

REPORT ON EXAMINATION
OF
SOUTHERN EAGLE
INSURANCE COMPANY

BRADENTON, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 29, 2009

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, 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, 2007, of the financial condition and corporate affairs of:

**SOUTHERN EAGLE INSURANCE COMPANY
410 43RD STREET WEST, SUITE N
BRADENTON, FLORIDA 34209**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2007, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on December 15, 2008, to December 18, 2008. The field work commenced on January 5, 2009, and was concluded as of January 29, 2009.

This financial examination was a statutory risk focused 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, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

Company as of December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

Information Systems

Several of the information systems functions at the Company were administered by Administrative Concepts Corp. However, no written agreement existed between the Company and Administrative Concepts with respect to these services.

Subsequent Event: The Company entered into an agreement with Administrative Concepts on April 1, 2008.

Backup copies of data files and programs were not maintained in a locked, waterproof and fireproof storage area. **Resolution:** Backup copies of data files and programs for outsourced functions were maintained by the outsourced service providers in locked, waterproof and fireproof storage areas during the last examination period. Backup copies of the Company's data files and programs are now maintained in a locked, waterproof and fireproof storage area through Administrative Concepts co-location agreement with Qwest Cyber Solutions.

The Company did not obtain SAS 70 reports from its premium or claims processing TPAs. **Resolution:** The Company was not able to obtain SAS 70 reports from its premium or claims processing TPAs; however, management received unaudited information developed by the TPAs regarding their internal control environment.

The Company did not provide evidence of a business continuity plan. **Resolution:** The Company developed a business continuity plan which was provided to the examination team.

Management

The Company had engaged but did not appoint Thomas, Howell, Ferguson, P.A. as the Company's Audit Firm in the Board of Director Minutes. **Resolution:** The Company appointed Thomas, Howell, Ferguson, PA as their Audit Firm in the September, 2007, Board of Directors Minutes.

The Company did not hold an annual shareholders meeting in 2006 as required under Florida Statutes. **Resolution:** This issue had not been resolved as of year end 2007.

Subsequent Event: The Company held an annual shareholders meeting in 2008.

The Company did not annually appoint its consulting actuaries in 2006. **Resolution:** This issue had not been resolved.

Accounting

The Company did not accrue \$18,927 of the Florida premium taxes and workers compensation assessments that were payable at December 31, 2006. **Resolution:** This issue had not been resolved.

The Company did not disclose in the Notes to Financial Statements that commissions were paid to an affiliated company, Southern Eagle Management Company, nor did they disclose the commissions payable balance. **Resolution:** The Company made the appropriate disclosure in 2007.

The Company invested \$53,600 in an interest-bearing note from BioMotion, LLC. Subsequent to December 31, 2006, this loan became non-performing. In accordance with SSAPs, the investment should be written off. There was an examination adjustment made to write this note off. **Resolution:** The Company carried this investment as a non-admitted asset on its 2007 Annual Statement.

Operational Review

Three policies written by the Company in 2006 had not been subject to a timely audit.

Resolution: Premium audits were not performed timely in 2007. This issue had not been resolved.

One error was discovered due to the Company's failure to obtain quarterly reports. **Resolution:** Quarterly reports are now obtained.

Ninety-four errors were noted due to the Company's failure to submit proof of coverage information to the Division of Workers Compensation electronically. **Resolution:** Proof of coverage information is now submitted electronically.

Thirty-three errors were noted due to the insured's failure to verify if new client employers owed any premiums to a previous insurer. **Resolution:** Examiners verified that this issue had been resolved through enhancements to the Company's Client Space program.

Five errors were due to the Company's failure to maintain records. **Resolution:** All records requested were provided to the examination team.

Thirty errors were due to the insured's failure to notify the Company on a timely basis of client employer terminations. **Resolution:** This notification is made from Administrative Concepts to Southern Eagle through their Client Space program. Examiners verified that this issue had been resolved through enhancements to the Company's Client Space program.

Thirty-four errors were due to the Company's failure to submit termination information to the Division of Workers Compensation electronically. **Resolution: The Company adapted their procedure to include electronic submission of termination information to the Division of Workers Compensation.**

Twenty errors were due to the Company's failure to provide timely notice of coverage information to third party certificate holders. **Resolution: This function had been performed by the TPA and was not re-examined due to the planned transition of service from the TPA to the company, scheduled for one week after conclusion of examination field work. This issue had not been resolved. Management indicated that the transition to the Company performing this function would resolve the issue going forward.**

HISTORY

General

The Company was incorporated in Florida on May 4, 2005, and commenced business on June 1, 2005.

The Company was party to a Consent Order 81294-05-CO filed April 28, 2005, and Consent Order 81629-05-CO filed May 19, 2005, with the Florida Office of Insurance Regulation (Office) regarding the application for issuance of a Certificate of Authority. The Company failed to comply with the following provisions of this consent order:

- The Company paid a dividend without prior written approval from the Office of Insurance Regulation. **Subsequent Event:** During 2008, the Company reclassified this dividend to a

non-admitted Due from Affiliate. On January 29, 2009, the Company satisfied this receivable by moving funds from the affiliate into the Company's account.

- The Company did not have a written agreement between the Company and Administrative Concepts, an affiliate, for IT services provided. **Subsequent Event:** The Company entered into an ongoing agreement with Administrative Concepts for IT Services on April 1, 2008.

The Company was authorized to transact workers compensation insurance coverage in Florida on December 31, 2007.

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

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	10, 000
Number of shares issued and outstanding	10,000
Total common capital stock	\$500,000
Par value per share	\$50.00

The Company was wholly-owned by its parent, Peel-Bushong Holding Company, which was wholly-owned by Sarah Peel.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operation, as reported in the filed annual statements.

	2007	2006
Premiums Earned	14,719,752	16,635,046
Net Underwriting Gain/(Loss)	2,853,630	3,272,723
Net Income	2,031,584	2,458,722
Total Assets	24,133,632	21,035,715
Total Liabilities	12,370,194	11,059,972
Surplus As Regards Policyholders	11,763,438	9,975,743

Dividends to Stockholders

The Company paid a dividend to its sole shareholder in 2007 in the amount of \$50,000. This action was in violation of the Company's Consent Order # 81269-05-CO, paragraph 22, which requires the Company to obtain prior approval from the Office of Insurance Regulation before a dividend can be declared and paid within the first three years of the Company's operation.

Subsequent Event: In 2007, the Company reclassified the entry for the dividend as a receivable from affiliate, and on January 29, 2009, the Company satisfied this receivable by transferring \$50,000 from the affiliate to Southern Eagle.

Management

An annual shareholder meeting for the election of directors was not held in 2007. **Subsequent Event:** In 2008, in accordance with Sections 607.1601 and 628.231, Florida Statutes, an annual shareholder meeting was held. Directors serving as of December 31, 2007, were:

Directors

Name and Location	Principal Occupation
Dan M. Robertson Longwood, Florida	President and Chief Operating Officer, Southern Eagle Insurance Company
Marshall T. Bower Fort Myers, Florida	Attorney
Kelly S. Hudson Bradenton, Florida	Director of Underwriting and Loss Control, Southern Eagle Insurance Company
Robert F. Kennedy San Francisco, California	Reinsurance Broker
Sarah M. Peel Bradenton, Florida	Chief Executive Officer, Southern Eagle Insurance Company
James R. Zuhlke North Barrington, Illinois	Consultant
Henry J. Abbott, Jr. Bradenton, Florida	Executive Vice President, Southern Eagle Insurance Company
Craig E. Johnson Bokeelia, Florida	Consultant
Christine Broomell Brunswick, Georgia	Consultant

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

Senior Officers

Name	Title
Sarah M. Peel	Chief Executive Officer
Dan M. Robertson	President and Chief Operating Officer
Henry J. Abbott, Jr.	Secretary and Treasurer

The Company's Board of Directors appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007:

Audit Committee

James R. Zuhlke¹
 Dan M. Robertson
 Craig E. Johnson

¹ Chairman

Reinsurance Committee

Robert F. Kennedy¹
 Dan M. Robertson

¹ Chairman

Investment Committee

Dan M. Robertson¹
 Marshall T. Bower
 Kelly S. Hudson
 Robert F. Kennedy
 Sarah M. Peel
 James R. Zuhlke
 Henry J. Abbott, Jr.
 Craig E. Johnson
 Christine Broomell

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. With the exception of the appointment of the consulting actuary and approval of the Company's investment transactions, the recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, and 625.304, Florida Statutes.

Subsequent Event: On June 6, 2008, the Board of Directors ratified and approved the Company's first quarter 2008 investment transactions. Investments have been ratified and approved at all subsequent Board meetings.

The Board approved an Audit Committee Charter and established an Audit Committee. The Audit Committee did not consistently maintain documented records of all meetings and was not in compliance with its charter, or with Section 624.424 (8)(c), Florida Statutes, in the following instances:

- The Charter called for all Audit Committee members to be independent directors; Dan Robertson was not an independent director as he is the President and COO of the Company.
- The Charter called for the Committee to review a report from its independent auditors at least annually. There was no indication of this report being reviewed in the Audit Committee minutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

Surplus Debentures

The Company is not a party to any surplus debentures.

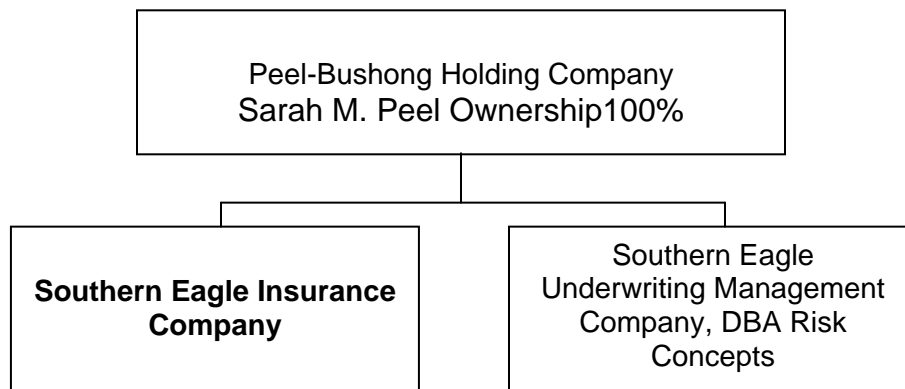
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 26, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

SOUTHERN EAGLE INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2007



The following agreements were in effect between the Company and its affiliates:

Premiums Written

A majority of the Company's insurance premiums were derived from one master insurance policy, covering workers' compensation risk, written with Administrative Concepts Corporation, a

Company owned by the Company's ultimate shareholder. This policy was subject to a retrospective rating provision on policy expiry. The Company's Holding Company Registration Statement filed on February 26, 2008, did not indicate the existence of this agreement as required by Rule 690-143.046, Florida Administrative Code.

Producer Agreement

The Company had a Producer Agreement with its affiliate, Southern Eagle Underwriting Management Company at December 31, 2007, which had a commission rate of 6.5 percent. The Agreement was effective on March 1, 2005, and stipulated that Southern Eagle Underwriting Management Company was authorized to market and quote insurance policies, binders, and endorsements, and collect and pay premiums subject to the terms, limitations, and conditions set forth in the Agreement. Under the terms of the Agreement, Southern Eagle Underwriting Management Company shall bind coverage, endorse, cancel, and non-renew policies as well as bill and collect premium. This affiliate agreement was not disclosed in the Company's Holding Company Registration Statement filed with the OIR as of February 26, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain the necessary fidelity bond coverage as recommended by the NAIC as of December 31, 2007.

Subsequent Event: The Company purchased fidelity coverage for the period January 18, 2008, through January 18, 2009, in the amount of \$250,000, with a deductible of \$25,000, as suggested by the NAIC. The Company also purchased D & O and Employers' Practices Liability policy with a limit of \$3 million and with a deductible of \$25,000.

PENSION and STOCK OWNERSHIP PLANS

The Company did not have any pension or stock ownership plans during the examination period.

STATUTORY DEPOSITS

The Company had a cash deposit in the amount of \$250,000 with the State of Florida as required by Section 624.411, Florida Statute.

INSURANCE PRODUCTS

The Company wrote workers compensation policies in the State of Florida. The Company also wrote workers compensation policies in adjoining states through a fronting agreement with Star Insurance Company.

Territory

The Company was authorized to transact insurance business in Florida.

Treatment of Policyholders

The Company's claim administrator, Florida Preferred Administrators (FPA), had established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

FPA maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(i) (3a), Florida Statutes. Southern Eagle had no complaints during the examination period.

Plan of Operations

The majority of the Company's written premiums were derived from writing workers compensation insurance to its affiliated party, Administrative Concepts Corporation, a professional employers organization (PEO). Business written to other parties was written based on referrals.

Policies were issued by the Company's third-party administrator (TPA), Meadowbrook Inc. Certificates of insurance were issued by the PEO.

Proof of coverage was forwarded by the PEO to the State of Florida, Division of Workers Compensation on the Company's behalf.

Claims were handled by Florida Preferred Administrators, Inc., a TPA. Loss results were monitored by the Company on a monthly or more frequent basis. Claim performance reviews were performed by the Company with the TPA on a monthly or more frequent basis. The National Council on Compensation Insurance (NCCI) classification reviews were conducted during loss control visits.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed business through an aforementioned fronting agreement with Star Insurance. The Company did not complete Schedule F – Part 1 of its Annual Statement indicating the reinsurance assumed.

Ceded

The Company ceded risk on an excess of loss basis to several Lloyds Syndicates and to London and Bermuda market insurers. The Company obtained a letter of credit for reinsurers not authorized. The Company retained the first \$250,000 per occurrence (\$750,000 in aggregate) and reinsured the balance in four layers from excess of \$250,000 to a limit of \$20 million.

ReSource Intermediaries, Inc. acted as the Company's licensed reinsurance intermediary. A representative of the reinsurance intermediary, Mr. Robert Kennedy, was also a Board member of the Company.

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

ACCOUNTS AND RECORDS

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

Premium Taxes

The Company did not accrue \$104,924 of the Florida premium taxes and Workers' Compensation assessments that were payable as of December 31, 2007 as required by SSAP No. 63 Paragraph 2, as required by SSAP No. 67, paragraph 2. An examination adjustment will not be made due to the immateriality of the error.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 through 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting

work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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 and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into an agreement, dated June 30, 2005, with Wachovia Bank, National Association (now U.S. Bank) for the provision of custodial services. This agreement did not contain certain provisions that were required under Rule 69O-143.042(2), sections (g), (h), (i), (j) and (l), Florida Administrative Code.

Subsequent Event: The agreement with Wachovia was amended on August 4, 2008. The amended agreement met all of the requirements of Rule 69O-143.042, Florida Administrative Code. Effective October 16, 2008, the Company terminated its agreement with Wachovia and entered into a custodian agreement with Wells Fargo Bank, National Association. The custodian agreement meets all of the provisions of Rule 69O-143.042, Florida Administrative Code.

Premiums Processing and Other Services Agreements

The Company entered into an agreement, dated May 1, 2005, with Meadowbrook, Inc. (a company under common ownership with Florida Preferred Administrators, Inc.) for the provision of premium processing, general ledger, quarterly and annual statement preparation and other related services.

The agreement was subsequently renewed on July 1, 2007. The agreement specified that the fees were based on 6.5% of premiums written, with a minimum monthly payment of \$80,000.

Claims Processing Agreement

The Company entered into an agreement, dated June 1, 2005, with Florida Preferred Administrators, Inc. (a company under common ownership with Meadowbrook, Inc.) for the provision of claims processing and claims accounting and reporting services. The agreement was subsequently renewed on January 1, 2007. The fees were based on a per claim basis, depending on the type of claim processed.

Office Lease

The Company entered into a lease for office premises on May 1, 2005, with C & S Properties, at a monthly rental of \$5,665. The lease expired August 31, 2007, and the Company continued to rent the premises on a month to month basis.

Independent Actuary Agreement

The Company utilized the actuarial services of Milliman Inc. for issuing the Statement of Actuarial Opinion (SAO) and supporting actuarial report with the Actuarial Opinion Summary (AOS) for 2007.

Independent Auditor Agreement

The Company utilized the services of Thomas Howell Ferguson, PA, Certified Public Accountants, for the provision of tax and annual statutory audit services for 2007.

Information Technology Report

RSM McGladrey performed a computer systems evaluation on the Company. Results of the evaluation were noted in the management letter provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Failure of the statements to foot is due to rounding.

SOUTHERN EAGLE INSURANCE COMPANY
Assets

December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$8,243,664		8,243,664
Stocks:			
Common	715,130		715,130
Cash	814,594		814,594
Investment income due and accrued	68,489		68,489
Agents' Balances:			
Uncollected premium	132,501		132,501
Deferred premium	5,634,141		5,634,141
Accrued retrospective premiums	7,865,208		7,865,208
Reinsurance recoverable	65,051		65,051
Net deferred tax asset	547,162		547,162
EDP Equipment	47,692		47,692
Furniture and equipment			
Aggregate write-in for other than invested assets			
	<hr/>		
Totals	\$24,133,632	\$0	\$24,133,632

SOUTHERN EAGLE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$9,254,650		\$9,254,650
Loss adjustment expenses	2,225,150		2,225,150
Commissions payable	207,708		207,708
Other expenses	29,064		29,064
Taxes, licenses and fees	102,393		102,393
Current federal and foreign income taxes	115,421		115,421
Unearned premium	348,809		348,809
Aggregate write-ins for liabilities	87,000		87,000
Total Liabilities	\$12,370,195		\$12,370,195
Common capital stock	\$500,000		\$500,000
Gross paid in and contributed surplus	6,500,000		6,500,000
Unassigned funds (surplus)	\$4,763,438		\$4,763,438
Surplus as regards policyholders	\$11,763,438		\$11,763,438
Total liabilities, surplus and other funds	\$24,133,633		\$24,133,633

SOUTHERN EAGLE INSURANCE COMPANY
Statement of Income

December 31, 2007

Underwriting Income

Premiums earned	\$14,719,752
Deductions:	
Losses incurred	5,254,918
Loss expenses incurred	2,069,339
Other underwriting expenses incurred	4,541,865
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$11,866,122</u>
Net underwriting gain or (loss)	\$2,853,630

Investment Income

Net investment income earned	\$538,767
Net realized capital gains or (losses)	(66,329)
Net investment gain or (loss)	<u>\$472,438</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$3,326,068
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$3,326,068
Federal & foreign income taxes	<u>1,294,485</u>
Net Income	\$2,031,583

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$9,975,743
Net Income	\$2,031,583
Net unrealized capital gains or losses	(112,328)
Change in non-admitted assets	(520,315)
Change in net deferred income tax	438,756
Change in deferred	0
Surplus adjustments: Paid in	0
Dividends to stockholders	(50,000)
Examination Adjustment	
Change in surplus as regards policyholders for the year	<u>\$1,787,696</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$11,763,439</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

There were no changes to assets.

Liabilities

Losses and Loss Adjustment Expenses

\$11,479,800

An outside actuarial firm rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

Capital and Surplus

The amount reported by the Company of \$11,763,438 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**SOUTHERN EAGLE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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	
December 31, 2007, per Annual Statement	\$ 11,763,438

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders			
December 31, 2007, Per Examination			\$ 11,763,438

SUMMARY OF FINDINGS

Compliance with previous directives

With the exception of the findings listed below, the Company has taken the necessary actions to comply with the comments made in the 2006 examination report issued by the Office.

- The Company did not appoint its consulting actuaries.
- The Company did not accrue Florida premium taxes and workers compensation assessments that were payable at December 31, 2006.
- Premium audits were not completed within 90 days as required by the Florida Miscellaneous Rules of the NCCI manual.

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, 2007.

Management

The Company did not appoint annually its consulting actuaries, Milliman, Inc., in its Board of Directors minutes, as required by the NAIC *Annual Statement Instructions* and Rule 69O-138.042, Florida Administrative Code. **We recommend that the Board of Directors evidence the appointment of Milliman in its minutes as required by the NAIC *Annual Statement Instructions* and Rule 69O-138.042, Florida Administrative Code.**

As of December 31, 2007, the Company had a producer's agreement with Southern Eagle Underwriting Management Company (d/b/a Risk Concepts Corp), an affiliate, but did not disclose the agreement in the Holding Company Registration Statement filed with the OIR as of February

26, 2008. **We recommend that the Company accurately disclose all related party agreements in the Holding Company Registration Statement in accordance with Rule 69O-143.046, Florida Administrative Code.**

A majority of the Company's premium was derived from one master policy written for Administrative Concepts Corporation, an affiliate. The policy included a retrospective rating provision. The Company's Holding Company Registration did not reveal the existence of the agreement as required by Rule 69O-143.046, Florida Administrative Code. **We recommend that the Company accurately disclose all related party agreements in the holding Company Registration Statement in accordance with Rule 69O-143.046, Florida Administrative Code.**

The Board approved an Audit Committee Charter and established an Audit Committee. The Audit Committee was not in compliance with its charter, or with Section 624.424 (8)(c), Florida Statutes. **We recommend that the Audit Committee document minutes of its meetings evidencing compliance with the Audit Committee Charter in accordance with Section 624.424 (8)(c), Florida Statutes.**

Accounting

The Company did not accrue \$104,924 of the Florida premium taxes and workers' compensation assessments that were payable as at December 31, 2007 as required by SSAP No. 67, Paragraph 2. **We recommend that the Company comply with the provisions of SSAP No. 67, paragraph 2, with regard to the accrual of all licenses and fees.**

Financial Reporting

The Company did not complete Schedule F – Part 1 of its Annual Statement indicating reinsurance assumed. **We recommend that the Company comply with Annual Statement Instructions with regard to Schedule F reporting as adopted by Rule 69O-137.001 Florida Administrative Code.**

SUBSEQUENT EVENTS

The Company entered into an IS Agreement with its affiliate, Administrative Concepts Corporation (ACC) on April 1, 2008. Under the terms of this Agreement ACC provides IT and data support services to Southern Eagle at no cost. The IT support will consist of ACC staff to physically perform tasks such as, but limited to:

- Computer repair
- Computer/software ordering
- Diagnostics
- Maintenance of equipment at secure facility
- Hardware installation

The Data support will consist of, but not be limited to:

- Access to ACC data for underwriting purposes
- Access to ACC data for premium and audit purposes
- Access to the “Client Space” software for Loss Control purposes

On December 30, 2008, the Board of Directors approved the acquisition of Peel-Bushong Holding Company by Four Corners of Excellence, Inc. Also approved was a transaction contemplating the establishment of Four Corners of Excellence, Inc. Employee Stock Ownership Plan (ESOP) which will in turn acquire a controlling interest in Southern Eagle Insurance Company. A related resolution affirmed the appointment of Galloway, Brennan, & Billmeier to represent Southern Eagle before the Florida Office of Insurance Regulation on such matters.

A consent order was approved by the Florida Office of Insurance Regulation approving the creation of the ESOP.

In early 2008 the owner, along with the Board, made the decision to in-source operations currently provided by the Company's TPAs Meadowbrook and Florida Preferred Administrators. This transition will take effect on March 1, 2009.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Southern Eagle Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$11,763,438, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Samita Lamsal, Office Financial Specialist, Jan Moenck, CFE, RSM McGladrey (RSM) Managing Director, Alea Talbert-Pence, RSM Supervisor, and Steve Lacke, RSM Actuarial Manager, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation