

REPORT ON EXAMINATION
OF
TOWER HILL PRIME INSURANCE
COMPANY

GAINESVILLE, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

September 20, 2006

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

TOWER HILL PRIME INSURANCE COMPANY
7201 N.W. 11th Place
Gainesville, Florida 32605

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, 2003 through December 31, 2005. The prior examination as of December 31, 2002, was performed on the prior owners and the Company was named Desoto Prime Insurance Company. This examination commenced with planning at the Office, on April 3, 2006, to April 5, 2006. The fieldwork commenced on April 10, 2006, and was concluded on September 20, 2006. 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 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.

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. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

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, 2005. Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company is a domestic insurer that was licensed to write insurance only in the State of Florida. It was incorporated on October 1, 1999 and commenced writing business on April 1, 2000 as Desoto Prime Insurance Company, domiciled in Florida. On March 7, 2003, Tower Hill Capital Holdings, LLC purchased 100% of the outstanding stock. A name change from Desoto Prime Insurance Company to Tower Hill Prime Insurance Company was filed and approved on March 19, 2005. The Company was licensed to write insurance coverage for Fire, Allied Lines, Homeowners Multi-Peril, Other Liability and Inland Marine. As of the exam date of December 31, 2005, the Company has not reported written premium in the Other Liability line of business. The Company should have this line of insurance removed from the certificate of authority unless it plans to write Other Liability in the next six months.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	120
Number of shares issued and outstanding	120
Total common capital stock	120
Par value per share	\$1.00

Control of the Company was maintained by its parent, Tower Hill Holdings, Inc. (THH), who owned 100% of the stock issued by the Company.

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 statement.

	2005	2004	2003
Premiums Earned	10,854,561	5,491,605	3,222,857
Net Underwriting Gain/(Loss)	(1,396,981)	(3,782,524)	187,124
Net Income	(840,829)	(2,324,737)	109,379
Total Assets	62,165,712	24,626,064	14,437,304
Total Liabilities	28,092,890	15,196,261	8,170,664
Surplus As Regards Policyholders	34,072,822	9,429,803	6,266,640

Dividends to Policyholders

There were no dividends to policyholders reported by the Company during the period of examination.

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, 2005, were:

Directors

Name and Location	Principal Occupation
William John Shively, Chairman Gainesville, FL	CEO of Tower Hill Insurance Group
Phillip Martin Thomasson Gainesville, FL	President of Tower Hill Insurance Group
Donald Carl Matz, Jr. Gainesville, FL	COO/Secretary of Tower Hill Insurance Group
Keyton Benson Gainesville, FL	Chief Claims Officer of Tower Hill Insurance Group
Brian Thomas Sheekey Gainesville, FL	CFO/Treasurer of Tower Hill Insurance Group

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

Senior Officers

Name	Title
Phillip Martin Thomasson	President
Brian Thomas Sheekey	Treasurer
William John Shively	CEO
Donald Carl Matz, Jr.	COO/Secretary

The Company's board appointed an audit committee in accordance with Section 607.0825, Florida Statutes, as follows:

Audit Committee

Phillip Martin Thomasson, Chairman

Donald Carl Matz, Jr.

William John Shively

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholders, Board of Directors and audit committee meeting 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, Florida Statutes.

The minutes of the Board of Directors recorded that an audit committee was established as provided by Section 624.424(8)(c), Florida Statutes, and approved the Company's investments as required by Section 625.304, Florida Statutes.

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 examination.

Surplus Debentures

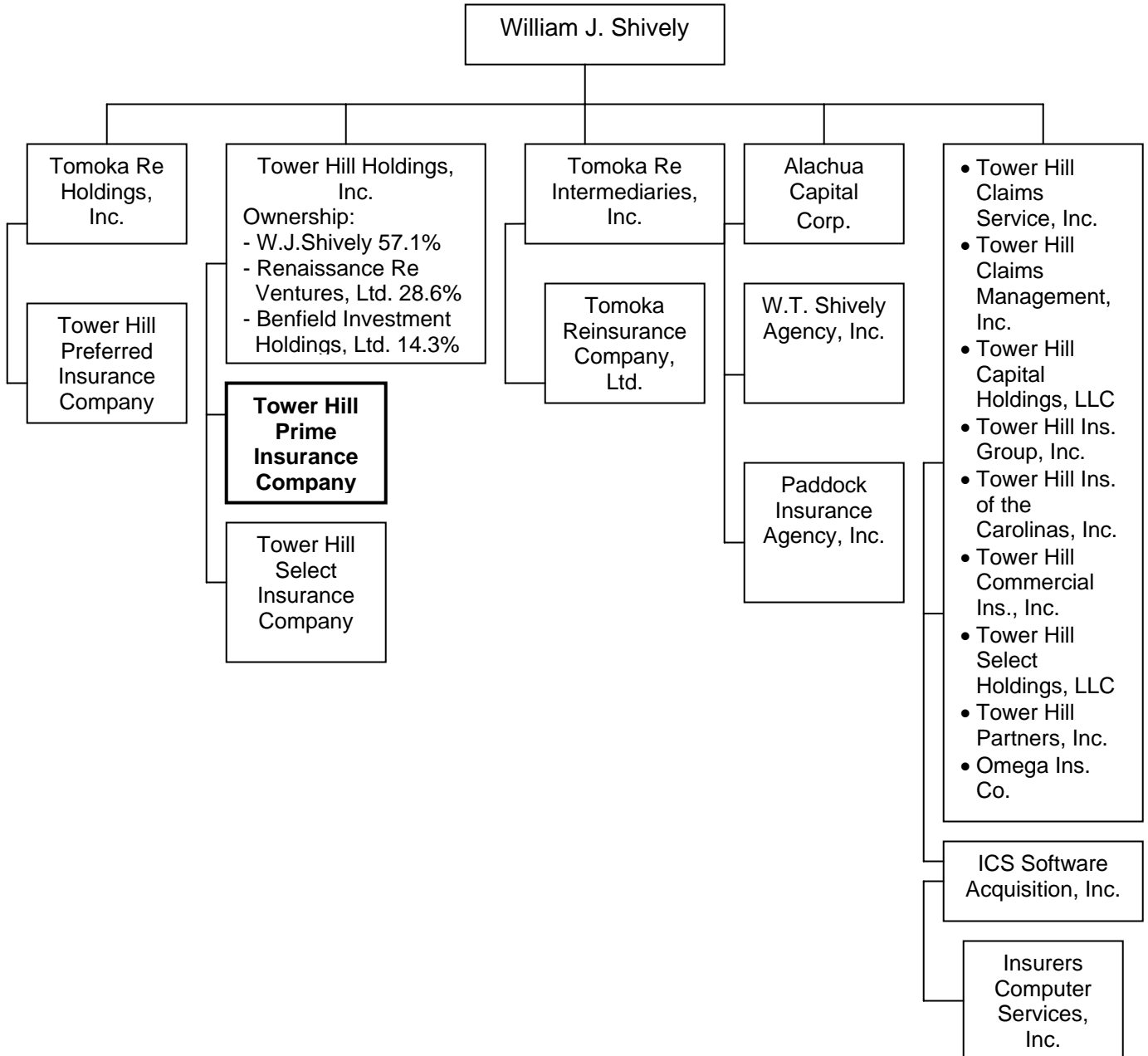
As of December 31, 2005, there were no outstanding surplus debentures of the Company.

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 October 11, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**TOWER HILL PRIME INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2005**



FIDELITY BOND

The Company maintained fidelity bond coverage of \$3,100,000 with a \$50,000 deductible per occurrence. The Company was a named insured on the fidelity bond and included all companies owned by William J. Shively. Considering the financial information of all companies, this policy adequately covered the \$1,000,000 suggested minimum amount of coverage for the Company recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

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	Cash	<u>\$ 617,312</u>	<u>\$ 617,312</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 617,312</u>	<u>\$ 617,312</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was licensed only in the State of Florida and expressed no intentions of increasing its insurance markets to other states.

Treatment of Policyholders

The Company established procedures for handling written complaints and maintained a record of all complaints received in accordance with Section 626.9541(1) (j), Florida Statutes.

The claims services company, Tower Hill Claims Services, Inc., maintained a claims procedure manual that included detailed procedures for handling both property and liability claims.

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 had no assumed insurance premiums.

Ceded

The Company ceded risk on both a quota share and an excess basis. The cash flow analysis performed on the quota share agreement indicated that there was a transfer of risk within the terms of the reinsurance contract.

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

ACCOUNTS AND RECORDS

KPMG, an independent CPA firm, audited the Company's statutory basis financial statements annually for all years under review, 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. 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 Gainesville, Florida, where this examination was conducted.

The following agreements were in effect between the Company and its affiliates as of December 31, 2005:

Managing General Agency Agreement

The managing general agency (MGA) agreement was with Tower Hill Insurance Group, Inc. (THIG). The agreement included the management and direct oversight of the production of business for the underwriting and policy administration functions. Additionally, THIG facilitated the payment of claims and other various accounting, reporting and administrative functions.

Claims Services Agreement

The claims services agreement was with Tower Hill Claims Service, Inc. (THCS). The agreement included the management, adjustment, payment requests and other various claims administrative duties as necessary, other than those services administered by the MGA.

Managing Services Agreement

The management services agreement was with THH. The agreement included the coordination of the activities of the Company, development of corporate plans, legal counsel, executive management, internal auditing management, contract negotiation/approval and other such services as deemed necessary.

Tax Sharing Agreement

The Company, along with its parent, THH, filed a consolidated federal income tax return. The Company was party to a consolidated tax agreement which met the requirements of SSAP No. 10. The agreement stated that the tax amount paid by the Company to the parent shall be equal to the amount the Company would have paid had the Company filed an independent tax return. Tax payments by the Company were made to the parent.

The Company and non-affiliates had the following agreement in effect as of December 31, 2005:

Custodial Agreement

The Company had a custodial agreement with Wachovia Bank with contained all necessary elements required in Rule 69O-143.042(2), Florida Administrative Code.

Risk-Based Capital

Risk-based capital was properly reported by the Company at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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."

TOWER HILL PRIME INSURANCE COMPANY
Assets

DECEMBER 31, 2005

Classification	Per Company	Examination Adjustments	Per Examination
Cash & Short-term investments	\$ 43,255,088		\$ 43,255,088
Investment income due and accrued	192,791		192,791
Agents' balances in the course of collection	10,208,604		10,208,604
Reinsurance recoverable	7,396,147		7,396,147
Net deferred tax asset	1,083,100		1,083,100
Guaranty funds receivable or on deposit	26,910		26,910
Aggregate write-ins for other than invested assets	3,072		3,072
Totals	<u>\$ 62,165,712</u>		<u>\$ 62,165,712</u>

TOWER HILL PRIME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$ 2,734,755		\$ 2,734,755
Loss adjustment expenses	276,733		276,733
Other expenses	278,813		278,813
Taxes, licenses, and fees	1,505,308		1,505,308
Unearned premiums	9,590,373		9,590,373
Ceded reinsurance premiums payable	6,217,147		6,217,147
Funds held by company under reinsurance treaties	7,300,590		7,300,590
Amounts withheld or retained by company for account of others	29,736		29,736
Provision for reinsurance	9,000		9,000
Payable to parent, subsidiaries and affiliates	<u>150,435</u>		<u>150,435</u>
Total liabilities	\$ 28,092,890		\$ 28,092,890
Common capital stock	\$ 120		\$ 120
Gross paid in and contributed surplus	41,000,039		41,000,039
Unassigned surplus	(6,927,337)		(6,927,337)
Surplus as regards policyholders	<u>34,072,822</u>		<u>34,072,822</u>
Total liabilities, capital and surplus	<u>\$ 62,165,712</u>		<u>\$ 62,165,712</u>

TOWER HILL PRIME INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$10,854,561
DEDUCTIONS:	
Losses incurred	7,763,598
Loss expenses incurred	1,026,953
Other underwriting expenses incurred	3,460,991
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$12,251,542</u>
Net underwriting gain or (loss)	(\$1,396,981)

Investment Income

Net investment income earned	\$968,639
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$968,639</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$428,341)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$428,341)
Federal & foreign income taxes	<u>412,488</u>
Net Income	(\$840,829)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$9,429,803
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Gains and (Losses) in Surplus

Net Income	(\$840,829)
Change in net deferred income tax	497,000
Change in non-admitted assets	(4,151)
Change in provision for reinsurance	(9,000)
Capital changes: Paid in	0
Surplus adjustments: Paid in	25,000,000
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$24,643,020</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$34,072,822</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$3,011,488

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, 2005, make 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.

**TOWER HILL PRIME INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, Annual Statement	\$34,072,822
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	No adjustments needed		
LIABILITIES:	No adjustments needed		
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$34,072,822

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no material items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

SUBSEQUENT EVENTS

In early 2006, Board member Brian T. Sheekey, resigned and was replaced by Joel Curran.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Tower Hill Prime Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$34,072,822, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Young, Financial Examiner/Analyst I; John C. Berry, Financial Examiner/Analyst Supervisor; and Joseph Boor, FCAS, Actuary, participated in the examination.

Respectfully submitted,

Richard A. Shaffer
Financial Specialist
Florida Office of Insurance Regulation