

REPORT ON EXAMINATION
OF
FCCI ADVANTAGE INSURANCE
COMPANY
SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

October 27, 2011

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 Rule 69O-138.05, Florida Administrative Code, 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, 2010, 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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office from July 18, 2011, to July 22, 2011. The fieldwork commenced on July 25, 2011, and concluded as of October 27, 2011.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

HISTORY

General

The Company is a property and 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.

The Company was party to Consent Order 88524-06-CO, filed December 20, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with this order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Fire	Other liability (including Product liability)
Allied lines	Commercial auto liability
Commercial multi peril	Commercial auto physical damage
Inland marine	Fidelity
Burglary and theft	Boiler and machinery

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

Dividends to Stockholders

No dividends were declared or paid during the period covered by this examination.

Capital Stock and Capital Contributions

As of December 31, 2010, 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. (FIC), who owned 100% of the stock issued by the Company; they in turn were 100% owned by FCCI Insurance Company; 100% owned by FCCI Group, Inc.; 100% owned by FCCI Mutual Insurance Holding Company, a Florida mutual holding company.

Surplus Debentures

The Company had not issued any surplus debentures.

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

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

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
Charles Robert Baumann Sarasota, Florida	Director / CPA
Robert Weld Benjamin Sarasota, Florida	Vice President / Attorney
Timothy Joseph Clarke Sarasota, Florida	President / Marketing Consultant
Robert Winthrop Flanders Sarasota, Florida	President / Business Owner
Marvin Stephen Haber Sarasota, Florida	Retired
Gordon William Jacobs Sarasota, Florida	CEO, FCCI Mutual Insurance Holding Co.
John Thomas Stafford Sarasota, Florida	Vice Chairman / Director
Roy Allan Yahraus Sarasota, Florida	Sales Manager

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

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

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

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

¹ Chairman

Subsequent Events

There have been changes in the management of the Company subsequent to the examination date. Effective in May 2011: Gordon "G.W." Jacobs, President and Chief Executive Officer retired. Craig Johnson was promoted to President and Chief Executive Officer, Chris Shoucair was promoted to Chief Financial Officer and Treasurer and Michelle Jalbert was promoted to Controller and Assistant Treasurer.

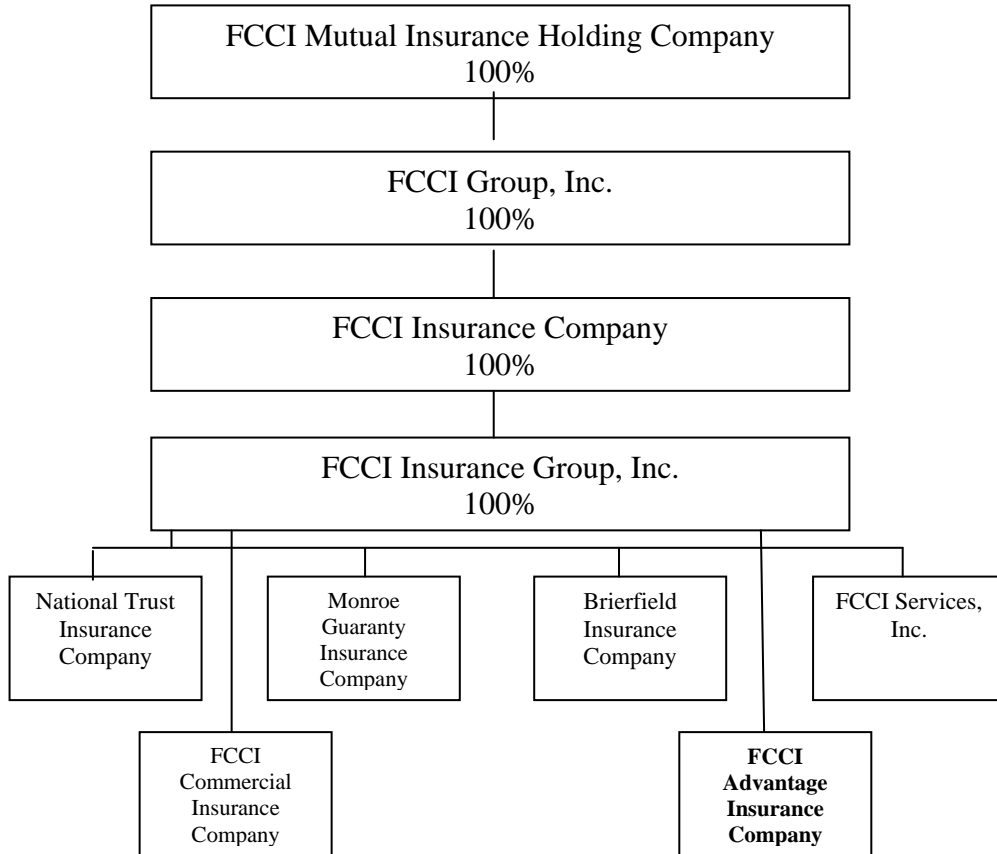
Affiliated Companies

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 28, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**FCCI ADVANTAGE INSURANCE COMPANY
Organizational Chart**

DECEMBER 31, 2010



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

Tax Allocation Agreement

The Company, along with its affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation was the “separate-entity” basis described in Internal Revenue Code Section 1552(a)(2) and Treasury Regulation 1552-1(a)(2) which was the percentage of tax each member would bear compared to the total tax of 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., an affiliate, 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 the Company’s business.

Reinsurance Agreements

The Company participated in a 100% quota share ceded reinsurance agreement with FIC.

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, which met the suggested minimum as recommended by the NAIC.

The Company also was named insured on a commercial property and general liability policy, workers' compensation and employer's liability policy, commercial umbrella liability policy, and business auto policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Pension, stock ownership, and insurance plans did not apply to the Company, as it did not have any employees. FCCI Services, Inc. employed all the personnel and through an allocation agreement charged each of the subsidiary companies.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only 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 procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

All premiums were ceded to and earned by the parent company. The underwriting loss relates to expenses which were in excess of ceded reinsurance commissions. Net income increased primarily due to a reduction in federal income taxes incurred. The increase in total assets was primarily attributable to the increase in bonds and cash. The increase in total liabilities was primarily attributable to the increase in ceded reinsurance premiums payable and a reduction in federal income taxes payable. Surplus as regards policyholders increased nearly 3%.

Profitability of Company

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

	2010	2009	2008	2007	2006
Premiums Earned	0	0	0	0	0
Net Underwriting Gain/(Loss)	(\$37,168)	(\$29,694)	(\$33,884)	(\$10,726)	(\$7,039)
Net Income	\$168,068	\$91,333	\$148,339	\$170,405	\$122,384
Total Assets	\$6,345,995	\$6,087,268	\$5,725,452	\$5,455,952	\$5,195,322
Total Liabilities	\$579,735	\$484,894	\$279,634	\$173,076	\$72,938
Surplus As Regards Policyholders	\$5,766,260	\$5,602,374	\$5,445,818	\$5,282,876	\$5,122,384

LOSS EXPERIENCE

There were no significant changes to the Company's loss experience.

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 100% of written premium to an upstream parent, FIC. In this agreement, the reinsurer, FIC, would indemnify 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.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009 and 2010, 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 Northern Trust Company, dated March 13, 2006. It was amended September 7, 2006 and January 1, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

RSM McGladrey 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.

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%, 03/31/2011	\$325,000	\$328,595

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$6,092,516		\$6,092,516
Cash and Short-Term Investments	115,466		115,466
Investment income due & accrued	48,146		48,146
Net deferred tax asset	65,730		65,730
Aggregate write-in for other than invested assets	24,137		24,137
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Totals	\$6,345,995	\$0	\$6,345,995
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FCCI ADVANTAGE INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Commissions payable, contingent commissions and other similar charges	\$122,108		\$122,108
Taxes, licenses and fees	224,929		224,929
Current federal and foreign income taxes	84,064		84,064
Advance premium	12,139		12,139
Ceded reinsurance premiums payable	103,911		103,911
Amounts withheld or retained by company for account of others	32,576		32,576
Aggregate write-ins for liabilities	8		8
Total Liabilities	\$579,735	\$0	\$579,735
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	4,900,000		4,900,000
Unassigned funds (surplus)	766,260		766,260
Surplus as regards policyholders	\$5,766,260	\$0	\$5,766,260
Total liabilities, surplus and other funds	\$6,345,995	\$0	\$6,345,995

FCCI ADVANTAGE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		\$0
Loss expenses incurred		0
Other underwriting expenses incurred		37,168
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$37,168
Net underwriting gain or (loss)		(\$37,168)

Investment Income

Net investment income earned		\$186,014
Net realized capital gains or (losses)		47,783
Net investment gain or (loss)		\$233,797

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$3,255)
Finance and service charges not included in premiums		32,989
Aggregate write-ins for miscellaneous income		40
Total other income		\$29,774

Net income before dividends to policyholders and before federal & foreign income taxes		\$226,403
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$226,403
Federal & foreign income taxes		58,335
Net Income		\$168,068

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$5,602,374
Net Income		\$168,068
Net unrealized capital gains or losses		0
Change in non-admitted assets		0
Change in net deferred income tax		(4,182)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$163,886
Surplus as regards policyholders, December 31 current year		\$5,766,260

A comparative analysis of changes in surplus is shown below.

FCCI ADVANTAGE INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement	\$5,766,260
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$5,766,260</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$0

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, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, RSM McGladrey, Inc., to review the loss and loss expense obligations carried in the Company's balance sheet as of December 31, 2010, and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$5,766,260 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

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, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,766,260, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John J. D'Amato, CPA, Examiner-In-Charge; Michael C. Dubin, FCAS MAAA, Consulting Actuary; Jared Rubinstein, Participating Examiner; Amber Webster, Participating Examiner; Philip E. McMurray, CISA IT Manager; and Margaret C. Spencer, CFE, all of RSM McGladrey; and Kyra Brown, APIR, Financial Specialist; and Syntia King, APIR, Financial Examiner/Analyst II of the Office participated in the examination.

Respectfully submitted,

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