

REPORT ON EXAMINATION
OF
ASSOCIATED INDUSTRIES INSURANCE
COMPANY, INC.

BOCA RATON, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	3
GENERAL	3
CAPITAL STOCK	5
PROFITABILITY OF COMPANY	5
DIVIDENDS TO STOCKHOLDERS	6
MANAGEMENT	6
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	8
SURPLUS DEBENTURES	8
AFFILIATED COMPANIES	8
ORGANIZATIONAL CHART	9
TAX ALLOCATION AGREEMENT	10
ADMINISTRATIVE SERVICES MANAGEMENT AGREEMENT	10
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	11
STATUTORY DEPOSITS	12
INSURANCE PRODUCTS AND RELATED PRACTICES	12
TERRITORY	12
TREATMENT OF POLICYHOLDERS	12
REINSURANCE	13
ASSUMED	13
CEDED	13
ACCOUNTS AND RECORDS	14
CUSTODIAL AGREEMENT	14
INVESTMENT MANAGEMENT AGREEMENT	14
FINANCIAL STATEMENTS PER EXAMINATION	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME	18
COMMENTS ON FINANCIAL STATEMENTS	19

LIABILITIES	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	20
SUMMARY OF FINDINGS	21
CONCLUSION	22

Tallahassee, Florida

June 8, 2007

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

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
State Corporate Commissioner
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Dear Sirs:

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 (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.
901 NW 51st Street
Boca Raton, Florida 33431

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, 2004 through December 31, 2006. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on March 26, 2007, to March 30, 2007. The fieldwork commenced on April 2, 2007, and was concluded as of June 8, 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 as of December 31, 2006.

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.

Transactions subsequent to year-end 2006 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 Company was last examined by representatives of the Office as of December 31, 2003. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

Loss Adjustment Expense Reserve

The Company had a deficit of \$2,100,000 in its adjusting and other reserves as of December 31, 2003.

Resolution: Reserve deficits were restated for the 2003 statement and there were no reserve deficits noted for the current examination period.

Profitability

The Company's gross and net premium writing ratios were in excess of the ratios allowed by Section 624.4095, Florida Statutes. **Resolution:** Writing ratios were in compliance with Section 624.4095, Florida Statutes, for gross written premium and for net written premium.

Risk Based Capital

The Company's risk based capital (RBC) level was less than the level allowed by Section 624.4085, Florida Statutes. The Company filed a plan with the Office to address the RBC level. **Resolution:** The Company's RBC at year-end 2006 was greater than the minimum required.

Information Technology Evaluation

The Company had the following exceptions regarding the information technology (IT) evaluation:

- The Company was not storing back-up tapes of data off-site.
- No internal audit function existed within the Company.
- The IT Department should update job descriptions.
- Implement the planned provisions of the software development life cycle.
- Establish a project team to identify minimum documentation standards and review current documentation.
- Establish a plan and budget for the installation of a network IDPS.
- Consider using automated tools to manage and monitor its network.

Resolution: A follow-up review was performed by Computer Aid, Inc., and all items noted have been resolved. There were no new issues noted.

HISTORY

General

The Company originated as Southeast Title and Insurance Company, Inc. (Southeast), and was incorporated on October 3, 1953, under the laws of the State of Florida and commenced writing business on May 13, 1954. On March 15, 1993, Associated Industries Insurance Services, Inc. (Parent) was

incorporated for the purpose of providing insurance administration and management services for certain insurance companies and self-insurance funds. In January 1995, the Parent purchased Southeast, a stock insurance company licensed to write business in the State of Florida and changed the Company's name to Associated Industries Insurance Company, Inc.

On June 10, 1996, Associated Industries of Florida Property & Casualty Trust received approval from the Office to convert to an assessable mutual insurer, simultaneously converting to a non-assessable stock insurer. Also on this same day the Company acquired 100% of the stock of the non-assessable stock insurer and merged into what is now known as Associated Industries Insurance Company, Inc. (Company), and assumed all of the liabilities and assets of the stock insurer.

Simultaneous with the conversion, the Company also executed a lost portfolio transfer (LPT) agreement with a reinsurer. Pursuant to the LPT agreement, the reinsurer assumed the Company's claims liabilities incurred prior to January 1, 1996.

The Company was a wholly owned subsidiary of Associated Industries Insurance Services, Inc. (Parent), which is a licensed managing general agent. 49.98% of the stock of the Parent was held and voted in a trust whose beneficiary was Associated Industries of Florida Holding Trust (Trust). The remaining 50.02% is split between stock option plans, Jon Shebel (the President/Secretary) and individual directors & key employees.

Trust is a trade association consisting of over 8,000 non-governmental members. On December 22, 1986, Trust sponsored the creation of a commercial self-insurance fund, to market workers' compensation insurance coverage to members of Trust on a group self-insured basis.

The Company wrote the majority of its business in the State of Florida.

The Company maintained its statutory home office in Boca Raton, Florida, where this examination was conducted.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Associated Industries Insurance Services, Inc., who owned 100% of the stock issued by the Company, who in turn was owned by 49.98% by Associated Industries of Florida Holding Trust, 15.06% by a Stock Option Plan, 20.8% by Jon L. Shebel, an individual and Florida resident and the remaining 14.16% by individual directors and key employees.

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.

	2006	2005	2004
Premiums Earned	44,106,446	42,825,436	68,483,974
Net Underwriting Gain/(Loss)	5,556,345	(1,654,635)	(9,216,877)
Net Income	6,100,087	2,679,519	(1,672,752)
Total Assets	192,110,856	170,839,684	199,318,786
Total Liabilities	165,815,961	150,042,647	178,587,161
Surplus As Regards Policyholders	26,294,895	20,797,037	20,731,625

Dividends to Stockholders

The Company did not declare or pay dividends during this examination period.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Tine Wayne Davis
Jacksonville, Florida

Jon Lester Shebel
Boca Raton, Florida

Guy Maxwell Spearman, III
Cocoa, Florida

Robert William West
Tallahassee, Florida

Principal Occupation

Vice Chairman, the Company
Vice Chairman, Winn-Dixie Stores, Inc.

Director, the Company
Director, Associated Industries Insurance Services, Inc.

Vice Chairman, the Company
Owner, Spearman Management, Inc.

Chairman, the Company
Owner, Bob West & Associates

Michael Zagorac, Jr.
Belleair, Florida

Director, the Company
Senior Management Director Public Affairs, Hill &
Knowlton, Inc.

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

Senior Officers

Name	Title
Jon L. Shebel	President & Secretary
Daniel Joseph McGarvey	Treasurer

The Company's board appointed members of the audit committee in accordance with Section 607.0825, Florida Statutes. The following are the appointed members of the audit committee as of December 31, 2006:

Guy Maxwell Spearman, III, Chairman
Tine Wayne Davis
Michael Zagorac, Jr.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest. No exceptions were noted during this examination period.

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, with the exception of the authorization of investments as required by Section 625.304, Florida Statutes.

Subsequent Event: Subsequent to the examination, the Company has implemented steps to document the Board of Director review and approval of the Company's investments.

The Board of Directors' minutes indicated their review and approval of the previous examination report as of December 31, 2003.

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

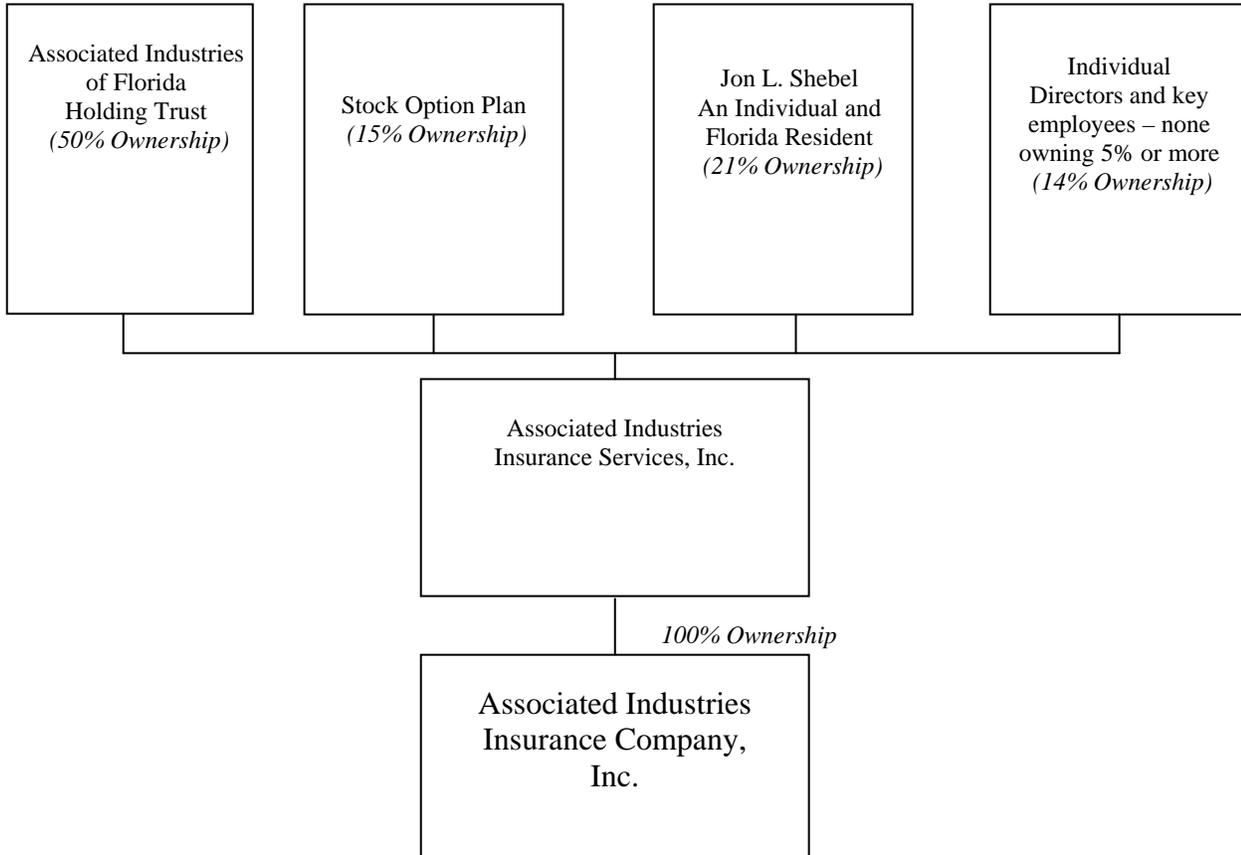
The Company had no surplus debentures at December 31, 2006.

AFFILIATED COMPANIES

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The latest holding company registration statement was filed with the State of Florida on September 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was based on the percent of the Company's independent return to the total. Additionally, at no time will the allocation be less than zero.

Administrative Services Management Agreement

The Company had a services management agreement with the Parent, at December 31, 2006. The agreement was for the Parent to administer all aspects of the Company and pay all liabilities excluding agent's commissions and losses. For these services the Company agreed to pay the Parent 15% of gross earned premium on a monthly basis.

The Company reported a significant non-admitted receivable from the Parent of \$9,563,703. In 2004 the Company began re-underwriting their book of business, reducing the premium volume significantly, therefore reducing the Parent's commission income. The Parent's expenses, which were not commensurately reduced, became greater than the commission income from the Company. The Company began advancing monthly amounts to the Parent greater than the percentage stipulated in the Administrative Services Management Agreement to cover the Parent company's expenses. An amendment to the agreement to increase the commission payable from the Company to the Parent was reviewed by the Office and was not approved. The Office ordered the Company in a letter dated April 26, 2007 to cease and desist from advancing these funds to the Parent, which was a material transaction pursuant to Rule 69O-143.047 Florida Administrative Code that was not approved by the Office. The Company filed a Form A filing with the Office, which if approved, will result in the receivable from the Parent being completely repaid to the Company.

Subsequent Event

On September 6, 2007 the Office issued a consent order approving the Form A filing by AmTrust Financial Services, Inc to purchase one hundred percent of the outstanding common stock of Associated Industries Insurance Services, Inc which wholly owned on hundred percent of the outstanding stock of Associated Industries Insurance Company, Inc. The stock purchase was completed on September 7, 2007.

On September 25, 2007 the Company provided supporting documentation to the Office verifying that on September 24, 2007 the \$13,106,244 receivable from the Parent had been repaid.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company of \$1,000,000 as recommended by the NAIC.

The Company maintained other insurance coverage usual to the operation of an insurer with no employees. All other insurance was maintained by the Parent.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

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

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	US T - NOTE	4.8%	11/15/08	\$ 750,000	\$ 749,033
FL	US T - NOTE	6.3%	02/15/07	50,000	50,069
FL	US T - NOTE	3.5%	02/15/10	500,000	482,420
FL	US T - NOTE	4.5%	09/30/11	750,000	743,408
TOTAL FL DEPOSITS				\$ 2,050,000	\$ 2,024,929
TOTAL GA DEPOSITS		US T - NOTE		\$ 100,000	\$ 99,069
TOTAL SPECIAL DEPOSITS				\$ 2,150,000	\$ 2,124,001

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

At December 31, 2006, the Company was authorized and had written only workers compensation coverage in the following states:

- Alabama
- Florida
- Georgia
- Mississippi

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.

REINSURANCE

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

The reinsurance contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The Company was not in compliance with Section 626.7492(6)(a), Florida Statutes, concerning the licensing of two reinsurance intermediary brokers. There were no licenses on record for Arthur J. Gallagher (UK), Ltd and Swift Intermediaries, Ltd.

Assumed

The Company assumed no risk during the examination period.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various reinsurers. During the examination period the Company made a decision to terminate their quota share agreements and only reinsure on an excess of loss basis.

The Company ceded earned premiums on an excess of loss basis to various reinsurers. For policies with an effective date of January 1, 2006 through December 31, 2006, the Company ceded 100% of \$375,000 in excess of \$125,000 to Swiss Re, 100% of \$1,500,000 in excess of \$500,000 to Hannover Re and Max Re equally, 100% of \$3,000,000 in excess of \$2,000,000 to Hannover Re and Max Re equally, and

\$5,000,000 in excess of \$5,000,000, \$10,000,000 in excess of \$10,000,000 and \$20,000,000 in excess of \$20,000,000 with various reinsurers.

ACCOUNTS AND RECORDS

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 Boca Raton, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2006, 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with SunTrust Bank which was effective on September 24, 2001.

Investment Management Agreement

On August 14, 2001, the Company entered into an asset management agreement with Conning Asset Management Company, Inc. for investment advice, portfolio management, and investment accounting

and reporting services for an annual fee, paid quarterly in arrears. The annual fees payable by the Company were calculated on the basis points assessed to asset value at the close of the billing period, subject to a quarterly minimum fee of \$18,750.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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.

ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 109,260,449		\$ 109,260,449
Stocks:			
Common	2,409		2,409
Real Estate:			
Properties held for production of income	1,267,213		1,267,213
Cash and short-term investments	31,226,979		31,226,979
Other investment assets	1,340,578		1,340,578
Investment income due and accrued	1,185,991		1,185,991
Agents' Balances:			
Uncollected premium	2,404,021		2,404,021
Deferred premium	27,226,526		27,226,526
Accrued retrospective premiums	1,070,446		1,070,446
Reinsurance Recoverable	6,354,217		6,354,217
Net deferred tax asset	4,764,307		4,764,307
Aggregate write-in for other than invested assets	6,007,720		6,007,720
Totals	\$ 192,110,856	\$0 \$	192,110,856

ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.

Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 111,934,029		\$ 111,934,029
Loss adjustment expenses	22,867,730		22,867,730
Commissions payable and other similar charges	728,797		728,797
Other expenses	3,618,694		3,618,694
Taxes, licenses and fees	1,655,936		1,655,936
Current federal and foreign income taxes	2,181,681		2,181,681
Unearned premiums	19,747,562		19,747,562
Advance premiums	729,267		729,267
Ceded reinsurance premiums payable	2,071,109		2,071,109
Provision for reinsurance	38,877		38,877
Aggregate write-ins for liabilities	<u>242,279</u>		<u>242,279</u>
Total liabilities	\$ 165,815,961		\$ 165,815,961
Aggregate write-ins for special surplus funds	452,448		452,448
Common capital stock	2,000,000		2,000,000
Gross paid in and contributed surplus	7,769,666		7,769,666
Unassigned surplus	<u>16,072,781</u>		<u>16,072,781</u>
Surplus as regards policyholders	<u>\$26,294,895</u>		<u>\$26,294,895</u>
Total liabilities, capital and surplus	<u>\$ 192,110,856</u>	0	<u>\$ 192,110,856</u>

ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$44,106,446
DEDUCTIONS:	
Losses incurred	24,311,364
Loss expenses incurred	6,319,464
Other underwriting expenses incurred	7,919,273
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$38,550,101</u>
Net underwriting gain or (loss)	\$5,556,345
Investment Income	
Net investment income earned	\$5,132,250
Net realized capital gains or (losses)	643,239
Net investment gain or (loss)	<u>\$5,775,489</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$257,779)
Aggregate write-ins for miscellaneous income	0
Total other income	<u>(\$257,779)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$11,074,055
Dividends to policyholders	799,594
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$10,274,461</u>
Federal & foreign income taxes	<u>4,174,374</u>
Net Income	\$6,100,087
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$20,797,037
Gains and (Losses) in Surplus	
Net Income	\$6,100,087
Change in net unrealized capital gains or (losses)	(452,926)
Change in net deferred income tax	1,618,312
Change in non-admitted assets	(1,761,309)
Change in provision for reinsurance	(6,306)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$5,497,858</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$26,294,895</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$134,801,759</u>
--	-----------------------------

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, 2006, 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.

**ASSOCIATED INDUSTRIES INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, Annual Statement			\$26,294,895
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	No adjustments needed		
LIABILITIES:	No adjustments needed		
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$26,294,895

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 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, 2006.

Reinsurance

There was no documentation indicating that two of the reinsurance intermediary brokers used by the Company were properly licensed either in Florida or in the United States. Therefore the Company was not in compliance with Section 626.7492 (6), Florida Statutes, regarding reinsurance intermediaries.

We recommend that the Company only use reinsurance intermediaries which are either licensed in the State of Florida or in another State in the United States with similar laws.

Management and Control

The Company was not in compliance with Section 625.304, Florida Statutes. This statute requires that the board of directors approve or ratify the presentation of the investment report and investment activity in the board minutes. **We recommend that the Company's Board of Directors include the review and approval of the Company's investments in future board minutes.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Associated Industries Insurance Company, Inc as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$26,294,895, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following individuals participated in the examination, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Alison Miele, Financial Examiner/Analyst II and Joseph Boor, FCAS, Office Actuary. We also recognize Computer Aid Inc. participation in the examination.

Respectfully submitted,

Richard A. Shaffer
Financial Specialist
Florida Office of Insurance Regulation

Mary M. James, CFE, CPM
Financial Administrator
Florida Office of Insurance Regulation