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BUTTNER HAMMOCK & COMPANY P.A.
Certified Public Accountants

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December 17, 2012


Mr. Fred Staubitz
Florida Department of Financial Services
Division of Rehabilitation & Liquidation
2020 Capital Circle SE, #310
Tallahassee, Florida 32301

Dear Fred:

Enclosed is the insolvency report for Caduceus Self Insurance Fund, Inc.

Please let me know if you have any questions or comments.

Sincerely,



Michael T. Hammock

P.S. Fred, have a great Holiday Season.

ACCOUNTING SERVICES • TAX PLANNING & PREPARATION • FAMILY BUSINESS CONSULTING
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Caduceus Self Insurance Fund, Inc.

Insolvency Report

Caduceus Self Insurance Fund, Inc.

Insolvency Report

Receivership Information/Reference:

Name of Receivership	Caduceus Self Insurance Fund, Inc.
Receivership Number	490
Date of Receivership	January 3, 2000
Date of Rehabilitation	N/A
Date of Liquidation	January 3, 2000
Guarantee Association	N/A

Scope: As provided in the Provider Contract between the “Receiver of Caduceus Self Insurance Fund, Inc.,” (the Receiver being the Florida Department of financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as “Receiver,” and Buttner Hammock & Company, P.A. (“BHC”) the Receiver requested BHC to:

SCOPE OF WORK

Prepare an insolvency summary report (“Insolvency Report”), pursuant to the requirements of 631.398 (3), *Florida Statutes*, relating to the history and causes of insolvency, including a statement of the business practices of Caduceus Self Insurance Fund, Inc., which led to its insolvency.

- For the receivership of Caduceus Self Insurance Fund, Inc., BHC will review Caduceus Self Insurance Fund, Inc.’s records in the RECEIVER’s possession for information relating to the cause(s) of Caduceus Self Insurance Fund, Inc.’s

insolvency and prepare and submit an approved, written summary report on those causes.

The authority under which the insolvency report is written is Section 631.398, Florida Statutes which states as follows:

The 2007 Florida Statutes

Title XXXVII

Chapter 631

Insurance Insurer Insolvency; Guaranty of Payment

631.398 Prevention of insolvencies.—To aid in the detection of prevention of insurer insolvencies or impairments:

(1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conversation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. 119.07(1) until the termination of a delinquency proceeding.

(2) The office shall:

(a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History – ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

The location and dates of our review of files in the RECEIVER's possession were as follows:

- 2003-2011: Review of Receiver's files in Jacksonville, Florida by Michael Hammock, CPA.
- April 19-20, 2012: Review of Receiver's files at 2020 Capital Circle SE, Tallahassee, Florida by Michael Hammock, CPA.

Business: historical information related to Caduceus Self Insurance Fund, Inc. ("Caduceus") follows:

1. Date and location of Incorporation: Caduceus Self Insurance Fund, Inc. was originally incorporated in the State of Florida on November 25, 1975 and commenced business shortly thereafter.
2. Date Company began doing business in Florida: As far as can be determined, Caduceus is presumed to have begun doing business in Florida in 1976.
3. Lines of Business: Caduceus was a Florida not-for-profit engaged in the marketing and writing of insurance coverage for medical malpractice in order to pool the medical malpractice liabilities of its members.
4. Certificates of Authority: Caduceus held a license in the State of Florida.

5. Geographic Areas: Caduceus' geographic area of insurance coverage for the year ended December 31, 1998 follows:

<u>State</u>	<u>Percent of Premiums</u>
Florida	<u>100%</u>
Total	<u>100%</u>

6. Operating Results: Caduceus' operating results according to Caduceus' 1994 through 1998 Audited Financial Statements follows:

	<u>Premiums Earned</u>	<u>Underwriting Deductions</u>	<u>Underwriting Gain (Loss)</u>	<u>Net Income (Loss)</u>
1994	\$ 5,420,237	\$ 5,812,559	\$ (392,322)	\$ 220,263
1995	\$ 7,108,744	\$ 8,036,126	\$ (927,382)	\$ (261,626)
1996	\$ 7,809,293	\$ 8,762,163	\$ (952,870)	\$ (95,259)
1997	\$ 2,609,436	\$ 5,514,238	\$ (1,272,810)	\$ (510,350)
1998	\$ 315,268	\$ 2,812,310	\$ 1,481,972	\$ (763,933)

7. Ownership:

- Caduceus was a Florida not-for-profit medical malpractice self insurance trust where members were comprised of policyholders that were subject to change from year to year.

The 1998 Annual Statement of Caduceus listed the following officers and trustees:

Officers:

- Richard J. Feinstein, M.D., Chairman
- Joseph G. Kump, M.D., Vice Chairman
- Martin E. Liebling, M.D., Secretary & Treasurer

Trustees:

- Richard J. Feinstein, M.D., Chairman
- Joseph G. Kump, M.D., Vice Chairman
- Martin E. Liebling, M.D., Secretary & Treasurer
- David J. Kudzma, M.D.

Affiliates: Not Applicable

9. Organizational Chart: Not Applicable

10. Management: People involved with the management of Caduceus as of the date of rehabilitation were as follows:

- Richard J. Feinstein, M.D., Chairman
- Joseph G. Kump, M.D., Vice Chairman
- Martin E. Liebling, M.D., Secretary & Treasurer
- David J. Kudzma, M.D.
- Katherine K. McMenamin, Esquire
- Robert Tannini

Dates of employment are unknown.

Background and Events of Impact: The Background and Events of Impact is contained in the following three sections:

- General Background and Events Caduceus
- The TDC Litigation
- The Spear Safer Harmon Litigation

“General Background and Events”

In the last years of Caduceus’ existence, Caduceus experienced severe financial difficulties and began to explore opportunities to conduct a runoff of liabilities through a loss portfolio transfer, or other business transactions whereby Caduceus’ rights, obligations, assets and liabilities would be assumed by another insurer who could provide a stable and secure insurance product for Caduceus’ members. In April 1998, Caduceus and The Doctor’s Company (“TDC”) began conducting negotiations and due diligence to accomplish these goals. TDC is a medical malpractice insurer domiciled in California.

On April 29, 1999, Caduceus entered into a contract with TDC, known as the Master Agreement, the Master Agreement was effective on January 1, 1999.

Under the terms of the Master Agreement TDC was to function as the servicing agent in the runoff of Caduceus’ book of business and TDC agreed to pay Caduceus certain amounts during a transaction period from January 1, 1999 through December 31, 2001. These payments from TDC were intended to allow Caduceus to settle its past liabilities.

On January 1, 1999, Caduceus ceased issuing new and renewal insurance policies.

Effective January 1, 1999 Caduceus essentially ceased managing its operations as the responsibility for servicing Caduceus' existing policyholders and managing its existing claims was transferred to TDC, although, Caduceus remained liable for the runoff of reported and incurred but not reported claims on old Caduceus policies.

In 1999, Caduceus' financial condition steadily deteriorated and in July 1999, Caduceus assessed current and past members approximately \$7 million for deficits incurred for the years 1994, 1995, 1997, and 1998. Caduceus was unsuccessful in collecting the assessment.

The Caduceus Board of Director's purposed liquidation of Caduceus in November 1999.

On January 3, 2000, the Circuit Court, Second Judicial Circuit, Leon County, Florida, appointed the Department of Financial Services ("DFS") as Receiver over Caduceus. Caduceus consented to the appointment of the Receiver for purposes of liquidation.

On July 25, 2000, a Motion of Order Dissolving the Corporate Existence of Caduceus was approved by the Circuit Court of the Second Judicial Circuit in and for Leon County.

On December 5, 2000, the Receiver made demand for the repayment by TDC of \$197,431 previously paid by Caduceus to TDC.

On December 29, 2000, TDC denied the Receiver's claim for repayment of the \$197,431.

On February 9, 2001, the Receiver made another demand for repayment by TDC of the \$197,431.

On February 28, 2002, the Receiver's Motion to Approve Settlement Agreement and Mutual Release with Transatlantic Reinsurance Company ("Transatlantic") was approved authorizing the payment to the Receiver of \$369,891 to settle all Transatlantic obligations and liabilities to Caduceus.

On January 2, 2003, the Circuit Court, Second Judicial Circuit, Leon County, Florida, approved the order directing the assessment of Caduceus' members for financial deficits in the amount of \$15,581,998 to cover claims and administrative expenses of the Caduceus estate.

On January 3, 2003, the Circuit Court, Second Judicial Circuit, Leon County, Florida, approved the Receiver's Motion for Authorization to Appoint a New Trustee for Caduceus' 401K Retirement Savings Plan and for Approval to Terminate the Plan.

On August 11, 2003, the Circuit Court, Second Judicial Circuit, Leon County, Florida, approved the Receiver's Motion to Show Cause Why Judgment Should Not Be Entered Against Non-Paying Fund Members who had not paid their share of the \$15.6 million assessment approved on January 2, 2003. The Court directed the Receiver to notify the fund members to respond by September 15, 2003.

On December 5, 2003, the Circuit Court, Second Judicial Circuit, Leon County, Florida, ordered that those fund members who have timely and properly filed a written answer or response to the Order to Show Cause dated August 11, 2003 may request a formal hearing before the Court. The objector/responder may pursue further discovery related to the issue before January 30, 2004.

In 2003 through 2005 the Receiver was successful in collecting a large percentage of the January 2003 assessment and in settling the claims liabilities assumed from the Caduceus liquidation.

During 2002 through 2011, the Receiver pursued legal action against TDC and Spear Safer Harmon & Company, P.A., Caduceus' independent auditors. See the separate Background and Events of Impact relating to these litigations later in this report.

On December 17, 2007, the Circuit Court, Second Judicial Circuit, Leon County, Florida, directed the Receiver to return up to \$11 million in assessment funds to former Caduceus fund members. The Court further ordered that the returned assessment amounts intended for former Caduceus fund members who did not respond to the Receiver's inquiries, or where inadequate address information exist, be transferred to the Florida Bureau of Unclaimed Property.

On September 2, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, approved a Release Agreement between Caduceus and the United States of America from any and all liability under Section 31 U.S.C. §3713(6) in connection with the Caduceus liquidation.

On November 25, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, approved the return of \$3,998,140 to the 1,301 former Caduceus policyholders who paid either a portion or the entirety of the assessments levied in 2003. Including the December 17, 2007 return of funds in the amount of \$11 million a total of \$14,998,140 in assessment principal and interest was collected and returned to the Caduceus Fund Members.

“The TDC Litigation”

On February 22, 2002, the Receiver filed a Complaint and Demand for Jury Trial against TDC alleging, among other things, breach of contract under the Master Agreement as it relates to the calculation and payment of Cumulating Profits and New Business fees owed to Caduceus.

On August 17, 2004, an Amended Complaint and Demand for Jury Trial against TDC was filed alleging, among other things, breach of contract under the Master Agreement as it relates to the calculation and payment of Cumulating Profits and New Business fees owed to Caduceus.

In 2002 through June 2005, the Receiver and TDC exchanged answers by TDC to the Complaint, several Request for Production, and five Interrogatories.

About May 2004, TDC filed Defendant’s Motion for Summary Judgment.

On August 17, 2004, the Receiver filed Affidavit in Opposition of Motion for Summary Judgment prepared by Michael Hammock, CPA.

On September 1, 2004, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued the Partial Summary Judgment and Case Management Order which granted the Motion for Summary Judgment on Counts II, IV, and V of the Amended Complaint. The Courts dismissed, without prejudice, Count 6. The remaining Counts 1 and III were upheld by the Court.

On September 13, 2004, the TDC Defendant's issued their Answer to the Amended Complaint.

On February 17, 2005, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued Notice of Trial to be held in September 2005.

On July 25, 2005, a Receiver's Expert, Edward W. Buttner IV provided deposition testimony in the TDC matter.

On August 9, 2005, TDC filed a Motion for Continuance.

On August 24, 2005, a Pre-Trial Conference was conducted.

On September 19, 2005, the TDC trial began in the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On September 20, 2005 the jury returned its verdict in favor of the Receiver.

On September 22, 2005, the Final Judgment was issued by the Circuit Court, Second Judicial Circuit, Leon County, Florida, ordering the payment by TDC to the Receiver the sum of \$14,153,458, together with pre-judgment interest in the amount of \$3,827,638, making a total sum of \$17,981,096, that shall bear interest at the legal rate of 7% until paid in full.

On September 30, 2005, TDC served a Motion for New Trial with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On September 30, 2005, TDC filed a Renewed Motion to Dismiss for Lack of Jurisdiction with the Circuit Court, Second Judicial Circuit, Leon County, Florida, alleging the Receiver's failure to timely adopt the Master Agreement.

On October 31, 2005, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued an Order Denying the Renewed Motion to Dismiss for Lack of Jurisdiction.

On October 31, 2005, the Circuit Court, Second Judicial Circuit, Leon County, Florida, entered an Order Denying the Motion for New Trial.

On November 23, 2005, TDC filed a Notice to Appear to the District Court of Appeals of Florida, First District.

On September 13, 2006, the District Court of Appeals of Florida, First District, issued their decision affirming the trial court and denying TDC's Motion for Rehearing, Rehearing en banc.

On November 20, 2006, the District Court of Appeals of Florida, First District, denied TDC's Motion that formed the basis of TDC's argument for continued stay.

On November 21, 2006, TDC instituted discretionary review proceedings, and filed a Motion to Recall the Mandate in the First District Court of Appeals and to Stay the Proceedings pending the discretionary review.

On November 30, 2006, the First District Court of Appeals denied TDC's Motion to Recall and Stay the Proceedings.

On December 7, 2006, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued an Order Denying the Motion to Stay by TDC.

On December 7, 2006, the Circuit Court, Second Judicial Circuit, Leon County, Florida, granted an Order on Motion to Recover on Civil Supersede as Bond for Travelers Casualty and Surety Company of America to pay in full the outstanding judgment and all post-judgment interest accrued prior to December 12, 2006. The amount ordered totaled \$19,450,127 plus \$3,448 interest per day beyond November 26, 2006. The Court ordered the amount to be held in escrow by the Receiver's attorney pending the outcome of a Motion to Stay submitted by the Florida Supreme Court.

On February 19, 2007, the Florida Supreme Court denied TDC's Motion to Stay.

Thereafter, the amount held in escrow by the Receiver's attorney was disbursed to the Receiver.

"The SSH Litigation"

On January 2, 2004, the Complaint and Demand for Jury Trial was submitted to the Circuit Court, Second Judicial Circuit, Leon County, Florida, by the Receiver against Spear Safer Harmon & Company, P.A. and Mutnick & Associates, P.A. (hereinafter identified at "SSH") alleging that Caduceus' audited statutory basis financial statements grossly misrepresented Caduceus' true financial condition, were false and misleading. The Complaint further alleged that Breach of Contract, Professional Malpractice and Negligence, and Negligent Misrepresentation by SSH.

On February 18, 2004, SSH submitted a Motion to Dismiss Plaintiff's Complaint to the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On March 10, 2004, the Receiver filed the Plaintiff's Response to Defendants Motion to Dismiss to Complaint to the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On March 22, 2004, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued the Order Granting in Part, and Denying in Part, Defendant SSH's Motion to Dismiss Plaintiff's Complaint.

On June 16, 2004, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied SSH's Motion to Dismiss, without prejudice.

On July 6, 2004, SSH filed the Defendant's Answers and Affirmative Defenses with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On July 21, 2004, the Receiver filed Plaintiff's Reply to Defendant's Answers and Affirmative Defenses with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

From April 2004 through January 2007, the Receiver and SSH issued and resolved numerous production request and interrogatories.

On February 6, 2007, the Receiver issued a Request for Admissions to SSH containing 152 separate admissions.

On March 13, 2007, SSH filed Defendants Responses to Plaintiff's Request for Admissions dated February 6, 2007.

On February 25, 2008, SSH filed with the Circuit Court, Second Judicial Circuit, Leon County, Florida, Defendants/Third Party Plaintiff's Complaint against Bickerstaff, Whatley, Ryan & Burkhalter, Inc. (Caduceus's consulting actuary) alleging the Contribution of Bickerstaff if SSH is found to be liable.

On May 15, 2008, the Receiver issued a Proposal for Settlement in the amount of \$5 million to SSH.

On May 19, 2008, SSH issued the Defendant's Motion for Summary Judgment and Incorporated Memorandum of Law in Support of the Defendant's Motion for Summary Judgment to the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On May 28, 2008, Bickerstaff filed a Third Party Defendant's Motion to Dismiss for Lack of Personal Jurisdiction and in the Alternative for Failure to State a Cause of Action for Contribution and Supporting Memorandum of Law with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On June 23, 2008, SSH filed a Plaintiff's Memorandum of Law in Opposition to Defendant's Motion for Summary Judgment with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On June 27, 2008, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied the Defendant's SSH and Mutnick Motion for Summary Judgment.

On September 25, 2008, the Florida Court denied without prejudice the Bickerstaff Motion to Dismiss.

On January 12, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, granted Bickerstaff's Third Party Motion to Dismiss, without prejudice.

On February 2, 2009, SSH issued the Defendant's/Third Party Plaintiff's SSH Second Amended Third Party Complaint against Bickerstaff with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On February 10, 2009, SSH issued the Third Party Defendant's Motion to Dismiss Second Amended Complaint for Failure to State Cause of Action for Contribution and Supporting Memorandum of Law with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On April 1, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied the Third Party Defendant Bickerstaff Motion to Dismiss with Second Amended Complaint.

On June 1, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued the Notice for Trial to begin in November 2011.

On June 19, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, issued the Uniform Order Setting Case for Jury Trial, Pre-Trial Conference, Referral to Mediation and Pre-Trial Instructions.

On June 22, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, granted the Plaintiff's Motion to Sever the Third Party Complaint and Third Party Defendant's Alternative Motion for Severance and Notice of Joinder for trial purposes.

On July 1, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, filed the Notice of Stipulation of Mediation.

On July 22, 2009, SSH file the Petition for Writ of Certiorari with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On August 3, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied the Petition for Writ of Certiorari filed by SSH.

On August 28, 2009, the Receiver issued a Confidential Mediation Statement to the court appointed mediator.

One September 4, 2009, the Receiver filed the Amended Complaint and Demand for Jury Trial to conform the Complaint to the discovery relating to damages with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On October 16, 2009, SSH filed a Motion to Dismiss Plaintiff's Amended Complaint with the Circuit Court, Second Judicial Circuit, Leon County, Florida.

On November 19, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied SSH's Motion to Strike Plaintiff's Demand for Attorney's Fees.

On November 19, 2009, the Circuit Court, Second Judicial Circuit, Leon County, Florida, denied SSH's Motion to Dismiss Plaintiff's Amended Complaint.

On November 14, 2011, the trial by jury commenced and continued through December 9, 2011.

On December 20, 2011, the jury returned its verdict in favor of the Receiver.

On January 6, 2012, the Circuit Court, Eleventh Judicial Circuit, Miami-Dade County, Florida, issued the Final Judgment ordering the payment of the sum of \$150,000, together with pre-judgment interest in the amount of \$50,756.67, making a total sum of \$200,756.67, that shall bear interest at the legal rate of 4.75% until paid in full.

Underwriting Results:

According to Caduceus' Annual Statements the company experienced the following underwriting results for the years 1994, 1995, 1996, 1997, and 1998:

	1994	1995	1996	1997	1998
Premiums earned	\$ 5,420,237	\$ 7,108,744	\$ 7,809,293	\$ 2,609,436	\$ 315,268
Underwriting (loss)	\$ (392,322)	\$ (927,382)	\$ (952,870)	\$ (1,272,810)	\$ 1,481,972
Net (loss)	\$ 220,263	\$ (261,626)	\$ (95,259)	\$ (510,350)	\$ (736,933)

As noted, Caduceus incurred substantial underwriting losses. The underwriting losses experienced by Caduceus are illustrated by two key performance measures for insurance companies, the Loss and Loss Expense Ratio (incurred losses and loss expenses divided by net earned premiums) and the Combined Ratio (the loss and loss expense ratio plus and expense ratio derived by dividing underwriting expenses by net premium written). As presented in the schedule below, Caduceus' Loss and Loss Expense Ratio increased from 87% in 1994 to 476% in 1998. Likewise, the Combined Ratio increased from 106% in 1994 to 855% in 1998. The following table illustrates the Loss and Loss Expense Ratios of Caduceus based on data contained in Caduceus's audited Financial Statements:

Year	Loss & Loss Expense Ratio	Combined Ratio
1994	87%	106%
1995	96%	111%
1996	94%	109%
1997	154%	203%
1998	476%	855%

These ratios do not include the impact of reserve deficiencies during the period of 1994 through 1998.

Caduceus' loss reserve development indicates that its Loss Reserves had been understated as follows:

Reserve Development from Annual Statements
Schedule P (in 000's)

Year	Reserve Deficiency
1992 and prior	\$ 2,649,108
1993	\$ 990
1994	\$ 1,744,905
1995	\$ 764,558
1996	\$ 3,792,913
1997	\$ 1,307,260
1998	\$ 240,135

The Loss Reserves deficiencies noted significantly impacted the reported surplus as regards policyholders of Caduceus.

Reinsurance:

Caduceus' reinsurance program included several reinsurance arrangements -- always as the ceding company. Caduceus' financial statements contained errors in calculating certain reinsurance balances including the overstatement of ceded unearned premiums noted above.

Financial:

Operations:

Caduceus was not required to maintain a minimum statutory surplus and reported relatively minimal Policyholders' Surplus in its 1994-1998 Annual Statements. That reported surplus was, in the opinion of the Receiver and their expert, materially overstated. A comparison of such reported amounts to the adjusted amount is summarized in the following table.

Policyholders' Surplus (Deficit)		
December 31	As Reported	Surplus (Deficit)
1994	\$ 488,199	\$ (3,005,669)
1995	\$ 638,850	\$ (1,574,972)
1996	\$ 1,030,675	\$ (3,524,133)
1997	\$ 847,828	\$ (3,384,367)
1998	\$ 391,819	\$ (3,242,709)

Conclusion:

Caduceus was engaged in the writing of insurance coverage for medical malpractice. Caduceus' offices were located in Fort Lauderdale, Florida. Caduceus wrote medical malpractice policies in Florida.

Caduceus was statutorily insolvent in 1994, 1995, 1996, 1997, and 1998. The decline in statutory surplus was primarily due to the following:

- Overstatement of ceded unearned premiums in 1994, 1995, and 1996 in the amount of \$(664,050), \$102,606, and \$24,444, respectively.
- Over accrual of ceded premiums in 1997 in the amount of \$537,000.

- Adverse development of loss reserves as follows:

1993	\$2,650,098
1994	\$1,744,905
1995	\$ 764,558
1996	\$3,792,913
1997	\$1,307,210
1998	\$ 240,135

- The add back of loss reserve development for prior years recorded by Caduceus in the current year as follows:

1994	\$1,565,184
1995	\$1,942,008
1996	\$1,427,482
1997	\$1,092,872
1998	\$ 837,802

These factors impacted the insolvency of Caduceus who has been determined to have a negative surplus as regards policyholders of \$3.2 million at December 31, 1998.

References:

- Caduceus' audited SAP-basis 1993-1998 Audited Financial Statements.
- Caduceus' 1994-1998 Annual Statements

- Consent Order Appointing the Florida Department of Insurance as Receiver for Purposes of Liquidation, Injunction and Notice of Automatic Stay, signed and dated January 3, 2000
- Report, dated January 21, 2003, prepared by Preferred Insurance Capital Consultants, LLC for the Determination of the Deficit to be Assessed to Caduceus' Policyholders
- Complaint and Demand for Jury Trial, and Exhibits thereto, dated January 2, 2004
- Defendants' First Set of Interrogatories upon Plaintiff, not signed or dated
- Plaintiff's Response to Request for Production of Documents, signed, not dated, served on January 21, 2005
- Receiver's Answers to Defendants' First Set of Interrogatories, signed, not dated, but notarized on January 21, 2005
- Plaintiff's Second Request to Produce to Defendants, signed, not dated, served on February 28, 2005
- Defendant's Supplemental Answers to Plaintiff's Interrogatories Directed to Spear Safer Harmon & Co., P.A., signed and dated March 30, 2005
- Plaintiff's Third Request to Produce to Defendants, signed, not dated, served on October 7, 2005
- Defendant's Response to Plaintiff's Third Request to Produce to Defendants, signed and dated December 22, 2005
- SSH's workpaper files for the audits of Caduceus' 1994-1998 statutory-basis financial statements
- Caduceus Regulatory and Correspondence Files, obtained from the DFS
- Financial Examination Reports of Caduceus, as of June 30, 1978 and December 31, 1995
- Market Conduct Examination Report of Caduceus, 1996
- Files maintained by the Department of Financial Services, Division of Rehabilitation and Liquidation