

**REPORT ON EXAMINATION**  
**OF THE**  
**AMERICAN HEALTHCARE INDEMNITY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**AMERICAN HEALTHCARE INDEMNITY COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

*Brante Biddle*

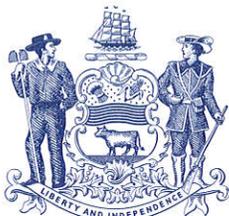
Date: May 30, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30<sup>th</sup> day of May, 2013.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
AMERICAN HEALTHCARE INDEMNITY COMPANY  
AS OF  
DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 30<sup>th</sup> day of May, 2013

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## **SALUTATION**

April 2, 2013

Honorable Karen Weldin-Stewart-CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.019, an Association examination has been made of the affairs, financial condition and management of the;

### **AMERICAN HEALTHCARE INDEMNITY INSURANCE COMPANY**

hereinafter referred to as (“Company” or AHI) incorporated under the laws of the State of Delaware as a stock company. The Company’s statutory home address is 2711 Centerville Road, Suite 400 Wilmington, Delaware 19808. The examination was conducted at the administrative office of the Company located at 185 Greenwood Road, Napa, California 94558.

The report of this examination is submitted herewith.

### **SCOPE OF EXAMINATION**

This examination was a multistate coordinated examination of The Doctor’s Company Group (“TDC Group”) including: The Doctors Company (TDC), SCPIE Indemnity Company (SCPIE) and The Doctors Life Insurance Company (TDLIC), California domestics; Professional Underwriters Liability Insurance Company (PULIC), Utah domestic; OHIC Insurance Company (OHIC), Ohio domestic and AHI; Delaware domestic.

These coordinated examinations were conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners (NAIC). Examiners representing the states of California, Delaware, Ohio and Utah participated in these coordinated examinations. Reports of Examination for each of the six U.S. domestic companies were filed separately.

The last examination of AHI was conducted as of December 31, 2008. This examination is a comprehensive risk-focused examination, which covers the three year period from January 1, 2009 to December 31, 2011. The examination encompassed a general review of the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of financial condition at December 31, 2011. Transactions and operations subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and Delaware Examination Handbook. The NAIC Handbook requires examiners to plan and perform the examination to assess financial condition and identify prospective risks by evaluating Company information including: operations, corporate governance, identifying and assessing material inherent risks to which the Company is considered exposed and evaluating processes, systems, controls and other procedures used to mitigate those risks. The examination also included assessing principles used and significant estimates made by management, as well as evaluating overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Ernst & Young LLP (E&Y). Certain 2011 audit work papers

have been incorporated into the work papers of the examination and have been utilized principally in the area of tests of controls, risk mitigation and substantive tests of account balances.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without material exception and made part of the work papers of this examination:

NAIC Ratios  
Legal Actions  
Regulatory Agency Correspondence  
All other Assets and Liabilities not mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, for which were deemed to require special explanation or description.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

#### **SUBSEQUENT EVENTS**

In May 2011, a medical professional liability claim against an insured of the Company resulted in a verdict significantly above the insured's policy limit. On January 25, 2012, AHI agreed to a negotiated settlement of \$25 million, which had been fully reserved. Ceded reserves of \$18 million were recorded, which resulted in additional reinsurance premiums due of \$4.1 million that had been accrued.

#### **COMPANY HISTORY**

The Company was originally incorporated on October 3, 1980, under the laws of the State of Florida and re-domesticated to the state of Delaware effective March 23, 1992.

On June 30, 2008, TDC acquired SCPIE Holdings Inc. (SCPIE Holdings), a Delaware corporation and its subsidiaries, including AHI, for \$28 in cash for each outstanding share of SCPIE Holdings' common stock in a merger transaction. In 2009, following the TDC acquisition

of SCPIE Holdings and affiliates, AHI was placed in run-off. TDC is an Interinsurance Exchange organized under the laws of the State of California.

On February 5, 2010, American Healthcare Specialty Insurance Company (AHSIC), a subsidiary of SCPIE Holdings' was sold. Subsequently, SCPIE Holdings' merged into SCPIE, effective December 30, 2010. Effective September 30, 2011, SCPIE transferred all AHI common capital stock to TDC as part of an extraordinary stock dividend. As of the examination date, AHI is a wholly-owned subsidiary of TDC.

### **CAPITALIZATION**

At December 31, 2011, the Company had 50,000 shares of authorized and issued common stock with a par value of \$100 per share. On September 30, 2011, 100% of AHI's common stock was transferred to TDC as part of an extraordinary stock dividend. As of the examination date, 50,000 shares of issued common stock are held by TDC at a total value of \$5,000,000.

### **CORPORATE RECORDS**

The recorded minutes of the sole shareholder and Board of Directors (Board) were reviewed for the period under examination. The recorded minutes of the Board adequately documented the meetings, evidencing approval of Company transactions and events, including the authorization of investments as required by 18 Del. C. § 1304 6.1 "Authorization; record of investments".

### **MANAGEMENT AND CONTROL**

#### **Management**

Pursuant to the General Corporation Laws of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers of the Company and its business, property, and affairs are managed under the direction of the Board

Board of Directors

In accordance with Article II, Section 1 of AHI's bylaws, the number of directors shall be four (4). The Directors shall be elected at the annual meeting of the Shareholder and each Director shall be elected until his successor is qualified and elected.

The following AHI Directors served as of December 31, 2011:

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Richard Elliott Anderson, MD Napa, California	Chairman and Chief Executive Officer TDC
Dennis Bryan Lawton, PhD Napa, California	Chief Governance Officer TDC
David Gerard Preimesberger Napa, California	Chief Financial Officer TDC
Robert David Francis Napa, California	Chief Operations Officer TDC

Officers

In accordance with Article IV Section 1, of the AHI bylaws, officers of the Company are elected annually by the Board and shall be a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, a Secretary, and other such officers as may be deemed by the Board.

The following AHI Officers and their respective titles served as of December 31, 2011:

<u>Name</u>	<u>Position</u>
Richard E. Anderson, MD	Chairman, President and Chief Executive Officer
David A. McHale	Secretary and General Counsel
David G. Preimesberger	Treasurer and Chief Financial Officer

The Delaware Department of Insurance was properly notified of changes in directors and officers during the examination period in compliance with 18 Del. C. § 4919 "Change in Officer and Director Notice".

### Committees

The AHI Board elected TDC as AHI's Audit Committee for the years under examination. The AHI Board has no committees as those functions are handled by the committees of TDC Board of Governors. The TDC Board of Governors has five committees including; Audit Committee, Investment Committee, Compensation Committee, Finance Committee and Governance Committee. The Board committees met at least quarterly with Governors serving as committee Chairman's.

### Conflicts of Interest

The Company maintains a formal written Conflict of Interest Policy outlined within TDC's Code of Ethics policy. Officers, directors, and employees are required to complete ethics training annually. Directors and Governors are required to sign annual Conflict of Interest Statements.

In accordance with provisions of the Delaware Examination Handbook, an inquiry was sent to the Company requesting any information on any Director, Officer or employee that had been convicted of a felony. The Company replied that none of the Company's employees have been convicted of a felony.

### Control

The ultimate controlling entity is TDC with its principal place of business at 185 Greenwood Road, Napa, CA 94558. TDC is controlled by its Board of Governors on behalf of its subscribers.

### **Holding Company System**

The Company is a member of the TDC insurance holding company system. TDC is the ultimate parent company of thirteen insurance companies and several related service companies. The thirteen wholly-owned insurance company subsidiaries of TDC are; SCPIE, OHIC, PULIC, Underwriter for the Professions Insurance Company (UFTPIC), AHI, American Physicians

American Healthcare Indemnity Insurance Company

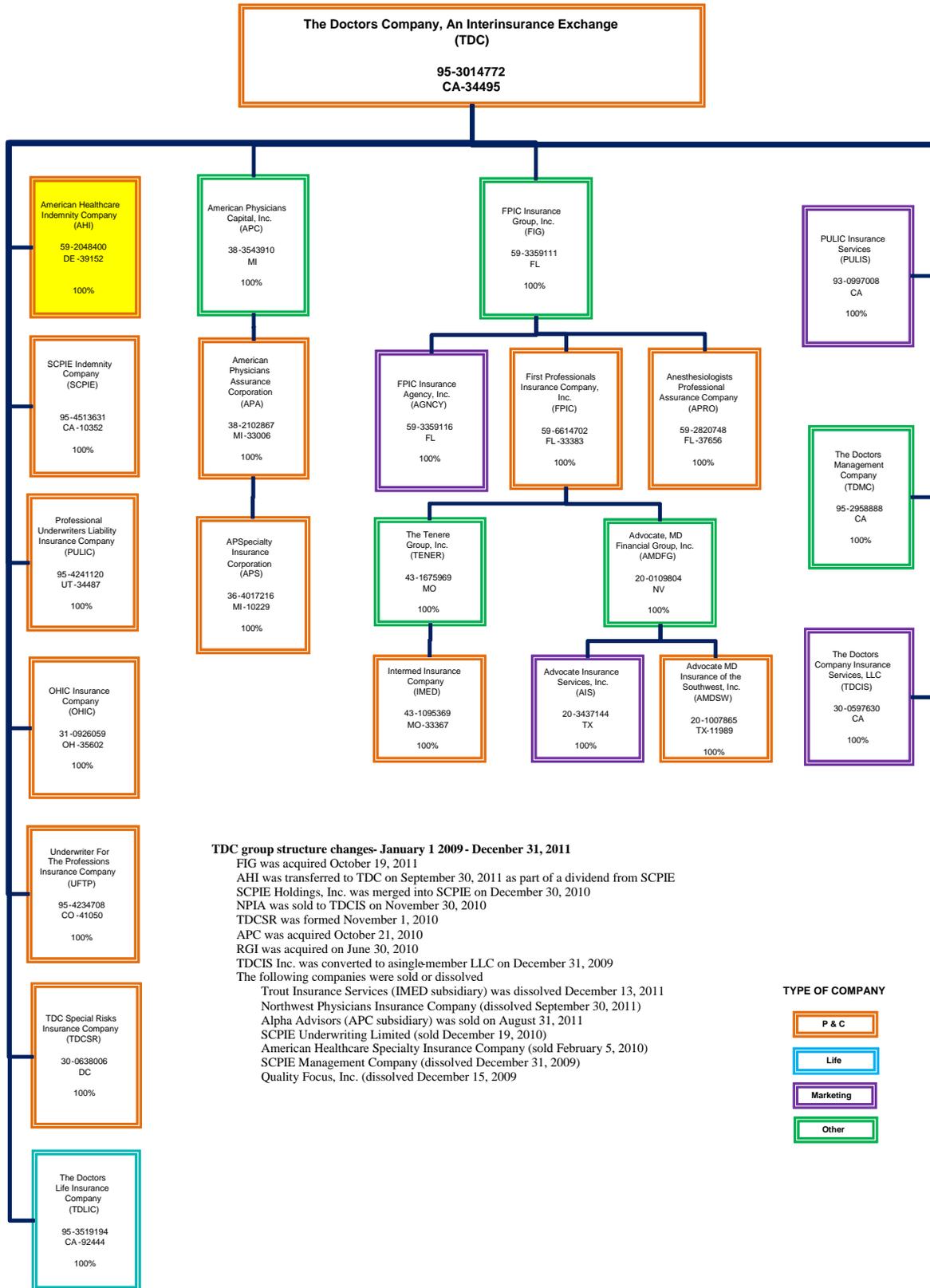
Assurance Corporation (APA), APSpecialty Insurance Corporation (APS), First Professionals Insurance Company, Inc. (FPIC), Anesthesiologist Professional Assurance Company (APRO), Intermed Insurance Company (IMED), Advocate, MD Insurance of the Southwest, Inc. (AMDSW), TDC Special Risks Insurance Company (TDCSR) and TDLIC.

TDC is a member owned reciprocal insurer organized under the laws of the State of California, and an admitted carrier in 48 states, the District of Columbia and territory of Guam. Products are sold to physicians, physician groups, hospitals and other healthcare entities either directly or through agents and brokers.

TDC is owned by its policyholders and is a physician-run entity. Many of the officers and a majority of the members of the Board of Governors are physicians. Except for its directors and officers, TDC has no employees. Day-to-day operation of TDC is conducted by its wholly-owned subsidiary and attorney-in-fact, The Doctors Management Company (TDMC). Under a management agreement, TDMC provides all underwriting, administrative and claim services for a compensation fee equal to actual expenses incurred.

The following organizational chart depicts the Companies' relationship within the holding company system at December 31, 2011:

American Healthcare Indemnity Insurance Company



**TDC group structure changes- January 1 2009 - December 31, 2011**

FIG was acquired October 19, 2011  
 AHI was transferred to TDC on September 30, 2011 as part of a dividend from SCPIE  
 SCPIE Holdings, Inc. was merged into SCPIE on December 30, 2010  
 NPJA was sold to TDCIS on November 30, 2010  
 TDCSR was formed November 1, 2010  
 APC was acquired October 21, 2010  
 RGI was acquired on June 30, 2010  
 TDCIS Inc. was converted to single-member LLC on December 31, 2009  
 The following companies were sold or dissolved  
 Trout Insurance Services (IMED subsidiary) was dissolved December 13, 2011  
 Northwest Physicians Insurance Company (dissolved September 30, 2011)  
 Alpha Advisors (APC subsidiary) was sold on August 31, 2011  
 SCPIE Underwriting Limited (sold December 19, 2010)  
 American Healthcare Specialty Insurance Company (sold February 5, 2010)  
 SCPIE Management Company (dissolved December 31, 2009)  
 Quality Focus, Inc. (dissolved December 15, 2009)

**TYPE OF COMPANY**



## **AFFILIATED AGREEMENTS**

The following is a list of written management and service agreements with affiliates, officers, employees, and any former officers or employees:

### Tax Allocation Agreement

Effective July 1, 2008, the Company entered into an amended tax allocation agreement with TDC and affiliates under which TDC files the consolidated federal tax return representing all subsidiaries. Allocation of tax liability is based upon separate return calculations with inter-company tax liabilities normally settled no later than 30 days after the month in which the tax payments have been made or after the filing of the consolidated return if any additional payments are due.

### Management Agreement

Effective January 1, 2009, the Company entered into a management agreement with TDMC. Under the terms of the agreement, TDMC provides the Company with management services to support daily operation, corporate legal matters and filings required by the State of Delaware. As compensation for these services, the Company reimburses TDMC for all costs incurred in the performance of duties under the agreement.

### Inter-Company Pooling Agreement

Effective December 1, 2010, the Company commuted its participation in an inter-company pooling agreement with SCPIE and AHSIC. The inter-company pooling agreement was commuted preceding the Company being placed in run-off.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company's fidelity insurance coverage met the minimum requirements suggested by the NAIC. In addition, the Company was afforded insurance protection as a named insured as a

subsidiary of TDC group policies; Directors and Officers, Fiduciary Liability Solutions, Errors and Omissions Liability and Employment Practices Liability Solutions.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in 47 states and the District of Columbia. The Company was placed into run-off in 2009 following the 2008 acquisition of SCIEP Holdings and affiliates. As of December 31, 2011, the Company's principal remaining business was in the states of Arizona and California. The Company's remaining business includes a small program of healthcare facilities business while managing the claims made professional liability and assumed reinsurance in run-off.

### **GROWTH OF THE COMPANY**

The following chart represents the growth of the Company for the examination period:

	<b>Net Admitted Assets \$</b>	<b>Capital and Surplus \$</b>	<b>Gross Premium Written \$</b>	<b>Net Income</b>
2009	115,637,201	48,507,921	2,610,272	5,662,166
2010	218,717,604	115,194,316	3,867,294	15,236,939
2011	198,189,750	133,566,828	2,070,846	19,813,056

The significant decrease in gross premiums from 2009 forward is due to the majority of the business renewed by TDC beginning in 2009 and the commutation of the pooling agreement.

In 2010, SCIEP contributed \$50 million in capital to AHI for the initial payment of the commutation agreement between AHI and AHSIC. The contribution resulted in the substantial increase to surplus between 2009 and 2010 and net income as well as net admitted assets.

Additional factors driving increased net income throughout the examination period include: favorable development in reserves for the medical professional liability business in run-off coupled with a lower effective tax on income before tax associated with the loss reserve discounting.

## **REINSURANCE**

Assumed reinsurance was an immaterial balance due to the Company being in run-off as of the examination date. Below is a description of the ceded reinsurance.

### Ceded

Beginning in 2009, the Company became a named participant in TDC's common loss excess of loss programs, which attach on an earned premium basis. The Company's retention is two million per claim up to five million aggregate per year.

TDC's common excess of loss program covers physician, hospital and related business including: an underlying per event excess of loss of nine million in excess of two million per event, a ten million in excess of eleven million per event first excess casualty catastrophe treaty and a ten million in excess of twenty-one million per event second excess casualty catastrophe treaty.

## **LOSS EXPERIENCE**

The Company reported losses of \$42,570,153 and Loss Adjustment Expenses (LAE) of \$6,190,202 as of December 31, 2011. Estimated loss and LAE Reserves were reasonable per the Actuarial Report completed by the California Department of Insurance (CDI) of TDC Group in the coordination examination for the Company. According to the Actuarial Opinion, the Company has no exposure to medical professional liability extended reporting endorsements, such as those relating to deaths, disability or retirement.

## **ACCOUNTS AND RECORDS**

The Accounts and Records review included an evaluation of the Company's operational and organizational controls including: computer systems, accounting systems, organizational and processing structures.

### Information Systems

During the course of the examination, a review was made of the Company's general controls over information systems. As a result of the informational system review performed, several low risk findings were noted in controls over logical security and presented to the Company in the Information Technology Report that was completed for TDC Group. The Information Technology Report findings were not material to the financial statements.

### Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles.

The Company's trial balance was traced to the various schedules and exhibits per the 2011 filed annual statement.

**STATUTORY DEPOSITS**

State	Deposits for the Benefit of All Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arkansas	\$574,724	\$605,550		
California			\$1,500,005	\$1,500,005
Delaware	2,677,336	2,776,095		
Florida	551,440	590,691		
Georgia	57,472	60,555		
Kansas	120,170	126,615		
Kentucky	104,495	110,100		
Massachusetts	313,486	330,300		
Nevada	100,262	107,398		
New Mexico	235,114	247,725		
North Carolina	313,486	330,300		
Virginia	595,623	627,570		
<b>Total Deposits</b>	<b>\$5,643,608</b>	<b>\$5,912,899</b>	<b>\$1,500,005</b>	<b>\$1,500,005</b>

**FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

- Assets,
- Liabilities, Surplus and Other Funds
- Summary of Operation
- Reconciliation of Capital and Surplus,

ASSETS

DECEMBER 31, 2011

	Assets	Non-Admitted Assets	Admitted Assets	Notes
Bonds	\$ 162,479,177	\$ 0	\$ 162,479,177	(1)
Common Stocks	1,500,005	0	1,500,005	(1)
Cash and short-term investments	24,947,918	0	24,947,918	(1)
Subtotals, cash and invested assets	188,927,100	0	188,927,100	
Investment income due and accrued	812,151	0	812,151	
Uncollected premiums, agents' balance in the course of collections	192,157	0	192,157	
Deferred premiums, agents' balances and installments booked but deferred	438,428	0	438,428	
Reinsurance:				
Amounts recoverable from reinsurers	4,116,707	0	4,116,707	
Funds held by or deposited with reinsured companies	2,858,387	0	2,858,387	
Net deferred tax asset	1,266,697	681,573	585,124	
Receivables from parent, subsidiaries and affiliates	238,683	0	238,683	
Aggregate write-ins for other than invested assets	21,013	0	21,013	
Totals	<u>\$ 198,871,323</u>	<u>\$ 681,573</u>	<u>\$ 198,189,750</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

DECEMBER 31, 2011

		<u>Notes</u>
Losses	\$ 42,570,153	(2)
Loss adjustment expenses	6,190,202	(2)
Commissions payable, contingent commissions and similar charges	5,682,292	
Other expenses	215,000	
Current federal and foreign income taxes	4,601,272	
Unearned premiums	913,846	
Advance premiums	41,971	
Ceded reinsurance premiums payable	4,214,739	
Amount withheld or retained by company for account of others	3,333	
Provision for reinsurance	10,000	
Payable to parent, subsidiaries and affiliates	180,114	
Total Liabilities	<u>\$ 64,622,922</u>	
Common capital stock	\$ 5,000,000	
Gross paid-in and contributed surplus	\$ 89,264,000	
Unassigned funds (surplus)	<u>39,302,828</u>	
Surplus	<u>128,566,828</u>	
Surplus as regards policyholders	<u>\$ 133,566,828</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 198,189,750</u></u>	

SUMMARY OF OPERATION

DECEMBER 31, 2011

Underwriting Income

Premiums earned \$ (2,003,906)

Deductions:

Losses incurred \$ (25,185,242)

Loss adjustment expenses incurred (830,683)

Other underwriting expenses incurred 3,488,884

Total underwriting deductions (22,527,041)

Net underwriting gain 20,523,135

Investment Income

Net investment income earned \$ 2,792,769

Net realized capital gains or (losses) 654,697

Net investment gain or (loss) 3,447,466

Other Income

Net gain or (loss) from agents' or premium  
balances charged off \$ 12,108

Total other income 12,108

Net income before federal income taxes \$ 23,982,709

Federal income taxes incurred 4,169,653

Net income \$ 19,813,056

RECONCILIATION OF CAPITAL AND SURPLUS

DECEMBER 31, 2011

Surplus as regards policyholders, December 31, 2010	<u>\$ 115,194,316</u>
<u>Gains and (losses) in surplus</u>	
Net income	19,813,056
Change in net unrealized capital gains or (losses) less capital gains tax of \$ 7,385,081	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	(3,960,204)
Change in non-admitted assets	2,514,998
Change in provisions for reinsurance	<u>4,662</u>
Change in surplus as regards policyholders for the year	<u>\$ 18,372,512</u>
Surplus as regards policyholders, December 31, 2009	<u>\$ 133,566,828</u>

NOTES TO FINANCIAL STATEMENTS

(1) Invested Assets

Bonds \$162,479,177

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

	<u>Statement Value</u>
US Governments	\$ 33,083,559
All Other Governments	3,134,857
US Special Revenue and assessments	42,239,190
Industrial & Miscellaneous	<u>84,021,571</u>
Total	<u>\$162,479,177</u>

Of the Company's bond holdings, which comprised 86% of the Company's total cash and invested assets and 82% of total admitted assets at December 31, 2011, 100% were categorized as

Class 1 and Class 2 with respect to NAIC credit quality standards.

The Company's investment strategy seeks to optimize its investment returns consistent with its credit quality and maturity mix requirements. The Company's results, including underwriting and investment results, operating cash flows, composition of liabilities, tax status and investment market conditions and opportunities are all considered in setting the investment strategy.

Realized capital gains or losses on sale of investments are determined on the basis of specific identified cost. Unrealized losses on investments, which are deemed other-than-temporary, are charged to net income as realized capital losses.

Cash, Cash Equivalents and Short-term Investments \$24,947,918

The Company had cash on hand of \$2,107,947 and short-term investments of \$22,839,971.

Short-term investments are held in class one money market mutual funds.

Common Stocks \$1,500,005

As of December 31, 2011 the Company held \$1,500,005 in common stocks.

Liabilities

(2) Losses	\$42,570,153
Loss Adjustment Expenses	\$ 6,190,202
	<u>\$48,760,355</u>

Since the examination was performed on a coordinated basis with the CDI as lead state, the Actuarial review of TDC Group including AHI was performed by CDI. Based on Actuarial work performed, the CDI Casualty Actuary found the Company's carried December 31, 2011, loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The prior examination recommended that the Company revise its custodial agreement to include all of the pertinent provisions indicated by the NAIC. A review of this matter during the examination determined that the Company has complied with this recommendation.

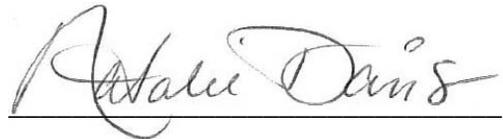
### **SUMMARY OF RECOMMENDATIONS**

No recommendations were made as a result of this examination.

### **CONCLUSION**

The assistance and cooperation of examiners representing the states of California, Utah and Ohio in this coordinated examination is acknowledged and appreciated. In addition, the assistance and cooperation of the Company's outside audit firm E&Y, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, reading "Natalie Davis", is written over a horizontal line.

Natalie Davis, CFE  
Examiner-In-Charge  
State of Delaware  
Northeastern Zone, NAIC