

REPORT ON EXAMINATION
OF
BUSINESSFIRST INSURANCE
COMPANY
LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

September 22, 2006

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, 2005, of the financial condition and corporate affairs of:

**BUSINESSFIRST INSURANCE COMPANY
2310 COMMERCE POINT DRIVE
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 January 1, 2005 through December 31, 2005. This examination commenced, with planning at the Office, on July 20, 2006, to July 21, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation Office as of December 31, 2004. The fieldwork commenced on July 24, 2006, and was concluded as of September 22, 2006. 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 second annual 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.

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 verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 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.

Status of Adverse Findings from Prior Examination

The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

Corporate Records

The minutes of the Board of Directors did not reflect that the Board established an audit committee as provided by Section 624.424(8)(c), Florida Statutes. **Resolution:** The Directors noted in the minutes the establishment of the audit committee.

There was no Company Board of Director approval of investments as required by Section 625.304, Florida Statutes. **Resolution:** During 2005 the Directors reviewed the investment reports provided by the Investment Manager. The review was noted in the minutes of the Board of Directors.

Tax Allocation Agreement

The Company filed a consolidated income tax return with its parent yet there was not a consolidated tax agreement in place as provided by SSAP No. 10, paragraph 12. **Resolution:** The Company entered into a written Consolidated Tax Agreement with its parent, Florida Retail Federation Self Insurers Fund, in accordance with the NAIC Accounting Practices and Procedures Manual and SSAP No. 10, and submitted the agreement to the Office for approval in accordance with Rule 69O-143.047(4), Florida Administrative Code.

Reinsurance Agreements

The reinsurance agreements reviewed were not in compliance with SSAP No. 62, paragraph 8, as follows:

- Houston Casualty Company Agreement: The treaty failed to specify that the agreement shall constitute the entire contract between the parties as required by SSAP No. 62, paragraph 8c.
- Midwest Employers Casualty Company Agreement: 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 No. 62, paragraph 8b. Also, the treaty failed to specify that the agreement shall constitute the entire contract between the parties as required by SSAP No. 62, paragraph 8c.

Resolution: The Company amended its reinsurance agreements to comply with SSAP No. 62, paragraph 8.

Custody 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), Florida Administrative Code, as follows:

- The agreement failed to specify that the 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 custody securities as required by Rule 69O-143.042(2)(j), Florida Administrative Code.
- The agreement failed to specify that the custodian shall be obligated to indemnify the insurance company for any loss of custody 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), Florida Administrative Code.
- The agreement failed to specify that in the event there is a loss of custody 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), Florida Administrative Code.

Resolution: The Company entered into a new custodial agreement with Wachovia Bank, NA to comply with Rule 69O-143.042(2), Florida Administrative Code.

HISTORY

General

The Company is a domestic, stock company that is only licensed to write insurance in Florida. It was incorporated in Florida on February 13, 2003 and commenced writing business on August 1, 2003 as BusinessFirst Insurance Company. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

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

Capital Stock

As of December 31, 2005, 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 96% of the stock issued by the Company. The remaining 4% was owned by various directors of the Company.

Profitability of Company

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

	2005	2004	2003
Premiums Earned	19,474,600	7,026,114	523,400
Net Underwriting Gain/(Loss)	2,564,027	437,677	(16,093)
Net Income	99,723	(327,457)	(12,464)
Total Assets	23,312,993	11,014,850	5,169,872
Total Liabilities	15,477,515	6,264,004	414,406
Surplus As Regards Policyholders	7,835,478	4,750,846	4,755,466

Dividends to Stockholders

The Company did not pay stockholders a dividend in 2005.

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, 2005, were:

Directors

Name and Location

Principal Occupation

William Kundrat, Jr.
Sun City Center, Florida

Retired

George Hall Sandefer
Palatka, Florida

Retired

Nis Hansen Nissen, III
Lakeland, Florida

CEO, Nissen Advertising, Inc.

Charles Richard Wintz
Jacksonville, Florida

Owner, President,
Charles R. Wintz, CPA, PA

Thomas Samuel Petcoff, Chairman
Lakeland, Florida

Owner, President,
Petcoff Companies

John Douglas Hanselman
Tampa, Florida

CFO, Network Synergy

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
William Kundrat, Jr.	Vice President
George Hall Sandefer	Vice President
John Douglas Hanselman	Treasurer

Subsequent event: David John Conway and Ricky Tarver Hodges resigned as officers of the Company on July 15, 2006. The election of their replacements was scheduled for the August 2006 Board of Directors meeting.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes.

Investment Committee
Charles Richard Wintz 1
William Kundrat, Jr.
George Hall Sandefer
Nis Hansen Nissen, III
Thomas Samuel Petcoff
John Douglas Hanselman

Audit Committee
Charles Richard Wintz 1
William Kundrat, Jr.
George Hall Sandefer
Nis Hansen Nissen, III
Thomas Samuel Petcoff
John Douglas Hanselman

1 Chairman

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholders, Board of Directors, and audit committee adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

There was no documentation in the Board of Directors' minutes that the previous examination report was reviewed.

Subsequent event: The Board of Directors' minutes of April 20, 2006 indicated that the prior exam report was reviewed by the Board.

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

The Company issued a surplus debenture in the amount of \$3,000,000 in exchange for cash to Summit Consulting, Inc., its managing general agent, on December 15, 2005. The surplus debenture was submitted to and approved by the Office.

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 2, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Subsequent event: The Company filed an annual holding company registration statement on February 27, 2006. The Company filed an amended holding company registration statement on May 15, 2006 reporting a tax allocation agreement dated March 16, 2006 between the Company and its parent, FRFSIF.

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

Management Services Agreement

The Company had an agreement with Summit Consulting, Inc., (Summit) at December 31 2005, whereby Summit would provide management services to and act as managing general agent for the Company.

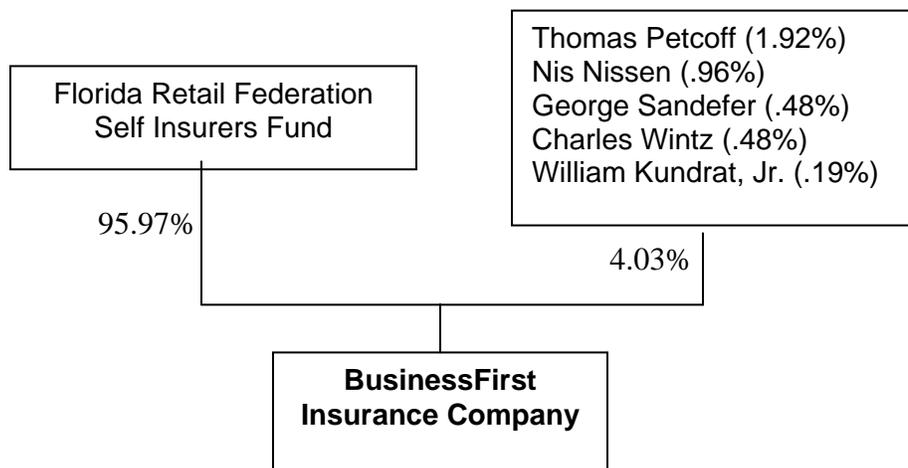
Tax Allocation Agreement

The Company, along with its parent FRFSIF, filed a consolidated federal income tax return. On December 31, 2005, the Company and its parent allocated the consolidated regular income tax in the same proportions as each of their individual separate regular return income taxes had in relation to the total of their separate regular income tax return.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**BUSINESSFIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND

The Company maintained fidelity bond coverage up to \$15,000,000 with no deductible. The insured on the fidelity bond is Summit Consulting, Inc. 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 it did not have a pension, stock, or insurance plan.

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	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 established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

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

The above mentioned contracts 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 on an excess of loss basis to Midwest Employers Casualty Insurance Company.

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

ACCOUNTS AND RECORDS

Postlethwaite & Netterville, APAC, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2004 and 2005, 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 maintained its principal operational offices in Lakeland, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company amended its custodial agreement with Wachovia Bank, NA to comply with Rule 69O-143.042(2), Florida Administrative Code.

Subsequent event: The Company transferred its investment management from Wachovia Bank, NA to Conning Asset Management Company (Conning) effective January 1, 2006. The Company entered into an assets management agreement with Conning dated December 29, 2005. The Company entered into a custody agreement with Wachovia Bank, NA dated January 1, 2006 that complied with Rule 69O-143.042(2), Florida Administrative Code.

Managed Care Agreement

The Company had a managed care agreement with Heritage Summit Healthcare, Inc. (Heritage), an affiliate of Summit, the Company's managing general agent, at December 31, 2005. The agreement required Heritage to provide a network of physicians available for the treatment of workers compensation injuries.

Shareholders Agreement

The Company had an agreement with its shareholders, individual members of the Board of Directors of its parent FRFSIF, at December 31, 2005. The agreement defined the restrictions upon the rights of shareholders to dispose of shares, and the rights and obligations of the shareholders and the Company to redeem and purchase shares of a withdrawing shareholder.

Independent Auditor Agreement

The Company engaged Postlethwaite & Netterville, APAC, to perform an audit of its GAAP and statutory financial statements for the years 2004 and 2005 in accordance with Section 624.424(8)(c), Florida Statutes.

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, 2005, 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
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 16,227,180		\$ 16,227,180
Cash and short-term investments	5,872,239		5,872,239
Invested income due and accrued	191,513		191,513
Agents' Balances:			
Uncollected premium	696,653		696,653
Deferred premium	213,983		213,983
Net deferred tax asset	111,425		111,425
Totals	<u>\$ 23,312,993</u>		<u>\$ 23,312,993</u>

BUSINESS FIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,221,343		\$6,221,343
Loss adjustment expenses	2,675,620		2,675,620
Commissions payable, contingent commissions, other similar charges	338,969		338,969
Other expenses	350,019		350,019
Taxes, licenses and fees	1,411,433		1,411,433
Current federal and foreign income taxes	1,132,263		1,132,263
Advanced premium	1,188,073		1,188,073
Dividends declared and unpaid: Policyholders	2,055,293		2,055,293
Ceded reinsurance premiums payable	104,502		104,502
Total Liabilities	\$15,477,515		\$15,477,515
Common capital stock	\$5,360,000		\$5,360,000
Surplus notes	3,000,000		3,000,000
Gross paid in and contributed surplus	6,000		6,000
Unassigned funds (surplus)	(530,522)		(530,522)
Surplus as regards policyholders	\$7,835,478		\$7,835,478
Total liabilities, surplus and other funds	\$23,312,993	\$ -	\$23,312,993

BUSINESSFIRST INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$19,474,600
DEDUCTIONS:	
Losses incurred	6,416,866
Loss expenses incurred	3,690,384
Other underwriting expenses incurred	6,803,323
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$16,910,573</u>
Net underwriting gain or (loss)	\$2,564,027
Investment Income	
Net investment income earned	\$494,544
Net realized capital gains or (losses)	<u>(27,936)</u>
Net investment gain or (loss)	\$466,608
Other Income	
Net gain or (loss) from agents' or premium balances charged off	<u>(\$204,070)</u>
Total other income	(\$204,070)
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,826,565
Dividends to policyholders	<u>1,615,005</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$1,211,560
Federal & foreign income taxes	<u>1,111,837</u>
Net Income	\$99,723
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$4,750,846
Gains and (Losses) in Surplus	
Net Income	\$99,723
Change in net deferred income tax	666,100
Change in non-admitted assets	(681,191)
Change in surplus notes	3,000,000
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$3,084,632</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,835,478</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$8,896,963

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, 2005, 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
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, Annual Statement	\$	7,835,478
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	<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:			\$ -
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 7,835,478

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2004 examination report issued by the Office.

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, 2005:

There were no adverse findings noted during this period of examination.

SUBSEQUENT EVENTS

Changes have been made to the management of the Company subsequent to the examination date. The following is a listing of directors and officers serving as of May 10, 2006.

Subsequent event: David John Conway and Ricky Tarver Hodges resigned as officers of the Company on July 15, 2006. Thomas Petcoff was elected as President and Chief Executive Officer. Nis Nissen was elected as Secretary and Chief Financial Officer of the Company.

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, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,835,478, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Tina Hancock, Financial Examiner/Analyst I, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

James D. Collins
Financial Examiner/Analyst II
Florida Office of Insurance Regulation