

REPORT ON EXAMINATION

OF

AMERICAN TRADITIONS INSURANCE COMPANY

PINELLAS PARK, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 05, 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:

AMERICAN TRADITIONS INSURANCE COMPANY
7785 66TH Street
PINELLAS PARK, FLORIDA 33781

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 September 08, 2008 to September 11, 2008. The fieldwork commenced on September 15, 2008, and was concluded as of January 15, 2009.

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 for Property-Casualty Companies 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.

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

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.

Management

The Company did not have an independent audit committee. All members of the audit committee were members of management. **Resolution: The Company's Audit Committee consisted of four members. Three of the members were independent from management.**

HISTORY

General

The Company was incorporated in Florida on August 9, 2005, as a stock property and casualty insurer. On January 1, 2006, the Company commenced business.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Allied Lines
Fire
Homeowners Multi Peril
Inland Marine

Mobile Home Multi Peril
Mobile Home Physical Damage
Other Liability

In addition to the Homeowners and Mobile Homeowners the Company was writing during 2007, it started writing Inland Marine during 2008. The Company has been in contact with the Office concerning an extension of time to start writing certain lines it was authorized to write and to remove lines it was not planning to write.

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	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Jerger Holding Corporation, a Florida Corporation, who owned 100% of the stock issued by the Company.

Licensing Consent Order

The Company was subjected to licensing Consent Order 84228-05-CO, which was reviewed for the Company's compliance. The Company met the terms and was in compliance with the aforementioned Consent Order as of December 31, 2007.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in its filed Annual Statements.

	2007	2006
Premiums Earned	15,406,394	2,970,167
Net Underwriting Gain/(Loss)	1,813,771	(2,884,935)
Net Income	1,604,488	(2,342,967)
Total Assets	23,316,474	17,137,204
Total Liabilities	16,676,957	12,767,372
Surplus As Regards Policyholders	6,639,517	4,369,832

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2007.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location

Thomas John Jerger

Principal Occupation

Chairman and CEO

Pinellas Park, FL	American Traditions and Modern USA Insurance Companies
Thomas John Jerger, Jr. Clearwater, FL	President American Traditions and Modern USA Insurance Companies
Doug Francis Vatter Cornwall on Hudson, NY	President West Point Underwriters, LLC
Brian James Adamski Lutz, FL	Treasurer and CFO American Traditions and Modern USA Insurance Companies
Raymond Mark Blacklidge Wesley Chapel, FL	Senior Vice President, Secretary and General Counsel American Traditions and Modern USA Insurance Companies
Richard Mitchell Jerger St. Petersburg, FL	Director American Traditions and Modern USA Insurance Companies
Christopher Alan Morson Miami, FL	Financial Advisor Janney Montgomery Scott, LLC
Joel Peter Yanchuck Treasure Island, FL	Attorney Yanchuck, Berman, Wadley & Zervos PA
Dan Lee Hurley Ellenton, FL	Vice President of Compliance American Traditions and Modern USA Insurance Companies

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

Senior Officers

Name	Title
Thomas John Jerger	CEO
Thomas John Jerger, Jr.	President
Brian James Adamski	Treasurer and CFO
Dan Lee Hurley	Vice President of Compliance

Raymond Mark Blacklidge

Senior Vice President, Secretary and General Counsel

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

Investment Committee

Audit Committee

Thomas John Jerger ¹

Christopher Alan Morson ¹

Brian James Adamski

Richard Mitchell Jerger, Jr.

Christopher Alan Morson

Thomas John Jerger

¹ Chairman

Joel Peter Yanchuck

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. Signed conflict of interest statements for 2007 for all Directors and Senior Officers of the Company were reviewed.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, investment and audit committees were reviewed for the period under examination. The recorded minutes of the Board of Directors adequately documented the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures during the period covered by this examination.

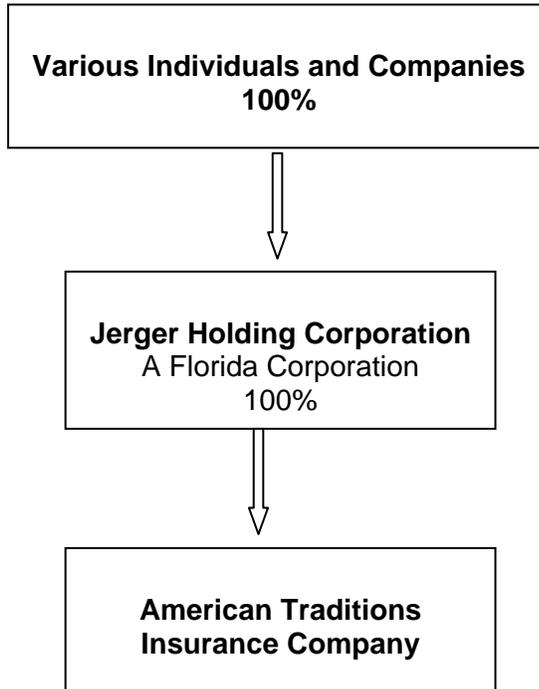
AFFILIATED COMPANIES

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 November 21, 2008 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified 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. During the period covered by this examination, the Company was not reporting its affiliated insurance company, Modern USA Insurance Company, as an affiliate in its Annual Statement Schedule Y. **Subsequent Event:** In a letter dated October 7, 2008 to the Office, the Company agreed it was an affiliate with Modern USA Insurance Company and agreed that all future filings of Schedule Y will reflect that affiliation.

**AMERICAN TRADITIONS INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Consolidated Income Tax Agreement

The Company, along with its parent, Jerger Holding Corporation, filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between the Company and its parent was such that each entity should contribute its fair and equitable share of the taxes paid, provided that they should not be required to pay more than they would have paid if they had computed and paid their tax liabilities on a separate basis.

Cost Sharing Agreement

The Company had an agreement to share costs, effective February 1, 2006, with its managing general agent, T.J. Jerger MGA, LLC, and its third party administrator, West Point Underwriters, LLC, on a pro rata basis for costs related to leasing of the shared business operating location. Each company maintained an individual commercial lease with Spare Investors Realty, LLC, with shared costs including but not limited to repairs, alterations and improvements, property and sales taxes, insurance, cleaning, utilities and other expenses, to be shared according to the following percentages: West Point Underwriters, 65%, T.J. Jerger MGA, 17.5%, and the Company, 17.5%. This agreement was terminated on November 1, 2007 and replaced by the "Facilities Agreement" discussed below.

Facilities Agreement

The Company had a "Facilities Agreement" effective November 1, 2007, with its affiliates, West Point Underwriters, LLC, T.J. Jerger MGA, LLC, Modern USA Insurance Company and MUSA MGA, LLC. The agreement serves to establish the cost of running the facilities of the companies that are party to the agreement and establish procedures for the allocation of the

cost of such facilities. The Treasurer of each company shall cause invoices to be sent to each company for any reimbursable charges or expenses by the 15th day of the following month. Monthly invoices shall be paid on or before the last day of the following month.

Cost Allocation Agreement

The Company had a “Cost Allocation Agreement” effective October 1, 2007, with its affiliate, Modern USA Insurance Company. The agreement serves to delineate the costs of services provided to each of the companies, but still allows such cost to be shared by them or allocated among them, as deemed appropriate. The treasurer of each company shall cause invoices to be sent to each company for any reimbursable charges or expenses by the 15th day of the following month. Monthly invoices shall be paid on or before the last day of the following month.

MGA Agreement

The Company had a “Managing General Agent Agreement” with T.J. Jerger MGA, LLC, (MGA) effective September 1, 2005, to administer 100% of the policies written by the Company and to provide services for managing and administering the affairs of the Company. Services included, but were not limited to, policy issuance, underwriting, marketing, premium billing and collection, and the adjustment and payment of claims. Contract terms included commission of 20% and a \$25 per policy MGA fee.

The MGA outsourced the policy issuance, underwriting, marketing, premium billing and collection servicing to the affiliated West Point Underwriters, LLC, through a “Policy Administration Agreement” effective September 1, 2005. The MGA outsourced the claims servicing on behalf of the Company through a “Claims Administration Services Agreement” with affiliate Storm King Claims Service, effective January 1, 2006.

Subsequent event: The Company entered into a “Florida Commercial Lease Agreement” with an affiliate, 66 Investors LLC, effective June 25, 2008. 66 Investors is the owner of the Company's home office building located in Pinellas Park, Florida. The term of the agreement was for one year with the total lease amount of \$57,927.80 due in monthly installments by the 15th of each month.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC .

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$1,000,000, General Liability insurance with limits of \$2,000,000, Commercial Property with limits of \$115,500, Automobile Liability insurance with limits of \$1,000,000 for each accident, Crime liability insurance coverage with limits of \$1,000,000, and Umbrella insurance coverage with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any direct employees at December 31, 2007. The Company had an agreement with Modern Business Associates to lease all of its employees in Florida. This agreement is discussed in detail in the “Third Party Agreement” section of this report.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	CD, 3.5%, 2/28/09	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance only 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), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i) 3a, Florida Statutes.

REINSURANCE

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

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 did not assume risk.

Ceded

The Company ceded risk of 25% of net written premium on a quota share basis to a group of reinsurers pursuant to the terms of a quota share agreement covering the period June 1, 2007 through May 31, 2008. The ceding commission percentage was 27.5% of premiums ceded to the reinsurers.

To minimize the Company's exposure to losses from catastrophes, the Company has entered into various excess of loss agreements, including its mandatory participation in the Florida Hurricane Catastrophe Fund.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the year ending December 31, 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 Agreements

The Company had securities held under two different Custody Agreements at December 31, 2007. One of the Custody Agreements was with Janney Montgomery Scott, LCC and the other was with Morgan Stanley. Both of these agreements were found to be in accordance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company's financial statements were audited on a statutory basis by the independent certified public accounting firm of Strawn, Marshall, Cunningham, Condon and Sweat, P.A. of St. Petersburg, FL.

Administrative Agreement

The Company was party to a Client Service Agreement between its TPA, West Point Underwriters, LLC, and a Professional Employer Organization (PEO), Administaff Companies II, L.P, to provide services of personnel management, employee benefits, workers' compensation insurance and claim administration, and payroll functions. The Company's employees were considered

employees of the Company and of the PEO. This agreement was terminated during December of 2007 and replaced by the "Client Service Agreement" discussed below.

Client Service Agreement

The Company entered into an agreement with Modern Business Associates (MBA) for its leased employees in Florida. The MBA agreed to provide services of human resource management, workers' compensation insurance, employee benefits, retirement plan, payroll functions and other personnel services that might be deemed necessary from time to time. The Company's employees were employees of the MBA.

Information Technology (IT) Report

INS Services, Inc. performed a limited scope computer system evaluation on the Company. Results of the evaluation were noted in the information technology report (IT) 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. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

AMERICAN TRADITIONS INSURANCE COMPANY

Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$13,338,992		\$13,338,992
Cash	4,504,030		4,504,030
Investment income due & accrued	103,518		103,518
Agents' Balances:			
Uncollected premium	2,083,614		2,083,614
Deferred premium	1,240,999		1,240,999
Reinsurance			
Amounts recoverable from reinsurers	823,094		823,094
Other amounts receivable under contracts	517,427		517,427
Net deferred tax asset	603,592		603,592
EDP and software	10,205		10,205
Receivable from parent, subsidiaries and affiliates	38,118		38,118
Aggregate write-ins	52,885		52,885
Totals	<u>\$23,316,474</u>	<u>\$0</u>	<u>\$23,316,474</u>

AMERICAN TRADITIONS INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,449,572		\$1,449,572
Loss adjustment expenses	156,192		156,192
Other expenses	136,995		136,995
Taxes, licenses and fees	471,456		471,456
Current federal and foreign income taxes	562,870		562,870
Unearned premiums	14,026,469		14,026,469
Advance premium	995,390		995,390
Ceded reinsurance premiums payable	(1,305,745)		(1,305,745)
Payable to parent, subsidiaries and affiliates	183,470		183,470
Aggregate write-ins	288		288
Total Liabilities	\$16,676,957	\$0	\$16,676,957
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	7,001,084		7,001,084
Unassigned funds (surplus)	(362,567)		(362,567)
Surplus as regards policyholders	\$6,639,517		\$6,639,517
Total liabilities, surplus and other funds	\$23,316,474	\$0	\$23,316,474

AMERICAN TRADITIONS INSURANCE COMPANY

Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned	\$15,406,394
Deductions	
Losses incurred	\$5,144,770
Loss expenses incurred	582,030
Other underwriting expenses incurred	7,865,823
Total underwriting deductions	<u>13,592,623</u>
Net underwriting gain or (loss)	<u>\$1,813,771</u>

Investment Income

Net investment income earned	\$768,662
Net realized capital gains (losses)	41
Net investment gain or (loss)	<u>\$768,703</u>

Other Income

Net gain or (loss)	(14,134)
Finance and service charges not included in premiums	\$124,018
Total other income	<u>\$109,884</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$2,692,358
Federal income taxes	<u>\$1,087,870</u>

Net Income \$1,604,488

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$4,369,832
Net Income	\$1,604,488
Change in net unrealized capital gains	(\$15,201)
Change in net deferred income tax	284,306
Change in non-admitted assets	(103,908)
Paid in surplus	500,000
Change in surplus as regards policyholders for the year	<u>\$2,269,685</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$6,639,517</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 1,605,764

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, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Actuarial Review

The Office contracted with independent actuaries, INS Services, Inc., to perform an actuarial review. The independent actuaries' reported that the recorded 12/31/2007 reserves made reasonable provisions for the gross and net unpaid loss and loss adjustment expenses.

Capital and Surplus

The amount reported by the Company of \$6,639,517, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN TRADITIONS 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	6,639,517
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	<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			\$6,639,517

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has complied with the previous directives.

Current examination comments and corrective action

There are no exceptions or findings in the examination as of December 31, 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Traditions Insurance Company, Inc.** 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 \$6,639,517 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CFE, CPA, Examiner Supervisor, Greg Taylor, CFE, Examiner in Charge and Robert McGee, CFE, Examiner participated in the examination. We also recognize INS Consultants, Inc. and INS Services, Inc.'s participation in the examination.

Respectfully submitted,

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