

REPORT ON EXAMINATION
OF
BRIDGEFIELD CASUALTY
INSURANCE COMPANY, INC.
LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 4, 2005

Secretaries of State:

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Secretary, Western Zone
NAIC Commissioner
Montana Department of Insurance
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Helena, Montana 59601

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Dear Sirs and Madams:

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, 2003, of the financial condition and corporate affairs of:

**BRIDGEFIELD CASUALTY INSURANCE COMPANY, INC.
2310 A-Z PARK ROAD
LAKELAND, FLORIDA 33801**

Hereinafter, the above will be referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced with planning at the Office on September 15, 2004 to November 12, 2004. The fieldwork commenced on November 15, 2004 and was concluded as of February 4, 2005. 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 represents an association zone 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 690-137.001(4) and 690-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws, rules and regulations 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, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed insignificant 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, some reliance was placed on work performed by the Company's CPA, after verifying the statutory requirements for the following specific risk cycles:

- Premiums
- Losses and Benefits
- Investments and Other Invested Assets
- Reinsurance
- Operating Income and Expenses

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, 2000 along with resulting action taken by the Company in connection therewith.

Management

The Company incorrectly reported James Paul Condrin, III, and Christopher Charles Mansfield as directors on the annual statement jurat page.

Resolution: The Company removed both James Paul Condrin, III, and Christopher Charles Mansfield as directors and correctly reported the remaining directors on the annual statement jurat page.

There was no documentation in the minutes reviewed that indicated the Board of Directors approved or authorized the sale or purchase of all investments in accordance with Section 625.304, FS.

Resolution: As noted in the Board of Directors minutes pertaining to this exam period, investment decisions were authorized in accordance with Section 625.304, FS.

The Board of Directors did not document their review of the previous examination report (1997 exam).

Resolution: As documented in the Board of Directors minutes pertaining to this exam period, the Directors reviewed the 2000 examination report.

Claims and Risk Information Services Agreement

The Claims and Risk Information Services Agreement between the MGA, Summit Consulting, Inc., and Helmsman Management Services, Inc. (HMS), was in violation of Section 626.7451, FS, which stated the MGA agreement can not be assigned in whole or in part by the managing general agent.

Resolution: The Company now directly works with HMS for their Claims and Risk Information Services on Business Owners Policies only.

Federal Income Tax Recoverable

The Company reported a Federal income tax recoverable, which represented a balance still outstanding, uncollected and non-assured, as an admitted asset. This did not comply with Section 625.031(8), FS, which states it must be non-admitted.

Resolution: The Company did not experience a tax recoverable during fiscal year 2003, thus there was nothing to report in 2003. On the 2002 Annual Statement, the Company correctly reported their non-assured portion of the recoverable as non-admitted.

Agents' Balances

The Company did not age premiums due from several states as part of the Agents' Balances account, which violated Rule 690-138.024, FAC.

Resolution: The premiums receivable aging schedule at December 31, 2000 did not include a state that the Company had recently entered. An aging schedule prepared subsequently showed approximately \$9,000 that should have been considered for non-admit status. All states were included in current aging schedules.

Company Stock Par Value

On November 30, 2001, the par value of the Company's stock was increased from \$100 per share to \$120 per share. This change was approved by the Office on April 10, 2002; however, Section 628.081(3)(d), FS, states that the par value can not exceed \$100 per share.

Resolution: Per the August 12, 2002 Consent to Action by the Board of Directors, a resolution passed to amend the Articles of Incorporation of the Company and its wholly owned subsidiary, to authorize the Company to issue 18,000 shares of common stock with a par value of \$100 per share. Upon approval from the Office and acceptance from the Florida Department of State, a resolution passed to reissue all 18,000 shares of common stock, the consideration being a revision of the paid-in-capital from \$120 per share of 15,000 shares to \$100 per share of 18,000 shares.

Business Resumption Plan

A detailed business resumption plan was not found.

Resolution: Examiners obtained a detailed business resumption plan published by the ultimate parent company.

Organization Controls

Information access was not removed for employees who were terminated or on long-term leave. The personnel department should be responsible for verifying that all employees no longer working for the Company have their information access revoked in a timely manner.

Resolution: Examiners noted changes were made to the information access policy to avert security issues.

HISTORY

General

The Company was incorporated October 7, 1994, under the laws of the State of Florida, as an assessable mutual insurer, with the name of Summit Mutual Insurance Company. On February 9, 1995, the Company was reorganized as a stock property and casualty insurer, changing its name to Paragon Insurance Company, and commencing business on February 16, 1995. The Company was a 100% owned subsidiary of Summit Holding Corporation (SHC), a Florida holding company, which in turn was owned by Employers Self Insurers Fund (ESIF), now known as Bridgefield Employers Insurance Company (BEIC), a Florida stock insurance company.

On October 6, 1995, the Company's name was changed to Bridgefield Casualty Insurance Company, owned entirely by SHC. On May 28, 1997, SHC sold the Company to BEIC, which acquired 100% of the voting common stock. On December 31, 1997, BEIC was in turn acquired by Summit Holding Southeast, Inc., an insurance holding company.

On September 30, 1998, Liberty Mutual Insurance Company (LMIC), a Massachusetts insurance company, acquired all the outstanding stock of Summit Holdings Southeast, Inc. The Company

and its parent company, BEIC, were now a part of a group of affiliated insurers, Liberty Mutual Insurance Group.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

Workers' Compensation

Commercial Multi Peril

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	18,000
Number of shares issued and outstanding	18,000
Total common capital stock	\$1,800,000
Par value per share	\$100.00

Profitability of Company

As the Company ceded 100% of premiums and losses to the ultimate parent, LMIC, there has been no underwriting gain/loss during the years covered by this examination. The Company's overall net income (loss) after taxes for the years ended 2003, 2002 and 2001 amounted to \$1,496,718, \$(2,360), and \$758,028, respectively.

Dividends to Stockholder

The Company did not declare nor pay dividends to its stockholder in 2003.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. In the March 21, 2001 Board of Director minutes, a resolution was adopted to increase the number of directors from 6 to 10. In the 2003 annual statement, 13 directors were listed on the jurat page.

Directors serving as of December 31, 2003, were:

Directors or Trustees

Name and Location

Roger Lucien Jean
Boston, MA

Ricky Tarver Hodges
Lakeland, FL

John Douglas Hanselman
Lakeland, FL
Amy Johnston Leddy
Boston, MA

Forrest Howard Johnson
Boston, MA

William George Mersch
Boston, MA

Dennis James Langwell
Boston, MA

James Francis Dore
Boston, MA

Geoffrey Eugene Hunt
Boston, MA

Bob David Effinger, Jr.
Keene, NH

Principal Occupation

Director; Chairman
Director of Regional Area Markets (RAM)
Liberty Mutual Insurance Company (LMIC)

Director; President and CEO
Bridgefield Employers Insurance (BEIC)

Director; Treasurer, BCIC

Director; Agency Management, LMIC

Director; Sr. Vice President (Retired)

Director; Vice President, RAM
HR & Admin. Services, LMIC

Director; Sr. Vice President and CFO,
LMIC

Director; Sr. Vice President RAM,
Financial Officer, LMIC

Director; Executive Vice President, RAM,
Eastern Division, LMIC

Director; Sr. Vice President, RAM,
Chief Actuary, LMIC

Michael Ray Christiansen
Boston, MA

Director; Executive Vice President, RAM
Operations, LMIC

Robert Joseph O'Halloran
Lakeland, FL

Director; Vice President, Claims
Summit Consulting, Inc.

Carol Prevatt Sipe
Lakeland, FL

Director; Vice President, Operations
BCIC

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

Senior Officers

Name

Title

Ricky Tarver Hodges

President

Michael Ray Christiansen

Vice-President

James Francis Dore

Vice-President

Bob David Effinger, Jr.

Vice-President

John Douglas Hanselman

Vice-President, Treasurer

Geoffrey Eugene Hunt

Vice-President

Gary Jay Ostrow

Vice-President

Carol Prevatt Sipe

Vice-President

Thomas Lee Clarke, Jr.

Secretary

Roy Kelly Morell

Actuary

On December 31, 2003, the Company maintained an audit committee as required by Section 624.424 (8), FS. In the March 21, 2001 Board of Director minutes, a resolution was adopted to increase the number of members serving on the audit committee from 3 to 4. Audit Committee members serving as of December 31, 2003, were:

Name

Roger Lucien Jean, Chairman
Ricky Tarver Hodges
James Francis Dore
Mark Edward Fiebrink, (RAM Western Division, LMIC, Executive Vice President,)

Conflict of Interest Procedure

On December 31, 2003, the Company had adopted a policy statement that required written annual disclosure on conflicts of interest, in accordance with Section 607.0825, FS. No exceptions were noted during the period under examination.

Corporate Records

The recorded minutes of the meetings by the Shareholder and the Board of Directors were reviewed for the period under examination. The number of directors authorized in the Board minutes did not agree with the number of directors listed on the jurat page of the annual statement. The minutes were documented in accordance with Section 607.1601, FS.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, FS, and Rule 690-143.046, FAC, on July 9, 2003.

On December 31, 2003, the following agreements were in force between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its immediate parent, BEIC, filed a consolidated federal income tax return with its ultimate parent, LMIC. On December 31, 2003, the method of allocation between the Company and its ultimate parent was such that each entity should contribute its fair and equitable share of the taxes paid, provided that they should not be required to pay more than they would have paid if they had computed and paid their tax liabilities on a separate basis.

MGA Agreement

The Company had a Managing General Agent Agreement (MGA) with Summit Consulting, Inc., to provide all services for managing and administering the affairs of the Company. Services included, but were not limited to, marketing, underwriting, billing, collection, claims administration, safety and loss prevention and claims servicing. The Company had no employees.

The Company had an agreement with Helmsman Management Services, Inc., effective May 15, 2002, for claims and risk information services. The Company utilized Helmsman Management Services, Inc. to service its business owners policies.

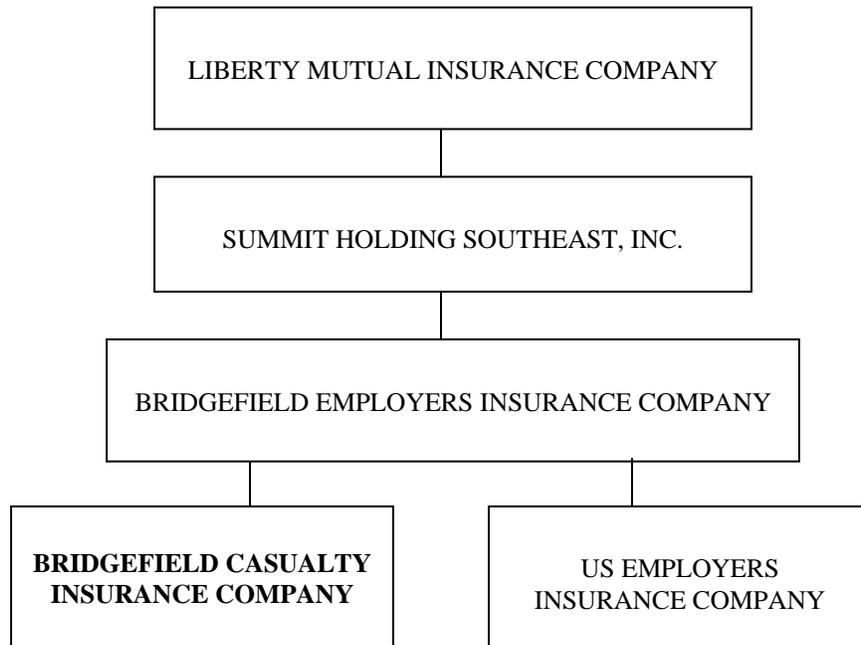
Investment Management Agreement

The Company had an investment management agreement with Liberty Mutual Advisors, LLC, an indirect subsidiary of LMIC. The general terms of the agreement called for Liberty Mutual Advisors to invest and manage the assets of the Company.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 Annual Statement provided a list of all related companies of the holding company group.

**BRIDGEFIELD CASUALTY INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2003



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$100,000,000 with a maximum deductible of \$1,000,000 each claim, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

On December 31, 2003, 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:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	Safeway Inc Note, 7.250%, 09/15/04	\$1,000,000	\$1,000,697
GA	US Treasury Note, 4.625%, 05/15/06	25,000	26,500
GA	US Treasury Bond, 6.500%, 10/15/06	75,000	83,531
LA	Certificate of Deposit, 2.810%, 03/31/04	20,000	20,000
LA	Certificate of Deposit, 2.810%, 05/21/04	50,000	50,000
SC	US Treasury Note, 4.625%, 05/15/06	<u>125,000</u>	<u>132,500</u>
	Total Special Deposits	<u>\$1,295,000</u>	<u>\$1,313,228</u>

The Florida bond above was omitted from Schedule E, Part 3 of the 2003 Annual Statement.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

At December 31, 2003, the Company was authorized to transact insurance in the following states, in accordance with Section 624.401 (2), FS:

Florida

Alabama

Kentucky

Georgia

Louisiana

Mississippi

South Carolina

Treatment of Policyholders

At December 31, 2003, the Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

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 risks in the current year (2003).

Ceded

The Company ceded all their risk to their ultimate parent, LMIC under the 100% quota share treaty, and to Peerless Insurance Company, an affiliated company, under an excess of loss treaty.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion. The Company also participated in several involuntary market pools in states in which such participation was required.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2002, and 2001, in accordance with Section 624.424(8), FS. Audited statutory financial statements and supporting work papers were prepared by the CPA as required by Rule 690-137.002, FAC.

The Company's account balances were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Lakeland, Florida, where this examination was conducted. This location was the home office of the Company's MGA.

Non-Affiliated Agreements

On December 31, 2003, the following agreements were in force between the Company and non-affiliates:

Custodial Agreement

The Company had a custodial agreement with Chase Manhattan Bank, in Brooklyn, New York. The agreement was in compliance with Rule 690-143.042, FAC.

Independent CPA Agreement

For the years ending 2003, 2002, and 2001, in accordance with Section 624.424(8)(a), FS, the Company retained the accounting firm of Ernst & Young, LLP, in Tampa, Florida, to conduct the annual audits.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

INFORMATION TECHNOLOGY REQUIREMENTS

The information technology (IT) services for the Company were outsourced to Summit Consulting, Inc., the Company's MGA. Recently, the Company's ultimate parent, LMIC, performed an internal audit of the IT systems.

FINANCIAL STATEMENT PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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."

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2003

<u>Classification</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$ 38,977,596		\$ 38,977,596
Stocks:			
Preferred	51,650		51,650
Cash:			
On deposit	1,210,678		1,210,678
Receivable for securities	250,001		250,001
Investment Income			
Income due & accrued	554,669		554,669
Agents' Balances:			
Uncollected premium	1,024,961		1,024,961
Deferred premium	(3,976,244)		(3,976,244)
Accrued retrospective premiums	(532,875)		(532,875)
Reinsurance			
Amount recoverable from reinsurers	(14,517)		(14,517)
Net deferred tax asset	367,567		367,567
Receivables from parent, subsidiaries, and affiliates	120,904		120,904
Aggregate write-ins for other than invested assets	<u>25,000</u>		<u>25,000</u>
Totals	<u>\$ 38,059,390</u>	<u>\$0</u>	<u>\$ 38,059,390</u>

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Commissions payable, contingent commissions and other charges	\$1,592,584		\$1,592,584
Other expenses	330,328		330,328
Taxes, licenses and fees	11,048,624		11,048,624
Current federal and foreign income taxes	78,731		78,731
Advance premium	884,249		884,249
Ceded reinsurance premiums payable (net of ceding commissions)	6,051		6,051
Amounts withheld or retained by company for account of others	1,019		1,019
Payable to parent, subsidiaries and affiliates	5,603,904		5,603,904
Aggregate write-ins for liabilities	<u>1,337</u>		<u>1,337</u>
Total Liabilities	\$ 19,546,827		\$ 19,546,827
Common capital stock	\$ 1,800,000		\$ 1,800,000
Gross paid in and contributed surplus	13,700,000		13,700,000
Unassigned funds (surplus)	<u>3,012,563</u>		<u>3,012,563</u>
Surplus as regards policyholders	<u>\$ 18,512,563</u>		<u>\$ 18,512,563</u>
Total liabilities, capital and surplus	<u>\$ 38,059,390</u>	<u>\$0</u>	<u>\$ 38,059,390</u>

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2003

Underwriting

Premiums earned	\$0
DEDUCTIONS:	
Losses incurred	\$0
Loss expenses incurred	\$0
Other Underwriting expenses incurred	\$0
Aggregate write-ins for underwriting deductions	\$0
Total underwriting deductions	\$0
Net underwriting gain or (loss)	\$0

Investment Income

Net investment income earned	\$ 1,874,045
Net realized capital gains	266,646
Net investment gain	\$ 2,140,691
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 2,140,691
Federal & foreign income taxes	643,973
Net Income	\$ 1,496,718

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$ 12,211,324
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Gains and (Losses) in Surplus

Net Income	\$ 1,496,718
Change in net unrealized capital gains	10,900
Change in net deferred income tax	(398,156)
Change in non-admitted assets	1,072,776
Change in provision for reinsurance	119,000
Surplus paid in	4,000,000
Change in surplus as regards policyholders for the year	\$ 6,301,238
Surplus as regards policyholders, December 31 current year	\$ 18,512,563

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2003

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, 2003, Annual Statement \$18,512,563

	Per Company	Per Exam	Increase/ Decrease in Surplus
ASSETS:			
No adjustment necessary.			
LIABILITIES:			
No adjustment necessary.			
Net Change in Surplus:			
Surplus as Regards Policyholders as of December 31, 2003, per Examination			\$ 18,512,563

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2000 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2003.

Statutory Deposits

We noted that the Company did not disclose the Special Deposit Note for the State of Florida on Schedule E, Part 3.

It is recommended that the Company comply with SSAP No. 26 and include the required information concerning Special Deposit investments in the notes to the annual statement for all future filings of the annual statements.

Corporate Records

We noted that in the March 21, 2001 Board of Director minutes, a resolution was adopted to the bylaws that increased the number of directors from 6 to 10. However, the number of directors listed on the jurat page of the 2003 annual statement exceeded that amount.

It is recommended that the Company more accurately record changes and resolutions adopted to the Company bylaws, such as documenting the number of directors authorized to sit on the Board.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bridgefield Casualty Insurance Company** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$18,512,563, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Timothy M. Naddy, CPA, Examiner in Charge, Anthony Grippa, Actuary, Preferred Insurance Capital Consultants; Christopher M. Howell, CPA, CIA, Audit Manager; Allison M. Dahlmeier, CPA, Tax Senior Staff; Brad Jones, Audit Staff; Andrew J. Woodward, Audit Staff; and Mike Sills, Audit Staff, from Thomas Howell Ferguson P.A., participated in the examination.

Respectfully submitted,

Mike Hampton, CFE, CPA, CFE, DABFA, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation