REPORT ON EXAMINATION

OF

MODERN USA INSURANCE COMPANY

PINELLAS PARK, FLORIDA

AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

TALLAHASSEE, FLORIDA

December 20, 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, 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:

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 operations from January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on July 6, 2010, to July 9, 2010. The fieldwork commenced on July 26, 2010, and concluded as of December 20, 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, 2008.

HISTORY

General

The Company was incorporated in Florida on May 31, 2007, 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, 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, 2009:

Allied lines	Mobile home multi peril
Fire	Mobile home physical damage
Homeowners multi peril	Other liability
Other liability	Mobile home multi peril
Inland marine	

The Company had not written insurance coverage in the previous two years in the lines of business of allied lines, fire or other liability and had notified the Office in writing to request an extension of time to start writing those lines of business as required by Section 424.430 Florida Statute.

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

Dividends to Stockholders

The Company had not declared or paid dividends to its stockholders in 2009.

Capital Stock and Capital Contributions

As of December 31, 2009, 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.

<u>Subsequent Event</u>: Reported as of March 31, 2010, the Company's immediate parent, Jerger Insurance Holding Company, made additional capital contributions in the total amount of $1,695,000.

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 Florida State Board of Administration. The surplus note required the Company to write 40% of its policies covering mobile homes in the state of Florida, after restrictions. Each payment of principal and interest can be made only with prior approval of the Florida Insurance Commissioner. No principal payments were made during 2009.

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

The Company had no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance, for the period of operations.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period of operations. 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 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
Thomas John Jerger Pinellas Park, Florida	Chairman and Chief Executive Officer, American Traditions and Modern USA Insurance Companies
Thomas John Jerger, Jr. Clearwater, Florida	President, American Traditions and Modern USA Insurance Companies
Stephen Harold Braun Chicago, Illinois	President, Hometown Homes and Financial Services
Christopher Alan Morson Miami, Florida	Financial Advisor, Janney Montgomery Scott, LLC
Joel Peter Yanchuck Jacksonville, Florida	Attorney, Yanchuck, Berman, Wadley & Zervos PA
Gavin Michael Ryan Plano, TX	President, Palm Harbor Homes, Inc.
Raymond Mark Blacklidge	Senior Vice President, Secretary and General Counsel, American Traditions and Modern USA Insurance Companies

The Board, in accordance with the Company's amended bylaws appointed the following senior officers:

Senior Officers

Name	**Title**
Thomas John Jerger	Chairman of the Board & CEO
Thomas John Jerger, Jr.	President
Brian James Adamski	Treasurer & CFO
Raymond Mark Blacklidge	Senior Vice President, Secretary & General Counsel
Dan Lee Hurley	Vice President of Compliance
Justin Darby Locke	Controller
William Blanchfield Werther, III	Vice President of Claims

The Company's Board appointed internal committees in accordance with Sections 607.0825 and 624.424(8)(c), Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

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

[1] Chairman

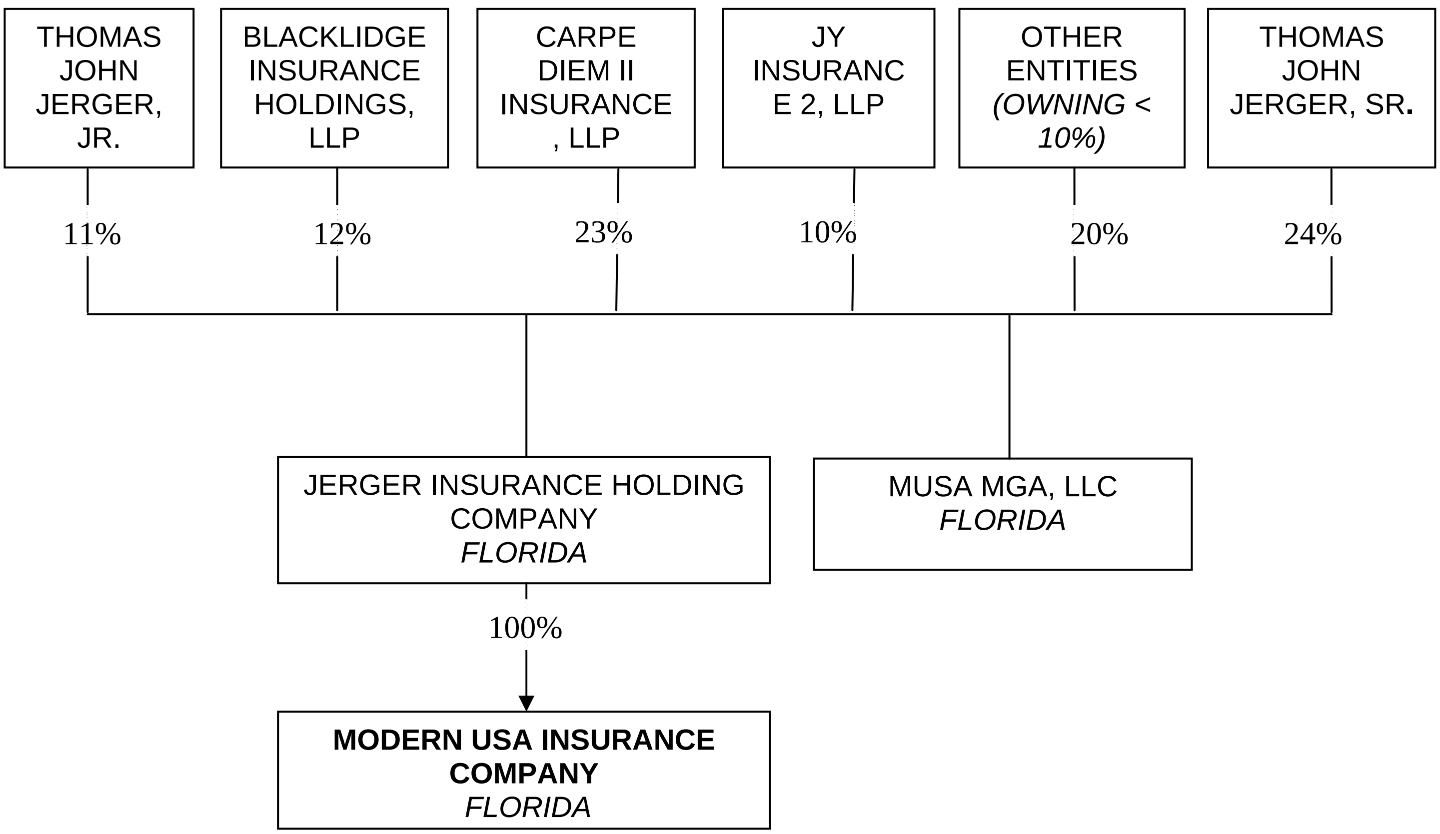
Affiliated Companies

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 March 1, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is reflected on the following page. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

MODERN USA INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2009



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

Consolidated Income Tax Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was such that each entity would contribute its fair and equitable share of the taxes paid, provided that they would 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 Agent Agreement

The Company had a MGA agreement with MUSA MGA, LLC (MUSA), 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 a commission rate of 25% and a $25 per policy MGA fee prior to October, 1, 2009. Effective October 1, 2009 through December 31, 2009, the Company and MUSA agreed to a 20% commission rate plus the $25 fee on all policies written. In addition, the Company remitted to MUSA any fees and interest collected for policies paid on an installment basis.

MUSA outsourced the policy issuance, underwriting, marketing, premium billing and collection servicing to the affiliated West Point Underwriters, LLC, through a “Policy Administration Agreement”. MUSA outsourced the claims servicing on behalf of the Company through a “Claims Administration Services Agreement” with an affiliate, Storm King Claims Service. Under terms of this agreement, MUSA paid an administrative fee of $300 per claim and beginning in 2008, MUSA began paying an hourly rate of $60 for claims not outsourced to third party independent adjusters.

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 as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) General Liability, Commercial Property, Crime Liability and Umbrella insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have employees and as thus did not have a defined contribution plan, but expenses related to the 401(k) plan of an affiliate, American Traditions Insurance Company, were allocated to the Company under the terms of a cost allocation agreement.

TERRITORY AND PLAN OF OPERATIONS

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

Profitability of Company

The Company was formed in 2007. Since that time, the Company experienced continued underwriting losses and net operating losses due to economic conditions and reinsurance costs. In late 2009, the Company took steps to remedy the surplus drain. A rate increase was implemented in December 2009 and also in February 2010. Additionally, the Company, in agreement with the MGA, was able to reduce the commissions paid by the Company for the last quarter of 2009.

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

	2009	2008	2007
Premiums Earned	12,022,918	6,796,095	133,662
Net Underwriting Gain/(Loss)	(3,469,602)	(2,202,836)	(889,510)
Net Income	(3,129,401)	(2,115,875)	(715,599)
Total Assets	23,944,538	20,095,403	16,632,336
Total Liabilities	14,831,184	8,311,133	3,114,726
Surplus As Regards Policyholders	9,113,354	11,784,270	13,517,610

LOSS EXPERIENCE

For the period of operations covered by this examination, the Company was writing only specific lines of business, in a single state with substantial hurricane exposure. As this was the Company's second full year of operations, losses increased substantially, yet were in line with increased premiums. The Company maintained a low Loss and LAE ratio of 58.3%. However, the emergence of sinkholes as a risk factor increased the Company's loss experience. The Company also reported increased losses due to water and fire claims. Catastrophic losses were minor in 2009, primarily from wind damage due to an April 2009 storm. One and two year development was favorable and consistent with their type of coverage, consisting mainly of trailing claims from tropical storm Fay from 2008.

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

Effective August 31, 2009, the Company entered into a Reinsurance Assumption Agreement under which they assumed a small block of homeowners business from an unaffiliated company. The transaction did not have a significant effect on the Company's operations for this period. There were no material assumed losses.

Ceded

As of December 31, 2009, the Company had in effect a combination of excess of loss and catastrophe reinsurance, including its mandatory participation in the Florida Hurricane Catastrophe Fund (FHCF). The FHCF provided catastrophe coverage for named hurricanes, up to a maximum limit of 90% of the amount of the ultimate loss, in excess of the Company's retention.

The Company purchased catastrophe reinsurance coverage from private reinsurers and other per risk reinsurance. Under the catastrophe reinsurance program in effect for the 2009-2010 program year, the Company retained $1.5 million of risk per occurrence and ceded up to $92 million above that for the first two covered events and $13.1 million for the third and fourth events, gross of the participation in the FHCF. For this same period, the Company also participated in a related reinstatement premium protection agreement. The Company's maximum retention on a per risk basis from non-named storms was $400,000 with reinsurance limits up to $1 million per risk.

Under the catastrophe reinsurance program for the 2008-2009 program year, the Company retained the same $1.5 million of risk per occurrence, but ceded up to $62.2 million for the first two covered events and $6 million for the third and fourth events, gross of the participation in the FHCF. Under the related reinstatement premium protection agreement, the Company's maximum retention on a per risk basis from non-named storms was $300,000 with reinsurance limits up to $1 million per risk.

Under the excess of loss reinsurance, the Company has coverage in excess of $400 thousand up to $600 thousand per loss.

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 Pinellas Park, Florida, where this examination was conducted.

An independent CPA firm audited the Company's statutory basis financial statements for the years ending December 31, 2007, 2008 and 2009, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm, as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system hosted by West Point Underwriters, an affiliate through common ownership. The system provides agents with a secure web-based access to quote and bind policies. Policyholders also have a secure portal for making premium payments, reporting claims and viewing policy and claims status.

The Company and non-affiliates had the following agreements in effect at December 31, 2009:

Custodial Agreements

The Company had securities held under several Custodial Agreements in place with the following: Janney Montgomery Scott, LLC; Morgan Stanley & Company; Oppenheimer & Co., Inc.; and Raymond James Trust Company. All of the agreements were found to be in compliance with Rules 69O-143.041 and 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 Johnson Lambert & Co. LLP of Jacksonville, Florida. This was the first-year audit by this accounting firm. The former independent audit firm was Strawn, Marshall, Cunningham, Condon & Sweat P.A. 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.

Information Technology Report

Mr. Tracy D. Gates, CISA, of Highland Clark, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report 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	Book Value	Fair Value
FL	Money Market	$ 304,873	$ 304,873
TOTAL SPECIAL DEPOSITS		$ 304,873	$ 304,873

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements reflecting 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."

MODERN USA INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	$14,133,518		$14,133,518
Cash	6,204,915		6,204,915
Investment income due and accrued	146,099		146,099
Agents' Balances:			
Uncollected premium	596,565		596,565
Deferred premium	1,524,167		1,524,167
Net deferred tax asset	1,188,155		1,188,155
Guaranty funds receivable	133,870		133,870
Receivables from parent, subsidiaries and affiliates	7,651		7,651
Aggregate write-in for other than invested assets	9,598		9,598
Totals	$23,944,538	-	$23,944,538

MODERN USA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	$1,733,865		$1,733,865
Reinsurance payable on paid losses	66,317		66,317
Loss adjustment expenses	222,749		222,749
Other expenses	122,607		122,607
Taxes, licenses and fees	102,157		102,157
Unearned premium	11,763,032		11,763,032
Advance premiums	650,156		650,156
Ceded reinsurance premiums payable	(258,907)		(258,907)
Payable to parent, subsidiaries and affiliates	429,208		429,208
Total Liabilities	$14,831,184	-	$14,831,184
Aggregate write-ins for special surplus funds	$396,260		$396,260
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)	(5,282,906)		(5,282,906)
Surplus as regards policyholders	$9,113,354	-	$9,113,354
Total liabilities, surplus and other funds	$23,944,538	-	$23,944,538

MODERN USA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income	
Premiums earned	$12,022,918
Deductions:	
Losses incurred	$6,072,793
Loss expenses incurred	928,602
Other underwriting expenses incurred	8,491,125
Total underwriting deductions	$15,492,520
Net underwriting gain or (loss)	($3,469,602)
Investment Income	
Net investment income earned	$319,607
Net realized capital gains or (losses)	(78,431)
Net investment gain or (loss)	$241,176
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($4,121)
Finance and service charges not included in premiums	103,146
Total other income	$99,025
Net income before dividends to policyholders and before federal & foreign income taxes	($3,129,401)
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($3,129,401)
Net Income	($3,129,401)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$11,784,270
Net Income	($3,129,401)
Change in net unrealized capital gains or (losses)	28,808
Change in net deferred income tax	1,018,087
Change in nonadmitted assets	(588,410)
Change in surplus as regards policyholders for the year	($2,670,916)
Surplus as regards policyholders, December 31 current year	$9,113,354

A comparative analysis of changes in surplus is shown below.

MODERN USA 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 the examination.

Surplus as Regards Policyholders December 31, 2009, per Annual Statement				$9,113,354
	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				$9,113,354

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $1,956,614

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 contracted with Highland Clark, LLC who engaged an independent actuary, Mr. Dennis R. Henry, FCAS, MAAA, of The Actuarial Advantage, Inc., to review the above amounts carried in the Company's balance sheet as of December 31, 2009, and who was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of $9,113,354, 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 **Modern USA 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 $9,113,354, which exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Gaspare Simoncini, CPA, Office Financial Examiner/Analyst II, Cynthia Sikorski, CFE, Highland Clark, LLC, Examiner-In-Charge, Julie Geilear, Highland Clark, LLC, and Brad Hazelwood, Highland Clark, LLC participated in the examination. We also recognize Tracy D. Gates, CISA, Information Technology Specialist, Highland Clark, LLC and Dennis Henry, FCAS, MAAA, The Actuarial Advantage, examination actuary's participation in the examination.

Respectfully submitted,

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