

IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT
IN AND FOR LEON COUNTY, FLORIDA

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CLERK CIRCUIT COURT
LEON COUNTY, FLORIDA

STATE OF FLORIDA, ex. rel., the
DEPARTMENT OF FINANCIAL
SERVICES OF THE STATE OF FLORIDA,

Relator,

CASE NO.: 2006 CA 1198

vs.

FLORIDA PREFERRED PROPERTY
INSURANCE COMPANY,

**ASSIGNED TO
JUDGE GARY**

▲ Florida Corporation,

Respondent.

**VERIFIED PETITION FOR AN ORDER TO SHOW CAUSE AS TO WHY
THE DEPARTMENT OF FINANCIAL SERVICES SHOULD NOT BE
APPOINTED RECEIVER FOR PURPOSES OF LIQUIDATION**

The State of Florida, ex rel., the Florida Department of Financial Services (hereinafter the "Department"), by counsel, applies to this Court for the entry of an Order to Show Cause on the appointment of the Department as the Receiver of Florida Preferred Property Insurance Company (hereinafter "Respondent"), for purposes of liquidation and giving notice of automatic stay. In support of its petition, the Department would show:

1. Respondent is a Florida corporation with its principal place of business at 302 Knights Run Avenue, Suite 700, Tampa, Florida, 33602. Respondent is authorized to conduct business as a property and casualty insurer in this state.

2. Grounds exist for a formal delinquency proceeding against Respondent under Part I, Chapter 631, Florida Statutes, in that Respondent is violating Sections

631.051(1) and (3), and Section 631.061(1), Florida Statutes. Respondent is insolvent within the meaning of Sections 631.061(1), 631.051(1), and 631.011(14), Florida Statutes. Respondent lacks sufficient catastrophic reinsurance coverage to mitigate its exposure to possible hurricane losses rendering its further transaction of insurance presently and prospectively hazardous to its policyholders, creditors, and the public.

3. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving an insurer. Further, Section 631.025(2), Florida Statutes authorizes the Department to initiate delinquency proceedings against any “insurer” if the statutory grounds are present as to that insurer.

4. By letter dated, May 9, 2006, to the Honorable Tom Gallagher, Chief Financial Officer of the State of Florida, Kevin McCarty, Commissioner of the Office of Insurance Regulation, recommended that delinquency proceedings, pursuant to Chapter 631, Florida Statutes, be initiated against Florida Preferred Property Insurance Company. This letter is attached as Attachment A.

5. Respondent is insolvent in that it is unable to pay its debts as they become due in the usual course of business and accordingly, Respondent is insolvent within the meaning of Sections 631.011(12), (14), and 631.051(1), Florida Statutes. See the affidavits of Joseph Boor and Claude Mueller, included in this Petition as Attachments B and C, respectively, and incorporated by reference herein.

6. If all of Respondent’s statutorily admitted assets were made immediately available, Respondent’s liabilities exceed its statutorily admitted assets. As reflected in the affidavits of Mr. Mueller and Mr. Boor, the best “point estimate” of the insolvency

based on current data and actuarial analysis is approximately \$10.2 million. However, based on actuarial analyses, the insolvency could range between \$0.8 and \$21.8 million.

7. Respondent sustained significant losses as a result of the eight hurricanes which made landfall in Florida during the 2004 and 2005 hurricane seasons. These losses were, to a large degree, mitigated by Respondent's program of reinsurance, which transferred the exposure to other insurers. Coverage under this program, which expires June 30, 2006, has been virtually exhausted. Thus, if a hurricane makes landfall in Florida before June 30, 2006, Florida Preferred Property Insurance Company will likely sustain losses for which there is no reinsurance. This would further exacerbate respondent's insolvency. Respondent has no reinsurance coverage for the next (July 1, 2006 – June 30, 2007) year.

8. Therefore, Florida Preferred Property Insurance Company is in violation of Section 631.051 (3), Florida Statutes, in that it is in "such condition or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public.

9. Florida Preferred Property Insurance Company has approximately 139,000 policyholders who must be transitioned to a solvent insurer prior to the beginning of hurricane season.

10. Despite the opportunity for the officers, shareholders, and affiliates of Respondent to inject additional capital into Florida Preferred Property Insurance Company, no additional capital has been provided.

11. The Receiver believes that Respondent must be liquidated immediately to protect the remaining assets of Respondent for the benefit of its policyholders, creditors and the public, as well as assuring for the orderly transition of these policyholders to one or more solvent insurers.

12. Sections 631.051 (3), and 631.061, Florida Statutes, authorize the Department to apply to this Court for an Order directing it to liquidate a domestic insurer upon finding “the insurer to be in such condition, or is using or has been subject to such methods or practices in the conduct of its business, as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or to the public.”

13. By virtue of Respondent’s failure to have adequate catastrophe reinsurance, and its insolvency, pursuant to Section 631.051 (1) and (3), and Section 631.061, Florida Statutes, the Department is authorized to petition this Court for an Order directing it to liquidate a domestic insurer upon the existence of any grounds specified therein.

14. As the risk to its policyholders is substantial, liquidation, not rehabilitation, is the appropriate remedy. *See Sections 631.051 (1), (3), and 631.061 (1), Florida Statutes.* Further, since the onset of hurricane season is less than a month away, a hearing on an Order to Show Cause entered by the Court should be conducted at the earliest available opportunity.

15.. The Department has found that grounds exist pursuant to Sections 631.051 and 631.061, Florida Statutes, for the entry of an Order to Show Cause as to why the Department should not be appointed the Receiver of Respondent for purposes of liquidation. The specific grounds are subsections 631.061(1) and 631.051 (1) and (3), Florida Statutes.

WHEREFORE, the Department respectfully requests this Court enter an order:

A. Directing the Respondent to appear before this Court on a short day certain and show good cause, if any, as to why the Department should not be appointed Receiver of Respondent for purposes of liquidation under the provisions of Chapter 631, Florida Statutes.

B. Directing Respondent, its parent corporation, subsidiaries, or affiliated persons controlled by either the Respondent or the parent corporation, to make their books, documents, accounts, records and affairs pertaining to the Respondent available for inspection and examination by the Department during normal business hours.

C. Requiring Respondent to file a written response along with any defenses it may have to the Department's allegations within 10 days of the service of this Order.

D. Giving notice of the automatic stay provisions of Section 631.041(1), Florida Statutes.

1) Notice should be given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial petition herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of the order, and which prohibits:

a) The commencement or continuation of judicial, administrative or other action or proceeding against the insurer or against its assets or any part thereof;

- b) The enforcement of a judgment against the insurer or an affiliate obtained either before or after the commencement of the delinquency proceeding;
- c) Any act to obtain possession of property of the insurer;
- d) Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;
- e) Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631;
- f) The setoff or offset of any debt owing to the insurer except offsets as provided in Section 631.281, Florida Statutes.

E. This Court should retain jurisdiction of this cause for the purpose of granting such other and further relief as from time to time shall be deemed appropriate.

AND FURTHER, at hearing or on consent of Respondents, if this Court determines that a receiver should be appointed, that the Court enter an order as follows:

F. The Department of Financial Services of the State of Florida should be appointed Receiver of Respondent for purposes of liquidation.

G. The Receiver should be authorized and directed to:

- a) Take immediate possession of all the property, assets, and estate, and all other property of every kind whatsoever and wherever located belonging to Respondent pursuant to Sections 631.111 and 631.141, Florida Statutes, including but not limited to: offices maintained by the Respondent, rights of action, books, papers, evidences of debt, bank

accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, any and all automobiles, wherever situate and however titled, whether in the possession of Respondent or its officers, directors, trustees, employees, consultants, attorneys, agents or affiliates and all real property of Respondent, wherever situate, whether in the possession of Respondent or its officers, directors, trustees, employees, consultants, attorneys, agents or affiliates.

b) Liquidate the assets of Respondent, including but not limited to, funds held by Respondent's agents, subagents, producing agents, brokers, solicitors, service representatives or others under agency contracts or otherwise which are due and unpaid to Respondent, including premiums, unearned commissions, agents' balances, agents' reserve funds, and subrogation recoveries.

c) Employ and authorize the compensation of legal counsel, actuaries, accountants, clerks, consultants, and such assistants as it deems necessary, purchase or lease personal or real property as it deems necessary, and authorize the payment of the expenses of these proceedings and the necessary incidents thereof, as approved by the Court, to be paid out of the funds or assets of the Respondent in the possession of the Receiver or coming into its possession.

d) Reimburse such employees, from the funds of this receivership, for their actual necessary and reasonable expenses incurred while traveling on the business of this receivership.

e) Not defend or accept service of process on legal actions wherein the Respondent, the Receiver, or the insured is a party defendant, commenced either prior to or subsequent to the order, without authorization of this Court; except, however, in actions where Respondent is a nominal party, as in certain foreclosure actions, and the action does not affect a claim against or adversely affect the assets of Respondent, the Receiver may file appropriate pleadings in its discretion.

f) Commence and maintain all legal actions necessary, wherever necessary, for the proper administration of this receivership proceeding.

g) Collect all debts which are economically feasible to collect which are due and owing to the Respondent.

h) Deposit funds and maintain bank accounts in accordance with Section 631.221, Florida Statutes.

i) Take possession of all Respondent's securities and certificates of deposit on deposit with the Treasurer of Florida or any similar official of any other state, if any, and convert to cash as much as may be necessary, in its judgment, to pay the expenses of administration of this receivership.

j) Publish notice specifying the time and place fixed for the filing of claims with the Receiver once each week for three consecutive weeks in the Florida Administrative Weekly published by the Secretary of State, and at least once in the Florida Bar News and to publish notice by similar methods in all states where Respondents may have issued policies of insurance.

k) Negotiate and settle subrogation claims and Final Judgments up to and including the sum of Twenty Thousand Dollars (\$20,000.00) without further order of this Court.

l) Sell any salvage recovered property having value of not more than Twenty Thousand Dollars (\$20,000.00) without further order of this Court.

m) Give notice of this proceeding to Respondent's agents pursuant to Section 631.341, Florida Statutes, and to its insureds, if any.

n) All officers, directors, trustees, administrators, agents and employees and all other persons representing Respondent or currently employed or utilized by Respondent in connection with the conduct of its business be discharged forthwith.

o) Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of

Respondent's affairs or the affairs of its affiliates be required to fully cooperate with the Receiver, pursuant to Section 631.391, Florida Statutes, notwithstanding the provisions of the above paragraph.

p) Title to all property, real or personal, all contracts, rights of action and all books and records of Respondent, wherever located, be vested in the Receiver pursuant to Sections 631.111 and 631.141, Florida Statutes.

q) All attorneys employed by Respondent as of the date of the Order, within 10 days notice of the Order, be required to report to the Receiver on the name, company claim number and status of each file they are handling on behalf of the Respondent. Said report should also include an accounting of any funds received from or on behalf of the Respondent. All attorneys employed by Respondent should be discharged as of the date of the Order unless their services are retained by the Receiver. All attorneys employed by Respondent should be advised that pursuant to Section 631.011(21), Florida Statutes, a claim based on mere possession does not create a secured claim and all attorneys employed by Respondent, pursuant to In Re the Receivership of Syndicate Two, Inc., 538 So.2d 945 (Fla. 1st DCA 1989), who are in possession of litigation files or other material, documents or records belonging to or relating to work performed by the attorney on behalf of Respondent should be required to deliver such litigation files, material, documents or records intact and without purging to the Receiver, on

request, notwithstanding any claim of a retaining lien which, if otherwise valid, should not be extinguished by the delivery of these documents.

r) All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Respondent should be required to account for and pay all premiums and commissions unearned due to cancellation of policies by the Order or in the normal course of business owed to the Respondent directly to the Receiver within 30 days of demand by the Receiver or appear before this Court to show cause, if any they may have, as to why they should not be required to account to the Receiver or be held in contempt of Court for violation of the provisions of the Order. No agent, broker, premium finance company or other person should use premium monies owed to the Respondent for refund of unearned premium or for any purpose other than payment to the Receiver.

s) Any premium finance company which has entered into a contract to finance a premium for a policy which has been issued by the Respondent should be required to pay any premium owed to the Respondent directly to the Receiver.

t) Reinsurance premiums due to or payable by the Respondent should be remitted to, or disbursed by, the Receiver. Reinsurance losses recoverable or payable by the Respondent should be handled by the Receiver. All correspondence concerning

reinsurance should be between the Receiver and the reinsuring company or intermediary.

u) Upon request by the Receiver, any company providing telephonic services to the Respondent should be required to provide a reference of calls from the number presently assigned to the Respondent to any such number designated by the Receiver or perform any other services or changes necessary to the conduct of the receivership.

v) Any bank, savings and loan association, or other financial institution which has on deposit, in its possession, custody or control any funds, accounts and any other assets of the Respondent, should be required to immediately transfer title, custody and control of all such funds, accounts and other assets to the Receiver. The Receiver should be authorized to change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution should be permitted to exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever, or refuse to transfer any funds or assets to the Receiver's control without the permission of this Court.

w) Any entity furnishing telephone, water, electric, sewage, garbage or trash removal services to the Respondent should be

required to maintain such service and transfer any such accounts to the Receiver as of the date of the Order, unless instructed to the contrary by the Receiver.

x) Any data processing service which has custody or control of any data processing information and records including but not limited to source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to the Respondent should be required to transfer custody and control of such records to the Receiver. The Receiver should be authorized to compensate any such entity for the actual use of hardware and software which the Receiver finds to be necessary to this proceeding. Compensation should be based upon the monthly rate provided for in contracts or leases with Respondent which were in effect when this proceeding was instituted, or based upon such contract as may be negotiated by the Receiver, for the actual time such equipment and software is used by the Receiver.

y) The United States Postal Service should be directed to provide any information requested by the Receiver regarding the Respondent and to handle future deliveries of Respondent's mail as directed by the Receiver.

z) All claims should be filed with the Receiver on or before 11:59 p.m. on the date which is exactly one year from the date

of the liquidation order or be forever barred, and all such claims should be filed on proof of claim forms prepared by the Receiver.

aa) All insurance policies, bonds or similar contracts of coverage of the Respondent issued in Florida are hereby cancelled as of a date to be determined.

bb) Except for contracts of insurance, all executory contracts to which the Respondent was a party shall be cancelled and stand cancelled unless specifically adopted by the Receiver within ninety (90) days of the date of this Order or from the date of the Receiver's actual knowledge of the existence of such contract, whichever is later. "Actual Knowledge" means the Receiver has in its possession the original of a written contract to which the Respondent is a party, and the Receiver has notified the vendor in writing acknowledging the existence of the contract. Any vendor, including but not limited to, any and all employees / contractors of insurer, claiming the existence of a contractual relationship with the insurer shall provide notice to the Receiver of such relationship. This notice shall include any and all documents and information regarding the terms and conditions of the contract, including a copy of the written contract between the vendor and the insurer, if any, what services or goods were provided pursuant to the contract, any current, future and/or past due amounts owing under the contract, and any supporting documentation for third party services or goods provided. Failure to

provide the required information may result in vendors' contractual rights not being recognized by the Receiver. The rights of the parties to any such contracts are fixed as of the date of the Order and any cancellation under this provision shall not be treated as an anticipatory breach of such contracts.

cc) All affiliated companies and associations should be directed to make their books and records available to the Receiver, to include all records located in any premises occupied by said affiliate, whether corporate records or not, and to provide copies of any records requested by the Receiver whether or not such records are related to Respondent. The Receiver would have title to all policy files and other records of, and relating to Respondent, whether such documents are kept in offices occupied by an affiliate company or any other person, corporation, or association. The Receiver should be authorized to take possession of any such records, files, and documents, and to remove them to any location in the Receiver's discretion. Any disputed records should not be withheld from the Receiver's review, but should be safeguarded and presented to this Court for review prior to copying by the Receiver.

dd) The Receiver should have complete access to all computer records of the Respondent and its affiliates.

ee) Any person, firm, corporation or other entity having notice of the Order that fails to abide by its terms should be directed to

appear before this Court to show good cause, if any they may have, as to why they should not be held in contempt of Court for violation of the provisions of this Order.

ff) Pursuant to Sections 631.041(3) and (4), Florida Statutes, all persons, firms, corporations and associations within the jurisdiction of this Court or over whom this Court has jurisdiction, including, but not limited to, Respondent and its officers, directors, stockholders, members, subscribers, agents and employees, should be enjoined and restrained from the further transaction of the business of insurance; from doing, doing through omission, or permitting to be done any action which might waste or dispose of the books, records and assets of the Respondents; from in any means interfering with the Receiver or these proceedings; from the transfer of property and assets of Respondent without the consent of the Receiver; from the removal, concealment, or other disposition of Respondent's property, books, records, and accounts; from the commencement or prosecution of any actions against the Respondent or the Receiver together with its agents or employees, the service of process and subpoenas, or the obtaining of preferences, judgments, writs of attachment or garnishment or other liens; and from the making of any levy or execution against Respondent or any of its property or assets. Notwithstanding the provisions of this paragraph, the Receiver should be permitted to accept and be subpoenaed for non-party production of claims files in

its possession, including medical records which may be contained therein. In such cases, the requesting party must submit an affidavit to the Receiver stating that notice of the non-party production was appropriately issued and provided to the patient and that the patient was given the opportunity to object and either did not object to the non-party production, or objected and the Court overruled the objection, in which case a copy of the Court's ruling must be attached to the affidavit. The Receiver should be authorized to impose a charge for copies of such claim files pursuant to the provisions of Section 119.07(4), Florida Statutes.

CONTINUATION OF INVESTIGATION

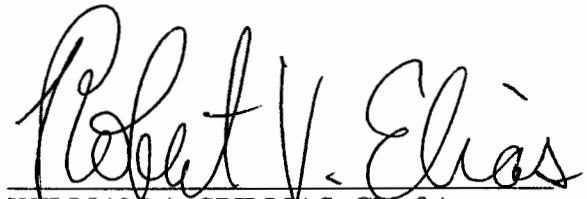
gg) The Receiver should be authorized to conduct an investigation as authorized by Section 631.391, Florida Statutes, of Respondent and its affiliates, as defined above, to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent and its parent corporations, its subsidiaries, and affiliates should be required to make all books, documents, accounts, records, and affairs, which either belong to or pertain to the Respondent, available for full, free and unhindered inspection and examination by the Receiver during normal business hours (8:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of the Order. The Respondent and the above specified entities should be required to cooperate with the Receiver to the fullest extent

required by Section 631.391, Florida Statutes. Such cooperation should include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

hh) Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of the affairs of Respondent or its affiliates should be required to fully cooperate with the Receiver as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraph. Upon receipt of a certified copy of the Order, any bank or financial institution should be required to immediately disclose to the Receiver the existence of any accounts of Respondent and any funds contained therein and any and all documents in its possession relating to Respondent for the Receiver's inspection and copying.

Dated this 9th day of May, 2006.

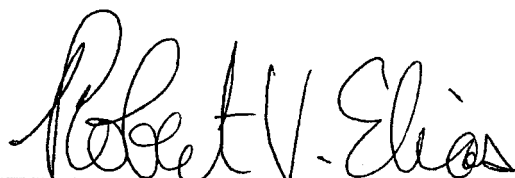
Respectfully submitted,

A handwritten signature in black ink that reads "Robert V. Elias". The signature is written in a cursive style with a horizontal line underneath the name.

WILLIAM A. SPILLIAS, Chief Attorney
Florida Bar No. 909769
ROBERT V. ELIAS, Deputy Chief Attorney
Florida Bar No. 530107
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Attorney
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Florida Department of Financial Services
Division of Rehabilitation and Liquidation
Post Office Box 110
Tallahassee, Florida 32302-0110
(850) 413-4445 - Telephone
(850) 488-1510 - Facsimile

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been furnished via facsimile and overnight mail to Richard B. Hadlow, Holland and Knight, 100 North Tampa Street, Suite 4100, Tampa, Florida 33602, and to William F. Poe, Sr., Chairman, Poe Insurance Holdings, LLC, 302 Knights Run Avenue , Suite 700, Tampa Florida 33602, this 9th day of May, 2006



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OFFICE OF INSURANCE REGULATION

FINANCIAL SERVICES
COMMISSION

JEB BUSH
GOVERNOR

TOM GALLAGHER
CHIEF FINANCIAL OFFICER

CHARLIE CRIST
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

KEVIN M. MCCARTY
COMMISSIONER

May 9, 2006

The Honorable Tom Gallagher
The Chief Financial Officer
Department of Financial Services
The Capitol, PL-11
Tallahassee, FL 32399

Dear Chief Financial Officer Gallagher:

This is to inform you that grounds exist, pursuant to Section 631.061, Florida Statutes, to place Florida Preferred Property Insurance Company (Florida Preferred) in receivership for purposes of liquidation and to request that your Division of Rehabilitation and Liquidation petition the Circuit Court for appointment as receiver as soon as possible. While the directors and sole shareholder of Florida Preferred have consented to an order of rehabilitation, which was to be effective on June 1, 2006, they have not consented to this action.

In March 2006, Florida Preferred filed its annual financial statement as of December 31, 2005, with the Office, reporting surplus of \$5,905,488 and loss and loss adjustment expense reserves of \$6,151,412. The Office has determined that Florida Preferred's loss and loss adjustment expense reserves fall with a range of \$12.8 million and \$33.9 million, with a best estimate of \$22.3 million. Based on these estimates, as of December 31, 2005, Florida Preferred was insolvent by as little as \$0.8 million or as much as \$21.8 million.

The prospects of infusion of additional capital or further removal of sufficient risk from Florida Preferred to make it viable are not optimistic at this point.

Further, Florida Preferred has not yet shown that it has secured adequate catastrophe reinsurance for the 2006 Hurricane Season, which starts in a few short weeks. Because the reinsurance market is tight and companies may be contracting their participation in the homeowners insurance market, the policyholders and their agents may experience significant obstacles in finding replacement coverage. Therefore, we anticipate that many of them will go to Citizens Property Insurance Corporation (Citizens) for coverage

• • •
KEVIN M. MCCARTY • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLDPS.COM • EMAIL: KEVIN.MCCARTY@FLDPS.COM

Affirmative Action / Equal Opportunity Employer

Attachment A

whenever their policies expire or are cancelled. In an effort to avoid overwhelming Citizens with the task of re-writing thousands of additional policies, a multi-step process including the liquidation of Florida Preferred will be necessary.

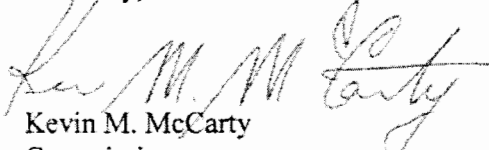
The plan outlined in our earlier correspondence continues to be the recommended plan after consultation with Citizens to further the goal of providing an orderly transition of policyholders from the Poe Financial Group companies and to avoid any unnecessary disruption of coverage for these policyholders.

1. Policies need to be in effect as of June 30, 2006, to enable the companies to take maximum benefits under their quota share reinsurance arrangements.
2. After July 1, 2006, as the policies reach their anniversary dates, Citizens will offer new coverage to those policyholders who are unable to obtain coverage in the voluntary market.
3. On June 1, 2006, a previously-executed consent to place Florida Preferred in receivership for purposes of rehabilitation will become effective. Florida Preferred has filed financial statements indicating a risk based capital ratio that does not comply with statutory requirements, but it has not reported an impairment of its capital and surplus. If Florida Preferred cannot obtain reinsurance, its policies will need to be cancelled with the same effective date as the others, by July 1, because its quota-share reinsurance will expire on June 30, 2006. Therefore, we anticipate that unless new capital is found by its shareholder, it may be necessary to liquidate Florida Preferred on June 2, 2006, to ensure that policyholders are not left without adequate coverage during the hurricane season.

Under this plan, no policyholder should experience a lapse in coverage and the guaranty fund will be triggered for the payment of claims as necessary.

Therefore, I recommend that you authorize the Division of Rehabilitation and Liquidation to petition the Court to place Florida Preferred Property Insurance Company in receivership for purposes of liquidation and take further actions consistent with this plan as necessary.

Sincerely,


Kevin M. McCarty
Commissioner

AFFIDAVIT OF JOSEPH BOOR, FCAS

BEFORE ME, the undersigned authority, appeared Joseph Boor, FCAS, who after being sworn, deposes and says:

1. I, Joseph Boor, currently hold the position of Actuary, PROPERTY & CASUALTY FINANCIAL OVERSIGHT, OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE"). I graduated from Southern Illinois University in 1979 with a Bachelor's degree in Mathematics. I received the Associate of the Casualty Actuarial Society degree in 1985 and the Fellow of the Casualty Actuarial Society degree in 1988. I have authored extensively on aspects of casualty actuarial science, including articles in the premier casualty actuarial journal and articles that are part of the course of study for the Associate degree of the Casualty Actuarial Society, and am a frequent speaker at actuarial meetings. I have been employed by the OFFICE since June 29, 2004. My responsibilities include evaluating the loss and loss adjustment expense reserves of Florida companies in connection with normal triennial exams of insurance companies performed by the OFFICE; performing loss reserve studies in connection with internal requests by OFFICE staff; review of reinsurance documents to assess transfer of risk, and special reviews of actuarial reports performed by other actuaries.

2. FLORIDA PREFERRED PROPERTY INSURANCE COMPANY (the COMPANY) is currently a domestic stock insurer in the State of Florida licensed pursuant to Section 624.401, Florida Statutes, and is subject to the jurisdiction and regulation of the OFFICE.

3. I have independently reviewed the loss and loss adjustment expense reserve needs of FLORIDA PREFERRED PROPERTY INSURANCE COMPANY as of December 31, 2005 using the most current data available as I began my review (loss and outside adjuster cost data through February 28, 2006, inside

adjuster cost data through December 31, 2005). Relevant aspects of my review include:

- (A) As of December 31, 2005, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY posted loss and loss expense reserves in the amount of \$6,151,412.
- (B) I evaluate the needed loss and loss adjustment expense reserves of FLORIDA PREFERRED PROPERTY INSURANCE COMPANY, as of December 31, 2005, at \$22,255,000 (rounded to the nearest thousand).
- (C) Consequently, in my professional opinion, the loss and loss adjustment expense reserves listed on the accounting records of FLORIDA PREFERRED PROPERTY INSURANCE COMPANY, as of December 31, 2005, were inadequate by \$16,103,000 (rounded to the nearest thousand).
- (D) Of critical importance to establishing the appropriate net loss and loss adjustment expense reserves of FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is an evaluation of the catastrophe reinsurance program employed by FLORIDA PREFERRED PROPERTY INSURANCE COMPANY. My analysis of the catastrophe reinsurance program, which is based largely on quota share reinsurance and coverage provided by the Florida Hurricane Catastrophe Fund, finds that :
 - i. The 'All Poe Companies Personal Lines Quota Share Program' limit of coverage for hurricane Wilma is exhausted. This limit applies to the personal lines business of all three insurers in the Poe Financial Group: FLORIDA PREFERRED PROPERTY INSURANCE COMPANY, ATLANTIC PREFERRED INSURANCE COMPANY, and SOUTHERN FAMILY INSURANCE COMPANY. Recoveries from the reinsurers under this quota share program are capped at approximately \$350 million. Were there no cap, based on the

quota share allocations of the program, the reinsurers would be responsible for approximately \$389 million. As a result of the cap, I project that \$39 million is beyond the maximum amount the reinsurers are required to pay. This last \$39 million in hurricane Wilma loss and loss adjustment expense costs of all the Poe companies is unreinsured, of which slightly over \$12 million is attributable to FLORIDA PREFERRED PROPERTY INSURANCE COMPANY.

- ii. In my best (most likely to occur) actuarial estimate of Hurricane Wilma losses, the losses eventually recoverable from the Florida Hurricane Catastrophe Fund nearly exhaust, but do not quite exhaust the 'limit' (maximum amount payable, or cap) of loss recoverable from the Florida Hurricane Catastrophe Fund. Out of a reinsurance limit of \$341 million, I expect \$329 million to be recovered.
- iii. The limits or caps of the remaining reinsurance coverages available to FLORIDA PREFERRED PROPERTY INSURANCE COMPANY and applicable to hurricane Wilma have been exhausted.
- iv. Because FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is responsible for paying 100% of loss and loss adjustment expense costs once all available reinsurance is exhausted, the loss and loss adjustment expense reserves and their impact on FLORIDA PREFERRED PROPERTY INSURANCE COMPANY's surplus are extremely volatile. This volatility, engendered by FLORIDA PREFERRED PROPERTY INSURANCE COMPANY's reinsurance limits, is such that it is much more likely for the actual hurricane Wilma loss payouts of the COMPANY to be far higher than my best reserve indication than it is likely for them to be lower than my best reserve indication.

(E) My estimate of the range of most likely eventual costs for all loss and loss adjustment expense unpaid as of December 31, 2005 runs from \$12,825,000 to \$33,891,000.

FURTHER AFFIANT SAYETH NAUGHT.

Joseph A. Boor FCAS

Joseph A. Boor, FCAS

Actuary

Bureau of Property & Casualty Financial Oversight

Office of Insurance Regulation

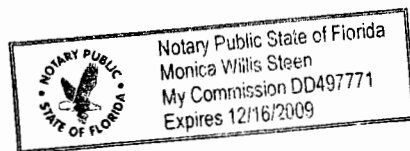
State of Florida

County of Leon

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State of Florida and Leon County aforesaid to take acknowledgements, personally appeared Joseph Boor to me known to be the person described in and who executed the foregoing Affidavit, that he acknowledged before me that he executed the same, that I relied upon the following form of identification of the above named person Joseph Boor and that an oath (was)(was not) taken.

WITNESS my hand and official seal in the County and State last aforesaid this 8 day of May, 2006.

Monica Willis Steen
NOTARY PUBLIC
Monica Steen
PRINTED NOTARY SIGNATURE



AFFIDAVIT OF CLAUDE MUELLER

BEFORE ME, the undersigned authority, appeared Claude Mueller, who after being sworn, deposes and says:

1. I, Claude Mueller, currently hold the position of Director with the BUREAU OF PROPERTY & CASUALTY FINANCIAL OVERSIGHT, OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE"). I graduated from Florida State University in 1989 with a Bachelor's degree in Risk Management/Insurance. I have been employed by the OFFICE since April 20, 1999. My responsibilities include directing the activities regarding the compliance, operational, and solvency audits of property and casualty insurers.

2. FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is currently a domestic stock insurer in the State of Florida licensed pursuant to Section 624.401, Florida Statutes, and is subject to the jurisdiction and regulation of the OFFICE.

3. The OFFICE has determined that grounds for FLORIDA PREFERRED PROPERTY INSURANCE COMPANY's liquidation exist pursuant to Section 631.061, Florida Statutes, in that FLORIDA PREFERRED PROPERTY INSURANCE COMPANY:

(A) is impaired or insolvent. The basis for this determination is summarized as follows:

(i) In its 2005 Annual Statement filed with the Office on March 1, 2006, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY reported surplus as to policyholders of \$5,905,488 as of December 31, 2005.

(ii) In its 2005 Annual Statement filed with the Office on March 1, 2006, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY reported net loss and loss adjustment expenses of \$6,151,412 as of December 31, 2005. Pursuant to Section 624.041(1), Florida Statutes, this is the amount necessary to pay all of an insurer's unpaid losses and claims incurred on or prior to the date of statement, whether reported or unreported, together with the expenses of adjustment or settlement thereof.

(iii) The Office has determined that FLORIDA PREFERRED

PROPERTY INSURANCE COMPANY's reported net loss and loss adjustment expenses as of December 31, 2005 were deficient by approximately \$16.1 million and are in fact closer to approximately \$22.3 million. This is the OFFICE's best estimate of loss and loss adjustment expense within a range of \$12.8 million to \$33.9 million.

(iv) Adjusting FLORIDA PREFERRED PROPERTY INSURANCE COMPANY's reported surplus as of December 31, 2005 to account for the \$16.1 million reserve deficiency renders FLORIDA PREFERRED PROPERTY INSURANCE COMPANY insolvent by approximately \$10.2 million. Considering the OFFICE's range of estimated loss and loss adjustment expenses, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is insolvent by as little as \$0.8 million or by as much as \$21.8 million.

(v) At this time, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY has provided no evidence to the OFFICE that it has received any additional capital funds from its shareholder or any other source to cure its insolvency and therefore, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is unable to pay all its outstanding liabilities.

(B) is found to be in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public. The basis for this determination is summarized as follows:

(i) As stated above, FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is insolvent and unable to pay all its outstanding liabilities.

(ii) FLORIDA PREFERRED PROPERTY INSURANCE COMPANY writes homeowners insurance in, and only in, the state of Florida.

(iii) FLORIDA PREFERRED PROPERTY INSURANCE COMPANY has insufficient catastrophe reinsurance to honor all of its policyholder obligations, should a hurricane of any magnitude make landfall in Florida during the 2006 hurricane season which begins on June 1, 2006.

(iv) FLORIDA PREFERRED PROPERTY INSURANCE COMPANY has approximately 147,000 policyholders that must be transitioned to a solvent insurer prior to the beginning of hurricane season.

4. Based on the findings outlined above, the OFFICE has determined that FLORIDA PREFERRED PROPERTY INSURANCE COMPANY is found to be in such condition as to render its further transaction of insurance presently or prospectively hazardous to its policyholders, creditors, stockholders, or the public. Thus, grounds exist for issuing an Order for entry into liquidation under Section 631.061, Florida Statutes.

FURTHER AFFIANT SAYETH NAUGHT.




Claude W. Mueller
Director
Bureau of Property & Casualty Financial Oversight
Office of Insurance Regulation

State of Florida
County of Leon

I HEREBY CERTIFY that on this day, before me, an officer duly authorized in the State of Florida and Leon County aforesaid to take acknowledgements, personally appeared Claude Mueller to me known to be the person described in and who executed the foregoing Affidavit, that he acknowledged before me that he executed the same, that I relied upon the following form of identification of the above named person _____ Claude Mueller and that an oath (was)(was not) taken.

WITNESS my hand and official seal in the County and State last aforesaid this 8 day of May, 2006.



NOTARY PUBLIC
Monica Steen
PRINTED NOTARY SIGNATURE

