REPORT ON EXAMINATION

OF

GUARANTEE INSURANCE COMPANY

FORT LAUDERDALE, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 10, 2007

Kevin M. McCarty
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance Regulation
Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0326

Honorable Alfred W. Gross
Chairman of Financial Condition "E" Committee
Commissioner of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23218

Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

GUARANTEE INSURANCE COMPANY
401 E. LAS OLAS BLVD, SUITE 1540
FORT LAUDERDALE, FLORIDA 33301

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, 2006 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004 and representatives of the South Carolina Department of Insurance (South Carolina) as of December 31, 2005. This examination commenced, with planning at the Office, on March 19, 2007, to March 23, 2007. The fieldwork commenced on March 26, 2007, and was concluded as of August 10, 2007.

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, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The Company was last examined by South Carolina as of December 31, 2005, who then performed a limited scope examination as of September 30, 2006 to follow up on the findings reported in the December 31, 2005 examination. The following is a summary of adverse findings contained in the prior examination report as of September 30, 2006, along with the resulting action taken by the Company. Also included in the following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company in connection therewith.

Corporate Records

The Company's annual stockholder meeting for 2004 was not held as required by Sections 607.1601 and 628.321, Florida Statutes. **Resolution:** Written shareholder minutes for 2006 and 2007 were again not provided during this examination. Also, the Company's annual stockholder meeting for 2006 and 2007 were not held as required by Sections 607.1601 and 628.321, Florida Statutes.

Consent Order-Surplus

A consent order executed on June 29, 2004 between the Company and the Office required the Company to maintain $9,000,000 in surplus as regards policyholders. The Company's surplus as regards policyholders was deficient in the amount of $1,919,247 as a result of the examination as of December 31, 2004. Additionally, the Company's writing ratios exceeded the specified limits stated in the consent order. **Resolution:** The Company's writing ratios and surplus as regards policyholders were adequate for this examination period.

Company Actuary

The NAIC annual statement instructions require that the actuarial report include documentation of the required reconciliation from the data used for analysis to the annual statement Schedule P. The actuarial report for 2004 did not contain such documentation. The Company could not provide the required documentation. **Resolution:** The actuarial report for December 31, 2006, contained documentation that Schedule P loss data was reconciled with the actuary's data for all items directly utilized in forming the analysis.

Accounts and Records

The Company's accounting records for 2005 were in a state of disorganization. The Company was unable to timely respond to information and data requests from the examiners, and adversely impacted the examination. Many ledger accounts were unreconciled and unanalyzed. **South Carolina Resolution:** The Company has made improvements in their accounting, record keeping and response time to examiners request; however, the trial balance at September 30, 2006 did not reconcile. The Company had not achieved a fully integrated system for the majority of its premium recording process. Problems were noted during the examination with the Company's premium accounting system for premium receivables. The amounts due over 90 days were not calculated timely and the unearned premium balances were not fully integrated and required adjusting entries. **Resolution:** The Company integrated its policy administration system, (FiServ). However, there was no automated interface between FiServe and the general ledger. Manual entries were still required to enter the premium entries.

Related Parties

The examination identified numerous occurrences where the approved inter-company agreements were not being followed, including the non-payment of inter-company balances due to the Company. Additionally, an affiliated company was collecting premium and collateral for the Company.

The Company made payments to an affiliate company, Patriot Re International, Inc. (Patriot Re) before the intermediary contract began and before Patriot Re was licensed. The reinsurance intermediary's salary was paid by the Company rather than by Patriot Re International, Inc. **Resolution:** The Company continues to disregard the recommendations made by South Carolina by not settling inter-company accounts on a timely basis.

Parental Subordinated Debentures

In order to participate in the alternative market workers' compensation insurance program; Suncoast Holdings, Inc. (Suncoast) issued subordinated debentures to subscribers after requiring subscribers to sign a segregated portfolio subscription agreement (SPSA).

The subscribers grant permission to the captive manager to invest up to a substantial portion of the capital invested by the segregated portfolio into the capital and surplus of Suncoast. The document indicated that the captive cell manager had the discretion to determine the amount of the collateral designated for subordinated debentures. The Company was unable to furnish any evidence to support the procedure. The Company could not produce any documentation from the cell manager for the subordinated debenture amount purchased.

Nineteen debenture confirmations were requested. All but two of the ten subscriber confirmations returned indicated that the subscribers remitted the funds under the belief that the subordinated debenture funds would be available to cover the cell's collateral requirements. The two confirmations that supported the debenture understanding also indicated that the debenture could be redeemed and the redeemed funds plus interest earned would be used to fund the cell's losses. Neither confirmation mentioned the possibility of the partial or total loss potential of the debenture's principal. **South Carolina Resolution:** Suncoast is the issuer of the subordinated debentures and has ceased issuing as of August 16, 2005. Participants in the Company's alternative market program are required to sign a SPSA for the purpose of owning the protected cell (portfolio) within the core captive. It was the Company's position, borne out by the signed documents and the identification of investor qualifications called for in the subscription agreement that the Company has not violated any securities or insurance regulation in this matter. **Resolution:** The Company has not issued any additional debentures during this examination period.

Reinsurance

Three contracts did not have the entire agreement clause required by SSAP No. 62, paragraph 8(c). One contract was with Uberrimae Fidei Insurance Company, Ltd. and two contracts were with Caledonian Reinsurance for SP 110 and SP 111. **Resolution:** The entire contract language required by SSAP No. 62 has been added to the contract with Segregated Protected Cell (SPC) 110 by SSAP No. 62. The other two agreements expired on January 1, 2006.

Deficiencies in the wording pertaining to the prior reinsurance business, required by Section 624.610(5)(a), Florida Statutes, were noted in the letters of credit held for unauthorized reinsurance. **Resolution:** No deficiencies were noted in the language of the current letters of credit. No deficiencies were noted in the required balances for letters of credit and/or funds held by the Company under reinsurance agreements

Caledonian Reinsurance SPC 110 was deficient by $849,000 in the required balance of additional cash collateral. **Resolution:** The Company maintained collateral in an amount that equaled the outstanding loss and loss adjustment expense reserves from Caledonian Re in the form of funds withheld in accordance with the reinsurance agreement.

The Company did not have contracts with its reinsurance intermediaries nor were the intermediaries licensed in this state. **South Carolina Resolution:** The Company has terminated its relationship with the unlicensed reinsurance intermediaries.

The Company did not maintain underwriting files for its reinsurance contracts. **South Carolina Resolution:** The Company currently maintained underwriting files for each of its reinsurance contracts.

The Company paid commissions to an affiliate reinsurance intermediary for two quarters prior to the reinsurance intermediary being licensed. The payments were for October 1, 2005 and January 1, 2006. The Company was performing duties of the affiliate reinsurance intermediary, as management of the Company stated they prepared the payment schedule, computed the premium and commissions and also issued the checks for payment to the reinsurers and the affiliate intermediary. The contract with the reinsurance intermediary stated that the intermediary remitted funds to the reinsurers. **South Carolina Resolution**: The Company utilized its affiliate, Patriot Re, who was licensed in Florida. The affiliated agreement with Patriot Re was approved by the Office.

In some instances, the collateral for funds withheld was collected in installments. However, there was no provision in the reinsurance contract allowing for payment of collateral in installments. **South Carolina Resolution:** The Company was in the process of revising its reinsurance agreements for the alternative market.

Agents' Balances and Deferred Premiums Booked but Deferred

The Company was unable to initially furnish a reconciled ledger account or an aged detail report that would support the amount reported. Premium receivables including installments, totaled $6,785,832, that were over 90 days past due and were non admitted in accordance with SSAP No. 6, paragraph 9. **South Carolina Resolution:** The September 30, 2006 quarterly statement reported $27,350,001 total premiums receivable as due and deferred, with $8,509,611 due and $18,840,390 deferred. The South Carolina examination determined that the balance of premiums receivable should be $27,554,880, with $9,224,698 due and $18,330,182 deferred.

The Company used an affiliate, Tarheel Insurance Management Company for the duties of billing and collection of premiums. Due to a coding error, an appropriate aging and a determination of correct periods for collection could not be determined. **Resolution**: The Company assumed all the duties for billing and collection of premium and collateral effective as of September 30, 2006, and relied on its new FiServ policy administration system for the administration of all policy information.

Other Amounts Receivable under Reinsurance Contracts

The amount of $961,161 reported by the Company was reduced to zero. Of this amount, $562,444 was reclassified to a reduction in the reported liability ceded reinsurance premiums payable. The remaining $398,717 was not admitted, of which $45,000 represented amounts that were over 90 days past due, and $353,717 had no supporting documentation for the balances. **Resolution:** The Company's reinsurance transactions were primarily generated through Excel spreadsheets from the FiServ system. Numerous calculation and formula errors were noted, including the total amounts carried forward that were prepared by the Company.

Losses and Loss Adjustment Expenses (LAE)

The captioned amount for Losses and LAE has been increased by $1,017,015, based upon independent reserve calculation performed during the examination. While the Company's reserves were within a reasonable range, an adjustment was made to provide an additional provision for adverse deviation due to the workers' compensation reserve being at the low end of the reasonable range and the uncertainty associated with the estimation of the Company's asbestos and environmental claims liability. **South Carolina Resolution:** The Company had not complied with the recommendation in the prior report of examination to increase the loss and loss adjustment reserves by $1,017,015; instead the Company increased loss reserves for development by $500,000 in 2006.

The Company incorrectly categorized outside adjusters fees as defense and cost containment expenses contrary to SSAP No. 55, which provides that all adjuster fees be categorized as adjusting and other expense. **Resolution:** Outside adjuster fees were reported properly during this examination period.

SSAP No. 65, paragraph 41d provides the format for disclosing the Company's exposure to environmental and asbestos claims. The Company combined the information for 2001 through 2003 calendar years. **Resolution:** The Company combined the environmental and asbestos claims for 2002 and 2003 but reported them separately for 2004 and subsequent years in the December 31, 2006 annual statement.

Georgia Second Injury Trust Fund Liability

The Company had not established a liability for the Georgia Second Injury Trust Fund as required by SSAP No. 35. **South Carolina Resolution:** The Company's September 30, 2006 quarterly statement indicated that the liability still had not been established. **Resolution:** The Company subsequently provided its calculation for the Georgia Secondary Injury Fund.

The Company did not disclose in the annual statement the table or interest rate used in the tabular discounting disclosure as required by SSAP No. 65. **Resolution:** The December 31, 2006 annual statement contained the interest rate used in the tabular discounting for reserves.

Reinsurance Payable on Paid Losses & LAE

A reclassification was made from other expenses totaling $583,431 to this account. **Resolution:** The Company properly reported its reinsurance payables on paid losses and LAE for this examination period.

Ceded Reinsurance Premiums Payable

The amount reported by the Company of $8,064,481 was reduced by $562,444 which was reclassified from other amounts receivable under reinsurance contracts. The amount reclassified had been paid to a reinsurer in advance of the due date for the required reinsurance quarterly payment. Prior to reclassification, this amount was included as an asset in other amounts receivable and represented prepaid reinsurance installments after the effective date of the reinsurance contract. SSAP No. 62 requires these payments be deducted from reinsurance premium payable for annual statement reporting purposes. **Resolution:** Numerous calculation and formula errors were noted in the Company's spreadsheets for reinsurance accounting as of December 31, 2006.

Funds Held by Company under Reinsurance Treaties

The amount of funds withheld did not agree with the terms of the reinsurance contract. A test for collateral deficiencies in regards to the alternative risk market reinsurance contracts indicated that all of the segregated portfolio cells tested were deficient based on the contract provisions. **South Carolina Resolution:** The amount of funds held under reinsurance treaties did not agree with the terms of the reinsurance contract as noted in the prior full scope examination as of December 31, 2005. The Company has not revised its reinsurance contracts to allow for the collection of collateral in installments as set forth in its September 13, 2006 response. **Resolution:** The funds held liabilities complied with the terms of the underlying reinsurance agreements. However, due to calculation errors in recognizing cash reinsurance transactions, a reclassification of $167,569 was required from this line item to ceded reinsurance premiums payable.

Provision for Reinsurance

The liability for provision for reinsurance was increased by $896,800 due to deficiencies and incorrect wording in the letters of credit. **South Carolina Resolution:** The Company has corrected the provisions in their letters of credit. **Resolution:** This liability was properly reported for this examination period.

Unearned Reinsurance Commission

The Company did not accurately reflect the unearned premium portion in the calculation of this liability. A policy re-write for certain subscribers occurred in the alternative market which changed the policy expiration date to December 31, 2005 and greatly reduced the unearned premium and the unearned reinsurance commission for these policies. This change was not reflected in the accounting records for this account. An examination change was made to reduce this liability from $2,094,855 to $778,038. **South Carolina Resolution:** The balance was fairly stated in accordance with SSAP No. 62, paragraph 51. **Resolution:** Calculation errors were noted in the Company's recognition of unearned ceding commissions resulting in an examination adjustment of $101,244.

Travel and Entertainment Expenses

The Company was paying the Chief Executive Officer's (CEO) Company credit card bills without supporting documentation for the charges. Personal expenses incurred by the CEO were also charged on the credit card. **South Carolina Resolution:** Substantial reimbursements were made to the Company by both the CEO and affiliated companies. The Company continued to pay credit card bills without supporting valid receipts from the CEO utilizing credit cards. **Resolution:** The Company has adopted expense reimbursement guidelines and ethics policies for its employees and its officers and has taken adequate steps to correct this deficiency.

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 as required by SSAP No. 62, paragraphs 41-44. **Resolution:** The

Company has properly treated ceded reinsurance costs as a separate item. Ceded reinsurance premiums payable were reported net of ceded reinsurance commissions in accordance with SSAP No. 62, paragraphs 41 – 44.

HISTORY

General

The Company was incorporated as Guarantee Insurance Company of Texas on January 25, 1965, where it was dormant until 1978. Guarantee Insurance Company of Delaware was incorporated on August 16, 1978, under the laws of the state of Delaware to act as the corporate entity to effect a change in the corporate domicile of the Company from Texas to Delaware. The merger of the two companies was effective December 31, 1978, and the surviving company simultaneously changed its name to Guarantee Insurance Company. The Company conducted business as a Delaware domestic until September 11, 2003, when the Company was acquired by Brandywine Insurance Holdings, Inc., of Fort Mill, South Carolina and was redomesticated to South Carolina. On December 29, 2006, the certificate of redomestication was approved by the Office and the Company has moved its principal office to Fort Lauderdale, Florida.

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. That promissory note has been liquidated with the partial proceeds of a loan to Suncoast on March 30, 2006, with Brooke Credit Corporation, in Overland Park, Kansas, in the amount of $8,652,000. Proceeds of this loan were used to provide the $3,000,000 in capital paid in for the Company during 2006. Borrowers for this loan were defined as including Suncoast Holdings, Inc., Brandywine Insurance Holdings, Inc., and Patriot Risk Services, Inc., with the stock of the Company as collateral.

The Company was party to Consent Order 88129-06 filed December 29, 2006 with the Office regarding the application for redomestication which required the Company to maintain surplus as to policyholders not less than the greater of $9,000,000 or 10% of the Company's total liabilities. The Company was in compliance.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire	Aircraft
Commercial multi peril	Credit
Medical malpractice	Industrial extended coverage
Commercial auto physical damage	Farmowners multi peril
Boiler and machinery	Inland marine
Accident and health	Commercial auto liability
Allied lines	Burglary and theft
Ocean marine	Industrial fire
Other liability	

The consent order required that the Company shall not transact any other lines of business in the state of Florida or elsewhere, other than workers' compensation, until it has submitted to the Office an appropriate business plan, financial pro forma, and other documentation as the Office may require and until the Office authorizes the Company in writing to write such other lines of business. If the Company has not received approval from the Office to write such other lines of business, other than Workers' Compensation, on or before December 31. 2007, the Company agreed that said other lines of business shall be deemed revoked effective December 31, 2007.

The articles of incorporation and the bylaws were revised during the period covered by this examination, due to the redomestication effective December 29, 2006, which included changing the par value of the common stock to $100 per share from $120 per share and increasing the number of authorized common capital shares to 60,000 from 50,000.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	60,000
Number of shares issued and outstanding	36,001.2
Total common capital stock	$3,600,120
Par value per share	$100.00

Control of the Company was maintained by its parent, Brandywine Insurance Holdings Inc., which owned 100% of the stock issued by the Company, which in turn was 100% owned by Suncoast, which in turn was 92% owned by Six Point Holdings, LLC, which in turn was a wholly owned subsidiary of Malvern Investment Group, LLC, (MIG), which was a wholly owned company of the Chairman of the Board, Steven M. Mariano.

Suncoast had two classes of common shares, 717,664 shares, of Class A, with one vote per share and 800,000 shares of Class B, with four votes per share. Six Point Holdings owned 100% of the Class B shares and 296,875 shares of the Class A shares. Westwind Holding Company, LLC, an unaffiliated company, owns 215,263 shares of the Class B shares, with the remaining 205,526 shares owned by various individuals holding less than 10%.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for a three year period, as reported in the filed annual statements.

	2006	2005	2004
Premiums Earned	21,566,864	21,152,219	2,948,745
Net Underwriting Gain/(Loss)	(1,101,702)	1,725,894	(2,726,817)
Net Income/(Loss)	(172,246)	(173,420)	(2,129,097)
Total Assets	74,834,226	65,120,223	42,002,075
Total Liabilities	65,078,496	56,346,169	33,596,307
Surplus As Regards Policyholders	9,755,730	8,774,054	8,405,768

Dividends to Stockholders

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

Management

The annual shareholder meeting for the election of directors were not held for the years 2006 and 2007 in violation of Sections 607.1601 and 628.231, Florida Statutes.

Directors serving as of December 31, 2006, were:

Directors

Name and Location	Principal Occupation
Steven Michael Mariano Miami, Florida	CEO, Chairman of the Board
John Richard Del Pizzo Newtown Square, Pennsylvania	Del Pizzo & Associates, PC Principal and Owner
Steven Michael Beeghly (A) Seattle, Washington	Montlake Law Group, PLLC

Paul V. H. Halter, III (C) Fort Mill, South Carolina	President, COO
Fred Gregg Marziano (A) Belmar, New Jersey	Retired Insurance Executive
Theodore G. Bryant (B) Weston, Florida	Vice President/Suncoast
Michelle A. Masotti (B) Boynton Beach, Florida	Vice President/Controller Company
Timothy J. Tompkins (B) Traverse City, Michigan	The Hagerty Group General Counsel

(A) Resigned effective January 4, 2007
(B) Appointed effective January 4, 2007
(C) Resigned effective April 15, 2007

Written shareholder minutes for 2006 and 2007 were not provided during this examination.

The Directors appointed effective as of January 4, 2007 were included on the December 31, 2006 jurat page of the annual statement. On January 31, 2007 the Office provided no objection in regards to the Company reporting the new officer changes, which occurred in January, on the 2006 Annual Statement.

Subsequent Event

Also included on the jurat page was Timothy J. Tompkins, who was elected to the Suncoast Board effective January 4, 2007. On January 29, 2007, the Company notified the Office of the three new directors. On January 31, 2007, an announcement was sent to all employees of the appointment of Timothy J. Tompkins but the appointment was not recorded in the Company board minutes. On May 25, 2007, a written consent was issued to acknowledge the appointment of Timothy J. Tompkins, was signed by all directors except Paul V.H. Halter. The appointment and the written consent was omitted in the minutes.

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

Senior Officers

Name	**Title**
Steven M. Mariano	Chairman of the Board/CEO
Paul V. H. Halter, III	President/COO
Marvin J. Cashion	Executive VP/Chief Legal Officer/Secretary
James P. Chick, Jr.	Executive VP/CFO

The Company's board authorized the internal committees of Suncoast to act on behalf of the Company, in compliance with Section 607.0825, Florida Statutes.

The following is a list of the principal internal board committees of Suncoast, and their members as of December 31, 2006:

Executive Committee	**Audit Committee**	**Investment Committee**
Steven Mariano[1]	John R. Del Pizzo [1]	Steven Mariano[1]
John R. Del Pizzo	Steven Beeghly	John R. Del Pizzo
Fred Marziano	Steven Mariano	Steven Beeghly
	Fred Marziano	Fred Marziano

[1] Chairman

The Company utilized the audit committee of Suncoast to maintain the requirement of Section 624.424(8), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the Board of Directors for the Company and Suncoast, and certain internal committees of Suncoast were reviewed for the period under examination. The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. The Company did not maintain the minutes to clearly distinguish between Company transactions and Suncoast transactions as required by Rule 690-143.047, Florida Administrative Code.

There was documentation in the minutes reviewed that the Company's directors reviewed the previous examination report.

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 the following surplus notes to policyholders that totaled $1,253,000 in 2004:

Date Issued	Par Value	Maturity Date
7/12/2004	$ 62,000	7/12/2009
8/13/2004	500,000	8/13/2009
9/30/2004	691,000	9/30/2009
Totals	$1,253,000	

These notes were issued in conjunction with the marketing of its workers' compensation product to the professional employer organization (PEO) and staffing company customers. Repayment of the principal and interest were subordinated to the prior payment of, or provision for, all general liabilities of the Company and the claims of policyholders and creditors of the Company, but not ranked superior to the claim, interest and equity shares of shareholders of the Company, and such subordination was equally applicable in the case of any merger, consolidation, liquidation, rehabilitation, reorganization, dissolution, sale or other disposal of all, or substantially all, of the assets of the Company. Any payments of principal and interest were subject to the written authorization of the Office.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2007, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

GUARANTEE INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2006

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

Tax Allocation Agreement

Effective December 1, 2006, the Company entered into a written tax allocation agreement with its parent and other affiliates of the holding company system. The Company recorded federal income tax based upon its taxable income determined on a separate company basis. In the event that an affiliated company had a tax liability on a separate company basis, that tax liability was paid to Suncoast or if a refund, Suncoast paid that refund. All settlements for income tax payments to or from Suncoast were to be made within 90 days after the date of filing of the consolidated income tax return.

Expense Reimbursement Agreement

On January 1, 2006, the Company entered into an agreement with Patriot Risk Management, Inc., to share certain staff employed by the distribution of salaries to both companies and to share in common expenses. Payment was made monthly within 30 days of the end of each calendar month by Patriot Risk Management, Inc. to the Company.

Management Services Agreement

On January 1, 2004, the Company entered into an agreement with Suncoast to provide certain management services as set forth in the agreement, which included investment portfolio management. Fees were paid quarterly.

Managed Care Services Agreement

On January 1, 2004, the Company entered into an agreement with Tarheel Insurance Management Company to provide certain managed care services on claims arising out of the policies to the Company, and paid a fee for services within 30 days of receipt of monthly invoices. A description of services and fees were explained on Schedule 1 of the agreement. On January 2005, Amendment No. 1 was added to amend certain definitions of the service descriptions in Schedule 1.

On January 1, 2006, the Company entered into an agreement with Patriot Risk Services, Inc., to provide certain managed care services as set forth in Schedule 1 of the agreement. Fees were paid quarterly.

Consultation Agreement

On December 13, 2004, the Company signed an agreement on a retainer basis, with Fred G. Marziano and Insurance Perspectives + Solutions. This agreement was to provide ongoing general advisory assistance to the CEO and developmental and improvement recommendations to aid in the successful development of the growing enterprise. This agreement was terminated on January 4, 2007.

Producer Agreement

On January 1, 2006, the Company entered into an agreement with Patriot Risk Services, Inc., to solicit applications for policies of workers' compensation and employer's liability insurance. Patriot Risk Services, Inc. provided program administration to captive management companies and wholesale brokers, consulted with key client companies and managed insurance programs with clients who want to assume risk themselves. The commission rate on all insurance policies, new or renewal, were at 2%, unless otherwise negotiated with respect to a specific policy prior to binding.

Reinsurance Brokerage Agreement

Effective January 1, 2006, the Company appointed Patriot Re as broker of record regarding all or part of its ceded reinsurance program and authorized Patriot Re to solicit, negotiate and procure reinsurance on the Company's behalf. The Company had the authority to accept, bind, or manage reinsurance. Patriot Re remitted all monies due to the Company within 30 days of receipt. All monies collected by Patriot Re were held in a fiduciary capacity by Patriot Re in a bank that was a qualified United States financial institution as defined in the applicable laws of each state in which the Company is a licensed insurer.

FIDELITY BOND AND OTHER INSURANCE

The Company was a covered participant in fidelity bond coverage with a policy maintained by Suncoast with limits of liability up to $1,000,000 and retention of $250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company was also a participant in Directors and Officers (D&O) liability insurance coverage with limits of $5,000,000, which was maintained by Suncoast.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a 401k contribution plan, sponsored and administered by Suncoast. Discretionary contributions were contributed at the option of the Company's Board of Directors. There were no contributions made during this examination period.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	USTNTS, 4.625% 9/30/08	$ 190,000	$ 190,000
FL	Allstate Life Glob Fd Ii, 3.5%, 07/30/07	200,000	197,894
FL	American Express, 3.75%, 11/20/07	500,000	493,270
FL	Chevrontexaco Capital Co, 3.5% 09/17/07	575,000	567,606
FL	Merrill Lynch & Co 4.0% 11/15/07	300,000	296,766
FL	Union Planters Bank, 5.125%, 06/15/07	310,000	309,796
TOTAL FLORIDA DEPOSITS		$2,075,000	$2,055,332
DE	FHLMIC, 3.3% 04/20/07	$ 110,000	$ 109,347
GA	USTNTS, 4.1%, 08/15/08	100,000	98,914
KY	FHLMIC, 3.6% 11/28/07	300,000	295,619
LA	USTNTS, 4.6%, 09/30/08	21,000	20,922
MA	USTNTS, 4.6% 09/30/08	500,000	498,145
ME	FHLMIC, 4.0% 02/22/08	150,000	147,921
NM	USTNTS, 4.6% 09/30/08	105,000	104,610
NC	USTNTS, 4.1% 08/15/08	205,000	202,774
NC	USTNTS, 4.9% 05/31/08	100,000	99,953
SC	FHLMIC, 4.0% 02/22/08	300,000	295,842
SC	USTNTS, 4.6% 09/30/08	1,250,000	1,245,363
SC	USTNTS, 4.9% 08/15/09	524,000	525,577
TN	FHLMIC, 4.0%, 06/16/08	120,000	117,982
TX	USTNTS, 4.6% 09/30/08	102,000	101,622
VA	USTNTS, 4.9% 08/15/09	1,000	1,003
VA	USTNTS, 4.1% 08/15/08	190,000	187,937
VA	FHLMIC, 4.0%, 02/22/08	310,000	305,704
TOTAL OTHER DEPOSITS		$ 4,388,000	$ 4,359,235
TOTAL SPECIAL DEPOSITS		$ 6,463,000	$ 6,414,567

INSURANCE PRODUCTS

The Company used the independent insurance agency/broker network as its marketing distribution system. The Company also utilized directly appointed agents/agencies, as well as, agents/agencies within the brokerage network of an affiliate, Patriot Risk Services, Inc., for the acquisition of new business and provides its brokers with general underwriting guidelines that encompassed both alternative and traditional books of business for the Company.

Workers' compensation coverage was provided by using the standard policy language and endorsements developed by the National Council on Compensation Insurance (NCCI) and the independent state workers' compensation boards. The Company marketing and underwriting was only for the workers' compensation and employers liability insurance products using two types of business, standard and alternative market business.

Standard business risk consists of traditional workers' compensation policies issued to small and mid-size businesses, which was termed Treaty Business and represented approximately 40% of the total premiums written.

Alternative market business risk were policies issued to large businesses consisting primarily of professional employer organization (PEO). Premiums were earned on a pro rata basis over the term of the policies. The portion of premium was earned in the future was deferred and reported as unearned premium.

Territory

The Company was authorized to transact insurance in all states, except the following:

Alaska	Illinois	Pennsylvania
Arizona	Iowa	Rhode Island
Connecticut	Kansas	Utah
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.

Prior to the acquisition of the Company in 2003, the Company was dormant and all of its business had been in run-off since 1987. The run-off of the prior business will continue to be reported until all claims are settled. The Company began writing workers compensation direct premiums during 2004.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i)3a, Florida Statutes.

The Company did not utilize a third party administrator except in Montana where in-state claims processing is required.

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, with the exception of transfer of risk for one of the contracts.

The Company maintained a complicated reinsurance structure, which included $20,000,000 of coverage on an excess of loss basis for all insured's, with primary limits retained of $1,000,000 per occurrence for policyholders participating in a captive program and $750,000 per occurrence for all other insured's. In addition, the Company maintained quota share reinsurance for the non-captive policyholders except for those insured's in the States of Georgia, Indiana, and South Carolina. The

Company ceded to both authorized and unauthorized, US and non-US reinsurers. The Company maintained funds held under reinsurance treaties and letters of credit.

Assumed

The Company's assumed risk was placed in 1987 and prior years, which was in run-off from operations prior to the September 11, 2003 acquisition of the Company. This business included assumed and retroceded reinsurance. Many of the reinsurers either were insolvent, troubled companies or had commuted contracts. The claims administration for the run-off business for the reinsurance pool, GRE Reinsurance of America Corporation Pool, was performed by Cambridge Integrated Services Group in Cranbury, New Jersey. The claims administration for the run-off for the Excess and Casualty Reinsurance Association Pool was performed by the pool manager, Excess & Treaty Management Corporation.

Ceded

The Company had two major segments in its ceded reinsurance program. One was for standard business and the other for its alternative risk business.

Standard business

The first layer of reinsurance for the standard business was a $250,000 excess of $750,000 excess of loss agreement with a single authorized reinsurer. Both the standard business and the alternative risk business were covered by three additional layers of excess of loss reinsurance as follows:

$4,000,000 xs $1,000,000 per occurrence reinsured with two authorized reinsurers.

$5,000,000 xs $5,000,000 per occurrence reinsured with two unauthorized reinsurers.

$10,000,000 xs $10,000,000 per occurrence reinsured with two unauthorized reinsurers.

Alternative risk business

The alternative market involved captive arrangements that utilized protected cells, and the insured shared risk with the reinsurer, and the Company wrote the business on its paper and reinsured most of the risk with a specific cell for each reinsurance contract. There were 15 each 90% quota share agreements reinsured with two offshore captive unauthorized reinsurers. Through these agreements, the reinsurer/insured rent captive cells 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 retention per occurrence was $100,000. The aggregate loss ratio varied from 83% up to 105%. These contracts required funds withheld that consisted of net ceded premium plus additional cash collateral, letters of credit or other financial instruments acceptable to the Company. The Company received a ceding commission from each alternative market client.

An adequate analysis of risk transfer was not identified in the documents provided to the examination for 5 reinsurance agreements. The Company's excess of loss agreement with National Indemnity Insurance Company did not transfer risk. In accordance with SSAP No. 75, deposit accounting was used for this examination. The Company improperly included reinsurance transactions in the net amounts receivable from parent, subsidiaries and affiliates, which was not in accordance with the NAIC annual statement instructions. The Company was unable to provide supporting documentation for some transactions to clearly identify proper classification.

Errors were observed in the preparation and presentation of Schedule F, for which supporting documentation was not provided. The Company must establish procedures for its reinsurance accounting, implement controls and review procedures to ensure compliance with SSAP's on reinsurance accounting and compliance with the NAIC annual statement instructions.

The Company was improperly recording initial ceded deposit premiums as a contra-liability to ceded reinsurance premiums payable; the Company did not recognize the expenses for minimum ceded reinsurance premium on excess of loss agreements when incurred. The Company had improperly utilized prospective reinsurance accounting on one excess of loss agreement which did not transfer risk; and deposit accounting was required under SSAP No. 75.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Fort Lauderdale, Florida, where this examination was commenced. Most of the examination work was conducted off-site. The Company transitioned many of the Ft. Mill, SC operations to its offices established in Florida. The field office in Ft. Mill, SC handled underwriting and claim administration.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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

Office. The following exception was noted during the review of the Company's accounts and records:

> There was no automated interface between the FiServ system and the general ledger; manual entries were required to process the premium transactions. The Company utilized 9 reports from the FiServ system to reconcile premium receivable to the general ledger. As of December 31, 2006, the general ledger was reconciled to the FiServ system, with reconciliation differences, which the Company acknowledged but chose not to record the difference in its financial statements. The recommendation remains that the Company must further refine the reconciliation, refine the reporting of premium information, and develop detail reports to support the reported balances. The Company was not in compliance with Rule 690-143.047(d), Florida Administrative Code, for this examination period.

The Company and non-affiliates had the following agreements:

Custodial Agreement

Effective July 27, 2006, the Company entered into an agreement with The Bank of New York Trust Company to hold and safekeep certain securities. Effective May 31, 2007, the Company added an amendment to this agreement, which provided the proper safeguards and controls as provided by Rule 690-143.042, Florida Administrative Code and the NAIC guidelines.

Effective January 13, 2004, the Company entered into an agreement with Wilmington Trust, which was in effect when the Company was acquired. The Company was in the process of moving the Securities maintained at Wilmington Trust to another bank.

Independent Auditor Agreement

The Company entered into an agreement with BDO Seidman, LLP to perform the audit of the statutory financial statements of the Company.

Information Technology Report

Brandon Thomas, Information System (IS) Specialist of Huff, Thomas & Company, performed a computer systems evaluation on the Company. Results of the evaluation were noted in the information technology (IT) report provided to the Company. A summary of significant findings with recommendations were as follows:

1. Finding: Informal meetings were held during the period under review and the internal auditor position was open. A recommendation was made that the Information Systems Department hold at a minimum, a monthly status meeting to discuss current IT issues and future IT plans, with senior management attending the meetings. The Company should employ an internal auditor to perform periodic audits of IS controls.
2. Finding: The Company had an up-to-date disaster recovery plan in effect, which had never been tested. A recommendation was made to conduct a test of the disaster recovery plan annually at a minimum. Test results should be documented and directed to management with any failures immediately addressed.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

GUARANTEE INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	$30,696,850		$30,696,850
Stocks:			
Common	1,322,354		1,322,354
Real Estate:			
Other properties	264,844		264,844
Cash and short term Investments	16,889,220	($719,500)	16,169,720
Receivable for securities	781,000	719,000	1,500,000
Interest and dividend			
income due & accrued	313,177		313,177
Agents' Balances:			
Uncollected premium	8,865,526	499,325	9,364,851
Deferred premium	8,176,571	126,862	8,303,433
Reinsurance:			
Reinsurance recoverable	728,091		728,091
Funds held	2,419,294		2,419,294
Current federal income tax recoverable	163,640	(154,423)	9,217
Net deferred tax asset	1,167,352	(9,693)	1,157,659
EDP Equipment	88,299		88,299
Receivable from parents, subsidiaries			
and affiliates	1,123,074	(629,749)	493,325
Aggregate write-in for			
other than invested assets	1,834,934	2,685,102	4,520,036
Totals	$74,834,226	$2,516,924	$77,351,150

GUARANTEE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	$20,398,599	$0	$20,398,599
Reinsurance payable	646,516		646,516
Loss adjustment expenses	4,636,699	0	4,636,699
Commissions payable	579,541	225,460	805,001
Other expenses	518,082	($171,689)	346,393
Taxes, licenses and fees	1,128,933	172,979	1,301,912
Unearned premium	7,628,315	70,623	7,698,938
Ceded reinsurance payable	691,955	2,405,231	3,097,186
Funds held under reinsurance treaties	25,186,618	(167,569)	25,019,049
Amounts withheld	887,624		887,624
Provision for reinsurance	1,733,200		1,733,200
Aggregate write-ins for liabilities	1,042,414	101,244	1,143,658
Total Liabilities	$65,078,496	$2,636,279	$67,714,775
Common capital stock	$3,600,120		$3,600,120
Surplus notes	1,253,000		1,253,000
Gross paid in and contributed surplus	99,948,223		99,948,223
Unassigned funds (surplus)	(95,045,613)	(119,355)	(95,164,968)
Surplus as regards policyholders	$9,755,730	($119,355)	$9,636,375
Total liabilities, surplus and other funds	$74,834,226	$2,516,924	$77,351,150

GUARANTEE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	$21,566,864
Deductions:	
Losses incurred	12,181,697
Loss expenses incurred	7,205,069
Other underwriting expenses incurred	3,281,800
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$22,668,566
Net underwriting gain or (loss)	($1,101,702)
Investment Income	
Net investment income earned	$745,338
Net realized capital gains or (losses)	420,478
Net investment gain or (loss)	$1,165,816
Other Income	
Total other income	$0
Net income before dividends to policyholders and before federal & foreign income taxes	$64,114
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$64,114
Federal & foreign income taxes	236,360
Net Income	($172,246)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$8,774,054
Net Income	($172,246)
Net unrealized capital gains or losses	123,742
Change in non-admitted assets	(1,352,473)
Change in provision for reinsurance	(719,600)
Change in excess statutory over statement reserves	194,967
Surplus adjustments: Paid in	3,000,000
Aggregate write-ins for gains and losses in surplus	(92,714)
Examination Adjustment	(119,355)
Change in surplus as regards policyholders for the year	$862,321
Surplus as regards policyholders, December 31 current year	$9,636,375

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash, Short Term Investments and Receivables for Securities $16,169,720

Cash and short term investments reported as $16,889,220, was decreased by $719,500, which represented a coding error of $500 reported as petty cash and $719,000 of receivable for securities, which was reclassed to receivable for securities. The Company was in violation of Section 625.012(1), Florida Statutes, which requires that the Company allow as assets only such assets as were owned by the insurer, which consisted of cash in the possession of the insurer.

Receivable for Securities $1,500,000

Receivable for securities reported as $781,000, was increased by $719,000, which represented a reclassification adjustment from cash and short term investments as explained immediately above.

Uncollected Premium $9,364,851

Uncollected premium reported as $8,865,526, was increased by $499,325, which represented policy detail premium of $263,965 and earned but unbilled detail of $235,360, which was not recorded in the general ledger.

Deferred Premium $8,303,433

Deferred premium reported as $8,176,571, was increased by $126,862, which represented premium balances where unearned premium had been established.

Current Federal Income Tax Recoverable $9,217

The amount reported by the Company of $163,640, was decreased by $154,423, which represented current year adjustment for an understatement in the income tax provision.

Net Deferred Tax Asset $1,157,659

The amount reported by the Company of $1,167,352, was decreased by $9,693, which represented an understatement in the gross deferred taxes.

Receivable from Parents, Subsidiaries and Affiliates (PSA) $493,325

The amount of receivable from PSA reported as $1,123,074, was decreased by $629,749, which represented $313,931, identified by the Company as the true-up of federal income tax receivable, $366,947, as the amount due older than 90 days and $51,129 reclassification from other expenses for accrued management fees. The receivable also included reinsurance transactions in error in the older than 90 days amount. The Company was in violation of Section 625.031(8), Florida Statutes, which requires federal income tax refunds not allowed when the refund is not assured. The NAIC annual statement instructions require amounts related to intercompany reinsurance transactions to be excluded from receivables from PSA. The Company should report reinsurance between affiliated companies in the appropriate reinsurance accounts. The Company did not settle inter-company accounts on a timely basis.

Aggregate Write-Ins for Assets $4,520,036

Aggregate write-ins reported as $1,834,934, was increased by $2,685,102, which represented an increase in deductible recoverable of $74,551, a decrease in the affiliated promissory note of $19,054 and an increase of $2,629,605, which represented the deposit accounting entry for an excess of loss ceding reinsurance agreement which did not transfer risk in accordance with

SSAP No. 75. The Company failed to follow NAIC annual statement instructions and did not utilize deposit accounting in accordance with SSAP No. 62 and SSAP No. 75.

Liabilities

Losses and Loss Adjustment Expenses $25,035,298

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The amount reported by the Company of $25,035,298, was unchanged. R. Michael Lamb, FCAS, MAAA, of Huff, Thomas & Company, was utilized as a consulting actuary to review the Company's reserves. The actuary determined the reserves as reported by the Company were at the lower end of a range of reasonable estimates of the unpaid loss and loss adjustment expense obligations as of December 31, 2006.

Commissions Payable $805,001

The amount reported by the Company of $579,541, was increased by $225,460 due to the understatement of commission accruals.

Other Expenses $346,393

The amount reported by the Company of $518,082, was decreased by $171,689 due to the reclass of $120,560, which represented South Carolina Second Injury Fund assessments, to taxes, licenses & fees, in accordance with SSAP No. 35, paragraph 4, and the reclass of $51,129, which represented accrued affiliated management fees, in accordance with the NAIC annual statement instructions.

Taxes, Licenses & Fees $1,301,912

The amount reported by the Company of $1,128,933, was increased by $172,979 due to the following:

Direct premium taxes	$(572,937)	Over accrual on premium tax
Policy surcharges	94,802	Understatement of accrual SSAP No. 35
Examination fees	200,000	SSAP No. 5/Annual Statement Instructions
GA second injury fund	271,174	SSAP No. 35
SC second injury fund	59,380	SSAP No. 35
SC second injury funds	120,560	Reclass from other expenses
Net change	$ 172,979	

Unearned Premium $7,698,938

The amount reported by the Company of $7,628,315, was increased by $70,623 due to errors in calculation of $259,002, which resulted in an overstatement and the increase of $329,625 due to reserve credit taken for reinsurance with no risk transfer in accordance with SSAP No. 75.

Ceded Reinsurance Premium Payable $3,097,186

The amount reported by the Company of $691,955, was increased by $2,405,231 due to the following:

Unrecognized minimum ceded premiums	$ 384,361	SSAP No. 75
Reclassification for reinsurance deposit accounting	2,300,000	SSAP No. 75
Reversal of reinsurance premium for deposit reinsurance	(316,727)	SSAP No. 75
Ceded reinsurance earned but unbilled premiums	275,116	Calculation error
Reclassification from funds held	167,569	Reclass Funds held
Ceded premium on employers liability reinsurance	92,977	Calculation error
Reclassification from unearned ceding commissions	(437,252)	Calculation error
Ceded commissions on earned but unbilled premiums	(60,813)	Calculation error
Net increase	$2,405,231	

Funds Held Under Reinsurance Agreements $25,019,049

The amount reported by the Company of $25,186,618, was decreased by $167,569 due to a reclassification to ceded reinsurance premiums payable in accordance with SSAP No. 62 and the NAIC annual statement instructions.

Aggregate Write-ins for Liabilities $1,143,658

The amount reported by the Company of $1,042,414 for unearned ceding commissions, was increased by $101,244 due to calculation errors.

Capital and Surplus $9,636,375

The amount reported by the Company of $9,755,730, was decreased by $119,355. However, this amount exceeds the minimum of 9,000,000 required by the consent order and Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

GUARANTEE INSURANCE COMPANY.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2006

Surplus as regards policyholders December 31, 2006, per Annual Statement				$9,755,730
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
Cash & Short term investments	$16,889,220	$16,169,720	($719,500)	
Receivable for securities	781,000	1,500,000	719,000	
Uncollected premium	8,865,526	9,364,851	499,325	
Deferred premium	8,176,571	8,303,433	126,862	
Current federal income tax recoverable	163,640	9,217	(154,423)	
Net deferred tax asset	1,167,352	1,157,659	(9,693)	
Receivable from parents, subsidiaries and affiliates	1,123,074	493,325	(629,749)	
Aggregate write-in for other than invested assets	1,834,934	4,520,036	2,685,102	
LIABILITIES:				
Commissions payable	579,541	805,001	(225,460)	
Other expenses	518,082	346,393	171,689	
Taxes, licenses and fees	1,128,933	1,301,912	(172,979)	
Unearned premium	7,628,315	7,698,938	(70,623)	
Ceded reinsurance premium	691,955	3,097,186	(2,405,231)	
Funds held under reinsurance treaties	25,186,618	25,019,049	167,569	
Aggregate write-in for liabilities	1,042,414	1,143,658	(101,244)	
Net Change in Surplus:				(119,355)
Surplus as regards policyholders December 31, 2006, Per Examination				$9,636,375

SUMMARY OF FINDINGS

Compliance with previous directives

As indicated in the section of the report titled Status of Adverse Findings From Prior Examination, the Company has not taken the necessary actions to comply with the comments made in the 2004 examination report issued by the Office and the 2005 examination report issued by the South Carolina Department of Insurance.

Since the Company has not addressed the findings presented in the prior examination reports of both Florida and South Carolina, the Company was also in violation of the Florida Redomestication Consent Order.

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, 2006.

Management

The annual shareholder meetings for the election of directors were not held for the year 2006 and 2007. **We recommend the Company hold annual shareholder meetings to comply with Sections 607.1601 and 628.231 Florida Statutes.**

Corporate Records

The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. The Company did not maintain the minutes to clearly distinguish between Guarantee transactions and Suncoast transactions as required by Rule 690-143.047, Florida Administrative Code.

A corporation shall maintain its records in written form or in another form capable of conversion into written form within a reasonable time in accordance with Section 607.1601, Florida Statutes. **We recommend the Company comply with Sections 607.1601 and 628.231, Florida Statutes, and Rule 690-143.047, Florida Administrative Code, which requires the Company to maintain its books, accounts and records of each party to all transactions to clearly and accurately disclose the precise nature and details of the transactions and keep as a permanent record minutes of all meetings.**

The minutes should clearly document the following:

- **Approval for the Company investments as required by Section 625.304, Florida Statutes;**
- **Board of Director review of the examination report for the Company;**
- **Approval of major agreements for the Company;**
- **Appointment of the CPA for the Company as required by Section 624.424(8), Florida Statutes.**

Reinsurance

An adequate analysis of risk transfer was not identified in the documents provided for the examination in 5 reinsurance agreements. The Company's excess of loss agreement with National Indemnity Insurance Company did not transfer risk. In accordance with SSAP No. 75, the deposit accounting method was used for this examination. The Company was improperly including reinsurance transactions in the net amounts receivable from PSA, which was not in accordance with the NAIC annual statement instructions. The Company was unable to provide supporting documentation for some transactions to clearly identify proper classification.

Errors were noted in the preparation and presentation of Schedule F, for which supporting documentation was not provided. **We recommend that the Company establish procedures for its reinsurance accounting, implement controls and review procedures to ensure compliance with SSAP's regarding reinsurance accounting and the NAIC annual statement instructions.**

The Company was improperly recording initial ceded deposit premiums as a contra-liability to ceded reinsurance premiums payable; the Company did not recognize the expenses for minimum ceded reinsurance premium on excess of loss agreements when incurred. The Company had improperly utilized prospective reinsurance accounting on one excess of loss agreement which did not transfer risk; and deposit accounting was required under SSAP No. 75. **We recommend the Company develop procedures to monitor reinsurance transactions and follow the appropriate NAIC guidelines, including SSAP's, for the processing and reporting of reinsurance.**

Accounts and Records

The following were noted during the review of the Company's accounts and records:

- There was no automated interface between the FiServ system and the general ledger; manual entries were required to enter the premium entries. **We recommend the Company establish reconciliation procedures, procedures for reporting of premium information, and develop detail reports to support the reported balances**

to the general ledger in compliance with Rule 690-143.047(d), Florida Administrative Code.

- As a result of the IT review, the following was recommended:
    1. The Information Systems Department should hold at a minimum, a monthly status meeting to discuss current IT issues and future IT plans, with senior management attending the meetings.
    2. The Company should employ an internal auditor to perform periodic audits of information systems controls.
    3. Conduct a test of the disaster recovery plan annually. Test results should be documented and directed to management with any failures immediately addressed.

We recommend the Company establish procedures in accordance with the IT recommendations.

Cash, Short Term Investments and Receivable for Securities

The Company reported $781,000, which represented receivable for securities under cash and short term investments and also reported $500 under cash, which represented an error by the Company. **We recommend the Company correctly report account balances on all future annual and quarterly statement filings as required in Section 625.012(1), Florida Statutes and the NAIC annual statement instructions.**

Uncollected and Deferred Premium

Uncollected and deferred premium were increased due to detail reconciliation items not recorded in the general ledger. **We recommend the Company correctly report account balances on all future annual and quarterly statement filings as required in SSAP No. 6 and the NAIC annual statement instructions.**

Current Federal Income Tax Recoverable and Net Deferred Tax Asset

The amounts reported by the Company were decreased due to an understatement in income tax provision. **We recommend the Company correctly report account balances on all future annual and quarterly statement filings as required in SSAP No. 10, SSAP No. 25 and the NAIC annual statement instructions.**

Receivable from Parent, Subsidiaries and Affiliates (PSA)

The receivable from PSA was decreased due to improper reporting for this line item and amounts over 90 days old. **We recommend the Company correctly report receivable from PSA, federal income tax receivable and the reinsurance transactions account balances on all future annual and quarterly statement filings as required by Section 625.031(8), Florida Statutes, which does not allow federal income tax refunds when a refund is not assured. According to the NAIC annual statement instructions, amounts related to inter-company reinsurance transactions were to be excluded from the receivables from PSA. The Company should report reinsurance between affiliated companies through the appropriate reinsurance accounts.**

Aggregate Write-ins for Assets

The amount reported by the Company was increased due to unreported deductible recoverables, and the use of deposit accounting due to a reinsurance agreement which did not transfer risk and decreased by the incorrect amount reported for an affiliated promissory note. **We recommend the Company correctly report account balances under aggregate write-ins for assets on all future annual and quarterly statement filings as required by SSAP No. 62, SSAP No. 75 and the NAIC annual statement instructions.**

Losses and LAE

The amount reported by the Company was unchanged. **We recommend that the Company strengthen reserves by booking amounts closer to the mid range rather than the low end of the range of reasonable estimates.**

Commissions Payable

The amount reported by the Company was increased due to the understatement of the commission accrual. **We recommend the Company correctly report commissions payable on all future annual and quarterly statement filings as required by SSAP No. 5, SSAP No. 53 and the NAIC annual statement instructions.**

Other Expenses

The amount reported by the Company was decreased due to reclassification to the appropriate annual statement lines. **We recommend the Company correctly report other expenses balances on all future annual and quarterly statement filings as required by SSAP No. 35 and the NAIC annual statement instructions.**

Taxes, Licenses & Fees

The amount reported by the Company was increased due to under accrued liabilities. **We recommend the Company correctly report taxes, licenses & fees balances on all future annual and quarterly statement filings as required by SSAP No. 5, SSAP No. 35, SSAP No. 53 and the NAIC annual statement instructions.**

Unearned Premium

The amount reported by the Company was increased due to errors in calculation, which resulted in an overstatement and was due to reserve credit taken for reinsurance with no risk transfer. **We recommend the Company correctly report unearned premium on all future annual and quarterly statement filings as required by SSAP No. 53, SSAP No. 62, SSAP No. 75 and the NAIC annual statement instructions.**

Ceded Reinsurance Premium Payable

The amount reported by the Company was increased due to reclassification for deposit accounting and calculation errors. **We recommend the Company correctly report ceded reinsurance premium payable on all future annual and quarterly statement filings as required by SSAP No. 75 and the NAIC annual statement instructions.**

Funds Held Under Reinsurance Agreements

The amount reported by the Company was decreased due to a reclassification to ceded reinsurance premiums payable. **We recommend the Company correctly report funds held under reinsurance agreements on all future annual and quarterly statement filings as required by SSAP No. 62 and the NAIC annual statement instructions.**

Aggregate Write-ins for Liabilities

The amount reported by the Company for unearned ceding commissions was increased due to calculation errors. **We recommend the Company correctly report ceding commission balances on all future annual and quarterly statement filings as required by SSAP No. 62 and the NAIC annual statement instructions.**

SUBSEQUENT EVENTS

Many changes have been made to the management of the Company subsequent to the examination date. The following is a listing of directors and officers serving as of August 1, 2007.

Directors

Name and Location	Principal Occupation
Steven Michael Mariano Miami, Florida	CEO, Chairman of the Board, President
John Richard Del Pizzo Newtown Square, Pennsylvania	Del Pizzo & Associates, PC Principal and Owner
Theodore G. Bryant Weston, Florida	Suncoast Holdings, Inc., Vice President Attorney/In-House Counsel
Michelle A. Masotti Boynton Beach, Florida	Guarantee Insurance Company Vice President/CFO
Timothy J. Tompkins Traverse City, Michigan	The Hagerty Group General Counsel

Officers

Name	Title
Steven M. Mariano	Chairman of the Board/CEO/President
Michelle A. Masotti	Executive VP/CFO
Theodore G. Bryant	Attorney/In-House Counsel/Secretary
Bill Aries	Senior VP/Chief Information Officer

The Company's board had authorized the following committees: Audit, Executive and Investment. Below are the committee members as of August 1, 2007:

Executive Committee	**Audit Committee**	**Investment Committee**
Steven Mariano[1]	Steven M. Mariano [1]	Steven Mariano[1]
John R. Del Pizzo	Michelle Masotti	John R. Del Pizzo
Timothy J. Tompkins	John R. Del Pizzo	Timothy J. Tompkins
	Theodore G. Bryant	Michelle Masotti
	Timothy J. Tompkins	

[1] Chairman

On August 9, 2007, the Company provided the commuted treaty for the reinsurance contract with National Indemnity Insurance Company that did not transfer risk. The commutation treaty was effective May 1, 2007.

CONCLUSION

The 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, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $9,636,375, which was in compliance with Section 624.408 Florida Statutes and the consent order dated December 29, 2006, which requires a minimum balance of surplus as regards policyholders of $9,000,000.

In addition to the undersigned, Ruth Highsmith, CFE, Financial Examiner, Wanda LaPrath, CFE, CIE, FLMI, ARC, Financial Examiner, Brandon Thomas, HISP, IS Specialist and R. Michael Lamb, FCAS, MAAA, MBA, Actuary of Huff Thomas & Company participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation

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Mary M. James, CFE
Financial Administrator
Florida Office of Insurance Regulation