

REPORT ON EXAMINATION
OF
PEACHTREE CASUALTY INSURANCE
COMPANY

LONGWOOD, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 15, 2007

Kevin M. McCarty
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State of Florida
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Walter M. Bell
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Commissioner
Alabama Office of Insurance
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Dear Sirs:

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:

**Peachtree Casualty Insurance Company
755-F West State Road
Longwood, Florida 32750**

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, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on April 7, 2007, to April 11, 2007. The fieldwork commenced on April 14, 2007, and was concluded as of October 1, 2007.

This financial examination was an association zone 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 following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

General

The Company did not record the review of the prior examination report in the board of directors meeting minutes. **Resolution:** The Company recorded the review of the prior examination report in the board of directors meeting minutes.

Management Agreements

The Company's tax allocation agreement did not include all parties to their consolidated income tax return. **Resolution:** The Company included all parties to their consolidated tax return in their tax allocation agreement.

The Company did not report their tax allocation agreement on their Holding Company Registration Statement. **Resolution:** The Company included all affiliate agreements on their Holding Company Registration Statement.

The Company did not list all tax-related transactions resulting from the inter-company tax sharing agreement on Schedule Y, Part 2. **Resolution:** The Company included all affiliate transactions on Schedule Y, Part 2.

The Company's reinsurance agreement contained non-compliant clauses. **Resolution:** The Company executed a new quota share agreement effective January 1, 2004 which was in compliance with SSAP No. 62, Paragraph No. 7.

The Company's MGA was assigning part of their claim servicing duties to an affiliate.

Resolution: The Company executed a claims servicing agreement with the affiliate.

The Company's claim servicing was being performed by Qualification Insurance Services, Inc. without a contract agreement. **Resolution:** The Company executed a claim servicing agreement with Qualification Insurance Services, Inc.

The Company did not have a cost sharing allocation agreement in place to allocate home office expenses with First Insurance Network. **Resolution:** The Company executed a cost sharing agreement with First Insurance Network.

Bonds

The Company did not maintain all of their cash and investment accounts in a bank in the State of Florida. **Resolution:** The Company maintained bank accounts in Florida. Since the Company was licensed in thirty-four states, it maintained its records with its parent, in the State of Georgia.

Preferred Stock

The Company incorrectly valued their preferred stock on their annual statement. **Resolution:**
The Company no longer has preferred stock in its portfolio.

Cash

The Company did not maintain cash balances in a national or state bank, savings and loan, association or trust company. **Resolution:** The Company maintained its cash in a state bank.

The Company did not report all of their special deposits on Schedule E, Part 3 of their annual statement. **Resolution:** The Company reported all of its special deposits in Schedule E, Part 3.

Agents Balances

The Company provided written premium data for 2003 that contained premiums related to years other than 2003. **Resolution:** The Company provided written premium data for the appropriate year.

Reinsurance Recoverable

The Company did not record the reinsurance recoverable balance correctly in the annual statement. **Resolution:** The Company correctly recorded its reinsurance recoverable in the annual statement.

Federal Income Taxes Payable

The Company incorrectly reported state income taxes payable on the line item for federal income taxes payable. **Resolution:** The Company correctly reported its taxes payable.

Advance Premiums

The Company did not report an amount for advance premiums when such an amount had been received. **Resolution:** The Company reported all premiums received prior to the effective date as advance premiums.

Evaluation of Controls in Information Systems

Current IT staff of the Company were unable to support the infrastructure for the Policy Tracking System (PTS). The Company did not contract for support for the PTS application. The vendor, Information Distribution and Marketing, Inc. (IDMI), was handling all issues and enhancements under the development contract. **Resolution:** The IT examiner confirmed that a support agreement has been signed and was verified in force by inspection of monthly invoice payments required in the agreement. The Company also signed a license agreement to upgrade PTS to version 4.0 for compatibility and support reasons.

The vendor had unmonitored access to the PTS application. Failure to limit and monitor vendor access to the system weakens the change control process and could ultimately disrupt the productive relationship between the Company and the vendor. **Resolution:** The IT examiner examined the firewall settings and confirmed that vendor access was controlled by computer anywhere through the firewall with IP addresses specifically pointing to the vendor office. The signed support agreement legally affiliated the vendor with the Company and validated the vendor's need for remote access to the PTS application.

The Company did not have sufficient expertise to administer the Microsoft SQL server database. No accommodation had been made for managing and maintaining knowledge of the regulatory and legal issues inherent in this application. **Resolution:** The IT examiner confirmed that database

administration was now the responsibility of the vendor documented with a support agreement. Company personnel were not required to perform database administration tasks. Management has also modified its e-Business strategy with regard to the PTS application. The original strategy for full web-based quote and bind access by agents has been scaled back to only include online premium payment submissions. These changes, in tandem, serve to sufficiently minimize the Company's operational and regulatory risk exposure on the PTS application.

Inherent risks of web-based applications were not clearly communicated as part of the agent agreement to minimize the Company's exposure for processing errors, user errors, and system intrusion. **Resolution:** The IT examiner noted that the original strategy for full web-based quote and bind access by agents has been scaled back to only include online premium payment submissions. This change served to sufficiently minimize the Company's transaction risk exposure on the PTS application and mitigated the need for revisions to the producer agreement.

The Company had not finalized the support service level agreement. Without a service agreement, the Company could lose the entire investment in PTS if the vendor should become insolvent. **Resolution:** The IT examiner confirmed that a support agreement has been signed and was verified in force by inspection of monthly invoice payments required by the agreement. The Company also signed a license agreement to upgrade PTS to version 4.0 for compatibility and support reasons.

A port was open in the systems firewall. Access should be limited by specific IP addresses. **Resolution:** The IT examiner noted that port 1433 was originally opened by the vendor for remote connectivity to the SQL server database. The IT examiner's follow-up inspection confirmed that the "Any IP" address settings have been changed to point specifically to IP addresses under the

control of the vendor. This met the vendor's need for remote access as required by the service agreement, while helping to minimize the risk of unauthorized access from non-vendor sources.

HISTORY

General

The Company was incorporated under the laws of the State of Georgia on November 29, 1983 and commenced operations on July 1, 1985. The Company re-domesticated from Georgia to Florida on December 31, 2001. Common capital stock was \$2,200,000, which consisted of 1,466,667 common shares of stock at a par value of \$1.50 per share. A total of 2,000,000 shares were authorized.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Private Passenger Auto Liability

Private Passenger Auto Physical Damage

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	2,000,000
Number of shares issued and outstanding	1,466,667
Total common capital stock	\$2,200,000
Par value per share	\$1.50

Control of the Company was maintained by its parent, Network Holding, Inc., which owned 100% of the stock issued by the Company, which in turn was 100% owned by William A. Dial Jr., an individual Georgia resident.

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	7,478,724	8,184,398	9,432,059
Net Underwriting Gain/(Loss)	726,100	(108,510)	216,668
Net Income	873,769	177,070	424,466
Total Assets	12,372,927	12,831,016	12,585,177
Total Liabilities	5,859,831	7,210,733	6,971,640
Surplus As Regards Policyholders	6,513,096	5,620,283	5,613,537

Dividends to Stockholders

The Company did not declare nor pay dividends to its stockholder during the examination period.

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

William A. Dial, Jr.
Atlanta, Georgia

President, Peachtree Casualty Ins. Co.

Donald Tefft
Roswell, Georgia

Secretary, Peachtree Casualty Ins. Co.

Jairam Yerramilli
Duluth, Georgia

Treasurer, Peachtree Casualty Ins. Co.

Sherrie Newton
Marietta, Georgia

Claims Manager, Peachtree Casualty Ins. Co.

Marianne Johnston
Ballground, Georgia

Information Systems Manager, Peachtree Casualty Ins. Co.

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

Senior Officers

Name

Title

William A. Dial, Jr.
Donald Tefft
Jairam Yerramilli

President
Secretary
Treasurer

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

Executive Committee

Audit Committee

Investment Committee

William A. Dial, Jr.¹
Donald Tefft
Jairam Yerramilli

William A. Dial, Jr.¹
Donald Tefft
Jairam Yerramilli

William A. Dial, Jr.¹
Donald Tefft
Jairam Yerramilli

¹ Chairman

The members of the audit committee were also members of management and directors of the Company. This was not in compliance with Section 624.424(8)(c), Florida Statutes, which requires that the audit committee be comprised solely of members who are free from any relationship that would interfere with the exercise of independent judgement as a committee member.

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 shareholder and Board of Directors 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. The minutes also indicated that the Board of Directors reviewed the prior examination report.

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

The Company was not a part of any acquisition, merger, disposal, dissolution, or purchase or sale through reinsurance during the examination period.

Surplus Debentures

The Company did not have any surplus debentures during the examination period.

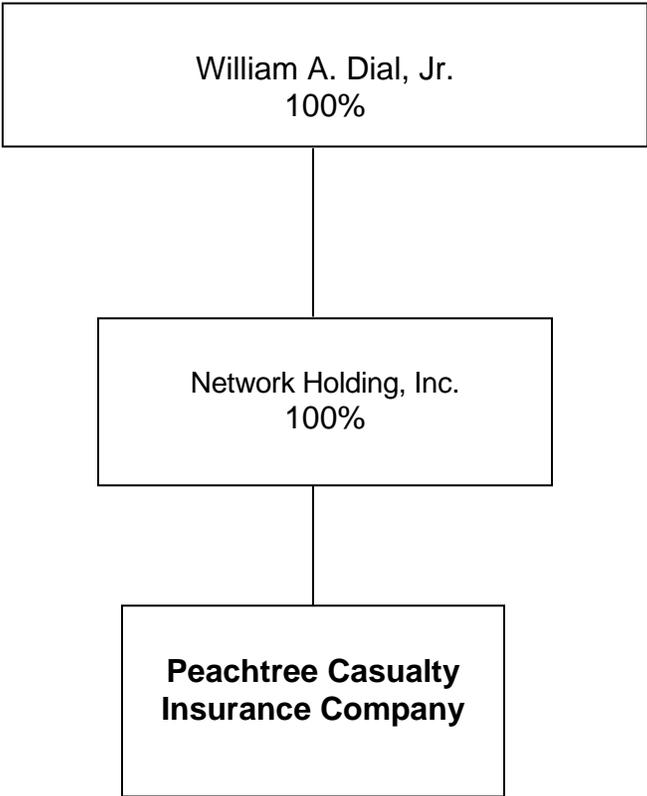
AFFILIATED COMPANIES

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 20, 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.

**Peachtree Casualty Insurance Company
Organizational Chart**

DECEMBER 31, 2006



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

Tax Allocation Agreement

The Company, along with its parent and several affiliates, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was that the tax charge or tax refund allocated to the Company shall be the amount that the Company would have paid or received if it had filed a separate income tax return with the Internal Revenue Service.

Cost Sharing Agreement

The Company and its MGA, First Insurance Network, Inc., had a cost sharing agreement in which each entity was responsible for their expenses. In the event the expense could not be clearly determined to be for the Company or the MGA, then the expense was allocated to both companies on a pro-rata basis according to each company's need and benefit.

Claims Agreement

The Company had an agreement with First Insurance Network, Inc., the managing general agent (MGA) who had the authority and responsibility to administer and supervise the claims function for its client companies. In the course of its claims duty, First Insurance Network, Inc. may make claim assignments to qualified claims adjusters, damage appraisers, other service companies, and attorneys to carry out its duty. Qualification Insurance Services, Inc. is an affiliated adjusting company under the common ownership of the ultimate controlling person, William A. Dial, Jr.

Managing General Agent Agreement

The Company had a MGA agreement with First Insurance Network, Inc., an affiliate, in which the MGA was the agent and responsible for the production, underwriting, premium collection, claims handling, and all operating functions of such types and kinds of insurance as authorized.

FIDELITY BOND AND OTHER INSURANCE

The MGA, on behalf of the Company, maintained fidelity bond coverage. All employees were employed by First Insurance Network, Inc., the MGA and affiliate. However, there was fidelity bond coverage to cover employees. The coverage provided by the bond was up to \$500,000 with company retention of \$5,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company was also a party to a professional liability policy which covered claims. The policy was issued to Network Holdings, Inc. but named the Company as an insured. The coverage provided by this policy was up to \$2,000,000 aggregate per policy period with a Company retention of \$150,000 each claim. This policy covered claims reported on or after August 1, 2002.

The Company also maintained insurance coverage covering the building and its contents under a commercial general liability policy. The coverage provided by the policy was up to \$4,000,000 aggregate per policy period with a deductible of \$1,000 per occurrence.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any pension, stock ownership, or insurance plans.

STATUTORY DEPOSITS

The Company had securities deposited with various states and deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Par Value	Market Value
FL	CD, 3.44%, 01/07/07	\$250,000	\$250,000
FL	CD, 3.44%, 03/28/07	250,000	250,000
FL	USTN, 3.00%, 11/15/07	<u>1,005,000</u>	<u>987,764</u>
TOTAL FLORIDA DEPOSITS		<u>\$1,505,000</u>	<u>\$1,487,764</u>
AZ	USTN, 3.00%, 11/15/07	\$220,000	\$216,227
GA	Alpharetta, GA Bond, 6.50%, 05/01/10	30,000	30,000
IN	Fannie Mae Bond, 2.5%, 1/30/07	100,000	100,000
KS	Mid American Bank CD, 3.21%, 12/26/07	25,000	25,000
KY	Georgia State Bond, 4.50%, 07/01/19	200,000	206,708
LA	Regions Bank CD, 5.118%, 9/15/07	20,000	20,023
NM	Georgia State Series D Bond, 5.25%, 10/01/15	105,000	116,972
OK	Georgia General Obligation Bond, 4.50%, 01/01/07	250,000	250,000
OK	Fulton County Bond, 6.25%, 08/01/11	50,000	50,000
RI	Atlanta, GA Municipal Bond, 5.00%, 12/01/12	200,000	234,258
SC	Georgia State Series C General Obligation Bond, 6.25%, 04/01/07	80,000	80,000
SC	Georgia State Series A General Obligation Bond, 6.25%, 08/01/11	<u>90,000</u>	<u>90,000</u>
TOTAL OTHER DEPOSITS		<u>\$1,370,000</u>	<u>\$1,419,188</u>
TOTAL SPECIAL DEPOSITS		<u>\$2,875,000</u>	<u>\$2,906,952</u>

INSURANCE PRODUCTS

The Company issued private passenger auto liability and private passenger auto physical damage policies. The above products were issued through its MGA.

Territory

The Company was authorized to transact insurance in the following states:

Florida	Alabama	Alaska	Arizona
Arkansas	Connecticut	Delaware	District of Columbia
Georgia	Hawaii	Idaho	Illinois
Indiana	Iowa	Kansas	Kentucky
Louisiana	Maryland	Minnesota	Mississippi
Montana	Nebraska	New Mexico	New York
North Dakota	Oklahoma	Oregon	Pennsylvania
Rhode Island	South Carolina	South Dakota	Tennessee
Texas	Utah	Washington	West Virginia
Wyoming			

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

REINSURANCE

The reinsurance agreement 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 risk during the period of this examination.

Ceded

The Company ceded risk on a quota share basis to Dorinco Reinsurance Company.

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

Quota Share Reinsurance Agreement

The Company had a quota share reinsurance agreement with Dorinco Reinsurance Company. Under this agreement, the Company ceded 35% of the written premium.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Longwood, Florida, however this examination was conducted at the parent company's headquarters in Smyrna, Georgia.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 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:

Custodial Agreement

The Company maintained its securities with Morgan Keegan but had a custodial agreement with Regions Bank, owner of Morgan Keegan, as a directive in the last examination. The Company did not move its securities because of their anticipation of a response from the Office concerning the submitted custodial agreement with Regions Bank. According to the NAIC Financial Condition Examiner's Handbook, the Company can maintain their securities with Morgan Keegan but must execute a custodial agreement in accordance with Rule 69O – 143.042, Florida Administrative Code.

Subsequent Event: The Company has contacted Morgan Keegan to execute a custodial agreement. The agreement was being reviewed by the legal department of Morgan Keegan and was not available as of the completion of fieldwork. The Company subsequently provided a copy of the completed custodial agreement for the examiner's review. The agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Porter, Keadle, and Moore, LLP to perform the annual audit of the Company.

Information Technology Report

A computer systems evaluation was performed on the Company. Results of the evaluation were noted in the Information Technology (IT) Report provided to the Company. A summary of significant findings with recommendations were as follows:

1. The NT 4.0 domain password policy only required five character passwords. NT also did not have a feature to enforce complex passwords. A recommendation was made to management to expedite the conversion to Windows Active Directory (AD) security on the

network, so that user accounts can be configured to require complex passwords. As a consolation to IT support and end users, the IT examiner would support the Company's decision to discontinue the practice of requiring periodic password changes, only if it utilizes the AD feature to enforce complex passwords with a minimum of six characters. In the interim, the Company should increase the minimum length on the current NT 4.0 password policy to six characters and post a memo explaining the change and giving users guidelines on selecting strong passwords that include at least one non-alpha character. **Subsequent Event:** The Company implemented the Windows password recommendation.

2. The SQL server did not enforce any password length or complexity requirements. The password length was inadequate given the sensitivity of information stored in the database tables. A recommendation was made that management should request that IDMI change the SQL Server Administrator (SA) password to an eight-character, complex password. The current, four character passwords could be easily compromised, especially given that SQL Server 2000 allows repeated password attempts with no intruder lockout.
3. The PTS application password length was not sufficient. PTS application passwords must be between four and ten characters. However, since each application ID has a corresponding SQL database ID, this also meant that database passwords can be as short as four characters. PTS was accessible from the public internet and as such could be easily compromised using brute force password attacks. A recommendation was made that management should work with the PTS vendor to make modifications requiring a minimum password length of six characters, including one special character or numeral. This could be enforced in the PTS program logic, thus compensating for the lack of password structure controls in SQL Server 2000.
4. The PTS user listing contained many users with administrative access to the application, which granted users authority to perform all functions. A recommendation was made that

management should thoroughly review the PTS user access and determine that administrative authority was only provided where truly needed. A further recommendation was that any user account that has not been used in over three months should be disabled, for excessive access compromises internal controls over segregation of duties. Unused accounts can be targeted by an internal or external attacker to perform functions without that account owner's knowledge.

5. The agent's payment posting screen did not have any SSL encryption. A recommendation was made that management should require the PTS vendor to implement SSL encryption, at a least on the payment entry screen. Ideally, the entire PTS application should run under SSL encryption.
6. The Company archived credit card transactions files on the server. These files were created from the credit card payment records by PTS and were used to upload credit card payments to Community Bank of the South. The longer the Company retained this information, the greater the risk that it could be stolen and used to perform fraudulent transactions against customer credit cards. The same risk also applied to the credit card records stored in the PTS SQL server database. A recommendation was made that management should consult with its bank to determine the minimum retention period necessary to support dispute resolution for the credit and debit card transactions. These transaction records should be purged wherever they may exist. If required retention exceeds seven days then these files and database records should be encrypted with passkeys known only to select individuals. Storing unencrypted credit card information exposes the Company to legal liability for direct losses as well as far-reaching customer notification requirements that may irreparably damage customer's goodwill.

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."

**Peachtree Casualty Insurance Company
Assets**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$9,193,124	\$0	\$9,193,124
Stocks:			
Common	474,602		474,602
Cash:	777,409		777,409
Agents' balances:			
Uncollected premium	1,544,456		1,544,456
Reinsurance recoverable	130,596		130,596
Interest and dividend income due & accrued	108,424		108,424
Net deferred tax asset	144,316		144,316
	<hr/>		
Totals	\$12,372,927	\$0	\$12,372,927
	<hr/> <hr/>		

**Peachtree Casualty Insurance Company
Liabilities, Surplus and Other Funds**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,262,565		\$2,262,565
Loss adjustment expenses	944,295		944,295
Commissions payable	513,505		513,505
Other expenses	233,589		233,589
Taxes, licenses and fees	48,613		48,613
Current federal income taxes	317,333		317,333
Unearned premium	1,505,666		1,505,666
Advance premium	22,015		22,015
Drafts outstanding	<u>12,250</u>		<u>12,250</u>
Total Liabilities	\$5,859,831	\$0	\$5,859,831
Common capital stock	\$2,200,000		\$2,200,000
Gross paid in and contributed surplus	425,000		425,000
Unassigned funds (surplus)	<u>3,888,096</u>		<u>3,888,096</u>
Surplus as regards policyholders	<u>\$6,513,096</u>		<u>\$6,513,096</u>
Total liabilities, surplus and other funds	<u><u>\$12,372,927</u></u>	<u><u>\$0</u></u>	<u><u>\$12,372,927</u></u>

**Peachtree Casualty Insurance Company
Statement of Income**

December 31, 2006

Underwriting Income		
Premiums earned		\$7,478,724
	Deductions:	
Losses incurred		3,722,247
Loss expenses incurred		882,183
Other underwriting expenses incurred		2,148,193
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$6,752,623</u>
Net underwriting gain or (loss)		\$726,101
Investment Income		
Net investment income earned		\$390,032
Net realized capital gains or (losses)		961
Net investment gain or (loss)		<u>\$390,993</u>
Other Income		
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,117,093
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$1,117,093</u>
Federal & foreign income taxes		243,324
Net Income		<u>\$873,769</u>
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$5,620,283
Net Income		\$873,769
Change in net unrealized capital gains or losses		29,090
Change in non-admitted assets		4,678
Change in net deferred Income tax		(14,724)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$892,813</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$6,513,096</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

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

Capital and Surplus

The amount reported by the Company of \$6,513,096, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**Peachtree Casualty 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 December 31, 2006, per Annual Statement	\$6,513,096
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as regards policyholders December 31, 2006, Per Examination			\$6,513,096

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

General

The Company did not have a custodial agreement with Morgan Keegan, custodian, for the Company's securities. **We recommend the Company comply with Rule 690 – 143.042, Florida Administrative Code, and execute a custodial agreement that is in compliance with Rule 690-143.042, Florida Administrative Code.**

Management

The Company did not have an independent audit committee. All members of the audit committee were members of management. **We recommend the Company comply with Section 624.424, Florida Statutes, and form an audit committee independent of management.**

Information Technology Report

The Company's SQL server administrator password length was inadequate given the sensitivity of the information stored in the database tables. **We recommend that management request that IDMI change the SQL server administrator password to an eight character complex password.**

The Company's PTS application password was not sufficient. **We recommend that management work with the PTS vendor, requiring passwords to contain a minimum length of six characters, including one special character or numeral.**

The Company's PTS user listing contained many users with administrative access to the application. Administrative access provides users with authority to perform all functions. **We recommend that management thoroughly review PTS user access and determine that administrative authority is granted only when truly needed. Any user account that has not been used in over three months should be disabled.**

The Company's agent's payment posting screen did not have SSL encryption. **We recommend management require the PTS vendor to implement SSL encryption, at a least on the payment entry screen. Ideally, the entire PTS application should run under SSL encryption.**

The Company archived the credit card transaction files on the server. **We recommend that management consult with its bank to determine the minimum retention period necessary to support dispute resolution for the credit and debit card transactions. These transaction records, wherever they may exist, should be purged after the minimum retention period occurs.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Peachtree Casualty 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 \$6,513,096, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Tracy Gates of Highland Clark LLC, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Mary James, CFE, CPM
Financial Administrator
Florida Office of Insurance Regulation