

REPORT ON EXAMINATION
OF
MODERN USA INSURANCE COMPANY
PINELLAS PARK, FLORIDA
AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 04, 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:

MODERN USA 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 May 31, 2007 through December 31, 2007. This is a first year examination of the Company. This examination commenced, with planning at the Florida Office of Insurance Regulation (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

This is the first examination of the Company.

HISTORY

General

The Company was incorporated in Florida on May 31, 2007 as a stock property and casualty insurer and commenced business that same day.

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

Allied Lines	Mobile Home Multi Peril
Fire	Mobile Home Physical Damage
Homeowners Multi Peril	Other Liability
Inland Marine	

The Company did not write in all lines of business for which it was authorized as of December 31, 2007; however, the Company was exempt from Section 624.430(6), Florida Statutes, as it was operating in its first year of business.

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 Insurance Holding Company, a Florida Corporation, who owned 100% of the stock issued by the Company.

Licensing Consent Order

The Company was subjected to licensing Consent Order 90395-07-CO which was reviewed for compliance. The Company met the terms and was in compliance with the licensing Consent Order 90395-07, 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 Statement.

	2007	2006
Premiums Earned	133,662	0
Net Underwriting Gain/(Loss)	(889,510)	0
Net Income	(715,599)	0
Total Assets	16,632,336	0
Total Liabilities	3,114,726	0
Surplus As Regards Policyholders	13,517,610	0

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

Principal Occupation

Thomas John Jerger
Pinellas Park, FL

Chairman and CEO
American and Modern Insurance Companies

Thomas John Jerger, Jr.
Clearwater, FL

President
American and Modern Insurance Companies

Stephen Harold Braun
Chicago, IL

President
Hometown Homes and Financial Services

Christopher Alan Morson

Financial Advisor

Miami, FL	Janney Montgomery Scott, LLC
Joel Peter Yanchuck Treasure Island, FL	Attorney Yanchuck, Berman, Wadley & Zervos PA
Gavin Michael Ryan Plano, TX	President Palm Harbor Homes, Inc
Raymond Mark Blacklidge Wesley Chapel, FL	Senior V. P., Secretary and General Counsel American and Modern Insurance Companies

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers that were serving at December 31, 2007:

Senior Officers

Name	Title
Thomas John Jerger	Chairman and CEO
Thomas John Jerger, Jr.	President
Brian James Adamski	Treasurer and CFO
Dan Lee Hurley	Vice President of Compliance
Raymond Mark Blacklidge	Senior V. P. General Counsel and Secretary

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

Investment Committee

Thomas John Jerger ¹
 Brian James Adamski
 Christopher Alan Morson
 Gavin Michael Ryan

¹ Chairman

Audit Committee

Christopher Alan Morson ¹
 Thomas John Jerger
 Stephen Harold Braun

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.

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 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

A surplus note in the amount of \$7,000,000 was issued in exchange for cash under the Insurance Capital Build-up Incentive Program and held by the State Board of Administration of Florida. Each payment of principle and interest can be made only with prior approval of the Florida Insurance Commissioner. No principle payments were made during 2007.

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

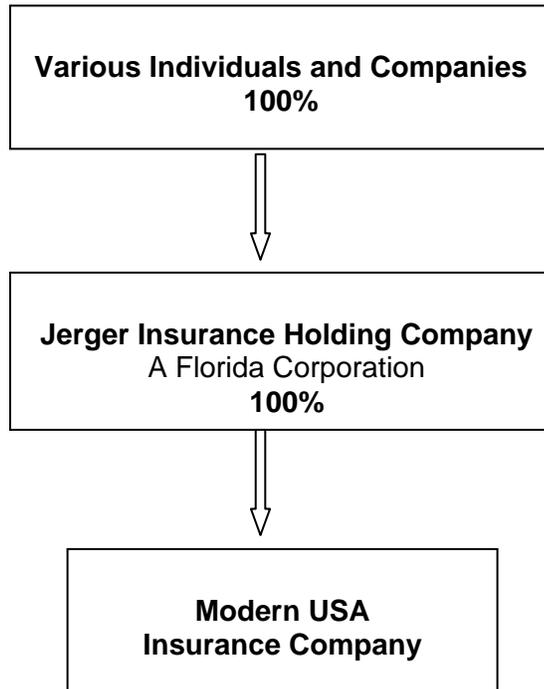
statement was filed with the State of Florida on November 21, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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, American Traditions 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 American Traditions Insurance Company and agreed that all future filings of Schedule Y will reflect that affiliation.

**MODERN USA 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 Insurance Holding Company, 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.

Facilities Agreement

The Company had a “Facilities Agreement” effective November 1, 2007, with its affiliates, West Point Underwriters, LLC, T.J. Jerger MGA, LLC, American Traditions 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, American Traditions 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” (“MGA”) with MUSA MGA, LLC, effective June 1, 2007, 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 25% 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.

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 a Cost Allocation Agreement with its affiliate, American Traditions Insurance Company, to share in the cost of its employees which provided employee functions to the Company during 2007.

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, 6.33%	<u>\$ 300,000</u>	<u>\$ 304,873</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 304,873</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance business 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 did not start writing any business until October of 2007. During 2007, the company paid deposit premium to the Florida Hurricane Catastrophe Fund for the three month period ending December 31, 2007. The Company also purchased additional catastrophe reinsurance cover for the non hurricane season that began November 30, 2007 and ended May 31, 2008.

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 690-143.042, 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.

Information Technology 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."

MODERN USA INSURANCE COMPANY

Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,864,736		\$3,864,736
Cash	11,426,540		11,426,540
Investment income due & accrued	93,640		93,640
Agents' Balances:			
Uncollected premium	440,996		440,996
Deferred premium	518,530		518,530
Reinsurance			
Amounts recoverable from reinsurers	0		0
Other amounts receivable under contracts	0		0
Net deferred tax asset	268,359		268,359
EDP and software	0		0
Receivable from parents, subsidiaries and affiliates	372		372
Aggregate write-ins	19,163		19,163
Totals	<u>\$16,632,336</u>	<u>\$0</u>	<u>\$16,632,336</u>

MODERN USA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Adjustments	Examination
Losses	\$15,571		\$15,571
Loss adjustment expenses	8,029		8,029
Other expenses	68,605		68,605
Taxes, licenses and fees	95,200		95,200
Current federal and foreign income taxes	0		0
Unearned premiums	2,364,142		2,364,142
Advance premium	75,728		75,728
Ceded reinsurance premiums payable	160,250		160,250
Payable to parent, subsidiaries and affiliates	327,201		327,201
Aggregate write-ins	0		0
Total Liabilities	\$3,114,726	\$0	\$3,114,726
Common capital stock	\$1,000		\$1,000
Surplus Notes	7,000,000		7,000,000
Gross paid in and contributed surplus	6,999,000		6,999,000
Unassigned funds (surplus)	(482,390)		(482,390)
Surplus as regards policyholders	\$13,517,610		\$13,517,610
Total liabilities, surplus and other funds	\$16,632,336	\$0	\$16,632,336

MODERN USA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned	\$133,662
Deductions	
Losses incurred	\$21,634
Loss expenses incurred	16,940
Other underwriting expenses incurred	984,598
Total underwriting deductions	<u>1,023,172</u>
Net underwriting gain or (loss)	<u>(\$889,510)</u>

Investment Income

Net investment income earned	\$185,574
Net realized capital gains (losses)	(11,332)
Net investment gain or (loss)	<u>\$174,242</u>

Other Income

Net gain or (loss)	(3,915)
Finance and service charges not included in premiums	\$3,584
Total other income	<u>(\$331)</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$715,599)
Federal income taxes	<u>\$0</u>

Net Income (\$715,599)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$0
Net Income	(\$715,599)
Change in net unrealized capital gains	\$0
Change in net deferred income tax	268,359
Change in non-admitted assets	(35,150)
Change in surplus notes	7,000,000
Capital changes	1,000
Paid in surplus	6,999,000
Change in surplus as regards policyholders for the year	<u>\$13,517,610</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$13,517,610</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 23,600

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 \$13,517,610 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**MODERN USA 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	13,517,610
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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			\$13,517,610

SUMMARY OF FINDINGS

Compliance with previous directives

This is the first examination of the Company by the Office.

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 **Modern USA 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 \$13,517,610 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, 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