

REPORT ON EXAMINATION
OF
FRANK WINSTON CRUM INSURANCE,
INC.

CLEARWATER, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 19, 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 as of December 31, 2006, of the financial condition and corporate affairs of:

**FRANK WINSTON CRUM INSURANCE, INC.
100 SOUTH MISSOURI AVENUE
CLEARWATER, FLORIDA 33756**

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. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on December 17, 2007, to December 21, 2007. The fieldwork commenced on January 14, 2008, and was concluded as of March 17, 2008.

This was a third annual 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 reports, 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.

Status of Adverse Findings from Prior Examination

The Office's prior examination report as of December 31, 2005, did not identify any significant adverse findings.

HISTORY

General

The Company was incorporated in Florida on January 23, 2003 and commenced business on April 29, 2003 as Crum National Insurance, Inc. On March 2, 2004, the Company changed its name to Frank Winston Crum Insurance, Inc.

The Company was party to Consent Order 67801-03 filed April 29, 2003 with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with this consent order.

The Company was authorized to transact Workers' compensation 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	7,500
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by Frank W. Crum Jr., who 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	2004
Premiums Earned	13,627,568	11,826,934	8,279,000
Net Underwriting Gain/(Loss)	3,756,433	1,049,753	712,091
Net Income	4,085,164	832,273	765,219
Total Assets	72,025,397	52,743,782	22,539,239
Total Liabilities	59,579,275	44,473,726	15,104,495
Surplus As Regards Policyholders	12,446,122	8,270,056	7,434,744

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2006.

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
Frank Winston Crum, Jr. Odessa, Florida	President, Treasurer, and Assistant Secretary Crum Services
Brian Murphy Boales Clearwater, Florida	President, and Chief Operating Officer Frank Winston Crum Insurance, Inc.
Carol Ann Critelli Pinellas Park, Florida	Director of Accounting Crum Services
James Michael Carr Lutz, Florida	Treasurer, Vice President, and CFO Frank Winston Crum Insurance, Inc.
John Harvey Meek, Jr. Clearwater, Florida	President Condon-Meek, Inc.
John Robert Dixon Tampa, Florida	Vice President Dixon, Lorenzen & Myer

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

Senior Officers

Name	Title
Brian Murphy Boales	President
Frank Winston Crum, Jr.	Secretary
James Michael Carr	Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal committees and their members as of December 31, 2006:

Audit Committee

Frank Winston Crum, Jr., Chairman
Brian Murphy Boales
Carol Ann Critelli

Investment Committee

Frank Winston Crum, Jr., Chairman
Brian Murphy Boales
Carol Ann Critelli

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 and events 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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures during the period under examination.

AFFILIATED COMPANIES

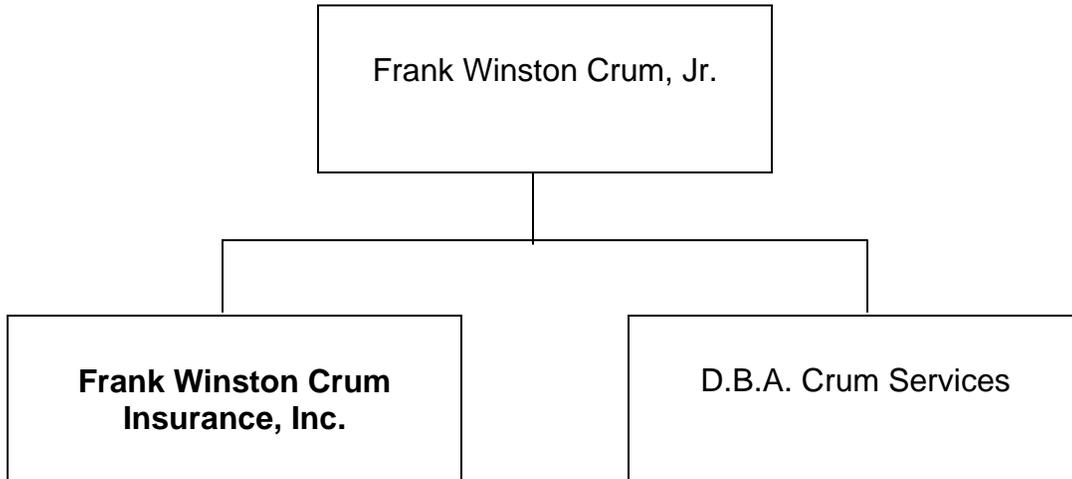
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, 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.

FRANK WINSTON CRUM INSURANCE, INC.

ORGANIZATIONAL CHART

DECEMBER 31, 2006



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

Management Services Agreement

The Company had a management services agreement with Crum Staffing II, an affiliate, to provide the Company with leased employees.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$5,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also carried Directors and Officers and also Private company liability insurance with limits of coverage of \$2,000,000. The Company's retention under this policy was \$25,000.

The Company, along with its affiliate Crum Properties LLC, was also a named insured under a Commercial umbrella policy and Extended commercial umbrella policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company' participates in the 401(k) plan sponsored by its affiliate, Crum Staffing II, Inc.

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

The Company wrote high deductible Workers' compensation insurance for its affiliate, Crum Services, a professional employer organization (PEO). The Company issued a master insurance policy to its affiliated PEO, which, in turn, issued certificates of insurance to its employers/clients. The number of businesses (clients/employers) contracting the PEO to provide outsource functions as of December 31, 2006 totaled approximately 2,860 and involved 7,491 class codes.

Territory

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.

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 risk.

Ceded

The Company ceded risk on an excess of loss basis to authorized reinsurers. The primary reinsurers were ACE Property & Casualty Insurance Company, Aspen Insurance UK Limited, and various Syndicates of Lloyd's, all authorized unaffiliated reinsurers. The Company utilized an intermediary, Willis Re, Inc.

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 Clearwater, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 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'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:

Back Office Services Agreement

The Company had a services agreement with Midwest Insurance Services, Inc. to provide the policy administration of the Company. The services provided included premium reporting, policy rating, policy preparation, policy issuance, unit statistical reporting and premium data collection and processing.

Claims Service Agreement

The Company entered into an agreement with RSKCo Services, Inc. (RSKCo) on April 30, 2003 to provide services in the administration of claims arising from its Florida Workers' compensation policy. Effective April 30, 2004, the agreement was amended to document the transfer of the RSKCo claim handling obligations to Broadspire Services, Inc.

Pricing and Services Contract

The Company had a pricing and services contract with Colonial Risk Management, Inc. to provide safety and loss control services for its Workers' compensation policy.

Risk Management Consulting Agreement

Effective February 24, 2005, the Company entered into an agreement with North American Risk Management, Inc. to perform loss prevention services, which included accident investigations, onsite safety evaluations, pre-risk assessment, and assistance with regulatory compliance issues.

Independent Auditor Agreement

The Company had an agreement with Melby & Guarino, CPA, PA to perform an audit of its statutory financial statements for the year 2006.

Asset Management Agreement

The Company entered into an agreement with Conning Asset Management effective August 1, 2006 to provide investment management services for the Company. As of the examination date, Conning Asset Management had not provided any services to the Company pursuant to this agreement.

Custodial Agreement

On November 27, 2006, the Company entered into a custodial agreement with U.S. Bank National Association to maintain its cash and securities. The agreement was in compliance with Rule 690-143.042, Florida Administrative Code.

Information Technology Report

Brandon C. Thomas, HISP, performed a computer systems evaluation on the Company. Results of the evaluation were noted in the information technology (IT) report provided to the Company. No significant findings were noted and no recommendations were made.

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."

FRANK WINSTON CRUM INSURANCE, INC.
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash:	\$69,605,236		\$69,605,236
Investment income due and accrued	24,251		24,251
Reinsurance recoverable	574,457		574,457
Net deferred tax asset	227,964		227,964
Guaranty funds receivable or on deposit	42,293		42,293
Aggregate write-in for other than invested assets	1,551,196		1,551,196
Totals	\$72,025,397	\$0	\$72,025,397

FRANK WINSTON CRUM INSURANCE, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$12,273,860		\$12,273,860
Loss adjustment expenses	2,111,543		2,111,543
Other expenses	297,715		297,715
Taxes, licenses and fees	265,999		265,999
Current federal and foreign income taxes	1,538,051		1,538,051
Amounts withheld	43,092,107		43,092,107
Total Liabilities	\$59,579,275	\$0	\$59,579,275
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	6,999,000		6,999,000
Unassigned funds (surplus)	5,446,122		5,446,122
Surplus as regards policyholders	\$12,446,122		\$12,446,122
Total liabilities, surplus and other funds	\$72,025,397	\$0	\$72,025,397

FRANK WINSTON CRUM INSURANCE, INC.
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$13,627,568
	Deductions:	
Losses incurred		5,186,404
Loss expenses incurred		204,858
Other underwriting expenses incurred		4,479,873
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$9,871,135
Net underwriting gain or (loss)		\$3,756,433

Investment Income

Net investment income earned		\$2,545,656
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$2,545,656

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		179,403
Total other income		\$179,403

Net income before dividends to policyholders and before federal & foreign income taxes		\$6,481,492
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$6,481,492
Federal & foreign income taxes		2,396,328
Net Income		\$4,085,164

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$8,270,056
Net Income		\$4,085,164
Change in net deferred income tax		239,180
Change in non-admitted assets		(148,278)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$4,176,066
Surplus as regards policyholders, December 31 current year		\$12,446,122

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$14,385,403

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

Michael Lamb, FCAS, MAAA reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$12,446,122, exceeded the minimum amount required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FRANK WINSTON CRUM INSURANCE, 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 December 31, 2006, per Annual Statement	\$12,446,122
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$12,446,122

SUMMARY OF FINDINGS

Compliance with previous directives

There were no material findings or corrective actions to be taken with regard to the previous examination report as of December 31, 2005.

Current examination comments and corrective action

There were not material findings or corrective actions to be taken with regard to this examination.

SUBSEQUENT EVENTS

Consent Order 88333-06-CO filed January 29, 2007 amended Consent Order 67801-03-CO filed with the Office on April 29, 2003. The amended Consent Order indicated that Frank Crum, Inc. and its client companies, was the only policyholder of the Company with certificates of insurance being issued to each insured professional employer organization and a \$750,000 deductible applied for each claim. Further, the Company did not assume any premiums or otherwise reinsure any business without the prior written approval of the Office. Finally, the Company would provide the Office with advance written notice when applying for licensure in other states.

Effective April 10, 2007, Article IV of the Amended and Restated Articles of Incorporation was amended to provide for an authorized capital amount of 50,000 shares of \$100 par value common stock.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Frank Winston Crum Insurance, 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 \$12,446,122, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Aejaz Ahmed Palejwala, CFE, Financial Examiner, Brandon C. Thomas, HISP, IS Specialist, and Michael Lamb, FCAS, MAAA of Huff Thomas & Company participated in the examination.

Respectfully submitted,

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