REPORT ON EXAMINATION

OF

MODERN USA INSURANCE COMPANY

PINELLAS PARK, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 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, 2008, 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". The report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on June 29, 2009, to July 2, 2009. The fieldwork commenced on July 6, 2009, and concluded as of November 05, 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 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Demotech rating report and the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports, as considered necessary, were reviewed and utilized where applicable within the scope of this examination.

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

Status of Adverse Findings from Prior Examination

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

HISTORY

General

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

The Company was party to Consent Order 90395-07-CO filed May 31, 2007 with the Office regarding the application for the issuance of a Certificate of Authority.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

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

The Company wrote Homeowners, Mobile Homeowners and Inland Marine insurance during 2008. The Company has been in contact with the Office concerning an extension of time to start writing Allied Lines, Fire, and Other Liability line 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, 2008, 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.

Profitability of Company

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

	2008	**2007**
Premiums Earned	6,796,095	133,662
Net Underwriting Gain/(Loss)	(2,202,836)	(889,510)
Net Income	(2,115,875)	(715,599)
Total Assets	20,095,403	16,632,336
Total Liabilities	8,311,133	3,114,726
Surplus As Regards Policyholders	11,784,270	13,517,610

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

Management

The annual shareholders 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, 2008 were:

Directors

Name and Location	**Principal Occupation**
Thomas John Jerger Pinellas Park, FL	Chairman and CEO American Traditions and Modern USA Insurance Companies
Thomas John Jerger, Jr. Clearwater, FL	President American Traditions and Modern USA Insurance Companies
Stephen Harold Braun Chicago, IL	President Hometown Homes and Financial Services
Christopher Alan Morson Miami, FL	Financial Advisor 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 Vice President, Secretary and General Counsel American Traditions and Modern USA Insurance Companies

The Board of Directors, in accordance with the Company's bylaws, appointed the following senior officers that were serving at December 31, 2008:

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
Justin Darby Locke	Controller
Raymond Mark Blacklidge	Senior Vice President, Secretary and General Counsel

Following were the principal internal board committees and their members as of December 31, 2008:

Investment Committee	**Audit Committee**
Thomas John Jerger [1]	Christopher Alan Morson [1]
Brian James Adamski	Thomas John Jerger
Christopher Alan Morson	Stephen Harold Braun
Gavin Michael Ryan	

[1] Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

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 (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.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

Surplus Debenture

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 Florida State Board of Administration. Each payment of principal and interest can be made only with prior approval of the Florida Insurance Commissioner. No principal payments were made during 2008.

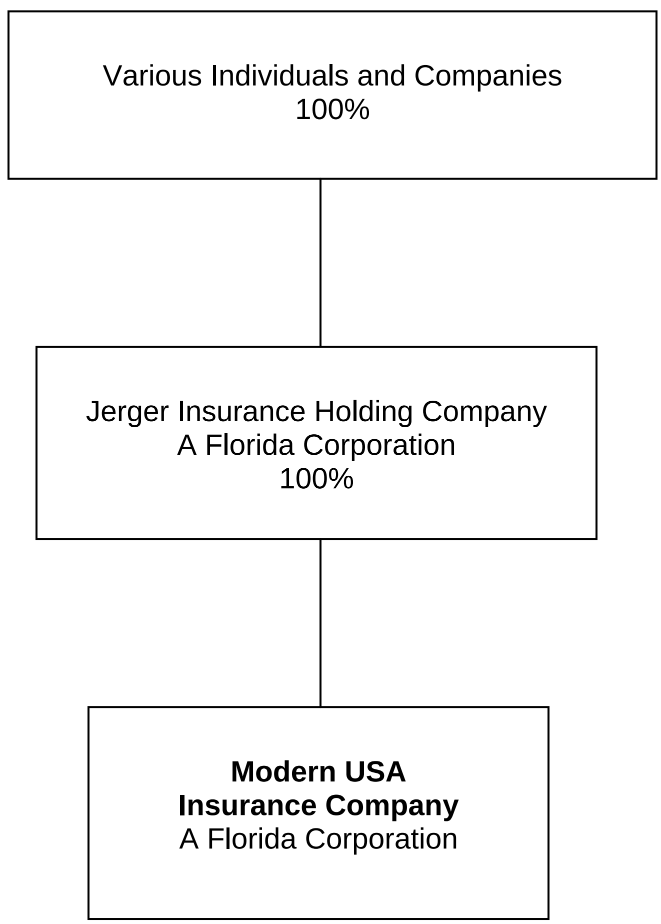
AFFILIATED COMPANIES

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 11, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 Annual Statement provided a list of all related companies of the holding company group.

MODERN USA INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Consolidated Income Tax Agreement

The Company and its parent, Jerger Insurance Holding Company, filed a consolidated federal income tax return. On December 31, 2008, 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 served to establish the cost of running the facilities of the companies that were party to the agreement and established procedures for the allocation of the cost of such facilities. The agreement called for monthly invoices submitted by the Treasurer of each Company for reimbursable expenses to be paid by 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 served to delineate the costs of services provided to each of the companies, but still allowed such cost to be shared by them or allocated among them, as deemed appropriate. The agreement called for monthly invoices submitted by the Treasurer of each Company for reimbursable expenses to be paid by the last day of the following month.

Managing General Agents 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 recommended by the NAIC.

The Company also maintained Directors and Officers General Liability, Commercial Property, Crime Liability and Umbrella insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any employees at December 31, 2008. The Company had a Cost Allocation Agreement with its affiliate, American Traditions Insurance Company to share in the cost of its employees who provided service to the Company during 2008.

STATUTORY DEPOSITS

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

STATE	Description	Book Value	Fair Value
FL	Money Market, Variable Interest	$ 304,873	$ 304,873
TOTAL SPECIAL DEPOSITS		$ 304,873	$ 304,873

INSURANCE PRODUCTS

Territory

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) 3.a., 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 purchased reinsurance from the voluntary market as well as the Florida Hurricane Catastrophe Fund (FHCF). The Company purchased reinsurance to cover losses on both an individual and an aggregate basis.

Individual losses were insured through an Excess per Risk contract that pays $700,000 in excess of the Company's $300,000 retention, per loss.

The Company's catastrophe program began with a first layer of cover paying $4,500,000 in excess of the Company's $1,500,000 retention. There was one automatic reinstatement on this contract for a 2nd event. The Company then purchased reinstatement protection premium for potential 3rd and 4th events that exceed the $1,500,000 retention.

The Company used the services of John B. Collins Associates, a reinsurance intermediary, for its reinsurance placement.

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, 2008, 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 in effect at December 31, 2008:

Custodial Agreements

The Company had securities held under two Custody Agreements at December 31, 2008. One of the Custody Agreements was with Janney Montgomery Scott, LLC and the other was with Morgan Stanley & Company. Both of these agreements were in compliance 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.

Subsequent event: On October 9, 2009, the Company informed the Office that its Board of Directors had replaced its former auditor and appointed Johnson Lambert & Company, LLP, as its new auditor. In accordance with the NAIC's Model Audit Rule, the Company and its former auditor informed the Office that there were no disagreements between the parties that led to the Company's change in auditors.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	$12,215,926		$12,215,926
Cash	5,271,675		5,271,675
Investment income due and accrued	145,638		145,638
Agents' Balances:			
Uncollected premiums and agents' balances	516,464		516,464
Deferred premium	1,111,340		1,111,340
Net deferred tax asset	805,456		805,456
Electronic data processing equipment	12,255		12,255
Receivable from parent, subs and affiliates	11,464		11,464
Aggregate write-ins	5,185		5,185
Totals	$20,095,403	$0	$20,095,403

MODERN USA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	$1,053,113		$1,053,113
Loss adjustment expenses	126,439		126,439
Other expenses	155,094		155,094
Taxes, licenses and fees	161,533		161,533
Unearned premiums	7,905,347		7,905,347
Advance premium	363,189		363,189
Ceded reinsurance premiums payable	(2,018,520)		(2,018,520)
Payable to parent, subs and affiliates	564,938		564,938
Total Liabilities	$8,311,133	$0	$8,311,133
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)	(2,215,730)		(2,215,730)
Surplus as regards policyholders	$11,784,270		$11,784,270
Total liabilities, surplus and other funds	$20,095,403		$20,095,403

MODERN USA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$6,796,095
Deductions	
Losses incurred	2,629,882
Loss expenses incurred	442,307
Other underwriting expenses incurred	5,926,742
Total underwriting deductions	8,998,931
Net underwriting gain or (loss)	(2,202,836)
Investment Income	
Net investment income earned	263,952
Net realized capital gains (losses)	(231,542)
Net investment gain or (loss)	32,410
Other Income	
Net gain or (loss)	(2,114)
Finance and service charges not included in premiums	56,665
Total other income	54,551
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(2,115,875)
Federal income taxes	0
Net Income	(2,115,875)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$13,517,610
Net Income	(2,115,875)
Change in net unrealized capital gains	(28,807)
Change in net deferred income tax	777,164
Change in non-admitted assets	(365,822)
Change in provision for reinsurance	0
Capital changes	0
Paid in surplus	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	(1,733,340)
Surplus as regards policyholders, December 31 current year	$11,784,270

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $ 1,179,552

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, 2008, 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 Consultants, Inc., to perform an actuarial review. The independent actuaries reported that the recorded December 31, 2008, 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 $11,784,270 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, 2008

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, 2008, per Annual Statement				$11,784,270
	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, 2008, Per Examination				$11,784,270

SUMMARY OF FINDINGS

Compliance with previous directives

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

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was $11,784,270 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Greg Taylor, CFE, INSRIS, Examiner in Charge, Patricia Casey Davis, CFE, CPA, INSRIS, Supervisor and Richard A. Shaffer, OIR Financial Specialist participated in the examination. We also recognize INS Consultants, Inc. and INS Services, Inc.'s participation in the examination.

Respectfully submitted,

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