

**REPORT ON EXAMINATION**  
**OF**  
**PHYSICIANS INSURANCE COMPANY**  
**POMPANO BEACH, FLORIDA**

**AS OF**  
**DECEMBER 31, 2006**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

January 30, 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:

**PHYSICIANS INSURANCE COMPANY**  
**3200 NE 14<sup>th</sup> Street**  
**POMPANO BEACH, FLORIDA 33062**

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 August 20, 2007, to August 24, 2007. The fieldwork commenced on August 27, 2007, and was concluded as of January 30, 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 reports, 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:

- Uncollected premiums and agents balances
- Commissions payable
- Unearned premiums
- Advanced premiums
- Losses and Loss adjustment expense

### **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, 2005, along with resulting action taken by the Company in connection therewith.

#### **Assets**

The Company reported Electronic Data Processing (EDP) equipment as an asset in the annual statement. The equipment did not meet the criteria of an asset in accordance with Section 625.012(11), Florida Statutes.

**Resolution:** The Company properly non-admitted the amounts for EDP in accordance with Section 625.012(11), Florida Statutes

## HISTORY

### General

The Company was incorporated on January 31, 2003, under the laws of the State of Florida, as a stock property and casualty company. The Company commenced business on March 7, 2003. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code..

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Medical malpractice insurance coverage in Florida at 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	500,000
Number of shares issued and outstanding	400,000
Total common capital stock	\$1,000,000
Par value per share	\$2.50

Control of the Company was maintained by its owner, Mr. Dan O'Neal, 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.

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	4,071,053	3,462,161	2,305,644
Net Underwriting Gain/(Loss)	685,803	579,850	177,469
Net Income	624,232	476,227	235,379
Total Assets	15,101,030	11,680,849	9,599,529
Total Liabilities	9,396,078	6,614,419	4,996,678
Surplus As Regards Policyholders	5,704,952	5,066,430	4,602,501

### **Dividends to Stockholders**

The Company did not declare and pay dividends to its stockholders 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**

Dan O'Neal  
Pompano Beach, Florida

Pamela Browning  
Pompano Beach, Florida

Walter Brysh  
West Palm Beach, Florida

Dennis Faulkner  
Pompano Beach, Florida

##### **Principal Occupation**

President and Chief Executive Officer  
Physicians Insurance Company

Chief Operating Officer  
Physicians Insurance Company

Chief Financial Officer  
Physicians Insurance Company

Vice President of Claims  
Physicians Insurance Company

Christopher Waterson  
Lansing, Michigan

Director  
Physicians Insurance Company

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

**Senior Officers**

<b>Name</b>	<b>Title</b>
Dan O'Neal	President/Chief Executive Officer
Walter Brysh	Treasurer/Chief Financial Officer
Pamela Browning	Chief Operating Officer

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:

<b>Audit Committee</b>	<b>Investment Committee</b>
Dan O'Neal <sup>1</sup>	Dan O'Neal <sup>1</sup>
Walter Brysh	Walter Brysh
Christopher Waterson	Christopher Waterson

<sup>1</sup> Chairman

**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, 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.

There was adequate documentation that the Company's directors reviewed the previous examination report.

## **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 at December 31, 2006.

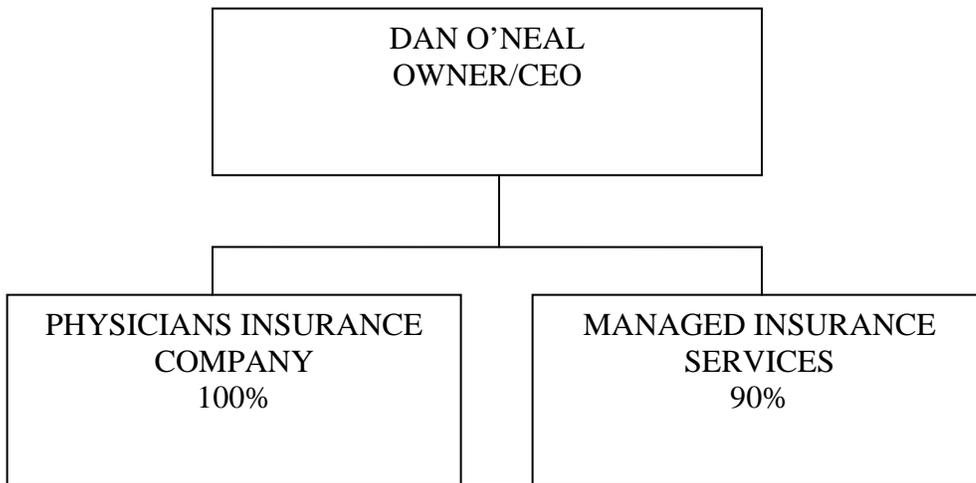
## **AFFILIATED COMPANIES**

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 26, 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.

**PHYSICIANS INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



The following agreement was in effect between the Company and its affiliates:

### **Program Management Agreement**

The Company had a management agreement with its affiliate Managed Insurance Services, Inc. (MIS), to provide all services for managing and administering the affairs of the Company. The agreement stipulated that services included but were not limited to marketing, underwriting, billing, collection, claims administration, safety and loss prevention, accurate record keeping and claims servicing on behalf of the Company.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$10,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also maintained General liability insurance coverage with limits of \$2,000,000, with no deductible.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided an optional 401K plan to its employees.

### **STATUTORY DEPOSITS**

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

State	Description	Par Value	Market Value
FL	CASH DEPOSIT	\$ 250,000	\$ 250,000
FL	CASH INTEREST	42,794	42,794
	TOTAL FLORIDA DEPOSITS	<u>\$ 292,794</u>	<u>\$ 292,794</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 292,794</u>	<u>\$ 292,794</u>

## **INSURANCE PRODUCTS**

### **Territory**

The Company was authorized to transact insurance in the State of Florida in accordance with Section 629.091, Florida Statutes.

### **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 did not assume any risk.

## **Ceded**

The Company ceded risk on an excess of loss basis to various authorized and unauthorized reinsurance companies. Letters of credit were obtained for all ceded unauthorized reinsurers. All reinsurance contracts were negotiated and approved by Mr. Dan O'Neal, CEO through the use of a reinsurance intermediary, Collins & Associates. A risk transfer analysis on reinsurance contracts was performed and prepared by the reinsurance intermediary's actuary in which no significant issues were noted. The risk transfer analysis was forwarded to the Office for approval.

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 Pompano Beach, Florida, where this examination was conducted.

An independent CPA audited the Company's financial statements on a statutory basis 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:

**Office Lease Agreement**

The Company entered into an office lease agreement with DWV Real Property, Inc. (DWV). The 36 month agreement was renewable at the end of the term but could be terminated with 60 days prior notice to DWV.

**Custodial Agreement**

The Company entered into a custodial agreement with Northern Trust Bank which was dated and executed by the Company on March 25, 2003. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

## **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."

**PHYSICIANS INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$8,203,548		\$8,203,548
Cash	3,593,086		3,593,086
Investment income due and accrued	125,637		125,637
Agents' Balances:			
Uncollected premium	2,859,169		2,859,169
Amount recoverable from reinsurers	68,856		68,856
Net deferred tax asset	177,116		177,116
Aggregate write ins for other than invested assets	73,618		73,618
	<hr/>		
Totals	\$15,101,030	\$0	\$15,101,030
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**PHYSICIANS INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,309,637		\$3,309,637
Loss adjustment expenses	1,326,414		1,326,414
Commissions payable	40,885		40,885
Other expenses	366,553		366,553
Taxes, licenses and fees	24,801		24,801
Current federal and foreign income taxes	126,057		126,057
Unearned premium	2,460,730		2,460,730
Advanced premium	91,846		91,846
Ceded reinsurance premiums payable	1,649,155		1,649,155
Total Liabilities	\$9,396,078	\$0	\$9,396,078
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	704,952		704,952
Surplus as regards policyholders	\$5,704,952		\$5,704,952
Total liabilities, surplus and other funds	\$15,101,030	\$0	\$15,101,030

**PHYSICIANS INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2006**

<b>Underwriting Income</b>	
Premiums earned	\$4,071,053
<b>Deductions:</b>	
Losses incurred	294,237
Loss expenses incurred	651,142
Other underwriting expenses incurred	2,439,871
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$3,385,250</u>
Net underwriting gain or (loss)	\$685,803
<b>Investment Income</b>	
Net investment income earned	\$355,372
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$355,372</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	59,945
Total other income	<u>\$59,945</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,101,120
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$1,101,120
Federal & foreign income taxes	<u>476,888</u>
Net Income	\$624,232
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$5,066,430
Net Income	\$624,232
Change net unrealized capital gains or losses	0
Change in net deferred income tax	116,134
Change in non-admitted assets	(101,844)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$638,522</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,704,952</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$4,636,051

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 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 \$5,704,952 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**PHYSICIANS 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	\$5,704,952
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment needed.			
<b>LIABILITIES:</b>			
No adjustment needed.			
Net Change in Surplus:			0
Surplus as regards policyholders December 31, 2006, per Examination			\$5,704,952

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2005 examination report issued by the Office.

### **Current examination comments and corrective action**

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

## **SUBSEQUENT EVENTS**

On September 14, 2007, the Company's owner and CEO, Mr. Dan O'Neal formed the PIC Group, LLC. Dan O'Neal was the majority owner of the PIC Group, LLC along with Pamela Browning and Daniel Koshiol. PIC Group LLC was formed for the purpose of creating a holding Company system. The Office approved the acquisition on December 7, 2007.

Effective September 17, 2007, Dennis Faulkner, Vice President of Claims and Director resigned.

The Company appointed Christy Delahaye to the Board of Directors. This action was approved by the Board of Directors on October 4, 2007

Effective October 15, 2007, James O'Hare was employed by the Company as Claims Manager.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Physicians 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 \$5,704,952, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, and Linda Dembiec, FCAS, Select Actuarial Services, participated in the examination.

Respectfully submitted,

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Owen A. Anderson  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation