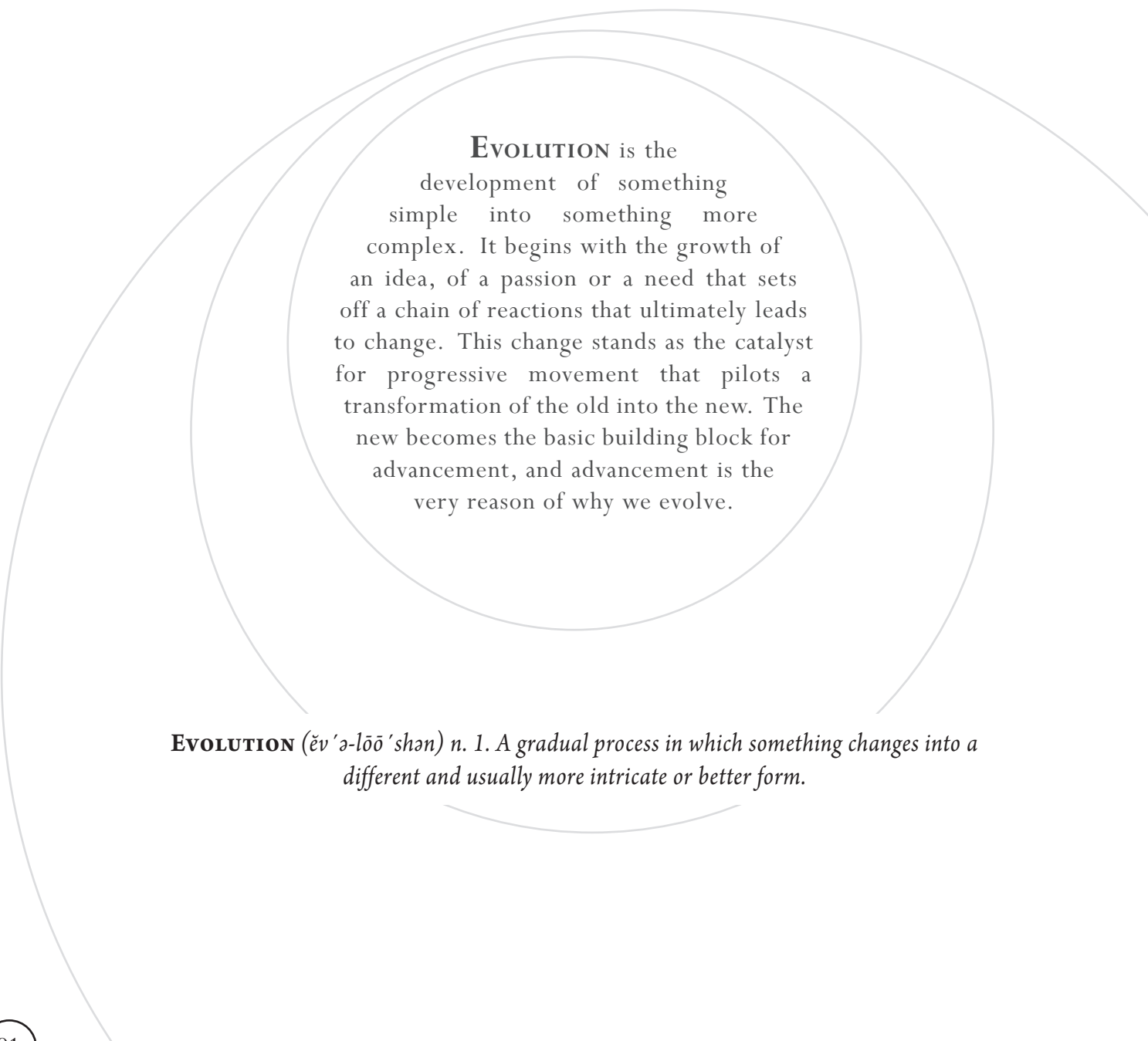




FLORIDA SURPLUS LINES SERVICE OFFICE
2006 ANNUAL REPORT



EVOLUTION is the development of something simple into something more complex. It begins with the growth of an idea, of a passion or a need that sets off a chain of reactions that ultimately leads to change. This change stands as the catalyst for progressive movement that pilots a transformation of the old into the new. The new becomes the basic building block for advancement, and advancement is the very reason of why we evolve.

EVOLUTION (ěv 'ə-lōō 'shən) n. 1. *A gradual process in which something changes into a different and usually more intricate or better form.*



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FROM THE CHAIRMAN

Reflecting back over 2006, I cannot summarize the events that mapped out the year without using the word “change.” While change is inevitable, it takes hard work, perseverance, and foresight to make change in a positive direction. It also requires a constant commitment to offer a level of service that allows our office to change with the times and deliver unwavering customer service.

The areas of technology and communication are always on the forefront of change as our society is continually making advancements to make services better, faster and more efficient. The ability for the Service Office staff to adapt and utilize these advancements puts them on the frontline for success and innovation. Employing new techniques to push products and services to members became a key component of their 2006 year, and enhancements



to existing systems drove efforts that promoted accuracy and credibility within the market.

As you take time to peruse our 2006 Annual Report, I am sure you will appreciate the complexity of the accomplishments that the Service Office completed this past year.

The ability for the Service Office to maintain their excellence in work output comes from their diligence in goal setting, process management, and strategic thinking. The basis for all advancement and growth is entirely dependent on the development of the Service Office’s three-year strategic plan and the feedback of its customers.

One thing that remains the same is the Service Office’s focus on providing better services through the use of technology, a general access to information, enhancement of its internal operations

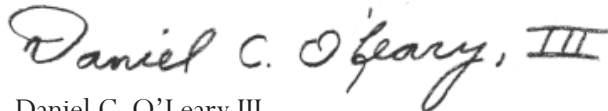
“The ability for the Service Office to maintain their excellence in work output comes from their diligence in goal setting, process management, and strategic thinking.”

and an increase in provisions for education programs. Technology continues to play a major role in the success of the Service Office, and advancement comes at the hands of those who utilize the most available resources in the search for creative solutions. In that regard, I extend my gratitude to FLSO Executive Director, Gary Pullen, and the Service Office staff for their relentless commitment to meet customer needs head on through the delivery of quality products and services.

The dedication of the FLSO team inspires positive change in Florida's surplus lines community and is responsible for so many of the programs instituted this past year. As a long-standing board member, I thank the FLSO Board of Governors for the opportunity to once again serve as a leader within this organization as its elected chairman. I commend and congratulate the 2006 Board of Governors for their tireless devotion to this organization and to Florida's entire surplus lines community.

I look forward to another successful year marked with productivity and progress as we continue to push for stability and achievement within our industry and among our members. Together, we will forge ahead for quality services and programs, making way for another successful year for your Florida Surplus Lines Service Office.

Sincerely,



Daniel C. O'Leary III
Chairman

FROM THE DIRECTOR

It is the very nature of business to be in a constant state of change. Adaptation to an environment that is continuously changing may dictate its success. For the Service Office, its staff and its members, the 2006 year was one of change and evolution.

On the outside, the Service Office freshened its look by revamping its logo, newsletter and tradeshow booth. The new FLSO logo was designed to include Florida's Royal Palm, and incorporates a modern look to represent the progression of our organization. Similarly, FLSO's newsletter, *The Advisor*, was given a complete facelift, streamlining the current look to produce a corporate-looking publication. Not to be outdone, the Service Office's tradeshow booth was also completely transformed to include



**“We remain
dedicated to the cause of
quality customer service, to
the challenges that shape our
industry and to the journey
that lies ahead.”**

FLSO's "DoYou Know" tagline, a part of its information campaign to increase product and service awareness.

Internally, the Service Office focused on available technologies, with a particular focus on its reporting software and web-based applications. In October, the Service Office released new versions of the Agent Submission Software, FTP Submission Software, Insurer Submission Software and Surplus Lines Information Portal (SLIP). New features were added that allowed software users a more efficient way to enter data while including several new informational components that facilitated a streamlined data validation process.

We made great strides in 2006 to find an instrument that would track our journey's progress and the

implementation of a performance tracking software called Performance Soft made it possible for the Service Office to measure the results of its processes, tasks and daily activities. This allowed us to establish standards for performance, aligning them with the needs and expectations of our customers. This standards-based approach has not only allowed us to see where our areas of improvement lie, but it also provides the groundwork for the evolution of future products and services.

Clear direction comes from the intuition of dedicated leadership, and the Service Office remains indebted to the talents and experience of its Board of Governors. I extend a generous thank you to our 2006 Chairman, Dan O’Leary, for his steadfast support and guidance of this organization as head of our Board of Governors. Likewise, I commend the Board for their commitment to this organization and to the industry at large.

As an organization, our collective goal is to preserve the best and reinvent the rest. By this, I mean we are maintaining our best attributes – our progressive

thinking, our focus on the customer, our dedication to the industry – while constantly challenging ourselves to think outside the box, work smarter and be better. I take this opportunity to thank the perseverance of the Service Office staff for their devotion to the organization, its mission and its customers. We remain dedicated to the cause of quality customer service, to the challenges that shape our industry and to the journey that lies ahead. Throughout the challenges that will surface, one thing that will remain a constant is our commitment to serve you.

Sincerely,



Gary D. Pullen
Executive Director

BOARD OF GOVERNORS

DANIEL C. O'LEARY III

CHAIRMAN 2006-2007
SHELLY, MIDDLEBROOKS & O'LEARY
JACKSONVILLE

R.C. CHAFFIN

VICE CHAIRMAN 2006-2007
SEACOAST UNDERWRITERS, INC.
CORAL GABLES

DAVID HOLCOMBE

SECRETARY/TREASURER 2006-2007
INTERNATIONAL SPEEDWAY CORPORATION
DAYTONA BEACH

ROY V. FABRY

KAHN CARLIN & CO., INC.
MIAMI

STEVEN FINVER

CONTINENTAL AGENCY OF FLORIDA
BOCA RATON

RONALD GABOR

GABOR INSURANCE SERVICES, INC.
MIAMI

LORNA W. PALMER

JOHN HANDEL & ASSOCIATES, INC.
ST. PETERSBURG

MICHAEL J. RIORDAN

HULL & COMPANY INC.
ST. PETERSBURG

GENERAL ROBERT MILLIGAN

FLORIDA'S INSURANCE CONSUMER ADVOCATE
FLORIDA DEPARTMENT OF FINANCIAL SERVICES
TALLAHASSEE

FSLSO STAFF

GARY PULLEN
Executive Director

CAROLYN DANIELS
Assistant Director, Agent
Services

SEAN FISHER
Assistant Director, Education
& Information Services

TROY KRAUSE
Chief Financial Officer

GEORGIE BARRETT
Executive Assistant

KRISTEN BERTAGNOLLI
Compliance Review
Administrator

JIM DAY
Database/Network
Administrator

SHEILA DILLMAN
Accounting Analyst

CATHY DURRANCE
Variance Program
Coordinator

JAMES FARMER
Senior Information Architect

LISA FRENCH
Insurance Analyst

BOBBI HARTER
Variance Specialist

JASON HAYNIE
Controller

TERI LITTLEFIELD
Insurer Services
Administrator

FELICIA MEREDITH
Insurance Analyst

LIZ MORRIS
Information Systems
Support/Developer

TIFFANY VARN
IPC Collections
Coordinator

ASHLEE WEBER
Public Information
Specialist

MATT WESTER
Agent Services
Administrator

BRYAN YOUNG
Variance Specialist

MISSION

TO PROTECT PUBLIC REVENUES BY FACILITATING
COMPLIANCE AND SERVE AS A SOURCE OF
INFORMATION AND ASSISTANCE CONCERNING
THE FLORIDA SURPLUS LINES MARKETPLACE.

VALUES

HARNESS TECHNOLOGY

EVERY PERSON, EVERY IDEA COUNTS

LEARN TO ACCEPT CHANGE

PASSION FOR OUR CUSTOMERS

...WITH SELFLESS

ACCOUNTABILITY TO EACH OTHER

COMMITMENT TO FSLSO AND ITS MISSION

TRUST ONE ANOTHER AND BE HONEST

INFORM OTHERS AND COMMUNICATE

OUTCOME OR RESULTS FOCUSED

NEGOTIATE IDEAS WITH MUTUAL RESPECT



GOALS

PROTECT CONSUMERS SEEKING INSURANCE IN THIS STATE.

PERMIT SURPLUS LINES INSURANCE TO BE PLACED WITH APPROVED SURPLUS LINES INSURERS.

MAINTAIN A SELF-REGULATING ORGANIZATION THAT WILL PROMOTE AND PERMIT ORDERLY ACCESS TO SURPLUS LINES INSURANCE IN FLORIDA.

ENHANCE THE NUMBER AND TYPES OF INSURANCE PRODUCTS AVAILABLE TO CONSUMERS IN FLORIDA.

PROVIDE A SOURCE OF ADVICE AND COUNSEL FOR THE BENEFIT OF CONSUMERS, SURPLUS LINES AGENTS, INSURERS AND GOVERNMENT AGENCIES, CONCERNING THE OPERATION OF THE SURPLUS LINES INSURANCE MARKET.

PROTECT THE REVENUES OF THE STATE.

VISION

TO BE THE DEFINITIVE LINK TO FLORIDA'S SURPLUS LINES MARKETPLACE.



MARKETPLACE MONITORING

Growth (*grōth*) *n.* 1. *Development from a lower or simpler to a higher or more complex form.*

Florida's surplus lines marketplace continued to grow in 2006, pushing Florida to the second ranked state in the country relative to the amount of written premium. Likewise, the expectations of the Service Office to support the credibility of Florida's surplus lines community continued to remain a top priority.

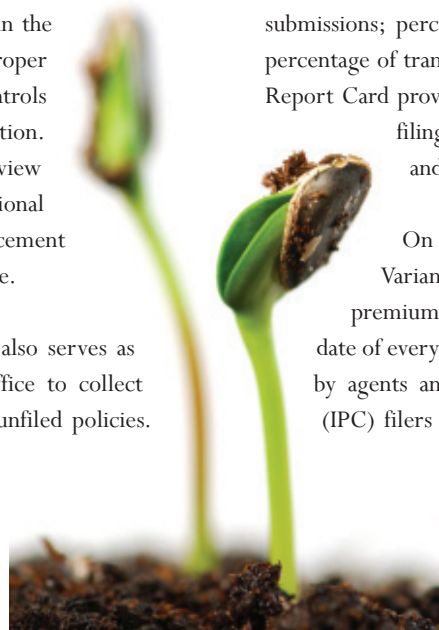
The Service Office monitors Florida's surplus lines marketplace through a host of programs, each designed to evaluate the marketplace on a different level. On the agent level, the Service Office facilitates compliance of Florida's surplus lines community relative to the sales and reporting of surplus lines insurance contracts through its Compliance Review Program. The program utilizes the expertise and experience of contract analysts in reviews that compare a sampling of a surplus lines agent's policies to the transactions submitted to the Service Office. Inconsistencies found within the review process may be due to improper training of staff or lack of quality controls in the submission of policy information. As such, the Compliance Review Program serves as a means of educational assistance geared toward the enhancement of Florida's surplus lines marketplace.

The Compliance Review Program also serves as another means for the Service Office to collect the appropriate taxes and fees on unfiled policies.

In 2006, the Compliance Review Program uncovered a total of 149 unfiled policies, resulting in \$1,932,920 of unreported premium and \$99,102 in taxes, fees and penalties.

Another monitoring program that the Service Office employs on the agent level is the Agent Report Card. Similar to the Compliance Review Program, the Agent Report Card serves as an education tool geared to inform Florida licensed surplus lines agents of their strengths and weaknesses relative to compliance based on industry standards. Each quarter, agents receive a report card relaying their level of compliance with Florida's surplus lines filing procedures as dictated through the following four criteria: percentage of transactions with no outstanding Transactions-in-Question (TIQ); percentage of submissions submitted timely versus total number of submissions; percentage of affidavits filed timely; and percentage of transactions submitted timely. The Agent Report Card provides agents with an overview of their filing procedures, highlighting strengths and uncovering areas for improvement.

On the company and agent levels, the Variance Analysis Program compares the premium amount, policy number and effective date of every Florida surplus lines policy submitted by agents and Independently Procured Coverage (IPC) filers against policies submitted by eligible



Florida surplus lines insurers. Discrepancies in this data are further analyzed to determine if a true variance exists, its cause and what course of action must be taken to have errors corrected.

The Service Office maintains its position as the sole surplus lines stamping office in the nation with the ability to perform this type of technological analysis through the electronic collection of policy information. Attention to detail by the Service Office's variance staff uncovered 71 unfiled policies representing \$16,901,141 in unreported premium. This resulted in the collection of more than \$748,775 in taxes, fees and penalties. The Variance Analysis program stands as one of the Service Office's key elements in its goal to enhance regulatory performance and drives the protection of public revenue.

Monitoring the market affords the Service Office with a means to promote stability and health of a growing marketplace. Through its various programs, the Service Office is continually investing in the long term growth of its members while supporting compliance with industry standards in order to create a credible, open and honest marketplace.



DO YOU KNOW..

The "FSLSO Boat Ad" was one of the initial kickoff items of the "Do You Know" campaign and debuted in the *Florida Underwriter*.

ASSISTANCE

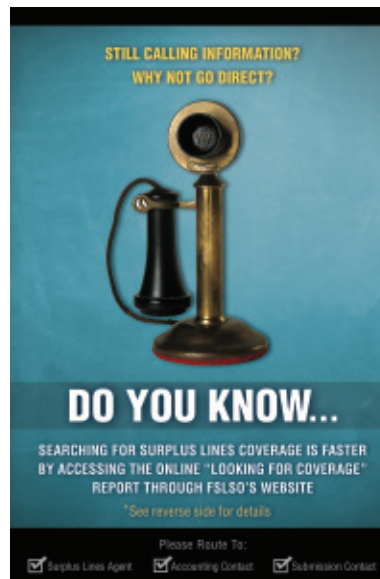
Change (chânj) v. 1. To cause to be different.

The benchmark of success for any organization is the ability to provide customers with a level of service that is unmatched by others. The Service Office staff takes great pride in their ability to assist customers with their daily needs, offering aid through telephone, email, fax and in-person. Adapting to customer needs becomes an essential part of providing quality service, and as the marketplace changes, the means to aid FLSO customers must also shift directions.

Helping consumers locate coverage during Florida's hard market became a major focus of the Service Office staff in 2006. Due to property market conditions, the Service Office received numerous requests from consumers and retail agents for market referrals for their hard-to-place coverage needs.

In an effort to expedite the process of assisting customers finding coverage options, the Service Office developed an online search tool for consumers and retail agents who were looking for coverages that were hard to find in Florida's volatile insurance marketplace. Empowered with the knowledge that Florida consumers in search of insurance options were often unaware of current possibilities in the surplus line market, the

Service Office worked to create a streamlined version of its current Market Data Report program that would pinpoint specific coverages written by counties.



The "Looking for Coverage" report provided consumers and Florida's retail agent force with a means of identifying opportunities within the surplus lines marketplace as possibilities for finding and securing coverage. By selecting the type of coverage and county of the risk, the online search tool generated a report based on the last three full months of data submitted by Florida licensed surplus lines agents. The report provided a list of the surplus lines agents' names that provide the coverage in the county selected, and the agents' addresses and phone numbers.

DO YOU KNOW...

Searching for surplus lines coverage is faster by accessing the online "Looking for Coverage" report through the FLSO's website.

On October 1, 2006, the Department of Financial Services began enforcing a new regulatory requirement calling for the licensing/registration of all

Florida insurance agencies. The Service Office staff assisted Florida's surplus lines community by serving as a point of assistance, aiding its customers with their navigation of the online agency licensing/registration process. In addition to phone assistance, the Service Office staff distributed

various informational pieces, including newsletter articles and a teaser card, promoting awareness among its members in an effort to aid compliance.

As a means to keep up with the changing needs of both Service Office customers and regulatory requirements, the Agent Submission Software, FTP Submit Software, Surplus Lines Information Portal (SLIP) and the Insurer Software underwent enhancements that were released in early October. The Agent Software v3.0 included several improvements, including a new transaction type and field requirements. A “reinstatement” transaction type was added based on customer feedback garnered from agents and their support staff. Other changes included new field requirements for current email addresses for the surplus lines agent, the submission and current billing contacts and a field for the agency’s

license/registration number. These new field requirements would allow the Service Office to associate policies to agents with the applicable insurers and better the accuracy of contact information.

The Insurer Software also incurred changes including the addition of a valid insurer contact email field, policy expiration date field and a new entity field. All of these changes were

made in an effort to further verify and validate the data being submitted to the Service Office via Florida eligible surplus lines insurers.

As Florida’s surplus lines market continued to expand, the Service Office welcomed 70 resident and 59 nonresident Florida licensed surplus lines agents. Each new agent was provided a New Agent Packet, an educational pack inclusive of basic informational tools including copies of the most current Annual Report, *Advisor* newsletter, Agent Procedures’ Manual, Agent Reporting Software, a copy of the *Disaster Planning & Recovery Guide* and various industry related brochures.

All surplus lines insurers who seek eligibility to market their products in Florida must submit their application to the Service Office for review. In 2006, nine surplus lines insurers sent applications to the Service Office, of which eight were reviewed and sent to the Department of Financial Services/Office of Insurance Regulation. As of December 31, 2006, six applications were approved by DFS/OIR.

Though Florida’s surplus lines market stayed in a constant state of change, the Service Office’s commitment to its customers remained the same. The commitment of staff to put the needs of their customers first, providing them with information and viable solutions supports FLSLSO’s platform for quality customer assistance.



REPRESENTATION

Progress (prōg' rēs) n. 1. Movement, as towards a goal; advance.

Representing the surplus lines community in Florida stands as an enormous responsibility. Florida's surplus lines market has seen its share of change over the past years which have included the emergence of nonresident licensing and back-to-back active hurricane seasons. During these times of change, the Service Office has progressed to take on a more proactive role as an intermediary between Florida's surplus lines community, the industry at large and state government.

Through the attendance of industry tradeshows and conferences, the Service Office is afforded the ability to meet and greet its industry members as well as provide information concerning Florida's surplus lines market to interested participants. In conjunction with its 2006 information campaign, the Service Office parlayed its "Do You Know" tagline into a completely new tradeshow booth. During 2006, the Service Office attended a host of industry tradeshows and industry meetings including: Florida Association of Insurance Agents (FAIA), National Association of Professional Surplus Lines Offices (NAPSLO), National Association of Insurance Commissioners (NAIC), American Association

of Managing General Agents (AAMGA) and the Florida Governor's Florida Sterling Conference.

The Service Office also utilizes its role as a representative of Florida's surplus lines market as an education tool, delivering presentations through its Speaker's Bureau.

Staff members provided presentations to a wide audience of participants at several different venues including the Florida Surplus Lines Association's (FSLA) annual conference, the Professional Insurance Agents of Florida (PIA) and the Florida Department of Financial Services, Bureau of Investigations annual conference.



DO YOU KNOW...

The new display booth highlights the key services provided by the FLSO.

The Service Office continued to attend both national and statewide conferences in order to be involved in and aware of industry happenings. In combination with this type of attendance, the Service Office also actively participates in industry meetings on state and national platforms. In 2006, the Service Office began watching and reporting on several national developments including issues regarding agent licensing uniformity and multi-state tax collection.

In early August, the FLSO Board of Governors met with Steve Stephan, NAPSLO's Director of Government Relations, who made a presentation to the Board members for a state-based solution to modernize, simplify and create a level of uniformity in the regulation of surplus lines transactions through a voluntary compact agreement. Stephan presented to the Board the four provisions that would provide the foundation for such an interstate compact:

1. The E&S licensee will be required to comply with the E&S laws of one state only, the "home state," whose entire E&S laws would apply to the placement (meaning, the home state E&S law as to diligent search, eligible insurer, affidavit or other filing requirements, disclosure notices or other provisions are all applicable to that multi-state transaction).
2. Deem that the home state compliance shall be considered by all other compacting states as valid and not a violation of any other states' E&S laws.
3. Provide a mechanism for payment of a fair, allocated portion of E&S taxes to all compacting states where risk exposures are located.
4. Mandate uniform, simple E&S tax allocation formulas for payment of proportionate taxes to each compacting state.

The Board unanimously voted to accept the four

provisions as a foundation for any proposed solution and granted the Service Office approval to participate in future interstate compact meetings.

The Service Office continues to support its role as a representative of Florida's surplus lines community by promoting the credibility of the marketplace, engaging in industry matters and backing the needs of the customer. Communication with other industry professionals helps the Service Office to gauge the needs of customers and the course of action for a progressive movement forward.



INFORMATION

Transform (trăns-förm ') *v. 1. To change the appearance or form; to change the nature.*

Knowledge is power, and the ability for the Service Office to push information to its customers is a service that is taken very seriously. As such, the Service Office staff made significant strides to improve its information and communication services in an effort to increase customer awareness of specific products and services. To do so, several new communication efforts were put into place, relaying information with a more aggressive front. Information delivery was transformed with diligence to a more proactive approach.

Valuable feedback taken from the 2005 Customer Service Survey uncovered a gap in awareness between the Service Office's various customer groups and its available products and services. The Service Office partnered with a Tallahassee creative agency, Design Farm, to begin work on an information awareness campaign entitled "Do You Know?" This basic call was meant to spark intrigue and engage its audience. The Service Office kicked off the campaign by first freshening its logo, giving it a more contemporary look and included Florida's royal palm and "FSLSO" bolded across the crest.

Following the completion of the new logo, the Service Office worked with Design Farm to develop and implement a new direct mail piece called a teaser card as a means to promote existing and upcoming products and services. Designed to fit in a standard envelope, teaser cards were included in monthly billing invoices and featured a particular FSLSO service or product. As the main carrier of the "Do You Know" theme, the

focus of each teaser card was delivered in the form of a question, with the intention to pique the interest of the reader, and prompt them to view the full details of the card's backside. The 2006 teaser card series delivered information relative to continuing education opportunities, the Surplus Lines Information Portal, software upgrades and agency licensing.

FSLSO's newsletter, *The Advisor*, underwent a massive overhaul during the second quarter of the year, bearing the new FSLSO logo and color scheme. The newsletter's transformation to the new design was geared to project a cleaner, more corporate look and remained a staple in the Service Office's cache of information resources. Published on a quarterly basis, *The Advisor* provided staff writers with a mechanism to relay valuable information including regulatory issues, Agent and Insurer Submission software concerns, accounting matters, and education topics.

Not to be underscored was FSLSO's development and distribution of a new information DVD created to promote Florida's surplus lines market and advocate retail agent education. Shot at various locations including FSLSO's headquarter building, the DVD, entitled "Surplus Lines Insurance for Retail Agents," provided information regarding Florida's surplus lines market, the distribution system and the responsibilities of the retail agent when accessing the surplus lines market to place coverage.

Secondly, the DVD operated as a promotion tool, designed to increase the retail agent's awareness of the Service Office as a place to seek out information and assistance concerning



Florida's surplus lines community. It also advertised the availability of FLSLO's new online education course "The Retail Agent's Role in Florida's Surplus Lines Market."



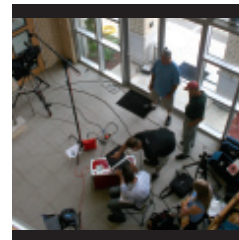
The Service Office debuted the DVD at the Florida Association of Insurance Agents' 102nd Anniversary Convention in June in which staff members provided free copies to conference attendees during the two-day tradeshow. The DVD is available for free by request, and since June of 2006, the Service Office has distributed more than 2,000 copies to various customer groups including surplus lines agents and retail agents.

The FLSLO website, www.fslso.com, remained a chief component in the delivery of information via its homepage. During 2006, the Service Office posted 84 news items to its main page, supplying visitors with updates on marketplace issues and industry events. News items were also sent via the Service Office's electronic news bulletin services eNews and eAlert. While the eNews service was utilized to push information items to active subscribers, the eAlert bulletin supplied important news items to all Service Office submitters regardless of subscription, including emergency

orders and legislative concerns. Over the course of the year, the Service Office sent out 19 eNews and 10 eAlerts.

Informational postings and electronic bulletins, partnered with mailed bulletins and newsletter items were instrumental in relaying information relative to the 2006 Citizens Property Insurance Corporation Assessment (Citizens). The Service Office began collecting the 6.84% assessment on January 1, 2006 and proper communications to agents, their staff and customers served as an essential tool in streamlining the process.

Communication technologies continue to advance our methods of sharing information, connecting with each other and linking resources to customers. Aligned with its mission to serve as a source of information and assistance, the Service Office continues to utilize new and emerging resources as a means to push information to its customers with persistent accuracy and efficiency.



DO YOU KNOW..

The DVD is available for free by request, and since June of 2006, the Service Office has distributed more than 2,000 copies to various customer groups including surplus lines agents and retail agents.

EDUCATION

Advancement (ăd-văn'mənt) *n.* 1. A forward step, an improvement.

The Service Office maintains its commitment to education as a means to promote a more responsible and credible marketplace. As always, the Service Office remained firm in its pledge to provide quality education programs to its members, and provide comprehensive learning solutions to all those seeking more information regarding Florida's surplus lines market. As a means of expanding its education base in 2006, the Service Office took to a new direction to advance available education opportunities for Florida's retail agent force.

Bridging the gap of knowledge between Florida's surplus lines industry and Florida's retail agent force came full circle in the 2006 through the addition of a new online course offering. Through the success of the Service Office's 2005 classroom course "The Retail Agent's Role in the Surplus Lines Marketplace," the FLSO education staff began work on a new online education opportunity geared to educate and inform Florida licensed 2-20 agents of their responsibilities when placing coverage in Florida's surplus lines market. The online version of "The Retail Agent's Role in the Florida's Surplus Lines Marketplace" was launched in late summer of

2006 and became FLSO's most popular online offering.

"The Retail Agent's Role in Florida's Surplus Lines Marketplace" was approved as a two-hour course and included several main areas of focus. The course provided information relative to Florida's surplus lines marketplace, the placement of insurance through various channels of the distribution system, retail agents responsibilities when accessing the surplus lines market and various applicable statutes. The course also introduced the Florida Surplus Lines Service Office as an informational resource for retail agents to learn more about surplus lines insurance and the products and services available to them.

Currently, participants of the course are allotted 30 days to complete the course which is broken up into five chapters, each inclusive of a "mini-quiz" as a measurement guide to test participants' knowledge. This course is provided free-of-charge to all member agents while all other interested individuals pay a nominal fee.



DO YOU KNOW...

The first teaser card in the campaign helped highlight the value of free education and training provided by the FLSO.

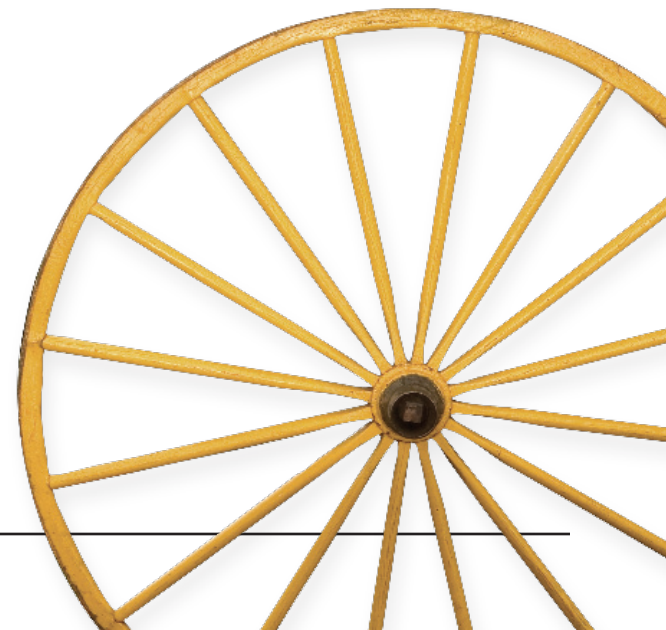
Among the Service Office's other online offerings, its "60-Hour Surplus Lines Pre-Licensing Qualification Course" remains a popular access item as it continues to serve as Florida's only online option for students seeking surplus lines pre-qualification credit. Other online opportunities include a three-hour course on Florida's surplus lines rules and regulations, appropriately titled "Florida's Surplus Lines Rules and Regulations." Students seeking continuing education credit also have the opportunity to earn two hours of property and casualty credit while learning about the presence of illegal insurance entities in Florida's insurance market through its online offering "Illegal Insurance Entities: Know the Difference."

For the agency support staff responsible for making an agent's surplus lines filings, the "Certification of Online Agent Software Training" (COAST) program remained a key training resource for education on the Agent Submission Software. During 2006, 17 students took advantage of the COAST program and completed the course with a 75% or higher on the final exam.

In the classroom, the Service Office taught a new education offering entitled "The Tools for Success in Florida's Surplus Lines Marketplace." The four-hour course was designed to help students better understand Florida's surplus lines insurance market by exploring topics such as: the differences between admitted and non-admitted insurers, avoiding illegal insurance entities, the distribution system, and agent responsibilities when accessing the market. The course also included an overview of the Service Office, its mission, goals and values, and the products and services it offers to better aid the industry including SLIP and the Agent Software. This

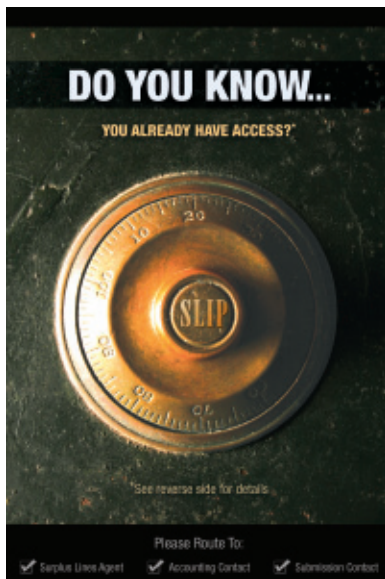
course was taught in four locations around the state including Daytona Beach, Tampa, Sunrise, and West Palm Beach to nearly 150 students.

In 2006, the Service Office provided classroom and online opportunities to surplus lines agents, retail agents, and agency support staff to strengthen their knowledge of Florida's surplus lines market while providing easily accessible continuing education options. The Service Office reported more than 650 continuing education credit hours to the Department of Financial Services stemming from its online and classroom based students. In its quest to provide quality education programs, the Service Office continues to utilize the feedback of students for the development of future education offerings. From the beginning stages of curriculum development, to deployment in a classroom or the Internet, the Service Office continues to mold its education program into an advanced and comprehensive learning center that appeals to its diversified customer groups.



DO YOU KNOW...

A goldfish has a memory span of only three seconds.
 A cheetah can go from 0 to 60 mph in only three seconds.
 The average reader will look at an ad for only three seconds.



YOU ALREADY HAVE ACCESS: In an effort to increase the number of users working with SLIP, the Service Office published a teaser card that highlighted SLIP's advantages and ease of use; this effort resulted in an increase of users by approximately 8%.

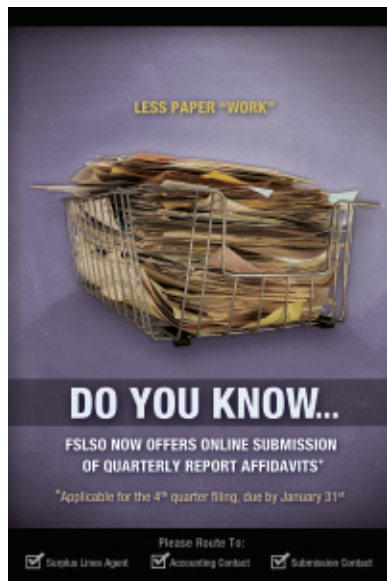


TIME'S UP: As a service to its member, the Service Office employed the vast spread of the teaser cards to remind members of their November 1, 2006 agency licensing and registration compliance requirement.



GOING GREEN: They say the medium is the message. Encouraging its members to go "paperless" with its electronic invoicing service, the Service Office promoted "going green" as means to help save time, money and the environment. This effort resulted in an increase of approximately 8% enrollment for this service over the following three-month period.

In three seconds, the average reader will either decide to read on or turn to the next page, thus the evolution of the teaser card. Constructed with eye catching graphics and thought provoking questions, the teaser card is designed to capture the reader's attention, and visually deliver a message that might otherwise be missed.



LESS PAPER “WORK”: Through the advent of SLIP, member agents were given the ability to file their quarterly report affidavit electronically, aiding in agent compliance. The effectiveness of the teaser cards resulted in an increase from 78.84% to 81.44% compliance for the fourth quarter filing.



THREE FOR THE PRICE OF NONE:

Member agents were encouraged to take advantage of the Service Office's member discount for free education. Following its mailing out, the Service Office saw an average 31% increase in registrants for its remaining CE classes.



IT'S TIME TO UPGRADE YOUR SUBMISSION SOFTWARE:

The Service Office pushed a mandatory software release to its members, and disseminated its release date via multiple channels including teaser cards.

FINANCE

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with the FLSO management. This was reiterated within the unqualified audit opinion received on the Florida Surplus Lines Service Office's financial statements for the fiscal years ended December 31, 2006 and December 31, 2005. Prudent budgeting and spending coupled with a continued upturn of premium in the surplus lines marketplace are definite reasons for this success.

Total Net Assets increased to \$27.8 million from \$21.4 million representing an increase of \$6.4 million over the prior year. Premium levels increased by approximately \$1.3 billion from 2005 resulting in an increase in revenues of approximately \$750,000.

Due to this trend, FLSO after requesting a rate reduction from .25% to .20% effective for 2006, requested a further reduction to .1% effective for 2007. This reduction was approved by the

Office of Insurance Regulation and was to be effective for all policies issued or renewed with an effective date on or after April 1, 2007.

Total operating expenditures increased to \$3,805,689 from \$3,580,820 representing an increase of \$224,869 over the prior year. The significant contributing factors to the increase in operating expenditures were: 1) increase of approximately \$100,000 in programming and computer support fees, and 2) increase of approximately \$140,000 in depreciation.

The Statement of Financial Position is in conformity with generally accepted accounting principles (GAAP) used in the United States. FLSO retains independent accountants to audit its financial statements. The independent auditors provided a clean and unqualified opinion with regards to these financial statements. The annual independent audit of the FLSO's books and records are available upon request for members to review.



FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

STATEMENT OF NET ASSETS

Assets

Current assets:

Cash and cash equivalents	\$14,924,174
Accounts receivable	82,038
Accrued Interest.....	123,863
Investments.....	2,248,633
Total current assets	17,378,708
Long-term investments	6,529,844
Property and equipment, net	5,283,226
Deposits	11,810
Total assets	29,203,588

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	360,404
Amounts held for the account of others	948,871
Total current liabilities	1,309,275

Net assets:

Invested in capital assets, net of related debt	5,283,226
Unrestricted	22,611,087
Total net assets	27,894,313
Total liabilities and net assets ...	29,203,588

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues:

Charges for services.....	\$9,103,387
Other income	22,645
Interest and finance charges on service fees.....	8,830
Total operating revenues.....	9,134,862

Operating expenses:

Administrations and support	1,320,052
Education and outreach	829,359
Agent and insurer relations	952,586
Depreciation and amortization	695,839
Total operating expenses.....	3,797,836
Operating income	5,337,026

Non-operating (expenses) revenues:

Investment interest.....	953,229
Loss on sale of assets	(998)
Rental income.....	142,994
Rental expenses.....	(81,350)
Total nonoperating (expenses) revenues	1,013,875

Increase in net assets 6,350,901

Net assets at beginning of year..... 21,543,412

Net assets at end of year 27,894,313

STATEMENT OF CASH FLOWS

Operating activities

Operating income	5,337,026
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	695,839
Changes in operating assets and liabilities:	
Accounts receivable	24,246
Accounts payable and accrued expenses	196,186
Amounts held for the account of others	371,705
Net cash provided by operating activities	6,625,002

Financing activities

Purchase of property and equipment	(445,515)
Other receipts (payments)	63,670
Net cash used in capital and related financing activities	(381,845)

Investing activities

Interest income	829,366
Purchase of investments	(10,564,477)
Sales of investments.....	1,786,000
Net cash provided by investing activities	(7,949,111)

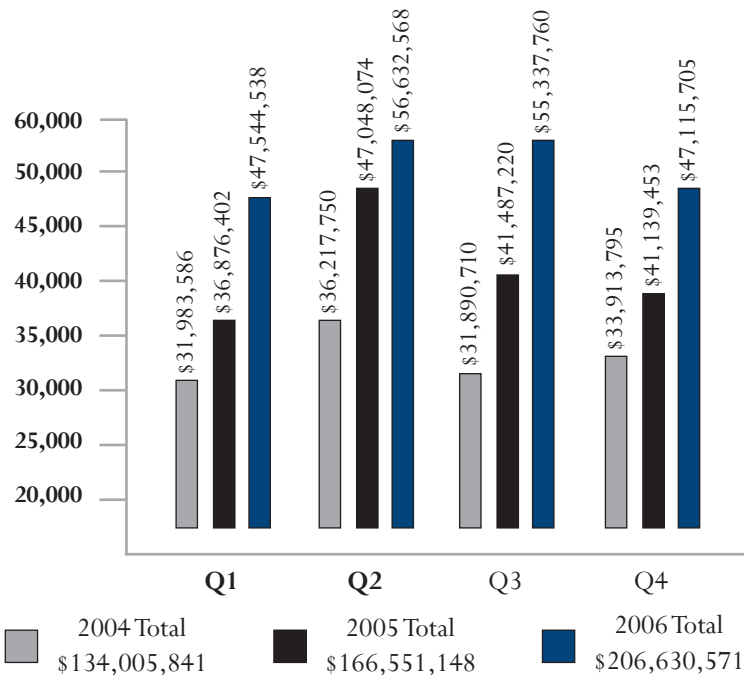
Net decrease in cash and cash equivalents	(1,705,954)
Cash and cash equivalents at beginning of year	16,360,128

Cash and cash equivalents

at end of year 14,924,174

GENERATED TAXES

2004-2006



PREMIUM COMPARISONS

2004

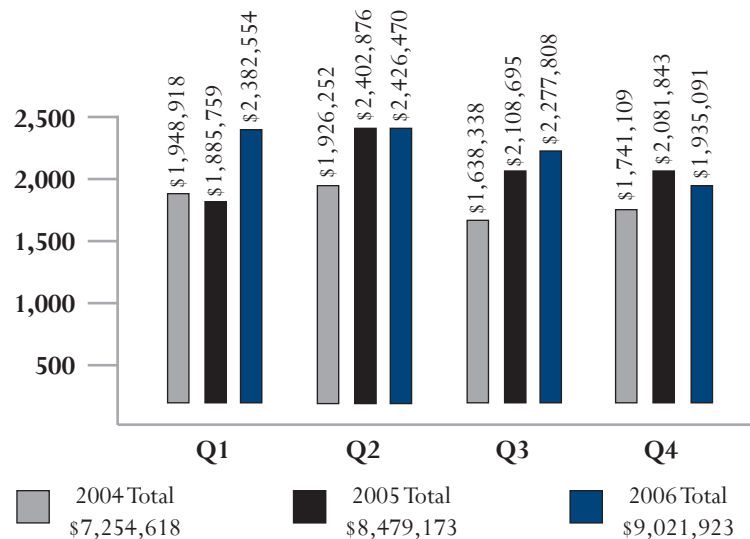
	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$591,718,198	\$87,885,129	\$679,603,327
Q2	\$674,031,506	\$112,847,894	\$786,879,400
Q3	\$596,525,744	\$103,385,124	\$699,910,868
Q4	\$626,579,438	\$113,446,041	\$740,025,479
YT	\$2,488,854,886	\$417,564,188	\$2,906,419,074

2005

	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$656,066,907	\$116,834,266	\$772,901,173
Q2	\$899,858,190	\$125,264,889	\$1,025,123,079
Q3	\$752,521,118	\$153,367,626	\$905,888,744
Q4	\$738,705,891	\$156,368,088	\$895,073,979
YT	\$3,047,152,106	\$551,834,869	\$3,598,986,975

GENERATED FEES

2004-2006



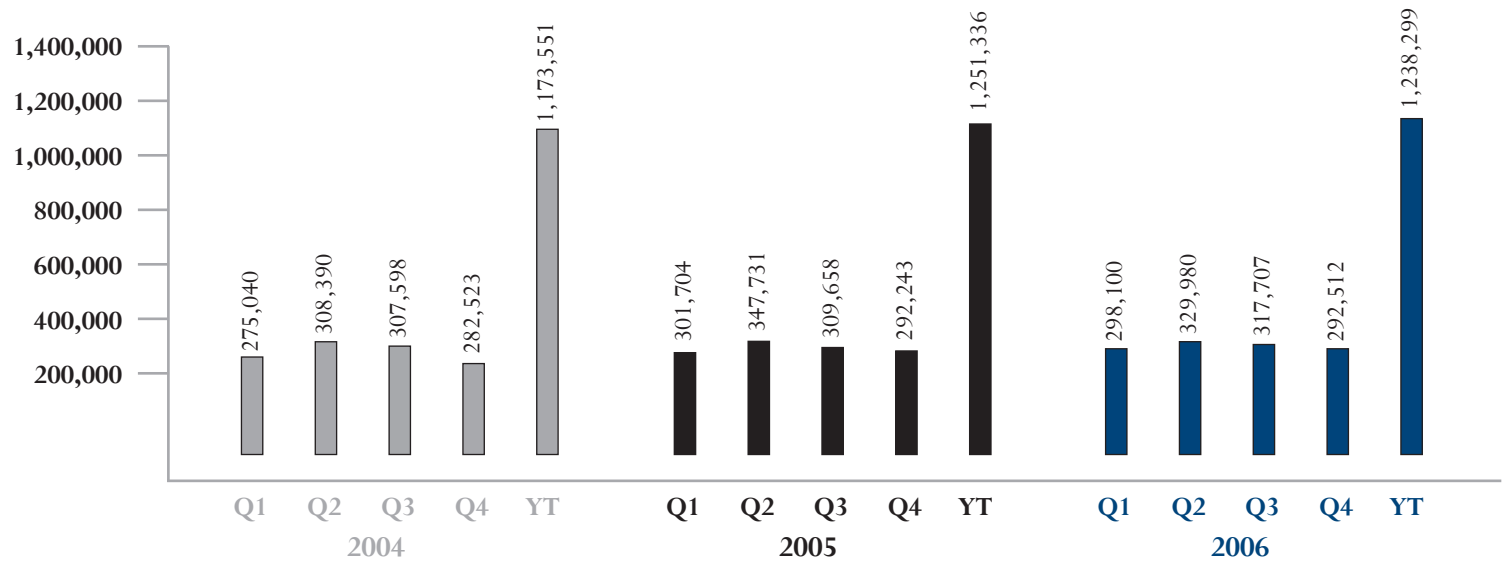
2006

	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$839,433,423	\$98,129,157	\$937,562,580
Q2	\$1,213,019,860	\$147,708,097	\$1,360,727,957
Q3	\$1,036,055,295	\$201,436,059	\$1,237,491,354
Q4	\$882,410,632	\$176,088,314	\$1,058,498,946
YT	\$3,970,919,210	\$623,361,627	\$4,594,280,837

For all submission comparisons, the transaction information in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The transaction information is based upon the submission date of policy transactions submitted as of 6/29/07.

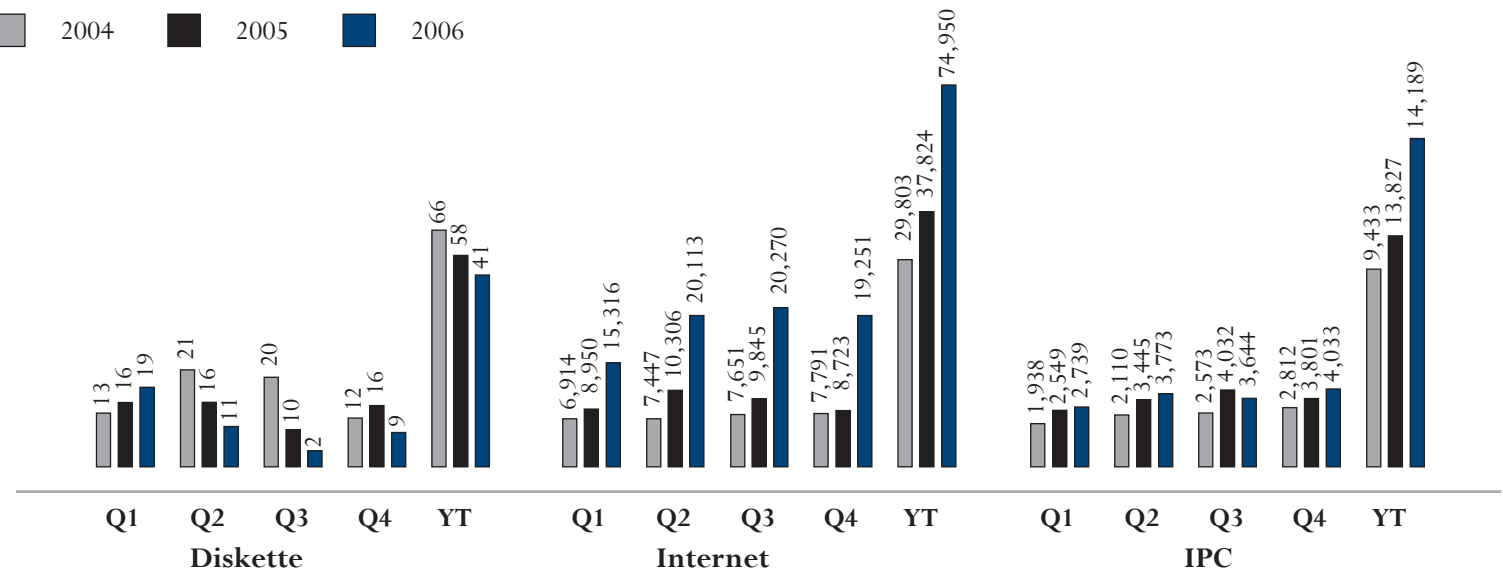
AGENT TRANSACTIONS AS SUBMITTED

NON - IPC



DISKETTE, INTERNET & IPC SUBMISSIONS

2004 2005 2006



COMPLIANCE REVIEWS-UNFILED POLICIES

2006

	NO. OF AGENTS	NO. OF POLICIES COLLECTED ON	TOTAL PREMIUMS	TAXES	TAX PENALTIES	SERVICE FEES	SERVICE FEE PENALTIES
Q1	22	85	\$1,274,458	\$49,440	\$6,134	\$3,091	\$427
Q2	7	16	\$275,550	\$13,777	\$2,503	\$675	\$118
Q3	5	23	\$127,258	\$6,350	\$739	\$331	\$43
Q4	5	25	\$255,654	\$12,783	\$1,936	\$653	\$102
YT	39	149	\$1,932,920	\$82,350	\$11,312	\$4,750	\$690

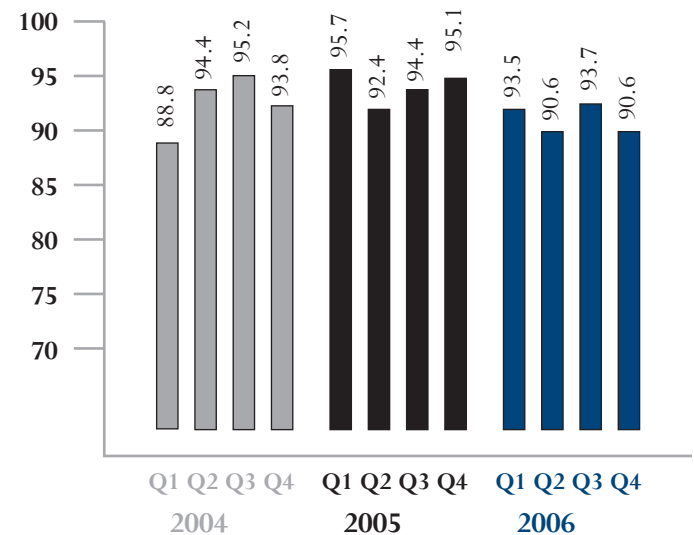
COMPLIANCE REVIEWS

COMPLIANCE REVIEWS

AVERAGE SCORE BY QUARTER

	REVIEWS DONE	NO. OF POLICIES REVIEWED	NO. OF TRANSACTIONS REVIEWED
Q1	71	1,155	1,453
Q2	75	1,291	1,440
Q3	64	1,107	1,176
Q4	54	1,092	1,193
YT	264	4,645	5,262

2006



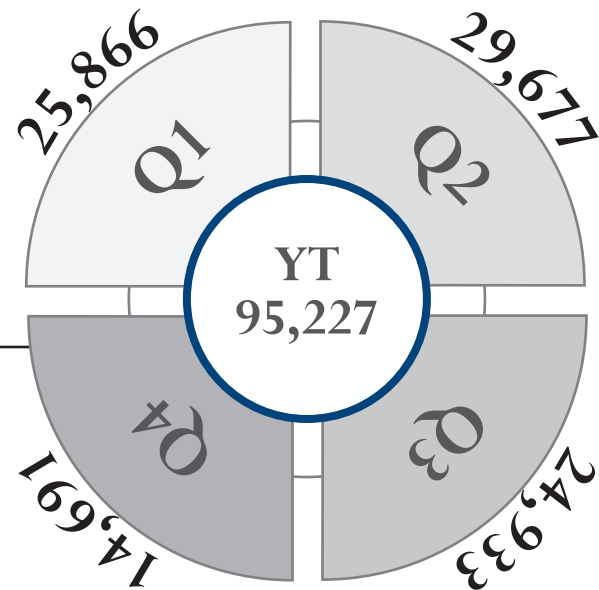
VARIANCE STATISTICS

BROKEN DOWN BY QUARTER

2006

	NO. OF POLICIES COLLECTED	PREMIUM AMOUNT	TAX	TAX PENALTIES	SERVICE FEES	SERVICE FEE PENALTIES
Q1	3	\$55,945	\$2,797	\$119	\$140	\$8
Q2	29	\$8,658,914	\$329,095	\$16,202	\$16,455	\$1,189
Q3	18	\$2,891,911	\$70,481	\$5,436	\$4,153	\$402
Q4	21	\$5,294,370	\$244,600	\$39,955	\$14,679	\$3,063
YT	71	\$16,901,140	\$646,973	\$61,712	\$35,427	\$4,662

	POLICY COUNT	PREMIUM	FEES/TAXES/PENALTIES
2004	114	\$22,191,156	\$1,269,875
2005	102	\$33,589,094	\$2,049,639
2006	71	\$16,901,141	\$748,775



2006 WEBSITE VISITOR SESSIONS*

*Beginning in the Third Quarter, findings were prepared using a modified webtrending program as compared to that used in prior quarters. Aggregated numbers for all categories will reflect a discrepancy in the totals as hits from various search engines have been further filtered out for better accuracy.

TOP 25 COVERAGES

BY PREMIUM REPORTED

COVERAGE	PREMIUM
1000-Commercial Property	\$1,919,183,689
5000-Commercial General Liability	\$771,586,807
2002-Homeowners - HO-3	\$267,137,782
1005-Commercial Package (Property & Casualty)	\$250,974,280
1001-Builders Risk	\$116,325,758
5001-Commercial Umbrella Liability	\$115,846,194
1013-Windstorm & /Or Hail	\$104,508,589
5006-Excess Commercial General Liability (Not Umbrella)	\$97,183,161
7003-Miscellaneous E&O Liability	\$85,123,120
6001-Miscellaneous Medical Professionals	\$75,611,310
6000-Hospital Professional Liability	\$48,841,976
1006-Condominium Package (Commercial)	\$39,602,634
4000-Inland Marine (Commercial)	\$36,785,300
6003-Physician/Surgeon	\$36,371,843
5012-Pollution & Environmental Liability	\$35,809,405
7002-Lawyers Professional Liability	\$33,548,945
2009-Dwelling Property	\$32,267,206
4001-Inland Marine (Personal)	\$28,204,319
1003-Apartments (Commercial)	\$25,546,227
2005-Condo Unit-Owners HO-6	\$24,356,520
3006-Personal & Pleasure Boats & Yachts.....	\$23,693,208
8002-Commercial Auto Physical Damage	\$22,764,474
1008-Difference in Conditions	\$22,395,023
5002-Directors & Officers Liability	\$20,292,764
7001-Insurance Agents & Brokers E&O	\$19,782,388
TOTAL	\$4,253,742,923

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of the policy transaction submitted. All other policy premium amounted to \$340,537,914. This information was current as of 6/29/07. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

TOP 25 INSURERS

BY PREMIUM REPORTED

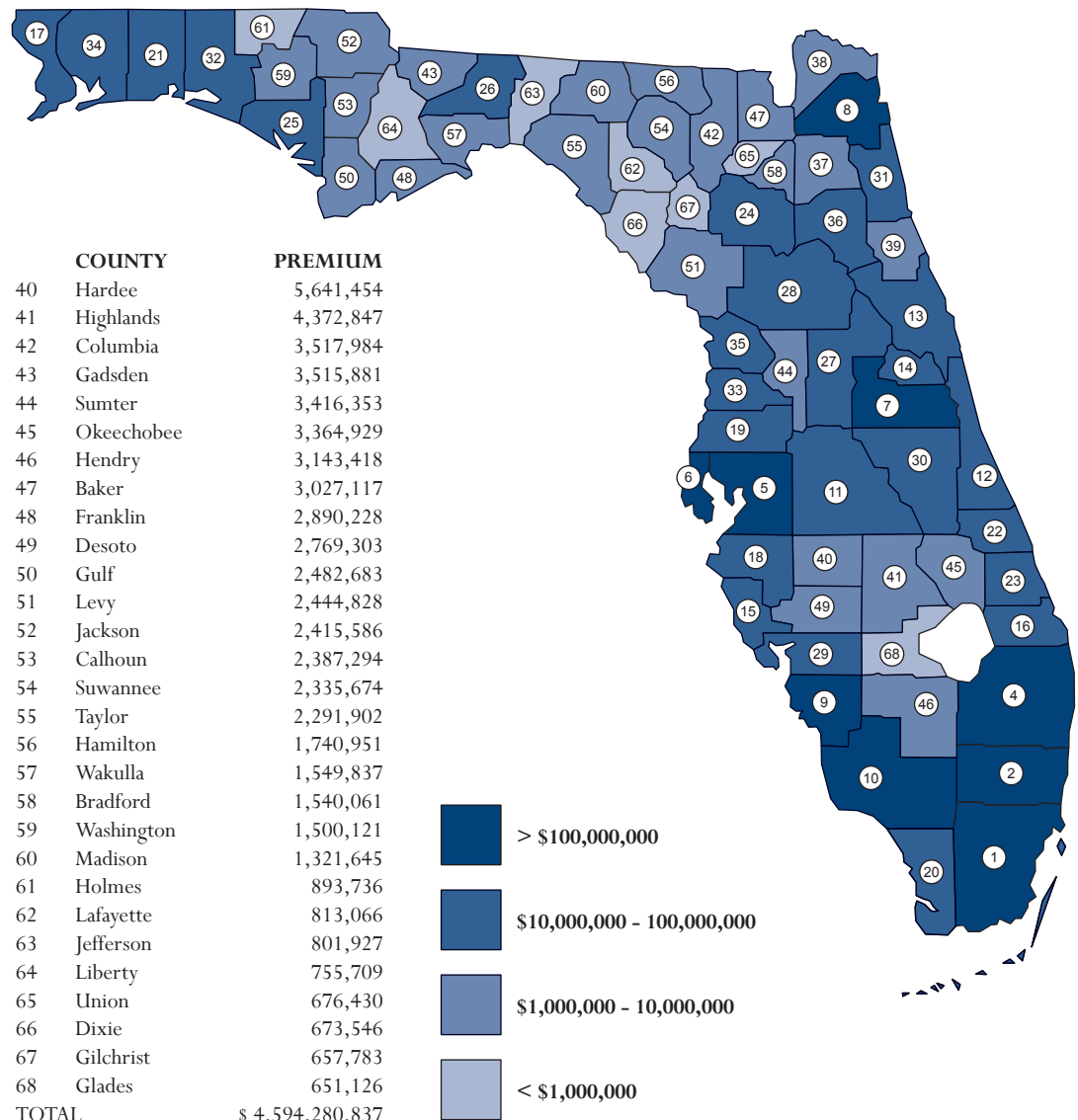
COVERAGE	PREMIUM
Lloyd's Underwriters at, London	\$900,447,590
Lexington Insurance Company.....	\$719,621,719
Scottsdale Insurance Company	\$195,155,303
Landmark American Insurance Company	\$174,583,905
Westchester Surplus Lines Insurance Company	\$147,772,724
Geovera Specialty Insurance Company F/K/A USF&G...	\$122,921,961
Axis Surplus Insurance Company	\$96,781,301
Empire Indemnity Insurance Co.	\$96,257,643
Arch Specialty Ins. Co.	\$91,304,183
Essex Insurance Company	\$80,734,756
National Fire & Marine Insurance Company.....	\$79,791,364
Columbia Casualty Company.....	\$78,360,712
American International Specialty Lines Insurance Company	\$76,470,008
Mt. Hawley Insurance Company.....	\$74,564,901
Evanston Insurance Company	\$70,006,798
Indian Labor Insurance Company.....	\$69,720,315
Colony Insurance Company	\$69,386,846
Steadfast Insurance Company	\$68,689,789
Safeco Surplus Lines Insurance Company	\$60,881,171
Great Lakes Reinsurance (U.K.) Plc	\$54,875,099
Century Surety Company	\$53,385,673
General Star Indemnity Company	\$50,206,758
The Burlington Insurance Company	\$48,617,014
Nautilus Insurance Company	\$46,926,894
Claredon America Insurance Company	\$42,341,129
Total	\$3,569,805,556

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents and independently procured coverage (IPC) filers. The policy premium information is based upon the effective date of the policy transaction submitted. All other policy premium amounted to \$1,024,475,281. This information was current as of 6/29/07. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

2006 PREMIUMS BY COUNTY

The FLSO has 1,061 licensed member agents, of which 570 submitted business in 2006.

COUNTY	PREMIUM
1 Miami-Dade	827,243,859
2 Broward	491,022,627
3 Multiple Co.*	481,486,704
4 Palm Beach	367,316,993
5 Hillsborough	261,745,433
6 Pinellas	251,599,253
7 Orange	221,211,595
8 Duval	173,163,275
9 Lee	165,387,685
10 Collier	124,811,598
11 Polk	93,537,440
12 Brevard	91,984,738
13 Volusia	75,069,297
14 Seminole	69,478,085
15 Sarasota	68,341,432
16 Martin	63,184,854
17 Escambia	58,226,405
18 Manatee	54,819,340
19 Pasco	51,787,083
20 Monroe	50,722,709
21 Okaloosa	46,902,261
22 Indian River	45,250,312
23 St. Lucie	43,177,334
24 Alachua	42,896,574
25 Bay	42,381,062
26 Leon	34,466,320
27 Lake	31,095,855
28 Marion	28,618,342
29 Charlotte	24,308,478
30 Osceola	24,102,564
31 St. Johns	22,906,625
32 Walton	18,800,981
33 Hernando	18,396,597
34 Santa Rosa	14,530,972
35 Citrus	13,528,005
36 Putnam	10,217,948
37 Clay	9,918,375
38 Nassau	9,231,119
39 Flagler	7,817,290



*This includes one or more counties as reported

The policy premium information contained in this annual report is extracted from data submissions received by surplus lines agents, independently procured coverage (IPC) filers and insurers. The policy premium information is based upon the import date of policy transactions submitted. This information was current as of 06/29/2007. The Florida Surplus Lines Service Office provides this data for informational purposes only; it does not constitute an endorsement for any service, company or person offering any product or service.

TID-BITS

GENERAL TID-BITS

- In 2006, there were 153 eligible insurers in Florida: 32 were alien and 121 were foreign insurers. Four insurers were removed from the eligibility list by consent order and six surplus lines insurers were added.
- Has 1,061 licensed member agents and 570 submitting agents.
- There were 129 newly licensed surplus lines agents and FLSO members in 2006.
- Total reported premium by member agents: \$3,970,919,210.
- Total reported taxes by member agents: \$175,462,417.
- Permanent office location in Tallahassee, Florida.
- FLSO was established by the Florida Legislature in 1997, under the “Dana Roehrig Act.”
- Toll-free assistance: 1-800-562-4496.
- Our Internet address is: www.fslso.com.
- FLSO has 22 employees with more than 244 combined years of insurance experience.
- The FLSO participated in two community service events during 2006, which included the Dale Pullen Scholarship Fund Golf Tournament and the Big Bend Hospice Adopt-A-Family Program.
- The FLSO newsletter is called *The Advisor*.
- Florida ranks second nationally in the volume of total surplus lines premium reported.

WEBSITE FEATURES

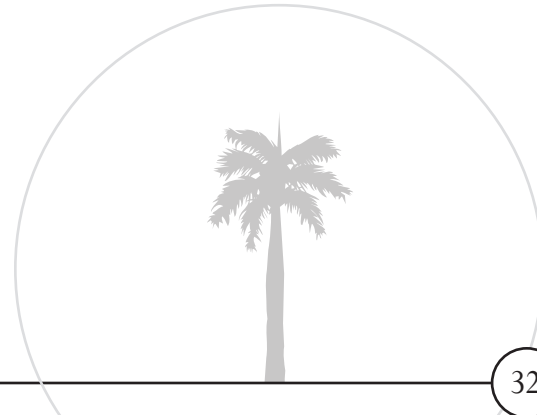
- Offers free online resources (news releases, bulletins, forms, market and trend reports, Florida Statutes, etc.).
- Frequently Asked Questions section.
- Market Data Reports.
- Florida Eligible Surplus Lines Insurer Financial Data.
- Online Agent Software Tutorial.
- Online Education Courses.

VARIANCE ANALYSIS

- 2004: Collected on 114 policies with more than \$22.1 million in unreported premium and more than \$1.2 million in taxes, fees, and penalties.
- 2005: Collected on 102 policies with more than \$33.5 million in unreported premium and more than \$2 million in taxes, fees, and penalties.
- 2006: Collected on 71 policies with more than \$16.9 million in unreported premium and more than \$748,000 in taxes, fees and penalties.

IPC DATA

- Total reported premium: \$623,361,627.
- Total reported taxes: \$31,168,154.
- Total number of policies processed: 14,189.



FLORIDA SURPLUS LINES SERVICE OFFICE

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