



FLORIDA SURPLUS LINES SERVICE OFFICE
2005 ANNUAL REPORT



The diamond is indomitable, the hardest material known. The character of a diamond is defined by the qualities of its color, cut, clarity, and carat.

In similar fashion, FSLSO's customer service is equally unwavering. We define our character through the many qualities that strengthen our core services, which include: credibility, customers, correspondence, communication, and comprehension.

Together, these facets lend themselves to the creation of a strong customer service outlook; the awareness that each customer is priceless and that their expectations define our value.



FLORIDA SURPLUS LINES SERVICE OFFICE

1441 Maclay Commerce Drive, Suite 200
Tallahassee, FL 32312

1.800.562.4496 (Toll Free)

1.850.224.7676 (Office)

www.fslso.com

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FROM THE CHAIRMAN



We have experienced yet another year of industry change, as an active hurricane season continued to challenge Florida's insurance industry. But through these tough times, the Service Office remained committed to their mission of promoting a stable and efficient surplus lines industry. Their focus remained fixed on the development and enhancement of

customer-centered products and services.

As your new incoming FLSO Chairman, I extend my sincere appreciation to our past Chairman, Larry Stowe, for his leadership and guidance of the Service Office during his two-year tenure. Larry Stowe's commitment to the Service Office is to be commended and is evident in the many successes sustained by the Service Office in 2005.

Likewise, I must thank Board members Tom Enright and Ed Wojchick, who completed their tenure on the Board of Governors in 2005. Their

efforts contributed to the many successes of the Service Office and their professionalism will be missed. We welcome Steve Finver and R.C. Chaffin, as they respectively joined the Board in 2005, and embrace their expertise of the industry as a valued asset to the organization.

The Service Office embraces technology as a foundation for many of its key services and products. The development of new services and products, as well as enhancements to existing ones, have led to progress within current internal operations, information accessibility, and diversity in educational programs. As an industry, we are able to take full advantage of these innovations and have the responsibility to do so. Through the use and feedback of these products and services, the Service Office may continue to make improvements as a means to promote customer satisfaction.

Customer feedback led to the development of the first web-based submission program, known as the Surplus Lines Information Portal (SLIP). Lessons learned from the 2004 hurricane season also emphasized a need for better customer assistance in the wake of a catastrophe. As such, the Service Office designed and deployed an Emergency Response Vehicle (ERV) to aid agents and their customers following Hurricane Wilma.

“ THE DEVELOPMENT OF NEW SERVICES AND PRODUCTS, AS WELL AS ENHANCEMENTS TO EXISTING ONES, HAVE LED TO PROGRESS WITHIN CURRENT INTERNAL OPERATIONS, INFORMATION ACCESSIBILITY, AND DIVERSITY IN EDUCATIONAL PROGRAMS. ”

“ I ASK THAT YOU TAKE THE TIME TO REVIEW OUR 2005 ANNUAL REPORT, AS I AM SURE YOU WILL REALIZE THAT WE ARE EARNESTLY WORKING TO FULFILL THE OBLIGATIONS OF FLORIDA’S SURPLUS LINES INDUSTRY AS SET BY THE MEMBERS THAT SHAPE THE MARKET. ”

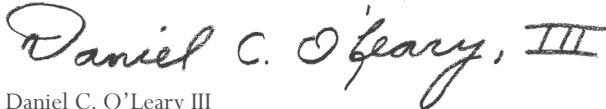
I ask that you take the time to review our 2005 Annual Report, as I am sure you will realize that we are earnestly working to fulfill the obligations of Florida’s surplus lines industry as set by the members that shape the market. All of the services and products outlined in this report have come to fruition after having been initially mapped out in the Service Office’s three-year strategic planning process. Members should also be aware that their feedback and input serve as key measurements in this planning process, as the Service Office continues to benchmark customer satisfaction with their operations’ success.

I would like to thank FLSO’s Executive Director, Gary Pullen, for his promotion of a business culture that encourages innovation and welcomes change as a method of unlocking people’s best ideas for products and solutions. The Service Office staff is to be commended for their professionalism within the industry and their compassion for our members.

Likewise, I must also extend my admiration and appreciation of the Service Office’s Board of Governors, who so freely contributed their time and effort to provide assistance and guidance to FLSO. It has been

both a privilege and a rewarding pleasure to serve alongside them in various positions of the Board. I look forward to another year of progress and productivity within the industry, and I thank the Board and all of our members for this opportunity to serve as the 2005 Chairman of YOUR Florida Surplus Lines Service Office.

Sincerely,



Daniel C. O’Leary III
Chairman

“**P**ROVIDING QUALITY CUSTOMER SERVICE BEGINS WITH THE
UNDERSTANDING THAT EACH CUSTOMER IS MULTI-FACETED, WITH VARYING
NEEDS FOR PRODUCTS AND SERVICES; EACH IS UNIQUE.”



FROM THE DIRECTOR



A diamond is considered one of the most precious stones on Earth. It is a multi-faceted mineral that sustains a standard grading criteria that validates the worth of each stone: cut, clarity, color, and carat. When put together, these factors define a diamond's strength as a gemstone and its value in the market. And as each of these characteristics varies from stone to

stone, no two diamonds are alike; each is unique.

That's how we like to look at our customers. Providing quality customer service begins with the understanding that each customer is multi-faceted, with varying needs for products and services; each is unique. Knowing that our customers are the single most important element to building a better business is why we focus our efforts on meeting their expectations.

Our expectation and execution of key customer services was put to the test as Florida once again weathered another active hurricane season. Hardened by the lessons learned from the 2004 season, the Service Office took a proactive approach in its effort to provide disaster assistance through the design and deployment of ERV, the Service Office's Emergency Response Vehicle. ERV took its maiden voyage following the impact of Hurricane Wilma in late October as Catastrophe Response Teams were dispatched to provide assistance in Plantation, Florida.

Like many organizations, FLSO is multi-faceted; it's composed of a variety of individuals who give their time and talents for the creation and maintenance of quality services and products. The strength of our organization exists in the diversification of the staff, and by the standards of service set by our customers. Our customers set a high standard of excellence for us, and we will not deviate from our responsibility to meet their needs.

In 2004, we saw a customer need for the development of an information web portal that would provide real-time access to the data submitted to the Service Office. In 2005, this portal became a reality as the Service Office rolled out the Surplus Lines Information Portal (SLIP). SLIP provides users not only the ability to submit data, but to also view and edit previously submitted data. Agents, along with their reporting staff, will have the ability to use it.

I thank Larry Stowe, our 2005 Chairman, and all of the other members of the Board of Governors for the leadership and guidance they have so willingly provided for the betterment of our organization. We welcome our new Chairman, Daniel O'Leary, whose experience and accomplishments within the industry will add great value to our operation.

The achievement of innovative solutions is accomplished through people; if you believe in them and allow them to make full use of their talents, they will accomplish great things. I thank the Service Office staff for their diligence to provide our customers with creative and innovative responses to their needs. As we face the challenges that shape the many facets of our industry, we remain strong in our commitment to serve you.

Sincerely,

Gary D. Pullen
Executive Director

BOARD OF GOVERNORS

1 DANIEL O'LEARY III

CHAIRMAN 2006

SHELLY, MIDDLEBROOKS & O'LEARY
JACKSONVILLE
(SECRETARY/TREASURER 2005)

2 KEVIN C. SCHUCK

VICE CHAIRMAN 2006

AGENCY MARKETING SERVICES, INC.
ST. PETERSBURG
(VICE CHAIRMAN 2005)

3 R.C. CHAFFIN

SECRETARY/TREASURER 2006

SEACOAST UNDERWRITERS, INC.
CORAL GABLES

4 STEVE BURGESS

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

5 LARRY STOWE

ELLIOT, MCKIEVER & STOWE, INC.
CORAL GABLES
(CHAIRMAN 2005)

6 STEVE FINVER

CONTINENTAL AGENCY OF FLORIDA
BOCA RATON

7 RONALD GABOR

GABOR INSURANCE SERVICES, INC.
MIAMI

8 DAVID HOLCOMBE

INTERNATIONAL SPEEDWAY CORPORATION
DAYTONA BEACH

9 MICHAEL J. RIORDAN

HULL & COMPANY INC.
ST. PETERSBURG

FSLSO STAFF

1 GARY PULLEN
EXECUTIVE DIRECTOR

2 CAROLYN DANIELS
ASSISTANT DIRECTOR,
AGENT RELATIONS

3 SEAN FISHER
ASSISTANT DIRECTOR,
EDUCATION &
INFORMATION SERVICES

4 TROY KRAUSE
CHIEF FINANCIAL OFFICER

5 GEORGIE BARRETT
EXECUTIVE ASSISTANT

6 KRISTEN BERTAGNOLLI
COMPLIANCE REVIEW
ADMINISTRATOR

7 JIM DAY
DATABASE/NETWORK
ADMINISTRATOR

8 SHEILA DULIN
ACCOUNTING ASSISTANT

9 CATHY DURRANCE
VARIANCE ANALYST

10 JAMES FARMER
SENIOR INFORMATION
ARCHITECT

11 LISA FRENCH
INSURANCE ANALYST

12 JASON HAYNIE
CONTROLLER

13 TERI LITTLEFIELD
SENIOR VARIANCE
ANALYST/ SUPERVISOR

14 TIFFANY MARUNIAK
IPC COLLECTIONS
COORDINATOR

15 FELICIA MEREDITH
INSURANCE ANALYST

16 CHRIS PULLEN
ACCOUNTING ASSISTANT

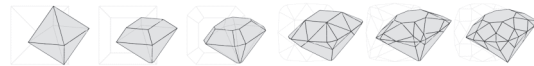
17 MATHU SPIRES
INFORMATION SYSTEMS
SUPPORT/DEVELOPER

18 ASHLEE WEBER
PUBLIC INFORMATION
SPECIALIST

19 MATT WESTER
AGENT RELATIONS
ADMINISTRATOR

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

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.

MARKETPLACE MONITORING



CREDIBILITY IN THE MARKETPLACE IS A DRIVING FORCE IN
THE SERVICE OFFICE'S MARKETPLACE MONITORING SERVICE

THE DIAMOND LOUPE

A SMALL MAGNIFICATION DEVICE USED TO EXAMINE EACH DIAMOND AT THE MICROSCOPIC LEVEL

In an effort to strengthen the compliance of Florida's surplus lines laws through its industry members, the Service Office utilizes three programs that monitor and evaluate the data submissions of agents and insurers.

1 THE VARIANCE ANALYSIS PROGRAM

The **Variance Analysis Program** serves the Service Office as a kind of "checks and balances" option in which the data submitted by surplus lines agents and independently procured coverage (IPC) filers is compared with the data submitted by surplus lines insurers. The Variance staff looks for discrepancies in this data as differences might suggest unreported premium. During 2005, the variance staff collected on a total of 102 policies, which represented more than \$33.5 million in premium and more than \$2 million in taxes, fees and penalties.

2 THE COMPLIANCE REVIEW PROGRAM

A second program that the Service Office utilizes to monitor credibility standards is **the Compliance Review Program**. The Compliance Review Program compares a sampling of a surplus lines agent's policy information with the transaction data submitted to the Service Office. As the main objective of the Compliance Review Program is to enhance the credibility of the marketplace through educational assistance to its members, it promotes proper training of staff and better quality controls in data submission. The 2005 year marked the highest industry average of 94.3% of the accuracy of the data submitted to the Service Office.

Although the Compliance Review Program stands as a means to better educate industry members, it also serves as another way to collect unreported revenue. Over the course of 2005, 232 agents were reviewed, yielding a total of 200 unreported policies from 67 agents and represented more than \$3.2 million in unreported premium.

3 THE AGENT REPORT CARD

Like the Compliance Review Program, **the Agent Report Card** also serves as a method to educate industry members. The report card was created in 2004, to provide feedback to surplus lines agents and their reporting staff regarding their level of compliance with Florida's surplus lines filing procedures. The report card provides grades on four factors, including the percentage of transactions with no outstanding Transactions-in-Question (TIQ); percentage of submissions accepted vs total number of submissions; percentage of affidavits submitted timely; and percentage of transactions submitted timely. The Agent Report Card remains a focus for aiding in the improvement of an agent's filing procedures through the awareness of potential areas of weakness and highlighted strengths.



All of these programs serve as measures that the Service Office uses to establish and uphold the credibility of Florida's surplus lines community. Through the diligence and teamwork of both Florida's surplus lines agent force and the Service Office staff, the compliance levels of the industry will continue to see successes.

ASSISTANCE



CUSTOMERS. THEY ARE THE DRIVING FORCE BEHIND ALL OF THE
PRODUCTS AND SERVICES OFFERED BY THE SERVICE OFFICE

THE DIAMOND TWEEZER

A TOOL THAT HELPS CAREFULLY SELECT AND PICK UP DIAMONDS

The dedication of staff to continually give their best for the betterment of their customers is the backbone of the type of customer service that the Service Office provides today. **Compassion, character,** and **comfort** all stand as major cornerstones in the strength of character by which the Service Office staff approaches its work.

Tough times are the measure of strength and character. And the year 2005 was not devoid of its challenges. In a year that bore more named storms than any other on record, it was the compassion for people that defined character.

Following the impact of Hurricane Wilma, the Service Office dispatched four Catastrophe Response Teams to Plantation, Florida, in an effort to aid member agents and their policyholders. The catastrophe teams worked alongside the Department of Financial Services, assisting Florida surplus lines policyholders with their emergency claims information and making contact with their agents and/or insurers.

Prior to Hurricane Season 2005, the Service Office began an informational drive in which staff contacted all of Florida's surplus lines agents and eligible Florida insurers to obtain their most current catastrophe contact information. This contact campaign proved to be beneficial following Hurricane Wilma as staff, both in the office and in the field, aided storm-affected policyholders with contact information for their agent and/or insurer.

SURPLUS LINES INFORMATION PORTAL

The 2005 year also saw the release of the Service Office's informational web-portal, SLIP. SLIP, or Surplus Lines Information Portal, was developed through a collaborative effort by the Service Office and Infinity Software Development, Inc. The Service Office also included feedback from industry members that were invited to review and test SLIP prior to its release.

Like FLSO's Agent Software, SLIP provides a mechanism for Florida's surplus lines agents to electronically submit policy information to the Service Office. However, SLIP was developed with several functionalities that separate it from the Agent Software, including:

- ♦ immediate access to submitted data
- ♦ the ability to review and edit policy information
- ♦ a controlled security mechanism that allows the agent to verify the level of security a filer would have when submitting data on the agent's behalf

SLIP was created out of a need that presented itself in the 2004 customer surveys, which called for a program that would allow users to have more direct access to their submitted data.

ASSIST NEW AGENTS & INSURERS

As Florida's surplus lines community continued to grow in 2005, the Service Office welcomed 72 resident and 42 nonresident surplus lines agents, providing each with a New Agent Packet. Each new agent packet contained useful informational guides, an Agent's Procedures Manual, a copy of the Agent Software, a CD of FLSO's Agency's Guide to Building a Disaster Plan, along with other valuable information about the Service Office.

All surplus lines insurers who seek eligibility to market their products in Florida must submit their application to the Service Office for review. During 2005, 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, 2005, eight applications had been approved by DFS/OIR.

The collaboration of many defined the Service Offices' customer service success; through various continued partnerships, the Service Office stands committed to providing the kind of customer assistance so deserved by our members.

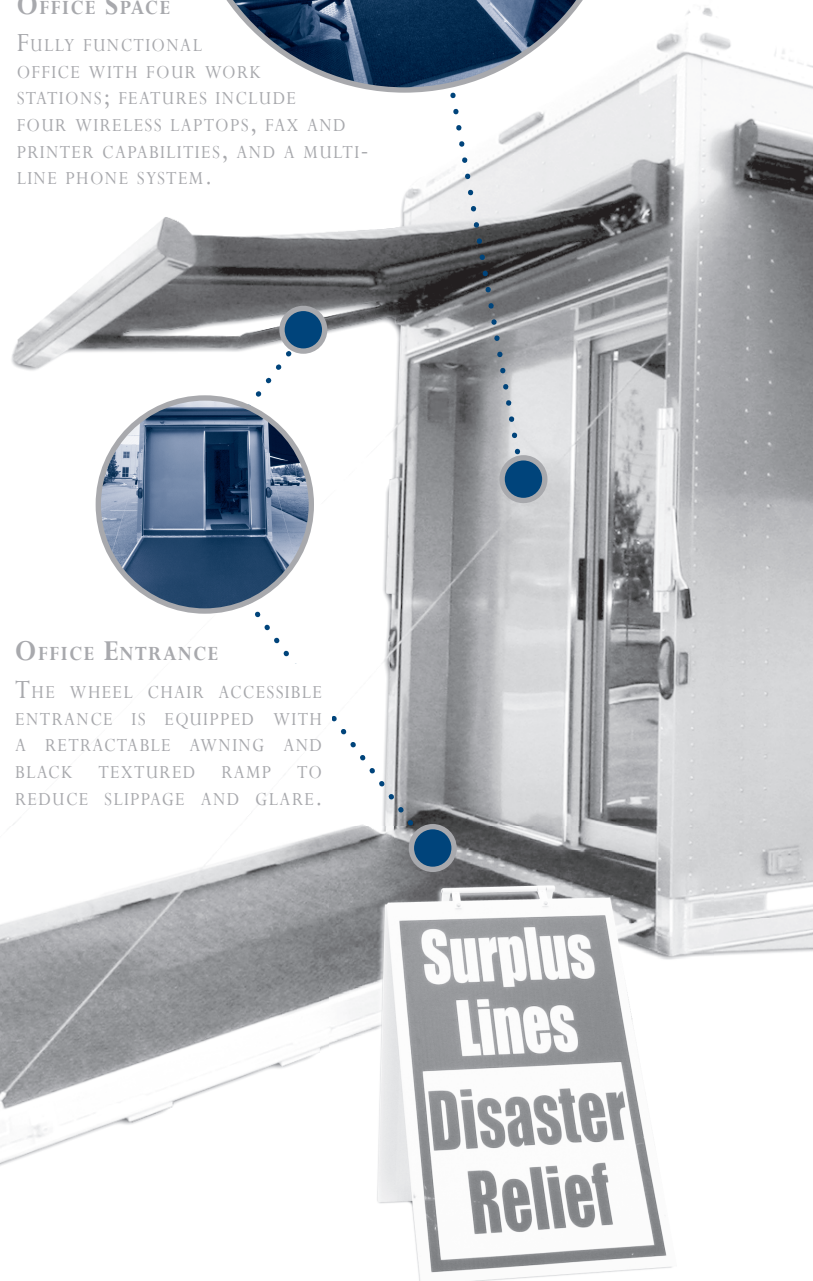
The catastrophe response to Hurricane Wilma marked the first deployment of the Service Office's recently completed Emergency Response Vehicle (ERV). The custom-designed 40-foot-long trailer and truck were purchased to serve as a mobile command center, giving response teams the ability to better help customers.

Service Office staffers aided customers from ERV's fully equipped office facilities outfitted with full Internet access and phone service provided through satellite uplink. Catastrophe Response Teams were able to remain onsite at all times as the ERV also contained complete living facilities and incorporated both sleeping accommodations and an operational kitchen.



OFFICE SPACE

FULLY FUNCTIONAL OFFICE WITH FOUR WORK STATIONS; FEATURES INCLUDE FOUR WIRELESS LAPTOPS, FAX AND PRINTER CAPABILITIES, AND A MULTI-LINE PHONE SYSTEM.



OFFICE ENTRANCE

THE WHEEL CHAIR ACCESSIBLE ENTRANCE IS EQUIPPED WITH A RETRACTABLE AWNING AND BLACK TEXTURED RAMP TO REDUCE SLIPPAGE AND GLARE.

THE EMERGENCY RESPONSE VEHICLE

A NEW MOBILE ASSISTANCE TOOL USED BY FLSO TO BETTER SERVE CUSTOMERS IN TIMES OF NEED

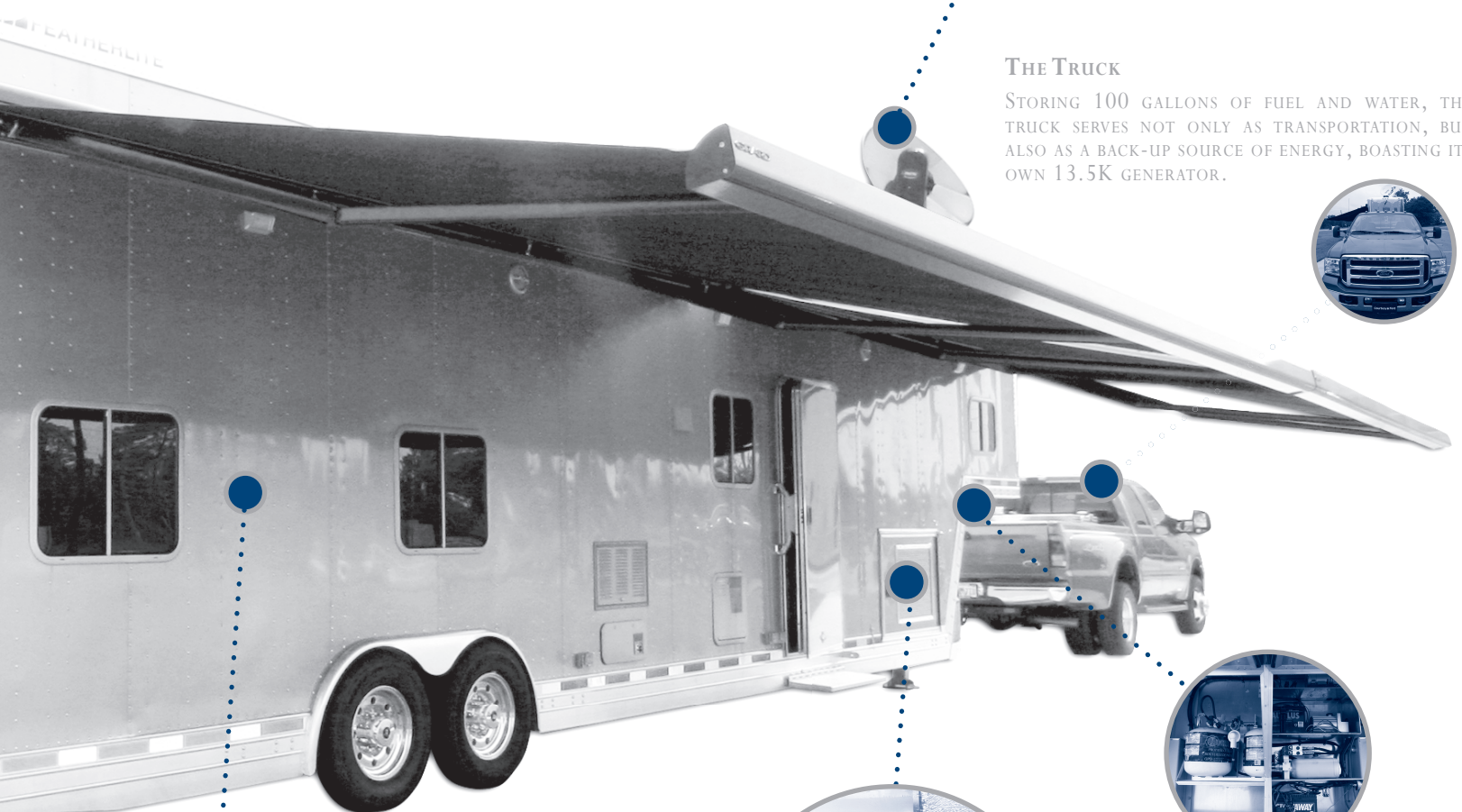
COMMUNICATION

THE SATELITE DISH HARNESSES SPEEDS CAPABLE OF POWERING ITS INTERNET ACCESS, FOUR 1-800 VOICE-OVER INTERNET PROTOCOL PHONE LINES, LAPTOPS AND ON-BOARD SERVER.



THE TRUCK

STORING 100 GALLONS OF FUEL AND WATER, THE TRUCK SERVES NOT ONLY AS TRANSPORTATION, BUT ALSO AS A BACK-UP SOURCE OF ENERGY, BOASTING ITS OWN 13.5K GENERATOR.



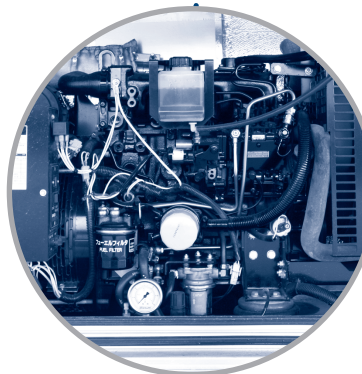
LIVING QUARTERS

THIS AREA CAN ACCOMMODATE UP TO 5 CATASTROPHE TEAM MEMBERS, AND FEATURES A FULL KITCHEN, BATHROOM, AND INCLUDES A 13-FOOT SLIDE OUT THAT PROVIDES ADDITIONAL SPACE.



POWER SOURCE

FOR POWER THE ERV UTILIZES AN ON-BOARD 20K DIESEL GENERATOR, REDUNDANT BATTERY BACK-UP SYSTEMS AND ROOF-TOP MOUNTED SOLAR PANELS. THE CULMINATION OF THESE RESOURCES PROVIDES ENOUGH POWER TO SUSTAIN 2-4 PEOPLE FOR 24 HOURS A DAY FOR SIX DAYS BEFORE UTILIZING THE TRUCK'S RE-FUELING STATION.



REPRESENTATION



CORRESPONDENCE IS AN ESSENTIAL ASSET IN THE DEVELOPMENT OF BUSINESS

THE DIAMOND CALIPER

ONE OF THE MANY TOOLS USED TO ACCURATELY PORTRAY THE SIZE OF A DIAMOND

The ability of the Service Office staff to effectively communicate and correspond with its customers is vital to its customer service expectations. And while most correspondence between the Service Office and its customer groups is done via phone, fax, and email, participation in industry events, tradeshow, and conferences allows the Service Office the opportunity to meet its customers face-to-face.



The FLSO staff attended a variety of industry tradeshow in 2005, which gave them the opportunity to interact with many of their customers, provide educational materials to interested parties and promote Florida's surplus lines industry. A sampling of association tradeshow attended by FLSO staff include:

- ♦ Florida Surplus Lines Association (FSLA)
- ♦ Florida Association of Insurance Agents (FAIA)
- ♦ Latin American Association of Insurance Agencies (LAAIA)
- ♦ National Association of Professional Stamping Offices (NAPSLO)
- ♦ American Association of Managing General Agents (AAMGA)

Industry conferences provided Service Office staff members with another opportunity to interact with industry members, and served as another chance for the Service Office to promote Florida's surplus lines community. With technology and catastrophe preparation at the forefront for discussion at many of 2005's meetings, FLSO staff sent representatives to both regional and national conferences.

On the side of technology, the Excess Lines Association of New York (ELANY) hosted a Stamping Offices' Information Technology Working Group. Florida was given the opportunity to merge

XML programming data elements with Texas in an effort to create a working document toward the development of an XML filing standard for the stamping offices. Staff also attended the Western States Surplus Lines Conference and participated in discussions relative to the creation of a common data dictionary for the establishment of a uniform filing system.

But attendance at industry tradeshow and conferences does not readily define FLSO's service as a representative for Florida's surplus lines market. The Service Office also represents industry members with state government, including the Department of Financial Services (DFS) and the Office of Insurance Regulation (OIR).

During 2005, FLSO represented Florida's surplus lines community by attending Florida Catastrophe Fund meetings, which reviewed the depth of damage from the 2004 season and looked at the administrative rules concerning Florida's surplus lines filing requirements.

Representing the industry also allows staff to meet prominent industry members and learn from seasoned professionals. Service Office staff members traveled to NAPSLO's annual Excess and Surplus Lines Training school, a four-day workshop designed to teach students about the history of surplus lines insurance, its place on a national scale, the distribution system, and the role of regulation as it exists today.

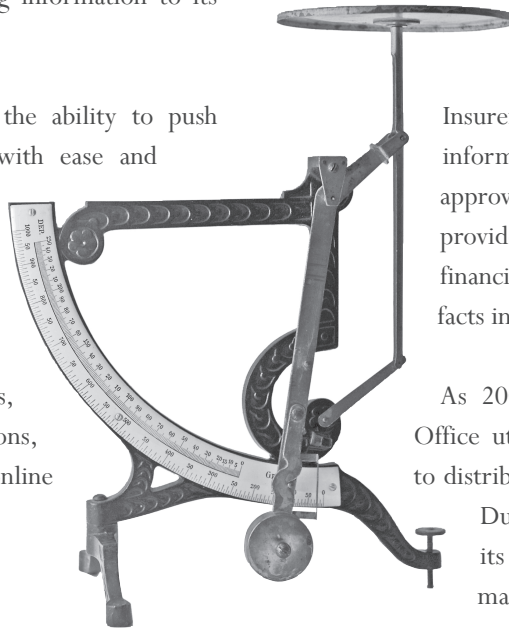


Representation of Florida's surplus lines insurance market occurs on several different levels, and many times it intertwines several of FLSO's services including education and information. Overall, it is an opportunity for the Service Office to interact with others, exchange ideas, and promote the continued success of the market; a responsibility the Service Office performs with great pride.

INFORMATION INFORMATION

The speed and accessibility that the Internet affords people has altered the way we interact with one another. Interacting has been replaced with interfacing and as such, the Service Office has invested a true effort in communicating information to its members via online technologies.

Online technologies provide FLSO with the ability to push information out to its customer groups with ease and efficiency. At the heart of all FLSO's informational services is the Service Office website, which serves as a major conduit to a number of online resources. Visitors to www.fslso.com will find a host of services at their fingertips including news releases, procedural manuals, downloadable publications, forms, submission file formats, and various online data reports.



submissions of Florida surplus lines agents, Independently Procured Coverage (IPC) filers and eligible Florida surplus lines insurers. These reports are maintained on a monthly basis in order to ensure their accuracy for market information.

Coupled with the Market Data Reports, the Insurer Financial Data site provides annual financial information for all eligible surplus lines insurers approved to transact business in Florida. These reports provide information relative to an individual insurer's financial stability, A.M. Best rating, and basic company facts including address, phone number, and website.

As 2005 was a whirlwind of activity, the Service Office utilized the outreach capabilities of its website to distribute key informational items via its home page.

During 2005, FLSO posted 83 news items to its main page, supplying visitors with updates to marketplace issues and industry events.

COMMUNICATION HAS TRULY CHANGED SINCE

THE RISE OF THE WORLD WIDE WEB

The ability to provide customers with tools that aid them in their business is a duty that the Service Office undertakes with great pride. Knowing the facts is one way to stay ahead of the curve. In an effort to keep FLSO customers equipped with the right information, the Service Office has invested its efforts into its Market Data Reports and Insurer Financial Data programs.

The Market Data Reports program, located on the FLSO website, provides users with aggregated data reports based on the

In much the same manner, the Service Office also utilized the speed and spread of its electronic bulletin service, called eNews, to push late breaking news to key customer groups. A total of 37 eNews mailings were sent out electronically, relaying news relative

THE DIAMOND SCALE

A TOOL USED TO GATHER INFORMATION ABOUT DIAMONDS

to legislative updates, insurer actions, hurricane information, continuing education classes, and much more.

The eNews service saw brisk improvements in 2005 through its conversion to an HTML format, along with the addition of a new electronic bulletin called eAlert. The eAlert mailing supplies important information items to all Service Office submitters, regardless of subscription. This service was created to distribute emergency information to all FLSO customers, including those who might be unaware of the service or any others who might be non-eNews subscribers. Used only for the distribution of vital information, the Service Office sent four eAlerts during 2005, relaying hurricane emergency orders, FLSO disaster assistance sites and FLSO system shut-downs.

Another new service that the Service Office rolled out in 2005 was its video news clips series, which featured interviews with various industry members relaying information on pertinent industry topics currently affecting the marketplace. Interviews featured Tom Terfinko, Assistant Director of Consumer Services for the Florida Department of Financial Services, Carolyn Daniels, Assistant Director of Agent Relations at the FLSO, and Justin Glover of Citizens Property Insurance Corporation.



Not to be overlooked is the Service Office’s continued reliance on paper publications to disseminate information to its customer groups. FLSO’s newsletter, *The Advisor*, was published on a quarterly basis, serving as an informational and educational resource for subscribers. *The Advisor* allowed Service Office staff members to provide their customers with answers to frequently asked questions relative

to Agent software issues, accounting concerns, and compliance reviews. It also included a wrap-up of the 2005 Legislative Session, the assessment as imposed by Citizens Property Insurance Corporation, staff profiles, and updates to Florida’s eligible surplus lines insurers.

The Service Office also utilizes the knowledge of its staff to provide quality brochures and manuals. Alongside its current compilation of brochures, the Service Office published a new information guide following the assessment order levied by Citizens Property Insurance Corporation (Citizens). During the fourth quarter, FLSO published a Citizens Assessment Consumer Guide card, for member agents to provide to their customers as an educational tool explaining the Citizens Assessment. The cards provided an explanation of Citizens, an overview of the assessment and relative FAQ’s, and was provided free-of-charge to all agents via request, with no limitation on quantity.

The 2004 Hurricane Season raised the bar for disaster preparedness—prepare for the worst and hope for the best. In an effort to help its members better prepare themselves for the 2005 season, the Service Office developed a catastrophe manual that could be used as a basic template to aid agents in the development of their own catastrophe plan. “Disaster Planning and Recovery: An Agency’s Guide to Building a Disaster Plan” was made available in early May of 2005 as a free educational guide that provided a step-by-step approach for building an agency disaster plan.

The 2005 hurricane season once again proved to be a great time of change, and the need to relay information quickly became a high priority. In keeping with its mission to serve as a source of information and assistance, the Service Office will continue to utilize its available resources to push quality information to its customers.

EDUCATION



COMPREHENSIVE IS A WORD THE SERVICE OFFICE CONTINUES TO USE IN ITS APPROACH TO DEFINING A SUCCESSFUL LEARNING PROGRAM

THE DIAMOND SHOVEL

A METAL SCOOP THAT AIDS IN THE SELECTION AND DIVISION OF DIAMONDS

The understanding that education must not be limited by accessibility is coupled with the awareness that FLSO's education customers are diverse. These factors push the Service Office to better its education programs through comprehensive learning services that serve a variety of customers through in-classroom offerings and online courses.

The Service Office fully believes that education serves as an intermediary toward building a more credible marketplace. As such, the Service Office developed and delivered two new classroom courses that were aimed at delivering information relative to the surplus lines industry to two different student groups: Florida licensed surplus lines agents and Florida's retail agent force.

"Marketplace Preparation for the Surplus Lines Agent," a four-hour course, was designed to give surplus lines agents, both new and seasoned, a review of their responsibilities in Florida's surplus lines marketplace. The development of this course was propelled by a customer response outlined in the Service Office's customer satisfaction survey that acknowledged a need for a refresher course on the rules and regulations of Florida's surplus lines marketplace.

Taught to more than 200 students in six different locations, "Marketplace Preparation for the Surplus Lines Agent" served a variety of different student groups that included surplus lines agents, general lines agents and agency support staff. Each offering included a basic overview of Florida's surplus lines market; the

presence of illegal insurance entities in the insurance community; the responsibilities of the surplus lines agent (as outlined in the Surplus Lines Law); the responsibilities of the general lines agent (and their relation to the surplus lines market); and FLSO Agent Software training that focused on avoiding common submission errors.

In keeping with its mission to serve as a source of information concerning Florida's surplus lines market, the Service Office also developed a classroom course for retail agents on the fundamentals of surplus lines insurance. "The Retail Agent's Role in the Surplus Lines Marketplace" was a two-hour course geared to help retail agents better understand Florida's surplus lines market and their responsibilities when accessing it. This course was taught to retail agents at the Latin American Association of Insurance Agencies Annual Convention in Hollywood, Florida.

In an effort to provide education in other organizations' classrooms, the Service Office also addressed students at Florida State University's School of Risk Management. Staffer Matt Wester made a presentation on Florida's surplus lines insurance market and Carolyn Daniels spoke about the experiences that shaped her career in insurance.

To meet today's standards, education providers must look to a variety of avenues to better meet the needs of their students. One way that the Service Office continues to reach its customers' education needs is through its online education program.

During the course of 2005, the Service Office maintained its commitment to online education opportunities through the support of its current online offerings. The Service Office's 60-Hour Pre-Licensing Qualification Course remained the only online option

for students seeking surplus lines pre-qualification credit, and was accessed by 46 participants in 2005.

Other online opportunities offered included "Florida's Surplus Lines Rules and Regulations," a three-hour course on the rules and regulations of Florida's surplus lines industry, and "Illegal Insurance Entities; Knowing the Difference," a two-hour course that highlighted the differences between illegal insurance entities and unauthorized insurers.

The Certification of Online Agent Software Training (COAST) program remained a key educational resource for agent support staff who wanted to learn more on correctly using the Agent Software Program. Eighteen participants successfully completed the COAST program during 2005, earning a certificate of achievement and a coupon for a free continuing education class valid for two years.

The Service Office continues to provide educational opportunities to its members and to all those who wish to know more about Florida's surplus lines insurance industry. Through the knowledge and talents of FLSO education instructors and curriculum developers, the Service Office continues to promote a variety of educational opportunities to its customers. Not to be underscored, is the drive to provide quality education as directed from customer feedback. The Service Office will continue to develop and deploy new educational offerings in 2006, including new online and classroom opportunities. Through its partnership with its many customer groups, the Service Office will continue in its quest to serve the diversification of educational needs through a comprehensive learning program.

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, 2005 and December 31, 2004. 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 \$21.5 million from \$16.4 million, representing an increase of \$5 million over the prior year. During 2005, the reported premium levels increased by approximately \$600 million, resulting in fee revenue of \$8.35 million, an increase of approximately \$1.1 million from 2004. Due to this trend, FLSO requested a rate reduction from .25% to .20%. This reduction was approved by the Department of Financial Services and is effective for all policies with an effective date on or after April 1, 2006.

Total operating expenditures increased to \$3,580,820 from \$2,917,284, representing an increase of \$663,536 over the prior year. The significant contributing factors to the increase in operating expenditures were: 1) increase of approximately \$400,000 in programming upgrades to the agent/insurer reporting software; 2) increase of approximately \$50,000 in personnel cost; 3) roughly \$40,000 spent on disaster assistance costs; and 4) increase of approximately \$50,000 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, 2005

STATEMENT OF NET ASSETS

Assets

Current assets:

Cash and cash equivalents	\$16,630,128
Accounts receivable	106,282
Total current assets	16,736,410
Property and equipment, net	5,534,548
Deposits	11,810
Total assets	22,282,768

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	162,192
Amounts held for the account of others	577,166
Total current liabilities	739,358

Net assets:

Invested in capital assets, net of related debt	5,534,548
Unrestricted	16,008,862
Total net assets	21,543,410
Total liabilities and net assets	22,282,768

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenues:

Charges for services.....	\$8,356,017
Other income	24,927
Interest and finance charges on service fees.....	41,595
Total operating revenues.....	8,422,539

Operating expenses:

Administrations and support	1,226,210
Education and outreach	611,214
Agent and insurer relations	1,010,095
Depreciation and amortization	485,406
Total operating expenses.....	3,332,925
Operating income	5,089,614

Non-operating (expenses) revenues:

Investment interest.....	245,134
Loss on sale of assets	(4,458)
Rental income.....	126,486
Rental expenses.....	(78,098)
Total nonoperating (expenses) revenues	289,064

Increase in net assets

Net assets at beginning of year.....	16,164,732
Net assets at end of year	21,543,410

STATEMENT OF CASH FLOWS

Operating activities

Operating income	5,089,614
Adjustments to reconcile operating income to net cash provided by operating activities:	
Deprecation and amortization	485,406
Changes in operating assets and liabilities:	
Accounts receivable	(41,169)
Accounts payable and accrued expenses	(8,258)
Amounts held for the account of others	471,198
Net cash provided by operating activities	5,996,791

Financing activities

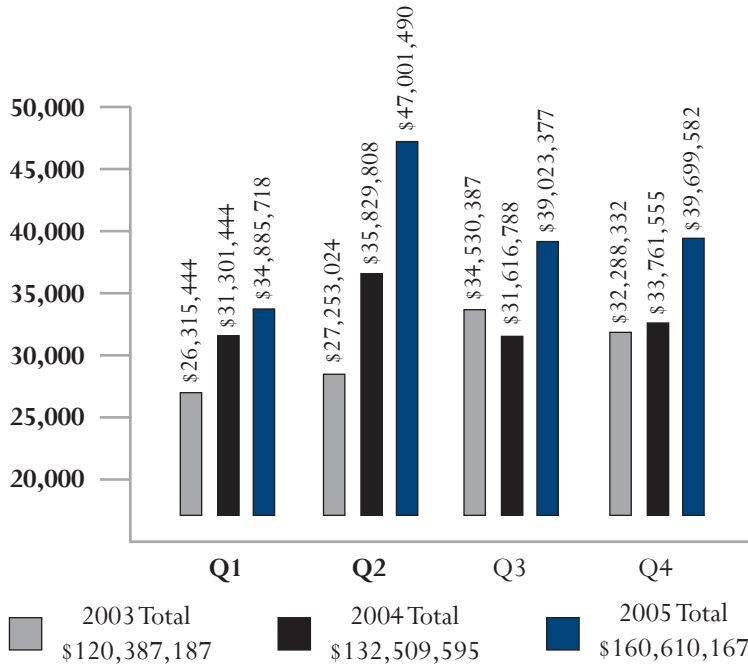
Purchase of property and equipment	(1,085,565)
Other receipts (payments)	48,390
Net cash used in capital and related financing activities	(1,037,175)

Investing activities

Interest income	245,134
Net cash provided by investing activities	245,134
Net increase in cash and cash equivalents	5,204,750
Cash and cash equivalents at beginning of year	11,425,378
Cash and cash equivalents at end of year	16,630,128

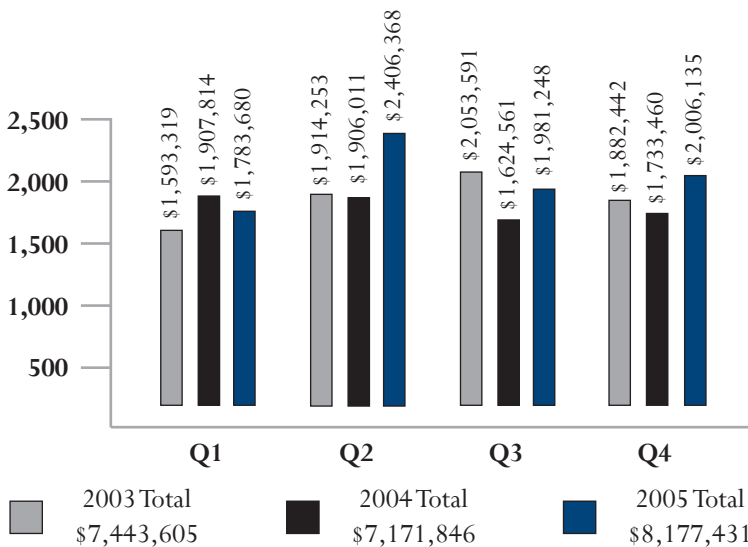
GENERATED TAXES

2003-2005



GENERATED FEES

2003-2005



PREMIUM COMPARISONS

2003

	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$495,333,069	\$102,746,621	\$598,079,690
Q2	\$642,393,759	\$81,079,646	\$723,473,405
Q3	\$601,272,940	\$111,839,825	\$713,112,765
Q4	\$571,033,563	\$121,464,850	\$692,498,413
YT	\$2,310,033,331	\$417,130,942	\$2,727,164,273

2004

	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$578,093,669	\$87,885,129	\$665,978,798
Q2	\$665,406,177	\$112,847,894	\$778,254,071
Q3	\$590,895,018	\$103,385,124	\$694,280,142
Q4	\$623,035,445	\$113,446,041	\$736,481,485
YT	\$2,457,430,309	\$417,564,188	\$2,874,994,496

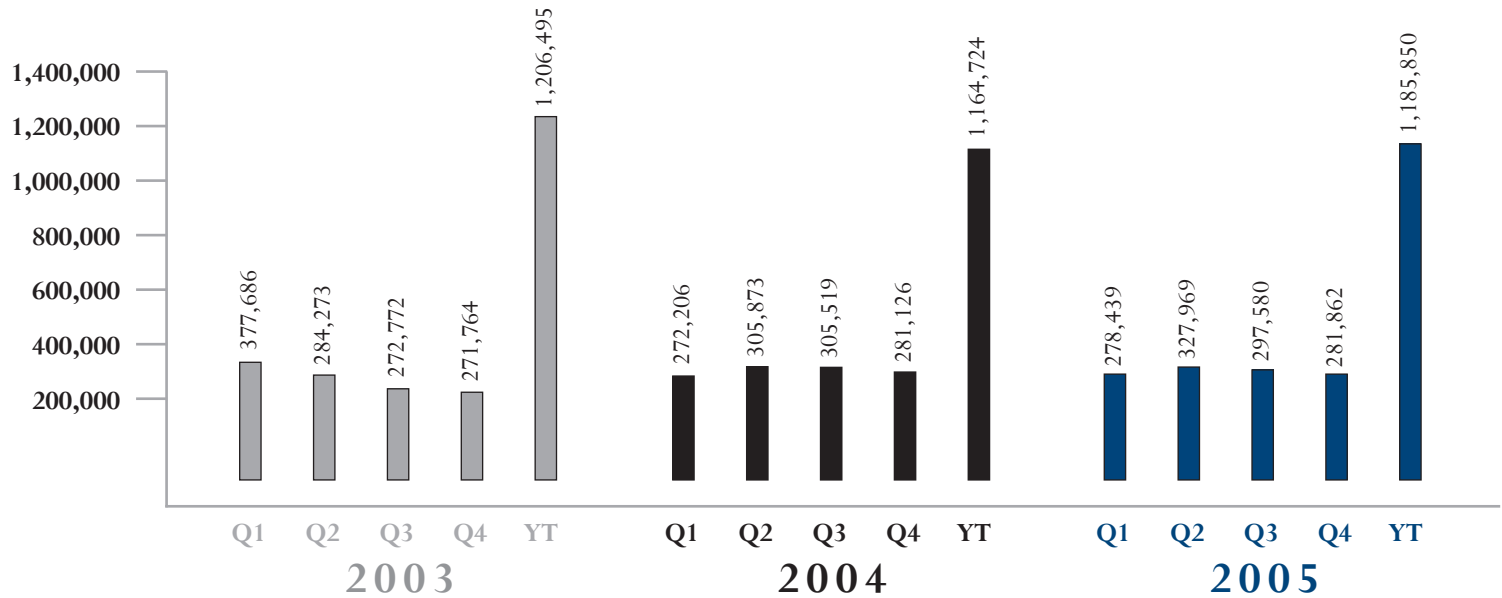
2005

	AGENT PREMIUM	IPC PREMIUM	TOTAL PREMIUM
Q1	\$611,690,364	\$120,758,141	\$732,448,505
Q2	\$852,828,295	\$169,054,417	\$1,021,882,712
Q3	\$734,218,217	\$121,395,268	\$855,613,485
Q4	\$725,171,220	\$140,086,764	\$865,257,984
YT	\$2,923,908,096	\$551,294,590	\$3,475,202,686

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 6/8/06.

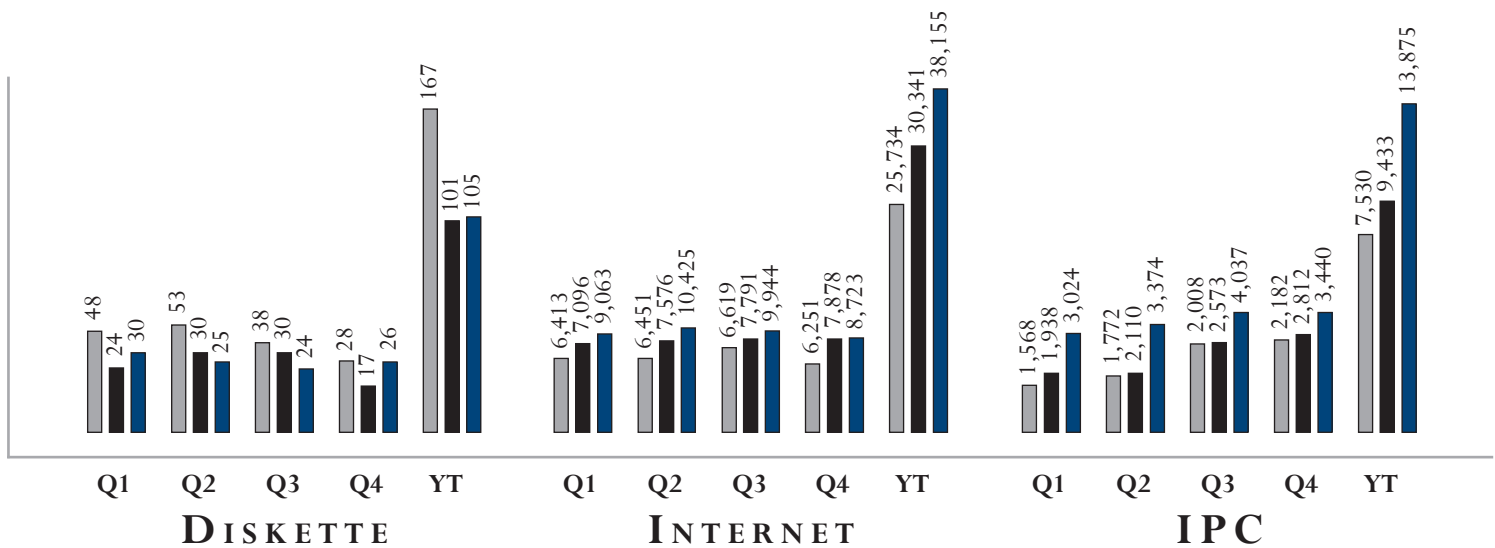
AGENT TRANSACTIONS SUBMISSIONS

NON - IPC



DISKETTE, INTERNET & IPC SUBMISSIONS

2003 2004 2005



COMPLIANCE REVIEWS - UNFILED POLICIES

2005

	NO. OF AGENTS	NO. OF POLICIES COLLECTED ON	TOTAL PREMIUMS	TAXES	TAX PENALTIES	SERVICE FEES	SERVICE FEE PENALTIES
Q1	26	93	\$1,564,424	\$68,583	\$14,143	\$4,051	\$874
Q2	6	10	\$62,305	\$3,094	\$504	\$180	\$32
Q3	27	69	\$1,409,382	\$56,603	\$8,717	\$3,992	\$670
Q4	8	28	\$226,689	\$11,809	\$2,172	\$688	\$136
YT	67	200	\$3,262,800	\$140,089	\$25,536	\$8,911	\$1,712

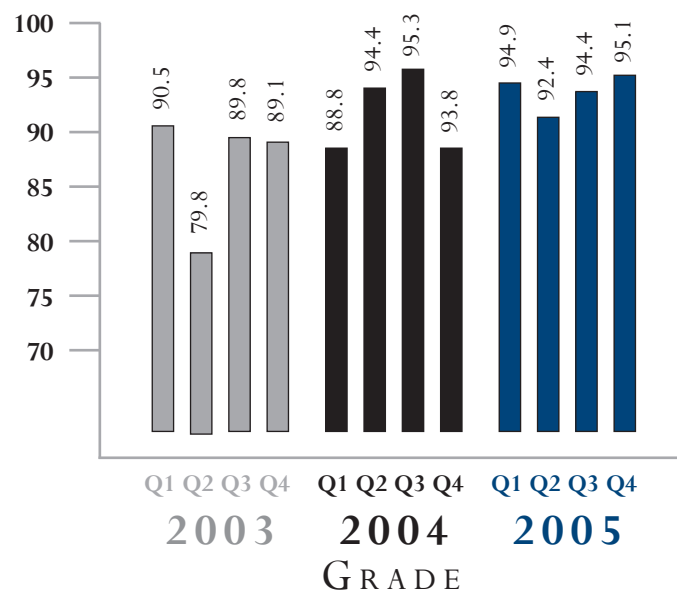
COMPLIANCE REVIEWS

COMPLIANCE REVIEWS'

AVERAGE SCORE BY QUARTER

2005

	REVIEWS DONE	NO. OF POLICIES REVIEWED	NO. OF TRANSACTIONS REVIEWED
Q1	70	1,544	1,786
Q2	56	1,570	1,770
Q3	52	1,320	1,597
Q4	54	1,224	1,467
YT	232	5,658	6,620



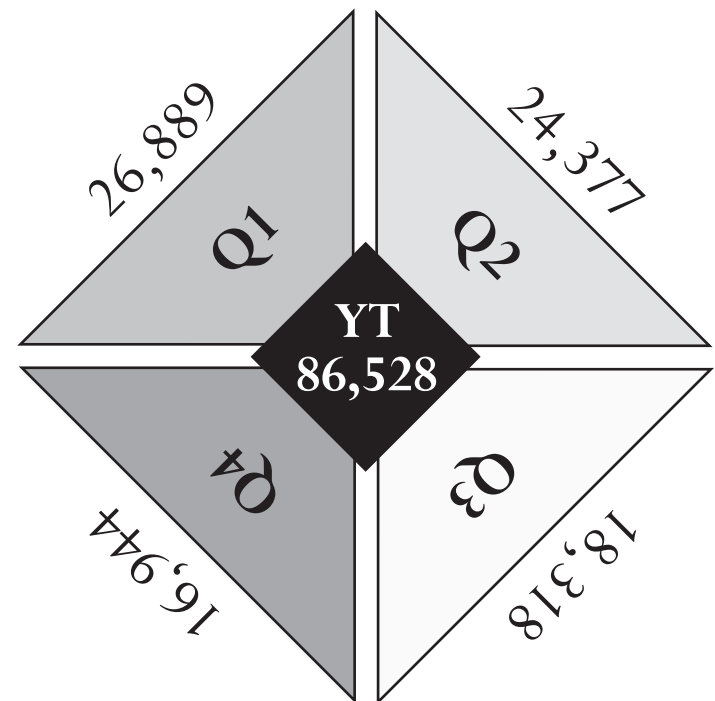
VARIANCE STATISTICS

BROKEN DOWN BY QUARTER

2005

	NO. OF POLICIES COLLECTED	PREMIUM AMOUNT	TAX	TAX PENALTIES	SERVICE FEES	SERVICE FEE PENALTIES
Q1	30	\$7,744,639	\$377,007	\$22,451	\$19,705	\$5,443
Q2	37	\$19,847,045	\$992,353	\$205,485	\$57,489	\$13,183
Q3	12	\$873,337	\$43,667	\$7,706	\$4,970	\$589
Q4	23	\$5,124,073	\$256,204	\$27,966	\$13,526	\$1,895
YT	102	\$33,589,094	\$1,669,231	\$263,608	\$95,690	\$21,110

	POLICY COUNT	PREMIUM	FEES/TAXES/PENALTIES
2003	137	\$55,494,617	\$3,140,439
2004	114	\$22,191,156	\$1,269,875
2005	102	\$33,589,094	\$2,049,639



WEBSITE VISITOR SESSIONS

2005

TOP 25 COVERAGES

BY PREMIUM REPORTED

COVERAGE	PREMIUM
1000-Commercial Property	\$1,178,245,677
5000-Commercial General Liability	\$629,227,064
2002-Homeowners - HO-3	\$228,456,681
1005-Commercial Package (Property & Casualty)	\$195,142,949
5001-Commercial Umbrella Liability	\$133,532,239
1001-Builders Risk	\$112,402,118
5006-Excess Commercial General Liability (Not Umbrella)	\$95,780,424
1013-Windstorm &/Or Hail	\$83,758,282
7003-Miscellaneous E&O Liability	\$73,680,819
6001-Miscellaneous Medical Liability	\$68,704,555
6003-Physician/Surgeon	\$38,759,381
1006-Condominium Package (Commercial)	\$38,709,344
2009-Dwelling Property	\$38,390,626
6000-Hospital Professional Liability	\$35,496,816
5012-Pollution & Environmental Liability	\$34,209,931
7002-Lawyers Professional Liability	\$29,439,656
8002-Commercial Auto Physical Damage	\$27,363,935
4001-Inland Marine (Personal)	\$24,947,865
4000-Inland Marine (Commercial)	\$24,687,544
5002-Directors & Officers Liability (Profit)	\$24,068,714
7000-Architects & Engineers Liability	\$23,637,209
2005-Condo Unit-Owners Ho-6	\$22,619,653
1204-Worker's Compensation-Excess Only	\$19,484,654
1003-Apartments (Commercial)	\$18,584,162
5005-Employment Practices Liability	\$18,316,566
TOTAL	\$3,217,646,864

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 \$257,555,822. This information was current as of 6/8/06. 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

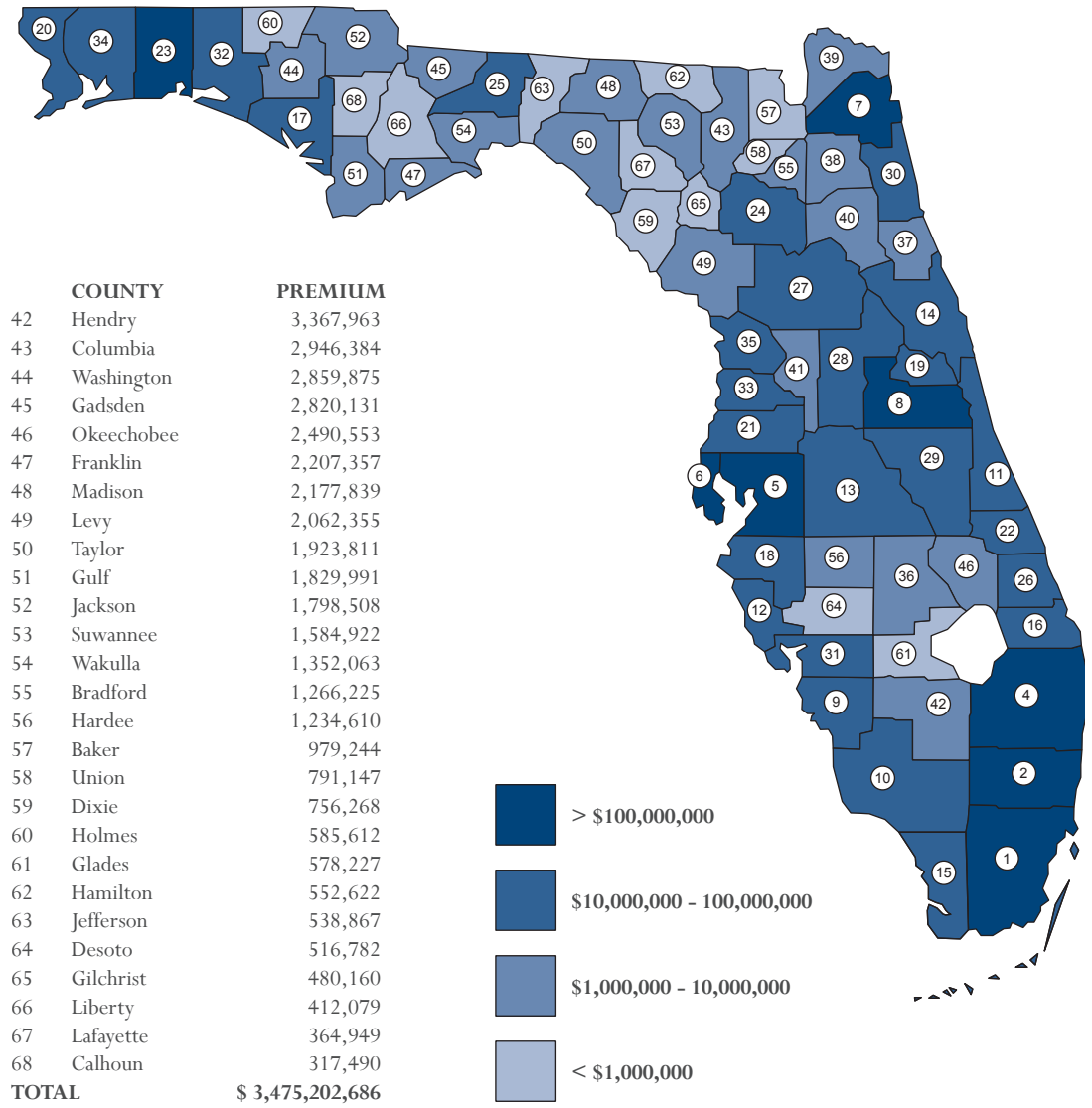
BY PREMIUM REPORTED

COVERAGE	PREMIUM
Lloyd's Underwriters At, London	\$585,594,377
Lexington Insurance Company	\$467,228,754
Scottsdale Insurance Company	\$181,314,306
Landmark American Insurance Company	\$165,942,564
Westchester Surplus Lines Insurance Company	\$143,618,750
Axis Surplus Insurance Company	\$109,019,230
USF&G Specialty Insurance Company	\$108,978,624
Empire Indemnity Insurance Co.	\$91,642,868
Arch Specialty Ins. Co.	\$86,916,280
Essex Insurance Company	\$84,433,665
American International Specialty Lines Insurance Company	\$80,705,422
Evanston Insurance Company	\$71,845,618
Mt. Hawley Insurance Company	\$67,435,472
Steadfast Insurance Company	\$67,040,261
Indian Harbor Insurance Company	\$64,980,434
Columbia Casualty Company	\$60,913,878
Colony Insurance Company	\$59,827,100
The Burlington Insurance Company	\$43,176,691
Nautilus Insurance Group	\$40,160,440
Century Surety Company	\$39,397,517
Princeton Excess Surplus Lines Insurance Co.	\$36,060,755
Pacific Insurance Company, Limited	\$35,057,549
Safeco Surplus Lines Insurance Company	\$33,474,675
James River Insurance Company	\$29,672,542
General Star Indemnity Company	\$28,748,329
TOTAL	\$2,783,186,101

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 \$692,016,585. This information was current as of 6/8/06. 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.

2005 PREMIUMS BY COUNTY

COUNTY	PREMIUM
1 Miami-Dade	655,126,046
2 Broward	390,346,581
3 Multiple Cos.*	343,808,792
4 Palm Beach	284,234,534
5 Hillsborough	232,477,946
6 Pinellas	182,111,474
7 Duval	146,022,645
8 Orange	142,360,064
9 Lee	97,619,908
10 Collier	90,970,520
11 Brevard	67,344,430
12 Sarasota	63,004,249
13 Polk	62,707,926
14 Volusia	53,238,465
15 Monroe	46,481,374
16 Martin	44,681,912
17 Bay	40,415,227
18 Manatee	39,701,875
19 Seminole	37,537,452
20 Escambia	37,283,582
21 Pasco	37,146,209
22 Indian River	36,367,522
23 Okaloosa	35,602,002
24 Alachua	31,078,556
25 Leon	29,770,552
26 St. Lucie	28,022,176
27 Marion	21,021,679
28 Lake	19,594,483
29 Osceola	17,330,519
30 St. Johns	16,536,148
31 Charlotte	14,736,605
32 Walton	13,378,022
33 Hernando	12,745,484
34 Santa Rosa	12,302,965
35 Citrus	11,402,275
36 Highlands	9,223,014
37 Flagler	7,738,957
38 Clay	7,113,871
39 Nassau	6,973,739
40 Putnam	6,451,218
41 Sumter	4,395,656



*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 06/09/2005. 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.



- ◆ In 2005, there were 151 eligible insurers in Florida: 31 were alien and 120 were foreign insurers. Five insurers were removed from the eligibility list by consent order and eight surplus lines insurers were added.
- ◆ FLSO has 738 licensed member agents and 510 submitting agents.
- ◆ There were 114 newly licensed surplus lines agents and FLSO members in 2005.

- ◆ Total reported premium by member agents: \$2,923,908,096.
- ◆ Total reported taxes by member agents: \$133,043,804.
- ◆ Florida ranks second nationally in the volume of total surplus lines premium reported.

- ◆ Offered seven continuing education classes in the state.

◆ WEBSITE FEATURES:

- ◆ 86,528 visitor sessions to FLSO website
- ◆ 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

◆ VARIANCE ANALYSIS:

- ◆ 2003: Collected on 137 policies with more than \$55.4 million in unreported premium and more than \$3.1 million in taxes, fees and penalties.

- ◆ 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

◆ IPC DATA:

- ◆ Total reported premium: \$551,294,590
- ◆ Total reported taxes: \$27,566,362
- ◆ Total number of policies processed: 13,875

ABOUT FLSO:

- ◆ Permanent office location in Tallahassee, Florida.
- ◆ Toll-free assistance: 1-800-562-4496.
- ◆ Our Internet address is: www.fslso.com.
- ◆ The FLSO newsletter is called *The Advisor*.
- ◆ FLSO was established by the Florida Legislature in 1997, under the “Dana Roehrig Act.”

ABOUT THE STAFF:

- ◆ Has 19 employees with more than 225 combined years of insurance experience.
- ◆ The FLSO participated in four community service events during 2005, which included the Dale Pullen Scholarship Fund Golf Tournament, the American Cancer Society’s Annual Relay for Life, Walk American’s Heart Walk, and Big Bend Hospice Adopt-A-Family Program.