

REPORT ON EXAMINATION
OF
FLORIDA DOCTORS INSURANCE
COMPANY

JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 31, 2008

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 of December 31, 2006, of the financial condition and corporate affairs of:

**FLORIDA DOCTORS INSURANCE COMPANY
4655 SALISBURY ROAD, SUITE 110
JACKSONVILLE, FLORIDA 32256**

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, 2006 through December 31, 2006. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on November 13, 2007 to November 16, 2007. The fieldwork commenced on November 19, 2007, and was concluded as of March 31, 2008.

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 statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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) and other reports as considered necessary 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.

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

- Net deferred tax asset
- Aggregate write-ins for other than invested assets
- Taxes, licenses and fees
- Current federal and foreign income taxes
- Payable to parent, subsidiaries, and affiliates

HISTORY

General

The Company was incorporated in Florida on October 28, 2005, and commenced business on November 3, 2005 as Florida Doctors Insurance Company.

The Company was a party to Consent Order No. 83771-05 filed October 24, 2005 with the Office regarding the application for the issuance of certificates of authority. The Company was in compliance with the consent order.

The Company was authorized to transact professional medical malpractice insurance coverage in Florida on December 31, 2006.

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

Capital Stock

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

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$10,000,000
Par value per share	\$10

Control of the Company was maintained by its parent, Florida Doctors Holding Company, LLC, a Florida corporation, which owned 100% of the stock issued by the Company.

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 statements.

	2006	2005
Premiums Earned	1,956,950	11,511
Net Underwriting Gain/(Loss)	(678,746)	(586,719)
Net Income (Loss)	(281,489)	(517,653)
Total Admitted Assets	13,572,662	10,200,031
Total Liabilities	3,716,453	254,976
Surplus As Regards Policyholders	9,856,209	9,945,055

Dividends to Stockholders

There was no dividend declared or paid to its stockholder during the period covered by this examination.

Management

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

Directors

Name and Location	Principal Occupation
Elizabeth Kagan Fort Myers, FL	Attorney
Ellen Block Golden Beach, FL	Attorney
Clay Biddinger Palm Harbor, FL	Proprietor
William R. Russell Ponte Vedra Beach, FL	Company's President and CEO
Charles Knox Fort Myers, FL	Certified Public Accountant
Wayne Isaacson Fort Myers, FL	Doctor

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

Senior Officers

Name	Title
William R. Russell	President and CEO
Mark C. Shealy	Treasurer and CFO
Melodee S. Dixon	Assistant Secretary and VP-Operations
Pamela J. Appling	VP-Underwriting
Patrick C. Ellis	VP-Marketing
Ray A. Carey	VP-Claims

The Company maintained an audit committee in compliance with Section 624.424(8)(c), Florida Statutes. The following were audit committee members as of December 31, 2006:

Charles Knox
Ellen Block
Clay Biddinger

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.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, 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 in accordance with Section 607.1601, Florida Statutes including the authorization of investments as required by Section 625.304, Florida Statutes.

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 no surplus debentures.

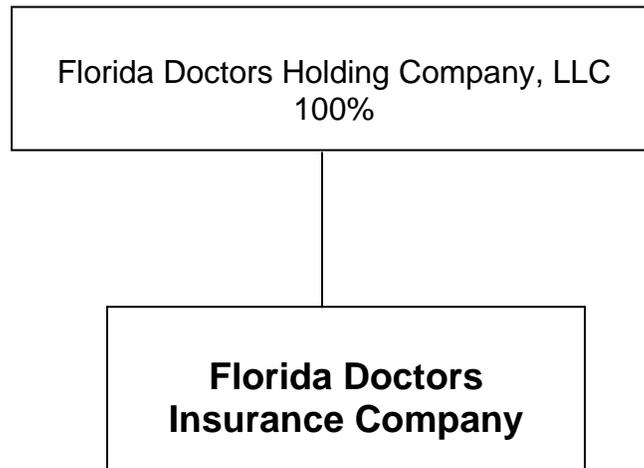
AFFILIATED COMPANIES

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 December 12, 2007 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified 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.

**FLORIDA DOCTORS INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



FIDELITY BOND

The Company maintained a fidelity bond with single loss limit liability coverage of up to \$1,000,000 with a deductible of \$150,000 per loss, which adequately covered the suggested minimum amount of coverage of \$125,000 for the Company as recommended by the NAIC Financial/Condition Examiners Handbook.

PENSION AND STOCK OWNERSHIP PLANS

The Company had no pension plans, or stock ownership plans.

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 Deposit	\$ 262,934	\$ 262,934
TOTAL FL DEPOSITS		<u>\$ 262,934</u>	<u>\$ 262,934</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact medical malpractice 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.

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 had no assumed risks.

Ceded

The Company ceded risk on an excess of loss basis to Harco National Insurance Company and Aspen Insurance UK Ltd, both authorized reinsurers.

The reinsurance agreements 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 office in Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the current examination year, 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:

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson, P.A. of Tallahassee, Florida, to perform an audit of its statutory financial statements for 2006.

Custodial Agreement

The Company had a custodial agreement with Investor's Security Trust Company effective November 1, 2005. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Actuarial Agreement

The Company had an agreement with James D. Hurley of Towers Perin Tillinghast for actuarial services.

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 the report captioned, "Comparative Analysis of Changes in Surplus."

FLORIDA DOCTORS INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$9,716,300		\$9,716,300
Cash and short-term investments	1,441,001		1,441,001
Agents' Balances:			
Uncollected premium	1,894,131		1,894,131
Interest and dividend income due & accrued	125,262		125,262
Net deferred tax asset	186,725		186,725
Electronic data processing equipment and software	9,243		9,243
Aggregate write-ins for other than invested assets	200,000		200,000
Totals	\$13,572,662	\$0	\$13,572,662

FLORIDA DOCTORS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$502,356		\$502,356
Loss adjustment expenses	308,083		308,083
Commission payable, contingent commission other similar charges	223,044		223,044
Other expenses	60,159		60,159
Taxes, licenses and fees	16,898		16,898
Current federal & foreign income taxes	36,352		36,352
Unearned premium	2,569,345		2,569,345
Payable to parents, subsidiaries and affiliates	216		216
Total Liabilities	\$3,716,453	\$0	\$3,716,453
Common capital stock	\$10,500,000	(\$500,000)	\$10,000,000
Gross paid in and contributed surplus	0	500,000	500,000
Unassigned funds (surplus)	(643,791)		(643,791)
Surplus as regards policyholders	\$9,856,209	\$0	\$9,856,209
Total Liabilities, Surplus and Other Funds	\$13,572,662	\$0	\$13,572,662

FLORIDA DOCTORS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$1,956,950
DEDUCTIONS:	
Losses incurred	495,544
Loss expenses incurred	316,012
Other underwriting expenses incurred	1,824,140
Total underwriting deductions	<u>\$2,635,696</u>
Net underwriting gain or (loss)	(\$678,746)
Investment Income	
Net investment income earned	\$469,894
Net realized capital gains or (losses)	(16,299)
Net investment gain or (loss)	<u>\$453,595</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Total other income	<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$225,151)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$225,151)
Federal & foreign income taxes incurred	<u>56,338</u>
Net Income	(\$281,489)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$9,945,055
Net Income	(\$281,489)
Change in non-admitted assets	67,223
Change in provision for reinsurance	0
Change in net deferred income tax	125,420
Examination adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$88,846)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,856,209</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$810,439

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 contracted with Select Actuarial Services to review the workpapers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$9,856,209 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

The gross paid in and contributed surplus of \$500,000 and the common capital stock of \$10,000,000 were incorrectly reported as a single line item under Common capital stock in the year end December 31, 2006 annual statement. The CPA reflected the adjustment in the audited financial statements of the Company.

Subsequent Event

The Company correctly reported gross paid in and contributed surplus and common capital stock in the March 2007 quarterly statement filed with the Office.

A comparative analysis of changes in surplus is shown below.

**FLORIDA DOCTORS INSURANCE COMPANY
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	\$	9,856,209
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	
ASSETS:				
No adjustment needed				
LIABILITIES:				
Common Capital Stock	\$ 10,500,000	\$ 10,000,000	\$ 500,000	
Gross paid in & contributed		500,000	(500,000)	
Net Change in Surplus:			\$0	
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$ 9,856,209	

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FLORIDA DOCTORS INSURANCE COMPANY** 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 \$9,856,209, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Joel V. Bengo, Financial Examiner Analyst II, participated in the examination. We also recognize the participation of Linda A. Dembiec, FCAS, MAAA of Select Actuarial Services in the examination.

Respectfully submitted,

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