

REPORT ON EXAMINATION
OF
FCCI ADVANTAGE INSURANCE
COMPANY
SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

January 11, 2011

Kevin M. McCarty
Commissioner
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 and Rule 69O-138.05, Florida Administrative Code, 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, 2009, of the financial condition and corporate affairs of:

**FCCI ADVANTAGE INSURANCE COMPANY
6300 UNIVERSITY PARKWAY
SARASOTA, FLORIDA 34240**

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, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on September 20, 2010, to September 24, 2010. The fieldwork commenced on September 27, 2010, and concluded as of January 11, 2011.

This financial examination was a 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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

HISTORY

General

The Company is a property and casualty insurer domiciled in the State of Florida. It was organized on February 8, 2006 and the Company commenced business on November 7, 2007. The Company is only licensed in the state of Florida.

The Company was party to Consent Order 77469-04-CO, filed December 20, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with this order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

| | |
|------------------------|---------------------------------|
| Fire | Other liability |
| Allied lines | Commercial auto liability |
| Commercial multi peril | Commercial auto physical damage |
| Inland marine | Fidelity |
| Burglary and theft | Boiler and machinery |

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

Dividends to Stockholders

No dividends were declared or paid during the period covered by this examination.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

| | |
|--|-----------|
| Number of authorized common capital shares | 100,000 |
| Number of shares issued and outstanding | 100,000 |
| Total common capital stock | \$100,000 |
| Par value per share | \$1.00 |

Control of the Company was maintained by its parent, FCCI Insurance Group, Inc., who owned 100% of the stock issued by the Company; they in turn were 100% owned by FCCI Insurance Company; 100% owned by FCCI Group, Inc.; 100% owned by FCCI Mutual Insurance Holding Company, a Florida mutual holding company.

Surplus Debentures

The Company has not issued any surplus debentures.

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

There were no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during this examination.

CORPORATE RECORDS

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

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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, 2009, were:

Directors

| Name and Location | Principal Occupation |
|---|---|
| Charles Robert Baumann Sarasota, Florida | CPA, Kerkering, Barberio & Co. |
| Robert Weld Benjamin Sarasota, Florida | Attorney, Williams, Parker, Harrison, Dietz & Getzen |
| Timothy Joseph Clarke Sarasota, Florida | Advertising Executive, Clarke Company (f/k/a Clarke Advertising & Public Relations) |
| Robert Winthrop Flanders Sarasota, Florida | Contractor, Quality Walls Enterprises |
| Marvin Stephen Haber Sarasota, Florida | Retired |
| Gordon William Jacobs Sarasota, Florida | CEO, FCCI Mutual Insurance Holding Co. |
| John Thomas Stafford Sarasota, Florida | Retired |
| Roy Allan Yahraus Sarasota, Florida | Business Executive, Seacoast Supply |

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

Senior Officers

| Name | Title |
|----------------------------|--------------------------------------|
| Gordon William Jacobs | President & CEO |
| Rupert Lee Willis | EVP & Chief Regional Officer |
| Craig Allan Johnson | EVP, CFO & Treasurer |
| Debra Horner Douglas | EVP & Secretary |
| Joseph Anthony Keene | EVP |
| Christopher Samir Shoucair | VP, Controller & Assistant Treasurer |

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

Executive Committee

John Stafford¹
G. W. Jacobs

¹ Chairman

Audit Committee

Charles Baumann ¹
Robert Flanders
Timothy Clarke
Robert Benjamin

Investment Committee

Marvin Haber ¹
Charles Baumann
Timothy Clarke
Robert Benjamin

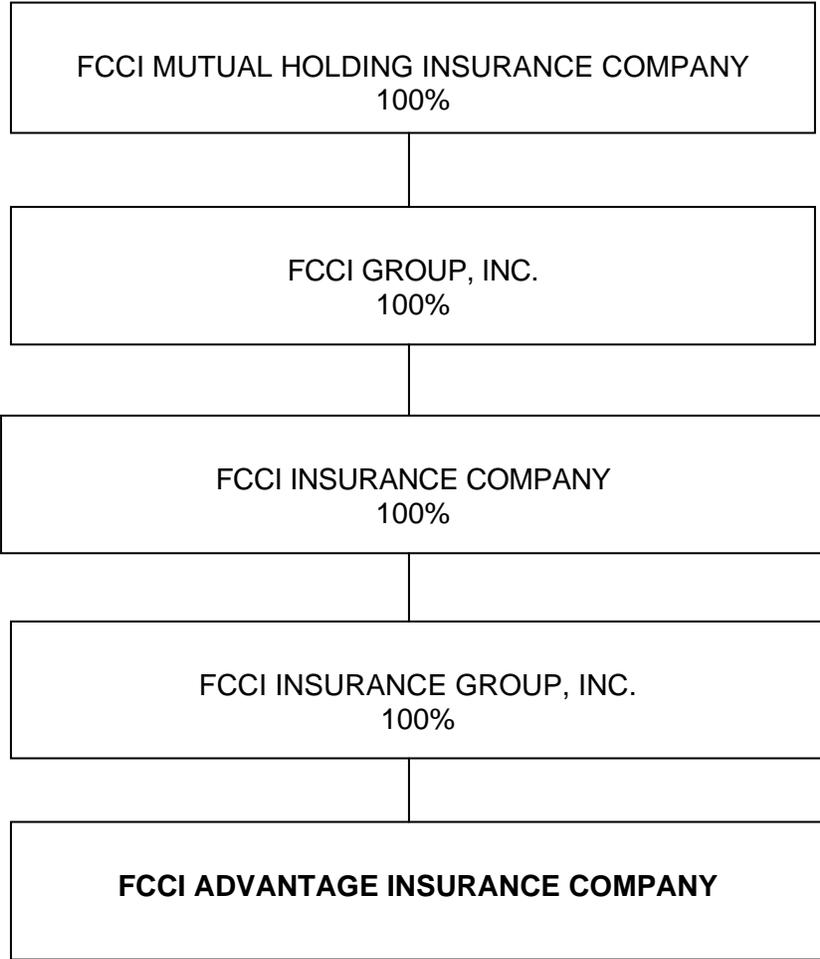
Affiliated Companies

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 February 23, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**FCCI ADVANTAGE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company, along with FCCI Insurance Company (FIC) and its affiliates, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation was the “separate-entity” basis described in Internal Revenue Code Section 1552(a) (2) and Treasury Regulation 1.552-1(a) (2) on the basis of the percentage of the total tax which the tax of each member, if computed on a separate return would bear to the total taxes for all members, if computed on separate returns.

Management Services Agreement

The Company, along with its parents and affiliates, had a management services agreement with FCCI Services, Inc. (FSI), an affiliate, which provided insurance and general management services including, but not limited to: underwriting, premium formulation, collection services, loss control, claims management, portfolio investment management, actuarial services, accounting services, internal auditing, treasury and banking services, legal services, regulatory affairs, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other services related to the effective management of the Company’s business.

FIDELITY BOND AND OTHER INSURANCE

The Company’s ultimate parent, FCCI Mutual Insurance Holding Company, maintained fidelity bond coverage, which included the Company, up to \$5,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC.

The Company also was a named insured on a commercial property and general liability policy, workers compensation and employer's liability policy, commercial umbrella liability policy, and business auto policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company and FSI, along with certain affiliated insurance companies, were members of a retirement and savings plan ("401k Plan", a defined 401k contribution and profit sharing plan) in which all employees were eligible to participate. Certain members of the FCCI Group Inc. (FGI), an upstream parent of the Company, Board of Directors had entered into a deferred compensation plan, which included a deferred compensation payment of three times director's annual fees at retirement subject to certain vesting criteria. FGI had established for members of the Board of Directors and officers of FSI a Long-Term Incentive Plan ("Incentive Plan") that offered two types of performance-based incentive awards, a Full Value Performance Unit Award ("Performance Units") and a Performance Unit Appreciation Rights Award ("Appreciation Rights"). After satisfaction or lapse of the restrictions, terms and conditions established by the Incentive Plan with respect to a grant of Performance Units, the Incentive Plan participant would receive a cash payment equal to the number of vested Performance Units multiplied by a Company Value as of the Exercise Date as defined in the Incentive Plan. Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of vested Appreciation Rights exercised multiplied by the increase in Company Value as of the Exercise Date compared to the Company Value on the Grant Date.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

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(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

All premiums are ceded to and earned by the parent company. The underwriting loss relates to expenses which were in excess of ceded reinsurance commissions. Net income declined as a result of a reduction in investment income. The increase in total assets was primarily attributable to increases in bonds and deferred tax assets. Increases in commissions payable and ceded reinsurance premiums payable contributed to the increase in total liabilities. Net income and the change in net deferred tax assets resulted in a 3% increase in surplus as regards policyholders.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

| | 2009 | 2008 | 2007 | 2006 |
|----------------------------------|-------------|-------------|-------------|-------------|
| Premiums Earned | 0 | 0 | 0 | 0 |
| Net Underwriting Gain/(Loss) | (29,694) | (33,884) | (10,726) | (7,039) |
| Net Income | 91,333 | 148,339 | 170,405 | 122,384 |
| Total Assets | 6,087,268 | 5,725,452 | 5,455,952 | 5,195,322 |
| Total Liabilities | 484,894 | 279,634 | 173,076 | 72,938 |
| Surplus As Regards Policyholders | 5,602,374 | 5,445,818 | 5,282,876 | 5,122,384 |

LOSS EXPERIENCE

There were no significant changes to the Company's loss experience.

REINSURANCE

The reinsurance agreements reviewed complied 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 reinsurance.

Ceded

The Company ceded risk on a quota share basis. The Company ceded 100% of written premium to an upstream parent, FIC. In this agreement, the reinsurer, FIC, would indemnify 100% of the Company's losses under the Company's policies.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008 and 2009, 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with The Northern Trust Company, dated March 13, 2006, and amended September 7, 2006 and January 1, 2009, which complied with the terms of

Rule 69O-143.042, Florida Administrative Code, which stipulates the requirements of a custodial agreement.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Information Technology Report

RSM McGladrey performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Summary Memorandum which was provided to the Company.

STATUTORY DEPOSITS

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

| STATE | Description | Par Value | Market Value |
|------------------------|----------------------|-------------------|-------------------|
| FL | USTN 4.75% 3/31/2011 | <u>\$ 325,000</u> | <u>\$ 340,945</u> |
| TOTAL FLORIDA DEPOSITS | | <u>\$ 325,000</u> | <u>\$ 340,945</u> |

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

FCCI ADVANTAGE INSURANCE COMPANY
Assets

DECEMBER 31, 2009

| | Per Company | Examination Adjustments | Per Examination |
|--|--------------------|------------------------------------|------------------------|
| Bonds | \$5,854,288 | | \$5,854,288 |
| Short-Term Investments | 80,052 | | 80,052 |
| Interest income due & accrued | 46,037 | | 46,037 |
| Net deferred tax asset | 69,912 | | 69,912 |
| Aggregate write-in for other than invested assets | 36,979 | | 36,979 |
| | <hr/> | | |
| Totals | \$6,087,268 | \$0 | \$6,087,268 |
| | <hr/> <hr/> | | |

FCCI ADVANTAGE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

| | Per Company | Examination Adjustments | Per Examination |
|--|--------------------|------------------------------------|----------------------------|
| Commissions payable, contingent commissions and other similar charges | \$160,568 | | \$160,568 |
| Taxes, licenses and fees | 227,646 | | 227,646 |
| Current federal and foreign income taxes | 145,977 | | 145,977 |
| Advance premium | 16,499 | | 16,499 |
| Ceded reinsurance premiums payable | (98,205) | | (98,205) |
| Amounts withheld or retained by company for account of others | 32,409 | | 32,409 |
| | | | |
| Total Liabilities | \$484,894 | \$0 | \$484,894 |
| Common capital stock | \$100,000 | | \$100,000 |
| Gross paid in and contributed surplus | 4,900,000 | | 4,900,000 |
| Unassigned funds (surplus) | 602,374 | | 602,374 |
| | | | |
| Surplus as regards policyholders | \$5,602,374 | \$0 | \$5,602,374 |
| | | | |
| Total liabilities, surplus and other funds | \$6,087,268 | \$0 | \$6,087,268 |
| | | | |

FCCI ADVANTAGE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

| | | |
|---|--------------------|-----------------|
| Premiums earned | | \$0 |
| | Deductions: | |
| Losses incurred | | \$0 |
| Loss expenses incurred | | 0 |
| Other underwriting expenses incurred | | 29,694 |
| Aggregate write-ins for underwriting deductions | | 0 |
| Total underwriting deductions | | <u>\$29,694</u> |
| Net underwriting gain or (loss) | | (\$29,694) |

Investment Income

| | | |
|--|--|---------------|
| Net investment income earned | | \$185,751 |
| Net realized capital gains or (losses) | | <u>37,320</u> |
| Net investment gain or (loss) | | \$223,071 |

Other Income

| | | |
|---|--|-----------------|
| Net gain or (loss) from agents' or premium balances charged off | | (\$16,000) |
| Finance and service charges not included in premiums | | 33,253 |
| Aggregate write-ins for miscellaneous income | | <u>0</u> |
| Total other income | | \$17,253 |
| Net income before dividends to policyholders and before federal & foreign income taxes | | \$210,630 |
| Dividends to policyholders | | <u>0</u> |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | | \$210,630 |
| Federal & foreign income taxes | | <u>119,297</u> |
| Net Income | | <u>\$91,333</u> |

Capital and Surplus Account

| | | |
|--|--|--------------------|
| Surplus as regards policyholders, December 31 prior year | | \$5,445,818 |
| Net Income | | \$91,333 |
| Net unrealized capital gains or losses | | 0 |
| Change in non-admitted assets | | 0 |
| Change in net deferred income tax | | 65,223 |
| Change in excess statutory over statement reserves | | 0 |
| Surplus adjustments: Paid in | | 0 |
| Aggregate write-ins for gains and losses in surplus | | 0 |
| Examination Adjustment | | <u>0</u> |
| Change in surplus as regards policyholders for the year | | \$156,556 |
| Surplus as regards policyholders, December 31 current year | | <u>\$5,602,374</u> |

A comparative analysis of changes in surplus is shown below.

FCCI ADVANTAGE INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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 December 31, 2009, per Annual Statement | \$5,602,374 |
|---|-------------|

| | <u>PER COMPANY</u> | <u>PER EXAM</u> | <u>INCREASE (DECREASE) IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS: | | | |
| No Adjustment | | | |
| LIABILITIES: | | | |
| No Adjustment | | | |
| Net Change in Surplus: | | | <u>0</u> |
| Surplus as Regards Policyholders December 31, 2009, Per Examination | | | <u><u>\$5,602,374</u></u> |

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$0

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, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, RSM McGladrey, Inc., to review the unpaid loss and loss expense obligations carried in the Company's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$5,602,374, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FCCI Advantage Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,602,374, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Cathie A. Stewart, CFE, Examiner-In-Charge; Michael C. Dubin, FCAS MAAA, Consulting Actuary; Jared Rubinstein, Participating Examiner; Philip E. McMurray, CISA, IT Manager; and Margaret C. Spencer, CFE, all of RSM McGladrey and Candice Melton, Financial Specialist of the Office participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation