

REPORT ON EXAMINATION
OF
FLORIDA HEALTHCARE PROVIDERS
INSURANCE EXCHANGE

WESTON, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
HISTORY	2
GENERAL	2
LICENSING CONSENT ORDER	3
PROFITABILITY OF COMPANY	3
MANAGEMENT	3
CONFLICT OF INTEREST PROCEDURE.....	4
CORPORATE RECORDS	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	5
SURPLUS DEBENTURES	5
AFFILIATED COMPANIES	5
ATTORNEY-IN-FACT AGREEMENT	5
ORGANIZATIONAL CHART	7
ATTORNEY'S BOND	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	8
STATUTORY DEPOSITS	8
INSURANCE PRODUCTS AND RELATED PRACTICES	8
TERRITORY	8
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	9
ASSUMED.....	9
CEDED	9
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	10
TAX PREPARATION AGREEMENT.....	10
FINANCIAL COMPILATION AGREEMENT	11
INVESTMENT ADVISORY AGREEMENT	11
INVESTMENT MANAGEMENT AGREEMENT.....	11
RISK-BASED CAPITAL.....	11
FINANCIAL STATEMENTS PER EXAMINATION	11
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS	16

LIABILITIES	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
SUMMARY OF FINDINGS	18
SUBSEQUENT EVENTS.....	18
CONCLUSION	19

Tallahassee, Florida

March 23, 2007

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 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, 2005, of the financial condition and corporate affairs of:

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
2400 N Commerce Parkway, Suite 305
Weston, Florida 33326

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, 2005 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004, and was a first complete year of business exam. This examination commenced with planning at the Office, on February 5, 2007, to February 9, 2007. The fieldwork commenced on February 12, 2007, and was concluded as of March 23, 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 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.

In this examination, emphasis was directed to the quality, value and integrity of the balances of the Company's statement of assets and the determination of liabilities as of December 31, 2005, 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 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.

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.

HISTORY

General

The Company is a domestic reciprocal insurance exchange. The Company was licensed to write business in Florida on December 31, 2003 and commenced operations on December 31, 2003 as Florida Healthcare Providers Insurance Exchange. The Company's attorney-in-fact was Florida Healthcare Providers Insurance Services Company, LLC and was in accordance with Section 629.091, Florida Statutes.

In accordance with Section 629.041, Florida Statutes, the Company was authorized to transact Medical Malpractice insurance coverage in Florida on December 31, 2003:

In accordance with Section 629.061, Florida Statutes, the Company was managed by a Florida Attorney-in-Fact (FL-AIF) pursuant to the terms of an attorney-in-fact agreement between the Company and the FL-AIF. A majority interest in the FL-AIF was owned by American Healthcare Providers Insurance Services Company, LLC (American). A majority interest membership in American was owned by Wescott Holding Company, LLC (Wescott). Wescott was wholly owned by Duane Morris, LLP, who provided legal services to the Company and to the FL-AIF.

Licensing Consent Order

The Company was in compliance with all applicable state statutes and administrative codes pertaining to their licensing consent order requirements.

Profitability of Company

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

	2005	2004	2003
Premiums Earned	4,223,810	1,816,801	0
Net Underwriting Gain/(Loss)	(420,125)	(447,377)	(456,579)
Net Income	(135,440)	(378,240)	(456,445)
Total Assets	16,205,747	9,816,446	5,038,516
Total Liabilities	6,834,872	2,342,711	494,961
Surplus As Regards Policyholders	9,370,875	7,232,565	4,543,555

Management

The Subscribers' Advisory Committee (SAC) members were selected in accordance with Section 629.201, Florida Statutes. Committee members serving as of December 31, 2005, were:

Subscribers' Advisory Committee

Name and Location

Michael Shapiro, MD
Island Harbor Beach, FL

Dudley Teel, MD
Vero Beach, FL

Principal Occupation

Committee Member
Florida Healthcare Providers Insurance Exchange

Committee Member
Florida Healthcare Providers Insurance Exchange

Jose R. Foradada III, MD
Vero Beach, FL

Committee Member
Florida Healthcare Providers Insurance Exchange

The SAC selected the following senior officers:

Senior Officers Florida Attorney-In-Fact

Name	Title
Thomas Gaudiosi	CEO
Tammy Pappariella	Treasurer/Secretary
Kurt John Cetin	President/COO

The Company's SAC appointed several internal committees. The following was the principal internal committee and the members as of December 31, 2005:

Audit Committee

Michael Shapiro, MD
Dudley Teel, MD

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the SAC and certain internal committees were reviewed for the period under examination. The recorded minutes of the SAC adequately documented its meetings and approval of Company transactions.

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 period under examination.

Surplus Debentures

The Company had two surplus debentures totaling \$3,929,125 as of December 31, 2004. The debentures were pledged from three of the Company's members, Steven Brooks, Frank Kronberg and Helene Kronberg. The surplus notes were in compliance with Section 628.401 (4), Florida Statutes.

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 and the Commonwealth of Pennsylvania on October 14, 2004, in accordance with 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:

Attorney-in-Fact Agreement

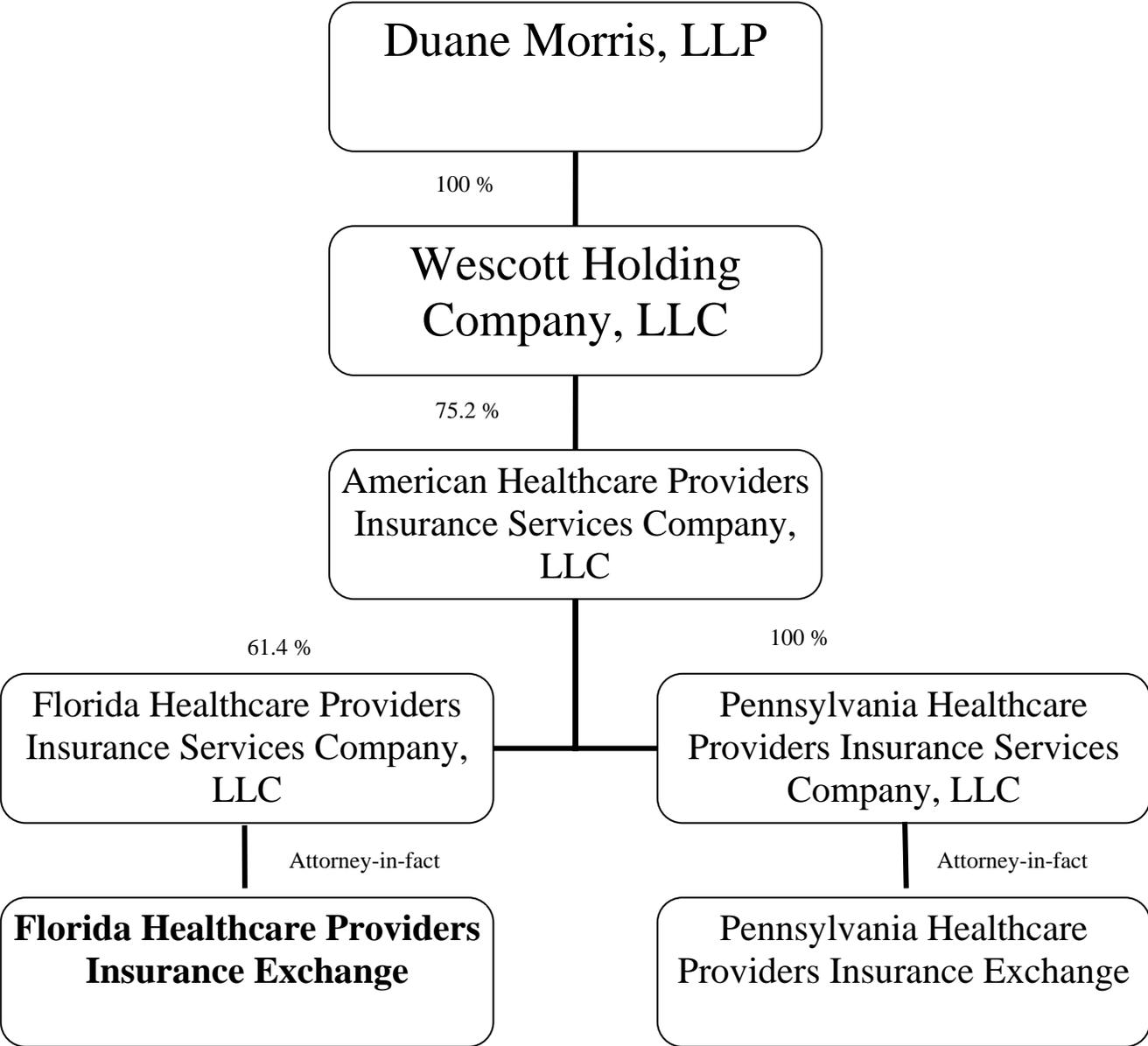
On August 18, 2003, the Company entered into an attorney-in-fact agreement with an affiliate, Florida Healthcare Providers Insurance Services Company, LLC, the FL-AIF. The agreement stipulated that the FL-AIF pay all costs of providing management services including agents and other sales commissions, salaries and benefit expenses of the FL-AIF employees, rent and other occupancy expenses, supplies

and data processing. This agreement included all of the required contract provisions in accordance with Section 626.7451, Florida Statutes.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



ATTORNEY'S BOND

The Company maintained an attorney's bond coverage of \$250,000. The Company's FL-AIF was a named insured on the bond. Considering the financial information of the Company, this policy adequately covered the \$175,000 suggested minimum amount of coverage for the Company recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees; therefore, there were no pension, stock ownership or insurance plans in place.

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	Cash	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was licensed in the State of Florida. All premium production was written for medical malpractice coverage on a claims-made basis.

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 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 risk during the period covered by this examination.

Ceded

During 2005, the Company ceded \$1,530,237 in written premiums to the various reinsurers on an excess of loss basis through a reinsurance intermediary. The Company utilized two unauthorized reinsurers as listed in the filed annual statement. Letters of credit were adequately established for these reinsurers.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the year 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the investment and custodial services of Regions Morgan Keegan Trust. The agreement was amended on March 3, 2006.

Tax Preparation Agreement

The Company continued a tax preparation agreement with Ernst & Young, LLP for the 2005 tax year. The agreement stipulated that Ernst & Young, LLP provide tax services to include extension requests and preparation of tax forms for the Company and its parent and affiliates.

Financial Compilation Agreement

During 2004, the Company entered into a financial compilation agreement with Smart and Associates LLP (Smart). The agreement stipulated that Smart compile the projected balance sheet and related statements of income, surplus and cash flow information for each of the next five years, in accordance with attestation standards established by the AICPA.

Investment Advisory Agreement

On August 1, 2004, the Company entered into an investment advisory agreement with Parkway Advisors, LLP (Parkway). The agreement stipulated that the Company appoint Parkway as an investment adviser for its accounts and that Parkway provide investment advice and execute trades.

Investment Management Agreement

On December 12, 2003, the Company entered into an investment management agreement with Prime Advisors, Inc. (Prime). The agreement stipulated that Prime supervise, direct or make recommendations to the investments of the Company accounts in accordance with investment objectives of the Company.

Risk-Based Capital

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this

examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 12,404,797		\$ 12,404,797
Cash & Short-term investments	1,702,281		1,702,281
Investment income due and accrued	84,830		84,830
Agents' balances in the course of collection	61,784		61,784
Deferred premiums, agents balances and installments	1,003,977		1,003,977
Net deferred tax asset	244,800		244,800
Aggregate write-ins for other than invested assets	703,278		703,278
Totals	<u>\$ 16,205,747</u>	<u>\$0</u>	<u>\$ 16,205,747</u>

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 2,234,481		\$ 2,234,481
Loss adjustment expenses	1,007,349		1,007,349
Other expenses	146,221		146,221
Taxes, licenses and fees	30,068		30,068
Current federal and foreign income taxes	77,833		77,833
Unearned premiums	2,927,959		2,927,959
Advance premiums	372,665		372,665
Payable to parent, subsidiaries and affiliates	21,931		21,931
Aggregate write-ins for liabilities	16,365		16,365
Total liabilities	\$ 6,834,872		\$ 6,834,872
Surplus notes	\$ 3,929,125		\$ 3,929,125
Gross paid in and contributed surplus	6,948,902		6,948,902
Unassigned surplus	(1,507,152)		(1,507,152)
Surplus as regards policyholders	9,370,875		9,370,875
Total liabilities, capital and surplus	\$ 16,205,747	\$0	\$ 16,205,747

FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$4,223,810
DEDUCTIONS:	
Losses incurred	1,598,382
Loss expenses incurred	1,184,622
Other underwriting expenses incurred	1,860,931
Aggregate write-ins for underwriting deductions	<u>0</u>
Total underwriting deductions	<u>\$4,643,935</u>
Net underwriting gain or (loss)	(\$420,125)
Investment Income	
Net investment income earned	\$423,269
Net realized capital gains or (losses)	<u>0</u>
Net investment gain or (loss)	\$423,269
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	\$249
Total other income	\$249
Net income before dividends to policyholders and before federal & foreign income taxes	\$3,393
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$3,393
Federal & foreign income taxes	<u>138,833</u>
Net Income	(\$135,440)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$7,232,565
Gains and (Losses) in Surplus	
Net Income	(\$135,440)
Change in net deferred income tax	193,990
Change in non-admitted assets	(691,148)
Surplus adjustments: Paid in	2,810,777
Surplus adjustments: Transferred from capital	0
Aggregate write-ins for gains and losses in surplus	(39,870)
Examination Adjustment	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$2,138,309</u>
Surplus as regards policyholders, December 31 current year	<u>\$9,370,875</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$3,241,830</u>
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An outside actuarial firm appointed by the SAC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**FLORIDA HEALTHCARE PROVIDERS INSURANCE EXCHANGE
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, Annual Statement	\$9,370,875
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment necessary			
LIABILITIES:			
No adjustment necessary			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$9,370,875

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest or corrective actions noted to be taken by the Company regarding findings in the examination as of December 31, 2005.

SUBSEQUENT EVENTS

During 2006, the CFO position for the FL-AIF changed, Michael Meraglia resigned and Antonio Cid was hired as his replacement. In March of 2007, Antonio Cid resigned his position as CFO of the FL-AIF.

Effective April 1, 2007 the custodial agreement with Regions Morgan Keegan Trust was replaced with US Bank.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Healthcare Providers Insurance Exchange** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's adjusted Surplus as regards policyholders was \$9,370,875, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Samita Lamsal, Financial Examiner/Analyst II; John Berry, Financial Examiner/Analyst Supervisor; and Joseph Boor, FCAS, Actuary, participated in the examination.

Respectfully submitted,

Richard A. Shaffer
Financial Specialist
Florida Office of Insurance Regulation