

REPORT ON EXAMINATION
OF
ROCHE SURETY AND CASUALTY
COMPANY, INC.
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	4
GENERAL	4
CAPITAL STOCK.....	5
PROFITABILITY OF COMPANY	5
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT.....	6
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	8
SURPLUS DEBENTURES	8
AFFILIATED COMPANIES	8
MANAGEMENT/LIMITED MANAGING GENERAL AGENT (MGA)/AGENCY AGREEMENT	8
ORGANIZATIONAL CHART	9
FIDELITY BOND.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS.....	10
INSURANCE PRODUCTS AND RELATED PRACTICES.....	11
TERRITORY	11
TREATMENT OF POLICYHOLDERS.....	11
REINSURANCE	11
ACCOUNTS AND RECORDS.....	11
MANAGEMENT SERVICES AGREEMENT.....	12
INDEPENDENT AUDITOR AGREEMENT.....	12
RISK-BASED CAPITAL.....	12
FINANCIAL STATEMENTS PER EXAMINATION.....	12
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 9, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Honorable Eleanor Kitzman
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Chairman, NAIC Financial Conditions (E) Committee
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State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

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:

ROCHE SURETY AND CASUALTY COMPANY, INC
1910 ORIENT ROAD
TAMPA, FLORIDA 33619

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, 2003 through December 31, 2005. This examination commenced, with planning at the Office of Insurance Regulation (Office), on January 8, 2007, to January 12, 2007. The fieldwork commenced on January 16, 2007, and was concluded as of March 9, 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 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 assets and the determination of liabilities, 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 A.M. Best 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.

We valued and verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination was confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The Company was last examined by representatives of the Office as of December 31, 2002. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

The Company did not disclose all material related party transactions in the Notes to Financial Statements, Item No. 10(f).

Resolution: The Company disclosed the related party affiliations in Note 19 of the Notes to the Financial Statements and the Company properly disclosed affiliated party transactions in subsequent reporting.

The Company incorrectly noted under line item 13, on page 14.3 of their Annual Statement, “The Company has 2,000,000 shares of \$2.50 par value common stock authorized, 400,000 are issued and outstanding”. The Company actually had 500,000 shares issued and outstanding.

Resolution: The Company correctly reported the valuation of its outstanding stock in its 2005 Annual Statement.

The Company maintained a stock certificate which reflected the incorrect par value of the common capital stock.

Resolution: The Company corrected the par value of the common capital stock.

The Company did not provide detailed descriptions of the special deposits on Schedule E, Part 2, column 3 of their Annual Statement.

Resolution: The special deposits were presented correctly on Schedule E – Part 3 of the 2005 Annual Statement.

The Company did not maintain their investments in a Florida bank. Their investments were maintained with AG Edwards Trust Company (AG Edwards), St. Louis, Missouri. Some of the investments were in book entry form, but other investments, such as Certificates of Deposit and Cash, were being physically held by AG Edwards in Missouri.

Resolution: During the current exam there were no investments held with AG Edwards. The account with AG Edwards had been closed.

The Company had not maintained a current appraisal for their Ocala building.

Resolution: The Company maintained a current appraisal for their Ocala property.

The Company did not maintain a written lease with the lessee of their Ocala building.

Resolution: The Company subsequently executed a lease agreement for the Ocala property.

The Company incorrectly recorded rental income and expenditures for their Ocala Building on the line item for another property.

Resolution: The Company correctly reported the rental income and expenditures for the Ocala building.

The Company did not accrue any general office expenses for 2002.

Resolution: The Company accurately recorded the accruals on the subsequent Annual Statements.

The Company did not maintain a verifiable report for their outstanding bond liability, which was used to calculate their Unearned Premium reserve in the Annual Statement.

Resolution: The Company provided verifiable data to re-calculate their Unearned Premium.

HISTORY

General

The Company was incorporated on March 27, 1981, with the name of American Pioneer Casualty Insurance Company, under the laws of the State of Florida, as a stock property and casualty insurer, and commenced business on March 2, 1982. Roche Surety, Inc. (RSI) purchased the Company in 1996. The Company was subsequently renamed Roche Surety and Casualty Company, Inc.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact bail bond insurance coverage in Florida.

The articles of incorporation were amended during the period covered by this examination.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$2,000,000
Par value per share	\$4.00

Control of the Company was maintained by its parent, RSI, 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 Statement.

	2005	2004	2003
Premiums Earned	1,563,106	1,325,662	1,230,432
Net Underwriting Gain/(Loss)	157,134	151,769	24,817
Net Income	98,881	72,164	80,364
Total Assets	5,603,311	11,932,571	11,108,616
Total Liabilities	451,845	6,904,316	6,608,219
Surplus As Regards Policyholders	5,151,466	5,028,255	4,500,397

Dividends to Stockholders

The Company did not pay stockholders a dividend in 2005.

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, 2005, were:

Directors

Name and Location	Principal Occupation
Armando O. Roche Thonotosassa, FL	Chairman, Roche Surety & Casualty
Linda Roche Thonotosassa, FL	Treasurer, Roche Surety & Casualty
Shannon Roche Thonotosassa, FL	Vice President, Roche Surety & Casualty
Melisa Martin Tampa, FL	Secretary, Roche Surety & Casualty
Gilbert M. Rodriguez Tampa, FL	Owner, Title Insurance Co.
Lou Prida Tampa, Florida	CPA, Luciano Prida & Company
John Barbon Wesley Chapel, FL	Retired
George Pollock Valrico, FL	President, Roche Surety & Casualty
George Pollock, Jr. Tampa, FL	CFO/Sr. VP, Switch & Data, Inc.

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

Senior Officers

Name	Title
Armando O. Roche	Chairman and CEO

George A. Pollock
Melisa Martin
Shannon Roche
Linda J. Roche

President and Chief Operating Officer
Secretary
Vice President
Treasurer

Subsequent event: George Pollock submitted his resignation at the December 12, 2005 Board meeting. Shannon Roche was elected as President and Chief Operating Officer.

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes.

Investment Committee

Armando Roche (1)
George Pollock
Shannon Roche
Linda Roche
Edward Diliberto

Audit Committee

George Pollock, Jr. (1)
Gilbert M. Rodriguez
John Barbon

(1) Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholders, Board of Directors, and audit committee 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.

The Board of Directors minutes documented that the previous examination report was reviewed.

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 maintained a 6.5% surplus debenture in the amount of \$1,400,000 in exchange for cash to RSI, its parent. The surplus debenture was submitted to and approved by the Office.

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 14, 2006, as required by 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:

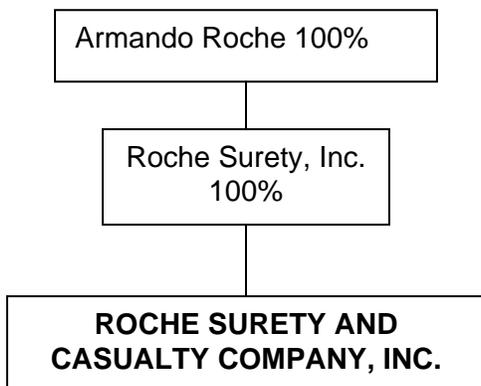
Management/Limited Managing General Agent (MGA)/Agency Agreement

The Company had a Management/Limited MGA/Agency Agreement with its parent, RSI. RSI provided the following services: underwriting, actuarial services, claims, marketing, data processing, accounting management, legal services, investment services and premium processing.

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. The Company included an organizational chart in Schedule Y of the 2005 Annual Statement as required by the NAIC Annual Statement Instructions.

**ROCHE SURETY AND CASUALTY COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND

The Company maintained fidelity bond coverage up to \$100,000 with a \$100 deductible per occurrence. The Company was the insured on the fidelity bond. This insurance adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's employees were not covered by a 401K plan, and had no stock ownership or employee insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

<u>State</u>	<u>Description</u>	<u>Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
FLORIDA	Cash	-	-	<u>\$1,000,000</u>	<u>\$1,000,000</u>
TOTAL FL DEPOSITS				<u>\$1,000,000</u>	<u>\$1,000,000</u>
DELAWARE	CD	4.02%	4/12/07	\$ 10,000	\$ 10,000
GEORGIA	Money Market	-	-	\$ 32,271	\$ 32,271
INDIANA	Money Market	-	-	\$ 75,232	\$ 75,232
LOUISIANA	CD	4.50%	8/30/06	\$ 70,000	\$ 70,000
OKLAHOMA	CD	2.72%	6/27/06	\$ 75,061	\$ 75,061
OKLAHOMA	CD	4.03%	2/22/06	\$ 100,000	\$ 100,000
OKLAHOMA	CD	3.50%	2/22/06	\$ 100,000	\$ 100,000
OKLAHOMA	CD	4.60%	3/18/06	\$ 75,000	\$ 75,000
OKLAHOMA	CD	2.67%	3/09/06	\$ 100,000	\$ 100,000
OKLAHOMA	CD	4.40%	10/17/06	\$ 100,000	\$ 100,000
S. CAROLINA	US Treasury	3.25%	8/15/08	\$ 249,786	\$ 249,786
TEXAS	CD	3.75%	2/28/07	\$ 50,000	\$ 50,000
VIRGINIA	Money Market	-	-	\$ 100,000	\$ 100,000
	CD	3.55%	4/20/06	\$ 100,000	\$ 100,000
TOTAL OTHER DEPOSITS				<u>\$1,237,350</u>	<u>\$1,237,350</u>
TOTAL STATUTORY DEPOSITS				<u>\$2,237,350</u>	<u>\$2,237,350</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the States of Arizona, Delaware, Florida, Georgia, Indiana, Kansas, Louisiana, Maryland, Michigan, Missouri, Nevada, New Jersey, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

REINSURANCE

The Company maintained no reinsurance.

ACCOUNTS AND RECORDS

Melby and Guarino, CPA, P.A., an independent CPA, audited the Company's statutory basis financial statements annually for the years 2004 and 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 Tampa, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Independent Auditor Agreement

The Company engaged Melby and Guarino CPAs, P.A. to perform an audit of its GAAP and Statutory financial statements for the years 2004 and 2005 in accordance with Section 624.424 (8) (c), Florida Statutes.

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 were noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

ROCHE SURETY AND CASUALTY COMPANY, INC.
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds and Stocks	\$ 252,520		\$ 252,520
Cash and short-term investments	4,187,210		4,187,210
Invested income due and accrued	16,565		16,565
Real Estate	1,040,080		1,040,080
Agents' Balances:			
Uncollected premium	91,613		91,613
Net deferred tax asset	323		323
Receivable from parent, subsidiaries and affiliates	15,000		15,000
 Totals	 \$ 5,603,311	 \$0	 \$ 5,603,311

ROCHE SURETY AND CASUALTY COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$0		\$0
Loss adjustment expenses	0		0
Other expenses	44,455		44,455
Taxes, licenses and fees	130,841		130,841
Current federal and foreign income taxes	25,189		25,189
Unearned Premiums	251,360		251,360
Total Liabilities	<u>\$451,845</u>		<u>\$451,845</u>
Common capital stock	\$2,000,000		\$2,000,000
Surplus notes	1,400,000		1,400,000
Gross paid in and contributed surplus	410,046		410,046
Unassigned funds (surplus)	1,341,420		1,341,420
Surplus as regards policyholders	<u>\$5,151,466</u>		<u>\$5,151,466</u>
Total liabilities, capital and surplus	<u>\$5,603,311</u>	<u>\$ -</u>	<u>\$5,603,311</u>

ROCHE SURETY AND CASUALTY COMPANY, INC.
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$1,563,106
DEDUCTIONS:	
Losses incurred	(2,642)
Other underwriting expenses incurred	1,408,614
Aggregate write-ins for underwriting deductions	<u>0</u>
Total underwriting deductions	<u>\$1,405,972</u>
Net underwriting gain or (loss)	\$157,134
Investment Income	
Net investment income earned	\$7,401
Net realized capital gains or (losses)	<u>0</u>
Net investment gain or (loss)	\$7,401
Other Income	
Net gain or (loss) from agents' or premium balances charged off	<u>\$0</u>
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$164,535
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$164,535
Federal & foreign income taxes	<u>65,654</u>
Net Income	\$98,881
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$5,028,255
Gains and (Losses) in Surplus	
Net Income	\$98,881
Change in net deferred income tax	12,170
Change in non-admitted assets	12,160
Change in surplus notes	0
Examination Adjustment	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$123,211</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,151,466</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$0

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, 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.

**ROCHE SURETY AND CASUALTY COMPANY, INC.
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	\$	5,151,466
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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:			\$ -
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 5,151,466

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

Current examination comments and corrective action

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

SUBSEQUENT EVENTS

In late 2005, George Pollock, Sr. resigned his position as President. Shannon Roche was elected as the new President.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Roche Surety and Casualty Company, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,151,466, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Roger Kelly, Financial Examiner/Analyst II, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Mike Young
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation