

REPORT ON EXAMINATION

OF THE

CLOVE PARK INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MAY 29, 2009

EXAMINER

VERONICA DUNCAN BLACK

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 29, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30288 dated January 29, 2009 attached hereto, I have made an examination into the condition and affairs of Clove Park Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Clove Park Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's offices located at 300 Broadhollow Road, Melville, New York 11747.

1. SCOPE OF EXAMINATION

The purpose of this examination was to determine whether the Company was operating within its by-laws, was conforming to Article 70 of the New York Insurance Law, and was in compliance with its plan of operation as submitted to the Department.

A review was conducted of the Company's operations, from its date of incorporation as a New York captive insurance company, November 21, 2003 through December 31, 2007. The review included an analysis of the Company's financial condition, the corporate records, and limited tests of the various income and disbursement items as deemed necessary. This report is submitted on an "exception" basis. Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants ("CPA") to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company was incorporated on November 21, 2003 and commenced operations as a captive insurance company under the laws of the State of New York on December 22, 2003. The Company is a wholly-owned subsidiary of Delaware Capital Formation, Inc., which is ultimately owned by the Dover Corporation ("Dover"). Dover is a world-wide, diversified manufacturer of industrial products that serves a variety of industrial and commercial markets including energy, product identification, material handling, electronic components and equipment, mobile equipment, fluid solutions, and engineered products.

A. Articles of Incorporation

The purpose of the Company, as stated in its articles of incorporation, was to form a corporation for the purpose of transacting the kinds of insurance specified in Section 1113 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The by-laws of the Company were reviewed, and it was determined that the Company was operating in full conformity with its by-laws in all material respects.

C. Capital Structure

The Company was incorporated as a pure captive insurance company. On November 21, 2003, the Company issued 100,000 shares of common stock at of \$1 par value per share to its parent company, Dover, in exchange for \$10,000,000 dollars. Effective December 22, 2003, the Company received an additional consideration of \$2,743,000 as result of a reinsurance transaction. This is discussed under the heading "Reinsurance", subsection F herein. On December 31, 2004, the Dover Corporation contributed CP Formation LLC to the Company. CP Formation LLC holds the rights to various product patents. The patents are carried at amortized cost and had a value of \$389,100 at December 31, 2004. On January 1, 2005, the patents were transferred at their amortized cost of \$389,100 to several subsidiaries of the Dover Corporation. This entire transaction was treated as a non-cash capital contribution.

Gross paid in and contributed surplus did not change during the examination period. The gross paid in and contributed surplus is as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2003	Beginning paid in capital and contributed surplus		\$12,643,000
2004	Surplus contribution	\$389,100	
2005	Surplus reduction	<u>(389,100)</u>	
	Net surplus contribution		<u>0</u>
2007	Ending paid in capital and contributed surplus		<u>\$12,643,000</u>

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Plan of Operation

The Company's plan of operation states that it will provide its ultimate parent company, the Dover Corporation and all of its domestic subsidiaries with insurance coverages as permitted by Article 70 of the New York Insurance Law. The initial plan stated that the Company would write commercial automobile liability, workers' compensation liability, commercial general liability and property coverage on a direct basis. In 2004, the Company revised its business plan to include indemnity reimbursement liability policies for directors and officers fiduciary, crime and employment practices. The Company also amended its business plan to include a medical stop loss indemnification policy, which would reimburse its parent company for health claims.

F. Reinsurance

The Company participated in two assumed reinsurance arrangements for the period under examination. A review of the agreements shows that the agreements were in compliance with Sections 7010(c) and Section 1308 of the New York Insurance Law.

Effective June 30, 2007, the Company entered into an assumed reinsurance agreement with a third party insurer, whereby the Company agreed to reinsure property liability policies issued by such third party insurer, or by other insurers authorized by the third party and reinsured by such third party to the Company's parent company and its subsidiaries. The agreement provides coverage for the difference between \$1,000,000 and the local policy deductible subject to the terms and conditions of the annual deductible. The annual aggregate limit for property liability is \$3,000,000.

Effective December 22, 2003, the Company entered into an assumption reinsurance agreement with its parent company. Under the terms of the agreement, the Company agreed to assume liabilities from its parent company for insurance related to workers' compensation, general liability, product liability and automobile policies policy years 1980 through 2003. The Company received a total consideration of \$61,000,000 and assumed loss reserves of approximately \$58,257,000. The Company received an excess consideration of \$2,743,000, which was treated as a capital contribution.

The Company did not participate in any ceded reinsurance arrangements for the period under examination.

G. Management

Captive Manager

The Company is managed by Marsh Management Services, Inc., (“Marsh”) pursuant to Section 7003(b)(4) of the New York Insurance Law. Effective December 22, 2003, the Company executed a management agreement with Marsh. The agreement requires Marsh to perform, under the direction and control of the Company, certain management and administrative services, including underwriting and policyholder, accounting, claims administrative, and any regulatory reporting services deemed necessary to the captive insurer.

Board of Directors

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three, but nor more than ten members. At December 31, 2007, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert G. Kuhbach New York, NY	Vice President, Finance & Chief Financial Officer, Dover Corporation
Raymond McKay New York, NY	Vice President & Controller, Dover Corporation
Joseph W. Schmidt New York, NY	Vice President, General Counsel & Secretary, Dover Corporation

A review of the minutes of the board of directors’ meetings held during the examination period indicate that the meetings were generally well attended and that each board member has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert G. Kuhbach	President
Joseph W. Schmidt	Secretary
Paul E. Goldberg	Treasurer
Brian G. Harris	Chief Actuary Officer/Controller
William J. Fealey	Vice President
George Pompetzki	Vice President

H. Certified Public Accountant and Actuarial Services

The Company was audited by Saslow Lufkin & Buggy, LLP for the periods ended December 31, 2007 and 2006. The Company was audited by PriceWaterHouseCooper for the prior periods, December 31, 2003 through December 31, 2005. Scott Dodge of Towers Perrin provided actuarial services for the Company for the periods ended December 31, 2004 through December 31, 2007. Lawrence Williams of Marsh Management Services, Inc. provided actuarial services as of December 31, 2003. The Company filed its certified public accountant's financial statements annually on or before July 1 for all of the years under examination.

I. Growth of Company

The following schedule sets forth the Company's significant summary financial information for the years covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2003	\$ 0	\$ 8,258	\$ 79,267,221	\$12,751,258
2004	\$25,483,427	\$ 349,670	\$ 85,746,440	\$13,490,028
2005	\$26,127,222	\$ 2,237,688	\$100,605,977	\$15,338,616
2006	\$26,373,278	\$ 8,558,168	\$109,759,774	\$23,896,784
2007	\$27,701,738	\$10,825,069	\$127,360,212	\$34,721,853

3. FINANCIAL STATEMENTS

A Balance Sheet

The financial statements of the Company are presented in conformity with generally accepted accounting principles. The financial position of the Company, as presented and accepted, was audited by the Company's certified public accountant:

Balance Sheet December 31, 2007

Asset

Cash	\$ 369,444
Savings and certificate of deposit	95,384,370
Accounts and premiums receivable	27,082,505
Other assets – Deferred tax asset	4,517,668
Deferred New York franchise tax	<u>6,225</u>
 Total assets	 <u>\$127,360,212</u>

Liabilities, Capital and Surplus

Liabilities

Losses	\$64,758,069
Loss adjustment expense	15,688,405
Commissions, expenses and fees	44,500
Taxes payable	10,225,249
Unearned premium	1,753,667
Funds held under reinsurance contracts	166,523
Unearned ceding commissions	<u>1,946</u>
 Total liabilities	 \$92,638,359

Capital and Surplus

Paid in capital	\$ 100,000
Contributed surplus	12,643,000
Surplus (accumulated earnings)	<u>21,978,853</u>
 Total capital and surplus	 <u>34,721,853</u>
 Total liabilities, capital and surplus	 <u>\$127,360,212</u>

B. Statement of Income

Capital and surplus increased \$21,970,595 during the four-year examination period, December 31, 2003 through December 31, 2007.

Underwriting Income

Net premiums earned		\$105,685,665
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Underwriting Expense

Net losses incurred	\$66,011,839	
Net loss adjustment expense	16,878,337	
Commission and brokerage	134,987	
General and administrative	564,418	
Other underwriting expense	<u>308,461</u>	
Total underwriting expense		<u>83,893,042</u>
Underwriting profit(loss)		\$21,792,623
Investment income (net)		<u>13,485,735</u>
Income before dividends and taxes		\$35,278,358
Taxes		<u>13,307,763</u>
Net income		<u>\$21,970,595</u>

C. Capital and Surplus Account

Capital and surplus at December 31, 2003			\$12,751,258
	<u>Increase</u>	<u>Decrease</u>	
Net income	\$ 21,970,595		
Surplus adjustments – paid in (non cash contribution of CP Formation, LLC)	389,100		
Other: Sale of investment in LLC	445,610,900		
Distribution of investment in LLC	<u>0</u>	<u>\$446,000,000</u>	
Total increase and decrease	<u>\$467,970,595</u>	<u>\$446,000,000</u>	
Net increase in surplus			<u>21,970,595</u>
Surplus as regard policyholder, per report on examination as of December 31, 2007			<u>\$34,721,853</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company reported losses and loss adjustment expenses of \$80,446,474 as of December 31, 2007. The examiner did not independently review the loss reserves but rather relied upon the opinion of the Company's actuary and certified public accountant. The Company's actuary at December 31, 2007 was Scott Dodge of Towers Perrin, and its certified public accountant was Saslow Lufkin & Buggy, LLP.

The purpose of the actuarial opinion is to provide an evaluation as to the reasonableness of the Company's loss reserves at year end. The actuary has determined that the Company has made reasonable provisions for its unpaid losses and loss expense obligations as of December 31, 2007. Mr. Scott Dodge states in his Statement of Actuarial Opinion that the Company's reserves:

“meet the requirements of the insurance laws of New York; are consistent with amounts computed in accordance with Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practices promulgated by the Actuarial Standard Board; and make reasonable provision for unpaid loss and loss expense obligation of the Company under the terms of its contracts and agreements.”

Based upon the actuarial opinion, no changes have been made to the reserves reported by the Company.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing law for the formation and continued operation of captive insurance companies in New York State. A review was performed to test the Company's compliance with Article 70. No material area of non-compliance with Article 70 was found during the course of this examination.

6. INSURANCE PROGRAM

The Company was licensed as a captive insurance company to provide certain deductible insurance coverage on a direct basis to its parent company and affiliates. The Company is responsible for losses and loss adjustment expenses arising out of obligations for deductible amounts contained in its parent company's overlying insurance policies. For the period under examination, the Company offered the following deductible insurance coverages on an occurrence and a claims-made basis:

1. Automobile, products, workers' compensation and general liability deductible reimbursement policy provides indemnification for deductible amounts ranging from \$500,000 to \$5,000,000 per occurrence for any losses related to automobile, products, workers' compensation and general liability. The policy also provides for an annual aggregate limit of \$43,054,000.
2. Directors and officers' liability deductible reimbursement policy provides a limit of \$4,750,000 excess of \$250,000 ultimate net loss per occurrence.
3. Employment practices liability deductible reimbursement policy provides a limit of \$2,000,000 excess of \$3,000,000 ultimate net loss per occurrence standard case/class action claim.
4. Fiduciary liability deductible reimbursement policy provides a limit of \$900,000 excess of \$100,000 ultimate net loss per occurrence.
5. Crime liability deductible reimbursement policy provides a limit of \$100,000 excess of \$250,000 ultimate net loss per occurrence.
6. Medical stop loss insurance policy provides a limit of \$4,650,000 excess of \$350,000 ultimate net loss per covered person. There are no annual aggregate limits for the directors and officer' liability, employment practices liability, fiduciary liability, crime liability and medical stop loss insurance policies.

All of the captioned policies provide coverage for acts of terrorism as defined under the Terrorism Risk Insurance Act of 2002 ("TRIA" or "the Act"). On November 26, 2002, TRIA was signed into law. On December 26, 2007, the President of the United States signed the Terrorism Risk Insurance Program Reauthorization Act of 2007 into law, which extended TRIA through December 31, 2014. The Act created a United States ("U.S.") government facility that provides reinsurance coverage to insurers as a result of declared terrorism events. The Act established a "program trigger" that must be met before the Treasury will cover a loss. The program trigger is currently \$100 million and applies to all certified acts of terrorism. When the program is triggered, the Federal government is required to pay 85% of insured terrorism losses in excess of individual insurer trigger/deductible while the insurer pays 15%.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no recommendation.

Appointment No. 30288

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Veronica DuncanBlack

as proper person to examine into the affairs of the

CLOVE PARK INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as she shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 29th day of January, 2009



A handwritten signature in black ink that reads "Eric Dinallo". The signature is written in a cursive style and is positioned above a horizontal line.

ERIC R. DINALLO

Superintendent of Insurance