

REPORT ON EXAMINATION
OF
BUSINESSFIRST INSURANCE
COMPANY

LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
CAPITAL STOCK	3
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
ORGANIZATIONAL CHART	7
AFFILIATED COMPANIES	8
TAX ALLOCATION AGREEMENT	8
SHAREHOLDERS AGREEMENT	8
FIDELITY BOND.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS.....	9
INSURANCE PRODUCTS.....	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	10
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS.....	11
CUSTODIAL AGREEMENT	11
MANAGEMENT SERVICES AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT.....	12
MANAGED CARE AGREEMENT.....	12
ASSET MANAGEMENT AGREEMENT	12
FINANCIAL STATEMENTS PER EXAMINATION.....	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14

STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS.....	16
LIABILITIES.....	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
SUMMARY OF FINDINGS.....	18
CONCLUSION.....	19

Tallahassee, Florida

September 28, 2007

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, 2006, of the financial condition and corporate affairs of:

**BUSINESSFIRST INSURANCE COMPANY
2310 COMMERCE POINT DRIVE
LAKELAND, FL 33802**

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, 2006 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on June 25, 2007, to June 29, 2007. The fieldwork commenced on July 2, 2007, and was concluded as of September 28, 2007.

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.

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, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 A.M. Best Report, 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Federal income taxes
Interest income due and accrued

Status of Adverse Findings from Prior Examination

No adverse findings were contained in the Office's prior examination report as of December 31, 2005.

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 party to Consent Order 64893-02-CO, filed January 14, 2003 with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with the consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Workers' Compensation

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

Capital Stock

As of December 31, 2006, 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 Insurers Fund, with 4,995,500 shares (93%) of stock owned. The remaining outstanding shares were owned by Company directors.

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.

	2006	2005	2004
Premiums Earned	21,294,827	19,474,600	7,026,114
Net Underwriting Gain/(Loss)	582,989	2,564,027	437,677
Net Income/(Loss)	(680,281)	99,723	(327,457)
Total Assets	30,183,855	23,312,993	11,014,850
Total Liabilities	22,764,325	15,477,515	6,264,004
Surplus As Regards Policyholders	7,419,530	7,835,478	4,750,846

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2006.

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, 2006, were:

Directors

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

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

Senior Officers

Name	Title
Thomas Samuel Petcoff	President
Nis Hansen Nissen, III	Secretary
John Douglas Hanselman	Treasurer

The Company maintained an audit committee, as required by Section 624.424(8), Florida Statutes. The members of the audit committee as of December 31, 2006 were as follows:

Audit Committee

Charles Richard Wintz ¹
John Hanselman
William Kundrat
Nis Nissen
Thomas Petcoff
George Sandefer

¹Chairman

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. No exceptions were noted with the disclosure of conflicts of interest during this examination period.

Corporate Records

The recorded minutes of the shareholders, Board of Directors, and audit committee 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

There were no acquisitions, mergers, disposal, dissolutions, and purchases or sales through reinsurance in 2006.

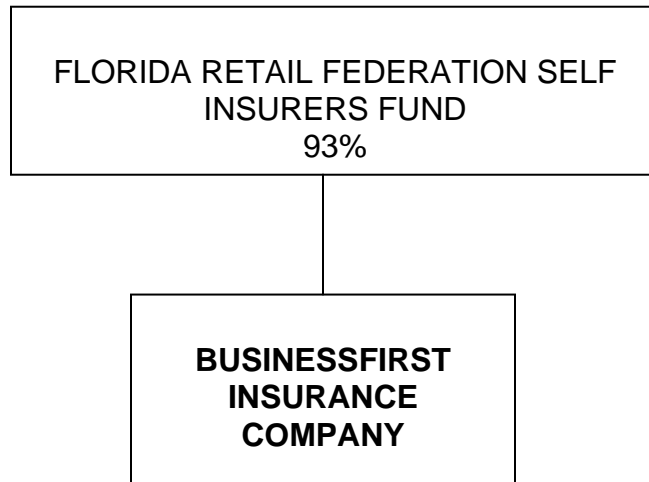
Surplus Debentures

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.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y Part 1, of the Company's 2006 annual statement, provided a list of related companies of the holding company group. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

**BUSINESSFIRST INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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 February 26, 2007.

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

Tax Allocation Agreement

The Company, along with Florida Retail Federation Self Insurers Fund, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was pursuant to a written income tax allocation agreement, and accounted for consistent with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes, as modified by SSAP No. 10. For each consolidated return year, parties shall be allocated and be liable to pay regular income tax, or be compensated for use of their tax benefit items in accordance with the Internal Revenue Code.

Shareholders Agreement

The Company had an agreement with the shareholders of the Company which defined restrictions upon the shareholders' rights to dispose of their shares and the rights and obligations of the Company and its shareholders to redeem and purchase the shares of a withdrawing shareholder.

FIDELITY BOND

The Company maintained fidelity bond coverage with The F&D Companies up to \$500,000 with a deductible of \$5000, which adequately covered the suggested minimum amount of coverage of \$300,000 for the Company as recommended by the NAIC. **Subsequent event:** The Company provided their current coverage by means of an endorsement added to the Florida Retail Federation Self Insurers Fund policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any direct employees and therefore, did not have any direct obligations for retirement plans, deferred compensation arrangements or other post retirement benefit plans.

STATUTORY DEPOSITS

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

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
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>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in Florida only.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)3(a), 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(i)(3)a, Florida Statutes.

REINSURANCE

The reinsurance agreement 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 approximately \$1,836,000 in premiums to a non-affiliate. The Company ceded risk on an excess of loss basis to Midwest Employers Casualty Insurance Company.

The reinsurance contract was reviewed by the Company's appointed actuary and was 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 for 2006, 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 had a custodial agreement with US Bank, NA, which was in accordance with Rule 69O-143.042(2), Florida Administrative Code.

Management Services Agreement

The Company had a management services agreement with Summit Consulting, Inc. Summit Consulting, Inc. was the Company's exclusive managing general agent (MGA). The Company engaged Summit Consulting, Inc. to perform underwriting, claims and policy services, along with various other duties.

Independent Auditor Agreement

The Company engaged Postlethwaite & Netterville, APAC, Baton Rouge, LA, to perform an audit of its statutory basis financial statements for 2006, in accordance with Section 624.424(8)(c), Florida Statutes.

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 provide 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 may be necessary and proper.

Asset Management Agreement

The Company had an asset management agreement with Conning Asset Management Company for portfolio management.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$25,841,098		\$25,841,098
Cash	2,057,723		2,057,723
Investment income due & accrued	303,518		303,518
Agents' Balances:			
Uncollected premium	611,441		611,441
Deferred premium	1,098,262		1,098,262
Net deferred tax asset	271,813		271,813
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Totals	\$30,183,855	\$0	\$30,183,855
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BUSINESSFIRST INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,823,921		\$11,823,921
Loss adjustment expenses	3,436,586		3,436,586
Commissions payable, contingent commissions	472,104		472,104
Other expenses	404,542		404,542
Taxes, licenses and fees	1,463,212		1,463,212
Current federal and foreign income taxes	339,463		339,463
Unearned premiums	787,278		787,278
Advance premium	190,673		190,673
Dividends declared and unpaid: Policyholders	2,431,428		2,431,428
Ceded reinsurance premiums payable	245,636		245,636
Aggregate write-ins for liabilities	1,169,482		1,169,482
Total Liabilities	\$22,764,325	\$0	\$22,764,325
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)	(946,470)		(946,470)
Surplus as regards policyholders	\$7,419,530		\$7,419,530
Total liabilities, surplus and other funds	\$30,183,855	\$0	\$30,183,855

BUSINESSFIRST INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$21,294,827
	Deductions:	
Losses incurred		11,086,568
Loss expenses incurred		2,765,196
Other underwriting expenses incurred		6,860,074
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$20,711,838</u>
Net underwriting gain or (loss)		\$582,989

Investment Income

Net investment income earned		\$910,218
Net realized capital gains or (losses)		(1,346)
Net investment gain or (loss)		<u>\$908,872</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$364,715)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>(\$364,715)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$1,127,146
Dividends to policyholders		<u>1,425,626</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$298,480)
Federal & foreign income taxes		<u>381,801</u>
Net Income		(\$680,281)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,835,478
Net Income		(\$680,281)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(356,024)
Change in net deferred income tax		620,356
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>(\$415,949)</u>
Surplus as regards policyholders, December 31 current year		<u>\$7,419,529</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$15,260,507

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Oliver Wyman Actuarial Consulting Inc., contracted by the Office, reviewed work papers provided by the Company and was in concurrence with this opinion.

A comparative analysis of changes in surplus is shown below.

**BUSINESSFIRST INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, per Annual Statement	\$7,419,530
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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, 2006, Per Examination			\$7,419,530

SUMMARY OF FINDINGS

Compliance with previous directives

No findings were cited in the 2005 examination report issued by the Office.

Current examination comments and corrective action

There were no adverse findings noted during this examination.

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, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,419,530, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor participated in the examination. We also recognize the participation of Andrew M. Chandler, FCAS, MAAA of Oliver Wyman Actuarial Consulting, Inc. in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation