

**REPORT ON EXAMINATION**  
**OF**  
**SUPERIOR GUARANTY 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 GUARANTY 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. 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 that was licensed in Florida only. The Company was incorporated under Florida law on April 11, 1994. The Company was licensed to write 2 lines of business, Private passenger auto liability and Private passenger auto physical damage.

On August 29, 2003 the Second Circuit Court signed the consent order placing Superior Insurance Company (the Company's sole shareholder) into rehabilitation under the control of the State of Florida, Division of Liquidation and Rehabilitation (Receiver). As a result, the Company while not in Court ordered receivership, was effectively under the control of the Receiver. While the Company was not in Administrative Supervision or Court Ordered Receivership, the Company was rated "E" by A.M. Best.

The Company did not make any changes to its articles of incorporation and/or bylaws for review 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	50,000
Number of shares issued and outstanding	50,000
Total common capital stock	\$5,000,000
Par value per share	\$100.00

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

## Profitability of Company

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	527	4,006,236	24,805,377
Net Underwriting Gain/(Loss)	(800,584)	(88,943)	4,051,599	(1,986,532)
Net Income	(368,492)	951,726	4,450,246	(784,993)
Total Assets	7,958,218	13,181,190	13,378,205	12,001,582
Total Liabilities	1,433,338	3,465,818	6,240,124	15,758,153
Surplus As Regards Policyholders	6,524,880	9,715,372	7,138,081	(3,698,008)

## Dividends to Stockholders

The Company paid a total of \$3.5 Million in dividends to its sole shareholder, Superior Insurance Company, in 2006.

## **Management**

The Company was under the control of the Receiver.

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

The Company was under the control of the Receiver, however during 2006, the Company merged with its affiliate, Superior American Insurance Company. Superior Guaranty Insurance Company was the surviving company. That transaction was approved by the Office.

## **Surplus Debentures**

The Company had no surplus debentures at December 31, 2006.

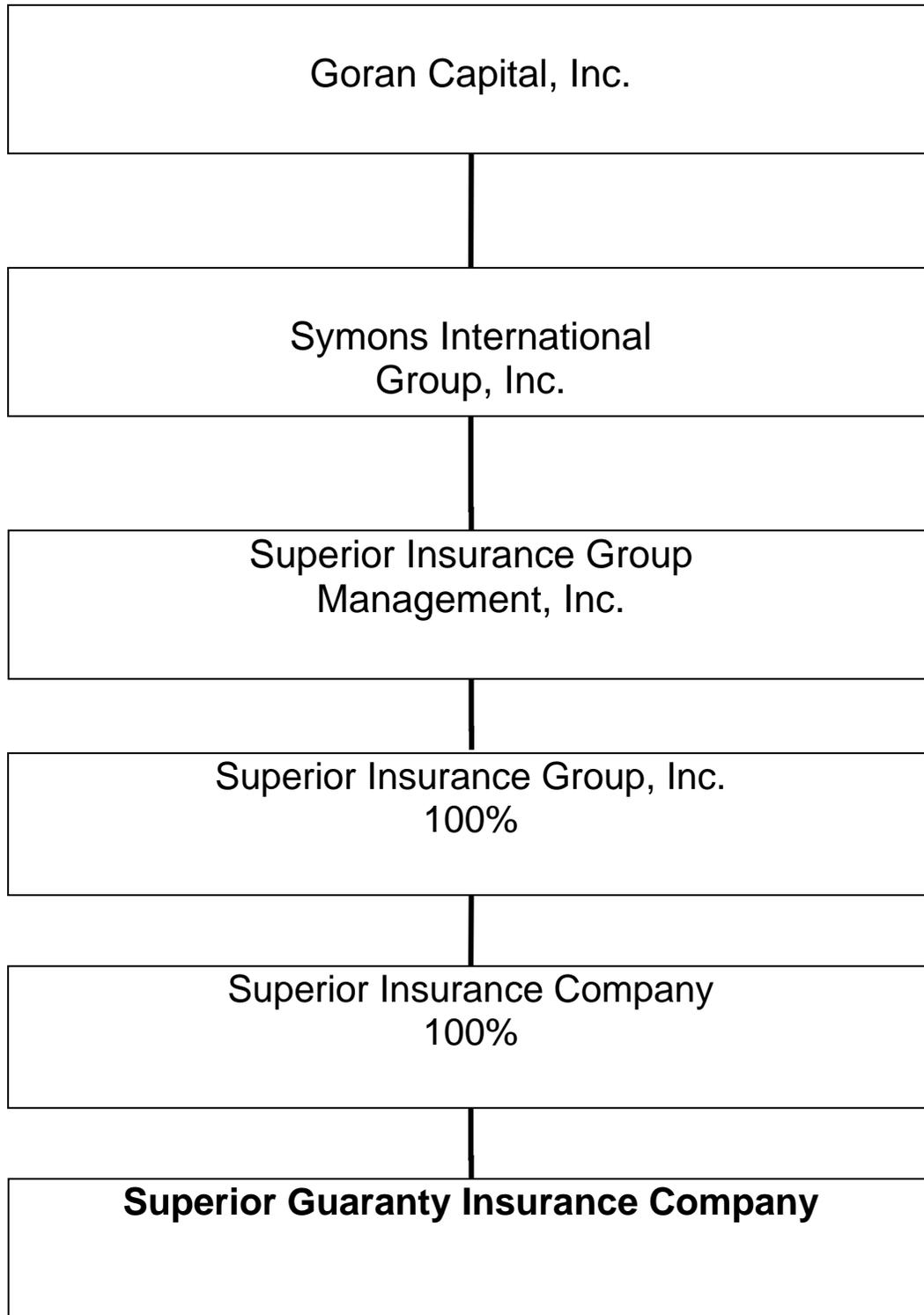
## **AFFILIATED COMPANIES**

The Company was under the control of the Receiver but continued to be a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The Company historically ceded 100% premium to its direct parent, Superior Insurance Company. Its ultimate parent was Goran Capital, Inc., a Canadian Company. The Company's June 30, 2006 financial statement reported Surplus of \$8.345 Million, after merging with its other affiliate, Superior American Insurance Company.

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

**SUPERIOR GUARANTY INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



The Company had no affiliate agreement(s) in place.

### FIDELITY BOND AND OTHER INSURANCE

The Company was under the control of the Receiver.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company currently 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	\$ 1,300,374	\$ 1,300,374
FL	CASH INTEREST	<u>\$ 75,421</u>	<u>\$ 75,421</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 1,375,795</u>	<u>\$ 1,375,795</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 1,375,795</u>	<u>\$ 1,375,795</u>

## **PLAN OF OPERATIONS**

### **Territory**

The Company was 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 were no reinsurance risks as of the examination date.

### **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 agreement 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 GUARANTY INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,024,906		\$4,024,906
Cash	3,840,894		3,840,894
Investment income due and accrued	91,836		91,836
Agents' balances:			
Receivable from parent, subsidiaries and affiliates	509		509
Aggregate write ins for other than invested assets	73		73
	<hr/>		
Totals	\$7,958,218	\$0	\$7,958,218

**SUPERIOR GUARANTY INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$479,026		\$479,026
Loss adjustment expenses	111,809		111,809
Other expenses	59,680		59,680
Provision for reinsurance	269,000		269,000
Payable to parents, subsidiaries and affiliates	503,557		503,557
Aggregate write ins for liabilities	10,266		10,266
Total Liabilities	\$1,433,338	\$0	\$1,433,338
Common capital stock	5,000,000		5,000,000
Gross paid in and contributed surplus	6,000,000		6,000,000
Unassigned funds (surplus)	<u>(4,475,120)</u>		<u>(4,475,120)</u>
Surplus as regards policyholders	<u>\$6,524,880</u>		<u>\$6,524,880</u>
Total liabilities, surplus and other funds	<u>\$7,958,218</u>	<u>\$0</u>	<u>\$7,958,218</u>

**SUPERIOR GUARANTY INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2006**

<b>Underwriting Income</b>	
Premiums earned	\$0
<b>Deductions:</b>	
Losses incurred	237,840
Loss expenses incurred	263,570
Other underwriting expenses incurred	299,174
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$800,584</u>
Net underwriting gain or (loss)	(\$800,584)
<b>Investment Income</b>	
Net investment income earned	\$425,958
Net realized capital gains or (losses)	(4,340)
Net investment gain or (loss)	<u>\$421,618</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	\$0
Aggregate write-ins for miscellaneous income	10,474
Total other income	<u>\$10,474</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$368,492)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$368,492)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$368,492)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$9,715,372
Net Income	(\$368,492)
Change in provision for reinsurance	678,000
Dividends to stockholders	(3,500,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$3,190,492)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$6,524,880</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss adjustment expense** \$590,835

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.

### Capital and Surplus

The Company was under the control of the Receiver. The surplus amount reported by the Company was \$6,524,880.

A Comparative analysis of changes in surplus is shown below.

**SUPERIOR GUARANTY 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	\$6,524,880
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment			\$0
<b>LIABILITIES:</b>			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$6,524,880

## **SUMMARY OF FINDINGS**

### **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, 2006.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Superior Guaranty 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 \$6,524,880.

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

Respectfully submitted,

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