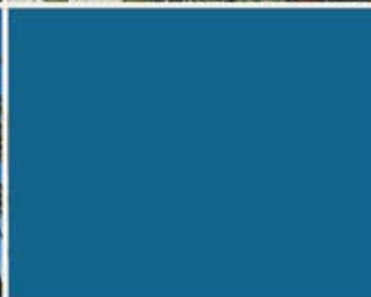


A POLICY **TO DO MORE<sup>®</sup>**

1954



**FHM**  
INSURANCE  
COMPANY

2007 annual report



# Letter from administration

Dear Policyholder:

2007 was another year of continued profitability and financial stability for FHM. Once again, the company completed the year in a strong financial position with year-end financials showing our largest ever surplus of \$49.3 million.

Coupled with our strong financial results and outstanding achievements was the loss of our long-time friend and leader, Board Chairman James E. "Jimmy" Brock on September 11, 2007. The memories of Mr. Brock and the experiences we shared with him will always be with us as a constant reminder of how he cared for us and touched our lives. FHM is part of the living legacy of this industry giant who stood tall as a man of honor and a caring and compassionate human being.

Jack Healan, President of the Amelia Island Plantation Company, became FHM's new Board Chairman with a commitment to continue enhancing the company's ability to maintain its position as an industry leader.

During 2007, we achieved two technology-related milestones. The first milestone came in August 2007, when the last FHM policyholder converted from receiving hard copy loss runs to retrieving them via the FHM website. All FHM agents and policyholders can access claim information online whenever it's needed and in a variety of formats to meet their individual needs.

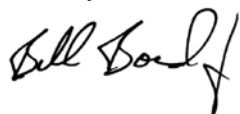
The second milestone occurred November 1, 2007 when we completed our conversion to Tropics, a state-of-the-art software system designed for the workers' compensation industry. Tropics provides greater flexibility to FHM, policyholders and agents for collecting, managing and reporting information. In the very near future, we will be making available to you, the ability to access your policy information on-line.

In October 2007, we joined forces with the Georgia Restaurant Mutual Captive Insurance Company (GRMCIC) whose philosophy is to underwrite properly and consistently, price adequately to ensure financial integrity and provide high quality loss control, policy and claims servicing to its policyholders – a perfect fit with FHM. As the year came to an end, we rolled GRMCIC's accounts into our book and began to look for further opportunities to expand our horizons. I am pleased to report that in April, 2008, FHM received its license to write business in Alabama.

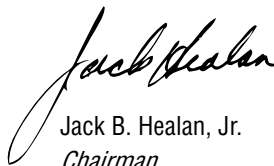
The end of 2007 saw us preparing for another sizeable rate decrease in Florida by developing a strategy to ensure we identify and capitalize on opportunities to enhance our book of business with quality accounts while maintaining our strong financial position.

As we look forward to 2008, we pause to say a final fond farewell to our long-time friend and leader and to thank each of our policyholders and agents. Your continued willingness to work with us to create and maintain safe workplaces, provide quality care for injured workers, find newer and better ways to manage your workers' compensation program and explore new horizons. We appreciate your continuing trust and confidence and want you to know we stand firm in our commitment that "A Policy To Do More" is more than just a slogan . . . it's the way we do business.

Sincerely,



Bill Bond, Jr.  
*President*



Jack B. Healan, Jr.  
*Chairman*



Jack Lemine  
*Chief Operating Officer*

# letter from the audit committee

The Audit Committee of FHM Insurance Company reviewed the Company's audited financial statements for the year ending December 31, 2007. The Committee reviewed and discussed the financial statements with management which has primary responsibility for the financial statements.

The Audit Committee received from its external accountants the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) which confirm, in their professional judgment, that the external accountants are independent of the Company and the Audit Committee. The Audit Committee also met with the Company's external auditors, with and without management present, to discuss the Company's audited financial statements, the external auditor's judgments of the quality of the accounting principles applied to the audit, the significant judgments affecting the Company's financial statements, and other matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees).

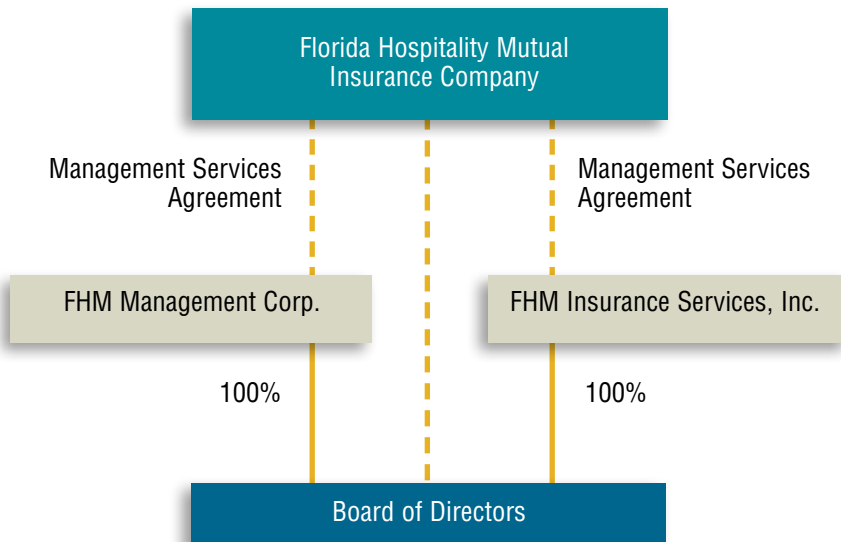
Based on our review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors, and the Board approved, including condensed statutory statements of the audited financial statements in the Company's Annual Report.

The foregoing report is provided by the following directors who constitute the Audit Committee:



George D. Gabel, Jr., Chair

Walter L. Banks  
Mary Ann Richardson  
Joseph G. Seay



# condensed statutory statements

## STATUTORY BALANCE SHEETS

		Year ended December 31, 2007	Year ended December 31, 2006
<b>ADMITTED ASSETS</b>			
Cash and Invested Assets	\$	122,312,297	117,868,101
Other Assets		12,602,219	14,795,788
Total Admitted Assets	\$	<u>134,914,516</u>	<u>132,663,889</u>
<b>LIABILITIES AND SURPLUS</b>			
Loss and Loss Adjustment Expense Reserves	\$	68,509,492	69,496,834
Other Liabilities		17,121,173	16,837,939
Total Liabilities		<u>85,630,665</u>	<u>86,334,773</u>
Surplus		49,283,851	46,329,116
Total Liabilities and Surplus	\$	<u>134,914,516</u>	<u>132,663,889</u>

## STATUTORY STATEMENTS OF INCOME

		Year ended December 31, 2007	Year ended December 31, 2006
<b>REVENUES</b>			
Direct Premiums Earned	\$	39,201,239	41,703,996
Ceded Premiums Earned		(2,260,742)	(2,095,235)
Net Premiums Earned		<u>36,940,497</u>	<u>39,608,761</u>
Net Investment Income		5,753,790	4,937,779
Net Revenues		<u>42,694,287</u>	<u>44,546,540</u>
<b>EXPENSES</b>			
Net Loss and Loss Adjustment Expenses		27,051,729	24,620,190
Underwriting, Operating and Other Expenses		11,030,295	12,278,333
Net Expenses		<u>38,082,024</u>	<u>36,898,523</u>
Net Income Before Income Taxes and Policyholder Dividends		4,612,263	7,648,017
Policyholder Dividends		1,890,000	555,000
Net Income Before Income Taxes		<u>2,722,263</u>	<u>7,093,017</u>
Income Taxes		777,320	1,683,137
Net Income	\$	<u>1,944,943</u>	<u>5,409,880</u>

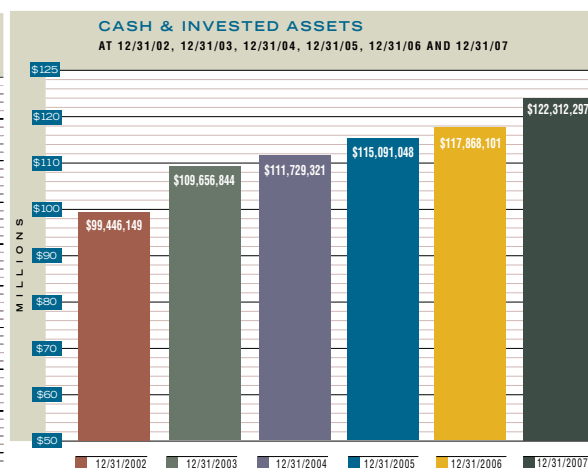
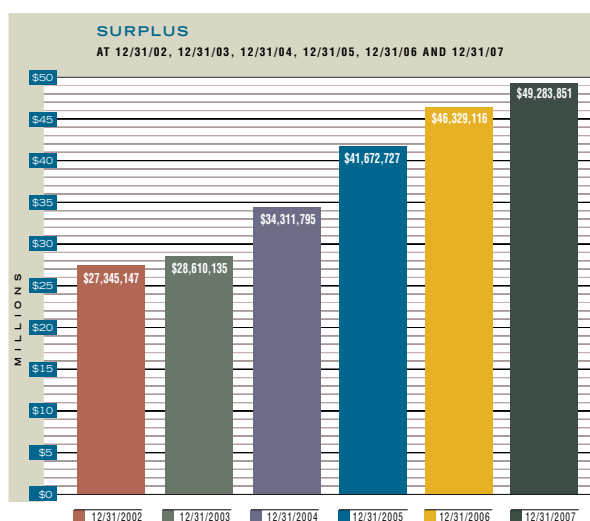
# condensed statutory statements

## STATUTORY STATEMENTS OF CASH FLOW

		Year ended December 31, 2007	Year ended December 31, 2006
Net Cash From Operations	\$	2,351,182	3,404,592
Total Cash Provided From Investments and Other Sources		35,411,490	33,210,758
Total Cash Applied (primarily for purchase of investments)		(34,161,721)	(38,207,338)
Net Change in Cash and Short-Term Investments		3,600,951	(1,591,988)
Cash and Short-Term Investments, Beginning of Year		2,182,466	3,774,454
Cash and Short-Term Investments, End of Year	\$	<u>5,783,417</u>	<u>2,182,466</u>

## STATUTORY STATEMENTS OF SURPLUS

		Year ended December 31, 2007	Year ended December 31, 2006
Surplus, Beginning of Year	\$	46,329,116	41,672,727
Net Income		1,944,943	5,409,880
Other Changes in Surplus, Net		1,009,792	(753,491)
Surplus, End of Year	\$	<u>49,283,851</u>	<u>46,329,116</u>





## **FHM Insurance Company**

Corporate Office: 4601 Touchton Road East • Building 300 • Suite 3150 • Jacksonville, Florida • 32246 • 904-724-9890

**[www.fhmic.com](http://www.fhmic.com)**

Service Office: P.O. Box 616648 • Orlando, Florida • 32861 • 888-346-3461

©2008 FHM Insurance Company, Inc. All rights reserved. "A Policy To Do More" is a registered trademark of FHM Insurance Company, Inc.