REPORT ON EXAMINATION

OF

WINDHAVEN INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 1, 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, 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, 2008, of the financial condition and corporate affairs of:

WINDHAVEN INSURANCE COMPANY
5835 BLUE LAGOON DRIVE, SUITE 400
MIAMI, FLORIDA 33126

Hereinafter referred to as the "Company". The report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. This is a second year examination of the Company. This examination commenced with planning at the Florida Office of Insurance Regulation (Office), on January 11, 2010, to January 14, 2010. The fieldwork commenced on January 18, 2010, and concluded as of April 1, 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, and the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were 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, 2007, along with resulting action taken by the Company in connection therewith.

Conflict of Interest Procedure

The Company's Statement of Policy Regarding Conflict of Interest states, "Each Board member shall disclose, either in writing or orally at the annual meeting, the Board member's affiliation with entities or transactions representing current or anticipated conflict circumstances."

The Company's Board of Directors and/or Officers did not complete annual conflict of interest questionnaires signed by the Board members and the review of the Board of Directors minutes for the period under examination did not indicate and/or mention disclosure to the Board of Directors of any conflicts of interest. **Resolution:** As of April 2009, the Company required disclosure of any conflicts of interest during its Board meetings.

Custody Agreement

The Company did not have a formal written agreement with its custodian, Bank of America. **Resolution:** The Company has a formal written custodial agreement with its new custodian, Morgan Stanley, which was filed with the Office in 2009.

Corporate Records

The minutes of the Board of Directors, shareholder and internal committees were reviewed for the period under examination. The review of the Company's minutes found the following issues:

- The minutes of the Board of Directors did not contain the annual appointment or election of officers of the Company as required by the Company's Articles of Incorporation.
- There were no minutes provided of the shareholder meeting and, therefore, they did not contain the annual appointment or election of Board members of the Company as required by the Company's Articles of Incorporation.
- There were no minutes provided for the Investment Committee.
- There were no minutes provided for the Audit Committee.
- There was no approval of Company investments.
- The minutes provided did not reflect the hiring of the Company's CPA and did not reflect any discussion or review of the Company's 2007 CPA's report.
- The minutes provided did not reflect any discussion or review of the Company's 2007 actuary's report.

Resolution: The Company's 2009 minutes were complete and reflected the operations of the Company.

Loss and Loss adjustment expenses

The examination actuarial review, as of December 31, 2007, indicated that the Company's net loss and loss adjustment expense (LAE) reserves were $249,000 higher than the Company's booked gross loss and LAE reserves of $1,126,000, as reflected in the Schedule P - Part 1 of the 2007 annual statement. This difference represented a 22.1% increase over the December 31, 2007 net annual statement reserves. **Resolution:** The Company's reserves were within an acceptable range for this examination.

HISTORY

General

The Company was incorporated on December 23, 2005, as a stock property and casualty insurer. On March 29, 2006, the Company received its Certificate of Authority from the Office and began writing business on May 1, 2006.

The Company was subject to licensing Consent Order 85477-06-CO, filed March 29, 2006, which was reviewed for compliance. The Company met the terms and was in compliance with the licensing Consent Order as of December 31, 2008.

The Company was party to Consent Order 91749-07-CO, filed May 14, 2008. Under Consent Order 91749-07-CO the Company agreed to the following:

- Within sixty days of the date of the proposed order, the Company will make a rate filing, prepared by an actuary, with appropriate supporting documentation.
- For two years following the date of the date of the proposed order, the Company will request approval from the OIR before implementing any rate change.
- The Company's future rate filings will be made by someone with at least five years of experience in insurance rate-making.
- The Company was assessed $3,000 in administrative costs.
- Provided the Company complies with the terms and conditions of this proposed consent order, the OIR will hold in abeyance any action regarding refunds or credits to policyholders in connection with the December 29, 2006, rate filing.

The Company was in compliance with Consent Order 91749-07-CO as of December 31, 2008.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Private Passenger Auto Liability	Private Passenger Auto Physical Damage

The Company wrote both lines of business for which it was authorized as of December 31, 2008.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	62,000
Total common capital stock	$6,200,000
Par value per share	$100

Control of the Company was maintained by its parent, Windhaven Managers, Inc., a Florida Corporation, which owned 100% of the common stock issued by the Company. Windhaven Managers, Inc. was wholly owned by Windhaven Holdings, Ltd, a Bermuda based holding company. Windhaven Holdings, Ltd is wholly owned by Jimmy E. Whited.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the Company's filed annual statements.

	2008	**2007**	**2006**
Premiums Earned	3,677,360	10,958,958	5,410,0520
Net Underwriting Gain/(Loss)	(471,301)	(155,576)	(1,461,292)
Net Income	(482,995)	62,026	(1,262,456)
Total Assets	10,303,524	11,391,441	15,466,258
Total Liabilities	5,805,308	6,513,796	10,424,758
Surplus As Regards Policyholders	4,498,216	4,877,645	5,041,500

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

Management

The annual shareholders 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, 2008 were:

Directors

Name and Location	Principal Occupation
Jimmy Eric Whited Coral Gables, FL	President Windhaven Insurance Company
David Leathers Scruggs Plano, TX	Business Development Oakwood Systems
Benjamin Joel Turner Austin, TX	Vice President Actuarial Services Texas Mutual Insurance Company
Susan Beth Wollenberg Overland Park, KS	Controller Kansas City Southern
David Parks Martin Jr. Plano, TX	Vice President Claims American Southwest Insurance Mangers

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers that were serving at December 31, 2008:

Senior Officers

Name	Title
Jimmy Eric Whited	President and Chairman
Jonathan Cocks*	Treasurer, Secretary, CFO and Vice President
David Leathers Scruggs*	Secretary
David Parks Martin, Jr.	Vice President

* Jonathan Cocks resigned his position as officer and director of the Company effective August 7, 2008. Jimmy Whited was elected to the additional positions of CFO and Treasurer. David Scruggs was elected the Company's Secretary on July 31, 2008.

The Company's Board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following were the members as of December 31, 2008:

Investment Committee	**Audit Committee**
Jimmy Eric Whited [1]	Susan Beth Wollenberg [1]
Susan Beth Wollenberg	Jimmy Eric Whited
Jonathan Cocks	Jonathan Cocks

[1] Chairman

Subsequent Event: By unanimous written consent, effective February 24, 2009, the Company elected three new Board members to its audit committee. In accordance with Section 624.424 (8) (c), Florida Statutes. The three Board members were: Susan Wollenberg, Benjamin Turner and David Scruggs.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

The Company's Statement of Policy Regarding Conflict of Interest states, "Each Board member shall disclose, either in writing or orally at the annual meeting, the Board member's affiliation with entities or transactions representing current or anticipated conflict circumstances."

The Company's Board of Directors and/or Officers did not complete annual conflict of interest questionnaires signed by the Board members and the review of the Board of Directors minutes for the period covered under this examination did not indicate and/or mention disclosure to the Board of Directors of any conflicts of interest. **Subsequent Event:** The Company's 2009 minutes reflected proper disclosure, in accordance with Company policy, of conflicts of interest to its Board.

Corporate Records

The minutes of the Board, shareholder and internal committees were reviewed for the period under examination. The review of the Company's minutes found the following issues:

- The minutes of the Board of Directors for 2008 did not contain the annual appointment or election of officers of the Company as required by the Company's Articles of Incorporation.
- There were no minutes provided of the shareholder meeting for 2008 and, therefore, they did not contain the annual appointment or election of Board members of the Company as required by the Company's Articles of Incorporation.
- There were no minutes provided for the Investment Committee for 2008.
- There were no minutes provided for the Audit Committee for 2008.
- There was no approval of Company investments during 2008.

Subsequent Event: The Company's 2009 minutes were complete and reflect the operations of the Company.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

Surplus Debentures

The Company did not have any surplus debentures at December 31, 2008.

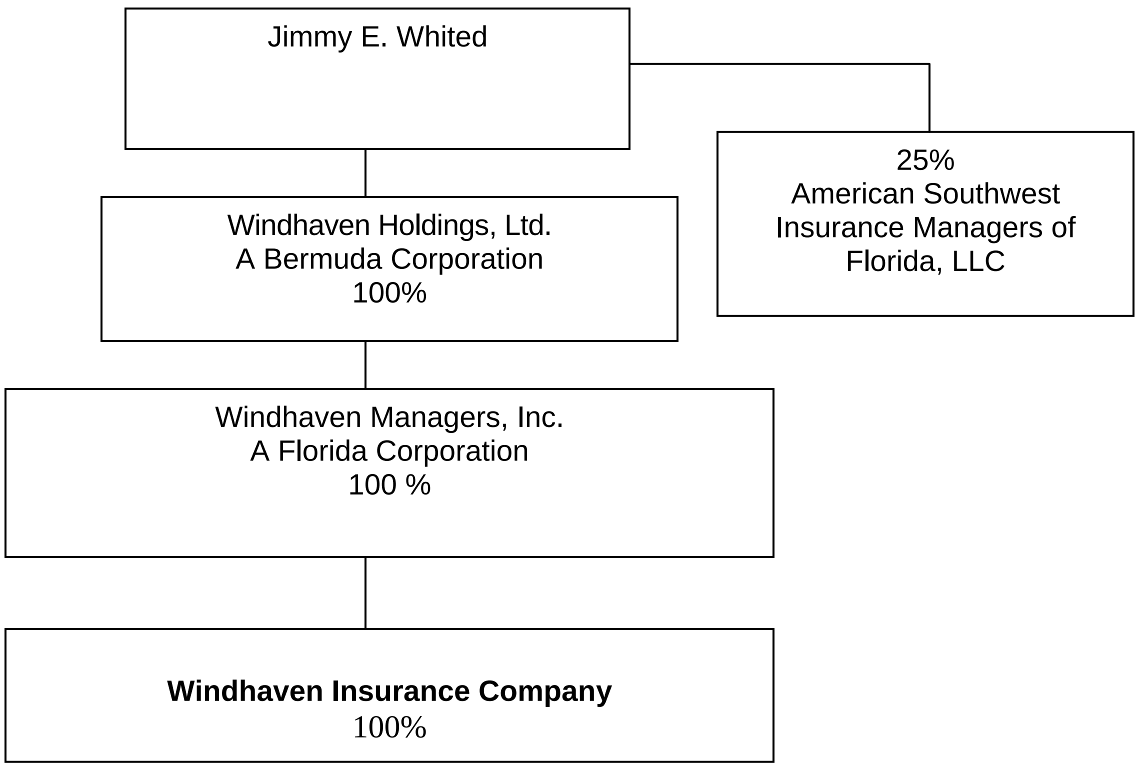
AFFILIATED COMPANIES

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 March 3, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below.

WINDHAVEN INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Managing General Agent Agreement

The Company had a Managing General Agency (MGA) Agreement with its affiliate, American Southwest Insurance Managers of Florida, LLC, (American Southwest). The agreement was effective December 30, 2005. Under the agreement, American Southwest administered 100% of the policies written by the Company and provided services for managing and administering the affairs of the Company. Services included, but were not limited to, marketing, general ledger accounting, information services, product and underwriting development and management.

Executive Management and Claims Administration Agreement

The Company had an Executive Management and Claims Administration Agreement with its parent, Windhaven Managers, Inc. The agreement was effective February 1, 2006, and provided the Company with administrative and managerial oversight of the MGA Agreement, claims administration services, as well as certain services not covered by the MGA Agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $3,000,000 with a deductible of $100,000, which was considered adequate by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of $3,000,000 with a deductible of $15,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

In August of 2006, the Company established a qualified retirement plan in accordance with the requirements of Section 401(k) of the Internal Revenue Code. The Company matches a portion of eligible employees' plan contributions and may make a discretionary profit sharing contribution.

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	CD, 2.72%	$ 750,357	$ 750,357
Total Florida Deposits		$ 750,357	$ 750,357
Total Special Deposits		$ 750,357	$ 750,357

INSURANCE PRODUCTS

Territory

At December 31, 2008, the Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed instructions for handling each type of claim in accordance with Section 626.9541 (1)(i) 3.a., Florida Statutes.

REINSURANCE

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

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 assumed no risk in 2008.

Ceded

On October 1, 2008, the Company entered into a quota share reinsurance agreement with three reinsurers. The Company ceded 85% of written business to the reinsurers from the effective date through September 30, 2009. Each reinsurer was required to pay their proportionate share of 25% of a provisional ceding commission and 9% of the provision for unallocated loss adjustment expenses. Additional provisions provided for the reinsurers to pay a maximum agreed-upon percentage of allocated loss adjustment expenses incurred and established the conditions for changes to the sliding scale ceding commission.

Effective November 1, 2007, the Company entered into a quota share reinsurance agreement with three reinsurance companies. The Company was required to cede 75% of its written business to the reinsurers from the effective date through September 30, 2008. The reinsurers were required to pay their proportionate share of 22% of provisional ceding commission and 8% provision of unallocated loss adjustment expenses. Additional provisions required the reinsurers to pay a maximum agreed-upon percentage of allocated loss adjustment expenses incurred, established the conditions for changes in the sliding scale ceding commission and required the foreign reinsurer to establish collateral for its share of any amounts due to the Company.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the year ending December 31, 2008, 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 and non-affiliates had the following agreements in effect at December 31, 2008:

Custodial Agreement

The Company did not have a formal written agreement with its custodian, Bank of America. **Subsequent Event:** The Company established a formal written custodial agreement with its new custodian, Morgan Stanley, which was filed with the Office during 2009.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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".

WINDHAVEN INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	$750,357		$750,357
Common stocks	236,149		236,149
Cash	4,993,066		4,993,066
Investment income due and accrued	9,658		9,658
Agents' Balances: Deferred premium	2,504,605		2,504,605
Reinsurance: Amounts recoverable from reinsurers	1,677,298		1,677,298
Net deferred tax asset	50,096		50,096
EDP and software	617		617
Receivable from parents, subsidiaries and affiliates	8,367		8,367
Aggregate write-ins for other than invested assets	73,311		73,311
Totals	$10,303,524	$0	$10,303,524

WINDHAVEN INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	$1,113,350		$1,113,350
Loss adjustment expenses	209,145		209,145
Other expenses	34,856		34,856
Taxes, licenses and fees	25,730		25,730
Unearned premiums	568,904		568,904
Ceded reinsurance premiums payable	3,725,250		3,725,250
Provision for reinsurance	0		0
Aggregate write-ins	128,073		128,073
Total Liabilities	$5,805,308		$5,805,308
Common capital stock	$6,200,000		$6,200,000
Surplus Notes	0		0
Gross paid in and contributed surplus	0		0
Unassigned funds (surplus)	(1,701,784)		(1,701,784)
Surplus as regards policyholders	$4,498,216		$4,498,216
Total liabilities, surplus and other funds	$10,303,524		$10,303,524

WINDHAVEN INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$3,677,360
Deductions	
Losses incurred	$2,275,560
Loss expenses incurred	480,064
Other underwriting expenses incurred	1,393,037
Total underwriting deductions	4,148,661
Net underwriting gain or (loss)	($471,301)
Investment Income	
Net investment income earned	$65,422
Net realized capital gains (losses)	(77,116)
Net investment gain or (loss)	($11,694)
Other Income	
Net gain or (loss)	0
Finance and service charges not included in premiums	$0
Total other income	$0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($482,995)
Federal income taxes	$0
Net Income	($482,995)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$4,877,645
Net Income	($482,995)
Change in net unrealized capital gains	($49,189)
Change in net deferred income tax	161,386
Change in non-admitted assets	(136,631)
Change in provision for reinsurance	128,000
Capital changes	0
Paid in surplus	0
Aggregate write-ins for gains and losses in surplus	
Change in surplus as regards policyholders for the year	($379,429)
Surplus as regards policyholders, December 31 current year	$4,498,216

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $ 1,322,495

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Actuarial Review

The Office contracted with independent actuaries, INS Consultants, Inc., to perform an actuarial review. The independent actuaries reported that the recorded December 31, 2008, reserves made reasonable provisions for the gross and net unpaid loss and loss adjustment expenses.

Capital and Surplus

The amount reported by the Company of $4,498,216 exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

WINDHAVEN INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2008

Surplus as Regards Policyholders December 31, 2008, per Annual Statement				$4,498,216
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No adjustment				
LIABILITIES: No adjustment				
Net Change in Surplus:				
Surplus as Regards Policyholders December 31, 2008, Per Examination				$4,498,216

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the recommendations made in the 2007 examination report issued by the Office.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Windhaven Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was $4,498,216, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Greg Taylor, CFE, InsRis Examiner in Charge; Eugene Thompson, Actuary, ACAS, MAAA and Jim Neidermyer, Actuary, FCAS, MAAA participated in the examination. We also recognize INS Services, Inc.'s participation in the examination.

Respectfully submitted,

James M. Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation