

REPORT ON EXAMINATION
OF
BUSINESSFIRST INSURANCE
COMPANY
LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS	2
PRIOR EXAM FINDINGS	2
SUBSEQUENT EVENTS	2
HISTORY	4
GENERAL	4
DIVIDENDS TO STOCKHOLDERS	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS DEBENTURES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST	5
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT	9
FIDELITY BOND	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATION	9
TREATMENT OF POLICYHOLDERS.....	9
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	10
LOSS EXPERIENCE	11
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	11
CUSTODIAL AGREEMENT	12
ADMINISTRATOR AGREEMENT	12
WORKERS' COMPENSATION MANAGED CARE AGREEMENT.....	13
INDEPENDENT AUDITOR AGREEMENT	13
ASSET MANAGEMENT AGREEMENT.....	13
INFORMATION TECHNOLOGY REPORT	14

STATUTORY DEPOSITS..... 14

FINANCIAL STATEMENTS PER EXAMINATION..... 14

ASSETS 15

LIABILITIES, SURPLUS AND OTHER FUNDS 16

STATEMENT OF INCOME 17

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS 18

COMMENTS ON FINANCIAL STATEMENTS..... 19

LIABILITIES..... 19

CAPITAL AND SURPLUS 19

CONCLUSION..... 20

Tallahassee, Florida

November 30, 2010

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 Rule 69O-138.005, Florida Administrative Code, 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, 2009, 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, 2007, through December 31, 2009. 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 July 26, 2010, to July 30, 2010. The fieldwork commenced on August 23, 2010, and concluded as of November 30, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, 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 examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2006.

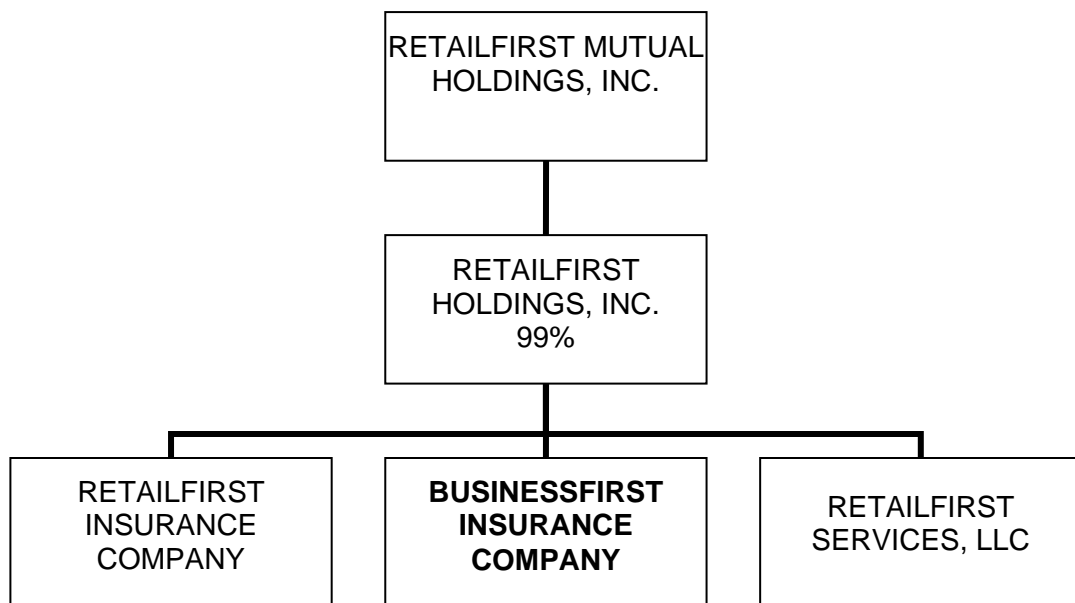
SUBSEQUENT EVENTS

Effective June 11, 2010, the Board of Trustees of the Company's parent, Florida Retail Federation Self Insurers Fund (Florida Retail Fund), unanimously approved and adopted a plan to reorganize as a stock insurer indirectly owned by a mutual insurance holding company. As a result of the reorganization, Florida Retail Fund proposed changing from a workers' compensation group self insured fund to a stock insurance company named "RetailFirst Insurance Company." The Office approved this action via Consent Order 112038-10, filed September 23, 2010.

On November 17, 2010, Articles of Incorporation were filed with the State of Florida Secretary of State which reflect that Florida Retail Fund was reorganized and converted to RetailFirst Insurance Company, a stock insurance company.

In addition, Articles of Incorporation were filed for RetailFirst Mutual Holdings, Inc., a domestic mutual insurance holding company, RetailFirst Holdings, Inc., an intermediate holding company, and RetailFirst Services, LLC, a limited liability company.

The holding company system's structure will be as follows:



HISTORY

General

The Company was incorporated in Florida on February 14, 2003, and commenced business on August 1, 2003, as BusinessFirst Insurance Company.

The Company was authorized to transact workers' compensation insurance coverage in Florida as of December 31, 2009.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders during the period of examination.

Capital Stock and Capital Contributions

As of December 31, 2009, 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 Fund, who owned 93% of the stock issued by the Company. The remaining outstanding shares were owned by Company's directors.

Surplus Debentures

The Company had \$3,000,000 in surplus notes during the period of examination. On December 15, 2005, Summit Consulting, Inc. contributed \$3,000,000 to the Company in exchange for the issuance to Summit Consulting, Inc. of a subordinated surplus note which matures on December 14, 2015.

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

There were no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance for the period of examination.

CORPORATE RECORDS

The recorded minutes of the Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors and officers was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
William Kundrat, Jr. Sun City Center, Florida	Retired
John Douglas Hanselman Tampa, Florida	President and CEO, Network Synergy Group
Nis Hansen Nissen, III Lakeland, Florida	President, Nissen Advertising, Inc.
Thomas Samuel Petcoff Lakeland, Florida	CEO/Broker, Baron Realty, Inc.
George Hall Sandefer Palatka, Florida	Retired
Charles Richard Wintz Jacksonville, Florida	President, Charles R. Wintz, CPA, PA

The Board in accordance with the Company's Bylaws appointed the following senior officers:

Senior Officers

Name	Title
Thomas Samuel Petcoff	President
William Kundrat, Jr.	Vice President
George Hall Sandefer	Vice President
Nis Hansen Nissen, III	Secretary
John Douglas Hanselman	Treasurer

The Company's Board appointed an audit committee in accordance with Section 607.0825, Florida Statutes. The following were members of the audit committee as of December 31, 2009:

Audit Committee

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

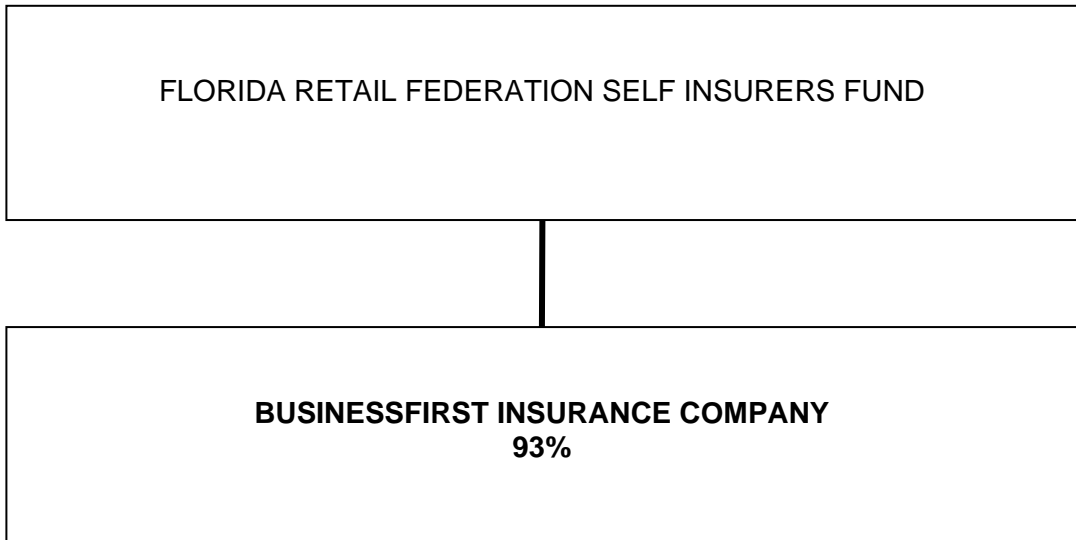
Affiliated Companies

The Company was a member of a 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, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code, on a consolidated basis with Florida Retail Fund, the holding company system member that owns 93% of the Company.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**BUSINESSFIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company, along with its parent, Florida Retail Fund, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was that tax was allocated to each in the same proportions as each of their individual income tax liabilities bore to the combination of both of the individual tax liabilities.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$800,000 with a deductible of \$5,000, which reached the suggested minimum recommended by the NAIC. The Company was a named insured on a policy maintained by Florida Retail Fund.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact insurance only 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 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.

COMPANY GROWTH

The decrease in the Company's earned premiums was due substantially to mandated premium rate reductions in the State of Florida and declines in employment, and the corresponding need for workers' compensation coverage, due to the general economic downturn. The decrease in underwriting and net income in 2008 was due to the decrease in earned premium combined with increases in incurred losses and loss adjustment expenses. Underwriting and net income declined with premiums in 2009 as incurred losses were relatively consistent. Surplus continued to grow with positive, though declining, net income.

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 statements.

	2009	2008	2007
Premiums Earned	12,661,329	13,779,975	18,067,712
Net Underwriting Gain/(Loss)	1,299,783	1,801,506	6,872,776
Net Income	1,313,210	1,554,587	2,918,781
Total Assets	34,542,231	35,119,706	34,423,861
Total Liabilities	20,964,532	22,965,221	24,079,491
Surplus As Regards Policyholders	13,577,699	12,154,485	10,344,370

LOSS EXPERIENCE

The Company did not exhibit any significant changes in loss experience during the period under examination.

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 no insurance during the period of examination.

Ceded

The Company ceded risk on a specific excess of loss basis to one unaffiliated authorized reinsurer as listed on Schedule F of the annual statement. Ceded premiums totaled \$979,585 in 2009.

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 Lakeland, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008 and 2009, 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 maintained a Custodial Agreement with U.S. Bank, NA which was in compliance with Rule 69O-143.042(2), Florida Administrative Code.

Administrator Agreement

The Company maintained an Administrator Agreement with Summit Consulting, Inc. (Summit). Pursuant to this agreement Summit provided administrative services to the Company including policy servicing, underwriting, claims administration, loss control and financial management. The agreement also provided for Summit to perform as a managing general agent for the Company as it provided marketing and sales, and premium billing and collection services. Summit's services were provided for a fee based upon the Company's premiums.

Workers' Compensation Managed Care Agreement

The Company had a managed care agreement with Heritage Summit Healthcare, Inc. (Heritage). Under the terms of the agreement, Heritage made available to the Company its network of medical care providers and facilities which provided managed care services related to the treatment of workers' compensation injuries, arranged for independent medical examinations and depositions, and reviewed, audited, negotiated and re-priced bills and services related thereto, as deemed necessary. These services were provided for a fee based upon the Company's premiums.

Independent Auditor Agreement

The Company engaged Postlethwaite & Netterville, APAC, Baton Rouge, Louisiana, to perform an audit of its statutory basis financial statements for the period of examination in accordance with Section 624.424(8)(a), Florida Statutes.

Asset Management Agreement

The Company had an asset management agreement with Conning Asset Management Company (Conning) under which Conning invested the Company's assets and performed portfolio management services in accordance with the Company's investment guidelines, as made part of the agreement. Conning's services were provided for a fee based on the value of the Company's portfolio which is calculated quarterly and subject to a quarterly minimum.

INFORMATION TECHNOLOGY REPORT

Jennan Enterprises, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in an Information Technology Report which was provided to the Company.

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>
	TOTAL SPECIAL DEPOSITS	<u>\$ 250,000</u>	<u>\$ 250,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$30,172,490		\$30,172,490
Cash:			
On deposit	489,368		489,368
Short-term Investments	1,824,726		1,824,726
Interest income due and accrued	364,943		364,943
Premiums and considerations:			
Agents' balances in the course of collection	334,941		334,941
Booked but deferred and not due	637,011		637,011
Net deferred tax asset	718,752		718,752
	<hr/>		
Totals	\$34,542,231	\$0	\$34,542,231
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BUSINESSFIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$10,772,367		\$10,772,367
Loss adjustment expenses	2,439,832		2,439,832
Commissions payable	485,548		485,548
Other expenses	974,318		974,318
Taxes, licenses and fees	547,970		547,970
Current federal income taxes	21,431		21,431
Unearned premiums	1,170,133		1,170,133
Advance premium	94,783		94,783
Dividends declared and unpaid: policyholders	3,442,343		3,442,343
Ceded reinsurance premiums payable	140,646		140,646
Amounts retained by company for account of others	5,453		5,453
Aggregate write-ins for liabilities	869,708		869,708
Total Liabilities	\$20,964,532	\$0	\$20,964,532
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)	5,211,699		5,211,699
Surplus as regards policyholders	\$13,577,699	\$0	\$13,577,699
Total liabilities, capital and surplus	\$34,542,231	\$0	\$34,542,231

BUSINESSFIRST INSURANCE COMPANY**Statement of Income****DECEMBER 31, 2009****Underwriting Income**

Premiums earned		\$12,661,329
	Deductions	
Losses incurred		4,737,604
Loss expenses incurred		1,382,693
Other underwriting expenses incurred		5,241,249
Total underwriting deductions		<u>\$11,361,546</u>
Net underwriting gain or (loss)		\$1,299,783

Investment Income

Net investment income earned	\$1,405,501
Net realized capital gains or (losses)	<u>(59,427)</u>
Net investment gain or (loss)	\$1,346,074

Other Income

Net gain or (loss) from agents' or premium balances charged off	<u>(\$39,049)</u>
Total other income	<u>(\$39,049)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$2,606,808
Dividends to policyholders	<u>667,130</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$1,939,678
Federal & foreign income taxes	<u>626,468</u>
Net Income	<u>\$1,313,210</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$12,154,484
Net Income	\$1,313,210
Net unrealized capital gains or losses	(172,672)
Change in net deferred income tax	887,895
Change in non-admitted assets	<u>(605,218)</u>
Change in surplus as regards policyholders for the year	\$1,423,215
Surplus as regards policyholders, December 31 current year	<u>\$13,577,699</u>

BUSINESSFIRST INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2009

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

Surplus as Regards Policyholders per December 31, 2009, Annual Statement	\$13,577,699
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			No adjustment
LIABILITIES:			No adjustment
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$13,577,699

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$13,212,199

An outside actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, Taylor-Walker & Associates, Inc., to review the loss and loss adjustment expense reserves carried in the Company's balance sheet as of December 31, 2009, who was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$13,577,699 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The 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, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$13,577,699, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Eric Dercher, CFE, Examiner-In-Charge, Amy Carter, CPA, Lindsey Carr, CPA, Darren Smith, and Juli-Kay Baumann, CFE, CIE, CPCU, ALMI, ARe, Participating Examiners of Regulatory Consultants, Inc.; Brent Sallay, FCAS, MAAA, and Randall Ross, ACAS, MAAA, consulting actuaries of Taylor-Walker & Associates, Inc.; Joe Detrick, CPA, CFE, CISA, AES, IT Manager of Jennan Enterprises, LLP; and Frank Jones, Reinsurance Financial Specialist, of the Office participated in the examination.

Respectfully submitted,

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