

**REPORT ON EXAMINATION**  
**OF**  
**AMCOMP PREFERRED INSURANCE**  
**COMPANY**  
**NORTH PALM BEACH, FLORIDA**

**AS OF**  
**DECEMBER 31, 2005**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

February 27, 2007

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

Honorable Walter Bell  
Secretary, Southeastern Zone, NAIC  
Commissioner  
Alabama Department of Insurance  
201 Monroe Streets, Suite 1700  
Montgomery, Alabama 36104

Dear Sirs and Madam:

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, we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**ACOMP PREFERRED INSURANCE COMPANY  
701 U. S. HIGHWAY 1, SUITE 200  
NORTH PALM BEACH, FLORIDA 33408**

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 Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced, with planning at the Office, on May 1, 2006, to May 5, 2006. The fieldwork commenced on May 8, 2006, was suspended on May 13, 2006. Fieldwork resumed on August 21, 2006 and was concluded as of February 27, 2007. 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 an association zone 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 National Association of Insurance Commissioners 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 verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

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.

### **Status of Adverse Findings from Prior Examination**

The following is a summary of adverse findings contained in the Office's prior examination report as of December 31, 2002, along with the resulting action taken by the Company.

### **Custodial Agreement**

The Company, AmCOMP Inc. & its subsidiaries had a custodial agreement with AmSouth Bank dated June 29, 2001 for the safekeeping of securities. The agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code. The agreement gave the custodian the right to use the securities to secure the repayment of any liability owed by any member of the affiliated group, regardless of the manner in which title to the securities were held. **Resolution:** The

Company entered into a new agreement with AmSouth Bank and submitted that agreement to the Office on August 30, 2004; however, the agreement did not comply with Rule 69O-143.042, Florida Administrative Code.

### **Written Premium Ratio**

At December 31, 2002, the Company's written premium ratio was 6.7 to 1. This was not in compliance with Section 624.4095, Florida Statutes which requires an insurer's ratio of net written premium to surplus not to exceed 4 to 1. **Resolution:** The Company has complied with Section 624.095, Florida Statutes as evidenced in all future filings with the Office.

## **HISTORY**

### **General**

AmCOMP Preferred Insurance Company (Company) was incorporated on January 1, 1982 as a self-insurers fund, operating under the name of "Florida Air Conditioning Contractors Association SIF". On April 5, 1995, the Company converted to an assessable mutual and changed its name to Pinnacle Assurance Corporation in accordance with the Office's approval and under the applicable provisions of the Florida Statutes. On January 25, 1996 the Company converted to a stock property and casualty insurance company, wholly owned by AmCOMP, Inc., in accordance with the Office's approval and under the applicable provisions of the Florida Statutes. Sam Stephens was the ultimate controlling person of AmCOMP, Inc. In January of 1998 the Company changed its name to AmCOMP Preferred Insurance Company.

On October 31, 1997, the Company purchased Thomas Jefferson Insurance Company, a property and casualty insurance company, which was domiciled in Florida and was licensed in twenty-one

other states. Thomas Jefferson was previously owned by a subsidiary of American General Corporation who eliminated all policy related liabilities from the company prior to the sale by an assumption reinsurance agreement. Subsequent to the purchase, the company's name was changed to AmCOMP Assurance Corporation and the Company infused approximately \$ 7.5 million additional dollars.

The Company, along with its subsidiary and parent, were collectively defendants in identical actions commenced in Pennsylvania and Florida courts by the Insurance Commissioner of Pennsylvania, acting in her capacity as liquidator of Reliance Insurance Company. These complaints allege preferential payments made by Reliance Insurance Company under reinsurance contracts. Although, the ultimate results of these legal actions and other related claims cannot presently be determined, the Company accrued \$ 1.3 million dollars as of December 31, 2005 related to these matters.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Workers' Compensation

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### **Capital Stock**

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

|  |              |
|--|--------------|
| Number of authorized common capital shares | 15,000       |
| Number of shares issued and outstanding    | 15,000       |
| Total common capital stock                 | \$ 1,500,000 |
| Par value per share                        | \$100.00     |

Control of the Company was maintained by its parent, AmCOMP Inc., a Delaware corporation, who owned 100 percent of the stock issued by the Company. The controlling individuals of AmCOMP, Inc. were Samuel Stephens who owned 33 % of the common and preferred stock, Welsh, Carson, Anderson & Stowe VII, L.P. who owned 36 % of the common and preferred stock, and The Sprout Group who owned 25% of the common and preferred stock.

### **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.

|                                  | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|----------------------------------|-------------|-------------|-------------|
| Premiums Earned                  | 161,659,807 | 114,147,486 | 103,500,584 |
| Net Underwriting Gain/(Loss)     | 15,683,331  | 376,525     | 8,670,086   |
| Net Income                       | 5,921,892   | (5,567,511) | 2,675,635   |
| Total Assets                     | 325,598,759 | 268,267,115 | 251,996,398 |
| Total Liabilities                | 229,423,980 | 187,771,755 | 206,137,034 |
| Surplus As Regards Policyholders | 96,174,770  | 80,495,361  | 45,859,364  |

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid no dividends to its stockholder in 2003, 2004 or 2005.

### **Management**

The annual shareholder meeting for the election of directors was not held in accordance with Sections 607.1601 and 628.231, Florida Statutes since no stockholder meetings were held. On

January 2, 2007, a written consent to resolutions in lieu of an annual meeting of the sole shareholder was executed. Directors serving as of December 31, 2005, were:

### **Directors**

| <b>Name and Location</b>                    | <b>Principal Occupation</b>               |
|---|---|
| Frederick Lowe<br>North Palm Beach, Florida | Director, President & CEO of AmCOMP, Inc. |
| Kenneth Dean<br>Plantation, Florida         | Director, AmCOMP Preferred Insurance Co.  |
| Samuel Stephens<br>Linville, North Carolina | Chairman of the Board AmCOMP, Inc.        |
| Lawrence Layman, Jr.<br>Snellville, Georgia | Director, AmCOMP Preferred Insurance Co.  |
| Ray Young<br>Plant City, Florida            | Director, AmCOMP Preferred Insurance Co.  |
| Albert Torchia<br>Clearwater, Florida       | Director, AmCOMP Preferred Insurance Co.  |
| Debra Cerre – Ruedisili<br>Jupiter, Florida | Director, Executive VP, COO, AmComp, Inc. |

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

### **Senior Officers**

| <b>Name</b>           | <b>Title</b>                             |
|-----------------------|--|
| Debra Cerre-Ruedisili | President                                |
| Kumar Gursahaney      | Treasurer, CFO and Senior Vice President |
| Melody Misiaszek      | Secretary                                |

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

| <b>Audit Committee</b>     | <b>Investment Committee</b> |
|----------------------------|-----------------------------|
| Fredrick Lowe <sup>1</sup> | Fredrick Lowe <sup>1</sup>  |
| Kenneth Dean               | Debra Cerre-Ruedisili       |
| Lawrence Layman, Jr.       | Samuel Stephens             |
| Ray Young                  | Kenneth Dean                |
| Albert Torchia             | Lawrence Layman, Jr.        |
|                            | Ray Young                   |
|                            | Albert Torchia              |
| <sup>1</sup> Chairman      |                             |

The Company did maintain an audit committee whose members were all directors of the Company.

### **Conflict of Interest Procedure**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest for officers but not directors. Currently, the Company has a form for the acknowledgement of the Florida law requirements regarding director conflicts of interest.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committee adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

There was documentation in the Board of Directors' minutes that the previous examination report was reviewed.

### **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 examination period.

### **Surplus Debentures**

On December 31, 1996, the Company issued a \$ 10,000,000 surplus note to AmCOMP, Inc. its parent company in return for \$ 10,000,000 in cash. The term of the note provided for quarterly interest payments and repayment of the principle on January 1, 2003. Interest was at the annual rate of 100 basis points in excess of the prime rate. Both the payment and the repayment of the principal are subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2005 totals \$ 5,301,972 of which none was paid in 2004 or 2005. Unpaid and unapproved interest as of December 31, 2005 was \$ 1,550,003. To preserve the surplus position of the Company neither it nor AmCOMP, Inc. has requested Office approval for the payment of additional interest beyond the aforementioned paid amounts.

On April 29, 2004, the Company issued a \$ 10,000,000 surplus note in return for \$ 10,000,000 in cash to Dekania CDO II. Ltd., as part of a pooled transaction. The note matures in 30 years and was callable by the Company after five years.. The terms of the note provide for quarterly interest payments beginning on August 15, 2004. Interest was at a rate of 425 basis points in excess of the London Interbank Offered Rate. Approved interest paid through December 31, 2005 totals \$ 1,050,232 of which \$ 313,438 was paid in 2004 and \$ 736,794 was paid in 2005. Unpaid and

unapproved interest as of December 31, 2005 was \$ 107,278. Both the payment of interest and repayments of the principal are subject to the prior approval of the Office.

On May 24, 2004, the Company issued a \$ 12,000,000 surplus note, in return for \$ 12,000,000 in cash, to ICONS, Inc., as part of a pooled transaction. The note matures in 30 years and was callable by the Company after five years. The terms of the note provided for quarterly interest payments beginning on August 24, 2004. Interest was at a rate of 425 basis points in excess of the London Interbank Offered Rate. Approved interest paid through December 31, 2005 totals \$ 1,242,840 of which \$ 349,893 was paid in 2004 and \$ 892,947 was paid in 2005. Unpaid and unapproved interest as of December 31, 2005 was \$ 103,725. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office.

On September 14, 2004, the Company issued a \$ 10,000,000 surplus note, in return for \$ 10,000,000 in cash to Alesco Preferred Funding V, LTD, as part of a pooled transaction. The note matures in 30 years and was callable by the Company after five years. The terms of the note provide for quarterly interest payments beginning on December 15, 2004. Interest was at a rate of 405 basis points in excess of the 90-day London Interbank Offered Rate. Approved interest paid through December 31, 2005 totals \$ 886,167 of which \$ 151,401 was paid in 2004 and \$ 734,767 was paid in 2005. Unpaid and unapproved interest as of December 31, 2005 was \$ 37,961. Both the payment of interest and repayments of the principal are subject to the prior approval of the Office.

As of December 31, 2005, the Company's outstanding surplus notes amounted to \$ 42,000,000.

## **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 December 12, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Subsequent event:** The Company filed an updated holding company registration statement on July 14, 2006.

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

### **Tax Allocation Agreement**

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the various companies was based upon a stand alone tax computation for each company.

### **Cost Sharing Agreement**

The Company had a cost sharing agreement with Pinnacle Administrative Company, an affiliate, at December 31 2005. The agreement calls for the Company to pay a monthly fee equal to the cost of the property allocated by the square footage occupied by the Company.

### **Management Agreement**

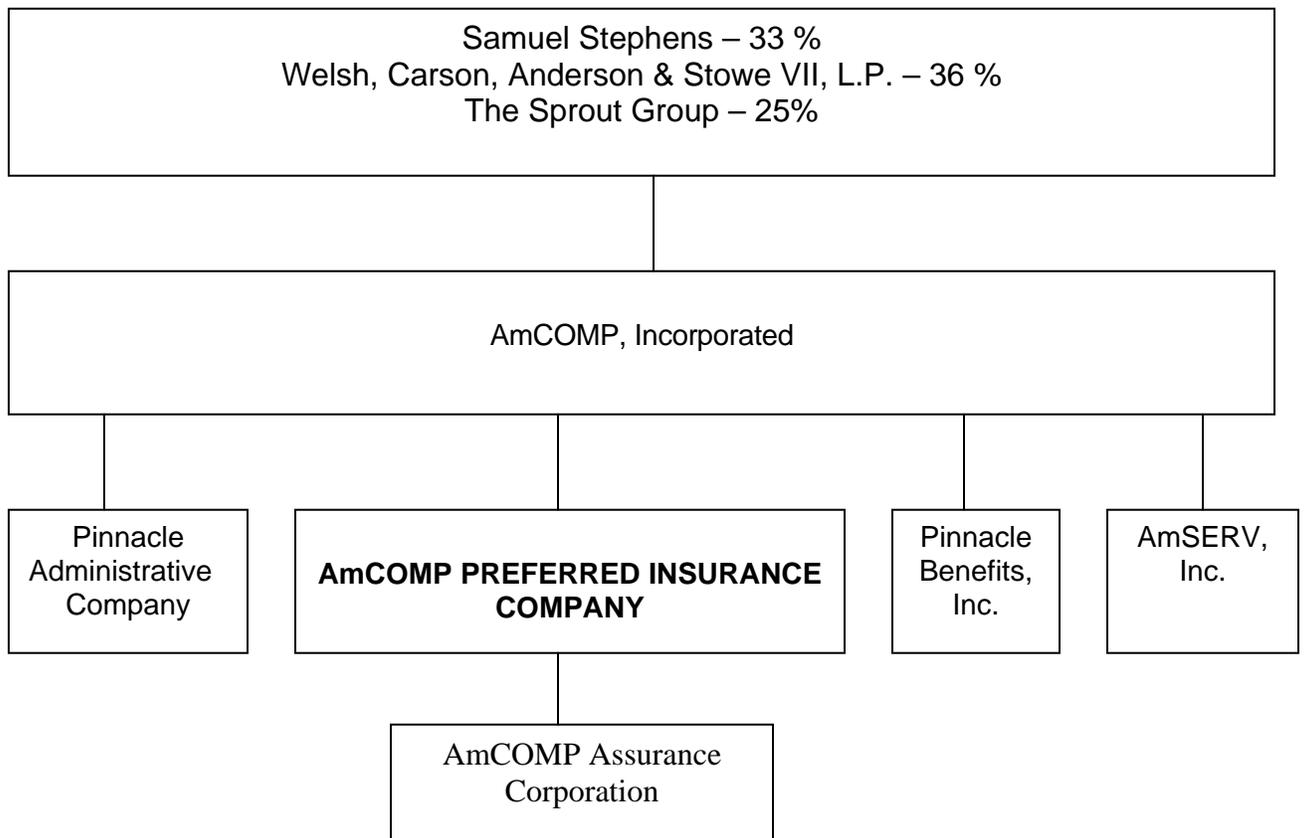
The Company had a management contract with Pinnacle Administrative Company, an affiliate, at December 31, 2005. The contract included marketing, underwriting, billings, collection, claims

administration, reinsurance, policy issuance, accounting, reporting, investing and general administration. For these services, Pinnacle Administrative Company was paid the amount of \$ 33,373,189 during the calendar year 2005.

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.

**AmCOMP PREFERRED INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2005**



## FIDELITY BOND AND OTHER INSURANCE

The Company was included in AmCOMP, Inc.'s fidelity bond coverage up to \$ 2,000,000 with a deductible of \$ 100,000, which adequately covered the suggested minimum amount of coverage for the AmCOMP and its subsidiaries as recommended by the NAIC. The Company was also included in AmCOMP, Inc.'s general business insurance coverage.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

| STATE                         | DESCRIPTION | RATE | MATURITY<br>DATE | PAR<br>VALUE        | MARKET<br>VALUE     |
|-------------------------------|-------------|------|------------------|---------------------|---------------------|
| FL                            | USTNTS      | 5.1% | 02/15/26         | \$ 2,000,000        | \$ 2,358,437        |
| FL                            | USTNTS      | 4.8% | 02/15/29         | 1,300,000           | 1,421,823           |
| <b>TOTAL FL DEPOSITS</b>      |             |      |                  | <b>\$ 3,300,000</b> | <b>\$ 3,780,260</b> |
| GA                            | USTNTS      | 4.7% | 11/15/08         | \$ 85,000           | \$ 85,817           |
| VA                            | USTNTS      | 4.4% | 08/15/12         | 500,000             | 499,940             |
| <b>TOTAL OTHER DEPOSITS</b>   |             |      |                  | <b>\$ 585,000</b>   | <b>\$ 585,757</b>   |
| <b>TOTAL SPECIAL DEPOSITS</b> |             |      |                  | <b>\$ 3,885,000</b> | <b>\$ 4,366,017</b> |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company writes workers' compensation insurance coverage in the states of Florida, Georgia, Indiana, Kentucky, Texas and Virginia.

### **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 procedures for handling each type of claim in accordance with Section 626.9541(i)3,a, Florida Statutes..

## **REINSURANCE**

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

### **Assumed**

The Company and its subsidiary, AmCOMP Assurance Corporation, entered into an inter company pooling agreement effective January 1, 2001. The agreement applied to business retained after all other reinsurance assumptions and cessions. Under the terms of the agreement, AmCOMP Assurance Corporation ceded 100 percent of the net written premiums to the Company, who, in turn, retro ceded to AmCOMP Assurance Corporation a total of 21 percent of the combined net

written premiums of the Company and the premiums assumed under this agreement by the Company. The Company and AmCOMP Assurance Corporation shared in the combined net losses and expenses of both companies based on the retro ceded percentage. Effective January 1, 2004, the pooling percentages were adjusted to 37 percent for AmCOMP Assurance Corporation and 63 percent for the Company. The pooling agreement between the Companies was amended in December 2003 to include a related reinsurance trust agreement.

### **Ceded**

The Company ceded risk on an excess of loss basis to the following authorized reinsurers: American Re-Insurance Company, Employers Reinsurance Corporation, GE Reinsurance Corporation, Hannover RA, and Max Re Ltd. The Company executed reinsurance commutation and releases agreements with Max RE commuting the January 1, 2001 and January 1, 2002 quota share agreements which it had accounted for using deposit accounting in its annual statement. The Company commuted its quota share agreement it entered into on January 1, 2003 with Alea London Ltd, Hannover RA, and Swiss Reinsurance America Corporation, on July 1, 2005. The Company commuted its quota share agreement it entered into on July 1, 2004 with Swiss Reinsurance America Corporation and General Reinsurance Corporation on July 1, 2005.

The above mentioned contracts complied with National Association of Insurance Commissioners standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, 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 North Palm Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with AmSouth Bank dated August 20, 2004. The agreement was not in accordance with paragraph (2)(a), (b), (c), (d), (f), (g), (h),(j) and (l) of Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company had an agreement with Deloitte & Touche LLP, CPA's to perform an audit of its GAAP and Statutory financial statements for the years 2002, 2003 and 2004.

## **Risk-Based Capital**

The Company reported its risk-based capital 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."

**AmCOMP PREFERRED INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2005**

| Classification  | Per Company           | Examination<br>Adjustments | Per Examination       |
|---|-----------------------|----------------------------|-----------------------|
| Bonds   | \$ 182,027,732        | 0                          | \$ 182,027,732        |
| Stocks:   |                       |                            |                       |
| Common  | 55,336,837            |                            | 55,336,837            |
| Real Estate:  |                       |                            |                       |
| Properties  |                       |                            |                       |
| occupied by Company                                     |                       |                            | 0                     |
| Other properties  |                       |                            | 0                     |
| Cash and Short-term Investments                         | 6,619,159             |                            | 6,619,159             |
| Interest and dividend                                   |                       |                            |                       |
| income due & accrued                                    | 2,104,658             |                            | 2,104,658             |
| Agents' Balances:                                       |                       |                            |                       |
| Uncollected premium                                     | 4,422,365             |                            | 4,422,365             |
| Deferred premium  | 45,585,268            |                            | 45,585,268            |
| Reinsurance Recoverable                                 | 3,236,028             |                            | 3,236,028             |
| Current federal income tax recoverable                  | 1,188,443             |                            | 1,188,443             |
| Net deferred tax asset                                  | 10,719,600            |                            | 10,719,600            |
| Guarantee funds receivable                              | 254,962               |                            | 254,962               |
| EDP Equipment   | 23,826                |                            | 23,826                |
| Receivable from Parents,<br>Subsidiaries and Affiliates | 14,055,390            |                            | 14,055,390            |
| Aggregate write-in for<br>other than invested assets    | 24,491                |                            | 24,491                |
| <b>Totals</b>   | <b>\$ 325,598,759</b> | <b>\$ -</b>                | <b>\$ 325,598,759</b> |

**AmCOMP PREFERRED INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2005**

| Liabilities                            | Per Company                 | Examination<br>Adjustments | Per<br>Examination          |
|--|-----------------------------|----------------------------|-----------------------------|
| Losses                                 | \$127,315,930               | \$0                        | \$127,315,930               |
| Loss adjustment expenses               | 18,338,668                  |                            | \$18,338,668                |
| Commissions payable                    | 5,937,670                   |                            | \$5,937,670                 |
| Other expenses                         | 2,676,662                   |                            | 1,222,222                   |
| Taxes, licenses and fees               | 5,020,857                   |                            | 745,932                     |
| Unearned premium                       | 69,051,347                  |                            | 48,921,733                  |
| Advanced premiums                      | 778,411                     |                            | 778,411                     |
| Ceded reinsurance premiums payable     | 294,882                     |                            | 294,882                     |
| Aggregate write-ins for liabilities    | 9,553                       |                            | 9,553                       |
| Total Liabilities                      | <u>\$229,423,980</u>        |                            | <u>\$229,423,980</u>        |
| Common capital stock                   | \$1,500,000                 |                            | \$1,500,000                 |
| Surplus notes                          | \$42,000,000                |                            | \$42,000,000                |
| Gross paid in and contributed surplus  | 21,900,000                  |                            | 21,900,000                  |
| Unassigned funds (surplus)             | <u>30,774,779</u>           |                            | <u>30,774,779</u>           |
| Surplus as regards policyholders       | <u>\$96,174,779</u>         |                            | <u>\$96,174,779</u>         |
| Total liabilities, capital and surplus | <u><u>\$325,598,759</u></u> | <u>\$0</u>                 | <u><u>\$325,598,759</u></u> |

**AmCOMP PREFERRED INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2005**

**Underwriting Income**

|   |                      |
|---|----------------------|
| Premiums earned                                 | \$161,659,807        |
| <b>DEDUCTIONS:</b>                              |                      |
| Losses incurred                                 | 74,688,206           |
| Loss expenses incurred                          | 16,254,596           |
| Other underwriting expenses incurred            | 55,033,674           |
| Aggregate write-ins for underwriting deductions | 0                    |
| Total underwriting deductions                   | <u>\$145,976,476</u> |
| <br>Net underwriting gain or (loss)             | <br>\$15,683,331     |

**Investment Income**

|  |                 |
|--|-----------------|
| Net investment income earned           | \$3,795,079     |
| Net realized capital gains or (losses) | <u>(43,648)</u> |
| Net investment gain or (loss)          | \$3,751,431     |

**Other Income**

|   |                      |
|---|----------------------|
| Net gain or (loss) from agents' or premium balances charged off | (\$2,037,095)        |
| Finance and service charges not included in premiums            | 0                    |
| Aggregate write-ins for miscellaneous income                    | 19,042               |
| Total other income  | <u>(\$2,018,053)</u> |

|  |                  |
|--|------------------|
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  | \$17,216,709     |
| Dividends to policyholders   | <u>5,205,088</u> |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes | \$12,011,621     |
| Federal & foreign income taxes   | <u>6,089,729</u> |
| <br>Net Income   | <br>\$5,921,892  |

**Capital and Surplus Account**

|  |              |
|--|--------------|
| Surplus as regards policyholders, December 31 prior year | \$80,495,361 |
|--|--------------|

**Gains and (Losses) in Surplus**

|  |                                |
|--|--------------------------------|
| Net Income   | \$5,921,892                    |
| Change in net unrealized capital gains or losses               | 6,872,064                      |
| Change in net deferred income tax                              | 1,303,390                      |
| Change in non-admitted assets                                  | 422,890                        |
| Change in provision for reinsurance                            | 0                              |
| Change in excess statutory over statement reserves             | 0                              |
| Surplus adjustments: Paid in                                   | 0                              |
| Aggregate write-ins for gains and losses in surplus            | 1,159,184                      |
| Examination Adjustment   | 0                              |
| Change in surplus as regards policyholders for the year        | <u>\$15,679,420</u>            |
| <br>Surplus as regards policyholders, December 31 current year | <br><u><u>\$96,174,781</u></u> |

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$72,646,658

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.

### Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office, except that the custodial agreement with AmSouth Bank still does not comply with Rule 69O-143.042, Florida Administrative Code. **It is recommended that the Company amend the custodial agreement to comply with the Florida Administrative Code.**

Subsequent event: The Company submitted an amended custodial agreement to the Office on April 20, 2007.

### Current examination comments and corrective action

This examination found no other material findings as of December 31, 2005.

## CAPITAL AND SURPLUS

The Company meets the surplus requirement.

A comparative analysis of changes in surplus is shown below.

### AmCOMP INSURANCE COMPANY, INC. COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2005

Surplus as Regards Policyholders  
per December 31, 2005, Annual Statement \$ 96,174,779

|  | <u>PER</u><br><u>COMPANY</u> | <u>PER</u><br><u>EXAM</u> | <u>INCREASE</u><br><u>(DECREASE)</u><br><u>IN SURPLUS</u> |
|--|------------------------------|---------------------------|---|
| ASSETS:  |                              |                           |   |
| No adjustments   |                              |                           | 0   |
| LIABILITIES:   |                              |                           |   |
| No adjustments   |                              |                           | 0   |
| Net Change in Surplus:   |                              |                           | <u>0</u>  |
| Surplus as Regards Policyholders<br>December 31, 2005, Per Examination |                              |                           | <u>\$ 96,174,779</u>                                      |

## **SUBSEQUENT EVENTS**

On February 10, 2006, AmCOMP Inc., the Company's ultimate parent, completed its initial public offering of 10,500,000 shares of its common stock at a price of \$ 9.00 per share.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AmCOMP Preferred 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 \$96,174,779, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Richard Schaaf, Financial Examiner/Analyst, Tina Hancock, Financial Examiner/Analyst II, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Roger Kelley  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation

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Mary James, CFE  
Financial Administrator  
Florida Office of Insurance Regulation