REPORT ON EXAMINATION

OF

ARGUS FIRE & CASUALTY INSURANCE COMPANY

NORTH MIAMI BEACH, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

Tallahassee, Florida
March 31, 2004

Kevin M. McCarty
Director
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 (FS), 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, 2002, of the financial condition and corporate affairs of:

ARGUS FIRE & CASUALTY INSURANCE COMPANY
3909 NORTHEAST 163RD STREET
NORTH MIAMI BEACH, FLORIDA 33160

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, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced, with planning at the Office, on January 26, 2004, to January 30, 2004. The fieldwork commenced on February 2, 2004, and was concluded as of March 31, 2004. 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 a statutory financial examination conducted in accordance with the Financial 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 (formerly 4-137.001(4) and 4-138.001), Florida Administrative Code (FAC), 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 NAIC 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/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs after verifying the statutory requirements for the following accounts:

Federal Income Taxes Recoverable
Federal Income Taxes Payable

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, 1999, along with resulting action taken by the Company in connection therewith.

Dividend to Stockholders

The Company misclassified dividends declared and unpaid on Pages 3 and 4 of the 1999 Annual Statement. **Resolution:** The Company did not declare or pay any dividends during 2000, 2001 or 2002.

Claims Service Agreement

The Claims Services Agreement stated there was a claims and claims legal administration fee, but failed to mention the $35 inspection fee for each direct policy underwritten. **Resolution:** The Company discontinued paying the $35 inspection fee for each direct policy underwritten.

Custodial Agreement

There were some custodians for which there were no custodial agreements in place or whose custodial agreement did not meet the requirements of Rule 69O-143.042 (formerly 4-143.042), Florida Administrative Code. **Resolution:** The Company executed a new custodial agreement with Amalgatrust.

Other Invested Assets

The Company's Schedule BA Investments exceeded the limitations per Section 625.331(1)(b) FS by $2,075,297, which was non-admitted. **Resolution:** The Company sold these assets to its parent.

EDP Equipment

The Company reported $25,643, which was not admissible in accordance with Section 625.012(11) FS. **Resolution:** The Company did not admit any EDP equipment during the period covered by this examination.

Surplus as Regards Policyholders

The Company's surplus as regards policyholders, as a result of the examination, dropped below the $5,000,000 minimum amount per the 1998 Amended Consent Order. **Resolution:** The receipt of the JUA bonus during 2001 increased the Company's surplus as regards policyholders above $5,000,000 where it has remained during the period covered by this examination

HISTORY

General

The Company was originally incorporated in Florida on September 17, 1993 as a stock property and casualty insurer with the name Safeway Fire and Casualty Insurance Company. A new certificate of authority was issued on March 2, 1995 and the name was subsequently changed to Argus Fire and Casualty Insurance Company who commenced business on January 1, 1997.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

Fire
Allied Lines
Homeowners Multi Peril
Mobile Home Multi Peril
Mobile Home Physical Damage

The Company has not written any insurance coverage in the mobile home multi peril, or mobile home physical damage lines in the last three years and has failed to request removal of the lines from their certificate of authority in violation of Section 624.430 FS.

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

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	$5,000,000
Par value per share	$1.00

Control of the Company was maintained by its parent, United Automobile Insurance Company (UAIC), a Florida domiciled insurer, who owned 100 percent of the stock issued by the Company. UAIC, in turn, was 100 percent owned by various members of the Parrillo family.

Profitability of Company

With earned premiums of $9,709,529 and $9,812,499 for 2002 and 2001 respectively, the Company reported a net underwriting loss of ($484,859) and after tax income of $951,670 in 2002. In 2001, the Company reported a net underwriting loss of ($1,679,775) and after tax loss of ($788,982). The Company indicated that the receipt of the bonus from the Florida Residential Property & Casualty Joint Underwriting Association (JUA) was a significant factor in increased earnings and surplus.

Dividends to Stockholders

No dividends were declared or paid to the stockholder during the three-year period covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. The directors serving as of December 31, 2002, were:

Directors

Name and Location	Principal Occupation
Richard P. Parrillo Sr. North Miami Beach, Florida	Chairman of the Board Argus Fire & Casualty Insurance Company
Richard P. Parrillo, Jr. North Miami Beach, Florida	President Argus Fire & Casualty Insurance Company
Michael R. Parrillo Chicago, Illinois	Vice President Argus Fire & Casualty Insurance Company
Beau W. Parrillo North Miami Beach, Florida	Vice President Argus Fire & Casualty Insurance Company
Jean-Guy Rivard North Miami Beach, Florida	CFO, Treasurer Argus Fire & Casualty Insurance Company
Patrick A. McCarthy Chicago, Illinois	Vice President Mesirow Insurance Services
John Spatuzza Chicago, Illinois	Attorney at Law Spatuzza & Spatuzza

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

Senior Officers

Name	Title
Richard P. Parrillo, Jr.	President
Charles Grimsley	Secretary
Jean-Guy Rivard	Treasurer
Beau W. Parrillo	Vice President
Michael R. Parrillo	Vice President
Michael W. Whatley	Vice President

The Company's board appointed one internal committee, an audit committee, in accordance with Section 607.0825 FS. Following is a list of members of the Audit Committee as of December 31, 2002:

Audit Committee

Richard P. Parrillo, Sr., Chairman
Richard P. Parrillo, Jr.
Charles J. Grimsley
Juan Ferrer

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

There were no acquisitions, mergers, disposals, dissolutions or purchase or sales through reinsurance during the period covered by this examination.

Surplus Debentures

As of December 31, 2002, there were no outstanding surplus debentures of the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3) (formerly 4-143.045(3)), FAC. The latest holding company registration statement was filed with the State of Florida on January 28, 2004, as required by Section 628.801, FS, and Rule 69O-143.046 (formerly 4-143.046), FAC.

Schedule Y of the 2002 Annual Statement did not identify all members of the holding company system. However, the Company included all members on Schedule Y of the 2003 annual statement. The NAIC Annual Statement Instructions indicates that affiliated companies that were members of a holding company group at the end of the reporting period should be shown on Schedule Y.

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

Tax Allocation Agreement

The Company, along with its parent filed a consolidated federal income tax return for the taxable year ending December 31, 2002. The members agreed to pay 100% of their portion of the tax liability of the Affiliated Group.

MGA Agreement

The Company maintained a Managing General Agency Agreement with affiliate National Insurance Management Company (NIMC) effective June 1, 1999. The Company appointed NIMC as its managing general agent (MGA) to supervise and manage homeowners and dwelling fire policies produced by brokering agents. The agreement provided that all checks representing premium payments and policy fees shall be made payable to the Company and that the Company shall pay NIMC the commission and policy fees earned in relation to business produced during the previous month. NIMC received $2,822,174 in commissions and $672,225 in policy fees from the Company during 2002.

Claims Service Agreement

The Company entered into a Claims Service Agreement with its affiliate, National Adjustment Corporation (NAC) effective December 20, 1995. The agreement indicated that NAC would provide claims administration services and arrange for the performance of all claims legal work. The agreement provided that NAC assumed and paid all allocated and unallocated expenses incurred in handling claims. For the services rendered, the Company paid NAC a fee equal to 11% of net written premiums. Fees paid to NAC were $1,241,756 during 2002.

Page 10 of this agreement, which encompassed Article IV, was not included in the agreement provided to the examiner. The Company is in violation of Section 628.271 FS, which provides that the Company shall keep complete records of its transactions and affairs.

Corporate Expense Agreement

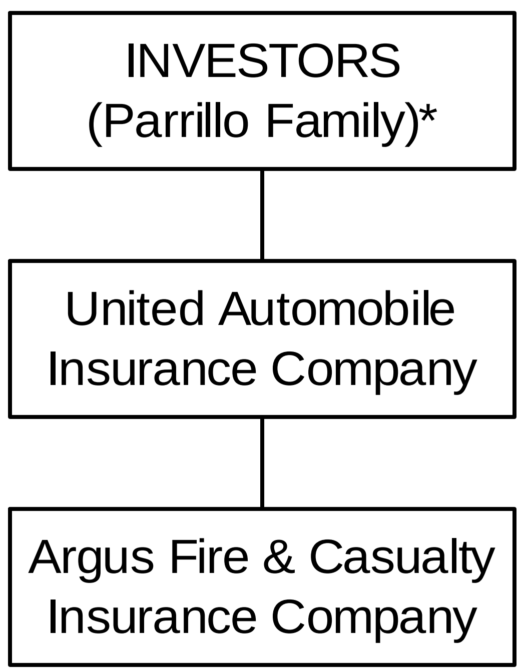
The Company entered into an expense sharing agreement with its parent, UAIC, effective January 1, 2000. The agreement provided that UAIC would pay all corporate expenses jointly incurred and would be reimbursed by the affiliates for the respective pro-rata share of the expenses.

Master Lease Agreement

The Company rented office space from an affiliate, PAR Family Limited Partnership in accordance with a master lease agreement dated October 1, 1997. The Company paid the partnership $29,554 and $178,153 for rental expenses during 2002 and 2001 respectively.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a partial list of related companies of the holding company group.

ARGUS FIRE & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002



*Note: Ultimate controlling investors are: Richard Parrillo Sr. – 36.7%; Richard Parrillo Jr. – 15.7%; Michael Parrillo – 15.7%; Barbara McCarthy – 15.7%; Beau Parrillo – 9.6%; and Samantha Parrillo – 6.6%

FIDELITY BOND AND OTHER INSURANCE

The Company and its affiliates maintained fidelity bond coverage of $1,500,000 with a deductible of $25,000, which adequately covered the suggested minimum amount of coverage as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company participated in a qualified 401K retirement plan and profit sharing plan sponsored by its parent, which covered substantially all employees of the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Charlotte Cnty FL Sch Dist, 4.4%, 3/1/04	$ 100,000	$ 102,478
FL	Reedy Creek, 4.9%, 6/1/08	215,000	231,482
TOTAL FLORIDA DEPOSITS		$ 315,000	$ 333,960
IL	Reading PA, 4.8%, 11/15/12	$ 360,000	$ 371,225
IL	GE Capital, 6.8%, 11/1/05	400,000	444,996
IL	GMAC, 6.125%, 9/15/06	500,000	508,065
TOTAL OTHER DEPOSITS		$1,260,000	$1,324,286
Total Special Deposits		$ 1,575,000	$ 1,658,246

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in Florida and Illinois, in accordance with Section 624.401(2), FS. However, the company did not write any insurance business in the State of Illinois during the period covered by this examination.

Treatment of Policyholders

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

REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any insurance business during this examination period.

Ceded

The Company ceded risk on a property catastrophe excess of loss and property per risk excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurers were various Lloyd's Syndicates, all authorized non-US insurers, and SPS Reassurance SA, Ace Tempest Reinsurance Limited, and XL Mid Ocean Reinsurance Company, all unauthorized non – US insurers.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002 (formerly 4-137.002), FAC.

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, with the exception of adjustments to line items as noted within this report.

The accounts and records maintained by the Company did not accurately disclose direct written premium. The Company inadvertently included premiums of policies collected in advance of the effective date as written premium for 2002 in violation of SSAP 53 (5) which provides that written premium be recorded on the effective date of the contract.

The Company stated that only policies with effective dates of 2002 were included as written premium for 2002, but was unable to satisfactorily explain why the database of written premiums provided during the examination included policies with effective dates of 2003. It is recommended that an information technology specialist be included as part of the next examination of the Company to evaluate the information systems and database of in-force premiums.

The Company's policy was to void unclaimed checks/drafts, and as such, failed to report, pay, or deliver to the Department of Financial Services all funds unclaimed for more than 5 years in accordance with Sections 717.102 and 717.117 F.S.

The Company maintained its principal operational offices in North Miami Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the services of Amalgatrust Company Inc. The safekeeping agreement between the Company and Amalgatrust Company Inc. contained the appropriate safeguards and controls indemnifying the Company as provided by Rule 69O-143.042 (formerly 4-143.042), FAC.

Independent Auditor Agreement

The Company engaged Blackman Kallick Bartelstein, LLP for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end.

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, 2002, 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."

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$13,706,259	$209,958	$13,496,301
Stocks	$1,188,145		$1,188,145
Cash:			
On deposit	1,805,073		1,805,073
Short-term investments	1,149,781		1,149,781
Other Invested Assets	1,922		$1,922
Agents' Balances:			
Uncollected premium	(57,250)		(57,250)
FIT recoverable	676,581		676,581
Interest and dividend			
income due & accrued	196,187		196,187
Aggregate write-in for OTIA	790,781		790,781
Totals	$19,457,479	$209,958	$19,247,521

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Losses	$2,867,432		$2,867,432
Loss adjustment expenses	573,486		573,486
Other expenses	2,090	17,854	19,944
Taxes, licenses and fees	138,780		138,780
FIT payable	190,000		190,000
Unearned premium	6,682,385		6,682,385
Advance premiums	0	900,242	900,242
Ceded reinsurance premiums payable	146,297		146,297
Remittances and items not allocated	900,242	(900,242)	0
Drafts outstanding	417,698		417,698
Payable to parent, subsidiaries and affiliates	96,676	107,260	203,936
Total Liabilities	$12,015,086	$125,114	$12,140,200
Common capital stock	$5,000,000		5,000,000
Unassigned funds (surplus)	2,442,393	335,072	2,107,321
Surplus as regards policyholders	$7,442,393	335,072	$7,107,321
Total liabilities, capital and surplus	$19,457,479	209,958	$19,247,521

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2002

Underwriting Income	
Premiums earned	$9,709,529
DEDUCTIONS:	
Losses incurred	4,691,784
Loss expenses incurred	1,304,145
Other underwriting expenses incurred	4,198,459
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$10,194,388
Net underwriting gain or (loss)	($484,859)
Investment Income	
Net investment income earned	$766,587
Net realized capital gains or (losses)	(379,140)
Net investment gain or (loss)	$387,447
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($4,691)
Finance and service charges not included in premiums	1,975
Aggregate write-ins for miscellaneous income	1,241,798
Total other income	$1,239,082
Net income before dividends to policyholders and before federal & foreign income taxes	$1,141,670
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,141,670
Federal & foreign income taxes	190,000
Net Income	$951,670
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$5,686,297
Gains and (Losses) in Surplus	
Net Income	$951,670
Net unrealized capital gains or losses	491,539
Change in net deferred income tax	159,645
Change in non-admitted assets	153,242
Change in provision for reinsurance	0
Surplus adjustments: Paid in	0
Dividends to stockholders	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(335,072)
Change in surplus as regards policyholders for the year	$1,421,024
Surplus as regards policyholders, December 31 current year	$7,107,321

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds $13,496,301

The above amount is $209,958 less than the $13,706,259 reported by the Company. The Company was over-invested in bonds rated 5 & 6 by the NAIC SVO by $209,958 in violation of Section 625.305(4)(c) Florida Statutes. Further the Company's investment in Level 3 Communications exceeded the limitation for investment in any one issuer by $76,623 in violation of section 625.305(4)(f) Florida Statutes. However, since both limitations are related to the same bond investment, $209,958 in bonds was non-admitted by this examination. Further, the Company erroneously recorded the acquisition and sale of its securities on the settlement date rather than the trade date as required by SSAP 26(4) and SSAP 30 (5).

Liabilities

Losses and Loss Adjustment Expenses $3,440,918

The above amount is the same as that reported by the Company. However, the Company inadvertently included all loss adjustment expenses paid by the claims department as defense cost containment (DCC) and all loss adjustment expenses paid by the accounting department as adjusting & other (AO). SSAP 55 (5) provides that DCC include surveillance, litigation, attorney fees, and medical cost containment and AO includes expenses other than DCC.

The Company's internal actuary, who was appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2002, 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.

Other Expenses <u>$19,944</u>

The amount reported is $17,854 greater than the $2,090 reported by the Company, which represents expenses incurred in 2002 but not accrued at year-end. SSAP 5 provides that liabilities shall be recorded on the entity's financial statement when incurred.

Remittances and Items not Allocated <u>$-0-</u>

The amount reported of $900,242 was reduced by $900,242, which represented premiums received in advance of the policy effective date. The entire balance was reclassified to Line 10 entitled "Advance Premiums".

Payable to PSA <u>$203,936</u>

The above amount is $107,260 greater than the $96,676 reported by the Company and represents advances to an affiliate. These advances were erroneously recorded as a contra liability and were subsequently written off by the Company. The entire amount was non-admitted by this examination.

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2002, Annual Statement				$7,442,393
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
Bonds	$13,706,259	$13,496,301	($209,958)	
LIABILITIES:				
Other Expenses	$2,090	$19,944	($17,854)	
Advance Premiums	$0	($900,242)	($900,242)	
Remittances not a	$900,242	$0	$900,242	
Payable to PSA	$96,676	$203,936	($107,260)	
Net Change in Surplus:				(335,072)
Surplus as Regards Policyholders December 31, 2002, Per Examination				$7,107,321

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

Line of Business

The Company has not written any mobile home business for the past three years and has failed to request removal of those lines of business from its certificate of authority in violation of Section 624.430 FS. **The Company is directed to comply with Section 624.430 FS, and request that those lines be removed from its certificate of authority within 90 days after the report is issued.**

Affiliated Companies

The Company inadvertently omitted a member of the holding company group from Schedule Y of the 2002 Annual Statement. The affiliated company was subsequently included on Schedule Y of the 2003 Annual Statement. **The Company is directed to comply with the NAIC Annual Statement Instructions and include all members of the holding company group on Schedule Y in all future filings with the Office.**

The Company failed to maintain complete records of its inter-company agreements in violation of Section 628.271 FS. **The Company is directed to comply with Section 628.271 FS and maintain complete inter-company agreements, and to provide a copy the Claims Service Agreement to the Office within 90 days after the report is issued.**

Accounts and Records

The Company erroneously included premiums of policies with effective dates of 2003 as written premium for 2002 in violation of SSAP 53 (5). **The Company is directed to comply with SSAP 53 (5) and exclude from written premium those policies with effective dates subsequent to year-end in all future filings with the Office.**

The Company voided unclaimed checks/drafts and failed to report, pay, or deliver to the Department of Financial Services all funds unclaimed for more than 5 years in accordance with Sections 717.102 and 717.117 F.S. **The Company is directed to comply with Section 717.117 and remit all unclaimed checks/drafts to the Department of Financial Services within 90 days after the report is issued.**

Bonds

The Company was over-invested in bonds rated 5 & 6 by the NAIC SVO in violation of Section 625.305(4)(c) FS and exceeded the limitation for investment in any one insurer in violation of Section 625.305(4)(f) FS. **The Company is directed to non-admit all investments that exceed the limitations in all future filings with the Office.**

The Company erroneously recorded the acquisition and sale of its securities on the settlement date rather than the trade date as provided in SSAP 26 (4) and SSAP 30 (5). **The Company is directed to comply with SSAP 26 (4) and/or SSAP 30 (5) and record the acquisition and sale of securities on their trade date for all future filings with the Office.**

Loss Adjustment Expense

The Company failed to properly classify loss adjustment expenses as defense cost containment (DCC) or adjusting & other (AO) as required by SSAP 55 (5). **The Company is directed to comply with SSAP 55 and properly classify all loss adjustment expenses as DCC or AO in all future filings with the Office.**

Other Expenses

The Company failed to properly accrue for unpaid expenses incurred in 2002 as required by SSAP 5 (2) and (3). **The Company is directed to comply with SSAP 5 and record on the financial statement as a liability all incurred but unpaid expenses in all future filings with the Office.**

Remittances and Items not allocated

The Company inadvertently reported advance premiums as remittances and items not allocated contrary to the NAIC Annual Statement Instructions. **The Company is directed to prepare all future statutory financial statements in accordance with the NAIC Annual Statement Instructions.**

Payable to Parent, Subsidiaries and Affiliates

The Company erroneously recorded advances to an affiliate as a contra liability in violation of Section 625.013 (7) FS, and SSAP 29(2). **The Company is directed to non-admit such in all future filings with the Office.**

Subsequent Events

The Company entered into an agreement with First Protective Insurance Company (FPIC) which was approved by the Office; wherein FPIC assumed all of the Company's homeowners business. The Company will no longer be writing homeowners policies.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Argus Fire & Casualty Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $7,107,321, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Xi Luo, Financial Examiner/Analyst I, James Collins, Financial Examiner/Analyst II, John C. Berry, Financial Examiner/Analyst Supervisor, and Sri Ramanujam, Actuary, participated in the examination.

Respectfully submitted,

____
Kethessa Carpenter
Financial Specialist
Florida Office of Insurance Regulation