

**IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT IN AND
FOR LEON COUNTY, FLORIDA**

State Of Florida, ex rel., The
Department Of Financial Services Of
The State Of Florida,

Relator,

v.

CASE NO.: 2010-CA-1522

Magnolia Insurance Company,
a Florida corporation,

Respondent.

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FILED
CLERK OF CIRCUIT COURT
LEON COUNTY, FLORIDA

FILED
COPY - not verified against original

**PETITION FOR ORDER APPOINTING THE FLORIDA DEPARTMENT OF
FINANCIAL SERVICES AS RECEIVER FOR PURPOSES OF LIQUIDATION,
INJUNCTION, AND NOTICE OF AUTOMATIC STAY**

The Florida Department of Financial Services (hereinafter the "Department") hereby petitions this Court pursuant to Sections 631.031 and 631.051, Florida Statutes, for a consent order of liquidation of Magnolia Insurance Company (hereinafter the "Respondent"). In support of its petition, the Department states:

1. This Court has jurisdiction pursuant to Section 631.021 (1), Florida Statutes, and venue is proper pursuant to Section 631.021(2), Florida Statutes.
2. Respondent is a corporation authorized pursuant to the Florida Insurance Code to transact business in the state of Florida as a property and casualty insurer. Respondent's principal place of business is located at 2601 South Bayshore Drive, Suite 1215, Coconut Grove, Florida 33133. Respondent also does business at 911 East Park Avenue, Tallahassee, Florida.

3. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving a Florida domiciled insurer.

4. Pursuant to Section 631.031, Florida Statutes, the Department is empowered to apply to this Court for an Order directing the Respondent to show cause why the Department should not be appointed Receiver of Respondent for purposes of liquidation under any of the following grounds set out in Section 631.051, Florida Statutes.

5. Respondent has consented to the appointment of the Department as Receiver for the purposes of liquidation pursuant to Section 631.051(11).

6. Accordingly, it is in the best interests of Respondent and its creditors and insureds that the relief requested in the petition be granted. A copy of the Stipulation and Consent to Receivership and Liquidation signed by Respondent is attached as Exhibit "A."

7. Pursuant to Section 631.031(1), Florida Statutes, Kevin McCarty, the Commissioner of the Office of Insurance Regulation, has written a letter to the Chief Financial Officer Alex Sink stating grounds for the initiation of delinquency proceedings against Magnolia Insurance Company. A copy of the letter is attached as Exhibit "B."

8. Magnolia Insurance Company is no longer writing new or renewal insurance policies and has not done so for several months. Serious questions exist as to its ability to continue as a viable insurance company.

9. Statutory balance sheets prepared at the request of the supervisor that has been on site throughout the period of administrative supervision reflect that the company is insolvent. See Exhibit "C." Specifically, the balance sheets reflect that: surplus with respect to policyholders is negative \$20,151,380.00; most of the insolvency would consist of general creditor claims, primarily

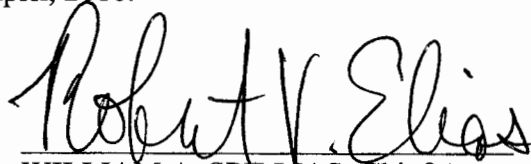
as a result of unpaid reinsurance premiums which exceed \$19 million; the Respondent's assets are approximately \$30 million in cash and liquid assets.

10. Given the Company's insolvency and the commencement of the 2010 hurricane season in approximately one month, the Department requests, pursuant to Section 631.061(1), the entry of an Order of liquidation that will allow the Department to conserve the assets of Magnolia Insurance Company and further allow the Department time to assist the policyholders in their efforts to locate and transition to another property and casualty insurer.

11. A prompt assessment of the Company's circumstances will be the Department's immediate priority once appointed Receiver. The Department anticipates filing a status report and/or such other pleadings as may be appropriate in short order.

WHEREFORE, The Florida Department of Financial Services respectfully petitions this Court for entry of its order of liquidation attached to this Petition as Exhibit "D."

SUBMITTED on this 30th day of April, 2010.



WILLIAM A. SPILLIAS, Chief Attorney
Florida Bar No. 909769

ROBERT V. ELIAS,
DEPUTY CHIEF ATTORNEY

Florida Bar No. 530107

JODY E. COLLINS

SENIOR ATTORNEY

Florida Bar No. 500445

Florida Department of Financial Services

Division of Rehabilitation and Liquidation

Post Office Box 110

Tallahassee, Florida 32302-0110

(850) 413-4459 – Telephone

(786) 336-1371 – Direct Line

(850) 921-6115 – Facsimile

**IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT IN AND
FOR LEON COUNTY, FLORIDA**

State Of Florida, ex rel., The
Department Of Financial Services Of
The State Of Florida,

Relator,

v.

CASE NO.: 2009-_____

Magnolia Insurance Company,
a Florida Corporation authorized to
transact an insurance business in Florida,

Respondent.
_____ /

STIPULATION AND CONSENT TO RECEIVERSHIP AND LIQUIDATION

IT IS HEREBY agreed as follows:

1. Magnolia Insurance Company (herein "Respondent") is a Florida corporation and is a domestic insurer authorized to transact an insurance business in the State of Florida.
2. Respondent admits that grounds exist for the appointment of a Receiver under Section 631.061(1), Florida Statutes.
3. Respondent consents, through a majority of its directors, its sole stockholder, members, or subscribers, to the entry of an order of Receivership and Liquidation appointing the Department of Financial Services as Receiver for purposes of Liquidation and consents to any injunctions this Court deems necessary and appropriate. The Joint Resolution of the President, Directors and Sole Stockholder of Magnolia Insurance Company is attached hereto.

4. Respondent consents and agrees to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Liquidation, Injunction and Notice of Automatic Stay.

Dated this 30 day of November, 2009.

MAGNOLIA INSURANCE COMPANY



H. James Ari, President

**JOINT RESOLUTION OF THE PRESIDENT, DIRECTORS AND SOLE
STOCKHOLDER OF MAGNOLIA INSURANCE COMPANY**

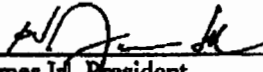
The undersigned, being the President, Directors and Sole Stockholder of Magnolia Insurance Company (the "Company"), hereby certify that the following excerpt is a true and correct copy of resolutions adopted at a combined meeting of the President, Directors, and Sole Stockholder of the Company:

RESOLVED, that the President, Directors and Sole Stockholder of the Company consent to the entry of an Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Liquidation, Injunction and Notice of Automatic Stay.

FURTHER, RESOLVED, that the President, Directors and Sole Stockholder of the Company are hereby authorized to execute any and all consent agreements or other documents on behalf of Magnolia Insurance Company, to obtain entry of the Order of Liquidation and are authorized to take any and all additional actions deemed necessary or appropriate by the Department of Financial Services to effectuate the foregoing to comply with the Order without further approval of the President, Directors or Sole Stockholder.

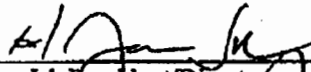
Dated this 30 day of 2009.

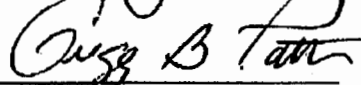
IRL FINANCIAL GROUP, INC.



H. James Irl, President
On behalf of Irl Financial Group, Inc.,
as sole shareholder of Magnolia Insurance Company

MAGNOLIA INSURANCE COMPANY



H. James Irl, President/Director


Grogg Baird Patterson, CFO/Director



Alberto Francisco-Sarasua, Director

Peter Richard Harrison, Director

Ernesto Ramon, Director



OFFICE OF INSURANCE REGULATION

KEVIN M. McCARTY
COMMISSIONER

**FINANCIAL SERVICES
COMMISSION**

CHARLIE CRIST
GOVERNOR

ALEX SINK
CHIEF FINANCIAL OFFICER

BILL McCOLLUM
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

April 29, 2010

The Honorable Alex Sink
The Chief Financial Officer
Department of Financial Services
The Capitol, PL-11
Tallahassee, FL 32399

Via Email

Re: Magnolia Insurance Company

Dear Chief Financial Officer Sink:

Please be advised that the Office of Insurance Regulation (Office) has determined that one or more grounds exist for the initiation of delinquency proceedings, pursuant to Chapter 631, Florida Statutes, against Magnolia Insurance Company (Magnolia).

Magnolia failed to file the required 2009 third quarter statement due in November 2009, and as a result of this failure, the Office required Magnolia to execute a Stipulation and Consent to Receivership and Liquidation and a Joint Resolution of the President, Directors and Sole Shareholder of Magnolia Insurance Company dated November 30, 2009 (Exhibits A).

The Office then undertook the task of determining the exact financial condition of the company and placed the company into a public administrative supervision December 14, 2009 (Exhibit B). The supervision was made public for the purpose of informing agents and policyholders of the financial condition of this company. During the immediate period of supervision, the Office facilitated meeting with various parties to negotiate a possible solvent runoff plan for Magnolia. During the pendency of the administrative supervision, the Office through its supervisors has been able to restructure the administrative contracts for policy administration and continued to pay claims in the normal course of business. The Office has also issued non-renewal notices throughout the supervision and has reduced the book to an anticipated 28,236 policies for June 1, 2010, and has reduced the unearned premium liability by over \$30 million from \$46 million at year end 2009 to less than \$14.6 million at May 31, 2010. This unearned premium obligation would have been the direct liability of the Florida Insurance Guaranty Fund.

...
KEVIN M. McCARTY • COMMISSIONER
200 EAST GAINES STREET • TALLAHASSEE, FLORIDA 32399-0305 • (850) 413-5914 • FAX (850) 488-3334
WEBSITE: WWW.FLOIR.COM • EMAIL: KEVIN.MCCARTY@FLOIR.COM

Affirmative Action / Equal Opportunity Employer

Exhibit "B"

The Honorable Alex Sink
April 29, 2010
Page 2

To date, negotiations with interested parties have not yielded a settlement that would allow the company to continue the runoff through the impending hurricane season. As such, the Office is hereby making the referral based upon the grounds that the company is insolvent as specified in Section 631.061, Florida Statutes. Statutory Balance Sheets prepared at the request of the supervisor reflect surplus as regard to policyholders at negative \$20,151,380.00 (Exhibit C). Most of the insolvency would be for general creditor claims as a result of unpaid reinsurance premium of over \$19 million. Assets of the company are now approximately \$30 million in cash and liquid assets.

The Office has kept the Division of Rehabilitation and Liquidation informed regarding the particular circumstances throughout the administrative supervision. And as always, the Office stands ready to provide any additional information or assistance the Department needs in order for this matter to proceed as expeditiously as possible. Thank you for your attention to this matter.

Sincerely,



Kevin M. McCarty
Commissioner

cc: Ben Diamond, General Counsel
Department of Financial Services

Wayne Johnson, Division Director
Division of Rehabilitation and Liquidation
Department of Financial Services

FILED

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OFFICE OF
INSURANCE REGULATION
Dictated by:

OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY
COMMISSIONER

IN THE MATTER OF:

CASE NO: 107879-09-CO

MAGNOLIA INSURANCE COMPANY

CONSENT ORDER FOR ADMINISTRATIVE SUPERVISION

THIS CAUSE came on to be considered upon review by the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") of the financial condition of MAGNOLIA INSURANCE COMPANY (hereinafter referred to as "MAGNOLIA"). After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds, and MAGNOLIA agrees, as follows:

1. The OFFICE has jurisdiction over the subject matter herein.
2. MAGNOLIA is a Florida domestic property and casualty insurer licensed under Chapter 624, Florida Statutes, and subject to regulation by the OFFICE, pursuant to the Florida Insurance Code.
3. MAGNOLIA agrees sufficient grounds exist for the OFFICE to effectuate the administrative supervision of MAGNOLIA under Section 624.81, Florida Statutes. The parties agree that the period of supervision shall commence on the date of the entry of this Consent Order for Administrative Supervision and shall last for a period of 120 days. Such administrative supervision may be extended, at the OFFICE's sole discretion, for an additional 120 days in 60-day increments.

4. The documents gathered by the OFFICE as a result of the administrative supervision shall be treated as confidential pursuant to Section 624.81, Florida Statutes, unless the OFFICE determines pursuant to Section 624.81, Florida Statutes, that it is in the best interest of the public or its insureds for documents associated with this administrative supervision to be made public. The OFFICE finds that it is in the public interest to disclose the fact that the company is in administrative supervision. Therefore, this order shall be a public document.

5. MAGNOLIA and its affiliates shall not enter any new or amend any existing agreements with any affiliates(s) without prior written approval of the OFFICE.

6. This initiation of Administrative Supervision shall not preclude the OFFICE or the Department of Financial Services from initiating judicial proceedings to place MAGNOLIA in rehabilitation or liquidation.

7. During the period of administrative supervision, MAGNOLIA is prohibited from any activity listed in Section 624.83, Florida Statutes, which include the following without prior written approval of the OFFICE:

- (a) Dispose of, convey, or encumber any of its assets or its business in force;
- (b) Lend any of its funds;
- (c) Invest any of its funds;
- (d) Transfer any of its property;
- (e) Incur any debt obligation or liability;
- (f) Merge or consolidate with another company;
- (g) Enter into any new reinsurance contract or treaty (including cede, retrocede, or assume an insurance liability through the process of reinsurance including the commutation for existing policies in force);
- (h) Terminate, surrender, forfeit, convert, or lapse any insurance policy, certificate or contract of insurance, except for nonpayment of premiums due;

(f) Release, pay or refund premium deposits, accrued cash or loan values, unearned premium deposits, unearned premiums, or other reserves on any insurance policy or certificate; or

(g) Make any material change in management.

8. MAGNOLIA shall cooperate in the development of a corrective action plan pursuant to Sections 624.81(3), (4), and (5), Florida Statutes, and will assist upon the request of the OFFICE in facilitating due diligence review by potential acquirers.

9. Upon execution of this Consent Order, MAGNOLIA shall not write any new business and shall not renew business without the prior consent of the OFFICE and without a full disclosure of the existence of this Order to the policyholder and the agent in advance of any renewal.

10. Upon the commencement of this Administrative Supervision, H. James Hl shall resign all positions with MAGNOLIA and shall refrain from exercising any managerial control over MAGNOLIA.

11. MAGNOLIA and its affiliates shall not waste assets, destroy any records, nor shall it expend any funds without the prior, written approval of the OFFICE or Deputy Supervisor. If, after OFFICE approval of a transaction has been granted, the OFFICE becomes aware of additional facts or circumstances, which materially affect its prior approval of the transaction, the OFFICE reserves the authority to require such corrective action as it may deem necessary or advisable.

12. MAGNOLIA shall be responsible for administrative supervision expenses pursuant to Section 624.87, Florida Statutes. It will reimburse the OFFICE for reasonable expenses of administrative supervision, and will pay directly any contractors, including any Deputy Supervisor, retained by the OFFICE for assistance with the administrative supervision. In the event that

personnel from the Division of Rehabilitation and Liquidation are utilized in the Administrative Supervision effort, MAGNOLIA agrees to reimburse the Division of Rehabilitation and Liquidation directly for the services of its personnel at their actual hourly costs. Such reimbursement shall be made bi-weekly or as otherwise directed by the OFFICE.

13. MAGNOLIA agrees that the OFFICE and the Department of Financial Services may have a Deputy Supervisor, examiners, or other designees present at the offices of MAGNOLIA to obtain independent information, verify transactions, and verify the condition and status of MAGNOLIA and its progress in developing and complying with its corrective action plan and any other duty as designated by the OFFICE. MAGNOLIA shall cooperate with and facilitate the presence and work of such Deputy Supervisor, examiners, staff or other designees.

14. MAGNOLIA shall allow the Deputy Supervisor, examiners, staff, or other designees of the OFFICE complete and unrestricted access to all offices maintained, rights of action, books, papers, data processing records, evidences of dept, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, office supplies and equipment, and all real property of MAGNOLIA, wherever situated, whether in possession of MAGNOLIA or its officers, directors, employees, managers, consultants, trustees, adjusters, attorneys, agents or affiliates.

15. MAGNOLIA, its shareholders, and controlling persons agree that they will bring no independent cause of action, and hereby release and relinquish any right of action that may arise against, the OFFICE, its Deputy Supervisor, and all other persons or designees retained by the OFFICE or the Department of Financial Services to assist with this Administrative Supervision. This release shall survive after the period of Administrative Supervision has concluded. All rights under Section 624.84, Florida Statutes, are preserved.

16. MAGNOLIA hereby knowingly and voluntarily waives receipt of written notice under Section 624.81(1), Florida Statutes, of the grounds for the OFFICE to effectuate Administrative Supervision.

17. MAGNOLIA expressly waives a hearing in this matter of Administrative Supervision, the making of Findings of Fact, and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which it may be entitled by law or rules of the OFFICE. MAGNOLIA hereby knowingly and voluntarily waives all rights to challenge or contest this Consent Order in any forum now or in the future available to it, including the right to any administrative proceeding, circuit or federal court action, or any appeal.

18. MAGNOLIA agrees that if the OFFICE expends staff time or funds because further proceedings are required to enforce the terms of this Consent Order, or if administrative proceedings are initiated by MAGNOLIA regarding this Administrative Supervision, and the OFFICE prevails in such proceedings, MAGNOLIA shall reimburse the OFFICE for reasonable attorney's fees and costs. Otherwise, each party to this agreement shall bear its own costs and attorney's fees.

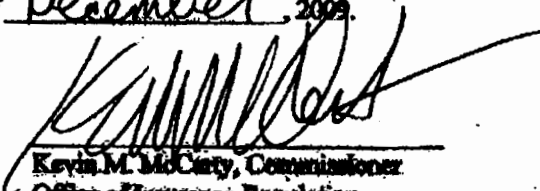
19. MAGNOLIA agrees that it has entered into this Consent Order voluntarily, without coercion from the OFFICE or any agent, employee or designee of the OFFICE, and that it has obtained legal counsel from its attorney(s) prior to entering into this agreement.

20. The parties agree that this Consent Order will be deemed to be executed when the OFFICE has signed a copy of this Consent Order bearing the signature of MAGNOLIA notwithstanding the fact that the copy was transmitted to the OFFICE electronically or via facsimile machine. MAGNOLIA agrees that the signature of its representatives as affixed to this Consent Order shall be under the seal of a notary public.

WHEREFORE, the agreement between MAGNOLIA INSURANCE COMPANY, and the OFFICE OF INSURANCE REGULATION, the terms and conditions of which are set forth above, is APPROVED. FURTHER, all terms and conditions contained herein are hereby ORDERED.


DONE and ORDERED this 14th day of December, 2009.




Kevin M. McCarty, Commissioner
Office of Insurance Regulation

By execution hereof, MAGNOLIA INSURANCE COMPANY consents to the entry of this Consent Order, agrees without reservation to all of the above terms and conditions of this Consent Order and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind MAGNOLIA INSURANCE COMPANY, to the terms and conditions of this Consent Order. The undersigned also certifies that he/she has provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for the company, and as authorized by the 100% shareholder of MAGNOLIA INSURANCE COMPANY.

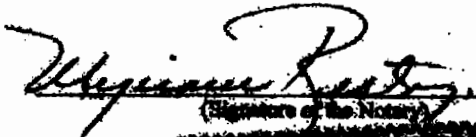
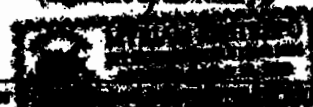
MAGNOLIA INSURANCE COMPANY


H. James H., President
On behalf of HJ Financial Group, Inc.,
as sole shareholder of Magnolia Insurance Company

Corporate Seal

STATE OF Florida
COUNTY OF Alachua

The foregoing instrument was acknowledged before me this 10th day of December, 2009,
by H. James H. as President
(name of person) (type of authority - e.g. officer, trustee attorney in fact)
for HJ Financial Group
(company name)


(Signature of the Notary)

(Print, Type or Stamp of the Notary)

Personally Known Y OR Produced Identification _____
Type of Identification Produced _____

COPIES FURNISHED TO:

**H. James Irl, President
Magnolia Insurance Company
2601 South Bayshore Drive
Suite 1215
Coconut Grove, Florida 33133**

**Tim Schoenwelder, Esq.
204 South Monroe Street (32301)
P.O. Box 11068
Tallahassee, Florida 32302**

**Belinda Miller, Deputy Commissioner
Property & Casualty
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0329**

**Robin Westcott, Director
Property & Casualty Financial Oversight
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0329**

**Amanda Hunter, Assistant General Counsel
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0333**

PRELIMINARY
Subject To Revision Based On
Final Merlino's and CGI Information

MAGNOLIA INSURANCE COMPANY

December 31, 2009

STATUTORY BALANCE SHEET

STATUTORY RESULTS OF OPERATIONS

STATUTORY CAPITAL & SURPLUS

50% Quota Share Reinsurance Continues Through December 31, 2009

Loss & LAE Reserves Are Merlino's Best Estimate

2/11/2010

Exhibit "C"

**Magnolia Insurance Company
Balance Sheet**

December 31, 2009

50% Quota Share Reinsurance Effective June 1, 2009 and Continues Through December 31, 2009

Loss & LAE Reserves Are Merlino's Best Estimate

	Dec.31, 2009 Statutory Balance Sheet (Dunlap LossReserves)	Adjust Loss & LAE Reserves To Merlino's Best Estimate	Adjust Q/S Ceding Commission For Loss Ratio Change	Dec.31, 2009 Statutory Balance Sheet (Merlino's Loss Reserves)
ASSETS				
Bonds	\$0			\$0
Common Stock	\$3,123,175			\$3,123,175
Cash and short-term investments	\$41,799,945			\$41,799,945
Cash and invested assets	\$44,925,120	\$0	\$0	\$44,925,120
Investment income due and accrued	\$26,520			\$26,520
Premiums and considerations:				
Uncollected premiums and agents balances	\$9,171,544			\$9,171,544
Deferred Premiums	\$0			\$0
Reinsurance:				
Amounts recoverable from reinsurers	\$5,900,950			\$5,900,950
Current income taxes recoverable	\$3,524,081			\$3,524,081
Net deferred taxes	\$0			\$0
EDP Equipment and software	\$19,022			\$19,022
Receivable from parent, subsidiaries and Other Receivables	\$454,383			\$454,383
Total Assets	\$64,021,620	\$0	\$0	\$64,021,620
LIABILITIES, SURPLUS AND OTHER FUNDS				
Losses & LAE				
Losses-Direct	\$19,267,856	\$10,687,057		\$29,954,913
Losses-Ceded	(\$5,299,294)	(\$3,970,885)		(\$9,270,179)
Loss Adjustment Expenses-Direct	\$2,935,052	\$3,627,164		\$6,562,216
Loss Adjustment Expenses-Ceded	(\$491,084)	(\$517,586)		(\$1,008,670)
Net Loss & LAE	\$16,412,530	\$9,825,750	\$0	\$26,238,280
Unearned Premiums				
Unearned Premiums-Direct	\$46,591,915			\$46,591,915
Unearned Premiums-Ceded-Cat XOL	(\$25,040,099)			(\$25,040,099)
Unearned Premiums-Ceded-Quota Share	(\$1,880,938)			(\$1,880,938)
Net Unearned Premiums	\$9,670,878	\$0	\$0	\$9,670,878
Reinsurance Payables				
Cat XOL	\$19,568,255			\$19,568,255
Quota Share	\$21,056,179		\$837,824	\$21,894,003
Total Reinsurance Payable	\$40,624,434	\$0	\$837,824	\$41,462,258
Advance Premiums	\$646,737			\$646,737
Payable to Citizens	\$3,053,255			\$3,053,255
Accounts payable	\$397,095			\$397,095
Other Liabilities	\$704,497			\$704,497
Total Liabilities	\$73,509,426	\$9,825,750	\$837,824	\$84,173,000
Common Stock	\$10,000			\$10,000
Gross paid in and contributed surplus	\$19,990,000			\$19,990,000
Unassigned funds	(\$29,487,806)	(\$9,825,750)	(\$837,824)	(\$40,151,380)
Surplus as regards policyholders	(\$9,487,806)	(\$9,825,750)	(\$837,824)	(\$20,151,380)
Total Liabilities, Capital & Surplus	\$64,021,620	\$0	\$0	\$64,021,620

Magnolia Insurance Company
Year Ended December 31, 2009
Operations Results

50% Quota Share Reinsurance Effective June 1, 2009 and Continues Through December 31, 2009
 Loss & LAE Reserves Are Dunlap Best Estimate

	2009 Statutory Income Statement (Dunlap Loss Reserves)	Adjust Loss & LAE Reserves To Merlinos Best Estimate	Adjust Q/S Ceding Commission For Loss Ratio Change	2009 Statutory Income Statement Adjusted
Premiums Earned				
Direct & Assumed				
Premiums Written	\$104,660,639			\$104,660,639
Unearned-Beginning	\$63,899,057			\$63,899,057
Unearned-End	\$46,591,915			\$46,591,915
Earned	\$121,967,781	\$0	\$0	\$121,967,781
Policy Fees	\$1,845,325			\$1,845,325
Direct Earned Premiums	\$123,813,106	\$0	\$0	\$123,813,106
Ceded Reinsurance Premium:				
Cat XOL	(\$60,636,343)			(\$60,636,343)
Quota Share	50% (\$17,503,116)			50% (\$17,503,116)
Net Of Reinsurance	\$45,673,647	\$0	\$0	\$45,673,647
Losses & LAE				
Direct Losses & LAE	\$59,504,082	\$14,314,221		\$73,818,303
Cat Losses & LAE Ceded				\$0
Quota Share Losses & LAE Ceded	(\$11,691,327)	(\$4,488,471)		(\$16,179,798)
Net Losses & LAE	\$47,812,755	\$9,825,750	\$0	\$57,638,505
Expenses				
MGA Fees	\$29,444,317			\$29,444,317
Premium Taxes	\$1,703,561			\$1,703,561
Other Underwriting Expenses	\$2,608,606			\$2,608,606
Policy Fees	\$1,845,325			\$1,845,325
Professional Fees	\$1,596,046			\$1,596,046
Expenses Before Ceding Commission	\$37,197,855	\$0	\$0	\$37,197,855
Ceding Commissions	(\$8,327,877)	\$0	\$837,824	(\$7,490,053)
Net Expenses	\$28,869,978	\$0	\$837,824	\$29,707,802
Underwriting Income	(\$31,009,086)	(\$9,825,750)	(\$837,824)	(\$41,672,660)
Investment Income	\$917,084			\$917,084
Finance Charges & Other	\$236,599			\$236,599
Pretax Income (Loss)	(\$29,855,403)	(\$9,825,750)	(\$837,824)	(\$40,518,977)
Income Taxes	(\$3,109,807)			(\$3,109,807)
Net Income (Loss)	(\$26,745,596)	(\$9,825,750)	(\$837,824)	(\$37,409,170)

Capital & Surplus

Capital & Surplus	(\$9,487,806)	(\$9,825,750)	(\$837,824)	(\$20,151,380)
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MAGNOLIA INSURANCE COMPANY

December 31, 2009

LOSS & LAE RESERVES

MERLINOS BEST ESTIMATE

Magnolia Insurance Company
Loss & LAE Reserves -December 31, 2009

Merlinos Actuarial Schedule			
	<u>Direct</u>	Reinsurance <u>Ceded</u>	Net Of <u>Reinsurance</u>
Loss Reserves-Case	\$12,170,238	\$3,349,119	\$8,821,119
ALAE Reserves-Case	\$883,541	\$233,259	\$650,282
Loss & LAE Reserves-Case	\$13,053,779	\$3,582,378	\$9,471,401
Loss Reserves-IBNR	\$17,975,734	\$5,921,060	\$12,054,674
ALAE Reserves-IBNR	\$1,281,500	\$775,411	\$506,089
	\$19,257,234	\$6,696,471	\$12,560,763
ULAE Reserves	\$4,361,987	\$0	\$4,361,987
Total Loss & LAE Reserves	\$36,673,000	\$10,278,849	\$26,394,151
Add: Non Actuarial reported in Loss Reserves Dir Adj & Other Reserve	\$48,769		\$48,769
	\$36,721,769	\$10,278,849	\$26,442,920

Merlinos Loss Reserves Reduced For Citizens Claims Erroneously Included			
	<u>Direct</u>	Reinsurance <u>Ceded</u>	Net Of <u>Reinsurance</u>
Loss Reserves-Case	\$11,979,179	\$3,349,119	\$8,630,060
ALAE Reserves-Case	\$889,960	\$233,259	\$656,701
Loss & LAE Reserves-Case	\$12,869,139	\$3,582,378	\$9,286,761
Loss Reserves-IBNR	\$17,975,734	\$5,921,060	\$12,054,674
ALAE Reserves-IBNR	\$1,281,500	\$775,411	\$506,089
	\$19,257,234	\$6,696,471	\$12,560,763
ULAE Reserves	\$4,361,987	\$0	\$4,361,987
Total Loss & LAE Reserves	\$36,468,360	\$10,278,849	\$26,189,511
Add: Non Actuarial reported in Loss Reserves Dir Adj & Other Reserve	\$48,769		\$48,769
	\$36,517,129	\$10,278,849	\$26,238,280

SUMMARY			
Loss	\$29,964,913	\$9,270,179	\$20,694,734
LAE	\$6,562,216	\$1,008,670	\$5,553,546
Loss & LAE	\$36,517,129	\$10,278,849	\$26,238,280

ADJUSTMENT-Dunlap Loss & LAE Reserves To Merlinos Loss & LAE Reserves			
Loss	\$10,687,057	\$3,970,886	\$6,716,172
LAE	\$3,627,164	\$617,586	\$3,009,578
Loss & LAE	\$14,314,221	\$4,588,471	\$9,725,750

MAGNOLIA INSURANCE COMPANY
LOSS & LAE RESERVES--December 31, 2009

50% Quota Share Effective June 1, 2009, Continues Through December 31, 2009
MERLINOS LOSS & LAE RESERVES--Before 4% Limitation of Quota Share Ceded LAE

Accid Year	Premiums Earned		Paid Loss & ALAE			Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves			Total Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves					
	Loss	ALAE	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves
2008	\$18,324,079	\$1,042,432	\$1,887,629	\$176,139	\$2,063,768	\$1,887,629	\$176,139	\$2,063,768	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720
2009	\$29,168,820	\$1,083,655	\$30,252,475	\$10,920,011	\$19,332,464	\$4,933,490	\$474,143	\$18,400,017	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514
	\$191,910,306	\$47,492,899	\$212,403,205	\$683,541	\$213,086,746	\$683,541	\$683,541	\$212,403,205	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294
CEDED																							
2008																							
2008																							
2009																							
NET OF REINSURANCE																							
2008																							
2008																							
2009																							

MERLINOS LOSS & LAE RESERVES--After 4% Limitation of Quota Share Ceded LAE

Accid Year	Premiums Earned		Paid Loss & ALAE			Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves			Total Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves					
	Loss	ALAE	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves
2008	\$18,324,079	\$1,042,432	\$1,887,629	\$176,139	\$2,063,768	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720
2009	\$29,168,820	\$1,083,655	\$30,252,475	\$10,920,011	\$19,332,464	\$4,933,490	\$474,143	\$18,400,017	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514
	\$191,910,306	\$47,492,899	\$212,403,205	\$683,541	\$213,086,746	\$683,541	\$683,541	\$212,403,205	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294
CEDED																							
2008																							
2008																							
2009																							
NET OF REINSURANCE																							
2008																							
2008																							
2009																							

Accid Year	Premiums Earned		Paid Loss & ALAE			Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves			Total Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves					
	Loss	ALAE	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves
2008	\$18,324,079	\$1,042,432	\$1,887,629	\$176,139	\$2,063,768	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720
2009	\$29,168,820	\$1,083,655	\$30,252,475	\$10,920,011	\$19,332,464	\$4,933,490	\$474,143	\$18,400,017	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514
	\$191,910,306	\$47,492,899	\$212,403,205	\$683,541	\$213,086,746	\$683,541	\$683,541	\$212,403,205	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294
CEDED																							
2008																							
2008																							
2009																							
NET OF REINSURANCE																							
2008																							
2008																							
2009																							

Accid Year	Premiums Earned		Paid Loss & ALAE			Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves			Total Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves					
	Loss	ALAE	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves	Case Loss Reserves	Case ALAE Reserves	Unearned Reserves	IBNR Loss Reserves	IBNR ALAE Reserves	Unearned Reserves
2008	\$18,324,079	\$1,042,432	\$1,887,629	\$176,139	\$2,063,768	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720	\$1,829,047	\$170,673	\$1,999,720
2009	\$29,168,820	\$1,083,655	\$30,252,475	\$10,920,011	\$19,332,464	\$4,933,490	\$474,143	\$18,400,017	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514	\$18,146,687	\$1,110,827	\$19,257,514
	\$191,910,306	\$47,492,899	\$212,403,205	\$683,541	\$213,086,746	\$683,541	\$683,541	\$212,403,205	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294	\$17,975,794	\$1,281,500	\$19,257,294
CEDED																							
2008																							
2008																							
2009																							
NET OF REINSURANCE																							
2008																							
2008																							
2009																							

Magnolia
Merlinos Dec 31 2009 Loss Reserves QSContinues Dunlap vs Merfinos

Ben Trozler

COMPARISON OF MERLINOS IBNR TO IBNR CONTAINED IN DUNLAP WORK PAPERS

ACCIDENT YEAR	GROSS				DIFFERENCE Total Reserve
	MERLINOS SELECTED LOSS & ALAE IBNR	MERLINOS SELECTED ADJUSTER IBNR	DUNLAP'S SELECTED LOSS & ALAE IBNR	DUNLAP'S SELECTED AOE IBNR	
	(1)	(2)	(3)	(4)	
2008	2,000	549	1,420	252	878
2009	17,258	3,813	6,398	1,235	13,437
TOTAL	19,258	4,362	7,818	1,487	14,315

DRAFT
NOT TO BE RELIED UPON

COLUMNS (1) AND (2) ARE FROM EXHIBIT I, SHEET 2, COLUMN (6).
COLUMNS (3) AND (4) ARE FROM GEORGE DUNLAP'S REVIEW RECEIVED VIA EMAIL FROM BEN TROXLER
ON 01/27/10.

2/9/10

SUMMARY OF ULTIMATE AND RESERVE BY ACCIDENT QUARTER - GROSS OF REINSURANCE

ACCIDENT QUARTER	REPORTED LOSS AND ALAE AT 12/31/09 (1)	PAID LOSS AND ALAE AT 12/31/09 (2)	SELECTED ULTIMATE LOSS AND ALAE (3)	CASE RESERVES AT 12/31/09 (4)-(1)-(2)	SELECTED IBNR (5)-(3)-(1)	TOTAL RESERVES (6)-(4)+(5)
2008-1	649,048	391,726	680,000	57,322	30,953	88,274
2008-3	9,374,235	8,538,042	10,000,000	836,193	625,765	1,461,958
2008-4	11,406,997	10,236,743	12,750,000	1,170,254	1,343,003	2,513,257
2009-1	12,906,237	11,039,800	15,250,000	1,866,437	2,343,763	4,210,200
2009-2	12,855,244	10,101,773	16,600,000	2,753,471	3,744,756	6,498,227
2009-3	10,246,000	6,893,413	14,750,000	3,352,587	4,504,000	7,856,587
2009-4	5,235,005	2,217,488	11,900,000	3,017,517	6,664,995	9,682,512
TOTALS	62,672,766	49,418,985	81,938,000	13,053,781	19,257,234	32,311,015

NOTES:

COLUMNS (1) AND (2) ARE FROM EXHIBIT III, SHEET 1, TABLES 1 AND 2, COLUMN (1).
COLUMN (3) IS FROM EXHIBIT II, SHEET 1, COLUMN (3).

DRAFT
NOT TO BE RELIED UPON

ALLOCATION OF 2009-2 IBNR TO JUNE 2009

1. TOTAL IBNR FOR QUARTER 2, 2009	3,744,756
2. IBNR ASSUMED TO BE ALLOCATED TO LAST MONTH OF QUARTER	40%
3. IBNR ALLOCATED TO JUNE 2009 OUT OF QUARTER 2009-2	1,497,902

NOTES:

LINE 1. IS FROM COLUMN (5) ABOVE FOR ACCIDENT QUARTER 2009-2
LINE 2. IS BASED ON REVIEW OF INCURRED REPORTING PATTERN AND JUDGMENT.

**MAGNOLIA INSURANCE COMPANY
RESERVE REVIEW AS OF 12/31/09**

**EXHIBIT I
SHEET 3**

CALCULATION OF OTHER EXPENSE RESERVES (TPA FEES)

ACCIDENT QUARTER	CASE RESERVES AT 12/31/09	SELECTED IBNR	SELECTED AOE IBNR
	(1)	(2)	(3)
2008-2	57,322	30,952	11,917
2008-3	836,193	625,765	197,364
2008-4	1,170,254	1,343,003	339,290
2009-1	1,866,437	2,343,763	568,377
2009-2	2,753,471	3,744,756	877,261
2009-3	3,352,587	4,504,000	1,060,639
2009-4	3,017,517	6,664,995	1,307,139
TOTALS	13,053,781	19,257,234	4,361,987

DRAFT
NOT TO BE RELIED UPON

NOTES:

COLUMN (1) IS FROM EXHIBIT I, COLUMN (5).

COLUMN (1) IS FROM EXHIBIT I, COLUMN (6).

COLUMN (3) EQUALS [COLUMN (1) PLUS COLUMN (2)] MULTIPLIED BY 13.5%.

MAGNOLIA INSURANCE COMPANY

December 31, 2009

LOSS & LAE RESERVES

DUNLAP BEST ESTIMATE

Magnolia Insurance Company
Loss & LAE Reserves -December 31, 2009

Dunlap Actuarial Schedule			
	<u>Direct</u>	Reinsurance <u>Ceded</u>	Net Of <u>Reinsurance</u>
Loss Reserves-Case	\$12,170,238	\$3,349,119	\$8,821,119
ALAE Reserves-Case	\$883,541	\$233,259	\$650,282
Loss & LAE Reserves-Case	\$13,053,779	\$3,582,378	\$9,471,401
Loss Reserves-IBNR	\$7,288,841	\$1,950,175	\$5,338,667
ALAE Reserves-IBNR	\$529,159	\$135,825	\$393,333
	\$7,818,000	\$2,086,000	\$5,732,000
ULAE Reserves	\$1,487,000	\$122,000	\$1,365,000
Total Loss & LAE Reserves	\$22,358,779	\$5,790,378	\$16,568,401
Add: Non Actuarial reported in Loss Reserves			
Dir Adj & Other Reserve	\$48,769		\$48,769
	\$22,407,548	\$5,790,378	\$16,617,170

Dunlap Loss Reserves Reduced For Citizens Claims Erroneously Included			
	<u>Direct</u>	Reinsurance <u>Ceded</u>	Net Of <u>Reinsurance</u>
Loss Reserves-Case	\$11,979,179	\$3,349,119	\$8,630,060
ALAE Reserves-Case	\$889,960	\$233,259	\$656,701
Loss & LAE Reserves-Case	\$12,869,139	\$3,582,378	\$9,286,761
Loss Reserves-IBNR	\$7,288,677	\$1,950,175	\$5,338,502
ALAE Reserves-IBNR	\$529,323	\$135,825	\$393,498
	\$7,818,000	\$2,086,000	\$5,732,000
ULAE Reserves	\$1,487,000	\$122,000	\$1,365,000
Total Loss & LAE Reserves	\$22,164,139	\$5,790,378	\$16,373,761
Add: Non Actuarial reported in Loss Reserves			
Dir Adj & Other Reserve	\$48,769		\$48,769
	\$22,202,908	\$5,790,378	\$16,412,530

SUMMARY			
Loss	\$19,267,856	\$5,299,294	\$13,968,562
LAE	\$2,935,052	\$491,084	\$2,443,968
Loss & LAE	\$22,202,908	\$5,790,378	\$16,412,530

MAGNOLIA INSURANCE COMPANY
LOSS & LAE RESERVES-December 31, 2009

50% Quota Share Effective June 1, 2009, Continues Through December 31, 2009
DUNLAP LOSS & LAE RESERVES--Before 4% Limitation of Quota Share Ceded LAE

Accd Year	Premiums Earned		Paid Loss & ALAE		Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves	
	Loss	ALAE	Paid Loss	Paid ALAE	Case Loss Reserve	Case ALAE Reserve	Loss & ALAE Reserve	IBNR Loss Reserve	IBNR ALAE Reserve	Loss & ALAE Reserve	IBNR Reserve	Total Reserve
DIRECT 2008	\$67,487,200	\$18,215,777	\$1,042,432	\$19,258,209	\$1,887,629	\$176,139	\$2,063,768	\$1,298,805	\$121,195	\$1,420,000	\$3,483,768	\$3,735,768
2009	\$123,813,106	\$29,135,784	\$1,083,655	\$30,219,609	\$6,935,490	\$484,149	\$7,417,639	\$4,021,511	\$280,856	\$4,302,367	\$11,720,000	\$12,533,000
	\$181,310,306	\$47,351,561	\$2,126,087	\$49,477,848	\$12,170,238	\$660,282	\$9,481,407	\$5,320,316	\$402,051	\$5,722,367	\$15,303,768	\$16,266,768
CEDED 2008		(\$5,651,870)	(\$154,886)	(\$8,713,283)	(\$3,348,119)	(\$223,259)	(\$3,572,378)	(\$1,964,665)	(\$130,968)	(\$2,095,633)	(\$5,668,011)	(\$6,070,011)
NET OF REINSURANCE 2008		\$18,215,777	\$1,042,432	\$19,258,209	\$1,887,629	\$176,139	\$2,063,768	\$1,298,805	\$121,195	\$1,420,000	\$3,483,768	\$3,735,768
2009		\$23,483,815	\$926,770	\$21,506,136	\$6,935,490	\$484,149	\$7,417,639	\$4,021,511	\$280,856	\$4,302,367	\$11,720,000	\$12,533,000
		\$41,699,592	\$1,969,202	\$40,764,365	\$18,821,119	\$660,282	\$9,481,401	\$9,320,316	\$402,051	\$9,722,367	\$26,873,779	\$28,299,768

DUNLAP LOSS & LAE RESERVES--After 4% Limitation of Quota Share Ceded LAE

Accd Year	Premiums Earned		Paid Loss & ALAE		Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves	
	Loss	ALAE	Paid Loss	Paid ALAE	Case Loss Reserve	Case ALAE Reserve	Loss & ALAE Reserve	IBNR Loss Reserve	IBNR ALAE Reserve	Loss & ALAE Reserve	IBNR Reserve	Total Reserve
DIRECT 2008	\$67,487,200	\$18,215,777	\$1,042,432	\$19,258,209	\$1,887,629	\$176,139	\$2,063,768	\$1,298,805	\$121,195	\$1,420,000	\$3,483,768	\$3,735,768
2009	\$123,813,106	\$29,135,784	\$1,083,655	\$30,219,609	\$10,282,609	\$707,402	\$10,990,011	\$5,986,175	\$411,825	\$6,398,000	\$17,388,011	\$18,623,011
	\$191,310,306	\$47,351,561	\$2,126,087	\$49,477,848	\$12,170,238	\$660,282	\$13,033,779	\$7,284,981	\$533,019	\$7,818,000	\$24,873,779	\$26,246,779
CEDED 2008		(\$5,651,870)	(\$154,886)	(\$8,713,283)	(\$3,348,119)	(\$223,259)	(\$3,572,378)	(\$1,964,665)	(\$130,968)	(\$2,095,633)	(\$5,668,011)	(\$6,070,011)
NET OF REINSURANCE 2008		\$18,215,777	\$1,042,432	\$19,258,209	\$1,887,629	\$176,139	\$2,063,768	\$1,298,805	\$121,195	\$1,420,000	\$3,483,768	\$3,735,768
2009		\$23,483,815	\$926,770	\$21,506,136	\$6,935,490	\$484,143	\$7,417,633	\$4,021,511	\$280,856	\$4,302,367	\$11,720,000	\$12,533,000
		\$41,699,592	\$1,969,202	\$40,764,365	\$18,821,119	\$660,282	\$9,481,401	\$9,320,316	\$402,051	\$9,722,367	\$25,203,768	\$26,568,768

Accd Year	Premiums Earned		Paid Loss & ALAE		Loss & ALAE Reserves			Loss & ALAE IBNR Reserves			Total Loss & ALAE Reserves	
	Loss	ALAE	Paid Loss	Paid ALAE	Case Loss Reserve	Case ALAE Reserve	Loss & ALAE Reserve	IBNR Loss Reserve	IBNR ALAE Reserve	Loss & ALAE Reserve	IBNR Reserve	Total Reserve
DIRECT Jun2009-Dec2009	\$69,429,925	\$11,303,999	\$913,771	\$17,420,585	\$6,698,238	\$446,518	\$7,144,756	\$3,929,329	\$261,937	\$4,191,266	\$11,336,022	\$12,140,022
Ceded Before 4% ALAE Lim	\$34,714,963	\$5,651,970	\$156,886	\$8,713,283	\$3,348,119	\$223,259	\$3,572,378	\$1,964,665	\$130,968	\$2,095,633	\$5,668,011	\$6,070,011
Loss Ratio		16.5%	0.5%	25.1%	9.6%	0.6%	10.3%	5.7%	0.4%	6.0%	16.3%	17.5%
Total LAE Ratio												3.3%
												\$1,162,094
												3.3%

Accident Year Ending	Using 80.7% Industry Loss+LAE Ratio (147114-10817-287 (108))	Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)		Actuary's Best Est. Estimated Loss+LAE (100)	
		Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio	Loss+LAE (100)	Ratio
2008	1,278	1,420	262	1,420	3,735	34.7%	1,871	3,494	3,494	3,735	34.7%	1,871	3,494	3,735	34.7%
2009	8,698	8,298	1,295	18,824	18,824	36.4%	8,145	11,720	11,720	12,653	36.4%	8,145	11,720	12,653	36.4%
Total	9,976	7,818	1,487	22,899	22,899	36.9%	9,817	18,204	18,204	19,286	36.9%	9,817	18,204	19,286	36.9%
Total A1 12/31/2009	8,874	7,818	1,487	22,899	22,899	36.9%	8,817	18,204	18,204	19,286	36.9%	8,817	18,204	19,286	36.9%
Prior Total A1 8/30/2009	6,103	6,892	1,512	19,887	19,887	36.9%	6,267	14,545	14,545	15,876	36.9%	6,267	14,545	15,876	36.9%

See, and the 2008 accident year development factors updated by an additional 3 months, based on an average accident date in 2008 of 8/15/08, and an average accident date in 2009 of 10/1/2009.

and Report (14-200) received from the Florida Insurance Department (note by 17%

0.599 Loss+LAE Ratio to Case Ratio - Magnolia
 1.147 Loss+LAE Ratio to Case Ratio - Industry
 1.128 UR Loss+LAE To Total Loss+LAE - Magnolia
 1.128 UR Loss+LAE To Total Loss+LAE - Industry

Estimated Total LAE Paid Alternative: 289
 138
 403
 795
 1,288
 69,480
 94,715
 1,289
 289

Total of settled loss gross up June 1 to Dec 31, 2009
 80% gross up
 Total LAE would 4% 1 distribution of costs

Actuary's Best Est. Estimated Loss+LAE	Actuary's Best Est. Estimated Loss+LAE	Actuary's Best Est. Estimated Loss+LAE	Actuary's Best Est. Estimated Loss+LAE
2008	1,871	3,494	3,735
2009	8,458	11,720	12,653
Total	7,099	18,204	18,988
Total A1 12/31/2009	7,099	18,204	18,988
Total A1 8/30/2009	6,428	14,848	15,708

MAGNOLIA INSURANCE COMPANY

December 31, 2009

50% Quota Share Reinsurance

**IN THE CIRCUIT COURT OF THE
SECOND JUDICIAL CIRCUIT IN AND
FOR LEON COUNTY, FLORIDA**

IN RE: The Receivership of
MAGNOLIA INSURANCE COMPANY,
a Florida corporation authorized to transact
insurance business in Florida

CASE NO.: 2010-

**CONSENT ORDER APPOINTING THE FLORIDA DEPARTMENT OF
FINANCIAL SERVICES AS RECEIVER FOR PURPOSES OF LIQUIDATION,
INJUNCTION, AND NOTICE OF AUTOMATIC STAY**

THIS CAUSE was considered on the Department of Financial Services' (hereinafter the "Department") Petition for Order Appointing the Florida Department of Financial Services as Receiver for Liquidation, Injunction, and Automatic Stay of MAGNOLIA INSURANCE COMPANY (hereinafter the "Respondent"). The Court, having reviewed the pleadings of record, and otherwise being fully informed in the premises finds that:

1. This Court has jurisdiction pursuant to Section 631.021(1), Florida Statutes, and venue is proper pursuant to Section 631.021(2), Florida Statutes.
2. Respondent is a corporation authorized pursuant to the Florida Insurance Code to transact business in the state of Florida as a domestic property and casualty insurer. Respondent's principal place of business is at 2601 South Bayshore Drive, Suite 1215, Coconut Grove, Florida 33133. Respondent also does business at 911 East Park Avenue, Tallahassee, Florida.
3. Section 631.021(3), Florida Statutes, provides that a delinquency proceeding pursuant to Chapter 631, Florida Statutes, constitutes the sole and exclusive method of liquidating, rehabilitating, reorganizing, or conserving an insurer. Further,

Section 631.025(2), Florida Statutes, authorizes the Department to initiate delinquency proceedings against any insurer if the statutory grounds are present as to that insurer.

4. Section 631.061(1), Florida Statutes, authorizes the Department to apply to this Court for an Order directing it to liquidate a domestic insurer upon the ground that said insurer is insolvent or is about to become insolvent. Respondent has consented to the appointment of the Department as Receiver for purposes of liquidation without a hearing. It is in the best interest of Respondent and its creditors and insureds that the relief in the Petition be granted.

5. The Respondent is insolvent in that it is unable to pay its debts as they become due in the usual course of business. If all Respondent's statutorily admitted assets were made immediately available, the Respondent's liabilities exceed its statutorily admitted assets. Accordingly, Respondent is insolvent within the meaning of Sections 631.011(12), (14), and 631.061(1), Florida Statutes.

6. By letter dated April 29, 2010, to the Honorable Alex Sink, Chief Financial Officer of the State of Florida, Kevin McCarty, Commissioner of the Florida Office of Insurance Regulation, recommended that delinquency proceedings, pursuant to Chapter 631, Florida Statutes, be initiated against Respondent. Respondent consented to the appointment of the Department as Receiver for the purposes of liquidation.

7. Respondent must be liquidated to protect the remaining assets of Respondent for the benefit of its policyholders, creditors and the public.

8. In its Stipulation and Consent to Receivership and Liquidation, Respondent consented to the appointment of the Florida Department of Financial Services as Receiver for Respondent, consented to any injunctions this Court deemed

necessary and appropriate, and further consented to entry of this Order Appointing the Florida Department of Financial Services as Receiver for Purposes of Liquidation, Injunction and Notice of Automatic Stay.

THEREFORE, IT IS ORDERED AND ADJUDGED as follows:

9. The Department of Financial Services of the State of Florida shall be and is hereby appointed Receiver of Respondent for purposes of Liquidation, effective immediately.

10. The Receiver shall be authorized and directed to:

A. Take immediate possession of all the property, assets, and estate, and all other property of every kind whatsoever and wherever located belonging to Respondent pursuant to Sections 631.111 and 631.141, Florida Statutes, including but not limited to: offices maintained by Respondent, rights of action, books, papers, evidences of debt, bank accounts, savings accounts, certificates of deposit, stocks, bonds, debentures and other securities, mortgages, furniture, fixtures, office supplies and equipment, wherever situate and however titled, whether in the possession of Respondent or its officers, directors, shareholders, trustees, employees, consultants, attorneys, agents or affiliates and all real property of Respondent, wherever situate, whether in the possession of Respondent or its officers, directors, shareholders, trustees, employees, consultants, attorneys, agents or affiliates.

B. Liquidate the assets of Respondent, including but not limited to, funds held by Respondent's agents, subagents, producing agents, brokers, solicitors, service representatives or others under agency contracts or otherwise

which are due and unpaid to Respondent, including premiums, unearned commissions, agents' balances, agents' reserve funds, and subrogation recoveries.

C. Employ and authorize the compensation of legal counsel, actuaries, accountants, clerks, consultants, and such assistants as it deems necessary, purchase or lease personal or real property as it deems necessary, and authorize the payment of the expenses of these proceedings and the necessary incidents thereof, as approved by the Court, to be paid out of the funds or assets of the Respondent in the possession of the Receiver or coming into its possession.

D. Reimburse such employees, from the funds of this receivership, for their actual necessary and reasonable expenses incurred while traveling on the business of this receivership.

E. Not defend or accept service of process on legal actions wherein Respondent, the Receiver, or the insured is a party defendant, commenced either prior to or subsequent to the order, without authorization of this Court; except, however, in actions where Respondent is a nominal party, as in certain foreclosure actions, and the action does not affect a claim against or adversely affect the assets of Respondent, the Receiver may file appropriate pleadings in its discretion.

F. Commence and maintain all legal actions necessary, wherever necessary, for the proper administration of this receivership proceeding.

G. Collect all debts which are economically feasible to collect which are due and owing to Respondent.

H. Deposit funds and maintain bank accounts in accordance with

Section 631.221, Florida Statutes.

I. Take possession of all of Respondent's securities and certificates of deposit on deposit with the Chief Financial Officer of Florida or any similar official of any other state, if any, and convert to cash as much as may be necessary, in its judgment, to pay the expenses of administration of this receivership or otherwise best benefit the estate.

J. Publish notice specifying the time and place fixed for the filing of claims with the Receiver once each week for three consecutive weeks in the Florida Administrative Weekly published by the Secretary of State, and at least once in the Florida Bar News and to publish notice by similar methods in all states where Respondents may have issued insurance policies.

K. Negotiate and settle subrogation claims and Final Judgments up to and including the sum of Twenty Thousand Dollars (\$20,000.00) without further order of this Court.

L. Sell any salvage recovered property having value of not more than Twenty Thousand Dollars (\$20,000.00) without further order of this Court.

M. Coordinate the operation of the Receivership with the Florida Insurance Guaranty Association ("FIGA") pursuant to Part II, Chapter 631, Florida Statutes. The Receiver may, in its discretion, contract with the appropriate guaranty association to provide services as are necessary to carry out the purposes of Chapter 631.

N. Give notice of this proceeding to Respondent's agents pursuant to Section 631.341, Florida Statutes, and to its insureds, if any.

O. All officers, directors, trustees, administrators, agents and employees and all other persons representing Respondent or currently employed or utilized by Respondent in connection with the conduct of its business are discharged forthwith; provided, however, the Receiver may retain such persons in the Receiver's discretion.

P. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of Respondent's affairs or the affairs of its affiliates shall be required to fully cooperate with the Receiver, pursuant to Section 631.391, Florida Statutes, notwithstanding the provisions of the above paragraph.

Q. Title to all property, real or personal, all contracts, rights of action and all books and records of Respondent, wherever located, is vested in the Receiver pursuant to Sections 631.111 and 631.141, Florida Statutes.

R. All attorneys employed by Respondent as of the date of the Order, within 10 days notice of the Order, are required to report to the Receiver on the name, company claim number and status of each file they are handling on behalf of the Respondent. Said report shall also include an accounting of any funds received from or on behalf of the Respondent. All attorneys employed by Respondent shall be discharged as of the date of the Order unless their services are retained by the Receiver. All attorneys employed by Respondent shall be advised that pursuant to Section 631.011(21), Florida Statutes, a claim based on

mere possession does not create a secured claim and all attorneys employed by Respondent, pursuant to In Re the Receivership of Syndicate Two, Inc., 538 So.2d 945 (Fla. 1st DCA 1989), who are in possession of litigation files or other material, documents or records belonging to or relating to work performed by the attorney on behalf of Respondent shall be required to deliver such litigation files, material, documents or records intact and without purging to the Receiver, on request, notwithstanding any claim of a retaining lien which, if otherwise valid, shall not be extinguished by the delivery of these documents.

S. All agents, brokers or other persons having sold policies of insurance and/or collected premiums on behalf of the Respondent shall be required to account for and pay all premiums and commissions unearned due to cancellation of policies by the Order or in the normal course of business owed to the Respondent directly to Receiver within 30 days of demand by the Receiver or appear before this Court to show cause, if any they may have, as to why they shall not be required to account to the Receiver or be held in contempt of Court for violation of the provisions of the Order. No agent, broker, premium finance company or other person shall use premium monies owed to the Respondent for refund of unearned premium or for any purpose other than payment to the Receiver.

T. Any premium finance company which has entered into a contract to finance a premium for a policy which has been issued by the Respondent shall be required to pay any premium owed to the Respondent directly to the Receiver.

U. Reinsurance premiums due to or payable by Respondent shall be

remitted to, or disbursed by, the Receiver. Reinsurance losses recoverable or payable by Respondent shall be handled by the Receiver. All correspondence concerning reinsurance shall be between the Receiver and the reinsuring company or intermediary.

V. Upon request by the Receiver, any company providing telephonic services to Respondent shall be required to provide a reference of calls from the number presently assigned to Respondent to any such number designated by the Receiver or perform any other services or changes necessary to the conduct of the receivership.

W. Any bank, savings and loan association, or other financial institution which has on deposit, in its possession, custody or control any funds, accounts and any other assets of Respondent, shall be required to immediately transfer title, custody and control of all such funds, accounts and other assets to the Receiver. The Receiver shall be authorized to change the name of such accounts and other assets, withdraw them from such bank, savings and loan association or other financial institution, or take any lesser action necessary for the proper conduct of this receivership. No bank, savings and loan association or other financial institution shall be permitted to exercise any form of set-off, alleged set-off, lien, any form of self-help whatsoever, or refuse to transfer any funds or assets to the Receiver's control without the permission of this Court.

X. Any entity furnishing telephone, water, electric, sewage, garbage or trash removal services to Respondent shall be required to maintain such service and transfer any such accounts to the Receiver as of the date of the Order, unless

instructed to the contrary by the Receiver.

Y. Any data processing service, which has custody or control of any data processing information and records including but not limited to source documents, data processing cards, input tapes, all types of storage information, master tapes or any other recorded information relating to Respondent shall be required to transfer custody and control of such records to the Receiver. The Receiver shall be authorized to compensate any such entity for the actual use of hardware and software which the Receiver finds to be necessary to this proceeding. Compensation shall be based upon the monthly rate provided for in contracts or leases with Respondent which was in effect when this proceeding was instituted, or based upon such contract as may be negotiated by the Receiver, for the actual time such equipment and software is used by the Receiver.

Z. The United States Postal Service shall be directed to provide any information requested by the Receiver regarding Respondent and to handle future deliveries of Respondent's mail as directed by the Receiver.

AA. All claims shall be filed with the Receiver on or before 11:59:59 p.m. on May 2, 2011, or be forever barred, and all such claims shall be filed on proof of claim forms prepared by the Receiver.

BB. Except for contracts of insurance, if the Receiver does not assume or reject an executory contract, in whole or in part, to which Respondent was a party within ninety (90) days of the date of this Order or from the date of Receiver's actual knowledge of such contract, whichever is later, then such contract shall be deemed rejected. "Actual Knowledge" means the Receiver has in

its possession the original of a written contract to which the Respondent is a party, and the Receiver has notified the vendor in writing acknowledging the existence of the contract. Further, the Receiver shall have the authority to do the following:

A) Pay for services provided by any of Respondent's vendors, in the ninety (90) day period prior to assuming or rejecting the contract, which are necessary to administer the Receivership estate;

B) Once the Receiver determines Respondent's vendor is necessary in the continued administration of the Receivership estate for a period to exceed the ninety (90) days from the date of this order, or from the date of Receiver's actual knowledge of such contract, whichever is later, the Receiver may make minimal modifications to the terms of the contract, including, but not limited to, the expiration date of the agreement, the scope of the services to be provided, and/or the compensation to be paid to Respondent's vendor pursuant to the contract. "Minimal Modifications" shall mean any minimum alteration made to the contract in order to adapt to the new circumstances of the Receivership estate. In no event will any minimal modification be construed as the Receiver entering into a new contract with Respondent's vendor.

Any vendor, including but not limited to, any and all employees / contractors of insurer, claiming the existence of a contractual relationship with the insurer shall provide notice to the Receiver of such relationship.

This notice shall include any and all documents and information regarding the terms and conditions of the contract, including a copy of the written contract between the vendor and the insurer, if any, what services or goods were provided

pursuant to the contract, any current, future and/or past due amounts owing under the contract, and any supporting documentation for third party services or goods provided. Failure to provide the required information may result in vendors' contractual rights not being recognized by the Receiver. The rights of the parties to any such contracts are fixed as of the date of the Order and any cancellation under this provision shall not be treated as an anticipatory breach of such contracts.

CC. All affiliated companies and associations, including but not limited to Magnolia Agency, LLC, and Irl Financial Group, Inc., shall make their books and records available to the Receiver, to include all records located in any premises occupied by said affiliate, whether corporate records or not, and to provide copies of any records requested by the Receiver whether or not such records are related to Respondent. The Receiver shall have title to all policy files and other records of, and relating to Respondent, whether such documents are kept in offices occupied by an affiliate company or any other person, corporation, or association. The Receiver shall be authorized to take possession of any such records, files, and documents, and to remove them to any location in the Receiver's discretion. Any disputed records shall not be withheld from the Receiver's review, but shall be safeguarded and presented to this Court for review prior to copying by the Receiver.

DD. The Receiver shall have complete access to and administrative control of all computer systems, information, equipment and/or records of the Respondent and its affiliates at all times including but not limited to Respondent's computer records. Each affiliate shall be given reasonable access to such records and systems for the purpose of

carrying out its business operations. Any affiliate or person, disclosed or undisclosed, having custody or control of any data processing system, information, equipment and/or records including hardware, operating systems, security systems, all types of data storage systems, master tapes and any other electronic data relating to Respondent shall immediately transfer custody and control of such systems and records to the Receiver.

EE. Any person, firm, corporation or other entity having notice of the Order that fails to abide by its terms shall be directed to appear before this Court to show good cause, if any they may have, as to why they shall not be held in contempt of Court for violation of the provisions of this Order.

11. Except as noted in the following paragraph, pursuant to the provisions of 631.252, Florida Statutes, all policies of insurance or similar contracts of coverage that have not expired are canceled effective 11:59:59 PM on _____, 2010. Policies or contracts of coverage with normal expiration dates prior to the dates otherwise applicable under this paragraph, or which are terminated by insureds or lawfully canceled by the Receiver or insurer before such date, shall stand canceled as of the earlier date.

12. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Magnolia Insurance Company having any interest in the building located at 2601 Bayshore Drive, Suite 1215, Coconut Grove, Fl 33126 or any other suite, or any other facility in which Magnolia Insurance Company may operate, including but not limited to 911 East Park Avenue, Tallahassee, Florida, shall make available, at that location and at no charge to the Receiver or to Magnolia Insurance Company, office space, and related facilities (telephone service,

copiers, computer equipment and software, office supplies, parking, etc.) to the extent deemed necessary by the Receiver in its sole discretion.

13. All subsidiaries, affiliates, parent corporations, ultimate parent corporations, and any other business entity affiliated with Magnolia Insurance Company having any interest in the computer equipment and software currently used by or for Magnolia Insurance Company shall make such computer equipment and software available to the Receiver at no charge to the Receiver or Magnolia Insurance Company to the extent deemed necessary by the Receiver in its sole discretion.

CONTINUATION OF INVESTIGATION

14. The Receiver shall be authorized to conduct an investigation as authorized by Section 631.391, Florida Statutes, of Respondent and its affiliates, as defined above, to uncover and make fully available to the Court the true state of Respondent's financial affairs. In furtherance of this investigation, Respondent and its affiliates shall be required to make all books, documents, accounts, records, and affairs, which either belong to or pertain to Respondent, available for full, free and unhindered inspection and examination by the Receiver during normal business hours (9:00 a.m. to 5:00 p.m.) Monday through Friday, from the date of the Order. Respondent and the above specified entities shall be required to cooperate with the Receiver to the fullest extent required by Section 631.391, Florida Statutes. Such cooperation shall include, but not be limited to, the taking of oral testimony under oath of Respondent's officers, directors, managers, trustees, agents, adjusters, employees, or independent contractors of Respondent, its affiliates and any other person who possesses any executive authority over, or who exercises any control over, any segment of the affairs of Respondent in both their official, representative and

individual capacities and the production of all documents that are calculated to disclose the true state of Respondent's affairs.

15. Any officer, director, manager, trustee, administrator, attorney, agent, accountant, actuary, broker, employee, adjuster, independent contractor, or affiliate of Respondent and any other person who possesses or possessed any executive authority over, or who exercises or exercised any control over, any segment of the affairs of Respondent or its affiliates shall be required to fully cooperate with the Receiver as required by Section 631.391, Florida Statutes, and as set out in the preceding paragraph. Upon receipt of a certified copy of the Order, any bank or financial institution shall be required to immediately disclose to the Receiver the existence of any accounts of Respondent and any funds contained therein and any and all documents in its possession relating to Respondent for the Receiver's inspection and copying.

NOTICE OF AUTOMATIC STAY

16. Notice is hereby given that, pursuant to Section 631.041(1), Florida Statutes, the filing of the Department's initial petition herein operates as an automatic stay applicable to all persons and entities, other than the Receiver, which shall be permanent and survive the entry of this order, and which prohibits:

A. The commencement or continuation of judicial, administrative or other action or proceeding against the insurer or against its assets or any part thereof;

B. The enforcement of judgment against the insurer or an affiliate, provided that such affiliate is owned by or constitutes an asset of Respondent, obtained either before or after the commencement of the delinquency proceeding;

- C. Any act to obtain possession of property of the insurer;
- D. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;
- E. Any action to collect, assess or recover a claim against the insurer, except claims as provided for under Chapter 631;
- F. The set-off or offset of any debt owing to the insurer except offsets as provided in Section 631.281, Florida Statutes.

17. All Sheriffs and all law enforcement officials of the state shall cooperate with and assist the Receiver in the implementation of this Order.

18. This Court retains jurisdiction of this cause for the purpose of granting such other and further relief as from time to time shall be deemed appropriate.

19. The Respondent is ordered into liquidation, effective this date.

DONE and ORDERED in Chambers at the Leon County Courthouse in Tallahassee, Leon County, Florida this ___ day of _____, 2010.

CIRCUIT COURT JUDGE

COPIES FURNISHED TO:
William Spillias, Chief Attorney
Florida Department of Financial Services
Division of Rehabilitation and Liquidation
P.O. Box 110
Tallahassee, Florida 32302