



Mississippi Insurance Department

Amended Report of Examination

of

VERSANT CASUALTY INSURANCE COMPANY

as of

December 31, 2015

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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Maryland,

County of Baltimore,

David A. Palmer, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Versant Casualty Insurance Company as of December 31, 2015.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Versant Casualty Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

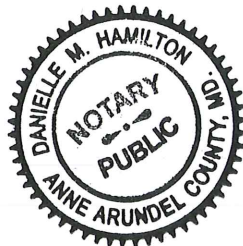
The affiant says nothing further.

David A. Palmer
Examiner's Signature

Subscribed and sworn before me by Danielle Hamilton on this 23 day of May, 2017.

(SEAL)

Danielle Hamilton
Notary Public



My commission expires _____ [date].

MY COMMISSION EXPIRES AUGUST 19, 2019



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of
Insurance

MISSISSIPPI INSURANCE DEPARTMENT

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May 25, 2017

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2015, of the affairs and financial condition of:

VERSANT CASUALTY INSURANCE COMPANY

190 East Capital, Suite 800
Jackson, MS 39201

| License # | NAIC Group # | NAIC # | FEETS# | MATS# |
|-----------|--------------|--------|-----------------|------------|
| 0000037 | 905 | 11124 | 11124-MS-2015-6 | MS-MS099-3 |

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and was performed in Baton Rouge, Louisiana, at the main administrative home office of the Company. The report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed a full scope, risk-focused financial examination of Versant Casualty Insurance Company (“Company”). The last examination covered the period of January 1, 2008, through December 31, 2010. This examination covers the period January 1, 2011, through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

There were no comments and/or recommendations deemed necessary for purposes of the previous examination report.

HISTORY OF THE COMPANY

The Company, incorporated in December of 2000, was initially licensed by the Mississippi Insurance Department (“MID”) in April of 2001. The Company was organized with the specific intent to carry on the business commonly known as vehicle service contract reimbursement insurance, as provided for by Miss. Code Ann. § 83-65-101. The authorized stock of the Company at the time of incorporation was 1,000,000 shares of common stock; par value \$1 per share. At December 31, 2015, the Company had 1,000,000 shares authorized, issued and outstanding to Versant Holdings, Inc., which was controlled by Louisiana Dealer Services Insurance, Inc. The Company had capital stock in the amount of \$400,000 until December 31, 2015. Effective December 31, 2015, the Company declared a stock dividend of \$600,000. The recognition of the dividend resulted in a reclassification of \$600,000 from unassigned surplus to common capital stock as of December 31, 2015.

CORPORATE RECORDS

The minutes of the meetings of Stockholders and Board of Directors (“Board”), regarding the Company’s business affairs as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company’s business affairs with the Board of Directors (“Board”). The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2015, were as follows:

| Name and Residence | Year Elected/Appointed | Principal Occupation |
|---|------------------------|---|
| Dick Steven Taylor Baton Rouge, Louisiana | 2000 | Executive Vice President, Versant Casualty Insurance Company |
| James Bailey Estabrook Jr. Pascagoula, Mississippi | 2000 | President, Estabrook Motor Company, Inc. |

| | | |
|--|------|--|
| Arthur James Oustalet III Gulfport, Mississippi | 2000 | President, Butch Oustalet, Inc. |
| Michael Evans Ryan Hattiesburg, Mississippi | 2000 | President, Ryan Motors, Inc. |
| Ross Early Downing Hammond, Louisiana | 2000 | President, Ross Downing Chevrolet |
| Larry Dean Hart D'Iberville, Mississippi | 2000 | President, Bayside Chrysler Dodge Jeep |
| Robert Tucker Weinmann Gulfport, Mississippi | 2003 | Automobile Dealer |
| Matthew George McKay Baton Rouge, Louisiana | 2006 | President/Owner of Automobile Dealerships |
| Richard T. Foley Gulfport, Mississippi | 2010 | Automobile Dealer |
| Joseph Keith Decell Baton Rouge, Louisiana | 2010 | President, Versant Casualty Insurance Company |
| Bradley Yarbrough Natchez, Mississippi | 2015 | President, Natchez Ford Lincoln |

Committees

The Company utilized an Investment Committee during the examination period. The Company's Board of Directors acted as the Audit Committee in instances where such was required. The following directors/officers served on the Investment Committee at December 31, 2015:

Committee Structure

| |
|-----------------------------|
| Investment Committee |
| Joseph Keith Decell |
| James Bailey Estabrook, Jr. |
| Arthur James Oustalet III |
| Dick Stephen Taylor |
| Ross Early Downing |
| Joseph Raymond Beatty |
| Matthew George McKay |

Officers

| Name | Year Elected/Appointed | Title |
|---------------------|-------------------------------|---------------------------------------|
| Joseph Keith Decell | 2014 | President and Chief Executive Officer |

| | | |
|-----------------------------|------|---|
| James Bailey Estabrook, Jr. | 2000 | Secretary |
| Arthur James Oustalet III | 2000 | Treasurer |
| Dick Stephen Taylor | 2014 | Executive Vice President |
| Michael Evans Ryan | 2000 | Vice President |
| Joseph Raymond Beatty | 2000 | Chief Financial Officer, Assistant Secretary, Assistant Treasurer |
| Mark Jeffrey Paxton | 2000 | Operations Officer |

Conflict of Interest

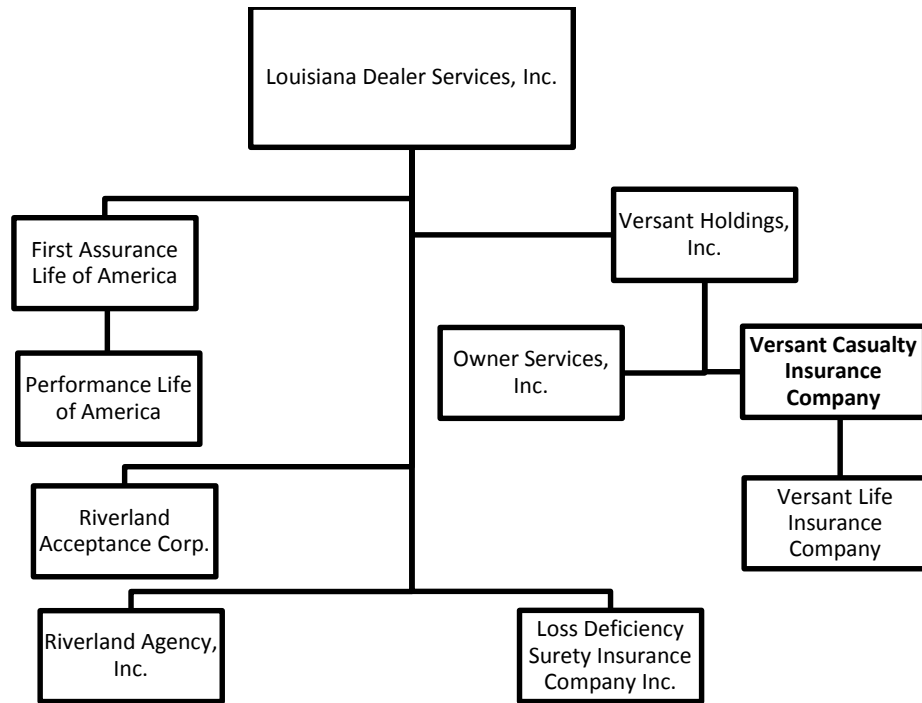
The Company has formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts or exceptions to the Company's policies were noted.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with the MID in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. The statements and applicable amendments that were filed with the MID during the examination period were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates were appropriately disclosed.

Organizational Chart

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown below. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.



Parent and Affiliated Companies

The following is information concerning the Company’s affiliates and subsidiary:

Louisiana Dealer Services Insurance, Inc. (“LDS”): This Louisiana-domiciled insurer was formed in 1977 and provided mechanical breakdown insurance. This company acted as the controlling company of the holding company group.

Versant Holdings, Inc. (“VHI”): This company was a 62.08% owned subsidiary of LDS. Through its directly and indirectly owned subsidiaries, VHI provided vehicle service contracts, guaranteed automotive protection coverage (GAP), and credit life and credit disability insurance to consumers. VHI currently has a private placement offering underway which is only for new franchise vehicle dealers in Mississippi. VHI, during the examination period, did not have any significant operating activities independent of its subsidiaries.

Owner Services, Inc. (“OSI”): This company, a wholly owned subsidiary of VHI, issued vehicle service contracts that provided protection against the risk of economic loss resulting from mechanical failure of specified automobiles and truck part components, and also issued GAP contracts. The company’s risks are insured by Versant Casualty.

Versant Life Insurance Company: This company, a Mississippi-domiciled life insurance company, whose voting stock was majority owned by the Company, issued credit life and credit disability policies, sold through automobile dealerships.

Riverland Acceptance Corporation: This company, a wholly owned subsidiary of LDS, financed premiums for vehicle mechanical breakdown contracts written by LDS.

Riverland Agency, Inc.: This company, a wholly owned subsidiary of LDS, distributes ancillary financial institution products written by Louisiana Dealer Services Insurance clients. The company also performs administrative and consulting services for certain non-affiliated mechanical breakdown insurers in Louisiana.

First Assurance Life of America (“FAL”): This Louisiana-domiciled company, a wholly owned subsidiary of LDS, issued credit life and credit accident and health insurance in the state of Louisiana.

Performance Life of America: This Louisiana-domiciled company, whose voting stock was wholly owned by FAL, reinsured credit life and credit accident and health insurance written by FAL.

Loss Deficiency Surety Insurance Company, Inc.: This Louisiana-domiciled company is a Property Residual Value insurer organized in 1996 for the purpose of issuing guaranteed automotive protection policies providing protection against the risk of economic loss resulting from a deficiency in the amount paid by the primary insurance company in the event of a total loss and the amount owed to a lessor or lienholder. The company only writes business in the state of Louisiana.

Affiliated and Related Party Transactions

Cost Sharing Agreement

Effective March 1, 2010, the Company entered into an expense sharing agreement with LDS. Pursuant to this agreement, the Company pays LDS \$1,000 per month for actuarial expenses. The Company paid a total of \$12,000 in 2015 under this agreement.

Administrative Services and Retroactive Compensation Agreement

Effective December 17, 2007, the Company entered into an administrative services and retroactive compensation agreement with OSI. Pursuant to this agreement, OSI provides sales and service personnel, contract administration, claims administration and general administration services. The Company pays OSI a commission based on earned premiums less claims incurred. For service contracts the commission rate was 42% of earned premiums less paid claims. For GAP waiver addendum contracts, the commission was 25% of earned premiums less incurred claims, or \$4,000 monthly, whichever was greater. The Company paid a total of \$1,501,380 in 2015 under this agreement.

Administrative Services Contract with Versant Life Insurance Company

Effective January 1, 2008, the Company entered into an administrative services agreement with Versant Life. Pursuant to this agreement, Versant Casualty provided review of monthly and annual financial statements, review of forms and reports as required by regulators, review of participation/retroactive commission program, and consultation and review in regard to the preparation of computer reports and listings as required by Versant Life. Versant Life will pay a fee equal to 1.4% of net written life premium, plus 1.4% of net earned accident and health premium. The Company received a total of \$12,693 in 2015 under this agreement.

Privacy Agreement

Effective January 23, 2008, the Company entered into a privacy agreement with Versant Life Insurance Company. Pursuant to the agreement, Versant Casualty agrees that all personal, medical, or any other information gathered or handled by Versant Life Insurance Company will be regarded as confidential.

Tax Allocation Agreement

The Company was party to a tax allocation agreement between Versant Holdings, Inc. and each of its subsidiaries. Pursuant to this agreement, the Company was included in the consolidated tax return of Versant Holdings, Inc.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured under a fidelity bond issued to the LDS group in the amount of \$1,000,000. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for these companies.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any direct employees, nor did it provide any benefits or welfare programs for its officers or directors.

TERRITORY AND PLAN OF OPERATION

The Company was licensed in the State of Mississippi and was granted a license in the State of Alabama on December 11, 2015, to issue casualty/liability coverage and, during the period under examination, the Company issued reimbursement coverage to a related party provider of vehicle service contracts, OSI, and GAP contracts that were written through automobile dealerships.

GROWTH OF COMPANY

The review of the growth of the Company was performed based on balances reported in the annual statements filed with the MID during the period under examination.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|--------------|--------------|--------------|--------------|--------------|
| Total admitted assets | \$35,674,165 | \$29,555,557 | \$24,896,048 | \$20,725,832 | \$17,347,462 |
| Total liabilities | \$21,898,149 | \$17,071,638 | \$13,662,849 | \$10,474,914 | \$8,460,517 |
| Total capital and surplus | \$13,776,016 | \$12,483,918 | \$11,233,197 | \$10,250,916 | \$8,886,946 |
| | | | | | |
| Net cash from operations | \$6,154,398 | \$4,860,591 | \$4,023,480 | \$3,064,408 | \$2,208,513 |
| | | | | | |
| Total adjusted risk-based capital | \$13,781,016 | \$12,483,918 | \$11,233,197 | \$10,250,916 | \$8,886,946 |
| Authorized control level risk-based capital | \$466,559 | \$191,372 | \$191,972 | \$158,440 | \$119,233 |
| | | | | | |
| Premiums Earned | \$5,963,698 | \$5,026,787 | \$4,134,583 | \$3,547,020 | \$3,321,623 |
| Net underwriting gain (loss) | \$1,573,177 | \$1,521,275 | \$1,124,146 | \$1,306,228 | \$1,215,557 |
| Net Income | \$1,324,208 | \$1,208,774 | \$754,069 | \$895,890 | \$950,856 |

REINSURANCE

Effective January 1, 2015, the Company entered into various 100% quota share reinsurance agreements with unauthorized reinsurers. The Company will cede to the reinsurers 100% of the Company's insurance obligations and liabilities under a vehicle service contract reimbursement policy with respect to approved vehicle service contracts written through designated producing locations. Pursuant to the reinsurance agreements, the unauthorized reinsurers are required to establish a funds held custodial account with the Company. Pursuant to the funds held (custodial) agreements between the Company and the unauthorized reinsurers, the reinsurers are required to maintain a certain balance in the custodial account. As of December 31, 2015 the Company had entered into agreements with six unauthorized reinsurers.

ACCOUNTS AND RECORDS

The 2015 trial balance of the Company's accounts was traced to the balance sheet of the Company's statutory annual statement filed with the MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

The Company utilized an IBM AS400 operating system for the processing of its records. The Company maintains supporting documentation that was reviewed during the examination as applicable.

The Company was licensed as a single-line property and casualty insurance company pursuant to Miss. Code Ann. § 83-19-31(a), which required the Company to maintain a minimum capital of \$400,000 and surplus of \$600,000. Pursuant to Miss. Code Ann. § 83-5-55, the Company was required to file an NAIC Property and Casualty Annual Statement. The Company was also required to file a risk-based capital (RBC) report pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

STATUTORY DEPOSITS

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. § 83-19-31(2). The following chart displays the Company's total statutory deposits as held at December 31, 2015:

| <u>Description of Security</u> | <u>Par Value</u> | <u>Fair Value</u> |
|---------------------------------------|-------------------------|--------------------------|
| Certificate of Deposit | \$100,000 | \$100,000 |
| Certificate of Deposit | \$100,000 | \$100,000 |
| Total | <u>\$200,000</u> | <u>\$200,000</u> |

FINANCIAL STATEMENTS

Introduction

The financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015, a Statement of Income for the year ended December 31, 2015, and a Reconciliation of Capital and Surplus for the examination period ended December 31, 2015.

The following financial statements are based on the statutory financial statements filed by the Company with the Mississippi Insurance Department and present the financial condition of the Company for the period ending December 31, 2015.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2015**

ASSETS

| | |
|---|---------------------|
| Bonds | \$28,477,721 |
| Common stocks | 3,496,019 |
| Cash and cash equivalents | 1,832,018 |
| Investment income due and accrued | 252,186 |
| Uncollected premiums and agents balances | 728,793 |
| Net deferred tax asset | 886,559 |
| Receivables from parent, subsidiaries, and affiliates | 869 |
| Total Assets | <u>\$35,674,165</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|--|---------------------|
| Losses | \$523,610 |
| Other expenses | 213,043 |
| Taxes, licenses, and fees | 4,696 |
| Current federal and foreign income taxes | 513,422 |
| Unearned premiums | 18,490,966 |
| Funds held by company under reinsurance treaties | 2,009,067 |
| Provision for reinsurance | 5,000 |
| Payable to parent, subsidiaries, and affiliates | 138,345 |
| Total Liabilities | <u>\$21,898,149</u> |
| Common capital stock | \$1,000,000 |
| Gross paid in and contributed surplus | 2,464,191 |
| Unassigned funds (surplus) | 10,311,825 |
| Surplus as regards policyholders | <u>\$13,776,016</u> |
| Total liabilities and surplus | \$35,674,165 |

**SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2015**

| | |
|---|--------------------|
| Premiums earned | \$5,963,698 |
| Losses incurred | 2,588,460 |
| Other underwriting expenses incurred | 1,802,061 |
| Total underwriting deductions | <u>\$4,390,521</u> |
| Net underwriting gain (loss) | \$1,573,177 |
| Net investment income earned | \$637,645 |
| Net realized capital gains (losses) | 4,913 |
| Net investment gain | <u>\$642,558</u> |
| Total other income | <u>\$45,105</u> |
| Federal and foreign income taxes incurred | <u>\$936,632</u> |
| Net Income | <u>\$1,324,208</u> |

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2015**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|--------------|--------------|--------------|--------------|-------------|
| Capital and Surplus, December 31, prior year | \$12,483,919 | \$11,233,200 | \$10,250,917 | \$8,886,946 | \$8,164,184 |
| Net Income | 1,324,208 | 1,208,774 | 754,069 | 895,890 | 950,856 |
| Change in net unrealized capital gains (losses) | 4,247 | (119,837) | 48,674 | 168,908 | (124,503) |
| Change in net deferred income tax | 167,170 | 112,497 | 195,353 | 138,446 | 86,880 |
| Change in non-admitted assets | (38,528) | 49,285 | (15,813) | 160,727 | (70,471) |
| Change in provision for reinsurance | (5,000) | - | - | - | - |
| Dividend to stockholders | (160,000) | - | - | - | (120,000) |
| Capital Changes – Transferred from Surplus | 600,000 | - | - | - | - |
| Surplus adjustments – Transferred to Capital | (600,000) | - | - | - | - |
| Capital and Surplus, December 31, current year | \$13,776,016 | \$12,483,919 | \$11,233,200 | \$10,250,917 | \$8,886,946 |

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2015**

As a result of this examination, there have been no changes affecting surplus, as regards to policyholders, made to the admitted assets, liabilities, and surplus balance reported by the Company in the December 31, 2015 annual statement as filed with the MID. The capital and surplus reported by the Company of \$13,776,016 is accepted as reasonably stated for purposes of the balance sheet per the examination.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed, however, specific areas of the Company's market conduct activities were reviewed. The specific areas reviewed included those items indicated below. No significant exceptions with regard to the limited procedures performed were noted.

Underwriting and Rating

No exceptions were noted during the course of our testing regarding the Company's underwriting and rating.

Claims Handling

No exceptions were noted during the course of our testing regarding the Company's claims handling and payments.

Operations/Management

The Company has a privacy agreement with its parent Louisiana Dealers Services in which the Company agrees to protect and safeguard all information received from Versant Life Insurance Company.

COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2015, the Company was not a party to any legal proceedings. Procedures performed during the course of the examination revealed no pending litigation, commitments, or other contingent liabilities to which the Company was a party as of the examination date.

SUBSEQUENT EVENTS

The Company was granted a license to write business in the State of Arkansas effective September 13, 2016. During 2016, Dick Taylor, Executive Vice President, and Raymond Beatty, Assistant Treasurer and Assistant Secretary, retired from the Company. Robert Thomas, Controller, was

appointed Assistant Treasurer and Assistant Secretary to replace Raymond Beatty. The Company increased its common capital stock from \$400,000 to \$1,000,000 effective December 31, 2015. To comply with Miss. Code Ann. § 83-19-31(2), the Company increased its statutory deposits to \$550,000 in May 2016.

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations as a result of the examination.

ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge: David Palmer, CFE

Examiner: Ryne Davison, AFE

IT Examiner: Lindsey Pittman, CISA

Supervising Examiner: Katerina Bolbas, CFE

Actuary: Robert Daniel, ACAS, MAAA

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'D. Palmer', written over a horizontal line.

Examiner-in-charge