

REPORT ON EXAMINATION
OF
BUSINESSFIRST INSURANCE
COMPANY
LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	2
GENERAL	2
CAPITAL STOCK	2
PROFITABILITY OF COMPANY	3
DIVIDENDS TO POLICYHOLDERS	3
MANAGEMENT	4
DIRECTORS.....	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	5
SURPLUS DEBENTURES	5
AFFILIATED COMPANIES	6
TAX ALLOCATION AGREEMENT	6
ORGANIZATIONAL CHART	7
FIDELITY BOND AND OTHER INSURANCE.....	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	8
STATUTORY DEPOSITS.....	8
INSURANCE PRODUCTS AND RELATED PRACTICES.....	8
TERRITORY	8
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	9
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS.....	10
MANAGEMENT SERVICES AGREEMENT	11
CUSTODIAL AGREEMENT	11
WORKERS' COMPENSATION MANAGED CARE ARRANGEMENT.....	12
INDEPENDENT AUDITOR AGREEMENT.....	12
RISK-BASED CAPITAL.....	12
FINANCIAL STATEMENTS PER EXAMINATION.....	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15

STATEMENT OF INCOME.....	16
COMMENTS ON FINANCIAL STATEMENTS.....	17
LIABILITIES.....	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	18
SUMMARY OF FINDINGS	19
SUBSEQUENT EVENTS.....	19
CONCLUSION	20

Tallahassee, Florida

December 23, 2005

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

BUSINESSFIRST INSURANCE COMPANY
2310 A-Z Park Road
Lakeland, Florida 33801

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of August 1, 2003 through December 31, 2004. The Company had not been previously examined by representatives of the Florida Office of Insurance Regulation (Office) as 2004 was the Company's first full year of operations. This examination commenced, with planning at the Office, on October 17, 2005, to October 21, 2005. The fieldwork commenced on October 24, 2005, and was concluded as of December 23, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company is a domestic, stock company that is only licensed to write insurance in Florida. The Company was incorporated in Florida on February 13, 2003 and commenced writing business on August 1, 2003 as BusinessFirst Insurance Company.

In accordance with Section 624.401(1), FS, the Company was only authorized to transact workers compensation insurance coverage in Florida on December 31, 2004.

The articles of incorporation were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,360,000
Total common capital stock	5,360,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Florida Retail Federation Self Insurance Fund (FRFSIF), who owned ninety-three percent of the stock issued by the Company. The remaining seven percent was owned by various directors of the Company.

Profitability of Company

The following table shows the probability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statement of the Company.

	2004	2003
Premiums Earned	7,026,114	523,400
Net Underwriting Gain/(Loss)	437,677	(16,093)
Net Income	(327,457)	(12,464)
Total Assets	11,014,850	5,169,872
Total Liabilities	6,264,004	414,406
Surplus As Regards Policyholders	4,750,846	4,755,466

Dividends to Policyholders

In accordance with Section 628.361, FS, the Company accrued estimated Dividend liability of \$22,525 and \$568,461 for 2003 and 2004, respectively, based on written premium and dividend rate. No dividends were paid in either year.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
William Kundrat, Jr. Sun City Center, FL	Retired
George Hall Sandefer Palatka, FL	Retired
Nis Hansen Nissen, III Lakeland, FL	Owner, President, Nissen Advertising, Inc.
Charles Richard Wintz Jacksonville, FL	Owner, President Charles R. Wintz, CPA, PA
Thomas Samuel Petcoff Lakeland, FL	Owner, President Petcoff Companies
John Douglas Hanselman Gainesville, GA	Regional VP, Liberty Mutual Ins Co

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Ricky Tarver Hodges	President and CEO
David John Conway	Secretary and CFO

All members of the board of directors served on the audit committee as of December 31, 2004.
Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholders, Board of Directors and audit committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS.

The minutes of the board of directors did not clearly reflect that the board approved the audit committee as provided by Section 624.424 (8) (c), FS.

The minutes of the board of directors did not clearly reflect that the board approved the Company's investments as required by Section 625.304, FS.

.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

As of December 31, 2004, there were no outstanding surplus debentures of the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on February 2, 2005, as required by Section 628.801, FS and Rule 69O-143.046, FAC.

There were no agreements in force between the Company and its parent.

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. There was no consolidated tax agreement in place as required by SSAP 10 of the NAIC Accounting Practices and Procedures Manual. The Company did not submit a tax allocation agreement to the Office for approval as required by Rule 69O-143.047(4) FAC. Further, the Company inaccurately reported that they did not file a consolidated tax return in Note 9F of the 2004 annual statement.

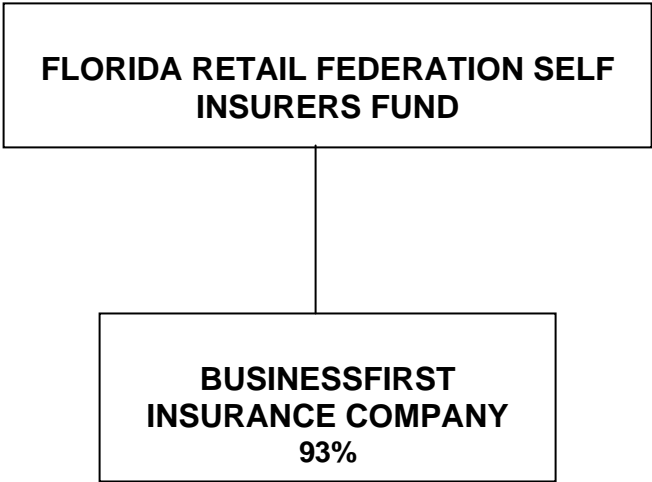
Subsequent Event.

The Company provided an executed tax allocation agreement with Florida Retail Federation Self Insurers Fund.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**BUSINESSFIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000,000 with no deductible. The insured on the fidelity bond is Summit Consulting, Inc. and the Company is the certificate holder. This insurance adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS:

State	Description	Par Value	Market Value
FL	Cash	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the State of Florida.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1) (j), FS.

The managing general agent maintained a claims procedure manual that included detailed procedures for handling both medical and indemnity workers compensation claims.

REINSURANCE

The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines, except as follows:

Houston Casualty Company

- The treaty failed to specify that the agreement shall constitute the entire contract between the parties as required by SSAP 62, paragraph 8c.

Midwest Employers Casualty Company

- The agreement did not specifically indicate that recoveries must be available without delay for payment of losses and claim obligations incurred under the agreement as required by SSAP 62 paragraph 8b.
- The treaty failed to specify that the agreement shall constitute the entire contract between the parties as required by SSAP 62, paragraph 8c.

Subsequent Event

The reinsurance agreements with Houston Casualty Company and Midwest Employers Casualty Company were amended to include the above terms in accordance with SSAP 62 paragraph 8.

Assumed

The Company did not assume insurance business during the period covered by this examination.

Ceded

The Company ceded risk on an excess basis only. There were two levels of excess, stacked, with no break in coverage.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

Brinton & Associates PA, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2003 and 2004, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Lakeland, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Management Services Agreement

The Company entered into an agreement with Summit Consulting, Inc. (Summit) effective April 24, 2003, whereby Summit would provide management services to the Company. Services provided included, but were not limited to management and direct oversight of the business of the Company, underwriting and policy administration functions, managing, adjusting and facilitating the payment of claims and various accounting and administrative functions.

Custodial Agreement

The Company maintained a custodial agreement with Wachovia Bank, NA. The agreement was not in compliance with Rule 69O-143.042 (2) (j), (k) and (l), FAC, as follows:

1. The agreement failed to specify that that custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities as required by Rule 69O-143.042 (2) (j), FAC.
2. The agreement failed to specify that the custodian shall be obligated to indemnify the insurance company for any loss of custodied securities occasioned by the negligence or dishonesty of the

custodian's officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction as provided by Rule 69O-143.042 (2)(k), FAC.

3. The agreement failed to specify that in the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the insurance company as provided in paragraph (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities in accordance with Rule 69O-143.042 (2)(l), FAC.

Subsequent Event

The Company provided an amended custodial agreement with Wachovia Bank, NA, which met the requirements of Rule 69O-143.042 Florida Administrative Code.

Workers' Compensation Managed Care Arrangement

The Company entered into an agreement with Heritage Summit Healthcare, Inc. to provide a network of physicians available for the treatment of workers' compensation injuries.

Independent Auditor Agreement

The Company engaged Brinton & Associates PA., for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end in accordance with Section 624.424 (8) (c), FS.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

BUSINESSFIRST INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds & stock	\$6,464,475		\$6,464,475
Cash & short-term investments	3,836,984		3,836,984
Investment income due and accrued	59,146		59,146
Agents' balances in the course of collection	572,039		572,039
Deferred premiums: agents balances in course of collection	36,937		36,937
Net deferred tax asset	45,269		45,269
Totals	<u>\$11,014,850</u>		<u>\$11,014,850</u>

BUSINESSFIRST INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$2,733,901		\$2,733,901
Loss adjustment expenses	594,747		594,747
Commissions payable	186,763		186,763
Other expenses	203,967		203,967
Taxes, licenses, and fees	402,056		402,056
Current federal income taxes	322,005		322,005
Advanced premiums	1,205,666		1,205,666
Dividends declared and unpaid: policyholders	568,461		568,461
Aggregate write-ins for liabilities	46,438		46,438
Total Liabilities	<u>\$6,264,004</u>		<u>\$6,264,004</u>
Capital stock	\$5,360,000		\$5,360,000
Additional paid in capital	6,000		6,000
Unassigned surplus	(615,154)		(615,154)
Surplus as regards policyholders	<u>\$4,750,846</u>		<u>\$4,750,846</u>
Total Liabilities, Capital and Surplus	<u><u>\$11,014,850</u></u>		<u><u>\$11,014,850</u></u>

BUSINESSFIRST INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$7,026,114
DEDUCTIONS:	
Losses incurred	3,291,223
Loss expenses incurred	884,864
Other underwriting expenses incurred	2,412,350
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$6,588,437</u>
Net underwriting gain or (loss)	\$437,677

Investment Income

Net investment income earned	\$155,994
Net realized capital gains or (losses)	7,514
Net investment gain or (loss)	<u>\$163,508</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$15,701)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	<u>(\$15,701)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$585,484
Dividends to policyholders	<u>545,936</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$39,548
Federal & foreign income taxes	<u>367,005</u>
Net Income	(\$327,457)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,755,466
--	-------------

Gains and (Losses) in Surplus

Net Income	(\$327,457)
Change in deferred income tax	341,975
Change in non-admitted assets	(19,138)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$4,620)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$4,750,846</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$3,328,648</u>
--	---------------------------

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2004, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**BUSINESSFIRST INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2004, Annual Statement	\$4,750,846
---	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	(No adjustments needed)		
LIABILITIES:	(No adjustments needed)		
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$4,750,846

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

Corporate Records

The minutes of the board of directors did not clearly reflect that the board established an audit committee as provided by Section 624.424(8)(c), FS. **We recommend that the Company maintain records of all actions taken by the board of directors.**

The minutes of the board of directors did not clearly reflect that the board approved the Company's investments as required by Section 625.304, FS. **We recommend that the Company maintain records of all actions taken by the board of directors.**

SUBSEQUENT EVENTS

The Company received approval from the Office to issue a surplus note to Summit Consulting Inc. on November 30, 2005. The Company issued the surplus note in the amount of \$3,000,000 to Summit Consulting Inc. on December 15, 2005.

The Company amended the custodial agreement with Wachovia Bank, NA to include the provisions required by Rule 69O-143.042 (2) (j), (k), and (l), FAC.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **BusinessFirst Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,750,846, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Richard A. Shaffer, Financial Examiner/Analyst II; Michael D. Young, Financial Examiner/Analyst I; Mary M. James, CFE, CPM, Financial Examiner/Analyst Supervisor; and Joseph Boor, FCAS, Actuary, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Specialist
Florida Office of Insurance Regulation