock and Capital Contributions**

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$3,000,000
Par value per share	\$3.00

Control of the Company was maintained by its parent, RM Ocean Harbor Holding, Inc. (RM Ocean), a Delaware corporation, who owned 100% of the stock issued by the Company, who in turn was 100% owned by The Milo Trust (Lucille Milo, in trust for Philip Milo and Jennifer Milo). Ralph Milo owned 100% of the preferred stock of RM Ocean Harbor Holding, Inc.

## **Surplus Debentures**

There were no surplus debentures during the period under review.

## **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 review.

## **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 in accordance with Section 607.1601, Florida Statutes, 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

Ralph Milo  
Fisher Island, Florida

Retired/Insurance Consultant, Director

Donna Erickson  
Stamford, Connecticut

Secretary and Director  
Ocean Harbor Casualty Insurance Company

Philip Milo  
Oceanside, New York

Vice President and Director  
Ocean Harbor Casualty Insurance Company

David Joseph Maundrell, III  
Brooklyn, New York

Real Estate Broker, Director

William Emerson Roche  
Brooklyn, New York

President and Treasurer, Director  
Ocean Harbor Casualty Insurance Company

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

### Senior Officers

<b>Name</b>	<b>Title</b>
William Roche	President and Treasurer
Donna Erickson	Secretary
Philip Milo	Vice President
Michael Eigen	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

<b>Audit Committee</b>	<b>Investment Committee</b>
Ralph Milo <sup>1</sup>	Ralph Milo <sup>1</sup>
William Roche	William Roche
David Maundrell III	David Maundrell III
Donna Erickson	Donna Erickson
Philip Milo	Philip Milo

<sup>1</sup> Chairman

### Affiliated Companies

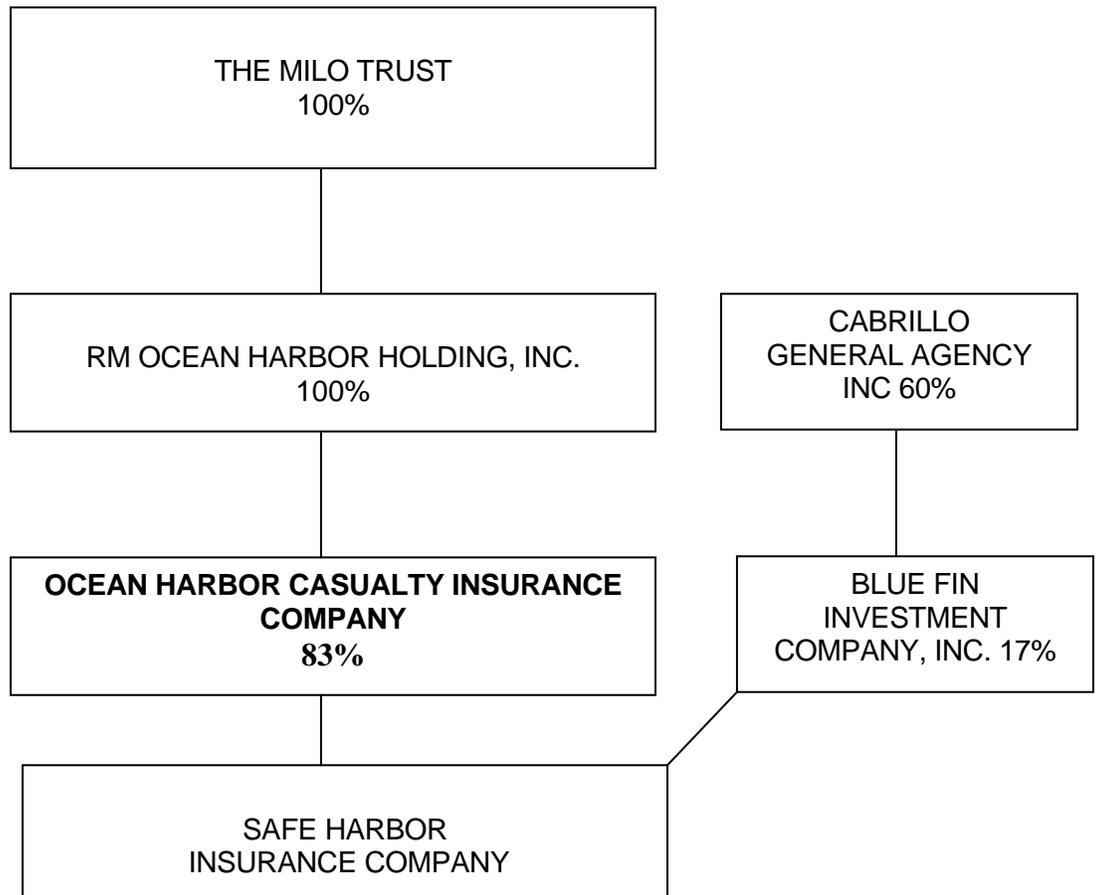
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 19, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code. There was a change in the Company's ownership interest of a subsidiary that was not disclosed on an updated holding company registration statement.

**Subsequent event:** The Company's Holding Company Registration Statement, filed with the 2010 Annual Report, addressed the changes regarding affiliates.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**OCEAN HARBOR CASUALTY INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2009**



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

### **Tax Allocation Agreement**

The Company, along with its parent, RM Ocean, and affiliates, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and RM Ocean was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with RM Ocean. Within forty-five (45) days of the remittance by RM Ocean of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

### **Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with RM Ocean and Safe Harbor Insurance Company (Safe Harbor) on December 19, 2006. Beginning in 2009, the source of labor for the group was shifted from being employed by RM Ocean to being employed by the Company. The costs incurred by the Company allocated to Safe Harbor were \$351,474 during 2009 and the net receivable ending balance amounted to \$71,518.

## **FIDELITY BOND INSURANCE**

The Company maintained fidelity bond coverage up to \$2,500,000 with a deductible of \$100,000, which reached the suggested minimum as recommended by the NAIC.

## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama  
Louisiana  
New York  
South Carolina

California  
Mississippi  
Oklahoma

Florida  
New Jersey  
Texas

### Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

## COMPANY GROWTH

### 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.

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	68,019,095	74,819,152	72,681,814	68,612,883	53,254,528
Net Underwriting Gain/(Loss)	387,452	587,577	(56,543)	1,679,653	2,098,342
Net Income	2,326,683	1,292,010	2,051,115	2,826,105	1,787,015
Total Assets	98,494,994	93,181,909	96,745,899	92,916,702	83,174,160
Total Liabilities	62,782,824	64,589,787	65,952,508	63,988,789	57,708,179
Surplus As Regards Policyholders	35,712,170	28,592,122	30,793,391	28,927,913	25,465,981

## LOSS EXPERIENCE

The Company has not experienced significant changes to their loss development. The Company's net loss ratio increased slightly over the period under review, ending at 73.5%.

## 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 risk for the period under review.

### Ceded

The Company ceded risk on a quota share and excess of loss basis to multiple reinsurers. The Company utilized quota share agreements on their Automobile lines of business and excess of loss on their property business. A breakdown of the quota share percentages utilized by program is outlined below:

Program	Administrator	Quota Share %
Florida - PP Auto	Pearl Holding Group (PHG)	n/a
New York - PP Auto	National City Service Agency (NCSA)	75%
California - PP Auto	Express General / Harbor General Insurance Agency	90%
California - PP Auto	Alternative Risk Consulting (ARC)	90%
California - PP Auto	SCJ Insurance Services, Inc.	60%
California - PP Auto	Cabrillo General Insurance Agency	n/a
California - PP Auto	All Star General Insurance Agency	50%

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 Tallahassee, Florida. This examination was conducted at the offices in Tallahassee and at the principal MGA Office located in Plantation, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009, 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 updated via reports from the MGAs and maintained in Peachtree by the Company's accounting director.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Morgan Stanley entered into on November 1, 2006. The Company was not in compliance with all requirements of Rule 69O-143.042(2), Florida Administrative Code. The Company's custodial agreement did not include the following provisions of Rule 69O-143.042(2):

- (j) A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and

activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.

(o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

**Subsequent event:** In April 2010, the Company terminated the agreement with Morgan Stanley and entered into a new Custodial Agreement with Pershing, LLC. The new agreement, submitted to the Office on February 23, 2011, was accepted on March 2, 2011.

### **Managing General Agent Agreement**

The Company had nine (9) general agency agreements in place. Of those nine (9) agreements, only one (1) met the definition of a MGA agreement per Section 626.015(14)(a), Florida Statutes. The other eight (8) agreements are with non-affiliated companies that receive underwriting commission on business written. The MGA agreement was executed on September 1, 1994 with J.A.J. Holding Company Inc. (now known as Pearl Holding Group) and was to remain in effect until terminated by either party by providing ninety (90) days written notice. MGA fees were based on 25% of direct written premium (with a floating contingent commission based on loss ratio achieved

– maximum of 29.5% and minimum of 22%) and included the \$25 policy fee. Claims administration services were included in the agreement at a cost of an additional 8% of earned premium. Fees incurred under this agreement during 2009 amounted to \$8,230,274.

<b>Program</b>	<b>MGA or Program Administrator</b>	<b>Commission Rate on DWP</b>	<b>Direct Commissions Paid</b>
Florida - PP Auto	Pearl Holding Group (PHG)	25% +/- cont comm	\$8,230,274
New York - PP Auto	National City Service Agency (NCSA)	21.82%	\$1,312,507
California - PP Auto	Express General / Harbor General Insurance Agency	n/a - not writing/in run-off	n/a
California - PP Auto	Alternative Risk Consulting (ARC)	13.5%	\$178,080
California - PP Auto	SCJ Insurance Services, Inc.	13.0%	\$838,662
California - PP Auto	Cabrillo General Insurance Agency	17% + contingent Commission if L/R<75%	(\$383)
California - PP Auto	All Star General Insurance Agency	19% + contingent Commission if L/R < 73%	\$772,842
New York - Homeowners	Complex Coverage Management (CCM)	22%	\$84,750
Mississippi - Mobile HO's	Tim Parkman & Associates (TPI)	25% + contingent Commission if L/R < 45%	\$22,647
South Carolina - Mobile HO's	Johnson & Johnson (J&J)	25%	\$54,569

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm, Law, Redd, Crona and Munroe, P.A., to perform the annual audit of its financial statements as required by Rule 690-137.002 (7) (c), Florida Administrative Code.

### **Information Technology Report**

ParenteBeard LLC performed an evaluation of the information technology and computer systems of the Company and Pearl Holding Group. 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, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	FANNIEMAE, 5.125%, 01/02/14	<u>\$ 2,125,000</u>	<u>\$ 2,253,775</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 2,125,000</u>	<u>\$ 2,253,775</u>
LA	Cash	\$ 100,000	\$ 100,000
SC	USTRS, 2.375%, 04/15/11	<u>220,767</u>	<u>224,250</u>
	TOTAL OTHER DEPOSITS	<u>\$ 320,767</u>	<u>\$ 324,250</u>
	TOTAL SPECIAL DEPOSITS	<u>\$2,445,767</u>	<u>\$2,578,025</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

**OCEAN HARBOR CASUALTY INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$29,245,262		\$29,245,262
Stocks:			
Preferred	2,241,550		\$2,241,550
Common	13,042,908		13,042,908
Cash and Short-term Investments	26,193,745		26,193,745
Invest Income Due/Accrued	491,278		491,278
Agents' Balances:			
Uncollected premium	2,674,357		2,674,357
Deferred premium	18,488,725		18,488,725
Reinsurance recoverable	878,206		878,206
Current FIT Recoverable	917,192		917,192
Net DTA	2,336,036		2,336,036
EDP Equipment	113,334		113,334
Receivable from parents, subsidiaries and affiliates	71,558		71,558
Aggregate write-in for other than invested assets	1,800,843		1,800,843
Totals	<u>\$98,494,994</u>	<u>\$0</u>	<u>\$98,494,994</u>

**OCEAN HARBOR CASUALTY INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Losses	\$29,510,649		\$29,510,649
Loss adjustment expenses	2,391,851		2,391,851
Commissions Payable, Cont Comm	131,260		
Other expenses	188,903		188,903
Taxes, licenses and fees	566,387		566,387
Unearned premium	27,252,709		27,252,709
Ceded Reinsurance Prem Payable	2,127,229		2,127,229
Provision for Reinsurance	372,555		372,555
Payable to parent, subsidiaries and affiliates	40		40
Aggregate write-ins for liabilities	241,241		241,241
<b>Total Liabilities</b>	<b>\$62,782,824</b>	<b>\$0</b>	<b>\$62,782,824</b>
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	3,359,723		3,359,723
Unassigned funds (surplus)	29,352,447		29,352,447
<b>Surplus as regards policyholders</b>	<b>\$35,712,170</b>	<b>\$0</b>	<b>\$35,712,170</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$98,494,994</b>	<b>\$0</b>	<b>\$98,494,994</b>

**OCEAN HARBOR CASUALTY INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned		\$68,019,095
	<b>Deductions:</b>	
Losses incurred		\$44,107,275
Loss expenses incurred		5,911,310
Other underwriting expenses incurred		17,613,058
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$67,631,643
Net underwriting gain or (loss)		\$387,452

**Investment Income**

Net investment income earned		\$2,467,777
Net realized capital gains or (losses)		841,314
Net investment gain or (loss)		\$3,309,091

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$1,085,558)
Finance and service charges not included in premiums		
Aggregate write-ins for miscellaneous income		37,845
Total other income		(\$1,047,713)
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,648,830
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,648,830
Federal & foreign income taxes		322,147
Net Income		\$2,326,683

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$28,592,122
Net Income		\$2,326,683
Net unrealized capital gains or losses		3,432,206
Change in net deferred income tax		(339,659)
Change in non-admitted assets		2,067,392
Change in provision for reinsurance		(366,574)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$7,120,048
Surplus as regards policyholders, December 31 current year		\$35,712,170

A comparative analysis of changes in surplus is shown below.

**OCEAN HARBOR CASUALTY INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**

**DECEMBER 31, 2009**

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, 2009, per Annual Statement	\$35,712,170
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$35,712,170</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$31,902,500

An outside actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, AMI Risk Consultants, to review the Statutory Premium Reserve carried in the Company's balance sheet as of December 31, 2009 who was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$35,712,170, exceeded the minimum of \$6,278,282, required by Section 624.408, Florida Statutes.

## **SUMMARY OF RECOMMENDATIONS**

### **Authorized Lines of Business**

We recommend that the Company comply with Section 624.430, Florida Statutes, and request that the Office remove Commercial Automobile Liability and Commercial Auto Physical Damage lines of insurance from its Certificate of Authority.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Ocean Harbor Casualty Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$35,712,170, which exceeded the minimum of \$6,278,282 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge; as well as Philip Schmoyer and Caner Ozsoy, Participating Examiners; and Jennifer Walker, CISA, IT Manager and Chad Schieken, CISA, IT Senior Manager, of ParenteBeard LLC participated in the examination. Gail Flannery, FCAS MAAA, consulting actuary of AMI Risk Consultants and James Pafford, Exam Manager, of the Office also participated in the examination.

Respectfully submitted,

---

Mary James  
Chief Examiner  
Florida Office of Insurance Regulation