**REPORT ON EXAMINATION**

**OF**

# AMCOMP PREFERRED INSURANCE COMPANY

**NORTH PALM BEACH, FLORIDA**

**AS OF**

**DECEMBER 31, 2002**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida
March 31, 2004

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Chair, Financial Condition (E) Committee, NAIC
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Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioner (NAIC), we have conducted an examination as of December 31, 2002, of the financial condition and corporate affairs of:

**AMCOMP PREFERRED INSURANCE COMPANY**
**701 U. S. HIGHWAY ONE, SUITE 200**
**NORTH PALM BEACH, FLORIDA 33408**

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, 2001 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced, with planning at the Office, on October 9, 2003. The fieldwork commenced on October 16, 2003 and was suspended on January 2, 2004. Fieldwork was resumed on March 29, 2004 and concluded as of March 31, 2004. 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 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 (FAC), 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/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 were reviewed where relevant and deemed significant to the Company's financial condition.

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:

Agents' Balances or Uncollected Premiums
Reinsurance Recoverables
Reinsurance Payable on Paid Loss and Loss Adjustment Expenses
Unearned Premiums
Ceded Reinsurance Premiums Payable
Provision for Reinsurance

**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, 2000, along with resulting action taken by the Company in connection therewith.

**Management**

The Company did not have an annual shareholder meeting for the election of directors in accordance with Sections 607.1601 and 628.231, FS. **Resolution:** The Company held an annual shareholder meeting for the election of directors in 2002.

**Certification of Compliance With Executive Order 13224**

The Company did not complete their process for compliance with Executive Order 13224. **Resolution:** The Company provided an executed certification form to the Office.

**Bonds**

The Company reported investments on settlement date rather than trade date as required by the NAIC Annual Statement Instructions. **Resolution:** The Company correctly reported investments on the trade date as of December 31, 2002.

**Agents' Balances**

The Company reported amounts of notes taken for premiums as admitted assets. Such amounts were not included in unearned premiums. Pursuant to Section 625.012(7), (FS), notes taken for premiums are allowed as an admitted asset to the extent of the amount included in unearned premium reserves. **Resolution:** The Company non-admitted all notes taken for premiums not included in unearned premium reserves.

**Aggregate Write Ins for Other Than Invested Assets**

The Company reported miscellaneous prepaid expenses, which was not in compliance with Section 625.031(7), FS. **Resolution:** The Company did not report prepaid expenses as of December 31, 2002.

**Aggregate Write Ins for Other Than Invested Assets**

The Company reported computer applications software as an admitted asset, in violation of Section 625.012(11), FS. **Resolution:** The Company did not report computer applications software as an admitted asset as of December 31, 2002.

**Taxes, Licenses and Fees**

The Company did not accrue premium taxes in accordance with Section 625.041(4), FS. **Resolution:** The Company reported accrued premium taxes at December 31, 2002.

## HISTORY

**General**

The Company was organized in Florida on January 1, 1982 as a self-insurers fund with the name of Florida Air Conditioning Contractors Association. On April 5, 1995, the Company converted to an assessable mutual and changed its name to Pinnancle Assurance Corporation. On August 21, 1995, the Company entered into a stock subscription and purchase agreement with Florida Administrators, Inc. and reorganized as a Florida domestic stock insurance company. On January 26, 1996, AmCOMP, Inc., a Delaware corporation, purchased 100% of the Company. On October 31, 1997, the Company purchased Thomas Jefferson Insurance Company, an inactive company in run-off since 1993. During 1998, the Company changed its name to AmCOMP Preferred Insurance Company and the Company's subsidiary changed its name to AmCOMP Assurance Corporation (AAC).

In accordance with Section 624.401(1), FS, the Company was authorized to transact workers' compensation insurance coverage in Florida on December 31, 2002.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

| | |
|---|---|
| Number of authorized common capital shares | 15,000 |
| Number of shares issued and outstanding | 15,000 |
| Total common capital stock | $1,500,000 |
| Par value per share | $100 |

Control of the Company was maintained by its parent, AmCOMP, Inc., who owned 100 percent of the Company. AmCOMP, Inc. had pledged the stock of the Company, along with $17,000,000 of surplus notes issued by the Company and its subsidiary, AAC, to AmSouth Bank as collaterial against a loan with an interest rate of 3.939%. At December 31, 2002, the principal amount of the loan was $7,437,500.

### Profitability

The Company reported net underwriting losses in 2002 and 2001 of $1,543,159 and $9,283,630, respectively. Net losses for these years were $1,369,522 for 2002 and $11,379,262 for 2001.

### Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2002 and 2001.

### Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

**Directors**

| Name and Location | Principal Occupation |
|---|---|
| Samuel Alexander Stephens<br>Linville, North Carolina | Chairman |
| Debra Jane Cerre-Ruedisili<br>North Palm Beach, Florida | President |
| Kenneth A. Dean<br>Ft. Lauderdale, Florida | Sales Manager<br>EMC Air Conditioning |
| Ray Young<br>Plant City, Florida | President – Ray Young Air Conditioning & Refrigeration, Inc. |
| Albert William Torchia<br>Clearwater, Florida ` | Retired – Former President –<br>Professional Heating and Air Conditioning |
| Larry Lloyd Layman, Jr.<br>Atlanta, Georgia | President – Southern Comfort<br>of Vera Beach, Inc. |

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

**Senior Officers**

| Name | Title |
|---|---|
| Debra Jane Cerre-Ruedisili | President |
| Frederick Ross Lowe | Vice President |
| Melody Antoinette Misiaszek | Secretary |
| Dennis Francis Plante | Treasurer |

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2002:

| Audit Committee | Investment Committee | |
|---|---|---|
| Albert W. Torchia | Samuel A. Stephens | Ray Young |
| Ray Young | Debra J. Cerre-Ruedisili | Kenneth A. Dean |
| Kenneth A. Dean | Albert W. Torchia | Larry L. Layman, Jr. |
| Larry L. Layman, Jr. | | |

**Conflict of Interest Procedure**

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

**Corporate Records**

The recorded minutes of the shareholder, board of directors, and audit and investment committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the examination period.

**Surplus Debentures**

The Company had a surplus note of $10,000,000 at December 31, 2002 to its parent, AmCOMP, Inc. The payment of interest or repayment of principal can be paid only out of the Company's surplus and must be approved by the Office. **Subsequent Event:** The Office approved for payment all the interest in arrears on the surplus note as of December 31, 2002. The interest payment of $1,099,997 was not accrued at December 31, 2002 because payment at that date was conditional on Office approval.

## AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on November 14, 2000, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

### Tax Allocation Agreement

The Company, along with its parent and other affiliates, filed a consolidated federal income tax return. On December 31, 2002, the method of allocation of tax liability between the companies was based upon calculations on a separate return basis, including current credit for net losses. The agreement required the inter-company tax balances to be settled within a reasonable time after the filing of the consolidated federal income tax return.

### Management Agreement

The Company had a management contract with Pinnacle Administrative Company (PAC) to provide the management and administration of the affairs of the Company. This included marketing, underwriting, billings, collections, claims administration, reinsurance, policy issuance, accounting, reporting, investing, and general administration. Management services provided to the Company totaled $20,731,124 during calendar year 2002.

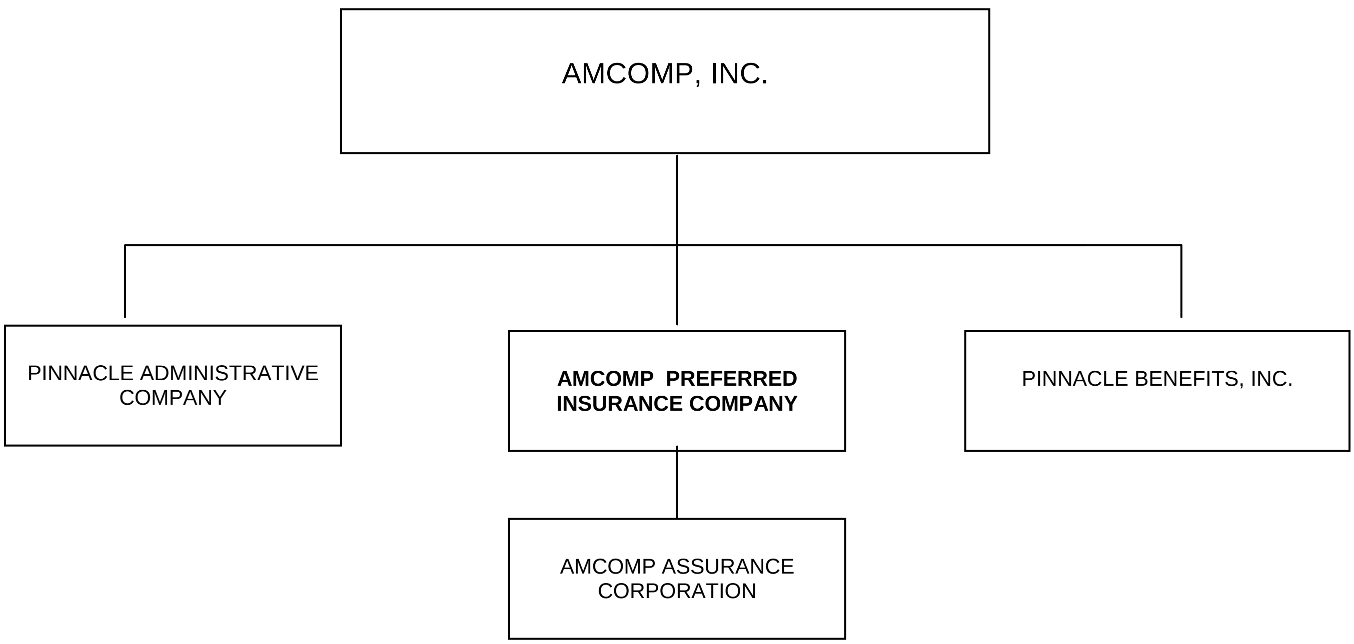
### Service Company Contract

The management company, PAC, had a service contract with Pinnacle Benefits, Inc. (PBI) to provide the claims administration for the Company. PAC paid PBI a yearly amount equal to three percent of the earned-normal audited standard premium.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**AMCOMP PREFERRED INSURANCE COMPANY**

**ORGANIZATIONAL CHART**
**DECEMBER 31, 2002**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $2,000,000 with a deductible of $50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

## STATUTORY DEPOSITS

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

| State | Description | | | Par Value | Market Value |
|---|---|---|---|---|---|
| FL | USTNTS, | 5.25%, | 02/15/29 | $1,300,000 | $1,075,259 |
| FL | USTNTS, | 6.00%, | 02/15/26 | 2,000,000 | 2,291,880 |
| Total Florida Deposits | | | | $3,300,000 | $3,367,139 |
| | | | | | |
| GA | USTNTS, | 4.75%, | 11/15/08 | $ 85,000 | $ 92,783 |
| IL | USTNTS, | 2.75%, | 10/15/03 | 4,500,000 | 4,556,250 |
| VA | GOB, | 5.00%, | 07/15/03 | 500,000 | 499,938 |
| Total Other Deposits | | | | $5,085,000 | $ 5,148,971 |
| | | | | | |
| Total Special Deposits | | | | $8,385,000 | $8,516,110 |

## CERTIFICATION OF COMPLIANCE WITH EXECUTIVE ORDER 13224

The Company established and implemented procedures and guidelines for complying with Executive Order 13224: Blocking Property and Prohibiting Transactions with Persons Who Permit, Threaten to Commit, or Support Terrorism. However, the Company had not signed the certification form. **Subsequent Event:** The Company provided the Office with a duly executed certification form.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

| | |
|---|---|
| Florida | Kentucky |
| Georgia | Virginia |
| Indiana | |

At December 31, 2002, based on post examination adjusted information and premium calculated at 125% of actual pursuant to Section 624.4095 F.S., the Company's net written premium to surplus was 6.7 to 1. This was not in compliance with Section 624.4095, FS, which requires an insurer's ratio of net written premium to surplus not to exceed 4 to 1. **Subsequent event:** The Company's written premium ratio at December 31, 2003 based on the audited financial statement was 2.3 to 1.

### Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. The following agreements contained unusual contract provisions.

- A 50% quota share reinsurance agreement with Max Re, Ltd, effective January 1, 2001, contained various loss corridors and a loss cap, which held the Company responsible for all losses in excess of 75.5%.
- A quota share reinsurance agreement with Max Re, Ltd, effective January 1, 2002, contained various loss corridors and a loss cap, which held the Company responsible for all losses in excess of 74%.

The Company determined that these reinsurance agreements did not transfer insurance risk and accounted for them in the annual statement using deposit accounting. Reinsurance deposits attributable to these agreements at December 31, 2002 were $40,984,611. These deposits were fully collateralized at December 31, 2002 through investments held in a trust with the Company as beneficiary. **Subsequent event:** On December 26, 2003, the Company executed reinsurance commutation and release agreements with Max RE commuting the January 1, 2001 and January 1, 2002 quota share agreements.

**Assumed**

The Company and its subsidiary, AAC, entered into an intercompany pooling agreement effective January 1, 2001. The agreement applied to business retained after all other reinsurance assumptions and cessions. Under the terms of the agreement, AAC ceded 100 percent of the net written premiums to the Company who, in turn, retro ceded to AAC a total of 21 percent of the combined net written premiums of the Company and the premiums assumed under this agreement by the Company. The Company and AAC shared in the combined net losses and expenses of both companies based on the retro ceded percentage. Effective January 1, 2002, the pooling percentages were adjusted to 29 percent for AAC and 71 percent for the Company.

**Subsequent Event:**

The pooling agreement between the Companies was amended in December 2003 to include a related reinsurance trust agreement.

**Ceded**

The Company ceded risk on an excess of loss basis to the following authorized reinsurers: Continental Casualty Company, Everest Reinsurance Company, Motors Insurance Company, and American Reinsurance Company. As previously discussed, the Company ceded risk on a quota share basis to Max Re, Ltd, an unauthorized reinsurer and accounted for these agreements under the deposit accounting method.

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

**Subsequent Event:**

In October 2003, the Commissioner of Insurance of the Commonwealth of Pennsylvania, acting as Liquidator of Reliance Insurance Company (Reliance), filed a claim to recover $2,320,848 of reinsurance payments made to the Company and AAC. The Commonwealth claimed the payments were voidable preference payments to which the estate of Reliance in liquidation is entitled. In December 2003, the Company and AAC filed a claim against Reliance to recover $9,891,747 of reinsurance recoveries due from Reliance. These unpaid reinsurance recoveries were written off by the Companies in 2001, but are still being pursued by the Company.

## ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statement for the years 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 North Palm Beach, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

**Custodial Agreement**

The Company, its parent, and the ultimate parent had a custodial agreement for the safekeeping of securities with AmSouth Bank dated June 29, 2001. The agreement was not in compliance with Rule 69O-143.042, FAC. The agreement failed to provide for separation of the Company's securities from the securities of its affiliates. Instead, the agreement gave the custodian the right to use the securities to secure the repayment of any liability owed by other members who were party to the agreement.

**Investment Management Agency Agreement**

The Company, its parent, and AmCOMP Inc. had an investment management agency agreement with AmSouth Bank dated June 27, 2001, which appointed the Bank as investment manager with respect to certain assets of the group.

**CPA Agreement**

The Company had an agreement with Deloitte & Touche, LLP to audit its financial statements for the year ended December 31, 2002.

**Risk-Based Capital**

At December 31, 2002, the Company's risk-based capital (RBC) was at a regulatory action level. The Company reported to the Office its plans to increase its RBC above the regulatory action level. Those plans included changes to its quota share reinsurance, additions of capital and realization of investment portfolio gains. **Subsequent events**: On March 31, 2003 and December 4, 2003, the Company's parent contributed $2,000,000 and $6,500,000, respectively to AAC in exchange for surplus debenture notes. Additions of capital to AAC increase the Company's capital due to the Company's ownership of AAC. Additionally, the Company's capital was further increased $22,000,000 through its issuance of a surplus debenture note for $10,000,000 to DeKania CDO II, Ltd. on April 29, 2004 and its issuance of another surplus debenture note for $12,000,000 to ICONS, Ltd. on May 26, 2004.

**Information Technology**

Computer Aid, Inc. performed an Information Technology (IT) evaluation during October and November 2002 of the Company's IT systems. The following were material findings from the audit:

- The fire suppression and detection for its data center, located on the second floor of its principal operational office, should be upgraded.
- The size of the organization does not warrant the Company's formal fulltime independent IT audit function. It was recommended that a periodic (at least every two years) independent IT audit/assessment be conducted and the results reported directly to the CEO.
- The draft of the enterprise security policy document should be completed.

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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."

## AMCOMP PREFERRED INSURANCE COMPANY
## Assets

## DECEMBER 31, 2002

| Classification | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Bonds | $70,683,987 | | $70,683,987 |
| Stocks: | | | |
| Common | 17,000,574 | 1,079,568 | $15,921,006 |
| Cash: | | | |
| On deposit | 2,968,050 | | 2,968,050 |
| Agents' Balances: | | | |
| Uncollected premium | 66,527,988 | | 66,527,988 |
| Deferred premium | 43,615,969 | | 43,615,969 |
| Reinsurance recoverable | 11,876,453 | 104,842 | 11,771,611 |
| Federal income tax recoverable | 3,167,550 | | 3,167,550 |
| Guaranty funds on deposit | 99,677 | | 99,677 |
| EDP equipment & software | 125,080 | (29,112) | 154,192 |
| Interest and dividend income due & accrued | 1,083,620 | | 1,083,620 |
| Receivable from PSA | 11,972,592 | | 11,972,592 |
| Aggregate write-in for other than invested assets | 41,013,723 | 29,112 | 40,984,611 |
| Totals | $270,135,263 | 1,184,410 | 268,950,853 |

## AMCOMP PREFERRED INSURANCE COMPANY
## Liabilities, Surplus and Other Funds

## DECEMBER 31, 2002

| Liabilities | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Losses | $91,919,137 | | $91,919,137 |
| Reinsurance payable on paid loss and loss adjustment expense | 11,066,177 | | 11,066,177 |
| Loss adjustment expenses | 12,189,167 | | 12,189,167 |
| Commissions payable | 5,869,789 | | 5,869,789 |
| Other expenses | 11,575,153 | (5,457,020) | 6,118,133 |
| Taxes, licenses and fees | 3,357,254 | (759,316) | 2,597,938 |
| Federal income taxes | 303,881 | 1,636,653 | 1,940,534 |
| Unearned premium | 57,939,207 | | 57,939,207 |
| Advance premiums | 580,779 | | 580,779 |
| Ceded reinsurance premiums payable | 43,540,115 | (535,972) | 43,004,143 |
| Provision for reinsurance | 64,820 | | 64,820 |
| Payable to parent, subsidiaries and affiliates | 1,013,618 | 5,416,000 | 6,429,618 |
| Aggregate write-ins for liabilities | 1,487,414 | | 1,487,414 |
| Total Liabilities | $240,906,511 | 300,345 | 241,206,856 |
| Common capital stock | 1,500,000 | | 1,500,000 |
| Surplus notes | 10,000,000 | | 10,000,000 |
| Gross paid in and contributed surplus | 21,900,000 | | 21,900,000 |
| Unassigned funds (surplus) | (4,171,248) | (1,484,755) | (5,656,003) |
| Surplus as regards policyholders | 29,228,752 | (1,484,755) | 27,743,997 |
| Total liabilities, capital and surplus | $270,135,263 | (1,184,410) | 268,950,853 |

# AMCOMP PREFERRED INSURANCE COMPANY
## Statement of Income

## DECEMBER 31, 2002

| | |
|---|---|
| **Underwriting Income** | |
| Premiums earned | $138,782,580 |
| DEDUCTIONS: | |
| Losses incurred | 77,850,979 |
| Loss expenses incurred | 13,841,984 |
| Other underwriting expenses incurred | 48,632,776 |
| Aggregate write-ins for underwriting deductions | 0 |
| Total underwriting deductions | $140,325,739 |
| Net underwriting gain or (loss) | ($1,543,159) |
| **Investment Income** | |
| Net investment income earned | $4,558,531 |
| Net realized capital gains or (losses) | 134,639 |
| Net investment gain or (loss) | $4,693,170 |
| **Other Income** | |
| Net gain or (loss) from agents' or premium balances charged off | ($2,411,473) |
| Finance and service charges not included in premiums | 12,348 |
| Aggregate write-ins for miscellaneous income | 493,960 |
| Total other income | ($1,905,165) |
| Net income before dividends to policyholders and before federal & foreign income taxes | $1,244,846 |
| Dividends to policyholders | 5,017,877 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | ($3,773,031) |
| Federal & foreign income taxes | (2,403,509) |
| Net Income | ($1,369,522) |
| **Capital and Surplus Account** | |
| Surplus as regards policyholders, December 31 prior year | $47,657,675 |
| **Gains and (Losses) in Surplus** | |
| Net Income | ($1,369,522) |
| Net unrealized capital gains or (losses) | 614,755 |
| Change in net deferred income tax | (5,052,588) |
| Change in non-admitted assets | (3,027,344) |
| Change in provision for reinsurance | (40,099) |
| Surplus adjustments: Paid in | 0 |
| Aggregate write-ins for gains and losses in surplus | (9,554,125) |
| Examination Adjustment | (1,484,755) |
| Change in surplus as regards policyholders for the year | (19,913,678) |
| Surplus as regards policyholders, December 31 current year | 27,743,997 |

## COMMENTS ON FINANCIAL STATEMENTS

**Assets**

**Reinsurance Deposits** $ 40, 984,611

The Company refiled its 2002 annual statement to report reinsurance deposits (Aggregate write-in assets) on two quota share agreements that did not transfer risk to the reinsurer. Originally, the Company filed its 2002 annual statement with the two quota share agreements accounted for as reinsurance.

**Liabilities**

**Losses and Loss Adjustment Expenses** $104,108,304

An outside actuarial firm rendered an opinion that the amounts carried in the balance sheet as of December 31, 2002, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The consulting actuary utilized as part of this examination did not identify any reserve deficiencies.

**Adjustments**

The independent CPA restated the audited financial statements for the years 2002 due to various timing issues effecting years 2001 and 2002 that were discovered during the 2003 audit. The same and additional issues such as the write off a special disability trust fund deposit (which had been non-admitted in the Company's annual statements) and the impact of a Florida Insurance Guaranty Association assessment rate reduction, are causing the Company to re-file its 2003 annual statement. The issues effecting the 2001 and 2002 years involved uncollectible reinsurance recoverables, ceded premiums, federal taxes, state taxes, balances due the parent for tax consolidation errors, and such similar issues effecting the Company's subsidiary, AAC, totaling to a net decrease in the surplus of the Company at December 31, 2002 of $1,484,755, or 5% of surplus. The effect of the 2003 audit adjustments on surplus as of December 31, 2003 is a decrease of $915,195.

## AMCOMP PREFERRED INSURANCE COMPANY
## COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

### DECEMBER 31, 2002

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, 2002, Annual Statement | | | | $29,228,752 |
| | PER COMPANY | PER EXAM | INCREASE (DECREASE) IN SURPLUS | |
| ASSETS: | | | | |
| Common Stock | 17,000,574 | 15,921,006 | (1,079,568) | |
| Reinsurance recoverable | 11,876,453 | 11,771,611 | (104,842) | |
| EDP equip & Software | 125,080 | 154,192 | 29,112 | |
| Other Assets | 41,013,723 | 40,984,611 | (29,112) | |
| LIABILITIES: | | | | |
| Other expenses | 11,575,153 | 6,119,153 | 5,456,000 | |
| Taxes licenses & fees | 3,357,254 | 2,597,938 | 759,316 | |
| Federal income tax payable | 303,881 | 1,940,534 | (1,636,653) | |
| Ceded rein. prem. payable | 43,540,115 | 43,004,143 | 535,972 | |
| Payable to PSA | 1,013,618 | 6,428,598 | (5,414,980) | |
| Net Change in Surplus: | | | | (1,484,755) |
| Surplus as Regards Policyholders December 31, 2002, Per Examination | | | | $27,743,997 |

## SUMMARY OF FINDINGS

### Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2000 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, 2002.

### Custodial Agreement

The Company, AmCOMP Inc. & its subsidiaries had a custodial agreement with AmSouth Bank dated June 29, 2001 for the safekeeping of securities. The agreement was not in compliance with Rule 69O-143.042, FAC. The agreement gave the custodian the right to use the securities to secure the repayment of any liability owed by any member of the affiliated group, regardless of the manner in which title to the securities were held. **The Company is directed to enter into an agreement with AmSouth Bank that complies with Rule 69O-143.042, FAC. The Company is to provide documentation of compliance to the Office within 90 days of the issuance of this report.**

### Written Premium Ratio

At December 31, 2002, the Company's written premium ratio was 6.7 to 1. This was not in compliance with Section 624.4095, FS which requires an insurer's ratio of net written premium to surplus not to exceed 4 to 1. **The Company is directed to comply with Section 624.095. FS as evidenced in all future filings with the Office.**

**Subsequent event:**

The Company’s written premium ratio at December 31, 2003 based on the audited financial statements was 2.3 to 1.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AMCOMP PREFERRED INSURANCE COMPANY** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $27,743,997, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Mary James, CFE, CPM, Financial Examiner/Analyst Supervisor, the actuarial firm, Mercer Oliver Wyman, and the IT firm, Computer Aid, Inc. participated in the examination.

Respectfully submitted,

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Donna L. Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation