

REPORT ON EXAMINATION
OF
SUPERIOR INSURANCE COMPANY
TALLAHASSEE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

May 8, 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:

**SUPERIOR INSURANCE COMPANY
2020 CAPITAL CIRCLE SE
ALEXANDER BUILDING, #350
TALLAHASSEE, FLORIDA 32301**

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, 2006. This Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002 before it was ordered into rehabilitation. This examination commenced, with planning by the Office, on February 15, 2008. The fieldwork commenced on February 18, 2008, and was concluded as of May 8, 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 all 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 all the line item accounts in the Company's 2006 annual statement.

HISTORY

General

The Company was a domestic stock company licensed in 15 states throughout the United States. The Company was incorporated under Florida law on October 16, 1952. The Company was licensed to write 6 lines of business and wrote primarily in the non-standard auto lines. The majority of the Company's premiums were written in the States of Florida, California, and Virginia.

On November 20, 2002, the Office entered an Order for the Company to Show Cause why it should not suspend or revoke the Company's license for failing to comply with the Final Order of the Office dated August 30, 2001. A hearing was held May 19-20, 2003 at the Division of Administrative Hearings. On June 30, 2003, the Company was rated as weak – "C" by A.M. Best and "CCCp" by Standard and Poors. On August 6, 2003, the Administrative Law Judge issued an order recommending that the Office suspend the Company's Certificate of Authority. On August 27, 2003, the Company consented to be placed into receivership for rehabilitation. On August 29, 2003 the Second Circuit Court signed the Consent Order placing the Company into rehabilitation and under the control of the State of Florida, Division of Liquidation and Rehabilitation (Receiver).

The Company was in rehabilitation and did not make any changes to its articles of incorporation and/or bylaws 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	30,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100.00

Superior Insurance Group, Inc. owned 100% of the stock issued by the Company, which in turn was owned 100% by Superior Insurance Group Management, Inc., a Delaware domiciled company.

Profitability of Company

The Company was in rehabilitation as of the date of this examination. The following table shows the profitability trend (in dollars) of the Company since the date of the last examination, as reported in the filed annual statements.

	2006	2005	2004	2003
Premiums Earned	0	1,837	7,280,035	46,046,424
Net Underwriting Gain/(Loss)	872,838	(898,204)	3,457,158	(5,878,832)
Net Income	1,094,263	85,057	4,855,243	30,722,729
Total Assets	5,310,406	5,336,075	13,609,308	36,057,408
Total Liabilities	7,027,718	11,604,850	18,192,393	48,792,057
Surplus As Regards Policyholders	(1,717,312)	(6,268,775)	(4,583,085)	(12,734,649)

Dividends to Stockholders

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

Management

The authority of the Company management was suspended by the Court, and the Company was under the control of the Receiver.

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

The Company has been in rehabilitation since August 29, 2003, and 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

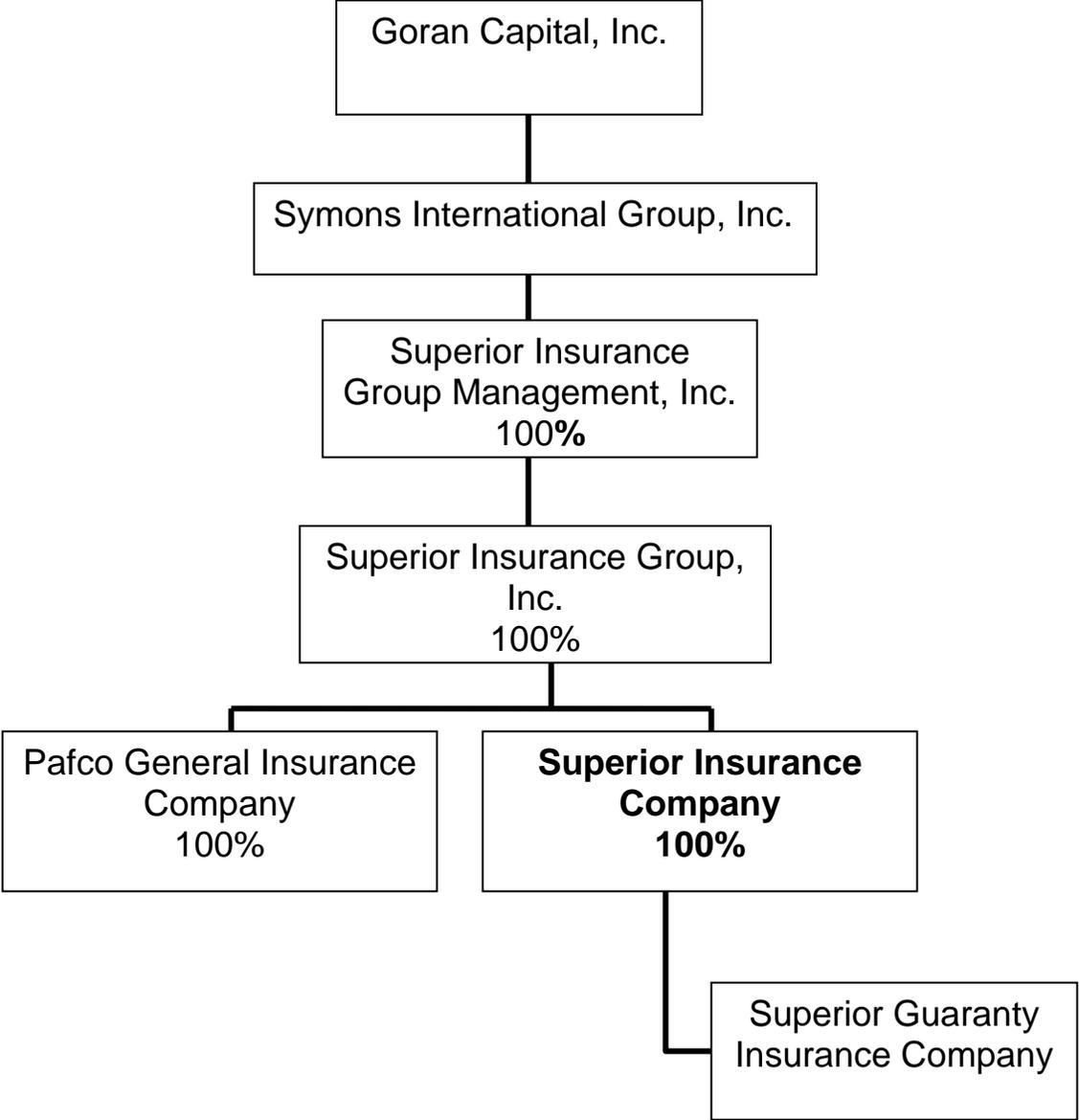
The Company was in rehabilitation but continued to be a member of a holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code; its ultimate parent was Goran Capital, Inc., a Canadian Company.

The Company had no affiliate agreements in place.

The 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 detailed list of all related companies of the holding company group.

**SUPERIOR INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



FIDELITY BOND AND OTHER INSURANCE

The Company was in rehabilitation and under the control of the Receiver.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, and had no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

State	Description	Par Value	Market Value
FL	CASH DEPOSIT	\$ 2,134,455	\$ 2,134,455
FL	CASH INTEREST	175,838	175,838
FL	CD, BANK OF AMERICA	100,000	100,000
FL	CD, BANK OF AMERICA	<u>100,000</u>	<u>100,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 2,510,293</u>	<u>\$ 2,510,293</u>
CA	CERTIFICATE OF DEPOSIT	\$ 254,943	\$ 254,943
GA	MM MUTUAL FUND	66,421	66,421
SC	CERTIFICATE OF DEPOSIT	10,000	10,000
TN	US TREASURY BOND	226,012	226,012
VA	US TREASURY BILL	<u>501,184</u>	<u>501,184</u>
TOTAL OTHER DEPOSITS		<u>\$ 1,058,560</u>	<u>\$ 1,058,560</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 3,568,853</u>	<u>\$ 3,568,853</u>

PLAN OF OPERATIONS

Territory

The Company was in rehabilitation and under the control of the Receiver. No policies have been in force since February 2005.

REINSURANCE

The Company has been under the control of the Receiver since August 2003. No premiums were written by the Company in 2006. Therefore there was no reinsurance risk as of the examination date. The reported recoverable and payable amount in the annual statement was the amount being carried forward by the Receiver on behalf of the Company since it was ordered into rehabilitation in 2003.

Assumed

The Company did not assume any risks.

Ceded

The Company did not cede any risks.

ACCOUNTS AND RECORDS

The Company's remaining operations were through the Receiver in Tallahassee, Florida, where this examination was conducted.

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

Accounting Services Provider Agreement

The Company was in run off and under the control of the Receiver. The Receiver entered into an accounting services provider agreement with Thomas Howell Ferguson PA (THF). The contract stipulated that THF would perform, but was not limited to, all statutory general accounting functions, tax filing and reporting functions and required management reporting functions on behalf of the Receiver for the Company.

Claims Servicing Provider Agreement

The Company was in run off and under the control of the Receiver. The Receiver entered into a claims servicing provider agreement with Lozano Insurance Adjusters, Inc. (Lozano). The contract stated that Lozano would provide claims administration services which included but was not limited to evaluating, negotiating and paying adverse subrogation claims on behalf of the Receiver for the Company.

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."

SUPERIOR INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$226,012		\$226,012
Cash	4,596,063		4,596,063
Investment income due and accrued	51,672		51,672
Agents' balances:			
Amount recoverable from reinsurers	214,406		214,406
Receivable from parent, subsidiaries and affiliates	79,153		79,153
Aggregate write ins for other than invested assets	143,100		143,100
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Totals	\$5,310,406	\$0	\$5,310,406
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SUPERIOR INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,102,946		\$1,102,946
Loss adjustment expenses	458,491		458,491
Other expenses	87,750		87,750
Taxes, licenses and fees	3,364,597		3,364,597
Ceded reinsurance premiums payable	105,108		105,108
Provision for reinsurance	42,800		42,800
Payabl to parent subsidiaries and affiliates	221,542		221,542
Aggregate write ins for liabilities	1,644,484		1,644,484
Total Liabilities	\$7,027,718	\$0	\$7,027,718
Common capital stock	\$3,000,000		3,000,000
Gross paid in and contributed surplus	58,332,679		58,332,679
Unassigned funds (surplus)	<u>(63,049,991)</u>		<u>(63,049,991)</u>
Surplus as regards policyholders	<u>(\$1,717,312)</u>		<u>(\$1,717,312)</u>
Total liabilities, surplus and other funds	<u>\$5,310,406</u>	<u>\$0</u>	<u>\$5,310,406</u>

SUPERIOR INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$0
Deductions:	
Losses incurred	(1,503,662)
Loss expenses incurred	(50,661)
Other underwriting expenses incurred	681,485
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>(\$872,838)</u>
Net underwriting gain or (loss)	\$872,838
Investment Income	
Net investment income earned	\$214,118
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$214,118</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Aggregate write-ins for miscellaneous income	7,307
Total other income	<u>\$7,307</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,094,263
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$1,094,263
Federal & foreign income taxes	<u>0</u>
Net Income	\$1,094,263
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	(\$6,268,775)
Net Income	\$1,094,263
Change net unrealized capital gains or losses	309,508
Change in net deferred income tax	(26,259)
Change in non-admitted assets	3,216,751
Change in provision for reinsurance	(42,800)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$4,551,463</u>
Surplus as regards policyholders, December 31 current year	<u><u>(\$1,717,312)</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expense

\$1,561,437

An outside actuarial firm appointed by the Receiver on behalf of the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, made a reasonable provision for all unpaid loss obligations the Company had under the terms of its policies and agreements.

There was no actuarial review performed by the Office since the Company was in rehabilitation and did not write or assume any premiums during the period of examination.

Capital and Surplus

The Company was in run off and under the control of the Receiver. The surplus amount reported by the Receiver was (\$1,717,312).

A Comparative analysis of changes in surplus is shown below.

**SUPERIOR 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	(\$1,717,312)
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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:			<u>0</u>
Surplus as Regards Policyholders December 31, 2006, Per Examination			<u><u>(\$1,717,312)</u></u>

SUMMARY OF FINDINGS

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.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Superior Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company was in run off and under the control of the Receiver. The Company's Surplus as regards policyholders was (\$1,717,312).

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

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