REPORT ON EXAMINATION

OF

GUARANTEE INSURANCE COMPANY, INC.

FORT MILL, SOUTH CAROLINA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 25, 2006

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Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

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Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
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Dear Sir and Madam:

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 Commissioners (NAIC), we have conducted an examination of December 31, 2004, of the financial condition and corporate affairs of:

GUARANTEE INSURANCE COMPANY, INC.
1061 521 CORPORATE CENTER DRIVE, STE. #140
FORT MILL, SOUTH CAROLINA 29715

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, 2004 through December 31, 2004. This is the first examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on August 1, 2005, to August 5, 2005. The fieldwork commenced on August 8, 2005, and was concluded as of January 25, 2006. 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 (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, 2004. Transactions subsequent to year-end 2004 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 South Carolina Department of Insurance (SCDOI) and the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Bonds and Common stocks	Losses and loss adjustment expenses
Uncollected premiums	Other expenses
Deferred premiums	Taxes, licenses and fees
Net deferred tax asset	Unearned premiums
Receivables from PSA	Surplus as regards to policyholders

HISTORY

General

The Company was incorporated as Guarantee Insurance Company of Delaware on August 16, 1978, under the laws of the state of Delaware. Its purpose was to act as the corporate entity to effect a change in the corporate domicile of Guarantee Insurance Company from Texas to Delaware. The merger of the two companies was effective December 31, 1978. The surviving company changed its name to Guarantee Insurance Company.

On September 11, 2003, the Company was acquired by Brandywine Insurance Holdings, Inc. (BIH) in Charlotte, North Carolina.

The purchase price was statutory surplus at the closing date, adjusted for certain agreed upon items. The buyers paid $750,000 at closing and issued a promissory note for the balance. The obligations of BIH were guaranteed by SunCoast Holdings, Inc. (SHI). As security for its obligations under the SHI guaranty, SHI granted the sellers a security interest in 100% of the stock of BIH.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Workers Compensation

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

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	30,001
Total common capital stock	$3,600,120
Par value per share	$120.00 *

Control of the Company was maintained by its parent, BIH, who owned 100 percent of the stock issued by the Company, who in turn was 92 percent owned by SHI who in turn was 100 percent owned by Six Point Holdings, LLC, (SPH), who in turn was 100 percent owned by Malvern Investment Group, LLC, (MIG) who was 100 percent owned by Steven M. Mariano.

* This may comply with South Carolina law, where the Company is domiciled. The par value of a FL domestic shall be at least $1 but not more than $100 per Section 628.081(3)(d), FS.

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 of the Company.

	2004	2003	2002
Premiums Earned	2,948,745	0	0
Net Underwriting Gain/(Loss)	(2,276,817)	(1,144,196)	(887,576)
Net Income	(2,129,097)	(558,852)	(259,377)
Total Assets	42,002,075	16,845,573	18,404,532
Total Liabilities	33,596,308	9,529,735	10,441,125
Surplus As Regards Policyholders	8,405,768	7,315,838	7,963,407

Dividends to Stockholders

The Company did not declare and pay dividends to its stockholder in 2004.

Management

The annual stockholder meeting for the election of directors was not held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
Steven Mariano Miami, Florida	CEO
Fred Marziano Fort Lauderdale, Florida	External Director, SHI
John Del Pizzo Newton Square, Pennsylvania	External Director, SHI
Lucia Tompkins Charlotte, North Carolina	President, the Company
Lisa Barrett Charlotte, North Carolina	Executive VP, Secretary, the Company

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

Senior Officers

Name	Title
Lucia Tompkins (a)	President
Lisa Barrett (b)	Executive VP & Secretary
Scott Howard (c)	Assistant Treasurer
Maria Allen	VP, Claims
Kimberly Davis	VP, Compliance & Assistant Secretary
Deborah Golden	VP, Policy Administration

(a) Resigned on September 30, 2005 and was replaced by Paul Halter as President on October 1, 2005.

(b) Resigned on September 30, 2005 and was replaced by Marvin Cashion as Secretary on October 1, 2005.

(c) Resigned on October 7, 2005 and was replaced by James Chick as CFO on October 10, 2005.

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, 2004:

Executive Committee	**Audit Committee**	**Investment Committee**
Steven Mariano[1]	Steven Mariano[1]	Steven Mariano[1]
Lucia Tompkins	Fred Marziano	Fred Marziano
Lisa Barrett	John Del Pizzo	John Del Pizzo
Fred Marziano	Lucia Tompkins	Lucia Tompkins
	Lisa Barrett	

[1] Chairman

The Company maintained an audit committee as required by Section 624.424(8), FS.

Conflict of Interest Procedure

The Company 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 stockholder, Board of Directors, and certain internal committee were reviewed for the period under examination unless otherwise noted. 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.

Company Actuary

The NAIC annual statement instructions state that the actuarial report must include documentation of the required reconciliation from the data used for analysis to the annual statement Schedule P. The actuarial report did not contain such documentation. The Company could not provide the required documentation.

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

There were no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the period covered by this examination.

Surplus Debentures

The Company issued seven surplus notes to policyholders that totaled $1,253,000. These notes were issued in conjunction with the marketing of its workers' compensation product to Professional Employer Organization (PEO) and staffing company customers. The Company also added $1,250,000 in Cash on May 31, 2005, to its surplus balance.

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 January 24, 2005, 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:

Managed Care Service Agreement

The Company and its affiliate, The Tarheel Management Company (TIMCO) had a contract in which TIMCO had the authority to perform certain managed care services on claims arising from the Company's workers compensation policies. The Company paid TIMCO an amount of $75,800 for the provision of bundled services for the period of May through December 2004.

Expense Reimbursement Agreement

The Company and its affiliate, TIMCO entered into a contract in which the Company was the main administrative office for salaries of shared staff employees and other expenses incurred in the respective offices of the Company and TIMCO. TIMCO has paid the Company a total of $1,174,328 in year 2004.

Management Service Agreement

The Company and its affiliate, SHI entered into a contract to provide benefit administration services, human resource services, consultation services, and overall management of the Company investment portfolio and property management services. An estimated fee of $125,000 per quarter was established for the agreed upon services to be rendered. The Company paid SHI a total of $85,600 in 2004.

Producer Agreement

The Company and its affiliate, TIMCO entered into a contract which granted TIMCO authority to solicit applications for policies of workers compensation and employer's liability insurance. The contract stipulated a 2% rate of commission paid on collected premiums for all insurance policies as compensation.

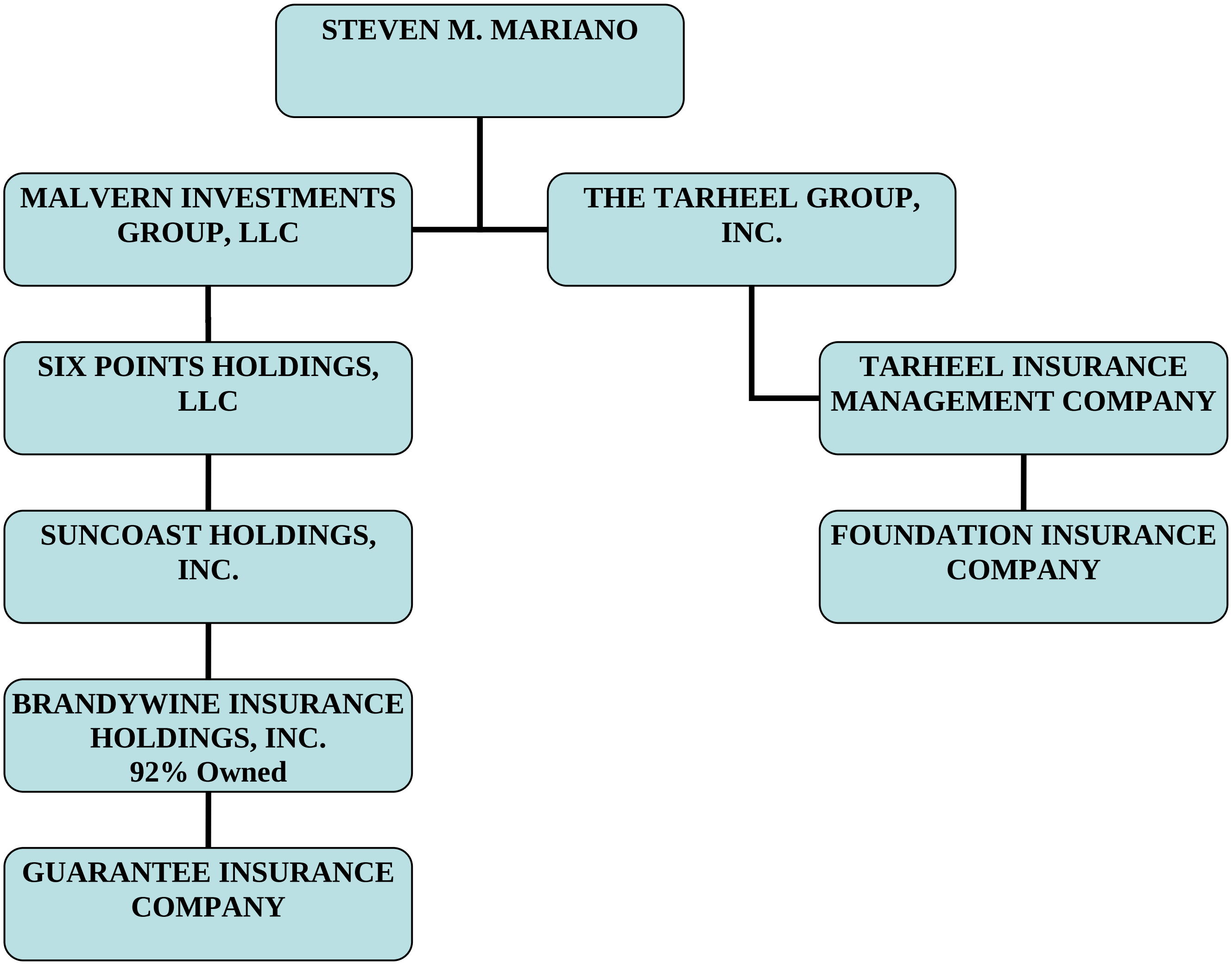
Consultation Agreement

The Company entered into an agreement with Fred Marziano in which Mr. Marziano provided general advisory assistance, development and improvement recommendations to aid in the successful execution of the SHI and Company corporate strategies. A fee of $12,000 per month was agreed upon between the parties. Fred Marziano also consults for the Company's parent, SHI.

An organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

GUARANTEE INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,000,000 with a deductible of $25,000, 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 employees participated in a 401K plan administered by SHI. On April 2, 2004, SHI, an upstream parent, executed an adoption agreement whereby it established a 401(k) plan for its employees. In the agreement, the Company was named as a related employer within a controlled group of corporations.

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, 6.25%, 03/01/05	$ 500,000	$ 503,050
FL	USTNTS, 6.80%, 11/01/05	500,000	515,150
FL	USTNTS, 2.25%, 04/30/06	310,000	307,433
FL	USTNTS, 2.75%, 07/24/06	190,000	189,384
FL	USTNTS, 3.50%, 09/17/07	500,000	502,220
TOTAL FLORIDA DEPOSITS		$2,000,000	$2,017,237
CA	USTNTS, 2.50%, 05/31/06	$ 27,000	$ 26,848
DE	FHLMC, 2.88%, 09/15/05	110,000	110,334
GA	USTNTS, 1.63%, 01/31/05	100,000	99,984
KY	FHLMC, 2.88%, 09/15/05	300,000	301,327
LA	USTNTS, 2.25%, 04/30/06	20,000	19,834
ME	USTNTS, 7.50%, 02/15/05	150,000	150,996

MA	FHLMC,	2.38%, 02/15/06	500,000	496,250
NM	USTNTS,	2.25%, 04/30/06	105,000	104,131
NC	USTNTS,	1.63%, 01/31/05	205,000	204,967
NC	USTNTS,	2.38%, 08/15/06	100,000	99,051
TN	USTNTS,	1.50%, 07/31/05	120,000	119,264
TX	FHLMC,	2.50%, 06/15/06	102,000	101,108
VA	USTNTS,	7.50%, 02/15/05	310,000	312,058
TOTAL OTHER DEPOSITS			$2,149,000	$2,145,852
TOTAL SPECIAL DEPOSITS			$4,149,000	$4,163,089

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact property and casualty insurance in all states, except for:

Alaska	Connecticut	Iowa	Pennsylvania	Utah
Arizona	Illinois	Kansas	Rhode Island	Wyoming

The Company's licenses were restricted or suspended in Michigan, Minnesota, Nevada, New Hampshire, North Carolina, Ohio, Tennessee and Texas due to past financial deficiencies.

The Company began writing workers compensation direct premiums during 2004. Prior to this line of business, and since 1987, the Company was dormant and all of its business was in run-off.

Treatment of Policyholders

The Company 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 Office executed a contract with Castlewood (US), Inc., (Castlewood) to review and examine all facets of the Company's reinsurance program. The reinsurance agreements were reviewed by Castlewood for compliance with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Reinsurance – Risk Transfer Evaluation

The Company did not comply with SSAP No. 62 in performing proper evaluations of each of the reinsurance contracts to determine if they all met risk transfer requirements. Contract SP110 with Caledonian Reinsurance SPC (Cal Re) did not meet risk transfer requirements. The impact of this transaction, in accordance with deposit accounting, had a negative material impact on the surplus of the Company in the amount of $1,325,015.

This examination report does not include comments pertaining to 2005 contracts as regards risk transfer requirements.

The additional findings of the specialist review of the reinsurance contracts are presented below:

Reinsurance – Alternative Market Contracts

The Company was not in compliance with the reinsurance contracts for Cal Re for certain of protected cells and Uberrimae Fidei Insurance Company Ltd. (UFIC). Cal Re SPC 110 was deficient of the required balance of additional cash collateral by $849,000. All of the Cal Re Reinsurance segregated protected cells (SPC) were $38,000 deficient compared to the additional required cash collateral. No reserve deficiency was calculated.

Reinsurance – Assumed

The Company had run-off business from operations prior to the September 11, 2003 re-domestication and acquisition that was covered by excess of loss reinsurance placed in 1987 and prior years. This business included assumed and retroceded reinsurance. Many of the reinsurers either were insolvent, troubled companies or had commuted contracts. A third party affiliate, Cambridge Integrated Services Group, handled the run-off business for a reinsurance pool, GRE Reinsurance of America Corporation Pool, and two others handled the run-off for the Excess and Casualty Reinsurance Association Pool and other direct written fronted business.

Reinsurance – Ceded

The Company had two separate ceded reinsurance segments. The Company ceded its standard business over $500,000 risk on an excess of loss basis. The Company ceded its alternative market business primarily to one company, Cal Re. Another reinsurer in the alternative market was UFIC who was not active at December 31, 2004. There were three active segregated cells of Cal Re assuming workers compensation business on a 90/10 quota share basis, up to various stated aggregated levels of earned premiums. Both the standard and alternative market segments shared common layered reinsurance programs of excess of $1,000,000 on any loss up to $2,000,000 of coverage, but with different reinsurers.

In the alternative market, the insureds utilized a rent-a-captive segregated cell to which the Company ceded 90% of the written premium less the ceding commission for 90% of the first $1,000,000 loss in any one occurrence. The Company's maximum retention per occurrence was $100,000. The quota share agreement term varied but covered the Company from a low of 83% loss ratio up to a high of 105% loss ratio. This quota share business used unauthorized reinsurers and two excess of loss reinsurers. All of the unauthorized reinsurers used funds withheld and letters of credit to allow for reinsurance credit. There were deficiencies found in the wording during the review of the letters of credit held for unauthorized reinsurance pertaining to prior reinsurance business. The letters of credit did not contain the phrase “clean” and did not fully comply with Section 624.610 (5)(a), FS.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company’s statutory basis financial statements annually for the year 2004, 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 office in Fort Mill, South Carolina, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the investment and custodial services of Wilmington Trust Company. The safekeeping agreement between the Company and Wilmington Trust Company provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, FAC. The Company also entered into an investment management understanding with CRL Management, LLC (CRL).

Independent Auditor Agreement

The Company engaged Dixon Hughes Certified Public Accountants and Advisors, for the purpose of auditing and reporting on the balance sheet and statutory financial statement of the Company.

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, 2004, 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."

GUARANTEE INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$12,190,436		$12,190,436
Stocks:			
Common	3,219,412		3,219,412
Cash:			
On hand	2,582,392		2,582,392
Investment income due & accrued	132,325		132,325
Agents' Balances:			
Uncollected premium	5,756,189	(6,129,321)	11,885,510
Deferred premium	13,487,880	6,129,321	7,358,559
Reinsurance:			
Reinsurance recoverable	331,700		331,700
Funds held by or deposited with reinsured companies	2,345,312		2,345,312
Other amount receivable under reinsurance contracts	450,000		450,000
Net deferred tax asset	764,000		764,000
Receivable from PSA	695,246		695,246
Deposit with Cal Re for Contract SP110	0	2,839,290	2,839,290
Aggregate write-in for			
other than invested assets	47,183		47,183
Totals	$42,002,075	$2,839,290	$44,841,365

GUARANTEE INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$8,077,866	$2,719,297	$10,797,163
Reinsurance payable on paid losses and loss adjustment expense	310,455		310,455
Loss adjustment expenses	1,013,646	169,860	1,183,506
Other expenses	548,308		548,308
Taxes, licenses and fees	1,964,970		1,964,970
Unearned premium	5,260,596	6,113,846	11,374,442
Ceded reinsurance premiums payable	9,252,856	(6,290,910)	2,961,946
Funds held under reinsurance treaties	5,543,198		5,543,198
Amount withheld or retained for others	85,915		85,915
Provision for reinsurance	226,000		226,000
Aggregate write-ins for liabilities	1,312,497	1,452,212	2,764,709
Aggregate write-ins for Reinsurance Contract # SP110	0		0
Total Liabilities	$33,596,307	$4,164,305	$37,760,612
Common capital stock	$3,600,120		$3,600,120
Surplus notes	1,253,000		1,253,000
Gross paid in and contributed surplus	95,493,223		95,493,223
Unassigned funds (surplus)	(91,940,575)	($1,325,015)	(93,265,590)
Surplus as regards policyholders	$8,405,768	($1,325,015)	$7,080,753
Total liabilities, capital and surplus	$42,002,075	$2,839,290	$44,841,365

GUARANTEE INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2004

Underwriting Income	
Premiums earned	$2,948,745
DEDUCTIONS:	
Losses incurred	1,754,930
Loss expenses incurred	476,139
Other underwriting expenses incurred	3,444,493
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$5,675,562
Net underwriting gain or (loss)	($2,726,817)
Investment Income	
Net investment income earned	$275,771
Net realized capital gains or (losses)	277,102
Net investment gain or (loss)	$552,873
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	44,847
Total other income	$44,847
Net income before dividends to policyholders and before federal & foreign income taxes	($2,129,097)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($2,129,097)
Federal & foreign income taxes	0
Net Income	($2,129,097)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$7,315,838
Gains and (Losses) in Surplus	
Net Income	($2,129,097)
Net unrealized capital gains or losses	(255,831)
Change in Net deferred income tax	1,356,257
Change in nonadmitted assets	(1,311,399)
Change in provision for reinsurance	(23,000)
Change in excess surplus notes	1,253,000
Surplus adjustments: Paid in	2,200,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(1,325,015)
Change in surplus as regards policyholders for the year	($235,085)
Surplus as regards policyholders, December 31 current year	$7,080,753

COMMENTS ON FINANCIAL STATEMENTS

Assets

Uncollected Premium and Agents' Balances

The amount of $4,260,000 of Unbilled Premium Installments and all Premium Billed Amounts Deferred But Not Yet Due was incorrectly reported on page 2, line 12.1, Uncollected Premiums and Agents' Balances in the Course of Collection. The proper classification for this amount was page 2, line 12.2, Deferred Premiums, Agent's Balances and Installments Booked But Not yet Due. This was a misclassification, and no impact or adjustment was made to Surplus.

Aggregate Write Ins for Liabilities

The Company incorrectly reported ceded reinsurance costs as acquistion costs. The decreased acquisition costs increased this liability amount by $1,452,212. The offset was a decrease to the Ceded Reinsurance Premiums Payable liability account. No impact or adjustment was made to surplus.

Liabilities

Losses and Loss Adjustment Expenses $11,980,669

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, 2004, made 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 the work papers provided by the Company and a deficiency in Ceded IBNR totaling $560,000 was noted. The Loss and LAE amount increased from $9,091,512 to $11,980,669. Additionally, a reinsurance contract existed that did not transfer risk which resulted in a requirement of deposit accounting. This resulted in a net effect reducing Surplus by $1,325,015. See the below caption "Reinsurance" for adjustments made to this line item.

The Company reduced its liability for unpaid indemnity losses by $29,000 for workers compensation claims using a methodology that was reported to estimate the tabular discount on the long-term annuity portion of these claims. Exhibit 2, page 4 and page 5 of the 2004 Actuarial Report were reviewed to ensure the tabular discount was performed correctly. The method used by the actuary did not include the use of actuarial tables that incorporate interest and contingencies such as mortality, remarriage, or inflation as required by SSAP No. 65. The method of estimating the tabular reserves was prohibited and the Company's discount was disallowed. The amount was deemed immaterial and no adjustment was made to Surplus.

Reinsurance

Additional adjustments resulting from the lack of transfer of risk in Cal Re Reinsurance Contract SP110 was as follows pursuant to the change to deposit accounting by SSAP 62:

Increased Losses		
Ceded Paid Losses	$ 146,879	
Ceded Outstanding Case Reserves	653,128	
Ceded Incurred but not reported (IBNR)	1,359,290	
* Deficiency in Ceded IBNR	560,000	$ 2,719,297
Increased Loss and adjustment expense (LAE)		
Ceded Paid LAE	$ 33,383	
Ceded Outstanding LAE Reserves	136,477	$ 169,860
Increased Unearned Premiums		$ 6,113,846
Decreased Ceded Reinsurance Premiums for		
Reinsurance Premiums Payable	$(6,976,253)	
Reinsurance Commissions Receivable	2,137,555	$(4,838,698)
Total		$ 4,164,305
Established Deposit with Cal Re		
Ceded Written Premiums	$ 9,815,543	
Reinsurance Premiums Payable	(6,976,253)	$ 2,839,290
Total		$ 2,839,290
Net effect of adjustment on Surplus on Reinsurance Contract SP110		**$ 1,325,015**

* Office Actuary calculation of the amount of the deficiency in the Company’s loss reserves

GUARANTEE INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2004

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, 2004, Annual Statement				$8,405,768
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
Uncollected Premiums and Agents' Balances in the Course of Collection	$5,765,189	$3,886,868	($1,869,321)	
Deferred Premiums, Agents' Balances and Installments Booked But Deferred	13,487,880	15,357,201	1,869,321	
Amount deposited with Cal Re for Contract SP110	0	2,839,290	2,839,290	
LIABILITIES:				
Losses and LAE	$9,091,512	$11,980,669	($2,889,157)	
Unearned premium	5,260,596	11,374,442	(6,113,846)	
Ceded reinsurance premium payable	9,252,856	2,961,946	6,290,910	
Aggregate Write in for Liabilities	1,312,497	2,764,709	($1,452,212)	
Net Change in Surplus:				(1,325,015)
Surplus as Regards Policyholders December 31, 2004, Per Examination				$7,080,753

SUMMARY OF FINDINGS

Compliance with directives

The Company disclosed that it has taken the necessary actions to comply with the comments made in the 2004 examination report issued by the SCDOI.

Current examination comments and corrective action

The following is a brief summary of issues noted by both the Office and the SCDOI, of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

Management

The Company's annual stockholder meeting was not held as required by Sections 607.1601 and 628.321, FS. **We recommend that the Company comply with Sections 607.1601 and 628.321, FS.**

Consent Order – Surplus

The Consent Order executed on June 29, 2004, between the Company and the Office required the Company to maintain a $9,000,000 Surplus as Regards to Policy Holders balance. As of the examination date, year end 2004, the Company was not in compliance with the Consent Order. The Company had a Surplus balance of $7,080,753, which was a deficient by $1,919,247. **We recommend that the Company comply with the Office's Consent Order and increase the Surplus as Regards to Policy Holders balance to the agreed upon amount of $9,000,000.**

Consent Order – Writing Ratios

The Company's writing ratios exceeded the specified limits stated in the Consent Order. **We recommend that the Company comply with the specified written premium limitations as agreed upon in the Consent Order.**

Reinsurance - General

Three contracts did not have the entire agreement clause. One contract was with UFIC and two contracts were with Cal Re for SP 110 and SP 111. **We recommend that the Company amend these three agreements to add the entire contract clause as required in SSAP No. 62, paragraph 8(c).**

Deficiencies in wording were noted during the review of letters of credit held for unauthorized reinsurance pertaining to the prior reinsurance business. **We recommend that the Company amend the letters of credit and wording deficiencies to comply with Section 624.610 (5)(a), FS.**

Reinsurance – Risk Transfer Evaluation

The Company did not comply with SSAP No. 62 in performing proper evaluations of each of the reinsurance contracts to determine if they all met risk transfer requirements. Contract SP110 with Cal Re did not meet risk transfer requirements. **We recommend that the Company perform tests and/or evaluations of all reinsurance contracts to ensure the risk transfer requirements comply with SSAP No. 62.**

Reinsurance – Alternative Market Contracts

Cal Re SPC 110 was deficient by $849,000 in the required balance of additional cash collateral. All of the Cal Re segregated protected cells were deficient by $38,000 compared to the additional required cash collateral. **We recommend that the Company maintain the required additional cash collateral at all times.**

Company Actuary

The NAIC annual statement instructions state that the actuarial report must include documentation of the required reconciliation from the data used for analysis to the annual statement Schedule P. The actuarial report did not contain the documentation. The Company could not provide the required documentation. **We recommend that the Company actuary produce an addendum to the report showing the reconciliation as required by the NAIC annual statement instructions.**

Accounts and Records

Premiums – Uncollected Premiums and Agents' Balances in the Course of Collection

The Company improperly reported $4,260,000 of Unbilled Premiums Installments and Premium Billed Amounts But Not Yet Due on page 2, line 12.1, as Uncollected Premiums and Agents' Balances in the Course of Collection. This amount should have been reported on page 2, line 12.2 as required by NAIC annual statement instructions. **We recommend that the Company comply with the NAIC annual statement instructions.**

Premiums

A reclassification of $1,869,321 from Premiums and Agents' Balances in Course of Collection (page 2, line 12.1) to Premiums, Agents' Balances and Installments Booked But Deferred (page 2, line 12.2) was required to accurately reflect the unapplied cash that the Company incorrectly omitted at December 31, 2004. **We recommend that the Company ensure this asset is presented in its financial statements as required in SSAP No. 6. We further recommend that the Company apply cash received to accounts in course of collection expeditiously to assist in the accurate aging of receivables.**

Aggregate Write Ins for Liabilities

The Company incorrectly treated ceded reinsurance costs in its calculation of acquisition costs. The elimination of the ceded reinsurance component in the formula for this liability increased the liability by $1,452,212. The offset was a decrease of a like amount to the Ceded Reinsurance Premiums Payable Liability, so no adjustment was necessary. **We recommend that the Company correctly report these assets and liabilities as required in SSAP No. 62, paragraphs 41-44.**

Losses and LAE

The Company reduced its liability for unpaid indemnity losses by $29,000 for workers' compensation claims using a methodology that was reported to estimate the tabular discount on the long-term annuity portion of these claims. The amount was deemed immaterial so no adjustment was made to Surplus. **We recommend that the Company comply with SSAP No. 65.**

The Ceded IBNR of the Company were deficient by $560,000 and did not comply with Section 625.101, FS. **We recommend that the Company correct the Ceded IBNR deficiency.**

SUBSEQUENT EVENTS

In the Florida consent order executed by the Company on June 29, 2004, the Company agreed to maintain a $9,000,000 Surplus balance. As of the examination date, year end 2004, the Company was not in compliance with the Consent Order. The Company reported a balance of $8,405,768, which was a deficiency of $594,232. Subsequently, as of the beginning of the second quarter 2005, the Company complied with the Consent Order by contributing $1,250,000 to its surplus balance. By the end of the second quarter 2005, the Company was again deficient in its surplus obligation.

Many changes have been made to the management of the Company subsequent to the examination date. As of October 1, 2005, Lucia Tompkins, President, Lisa Barrett, Executive VP, Secretary and Scott Grant, VP, Controller terminated their employment with the Company. Steven Mariano was elected as CEO, Steven Beeghly was elected as Director, Paul Halter was elected as President, Marvin Cashion was elected as Chief General Counsel, Executive VP and Secretary and James Chick was elected as CFO.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Guarantee Insurance Company, Inc.** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $7,080,753, which was in compliance with Section 624.408, FS. However, this amount of Surplus was not in compliance with the State of Florida Consent Order dated June 29, 2004 which requires a Surplus balance of $9,000,000.

In addition to the undersigned, Mary James CFE, Financial Examiner/Analyst Supervisor, Joe Boor, FCAS, Office Actuary and Karl Wall, CEO, Debbie Haran, CFE, CPA, FLMI, Richard Ryan, CPA, and Edward Holland of Castlewood (US), Inc., participated in the examination.

Respectfully submitted,

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

____
Mary M. James, CFE
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