REPORT ON EXAMINATION

OF

SEMINOLE CASUALTY INSURANCE COMPANY

TAMARAC, FLORIDA

AS OF

DECEMBER 31, 2005

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 15, 2006

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, 2005, of the financial condition and corporate affairs of:

SEMINOLE CASUALTY INSURANCE COMPANY
6691 N. NOB HILL ROAD
TAMARAC, FLORIDA 33321-6405

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced with planning at the Office on April 18, 2006, and continued from April 24, 2006 to May 5, 2006. The fieldwork commenced on May 9, 2006, and was concluded as of August 15, 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 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 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, 2005 as those balances affect the financial solvency of the Company.

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

This report of examination 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:

Current federal & foreign income tax recoverable
Net deferred tax asset
Commissions payable, contingent commissions and other similar charges

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, 2002, along with resulting action taken by the Company:

Custodial Agreement

The Company utilized the services of Merrill Lynch as a custodian in violation of Rule 690-143.041, Florida Administrative Code.

<u>Resolution:</u> Effective April 8, 2004, the Company moved its securities to Citigroup Institutional Trust Company (formerly, Smith Barney Corporate Trust Company) in accordance with Rule 69O-143.041, Florida Administrative Code.

Information Technology

The Company did not have a business continuity plan and risk profile assessment.

<u>Resolution</u>: The Company prepared a business continuity plan and risk profile assessment.

Fidelity Bond

The Company did not maintain the suggested minimum fidelity bonds coverage of $450,000 as recommended by the NAIC.

<u>Resolution</u>: The Company still does not maintain fidelity bond coverage.

HISTORY

General

The Company was incorporated in Florida on June 9, 1988 and commenced business on December 21, 1988 as Seminole Casualty Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Fire	Allied Lines
Homeowners	Other Liability
PPA Physical Damage	Private Passenger Auto Liability
Commercial Auto Liability	Commercial Auto Physical Damage

Articles of incorporation were not amended during the examination. Article IV, Section 1 of the bylaws was amended to restrict the President and Secretary from holding two or more offices. Article IX of the bylaws referring to "Removal of Officers" was deleted.

Capital Stock

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

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	$2,000,000
Par value per share	$1.00

Control of the Company was maintained by its majority shareholder, Mr. Carl Seaman, who owned 80 percent of the stock issued by the Company. The remaining 20 percent was owned by Mr. Joseph Scaturro.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statement.

	2005	2004	2003
Premiums Earned	25,024,644	19,731,147	12,578,165
Net Underwriting Gain/(Loss)	3,945,545	1,861,255	202,106
Net Income	3,340,473	2,791,029	1,279,407
Total Assets	37,734,277	28,042,256	21,356,147
Total Liabilities	25,589,445	19,488,170	14,224,878
Surplus As Regards Policyholders	12,144,833	8,554,086	7,131,270

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company did not declare or pay dividends to its stockholder during the period covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

Directors

Name and Location	**Principal Occupation**
Carl Seaman New York, NY	Chairman, majority shareholder
Myron F. Finklestein Boca Raton, FL	President Premium Finance Company
Dana Manning Anchorage, AK	Private Investor Various Industries
Steven Mevorah East Brunswick, NJ	Assistant Treasurer

Joseph Scaturro Tamarac, FL	President

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

Senior Officers

Name	Title
Joseph Scaturro	President
Jack Allen Frank [a]	CFO & Treasurer
Barbara Jean Perry	Secretary
Steven Mevorah	Assistant Treasurer

[a] Replaced by Randy Sutton on April 7, 2006.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

Audit Committee	Investment Committee
Carl Seaman[1]	Carl Seaman[1]
Myron Finklestein	Joseph Scaturro
Steven Mevorah	Steven Mevorah

[1] Chairman

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees 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, Florida Statues, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

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

Surplus Debentures

During 2001, the Company executed subordinated surplus debentures with its majority stockholder, Mr. Carl Seaman in exchange for cash of $700,000 and $250,000 to increase the Company's surplus. Again, during 2002, the Company executed subordinated surplus debentures with Mr. Seaman in exchange for cash of $1,820,000 and $1,000,000 for the purpose of increasing Company surplus. Interest is to be accrued on each note at a rate of 6% annually. These surplus notes were approved by the Office. No payment of interest or principle was made on the surplus notes during the period covered by the examination.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on August 15, 2005 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

The Company, along with its wholly owned subsidiary Seminole Insurance Services, Inc. (SIS), filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company and its subsidiary was to allocate the amount of tax liability/asset proportionate to the taxable income/loss generating the associated tax liability/asset. The Company was responsible for remitting balances to the Internal Revenue Service and receiving any refunds accordingly. The Company settled balances due to or from SIS within 30 days.

General Expense Allocation Agreement

The Company and its wholly owned subsidiary, SIS, allocated expenses incurred by the Company on behalf of SIS in accordance with methods consistent with those recommended by the NAIC. Expense allocations were determined based on actual results as of December 31 of each year.

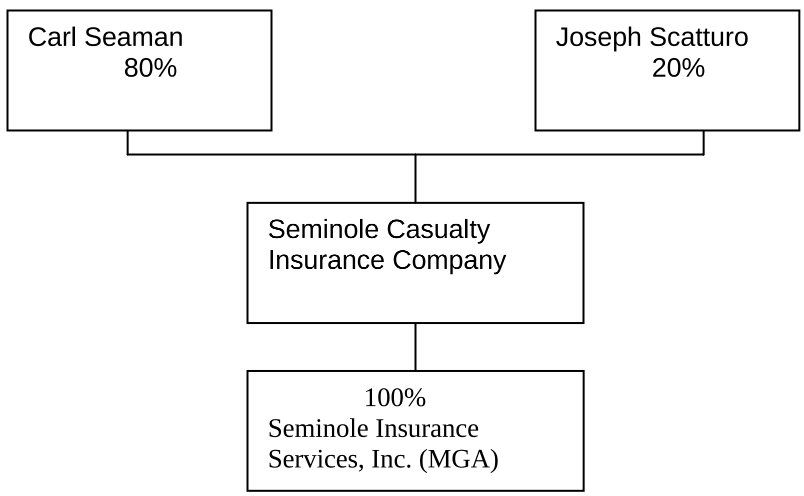
Managing General Agency Agreement

The Company entered into a managing general agency (MGA) agreement effective January 1, 1993, with SIS. SIS solicited, received and accepted application for all types of insurance for which the Company was authorized to write through independent agents. SIS negotiated reinsurance treaties on behalf of the Company but did not bind the Company under any reinsurance contract. SIS charged a twenty-five dollar per policy fee which was fully earned upon issuance of the policy. In addition, SIS was entitled to a 1% override commission on Direct premium written by the Company.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

SEMINOLE CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC. The Company maintained workers compensation, boiler & machinery, general liability, business auto and property insurance coverage usual to the operation of an insurer.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided an employee 401K plan and a profit sharing plan to all employees. The Company also provided group health, life, and disability coverage. The Company made contributions to the 401K plan of $50,198. No contribution was made to either plan in 2004 and no profit sharing plan contribution was made in 2005.

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	$ 950,000	$ 950,000
TOTAL FLORIDA DEPOSITS		$ 950,000	$ 950,000

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

At December 31, 2005, the Company was authorized to transact property and casualty insurance in the states of Florida and Maryland. The Company was also licensed in Tennessee in 1999 although the Company did not write any business there.

Treatment of Policyholders

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

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk during the periods 2003 through 2005.

Ceded

The Company ceded risk on a quota share and excess catastrophic basis to Hanover Reinsurance (Ireland) LTD and E&S Reinsurance (Ireland) LTD, both unauthorized reinsurers, through a reinsurance intermediary. Letters of credit were properly established for these reinsurers. The Company also ceded an insignificant amount to Lloyds syndicates.

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 years 2003, 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office with the exception noted below.

The Company moved to its present location during 2005. The Company did not amend Article 5 of the Articles of the Incorporation to reflect the address change pursuant to Section 628.101, Florida Statutes. Also, the Company did not notify the Office of the address change pursuant to Section 626.541(2)(3), Florida Statutes.

The Company maintained its principal operational offices in Tamarac, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with Citigroup Institutional Trust Company (formerly Smith Barney Corporate Trust Company) effective April 8, 2004. The agreement did not meet all of the requirements of Rule 690-143.042, Florida Administrative Code.

Subsequent event: During the examination the Company provided an amendment to the custodian agreement which meets all of the requirements of Rule 690-143.042, Florida Administrative Code.

Claims Administrator Agreement

The Company entered into a claims administrator agreement with National Adjustment Bureau, Inc. (Claims Administrator) effective September 15, 2004 to provide claim handling services for the business written in Maryland. The Company paid the Claims Administrator a 27% up front commission (fees) for claim services provided under the terms of this agreement. In addition, the Claims Administrator was entitled to a contingent commission if the combined loss ratios fell below 61%.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SEMINOLE CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	$20,284,622		$20,284,622
Stocks:			
Preferred stocks	200,000		200,000
Common	4,017,181		4,017,181
Real Estate:			
Properties			
occupied by Company	2,915,303		2,915,303
Cash:			
On deposit	872,743		872,743
Short-term investments	4,669,623		4,669,623
Receivable for securities	519,904		519,904
Investment income due & accrued	221,418		221,418
Agents' Balances:			
Uncollected premium	55,584		55,584
Reinsurance Recoverable	2,175,146		2,175,146
Other amounts receivalbe under			
reinsurance contracts	192,526		192,526
Current federal & foreign income			
tax recoverable	230,500		230,500
Net deferred tax asset	1,069,409		1,069,409
EDP	228,098		228,098
Aggregate write-in for			
other than invested assets	82,221		82,221
Totals	$37,734,278	$0	$37,734,278

SEMINOLE CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	$4,800,643		$4,800,643
Loss adjustment expenses	1,333,682		1,333,682
Commissions payable	138,175		138,175
Other expenses	246,384		246,384
Taxes, licenses & fees	176,058		176,058
Unearned premium	14,993,814		14,993,814
Ceded reinsurance premiums payable	3,712,235		3,712,235
Funds held under reinsurance treaties	12,210		12,210
Remittances & items not allocated	169,244		169,244
Provision for reinsurance	7,000		7,000
Total Liabilities	$25,589,445		$25,589,445
Common capital stock	$2,000,000		$2,000,000
Surplus notes	3,770,000		3,770,000
Gross paid in and contributed surplus	6,720,000		6,720,000
Unassigned funds (surplus)	(345,167)		(345,167)
Surplus as regards policyholders	$12,144,833		$12,144,833
Total liabilities, capital and surplus	$37,734,278	$0	$37,734,278

SEMINOLE CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	$25,024,644
DEDUCTIONS:	
Losses incurred	11,406,231
Loss expenses incurred	2,742,900
Other underwriting expenses incurred	6,929,968
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$21,079,099
Net underwriting gain or (loss)	$3,945,545
Investment Income	
Net investment income earned	$615,337
Net realized capital gains or (losses)	(5,308)
Net investment gain or (loss)	$610,029
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($23,268)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	75,167
Total other income	$51,899
Net income before dividends to policyholders and before federal & foreign income taxes	$4,607,473
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$4,607,473
Federal & foreign income taxes	1,267,000
Net Income	$3,340,473
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$8,554,086
Gains and (Losses) in Surplus	
Net Income	$3,340,473
Change in deferred income tax	$305,331
Change in net unrealized capital gains or losses	0
Change in non-admitted assets	(267,290)
Change in provision for reinsurance	211,000
Examination Adjustment	1,233
Change in surplus as regards policyholders for the year	$3,590,747
Surplus as regards policyholders, December 31 current year	$12,144,833

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $6,134,325

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion. However, the Office actuary noted the following exceptions:

The loss reserves from the Maryland program were not included in the original filed December 31, 2005, Annual Statement in violation of Section 624.424(1), Florida Statutes. Further, paid losses as provided in Schedule P did not reconcile to the December 31, 2005, actuarial report and were likely underreported as well at December 31, 2005. The Company's CFO indicated that the Maryland reserves were correctly included in the March 31, 2006, Quarterly Statement and those discrepancies with paid losses will be fixed in subsequent filings.

The data provided by the Company in support of the December 31, 2005 Schedule P could not be reconciled to Schedule P within acceptable tolerances.

SEMINOLE CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2005

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2005, Annual Statement				$12,144,833
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:	No adjustments needed.			
LIABILITIES:	No adjustments needed.			
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2005, Per Examination				$12,144,833

SUMMARY OF FINDINGS

Compliance with previous directives

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

Fidelity Bond

The Company continues to not maintain the suggested minimum fidelity bond coverage of $450,000 as recommended by the NAIC.

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, 2005.

General

The Company did not amend Article 5 of the Articles of the Incorporation to reflect the address change pursuant to Section 628.101, Florida Statutes. Also, the Company did not notify the Office of the address change pursuant to Section 626.541(2)(3), Florida Statutes. **We recommend that the Company amend Article 5 of the Articles of the Incorporation and notify the Office of the address change as required by the above Florida Statutes.**

Fidelity Bond

As stated above in the previous examination finding, the Company continues to not maintain the minimum fidelity bond coverage recommended by the NAIC. **We again recommend that the**

Company maintain the minimum fidelity bond coverage of $450,000 as recommended by the NAIC in manuals adopted in Rule 69O-137.001, Florida Administrative Code.

Loss and Loss Adjustment Expense Reserves

As noted in the Office actuary's report, the Company did not include Loss and Loss Adjustment Expense reserves associated with the Maryland business in the annual statement filed December 31, 2005, in violation of Section 624.424(1), Florida Statutes. **We recommend that the Company report Loss and Loss Adjustment Expense reserves associated with all business in the annual statement as required by Section 624.424(1), Florida Statutes.**

The data provided by the Company in support of the Schedule P in the December 31, 2005 annual statement could not be reconciled within acceptable tolerances. **We recommend that the Company provide supporting documentation that reconciles to Schedule P on all future filings as required by the NAIC Annual Statement instructions.**

SUBSEQUENT EVENTS

The following changes have been made to the management of the Company subsequent to the examination date.

Randy Sutton replaced Jack Allen Frank as CFO and Treasurer effective April 7, 2006.

Effective January 3, 2006, the Company entered into an agreement with Metlin Marketing Company, LLC to market the Private passenger automobile program in the State of Florida.

CONCLUSION

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

Per examination findings, the Company's Surplus as regards policyholders was $12,144,833, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Bettina Hancock, Financial Examiner/Analyst I and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

____
Samita Lamsal
Financial Examiner/Analyst II
Florida Office of Insurance Regulation