

REPORT ON EXAMINATION
OF
AMERICAN TRADITIONS INSURANCE
COMPANY
CLEARWATER, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 6, 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 of December 31, 2006, of the financial condition and corporate affairs of:

**AMERICAN TRADITIONS INSURANCE COMPANY
1528 LAKEVIEW ROAD
CLEARWATER, FLORIDA 33756**

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. This was the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on July 2, 2007, to July 13, 2007. The fieldwork commenced on July 16, 2007, and was concluded as of December 6, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This 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 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 taxes	Losses and loss adjustment expenses
Premiums and considerations	Parent and subsidiary affiliate transactions
Accounts and records	

HISTORY

General

The Company was incorporated in Florida on August 9, 2005 as a stock property and casualty insurer. On January 1, 2006, the Company commenced business.

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

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, 2006. However, the Company was exempt from the requirement that the Company write premiums within a calendar year according to Section 624.430(6), Florida Statutes, since the Company 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, 2006, 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 Holding Corporation, a Florida corporation, which owned 100% of the stock issued by the Company.

Licensing Consent Order

The Company was subject to licensing Consent Orders 82430-05 and 84228-05-CO, which were reviewed for the Company's compliance. The Company was in compliance with the licensing Consent Orders as of December 31, 2006.

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
Premiums Earned	2,970,167	0
Net Underwriting Gain/(Loss)	(2,884,935)	(117,981)
Net Income	(2,342,967)	(117,981)
Total Assets	17,137,204	6,387,654
Total Liabilities	12,767,372	3,551
Surplus As Regards Policyholders	4,369,832	6,384,103

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder 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 J. Jerger
Pinellas Park, FL

Chairman and CEO
American Traditions Insurance Company

T. John Jerger, Jr.
Clearwater, FL

President
American Traditions Insurance Company

Doug Vatter
Cornwall On Hudson, NY

Chief Operating Officer
American Traditions Insurance Company

Brian J. Adamski
Lutz, FL

Treasurer and CFO
American Traditions Insurance Company

Raymond M. Blacklidge
Wesley Chapel, FL

Senior Vice President and Secretary
American Traditions Insurance Company
General Counsel, Westpoint Underwriters, LLC

Richard M. Jerger
St. Petersburg, FL

Director
American Traditions Insurance Company

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

Senior Officers

Name	Title
Thomas J. Jerger	Chairman and CEO
T. John Jerger, Jr.	President
Brian J. Adamski	Treasurer and CFO
Doug Vatter	Chief Operating Officer
Raymond M. Blacklidge	Senior Vice President 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, 2006:

Investment Committee	Audit Committee
Thomas J. Jerger ¹	Thomas J. Jerger ¹
Brian J. Adamski	T. John Jerger, Jr.
Christopher C. Morson	Raymond Blacklidge
¹ Chairman	

The members of the audit committee were also members of management and directors of the Company. This was not in compliance with Section 624.424(8)(c), Florida Statutes, which require that the audit committee be comprised solely of members who are free from any relationship that would interfere with the exercise of independent judgement as a committee member.

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

The Company had no surplus debentures.

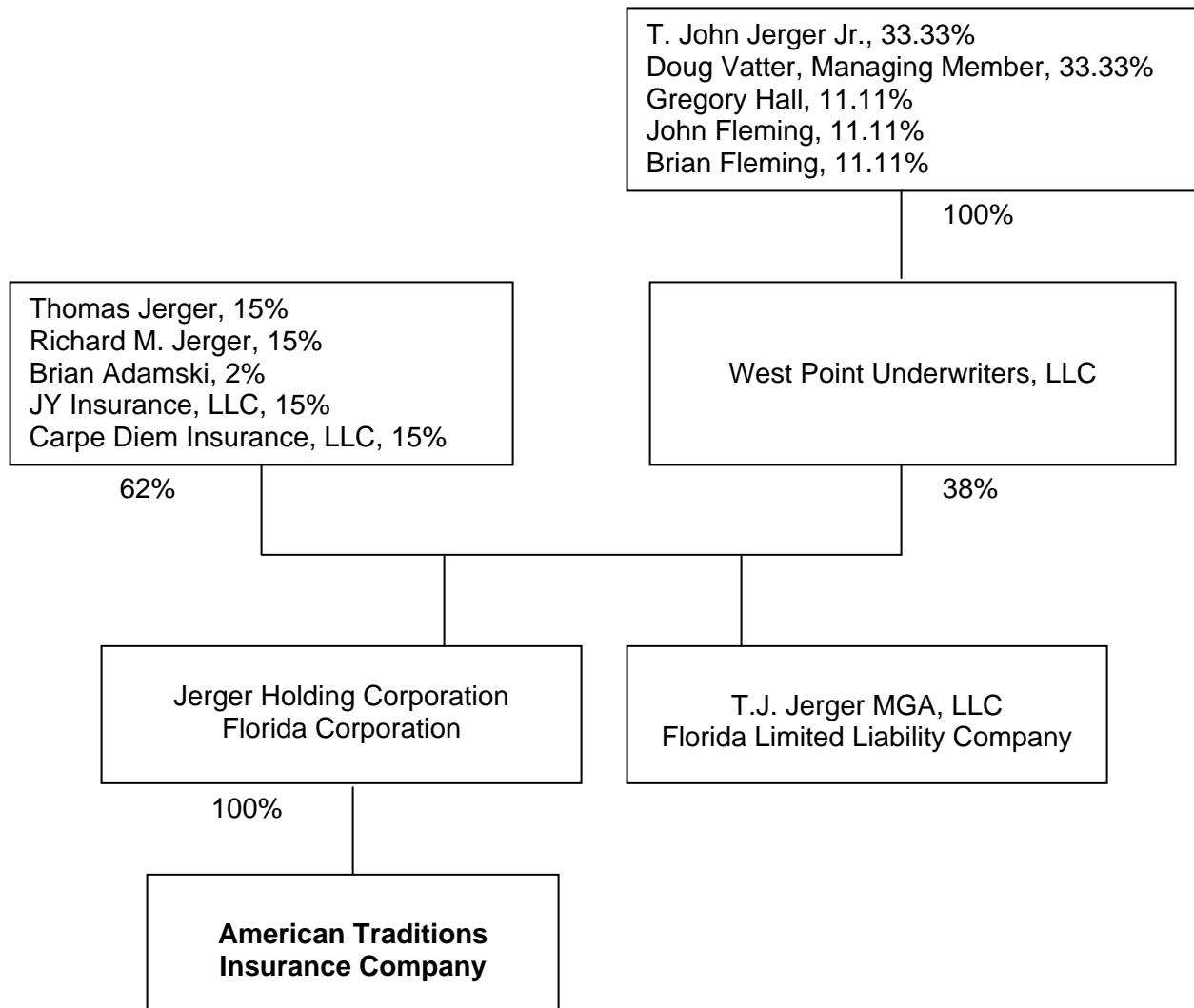
AFFILIATED COMPANIES

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 October 5, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**AMERICAN TRADITIONS INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Consolidated Income Tax Agreement

The Company, along with its parent, Jerger Holding Corporation, filed a consolidated federal income tax return. On December 31, 2006, 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.

Cost Sharing Agreement

The Company had an agreement to share costs, effective February 1, 2006, with its managing general agent, T.J. Jerger MGA, LLC, and its third party administrator, West Point Underwriters, LLC, on a pro rata basis for costs related to leasing of the shared business operating location. Each company maintained an individual commercial lease with Spare Investors Realty, LLC, with shared costs including but not limited to repairs, alterations and improvements, property and sales taxes, insurance, cleaning, utilities and other expenses, to be shared according to the following percentages: West Point Underwriters, 65%, T.J. Jerger MGA, 17.5%, and the Company, 17.5%.

MGA Agreement

The Company had a managing general agent (MGA) agreement with T.J. Jerger MGA, LLC, effective September 1, 2005, 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 20% 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 \$110,000, 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 had four employees which were also considered employees of its professional employer organization (PEO), Administaff Companies II, LP. The Company did not participate in a pension or 401k plan as of December 31, 2006.

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, 4.4%, 1/31/08	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

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(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 ceded risk of 25% of written premium on a quota share basis to two reinsurers, Lloyds of London Syndicates, covering the period June 1, 2006 through May 31, 2007. The reinsurers also assumed 25% of CAT coverage provided by the Florida Hurricane Catastrophe Fund. The Company commuted its quota share agreement to reflect a change in the percentage participation of the reinsurers. No additional loss or loss adjustment expenses were recorded as a result of the commutation. The ceding commission percentage changed from 30% to 27.5% of ceded written premium.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Clearwater, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year ending December 31, 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 Agreements

The Company did not have custodial agreements in place as of December 31, 2006 with its investment custodians, Janney Montgomery Scott, LLC, and Merrill Lynch, that complied with Rule 69O-143.042 (2), Florida Administrative Code.

Subsequent event: The Company entered into a custodial agreement with Janney Montgomery Scott, LLC effective July 24, 2007, that complied with Rule 69O-143.042(2), Florida Administrative Code. The Company terminated its custodial account with Merrill Lynch and transferred the funds to a custodial account with Morgan Stanley effective March 31, 2007. The Company entered into a custodial agreement with Morgan Stanley effective July 24, 2007, that complied with Rule 69O-143.042(2), Florida Administrative Code.

The Company maintained a custodial agreement with Synovus Bank, NA, for special deposit funds held for the benefit of policyholders. The agreement was not in compliance with Rule 69O-143.042(2), Florida Administrative Code, as it failed to specify that:

- The securities shall be held either separate or in a fungible bulk as required by Rule 69O-143.042(2)(a), Florida Administrative Code.
- The securities held shall be separately identified on the custodian's official records as being owned by the insurance company as required by Rule 69O-143.042(2)(b), Florida Administrative Code.

- The securities held shall be shall be withdrawable upon the demand of the insurance company as required by Rule 69O-143.042(2)(d), Florida Administrative Code.
- The custodian shall have records open for inspection as required by Rule 69O-143.042(2)(g), Florida Administrative Code.
- The custodian shall send reports from the clearing corporation or the Federal Reserve book-entry system as required by Rule 69O-143.042(2)(h), Florida Administrative Code.
- The custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms as required by Rule 69O-143.042(2)(j), Florida Administrative Code.
- 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 other damage or destruction as provided by Rule 69O-143.042(2)(k), Florida Administrative Code.
- In the event that 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 in accordance with Rule 69O-143.042(2)(l), Florida Administrative Code.

- The custodian will not be liable for any failure to take any action required to be taken under the agreement in the event and to the extent that the taking of such action is prevented or delayed by war or any other cause whatever beyond its reasonable control as required by Rule 69O-143.042(2)(m), 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, PA, of St. Petersburg, FL.

Administrative Agreement

The Company was a member of the affiliated group of a client service agreement between its third party affiliate (TPA), West Point Underwriters, LLC, and a professional employer organization (PEO), Administaff Companies II, LP, to provide services of personnel management, employee benefits, workers' compensation insurance and claim administration, and payroll functions. The Company's employees were considered employees of the Company and of the PEO.

Information Technology Report

Computer Aid, Inc., performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

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."

AMERICAN TRADITIONS INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$2,863,636		\$2,863,636
Cash	9,359,482		9,359,482
Investment income due & accrued	43,366		43,366
Agents' Balances:			
Uncollected premium	2,462,603		2,462,603
Deferred premium	720,238		720,238
Reinsurance			
Amounts recoverable from reinsurers	96,223		96,223
Other amounts receivable under contracts	572,414		572,414
Net deferred tax asset	397,257		397,257
Electronic data processing equipment and software	39,973		39,973
Receivable from parents, subsidiaries and affiliates	582,012		582,012
Totals	\$17,137,204	\$0	\$17,137,204

AMERICAN TRADITIONS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$232,515		\$232,515
Loss adjustment expenses	57,820		57,820
Commissions payable	155,276		155,276
Other expenses	114,951		114,951
Taxes, licenses and fees	320,652		320,652
Unearned premiums	10,376,295		10,376,295
Advance premium	766,841		766,841
Ceded reinsurance premiums payable	623,667		623,667
Payable to parent, subsidiaries and affiliates	119,355		119,355
Total Liabilities	\$12,767,372	\$0	\$12,767,372
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	6,501,084		6,501,084
Unassigned funds (surplus)	<u>(2,132,252)</u>		<u>(2,132,252)</u>
Surplus as regards policyholders	<u>\$4,369,832</u>		<u>\$4,369,832</u>
Total liabilities, surplus and other funds	<u><u>\$17,137,204</u></u>	<u>\$0</u>	<u><u>\$17,137,204</u></u>

AMERICAN TRADITIONS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$2,970,167
	Deductions	
Losses incurred		\$580,972
Loss expenses incurred		138,478
Other underwriting expenses incurred		5,135,652
Total underwriting deductions		<u>\$5,855,102</u>
Net underwriting gain or (loss)		<u>(\$2,884,935)</u>
Investment Income		
Net investment income earned		\$482,541
Net investment gain or (loss)		<u>\$482,541</u>
Other Income		
Finance and service charges not included in premiums		\$59,427
Total other income		<u>\$59,427</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>(\$2,342,967)</u>
Net Income		(\$2,342,967)
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$6,384,103
Net Income		(\$2,342,967)
Change in net deferred income tax		861,859
Change in non-admitted assets		(533,163)
Change in surplus as regards policyholders for the year		<u>(\$2,014,271)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$4,369,832</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 290,335.00

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., the independent actuary contracted by the Office, reviewed the work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$4,369,832, exceeded the minimum amount of surplus of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN TRADITIONS 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	\$4,369,832
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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			\$4,369,832

SUMMARY OF FINDINGS

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, 2006.

Management

The Company did not have an independent audit committee. All members of the audit committee were members of management. **We recommend that the Company comply with Section 624.424, Florida Statutes and form an audit committee independent of management.**

Custodial Agreements

The Company maintained a custodial agreement with Synovus Bank, NA for special deposit funds. The custodial agreement was not in compliance with Rule 69O-143.042(a),(b),(d),(g),(h),(j),(k),(l) and (m), Florida Administrative Code. See Custodial Agreement Section for details. **We recommend that upon redemption of the certificate of deposit held with Synovus Bank as a special deposit for the State of Florida, the Company revise its custodial agreement to comply with Rule 69O-143.042(2), Florida Administrative Code.**

SUBSEQUENT EVENTS

Changes have been made to the surplus of the Company subsequent to the examination date.

Subsequent event: The Company received a capital infusion of \$500,000 on April 3, 2007 in cash funds received from its parent, Jerger Holding Corporation.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Traditions 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 \$4,369,832, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, participated in the examination. We also recognize the participation of Dana Joseph, FCAS, MAAA, of Oliver Wyman Actuarial Consulting, Inc. and Computer Aid, Inc. in the examination.

Respectfully submitted,

Tina Hancock
Financial Examiner/Analyst II
Florida Office of Insurance Regulation