

REPORT ON EXAMINATION
OF
FCCI ADVANTAGE INSURANCE
COMPANY

SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 9, 2010

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, 2008, of the financial condition and corporate affairs of:

**FCCI ADVANTAGE INSURANCE COMPANY
6300 UNIVERSITY PARKWAY
SARASOTA, FLORIDA 34240**

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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on January 19, 2010, to January 22, 2010. The fieldwork commenced on January 25, 2010, and concluded as of March 9, 2010.

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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no exceptions or findings in the examination as of December 31, 2007.

HISTORY

General

The Company is a Property Casualty Insurer domiciled in the State of Florida. It was organized on February 8, 2006, and commenced business on November 7, 2007. The Company is only licensed in the state of Florida. All outstanding common stock is held by FCCI Insurance Group, Inc. (FIG), a wholly owned subsidiary of FCCI Insurance Company (FCCI), which is a Florida domiciled Property and Casualty Insurer.

The Company was party to Consent Order 77469-04-CO filed December 20, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Fire	Other Liability
Allied Lines	Commercial Auto Liability
Farm Owners Multi Peril*	Commercial Auto Physical Damage
Commercial Multi Peril	Fidelity
Inland Marine	Earthquake
Burglary and Theft	
Boiler and Machinery	

Subsequent event: Following the 2007 Examination the Company requested that the Farm Owners Multi Peril and Earthquake lines of insurance be withdrawn from their authorized lines. The Office accepted the request as of November 13, 2009 and has since removed the lines.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, FCCI Insurance Group, Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by FCCI Insurance Company, who in turn was 100% owned by FCCI Group, Inc., who in turn was 100% owned by FCCI Mutual Insurance Holding Company.

Profitability of Company

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

	2008	2007	2006
Premiums Earned	\$0	\$0	\$0
Net Underwriting Gain/(Loss)	(\$33,884)	(\$10,726)	(\$7,039)
Net Income	\$148,339	\$170,405	\$122,384
Total Assets	\$5,725,452	\$5,455,952	\$5,195,322
Total Liabilities	\$279,634	\$173,076	\$72,938
Surplus	\$5,445,818	\$5,282,876	\$5,122,384

Dividends to Stockholders

The Company did not pay stockholders a dividend in 2008.

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, 2008, were:

Directors

Name and Location

Charles Robert Baumann
Sarasota, Florida

Robert Weld Benjamin
Sarasota, Florida

Timothy Joseph Clarke
Longboat Key, Florida

Principal Occupation

CPA, Kerkering, Barberio & Co.

Attorney, Williams, Parker, Harrison, Dietz & Getzen

Advertising Executive, Clarke Company (f/k/a Clarke Advertising & Public Relations)

Robert Winthrop Flanders Sarasota, Florida	Contractor, Quality Walls Enterprises
Marvin Stephen Haber Sarasota, Florida	Retired
Gordon William Jacobs Sarasota, Florida	CEO, FCCI Mutual Insurance Holding Co.
John Thomas Stafford Sarasota, Florida	Retired
Roy Allan Yahraus Sarasota Florida	Business Executive, Seacoast Supply

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

Senior Officers

Name	Title
Gordon William Jacobs	President & CEO
Rupert Lee Willis	EVP & Chief Regional Officer
Craig Allan Johnson	EVP, CFO & Treasurer
Debra Horner Douglas	Secretary
Joseph Anthony Keene	EVP
Christopher Samir Shoucair	SVP, Controller & Assistant Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Executive Committee	Audit Committee	Investment Committee
John Stafford ¹ G.W. Jacobs	Charles Bauman ¹ Robert Benjamin Timothy Clarke Robert Flanders	Marvin Haber ¹ Charles Baumann Robert Benjamin Timothy Clarke

¹ Chairman

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

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 and events in accordance with Section 607.1601, Florida Statutes, 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, or purchases or sales through reinsurance during this examination.

Surplus Debentures

There were no surplus debentures issued by the Company.

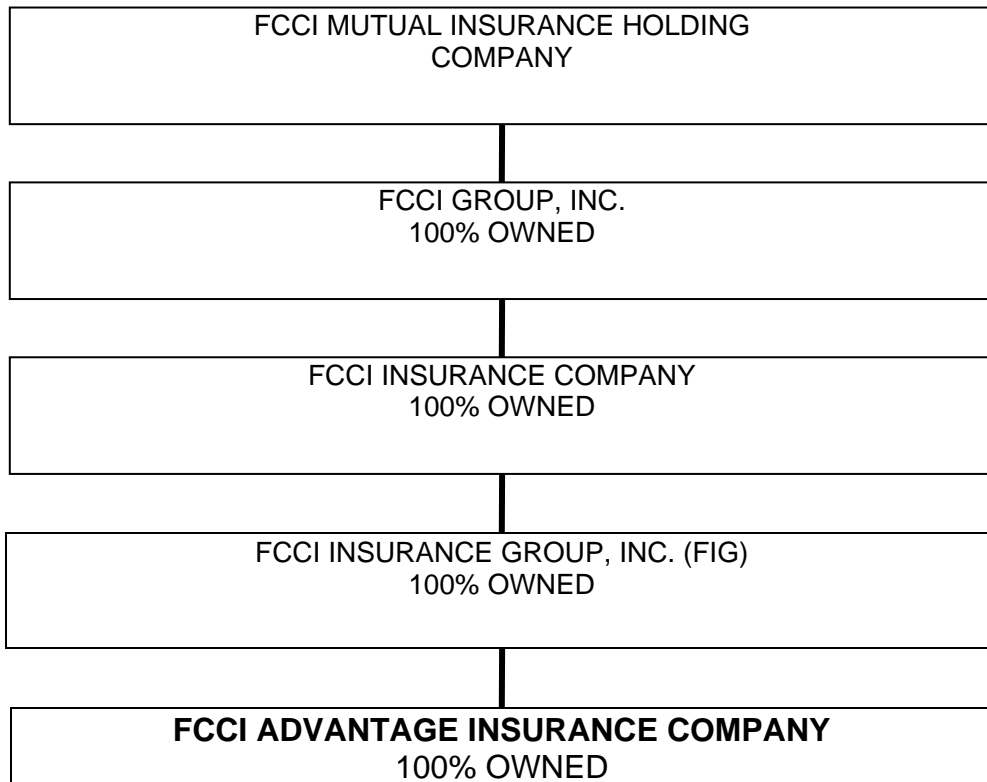
AFFILIATED COMPANIES

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 February 26, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**FCCI ADVANTAGE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



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

Tax Allocation Agreement

The Company, along with FCCI Insurance Company, and its affiliates filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was the separate return method described in IRC Section 1552(a) (2) and Treasury Regulation 1.552-1(a) (2) on the basis of the percentage of the total tax which the tax of each member, if computed on a separate return would bear to the total taxes for all members, if computed on separate returns.

Management Services Agreement

The Company, along with its parents and affiliates, had a management services agreement with FCCI Services, Inc., which provided insurance and general management services including, but not limited to: underwriting, premium formulation, collection services, loss control, claims management, portfolio investment management, actuarial services, accounting services, internal auditing, treasury and banking services, legal services, regulatory affairs, internal operations, personnel, information systems, marketing, facilities management, tax services, reinsurance services, corporate governance, and other services related to the effective management of FCCI Insurance Business.

FIDELITY BOND AND OTHER INSURANCE

The Company's ultimate parent, FCCI Mutual Insurance Holding Company, maintained fidelity bond coverage, which included the Company, up to \$5,000,000 with a deductible of \$50,000, an amount considered adequate by NAIC guidelines. The Company also was a named insured on a Commercial Umbrella Liability policy and other insurance policies.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company and FCCI Services Inc, an affiliated company, along with certain affiliated insurance companies, were members of a retirement and savings plan ("401k Plan", a defined 401k contribution and profit sharing plan) in which all employees were eligible to participate. Certain members of the FCCI Group Inc. (FGI), an upstream parent of the Company, board of directors had entered into a deferred compensation plan, which included a deferred compensation payment of three times director's annual fees at retirement subject to certain vesting criteria. FGI had established for members of the board of directors and officers of FSI a Long-Term

Incentive Plan ("Incentive Plan") that offered two types of performance-based incentive awards, a Full Value Performance Unit Award ("Performance Units") and a Performance Unit Appreciation Rights Award ("Appreciation Rights"). After satisfaction or lapse of the restrictions, terms and conditions established by the Incentive Plan with respect to a grant of Performance Units, the Incentive Plan participant would receive a cash payment equal to the number of vested Performance Units multiplied by a Company Value as of the Exercise Date as defined in the Incentive Plan. Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of vested Appreciation Rights exercised multiplied by the increase in Company Value as of the Exercise Date compared to the Company Value on the Grant Date.

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	USTN 4.75%, 03/31/11	<u>\$ 325,000.00</u>	<u>\$353,919</u>
TOTAL FLORIDA DEPOSITS		\$ 325,000.00	\$353,919

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the state of Florida.

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 instructions for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, 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 any reinsurance.

Ceded

The Company ceded risk on a quota share basis. The Company ceded 100% of written premium to an upstream parent, FCCI Insurance Company. In this agreement, the reinsurer, FCCI Insurance Company, would indemnify the company of 100% of the Company's losses under the Company's policies.

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 Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with The Northern Trust Company, dated March 13, 2006, and amended September 7, 2006, which complied with the terms of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company entered into an independent auditor agreement with KPMG for annual statutory audit services for the year ending December 31, 2008. **Subsequent Event:** The Company changed its independent auditors to BDO Seidman, LLP for annual statutory audit services effective for the year ending December 31, 2009.

Information Technology Report

ParenteBeard LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

**FCCI Advantage Insurance Company
Assets**

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,639,627		\$5,639,627
Cash:	18,184		18,184
Investment income due & accrued	62,952		62,952
Net Deferred Tax Asset	4,689		4,689
Totals	<u>\$5,725,452</u>		<u>\$5,725,452</u>

**FCCI Advantage Insurance Company
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Commissions payable, contingent commission and other similar charges	\$ 88,714		\$ 88,714
Taxes, licenses and fees	234,042		234,042
Current federal and foreign income taxes	102,352		102,352
Advance Premium	21,014		21,014
Ceded reinsurance premiums payable	(188,171)		(188,171)
Amounts withheld	<u>21,683</u>		<u>21,683</u>
 Total Liabilities	 \$ 279,634		 \$ 279,634
 Common capital stock	 \$ 100,000		 \$ 100,000
Gross paid in and contributed surplus	4,900,000		4,900,000
Unassigned funds (surplus)	<u>445,818</u>		<u>445,818</u>
Surplus as regards policyholders	<u>\$ 5,445,818</u>		<u>\$ 5,445,818</u>
Total liabilities, surplus and other funds	<u>\$ 5,725,452</u>		<u>\$ 5,725,452</u>

**FCCI Advantage Insurance Company
Statement of Income**

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	\$0
Deductions:	
Losses incurred	
Loss expenses incurred	
Other underwriting expenses incurred	33,884
Total underwriting deductions	<u>\$33,884</u>
Net underwriting gain or (loss)	<u>(\$33,884)</u>
Investment Income	
Net investment income earned	\$260,021
Net realized capital gains or (losses)	
Net investment gain or (loss)	<u>\$260,021</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$2,328)
Finance and service charges not included in premiums	26,867
Aggregate write-ins for miscellaneous income	
Total other income	<u>\$24,539</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$250,676
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	250,676
Federal & foreign income taxes	<u>\$102,337</u>
Net Income	\$148,339
Capital and Surplus Account	
Surplus as regards policyholders, December 31, 2007	\$5,282,876
Net Income	\$148,339
Net unrealized capital gains or losses	
Change in net deferred income tax	14,603
Examination Adjustment	
Change in surplus as regards policyholders for the year	<u>162,942</u>
Surplus as regards policyholders, December 31, 2008	\$5,445,818

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

The amount reported by the Company of \$5,445,818, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FCCI Advantage Insurance Company
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$5,445,818
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
No Adjustments			
LIABILITIES:			
No Adjustments			
Net Change in Surplus			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$5,445,818

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2007.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FCCI Advantage Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,445,818, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, Examiner In Charge, Chad Schieken, CISA, IT Director, Jennifer Cox, Participating Examiner, Phil Schmoyer, Participating Examiner and IT Consultant, representing ParenteBeard LLC participated in the examination.

Respectfully submitted,

James M. Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation