



**Law, Redd, Crona & Munroe, P.A.**  
*Certified Public Accountants*

February 8, 2016

Mr. Fred Staubit  
Florida Department of Financial Services  
Division of Rehabilitation and Liquidation  
2020 Capital Circle SE, #310  
Tallahassee, FL 32301

**VIA E- MAIL**

RE: The Estate of Magnolia Insurance Company

Dear Fred:

Attached please find our insolvency report prepared in accordance with our contract, as amended, dated November 19, 2013, including supporting documents utilized in our analysis of the above referenced estate. Our report begins on Page 1 with concluding comments on Pages 16 – 17. A list of documents referenced in preparing our report is shown on Pages 18 – 19.

If you should have any questions or require further analysis, please do not hesitate to contact me.

Sincerely,

Jeanne C. Allen, CPA

JCA:  
Attachments



# INSOLVENCY REPORT

## MAGNOLIA INSURANCE COMPANY

### Receivership Information/Reference –

<b>Name of Receivership</b>	<b>Magnolia Insurance Company</b>
Receivership Number	527
Date of Conservation	N/A
Date of Rehabilitation	N/A
Date of Liquidation	April 30, 2010

**Scope** – As provided in Amendment No. 1 to Provider Contract between the “Receiver of the Estate of Magnolia Insurance Company,” (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as “Receiver,” and Law, Redd, Crona & Munroe, P.A., hereinafter referred to as “Provider” effective November 19, 2013, under Section 5, SCOPE OF WORK, states in part:

5.1 Prepare an insolvency summary report (“Insolvency Report”), pursuant to the requirements of 631.398(3), Florida Statutes, relating to the history and causes of insolvency, including a statement of the business practices of Magnolia Insurance Company, which led to its insolvency.

5.1.1 For the receivership of Magnolia Insurance Company, Provider will review Magnolia Insurance Company’s records in the Receiver’s possession for information relating to the cause(s) of Magnolia Insurance Company’s insolvency and prepare and submit an approved, written summary report on those causes.

The authority under which the insolvency report is written is Section 631.398, Florida Statutes which states as follows:

### **The 2015 Florida Statutes**

[Title XXXVII](#)  
INSURANCE

[Chapter 631](#)  
INSURER INSOLVENCY; GUARANTY OF  
PAYMENT

[View Entire Chapter](#)

**631.398 Prevention of insolvencies.**—To aid in the detection and prevention of insurer insolvencies or impairments:

(1) Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. [119.07](#)(1) until the termination of a delinquency proceeding.



(2) The office shall:

(a) Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b) Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3) The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

**History.**—ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

Information relied on to prepare this insolvency report for Magnolia Insurance Company (MIC, Magnolia or the Company) was obtained from Provider's review of files provided directly from the Receiver on back up data storage and also through secure email transmission during the forensic phase of the Provider Contract. The documents used in preparing the insolvency report were reviewed by Jeanne Allen, CPA, at various times during the time period October 2015 through January 2016. Certain document copies and electronic data used in preparing the insolvency report were initially obtained during forensic procedures directly from the Receiver at 2020 Capital Circle SE and also from the Receiver's warehouse on Sessions Rd. beginning in October 2010 and continuing at various times through November 2012. During this phase of the Provider's contract, documents were reviewed by the following individuals:

- Jeanne Allen, CPA
- Richard Law, CPA
- Rick Lamb, CPA
- Harry Redd, CPA
- Lynn Graybar, CPA
- Jiajing Liu, CPA
- Geoffrey Adams, CISA

**Business** – Historical information related to the company is as follows:

- **Date and Location of Incorporation** – MIC was originally incorporated on May 25, 2005 in the state of Florida. MIC was a wholly-owned subsidiary of Irl Financial Group, domiciled in the state of Florida. MIC's principal place of business was Coconut Grove, Florida, and also did business in Tallahassee, Florida.

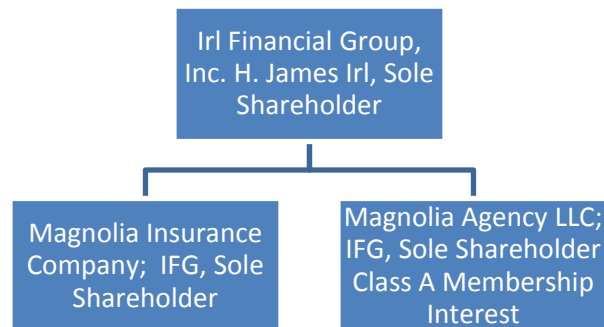


- Date Company began doing business in Florida – MIC was originally organized and incorporated on May 25, 2005. On April 28, 2008, MIC received its certificate of authority from the Florida Office of Insurance Regulation, and commenced insurance operations on that date.
- Lines of business and certificates of authority – On April 28, 2008, MIC was issued a license as a property and casualty insurer pursuant to Chapters 624 and 628, F.S., to transact Fire (0010), Allied Lines (0020), Homeowners Multi Peril (0040) and Other Liability (0170) lines of insurance coverage Florida Company Code No. 08-202878592.
- Geographic – MIC primarily operated out of Coconut Grove, Florida. The primary business administration office was located in Tallahassee, Florida.
- Operating results – MIC filed an annual statement for the year ended December 31, 2008, the first year of insurance operations. There were quarterly statements filed for the first two quarters during 2009, however, the Company did not file a statement for the quarter ended September 30, 2009, which was due in mid-November 2009. Due to the delinquent filing, OIR required Magnolia to execute a Stipulation and Consent to Receivership and Liquidation, effective November 30, 2009, and placed the Company under administrative supervision as of December 14, 2009 (Case No: 107879-09-CO). During our review of the Company's electronic data, we noted a quarterly statement prepared for the quarter ended September 30, 2009 that was dated as of December 29, 2009, but it is unclear if this statement was ever filed with OIR. Additionally, we reviewed preliminary data as of December 31, 2009 that was prepared while the Company was under administrative supervision. This data was included as "Exhibit C" of the Petition for Liquidation (Case No: 2010-CA-1522 dated April 30, 2010). Accordingly, the following operating results have been extracted from non-comparative periods, but are presented as the best information available to show the financial picture prior to consenting to administrative supervision up through the final operating results available as prepared at the request of the administrative supervisor.

	12/31/2009	9/30/2009	6/30/2009	12/31/2008
Net Premiums Earned	\$ 45,673,647	\$ 39,456,301	\$ 32,960,320	\$ 33,856,428
Underwriting Loss	\$ (41,672,660)	\$ (21,957,244)	\$ (5,442,272)	\$ 765,768
Net Loss	\$ (37,409,170)	\$ (17,779,870)	\$ (3,010,240)	\$ (1,934,029)

- Ownership – Magnolia was part of a holding company system, and was a wholly owned subsidiary of Irl Financial Group Incorporated (IFG). H. James Irl was the sole shareholder of IFG. IFG also owned 100% of the Class A shares of Magnolia Agency, LLC (Agency), with 100% of the Class B shares being owned by Allianz Risk Transfer, Inc. (Allianz or ART), a New York corporation. Agency was originally a wholly owned subsidiary of IFG; however this was changed by agreement effective February 27, 2008 whereby IFG transferred the Class B Membership Interests of Agency to Allianz.





- Affiliates – Magnolia engaged Agency as the Company’s exclusive managing general agent (MGA) as representative for the production, servicing and acceptance of insurance as authorized under the Company’s certificate of authority, and to manage Magnolia’s policy and claims administration functions. Under terms of the MGA agreement dated February 26, 2008, Agency was granted authority for binding policies, premium collection and claims adjusting. In performing its responsibilities under the MGA Agreement, Agency contracted with third party administrators to perform certain services, including processing of policy data and claims, as well as overall accounting and reporting of the insurance company business. Initially these services were contracted with CGI Technologies and Solutions, Inc. (CGI), but later shifted to other third party administrators. As compensation under the MGA Agreement, Agency was to receive 26% of the Company’s Direct Written Premium, less pass through surcharges, and net of cancellations, plus policy fees of \$25 per policy, and was responsible for paying agents’ commissions and payments to third party administrators. Some personnel costs were allocated from Magnolia to Agency. Initially, there was another affiliate, Magnolia Claims Services, LLC, a wholly owned subsidiary of Agency, however there was no evidence that this entity ever performed services on behalf of Agency or Magnolia.

Management – People involved with the ownership and management of the Company are listed below. Specific dates of employment or board service are unknown, however, all directors and most key personnel were listed in the Company’s Plan of Operations that was submitted to OIR early in 2008 as part of the application for a certificate of authority, and the Company’s operations were short lived with Magnolia coming under administrative supervision in December 2009, followed by liquidation at the end of April 2010.

- Directors and officers – MIC’s Articles of Incorporation, as well as the 2<sup>nd</sup> quarter statement for 2009 (the last filed by the company before administrative supervision), lists the following individuals as officers and directors:
  - H. James Irl – President and Director
  - Peter Harrison – Director
  - Gregg Patterson – Treasurer and Director
  - Ernesto Ramon – Director
  - Alberto Sarasua – Secretary and Director
- Management, other accounting and key personnel were as follows:
  - H. James Irl - CEO and basically 100% owner through Irl Financial Group (IFG had no other business other than owner of MIC); Irl’s wife, Kathy Pall, also worked for the company as Marketing Director



- Gregg Patterson – CFO and VP of Operations
- Lou A. DiPaolo – Claims Manager
- Ken Ujcz – VP of Underwriting
- Lee Stuart – Voluntary Market Consultant
- Katie Lily – Controller

Background/Events of Impact –

Magnolia, a wholly-owned subsidiary of IFG, was domiciled in the state of Florida. The Company was incorporated on May 25, 2005, and received its certificate of authority from the Florida Office of Insurance Regulation and began insurance operations on April 28, 2008. The Company was headquartered in Coconut Grove, Florida, with administrative offices in Tallahassee, Florida. The Company was only licensed in the state of Florida.

Magnolia received initial funding of \$20 million from Allianz in the form of a loan to IFG under a Credit Agreement dated February 27, 2008. The loan proceeds IFG obtained from Allianz were then invested in Magnolia and were placed in a trust account on behalf of Magnolia: \$19,700,000 into an account at Northern Trust and \$300K placed on deposit with the Florida Division of Treasury, Bureau of Collateral Management. The loan from Allianz to IFG incorporated several related agreements. Collectively, these agreements had a significant financial impact on the IFG Holding Company group and are summarized beginning on page 13.

Effective February 26, 2008, the Company engaged Agency as the Company's exclusive managing general agent (MGA) to manage the Company's policy and claims administration functions. Agency was originally a wholly-owned subsidiary of IFG; however this was changed effective February 27, 2008 by The Agreement to Transfer Class B Membership, whereby IFG agreed to transfer the Class B Membership Interests of Agency to Allianz. IFG retained the Class A Membership Interests of Agency. As compensation for the MGA services, Agency was entitled to a base fee of 26% of the Company's Direct Written Premium, less pass through surcharges, and net of cancellations, plus policy fees of \$25 per policy.

Effective April 28, 2008, Magnolia received approval from the OIR by Consent Order in Case No: 95237-08-CO to assume up to 60,000 policies from Citizens Property Insurance (Citizens) under the OIR approved Non-Bonus Take-out Plan for depopulation of certain policies from Citizens. This was later amended by Consent Order in Case No: 964264-08-CO in August 2008 to approve the assumption of additional policies (up to 60,000 ex-wind policies).

Magnolia participated in three "take-outs" under the policy assumption agreement with Citizens in June, August and November of 2008. Policyholders had up to a year (to the next renewal date) to "opt out" and return to Citizens. The Company assumed written premiums of \$109,783,993 during 2008. The Company provided ceding commission to Citizens of 6% of assumed premiums to cover the acquisition costs incurred by Citizens. Per the 2008 audited statements, total ceding commissions charged to operations in 2008 were \$6,587,039. While the Company began marketing a voluntary program in May 2009, Magnolia primarily wrote renewal business on the policies originally assumed from Citizens. The voluntary program never materialized into any significant business and yielded only a small number of policies for the Company.



Effective March 1, 2008, Agency entered into a Processing Services Agreement with CGI Technologies and Solutions, Inc. (CGI) to perform policy and claims processing services, as well as additional services. In connection with this agreement, CGI also provided assistance with the overall accounting and statutory reporting of Magnolia.

During the course of Agency's agreement with CGI, disputes arose between the parties with Agency alleging it suffered damages with respect to CGI's performance, and CGI alleging it was owed certain amounts that had not been paid by Agency. Effective September 2, 2009, Agency, CGI and Allianz entered a Settlement Agreement and Release, whereby they agreed to terminate the Processing Services Agreement and transition those services to a new service provider. In accordance with the settlement agreement, CGI was paid \$2.1 million to terminate this agreement.

Prior to the termination of CGI, Agency entered into an agreement effective May 1, 2009 with National Catastrophe Adjusters, Inc. (NCA) to perform claims administration services. This transition was completed during 2009 (approximately September 2009). With the transition, NCA found over 200 claims that were listed as closed by the previous TPA, that either were in litigation or had remaining activity. Agency also contracted with BIPT, Inc./MacNeill Group (BIPT) to perform policy administration services and accounting. This transition was completed in February 2010 (approximately).

Per letter dated June 11, 2009 from Demotech, Inc., Magnolia's Financial Stability Rating (FSR) of A was withdrawn effective June 15, 2009. The primary factors causing the withdrawal of the rating were: 1) leverage (ratio of total liabilities to surplus) was well above the ratio normally acceptable for companies with an A rating or above; 2) the actual operating results were well below the projections that were relied upon when initially assigning an FSR of A to Magnolia, and 3) the net retention underlying Magnolia's catastrophe reinsurance program.

Subsequent to June 30, 2009, MIC and Allianz (Bermuda Branch) entered a 50% Quota Share agreement to help with surplus relief. Under the quota share agreement, the two parties were to share in Magnolia's net liability. The agreement had an effective date of June 1, 2009.

By Letter dated November 11, 2009, the Company received a notice from the Reinsurer (ART) of its intent to terminate the Quota Share Reinsurance Contract effective September 30, 2009, citing breach of contract for nonpayment in accordance with the terms of the Contract. Based on termination as of September 30, 2009, cutting off the liability to the Reinsurer as of that date, and assumption of unearned premium by Magnolia, the Reinsurer calculated the net amount due from Magnolia to ART of \$5,068,000. Further, the notice offered immediate full and final commutation of the Quota Share Reinsurance Contract, with a net settlement proposed as payment due of \$0.827 million from Magnolia to ART. Per the 3<sup>rd</sup> Quarter statement for 2009, the Company reported this as a subsequent event and indicated that they did not believe the reinsurer had cause for termination in accordance with the terms of the contract and intended to enforce the contract terms including the policy period, and stated that the outcome was not determinable at the date of the filing.



On or about the time that Allianz put together the 50% Quota Share Agreement, Allianz become more involved with Magnolia's insurance operations, hiring consultants to conduct in-depth digging into the operations and accounting thereof. Based on the deposition of Gregg Patterson, the Allianz representatives were onsite at Magnolia for several months up until about November 2009, and there were discussions regarding a takeover of the Company. Mr. Patterson talked about the deteriorating conditions of the Company, and pointed out that Magnolia's operating results were very different from the Company's original projections (projected loss ratio was 25%, but ended up being 47%; projected reinsurance costs were 38%, but ended up being 55%; projected investment income was 5%, but ended up being 1%). Mr. Patterson also talked about the Company's troubles stemming from the systemic problem that the pick out of the Citizens policies was heavily concentrated in South Florida, and from sink hole counties. While this resulted in higher premiums assumed from Citizens, it also meant higher reinsurance costs and higher losses. Also with the Citizens take outs, policyholders could opt back into Citizens up until their renewal date, and Magnolia's original projections did not factor in the constant loss of business as people kept opting out and going back to Citizens. Mr. Patterson also talked about the problem of Magnolia not able to see their data with CGI and how this was an impairment regarding knowledge of the loss development.

Subsequent to Magnolia failing to file the 3<sup>rd</sup> quarter statement for 2009 that was due in November 2009, Magnolia consented 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 by joint resolution of the President, Directors and sole stockholder of Magnolia effective November 30, 2009. Accordingly, a Stipulation and Consent to Receivership and Liquidation was filed on November 30, 2009.

On December 14, 2009, a Consent Order for Administrative Supervision was issued for OIR to review and assess the financial condition of Magnolia. Upon commencement of Administrative Supervision, James Irl was required to resign all positions with the Company and refrain from exercising any managerial control, and the Consent Order put limits on actions that could be taken by the Company without OIR approval. The Consent Order further required Magnolia to stop writing any new or renewal business and cooperate in the development of a corrective action plan and to assist OIR in facilitating due diligence review by potential acquirers. This order was agreed to by James Irl, on behalf of IFG, as sole shareholder of Magnolia effective December 10, 2009.

During the period of Administrative Supervision, Merlinos and Associates, Inc. was hired to assess Magnolia's losses and loss expense reserves and to assess the overall financial situation of the Company. The analysis performed by Merlinos resulted in loss ratio expectations of 37.5% for 2008 and 47.5% for 2009, which were higher than those estimated by George Dunlap, Magnolia's appointed actuary. This analysis resulted in an adjustment to increase net losses and reserves of \$9,825,750, with an offsetting decrease to the Company's already negative surplus.

Per letter dated April 29, 2010, OIR notified the Chief Financial Officer of the Department of Financial Services that delinquency proceedings should be initiated against MIC. As described in this letter, during the period of Administrative Supervision, the OIR facilitated meetings with various parties to negotiate a possible solvent runoff plan. Also during the period of Administrative Supervision, the OIR restructured administrative



contracts for policy administration and continuance of claims payments, issued non-renewal notices and reduced the book of business to an anticipated 28,236 policies for the underwriting year beginning June 1, 2010, and reduced the unearned premium liability from \$46 million at the end of 2009 to less than \$14.6 million projected at May 31, 2010. The letter further stated that since negotiations with interested parties had not yielded an acceptable settlement that would allow the Company to continue the runoff through the coming hurricane season, and with Company assets down to approximately \$30 million in cash and liquid assets, the statutory balance sheets prepared at the request of the supervisor reflected surplus as regard to policyholders at negative \$20,151,380. It was further stated that most of the insolvency would be for general creditor claims as a result of unpaid reinsurance premiums estimated at over \$19 million.

On April 30, 2010, the Receiver filed a petition for liquidation, injunction, and notice of automatic stay of MIC, citing that the Company is no longer writing new or renewal business and had not done so for several months, statutory balance sheets prepared at the request of the supervisor reflected that the company was insolvent, and given the commencement of the 2010 hurricane season, the Department requested entry of an Order of liquidation that would allow conservation of remaining assets of Magnolia and allow time to assist policyholders in locating and transitioning to another insurer. A Consent Order for purposes of liquidation was filed on April 30, 2010 citing that Magnolia was insolvent within the meaning of Sections 631.011(12), (14), and 631.061(1), Florida Statutes, in that the Company would have been unable to pay its debts as they became due in the usual course of business. The Consent Order further stated that the Company must be liquidated to protect the remaining assets of Magnolia for the benefit of its policyholders, creditors and the public.

On July 10, 2013, the Court entered an order approving the Receiver's first interim claims report and recommendation which addressed non-guaranty claims in Classes 2 and 3. The first interim claims report reflected 28,687 filed claims totaling \$9,527,288.50, of which the Receiver recommended to allow \$2,793,187.85.

In October 2013, the Receiver met with Allianz and agreed on a settlement in principle of the litigation in the amount of \$6,950,000. The agreement was a global settlement of all matters, which was to include their POC, any reinsurance (setoffs included), and any counterclaims yet to be asserted, subject to court approval.

On November 12, 2013, the Court entered an order approving the Receiver's second interim claims report and recommendation which addressed non-guaranty claims in Classes 6 through 8. The second interim claims report reflected 105 filed claims totaling \$19,534,755.55, of which the Receiver recommended to allow \$16,370,230.14.

On December 6, 2013, the Court entered an order approving the Receiver's third interim claims report and recommendation which addressed non-guaranty claims in Classes 2 and 6. The third interim claims report reflected 5 claims filed for a total amount claimed of \$13,600,036, of which the Receiver recommended to allow \$145,000.



The Receiver's Motion for approval of the third interim claims report states that there will be another filing at a later date regarding guaranty association claims and potentially any remaining non-guaranty claims, but there do not appear to be any subsequent filings of claims reports as of the date of this report.

The Receiver also filed an action against the directors and officers of Magnolia for breach of fiduciary duty, negligence, and avoidance of fraudulent transfers in May, 2014. That action was settled, and an Order approving the settlement was entered by the Receivership Court on October 7, 2015. The Receiver collected \$600,000 under the D&O insurance policy.

Underwriting Results – MIC's underwriting results and costs are summarized in the tables below. Subsequent to the initial assumption of policies from Citizens, there were many policyholders that opted out and returned to Citizens, thus contributing to the negative assumed premium shown below in 2009. Premium written, less cancellations were as follows:

	12/31/2009	9/30/2009	6/30/2009	12/31/2008
Premiums Written – Direct	\$ 104,660,639	\$ 94,053,542	\$ 77,485,114	\$ 21,612,279
Premiums Written – Assumed	*	(8,459,440)	(7,294,802)	109,783,993
Premiums Written – Ceded	78,139,459	77,176,366	69,186,085	59,419,256
Premiums Written – Net	\$ *	\$ 8,417,736	\$ 1,004,227	\$ 71,977,016

\* On the statutory financial information available for the year ended 12/31/2009, it is indicated that written premium is presented with direct and assumed combined and the net written premium is not presented on the statutory financial information available for the year ended 12/31/2009, however, assuming the amounts above are correct, the net premiums written would have been \$26,521,180; given the events that occurred in the 4<sup>th</sup> quarter of 2009, further investigation of these amounts would not be significant to the overall analysis.

MIC reported premiums earned, underwriting loss and net loss as follows:

	12/31/2009	9/30/2009	6/30/2009	12/31/2008
Net Premiums Earned	\$ 45,673,647	\$ 39,456,301	\$ 32,960,320	\$ 33,856,428
Underwriting Loss	\$ (41,672,660)	\$ (21,957,244)	\$ (5,442,272)	\$ 765,768
Net Loss	\$ (37,409,170)	\$ (17,779,870)	\$ (3,010,240)	\$ (1,934,029)

Reinsurance – Magnolia purchased reinsurance with private reinsurers and through the Florida Hurricane Catastrophe Fund (FHCF). At the time that Magnolia initially received its certificate of authority, the only reinsurance coverage held was the mandatory coverage with the Florida Hurricane Catastrophe Fund (FHCF). With the first "take out" from Citizens in June 2008, the Company was required to obtain additional reinsurance for excess catastrophe coverage with private reinsurers. For the underwriting year June 1, 2008 through May 31, 2009, Magnolia's reinsurance structure was comprised of catastrophe excess of loss coverage through private reinsurance with four layers of coverage and FHCF Coverage, including reimbursement coverage elected at the 90% level and optional Temporary Increase in Coverage Limit (TICL) coverage. Reinsurance payments made for the underwriting year beginning June 1, 2008 totaled approximately \$59.2 million.



During the underwriting year June 1, 2009 through May 31, 2010, which coincides with the Company's insolvency, Magnolia's reinsurance structure was comprised of catastrophe excess of loss coverage through private reinsurance with four layers of coverage, reinstatement premium protection on all four layers, second and third event catastrophe excess of loss and FHCF Coverage, including reimbursement coverage elected at the 90% level, optional TICL Coverage and additional coverage available to Limited Apportionment Companies. Reinsurance payments made for the underwriting year beginning June 1, 2009 totaled approximately \$40.7 million, with unpaid premiums in excess of \$19 million as of the date that Magnolia went under Administrative Supervision. Magnolia did not experience any significant catastrophes that would trigger the catastrophe reinsurance protection.

Additionally, for the underwriting year June 1, 2009 through May 31, 2010, the Company entered into a Quota Share Reinsurance Contract with Allianz (Bermuda Branch). Subsequent to June 30, 2009, Allianz put together a 50% quota share reinsurance treaty to help Magnolia with surplus relief. The Company ceded 50% of its net liability to Allianz under the quota share agreement and was effective for all claims incurred on or after the effective date with unearned premiums ceded as of the effective date of the treaty. The agreement also provided for a provisional ceding commission to the Company of 24% of gross net written premium ceded, subject to adjustment based on the loss ratio for the underwriting year at 26%. The ceding commission was on a sliding scale and was to adjust up to a maximum of 30% if the loss ratio was 20% or lower, and a minimum of 13% if the loss ratio was 37% or higher. The agreement was to remain in force until cancelled by either party. Upon written notice, either party had the right to cancel as of the end of each underwriting year on a cut-off termination basis.

Reinsurance payable and recoverable amounts reported by the Company were as follows:

	<b>12/31/2009</b>	<b>9/30/2009</b>	<b>6/30/2009</b>	<b>12/31/2008</b>
Reinsurance Payable	\$ 41,462,258	\$ 55,642,729	\$ 60,158,736	\$ 23,214,603
Reinsurance Recoverable	\$ 5,900,950	\$ 3,117,747	\$ 182,665	\$ -

Financial: The following table shows a high level snapshot of MIC's financial position:

	<b>12/31/2009</b>	<b>9/30/2009</b>	<b>6/30/2009</b>	<b>12/31/2008</b>
Total Admitted Assets	\$ 64,021,620	\$ 88,376,558	\$ 101,303,252	\$105,082,138
Total Liabilities	\$ 84,173,000	\$ 87,712,739	\$ 84,893,670	\$ 84,277,097
Statutory Surplus	\$ (20,151,380)	\$ 663,819	\$ 16,409,582	\$ 20,805,041

MIC's surplus was comprised of common stock, additional paid-in capital and unassigned funds. The Company had authorized 10,000 shares of \$1 par value common stock, all of which were issued and outstanding, and 100% owned by IFG. The Company had an independent audit performed for the period April 28, 2008 (inception) through December 31, 2008, that report was dated March 25, 2009 and rendered an unqualified opinion. There were some differences noted between the 2008 annual report and the audited financial



statements for the period ended December 31, 2008, which are not reflected herein as the differences are not directly pertinent to the insolvency analysis. During the time period that Magnolia was in operations, Section 624.408, Florida Statutes, required the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements. Additionally, Section 624.4095, Florida Statutes, required the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. As of the audited statements for the period ended December 31, 2008, the Company was in compliance with these requirements. The Company was also required by Florida Statutes to maintain a deposit of \$300K to help secure the payment of claims. A cash deposit was assigned to the OIR to satisfy this requirement.

The Company's financial position deteriorated quickly in just the second year of operations, ultimately reporting a negative surplus in excess of \$20.1 million at the end of 2009, as summarized in the table below:

	<b>12/31/2009</b>	<b>9/30/2009</b>	<b>6/30/2009</b>	<b>12/31/2008</b>
Common Stock	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Additional Paid-in Capital	19,990,000	19,990,000	19,990,000	19,990,000
Unassigned Funds	(40,151,380)	(19,336,181)	(3,590,418)	805,041
Surplus As Regards Policyholders	<u>\$ (20,151,380)</u>	<u>\$ 663,819</u>	<u>\$ 16,409,582</u>	<u>\$ 20,805,041</u>

MIC's investments were primarily short term investments in U.S. Treasury Bills and cash held in overnight investment accounts. MIC also had the required statutory deposit pledged as collateral to OIR. Cash deposits which were initially generated from the capital infusion of \$20,000,000 and UEP received from Citizens related to the three take-outs. As the policies assumed from Citizens were up for renewal, the renewals were written on Magnolia paper, which was the primary source of cash deposits subsequent to the initial influx of cash from the Citizens assumed premium. Cash deposits decreased significantly during 2009 as shown in the following table:

	<b>12/31/2009</b>	<b>9/30/2009</b>	<b>6/30/2009</b>	<b>12/31/2008</b>
Cash and Short Term Investments	\$ 41,799,945	\$ 63,147,885	\$ 78,831,913	\$ 89,476,234
Common Stocks	3,125,175	2,996,546	1,069,902	758,099
Cash and Invested Assets	<u>\$ 44,925,120</u>	<u>\$ 66,144,431</u>	<u>\$ 79,901,815</u>	<u>\$ 90,234,333</u>



MIC reported premiums earned, underwriting expenses and net loss as follows:

	12/31/2009	9/30/2009	6/30/2009	12/31/2008
Premiums Earned	\$ 45,673,647	\$ 39,456,301	\$ 32,960,320	\$ 33,856,428
Losses	57,638,505	33,263,856	22,162,807	14,436,078
Loss Adjustment Expenses	*	5,493,110	2,811,131	2,125,852
Other Underwriting Expenses	29,707,802	22,656,579	13,428,654	16,528,730
Total Underwriting Expenses	87,346,307	61,413,545	38,402,592	33,090,660
Net Underwriting Gain (Loss)	(41,672,660)	(21,957,244)	(5,442,272)	765,768
Investment and Other Income	1,153,683	1,067,567	708,276	615,900
Net Income (Loss) Before Taxes	(40,518,977)	(20,889,677)	(4,733,996)	1,381,668
Income Taxes	(3,109,807)	(3,109,807)	(1,723,756)	3,315,697
Net Income (Loss)	\$ (37,409,170)	\$ (17,779,870)	\$ (3,010,240)	\$ (1,934,029)

\* Losses and LAE were reported on a combined basis for the 12/31/2009 data available.

General underwriting expenses, as reported by MIC and summarized above, included management fees paid to an affiliated company, Magnolia Agency. Management fees and commissions comprised the largest portion of the other underwriting expenses.

Cash flows from premium collections, for loss and underwriting expenses paid and Net Cash from Operations for MIC were as follows:

	12/31/2009*	9/30/2009	6/30/2009	12/31/2008
Premiums Collected (net of reins.)	\$	\$ 41,417,595	\$ 31,238,277	\$ 85,630,234
Benefit and Loss Payments		\$ 30,059,119	\$ 18,693,522	\$ 7,352,637
Other Underwriting Expenses Paid		\$ 28,905,968	\$ 18,877,530	\$ 9,572,404
Net Cash from Operations		\$ (20,095,242)	\$ (9,252,447)	\$ 69,115,978

\*comparable information not readily available in this format for the year ended 12/31/2009



Based on amounts reported by MIC, direct premium written, losses paid and unpaid, net losses incurred and the percentage of net losses incurred to earned premiums were as follows:

	12/31/2009*	9/30/2009	6/30/2009	12/31/2008
Direct Premium Written		\$ 94,053,542	\$ 77,485,114	\$ 21,612,279
Direct Losses Paid		\$ 29,666,292	\$ 18,681,618	7,352,637
Direct Losses Unpaid		\$ 17,016,646	\$ 11,564,185	7,083,441
Losses Incurred		\$ 39,751,413	\$ 23,162,362	\$ 14,436,078
Premiums Earned		\$ 59,066,751	\$ 32,988,606	\$ 33,856,428
Ratio		67.3%	70.2%	42.6%

\* comparable information not readily available in this format for the year ended 12/31/2009

Miscellaneous/Other – IFG, a shell corporation, borrowed \$23.8 million under a Credit Agreement with Allianz (the Lender), dated February 27, 2008, in order to form and invest \$20 million in Magnolia, a domestic insurance company that would apply for a Permit and Certificate of Authority with the Office of Insurance Regulation. The Credit Agreement between IFG and Allianz referred to several other related loan documents, which effectively became part of the Credit Agreement, and required the payment of substantial upfront fees to the Lender by the Borrower out of the loan proceeds (\$3.8 million), charged an interest rate of 4.5% above the prime rate, and limited the repayment term to five years. The loan repayment schedule provided for monthly principal payments of \$320,000 plus interest starting January 1, 2009, increasing to monthly principal payments of \$420,000 for 2010, \$520,000 for 2011 and \$620,000 thereafter. Additionally, there were clauses in the Credit Agreement that called for the Mandatory Prepayment of Excess Cash Flow, Yield Protection and various covenants made by the borrower, IFG. The Credit Agreement also called for IFG to obtain a Letter of Credit listing ART as the beneficiary in the amount of \$2.2 million and key man insurance on James Irl in the amount of \$20 million. The Credit Agreement called for IFG to meet certain reinsurance guidelines (through Magnolia), limited commissions paid to third parties by Agency and limited the amount of operating expenses that the Company and Agency could incur. From inception of the loan up through liquidation of the Company, total payments made by IFG under the Credit Agreement were \$6,678,074 (\$3,520,000 principal and \$3,158,074 interest). The last payment made was remitted on October 30, 2009, representing the payment due on November 1, 2009. If payments had continued through the life of the loan, assuming no change in interest rate, the total amount of payments due under the loan would have been \$29,850,693 (\$23,800,000 principal and \$6,050,693 interest).

The Credit Agreement and related documents appear to have served as a protective shield to the Lender as it related to this transaction, which primarily involved Magnolia (an insurance company), IFG (Borrower and the stockholder of the insurance company), Agency (the managing general agent) and Allianz (the Lender and part owner of Agency). Certain contracts with third parties provided additional protection for the Lender. In addition to the repayment of the loan, the various agreements and contracts called for additional payments to be made directly to the Lender, on the Lender's behalf or for the benefit of the Lender. The Credit Agreement also called for the Borrower to obtain a letter of credit payable to the Lender in the amount of \$2.2 million and a key man insurance policy on the stockholder of the Borrower. Other sections of the Credit Agreement



required prepayment of excess cash flows, yield protections and various covenants which also provided significant protections to the Lender. The Credit Agreement and related documents appear to have been drafted for the benefit of the Lender and to the detriment of the Borrower.

The Credit Agreement defines the Loan documents as: “this Agreement, the Notes, the Pledge Agreement, the Escrow Agreement, the Subsidiary Guaranty, the Personal Guaranty, the Security Agreement and any other agreements, documents or instruments executed in connection therewith.” The Credit Agreement refers to many other documents, which effectively became part of the agreement. Some of these related agreements included the Advisory Services Agreement, Asset Protection Agreement, LLC Operating Agreement, and Processing Services Agreement, key provisions of which have been included below.

- The Flow of Funds Memorandum set forth the flow of funds that occurred on the closing date of the Credit Agreement (February 27, 2008) for the loan amount of \$23.8 million. At closing, \$2,595,000 was deducted as closing and structuring fees; \$800,000 was deducted as expense reimbursements; and the initial funding to the Borrower was set up to be paid in installments as certain milestones were met, up to a maximum of \$405,000 per the Credit Agreement. This was later modified by a Letter Agreement dated May 29, 2008 between Irl and Allianz, and modified some of the funding installments, but did not change the overall amount of the loan or loan closing costs. The remaining loan proceeds, totaling \$20 million, represents the initial capital the Borrower, IFG, invested as surplus in Magnolia. The fees charged at closing totaling \$2,595,000 were paid to (or basically retained by) the Lender (ART) and were significant as far as increasing the yield on the loan to the Lender. The \$800,000 for expense reimbursements was also paid to (retained by) the Lender.
- The Advisory Services Agreement dated March 3, 2008 between Allianz Risk Transfer (ART), an insurance company organized under the laws of Switzerland and located in Zurich, and Magnolia Agency, LLC (the Agency) provided that ART would perform reinsurance consulting and advisory services to the Agency. This agreement called for a \$3 million fee to be paid on December 1, 2008 and nine quarterly payments of \$1 million each, commencing on March 1, 2009 and ending on March 1, 2011. Total fees due over the term of the Advisory Services Agreement would have been \$12 million. Actual fees paid under this agreement totaled \$6 million. The services to be provided under the Advisory Services Agreement appear to be similar to reinsurance brokerage services that are normally paid for as broker commissions.
- In addition to this Advisory Services Agreement, we noted that there was a broker agreement between Magnolia Insurance Company and Benfield, Inc. effective June 1, 2008, under which Benfield was to procure and service reinsurance on behalf of Magnolia in a fiduciary capacity. The broker agreement further stated that Benfield’s role was not to provide legal, regulatory or accounting advice or guidance to Magnolia. The agreement did not require any payments from Magnolia to Benfield, and further acknowledged that compensation for the brokerage services would be made from the reinsurers. Magnolia and Benfield entered into a revenue sharing agreement in relation to the brokerage and placement of the Additional Layer Excess



Catastrophe Reinsurance Contract, effective August 12, 2008 through June 1, 2009. The agreement provided for a one-time fee of \$750,000.

- The Credit Agreement described above required IFG to maintain one or more Asset Protection Agreements (insurance policies) no later than May 1, 2008 in the amount of the lesser of \$20 million or the outstanding principal balance of the loan, for the sole benefit of ART. The Asset Protection Agreement was actually between Agency and Poseidon Re LTD (Poseidon). The Asset Protection Agreement was dated April 2008 with an effective date of June 1, 2008. The beneficiary under the agreement was Allianz. The notional amount is \$20 million. The termination date of the policy was at the beneficiary's option. The agreement called for payments by Poseidon of \$14 million into a trust account on June 1, 2008. The payment by Agency was not due until May 31, 2009. Agency paid \$6 million to Poseidon on May 29, 2009. It appears that the \$6 million paid by Agency was a premium for \$20 million in catastrophe loss coverage in order to reduce the risk to ART if there was a major hurricane or other catastrophe during the period. The Credit Agreement specified that any payments that ART received under the Asset Protection Agreements shall be applied as additional payments on the \$23.8 million loan.
- The Amended and Restated Operating Agreement of Magnolia Agency, LLC (the Operating Agreement) dated February 27, 2008 was between Agency, IFG, the Class A Member, and Allianz, the Class B Member. The Operating Agreement allowed the Class A Member to receive monthly distributions equal to the payments required under the Credit Agreement. It also allowed the Class A Member to elect the only member of the Board of Directors, seemingly giving all the power to the Class A Member. However, a subsequent section of the agreement stated that all key decisions required unanimous member consent of both the A and B Members. Under the Operating Agreement, Agency's net income (or net loss) would be allocated 100% to the Class A Member (IFG) up until the loan from Allianz was paid off (the trigger date), and then the net income would be allocated 50-50 between the members.
- As previously discussed, the Agency was initially 100% owned by IFG. In connection with the Credit Agreement, IFG (transferor), Allianz Risk Transfer, Inc. a New York corporation (transferee) and Agency entered into an Agreement to Transfer Class B Membership, dated February 27, 2008, that transferred the Class B Membership Interests of Agency from the transferor to the transferee. The Transfer Agreement stated that IFG, as partial consideration for the "Loan," agreed to assign the Class B Membership interest in the Agency.
- The Security Agreement between IFG (the Borrower) and Agency (together with the Borrower, the Grantors) and Allianz assigned a security interest in substantially all of their personal property as collateral for the loan. The Pledge Agreement between IFG (the Pledgor) and Allianz (the Administrative Agent) pledged all of the capital stock of the corporations and membership interests or other equity interests of the limited liability companies now or at any time owned by Pledgor. The Pledge Agreement effectively assigned the stock in the Magnolia



Insurance Company, Inc. and the membership interests in Magnolia Agency, LLC to Allianz. The Personal Guaranty between James Irl, (the Guarantor) in favor of Allianz personally guaranteed the obligations under the Credit Agreement. All of these documents were dated February 17, 2008.

- The Processing Service Agreement (PSA) between CGI Technologies and Solutions, Inc. (CGI) and Magnolia Agency, LLC described the policy processing and claims processing services CGI was to provide the Agency and was effective on March 1, 2008. The PSA called for CGI to facilitate the issuance of a Letter Of Credit in favor of Allianz in the amount of \$2.2 million. CGI is guarantor of the Letter of Credit. The agreement called for CGI to be paid a fee for each policy issued. CGI was to calculate the fee at the end of each month and invoice Magnolia Agency. The minimum monthly fee was \$250,000, which was to be paid on the first day of each month prior to the services being rendered. CGI was to subtract the \$250,000 minimum from the amount calculated and billed by CGI at the end of each month. The PSA allowed the Agency to defer payment of the minimum monthly fee for March, April, May and possibly June of 2008 for either 90 or 120 days, depending on when they were to take over the first policies from Citizens. In addition to the processing fees, the Agency was to pay \$333,000 on August 29, 2008, \$333,000 on September 30, 2008, and \$334,000 on October 31, 2008 for implementation of the technology and processes necessary to perform services under the PSA. CGI was also to be paid from a fee schedule to handle claims. In September 2009, CGI was paid \$2.1 million under a settlement and release to terminate this agreement (described below).
- The Subordination Agreement is between CGI Technologies and Solutions, Inc. (the Junior Creditor) and Allianz and is dated February 27, 2008. The instruments subject to the Subordination Agreement were any and all liabilities from IFG and subsidiaries or affiliates to CGI and any and all liabilities to ART. The Subordination Agreement called for any amounts owed to CGI to become Junior Liabilities and for all liabilities owed to ART to become Senior Liabilities. In effect, Allianz becomes a preferred creditor and would be paid in full before any payments are made to CGI.
- The Settlement Agreement and Release (SAR) dated September 2, 2009 is between CGI, Agency and Allianz. It effectively cancels the Processing Services Agreement (PSA) and requires the Agency to pay \$2.1 million to CGI. This agreement was deemed to be payment in full of all unpaid amounts owed under the PSA, except for a list of additional amounts due that listed in an attachment to the SAR. The payment of \$2.1 million was made on September 2, 2009 by wire transfer to CGI from Magnolia Agency's Operating bank account. The letter of credit was cancelled and returned undrawn to the bank as part of the SAR.

Conclusion –Magnolia Insurance Company operated over a very short time period. The Company obtained its certificate of authority in April 2008, insurance operations essentially began in June 2008 with the first policy assumption from Citizens, and by the end of 2009, the Company was considered insolvent. Magnolia's



premium activity was primarily from policies assumed through three take-outs under the Citizens depopulation program, and renewals thereof, with very little organic business. The policies assumed were mostly from high-risk areas subject to hurricanes and sink holes. Magnolia experienced a high number of opt-outs where policyholders decided to return to Citizens prior to their renewal date, which resulted in the return of premium dollars from Magnolia to Citizens. Reinsurance coverage obtained by Magnolia required substantial premium payments which were higher than expected in the Company's initial projections.

Magnolia's initial capital infusion was essentially funded by a loan from a related party that was passed through IFG, the borrower, a shell corporation that was basically formed for the purpose of borrowing money in order to form and invest \$20 million in a domestic insurance company. The loan funding obtained through a credit agreement with Allianz in the amount of \$23 million, required substantial upfront fees that were retained by Allianz out of the loan proceeds, charged an interest rate of 4.5% above the prime rate, and limited the repayment term to five years, with accelerated principal payments due over the short loan life.

In addition to the aggressive loan repayment terms, there were several other agreements that required high dollar payouts from the holding company group during the limited time period that Magnolia was in business. The credit agreement and related documents appeared to have been drafted for the benefit of Allianz, and to the detriment of IFG. The credit agreement and related documents served as a protective shield to Allianz. Certain contracts with third parties provided additional protection for Allianz. In addition to the accelerated loan payment schedule, the various agreements and contracts provided for additional payments to be made to Allianz, on behalf of Allianz or for the benefit of Allianz. Other sections of the credit agreement required prepayment of excess cash flows, yield protections and various covenants which also provided significant protections to Allianz.

Midway through 2009, as the Company was experiencing deteriorating financial conditions, Allianz stepped in to help with surplus relief through the 50% Quota Share agreement; however, it was not enough to stop the downward spiral of the Company's insurance operations. Problems with third party administrators, higher than expected costs for reinsurance and other costs, increasing losses, understated loss reserves, and lower than expected premiums all combined to drain the Company's surplus. Further, once Magnolia stopped writing new and renewal business, there was no longer a source of new funds coming in to replenish cash deposits. Without cash flowing in to maintain operations, the payment of claims, commissions and other operating expenses would have quickly drained the Company's remaining liquid assets. Evaluation of the Company while under Administrative Supervision yielded that it was more beneficial to liquidate the remaining assets of the Company for the benefit of the policyholders, creditors and public.

In October 2013, the Receiver came to an agreement on a settlement in principle of the Allianz litigation in the amount of \$6,950,000, which was finalized and approved by the Court in February, 2014.



References – The following documents were utilized in preparing the above insolvency report:

Legal documents referenced (L Series) –

- L-1 – Consent order, Case No. 95155-08-CO Regarding the Application for the issuance of a Permit to Magnolia Insurance Company to form an authorized domestic insurer and for the subsequent issuance of a Certificate of Authority
- L-2 – Certificate of Authority for Magnolia
- L-3 – Consent order, Case No. 95237-08-CO (dated 4/28/2008) – approved the assumption of up to 60,000 policies (initial take out in June 2008)
- L-4 – Amended Consent order, Case No. 96264-08-CO (6/2008) – approved the assumption of additional policies (up to 60,000 ex-wind policies on or about August 12, 2008 and on additional dates as approved by the office)
- L-5 – Consent order for Administrative Supervision, Case No. 107879-09-CO (dated 12/14/2009)
- L-6 – Petition for order appointing the Florida Department of Financial Services as Receiver for purposes of liquidation, injunction, and notice of automatic stay, Case No. 2010-CA-1522 (dated 4/30/2010)
  - Stipulation and consent to receivership and liquidation included as an attachment
- L-7 – Consent order appointing the Florida Department of Financial Services as Receiver for purposes of liquidation, injunction and notice of automatic stay, Case No. 2010-CA-1522 (dated 4/30/2010)
- L-8 – Motion for approval of third interim claims report, claims distribution report, distribution accounting, and for order authorizing distribution (dated 12/9/2013)
- L-9 – Order approving Receiver's motion for approval of third claims report, claims distribution report, and distribution accounting, and authorizing distribution (dated 12/10/2013)
- L-10 – Order approving Citizens Property Insurance Corporation's Personal Residential and Commercial Residential Non-bonus Takeout Plans (Case No. 94539-08 dated 3/11/2008)

Financial reporting documents (F Series) –

- F-1 – MIC's 2008 annual statement (key pages) filed with OIR
- F-2 – MIC's 2008 Statutory financial statements for the period ended December 31, 2008 with Independent Auditor's Report
- F-3 – MIC's 2009 second quarter statement filed with OIR
- F-4 – MIC's 2009 third quarter statement as of 12/29/2009 (unclear if ever filed)

Other Documentation (O Series) –

- O-1 – Magnolia's Plan of Operations
- O-2 – MIC's Certified Amended and Restated Articles of Incorporation
- O-3 – MIC's Bylaws
- O-4 – MIC's Assumption Agreement with Citizens
- O-5 – Magnolia's MGA Agreement
- O-6 – Insurance Holding Company Registration Statement filed in March 2009
- O-7 – Letter from Demotech



- O-8 – Schedules of reinsurance premium payments
- O-9 – Loan amortization schedule (repayments due and paid to Allianz)
- O-10 – Credit agreement-flow of funds recap schedule
- O-11 – Schedule of advisory services payments
- O-12 – CGI Processing Services Agreement
- O-13 – CGI Termination Settlement and Release Agreement
- O-14 – 50% Quota Share Agreement
- O-15 – QS Cancellation notice
- O-16 – Gregg Patterson Deposition
- O-17 – Credit Agreement (signed)
- O-18 – Credit Agreement with exhibits (unsigned)
- O-19 – Flow of Funds Memo
- O-20 – Letter Agreement
- O-21 – Advisory Services Agreement
- O-22 – Benfield Broker Contract
- O-23 – Benfield Revenue Sharing
- O-24 – Asset Protection Plan (Poseidon)
- O-25 – Agency' Amended and Restated Operating Agreement
- O-26 – Transfer Agreement
- O-27 – Security Agreement
- O-28 – Pledge Agreement
- O-29 – Personal Guaranty Agreement
- O-30 – Subordination Agreement
- O-31 – Assignment of Rights



## L Series – Legal Documents Referenced





FILED

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OFFICE OF  
INSURANCE REGULATION  
Docked by: MF

## OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY  
COMMISSIONER

IN THE MATTER OF:

CASE NO: 95155-08-CO

Application for the issuance of a Permit to  
MAGNOLIA INSURANCE COMPANY  
to form an authorized domestic insurer and for the  
subsequent issuance of a Certificate of Authority

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CONSENT ORDER

THIS CAUSE came on for consideration upon the filing of an application with the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") for the issuance of a Permit and subsequent Certificate of Authority to MAGNOLIA INSURANCE COMPANY (hereinafter referred to as "APPLICANT") to form and operate as an authorized domestic insurer, pursuant to Sections 624.401, 624.404, 624.413, 628.051, 628.061, 628.071, and 628.081, Florida Statutes, to write the (0010) Fire, (0020) Allied Lines, (0040) Homeowners Multi Peril, and (0170) Other Liability lines of insurance coverage in this state. Following a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE hereby finds, as follows:

1. The OFFICE has jurisdiction over the subject matter and of the parties herein.
2. APPLICANT has applied for and, subject to the present and continuing satisfaction of the requirements, terms and conditions established herein, met all of the conditions precedent to the granting of a Permit to APPLICANT to form a domestic insurer in Florida, pursuant to the requirements set forth for licensure by the Florida Insurance Code.



3. Prior to issuance of a Certificate of Authority, APPLICANT will become a newly formed Florida corporation, with up to ten thousand (10,000) shares of common voting stock authorized. The par value of such common shares of stock shall be one U.S. Dollar (\$1) per share. All of APPLICANT's issued and outstanding common stock will be wholly owned by IRL FINANCIAL GROUP, INC. (hereinafter referred to as "IRL FINANCIAL GROUP"), a Florida holding company. IRL FINANCIAL GROUP is one hundred percent (100%) owned by HENRY JAMES IRL, a Florida resident.

4. APPLICANT has filed an application with the OFFICE consisting of a Plan of Operation, biographical information, legal documents, and other supporting documents for the purpose of obtaining a Permit and subsequent Certificate of Authority (hereinafter referred to as "Application"). In making a determination regarding the issuance of a Permit to APPLICANT, the OFFICE has relied on the accuracy and truthfulness of the documents and reports provided by APPLICANT, IRL FINANCIAL GROUP, and/or HENRY JAMES IRL in this matter. APPLICANT represents that the Application filed with the OFFICE and all related submissions and responses have been reviewed by APPLICANT, IRL FINANCIAL GROUP, and/or HENRY JAMES IRL and that these documents, as amended to date, are complete and correct in all respects. APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL further represent that they have disclosed and provided, or will provide to the OFFICE, copies of all current understandings and agreements relating to the formation, funding, and future transaction of insurance by APPLICANT, which will be entered into by APPLICANT, or any of its incorporators, officers, directors, or ten percent (10%) or greater shareholders for such purposes.

5. APPLICANT represents that it plans to assume approximately sixty thousand (60,000) residential policies from Citizens Property Insurance Corporation ("CITIZENS") on or



about June 10, 2008 under a depopulation plan. The depopulation plan is subject to separate approval by CITIZENS and the OFFICE.

6. APPLICANT acknowledges that entry of this Consent Order does not constitute approval by CITIZENS or the OFFICE of the APPLICANT's depopulation plan(s). APPLICANT further acknowledges that entry of this Consent Order does not constitute a guarantee that the policies referred to in paragraph five (5) above will ultimately be available to APPLICANT for removal from CITIZENS, as the availability for removal may vary over time.

7. If APPLICANT is able to effectuate an assumption of policies from CITIZENS in accordance with its depopulation plan, APPLICANT acknowledges the following specified requirements as a condition to the granting of a Permit and subsequent Certificate of Authority to APPLICANT:

a) APPLICANT, at its own expense, shall give notice to policyholders of the proposed assumption at least thirty (30) days in advance. This notice shall inform policyholders of the need to contact APPLICANT before the removal date if the policyholder desires to stay with CITIZENS;

b) APPLICANT shall accumulate any objections, and facilitate the return of any policyholder who desires to stay in CITIZENS if that policyholder expresses the desire to stay in CITIZENS within the thirty (30) day notice period prior to the removal of the policy, or within thirty (30) days after the date of the policy removal. APPLICANT shall not require policyholders to make additional payments, nor take any action other than to express the desire to remain with CITIZENS in writing, by e-mail, or by telephone on or before thirty (30) days following the date of their policy removal;



c) When initially contacting an agent for consent to participate in the assumption program, APPLICANT shall be required to provide each agent with the policy form to be used, the appointment contract, and a copy of the most currently available financial statement of the APPLICANT; and

d) APPLICANT acknowledges that any rate charged to policyholders within one (1) year of the actual date of removal of policies shall remain at or below the approved rate for CITIZENS.

8. APPLICANT acknowledges the separate review of the depopulation plan as referenced in paragraphs five (5), six (6), and seven (7) above may result in the need for additional surplus and/or reinsurance as deemed appropriate by the OFFICE.

9. APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL have made material representations that the source of funds used for its initial capitalization, Allianz Risk Transfer, Inc., will not necessarily deem IRL FINANCIAL GROUP to be in default of its loan agreement with Allianz Risk Transfer, Inc. should such policies referred to in paragraph five (5) above not be available to APPLICANT. Further, contrary to the requirements set forth in the Credit Agreement dated February 27, 2008 between Allianz Risk Transfer, Inc. and IRL FINANCIAL GROUP, the funds used to capitalize APPLICANT will be required to be released to APPLICANT for the purpose of initial capitalization prior to the issuance of a Certificate of Authority to APPLICANT. Allianz Risk Transfer, Inc. has submitted a letter to the OFFICE indicating such understanding, and said letter is considered material to the issuance of this Consent Order.

10. HENRY JAMES IRL has submitted a notarized affidavit detailing all known monies to be paid directly to him or to any entity within the IRL FINANCIAL GROUP holding



company system, the Florida holding company system that HENRY JAMES IRL owns or controls. Said affidavit is material to the issuance of this Consent Order.

11. APPLICANT has made material representations that none of APPLICANT's incorporators, officers, or directors, and none of the officers or directors, or the sole shareholder of IRL FINANCIAL GROUP have been found guilty of, or have pleaded guilty or nolo contendere to, a felony or a misdemeanor other than a minor traffic violation, without regard to whether a judgment of conviction was entered by the court.

12. APPLICANT shall provide legible and complete fingerprint cards for its officers, directors, and sole shareholder. If the completed fingerprint cards of any said person furnished to the OFFICE or other sources utilized by the OFFICE in its investigation process reveal that the representations made in paragraph eleven (11) above are inaccurate, any individual involved shall be removed as incorporator, officer, director, or ten percent (10%) or greater shareholder of said company within thirty (30) days after notification by the OFFICE and replaced with a person or persons acceptable to the OFFICE.

13. If, upon receipt of notification from the OFFICE, pursuant to paragraph twelve (12) above, APPLICANT or IRL FINANCIAL GROUP does not timely take the required corrective action, APPLICANT and IRL FINANCIAL GROUP agree that such failure to act would constitute an immediate danger to the public, and the OFFICE immediately may suspend, revoke, or take other administrative action as it deems appropriate upon the Permit of APPLICANT without further proceedings, pursuant to Sections 120.569(2)(n) and 120.60(6), Florida Statutes. Such failure by APPLICANT to take corrective action shall further constitute grounds to deny APPLICANT a Certificate of Authority.



14. APPLICANT and IRL FINANCIAL GROUP affirm that all explanations, representations, and documents provided to the OFFICE in connection with APPLICANT's Application, including all attachments and supplements thereto, are true, and all representations and requirements set forth herein are material to the issuance of this Consent Order, and fully describe all transactions, agreements, and understandings regarding the formation and operation of APPLICANT.

15. APPLICANT shall comply with its Plan of Operation and supporting documents as submitted with the Application. Written approval must be secured from the OFFICE prior to any material deviation from said Plan of Operation.

16. APPLICANT represents that its initial capital of twenty million U.S. Dollars (\$20,000,000) in cash will be funded by IRL FINANCIAL GROUP from funds it obtained through a loan from Allianz Risk Transfer, Inc., a New York corporation. Three hundred thousand U.S. Dollars (\$300,000) of the initial capital will be used to complete the statutory deposit requirement with the Bureau of Collateral Management.

17. Final approval and issuance of APPLICANT's Certificate of Authority shall be granted in writing by the OFFICE at such time as the OFFICE is satisfied that APPLICANT has complied with all provisions of this Consent Order and the OFFICE has received the following documents on or before April 28, 2008, unless otherwise specified herein, and the OFFICE is satisfied that the documents meet the requisite statutory and rule requirements:

a) Proof of the deposit of nineteen million, seven hundred thousand U.S. Dollars (\$19,700,000) in cash into APPLICANT's account in a Florida banking institution which is a member of the Federal Reserve System, with a written certification from the bank, signed by



an officer of the bank, stating the deposited funds are not hypothecated, encumbered, or pledged in any way;

b) Proof of the deposit of three hundred thousand U.S. Dollars (\$300,000) placed with the Bureau of Collateral Management, as required by Section 624.411 and Chapter 625, Part III, Florida Statutes;

c) Certificate of Status from the Florida Secretary of State;

d) Executed and notarized copies of the Articles of Incorporation;

e) Board Resolution for the adoption of the Bylaws;

f) Evidence that APPLICANT's Board of Directors has ratified the execution of this Consent Order on APPLICANT's behalf by HENRY JAMES IRL, as President and one of its incorporators, and indicated its willingness to be bound by the terms, conditions, and representations stated herein;

g) Acknowledgement that for the three (3) years immediately following the issuance of a Certificate of Authority, APPLICANT shall file with the OFFICE, on an annual basis, no later than June 1 of each year or earlier at the OFFICE'S request, a Catastrophe Loss Model with Probable Maximum Loss estimate amounts for a one-hundred-year storm based upon APPLICANT's exposure information on policies in force as of May 15 of the then current year. The OFFICE reserves the right to require APPLICANT to provide additional modeling at the sole discretion of the OFFICE. APPLICANT shall include in the filings any update to its exposure management plan which will identify the company's ability to provide satisfactory financial capacity to cover the company's exposure to catastrophic hurricane loss. APPLICANT shall also include specific plans that will limit exposure to a level within the company's financial capacity. Based upon the OFFICE's review of said models and plans, the OFFICE may require



APPLICANT to take corrective action to cure any overexposure identified by the OFFICE, including, but not limited to, the purchase of additional reinsurance;

h) Executed copies of all agreements, with all addendums, relating to the operations and management of the company, including but not limited to: Managing General Agency Agreement, Processing Services Agreement, and Consulting Agreement; and

i) Copies of all draft reinsurance agreements, including any Reinstatement Premium Protection Agreement(s), if available, to which APPLICANT is a named party, reflective of its reinsurance program as represented in its Application, and which sufficiently cover APPLICANT's projected book of business up to or beyond its forecasted one-in-one hundred-year (1:100-year) catastrophic event Probable Maximum Loss, utilizing modeling acceptable to the OFFICE.

18. APPLICANT shall, within ten (10) days of receiving its Certificate of Authority, submit to the OFFICE its National Association of Insurance Commissioners Company Code assignment.

19. If at the time of submitting documents for its Certificate of Authority, there are any new officers or directors of APPLICANT, or new officers, directors or shareholders holding a ten percent (10%) or greater ownership in IRL FINANCIAL GROUP, APPLICANT shall file with the OFFICE biographical affidavits, fingerprint cards, authority for release of information forms, and background investigation reports for these individuals at such time. If the completed fingerprint cards of any said person furnished to the OFFICE or other sources utilized by the OFFICE in its investigation process reveal that the representations made in paragraph eleven (11) above are inaccurate, any individual involved shall be removed as officer, director, or ten



percent (10%) or greater shareholder of said company within thirty (30) days after notification by the OFFICE and replaced with a person or persons acceptable to the OFFICE.

20. APPLICANT and IRL FINANCIAL GROUP acknowledge and agree that, if the OFFICE determines that the documentation specified in paragraph seventeen (17) is not submitted as required, is incomplete, or does not meet the requisite statutory or rule requirements, the OFFICE shall hold the Certificate of Authority component of the Application in abeyance, and withdraw the Application from consideration, until such time as the required documentation has been submitted to the OFFICE for review.

21. Upon the issuance of the Certificate of Authority to APPLICANT, APPLICANT shall further comply with the following:

a) APPLICANT shall not transact business until it has submitted fully-executed reinsurance agreements, as stated in paragraph seventeen, sub-paragraph i (17(i)) above, or confirmation acceptable to the OFFICE at the OFFICE's sole discretion, that all reinsurance agreements have been placed, including any Reinstatement Premium Protection Agreement(s), to the OFFICE for its review, and said agreements have been determined to meet all statutory and rule requirements. If acceptable confirmation has been submitted to the OFFICE, APPLICANT shall submit a copy of the fully-executed reinsurance agreements, including the Reinstatement Premium Protection Agreement(s), to the OFFICE within five (5) days of receipt of same by APPLICANT;

b) APPLICANT shall not transact business until it has submitted to the OFFICE any necessary revision to its three-year Pro Forma Financial Statements reflective of the actual costs of reinsurance obtained, if any deviation should occur from the Pro Forma Financial Statements submitted with the Application, following the placement of APPLICANT's



reinsurance program. APPLICANT agrees that the OFFICE's review of said Pro Forma Financial Statements may result in the need for additional surplus and/or other financial requirements, as deemed appropriate by the OFFICE;

c) Any payments made by APPLICANT to HENRY JAMES IRL and/or any entities owned or controlled by HENRY JAMES IRL shall not be increased beyond the amounts disclosed in the Application without the prior written approval by the OFFICE;

d) APPLICANT shall file with the OFFICE, and thereafter maintain, an anti-fraud plan that will comply with Section 626.9891, Florida Statutes, and Rule 69D-2, Florida Administrative Code;

e) APPLICANT agrees that any managerial, administrative, or cost-sharing arrangements involving APPLICANT will be in accordance with a formal written agreement, and must contain, at the minimum, the following:

(1) A requirement of monthly cash settlement of any expenses incurred for the month; and

(2) A clear delineation of the financial boundaries of each operation. Further, APPLICANT shall not bear any occupancy expenses for space which is occupied by any other entity and, upon examination, shall be prepared to demonstrate how the occupancy cost and space is allocated among co-located entities;

f) Any agreements that APPLICANT enters into with any affiliated person, entity or related party, as defined in Statement of Statutory Accounting Principles Number 25 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual, shall be in writing and shall be submitted to the OFFICE for the OFFICE's review and prior written approval. For purposes of this paragraph, an affiliated person or entity is any



officer or director of APPLICANT, or any officer, director or five percent (5%) or more shareholder of any of APPLICANT's immediate, intermediate or ultimate parents;

g) APPLICANT agrees that any arrangement or agreement with an affiliated party for the provision of administrative services shall further comply with the following requirements:

(1) APPLICANT must have the right to terminate the contract for cause;

(2) The contract shall contain a provision with respect to the underwriting or other standards pertaining to the business underwritten by APPLICANT;

(3) The contract shall be retained as part of the official records of both the affiliate and APPLICANT for the term of the contract and five (5) years afterward;

(4) Payment to the affiliate of any premiums or charges for insurance by or on behalf of the insured shall be deemed to have been received by APPLICANT, and return premiums or claims payments forwarded by APPLICANT to the affiliate shall not be deemed to have been paid to the insured or claimant until such payments are received by the insured or claimant;

(5) The affiliate shall hold all funds collected on behalf of or for APPLICANT as well as all return premiums received from APPLICANT in a fiduciary capacity in trust accounts;

(6) The affiliate shall adhere to underwriting standards, rules, procedures and manuals setting forth the rates to be charged, and the conditions for the acceptance or rejection of risks as determined by APPLICANT;



(7) All fees and charges must be specified in the contract and they must be comparable to fees charged to any other insurer for which similar contracted services are provided by the affiliate. If the affiliate does not perform such services for other insurers, the fees charged must be reasonable in relation to the services provided;

(8) All claims paid by the affiliate from funds collected on behalf of APPLICANT shall be paid only on drafts of, and as authorized by, APPLICANT;

(9) APPLICANT shall retain the right of continuing access to books and records maintained by the affiliate sufficient to permit APPLICANT to fulfill all of its contractual obligations to insured persons, subject to any restrictions in the written agreement between APPLICANT and the affiliate on the proprietary rights of the parties in such books and records;

(10) The affiliate shall provide written notice approved by APPLICANT to insured individuals advising them of the identity of, and relationship among, the affiliate, the policyholder, and APPLICANT; and

(11) Any policies, certificates, booklets, termination notices, or other written communications delivered by APPLICANT to the affiliate for delivery to its policyholders shall be delivered by the affiliate promptly after receipt of instructions from APPLICANT to deliver them;

h) APPLICANT shall maintain its principal place of business in Florida and shall make available to the OFFICE complete records of its affairs. APPLICANT shall also maintain its office, records, and assets in Florida as required by Section 628.271, Florida Statutes. The physical form, if any, of the assets shall also be maintained in Florida, or in compliance with Section 628.511, Florida Statutes;



- i) APPLICANT shall not expand its operations outside the state of Florida without prior written approval from the OFFICE;
- j) APPLICANT shall file with the OFFICE the quarterly supplemental reports as required by Section 624.424(10), Florida Statutes;
- k) APPLICANT shall file updates to its Holding Company Registration Statement as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code;
- l) APPLICANT shall file a completed and executed copy of any custody account agreement(s) and investment management agreement(s), including but not limited to the Securities Custody Account Agreement with Northern Trust Bank, N.A.;
- m) APPLICANT shall maintain sufficient and adequate internal controls and supervision of any external contractor(s) providing services in connection with the insurance transactions of APPLICANT, and shall further assume responsibility for the actions of said contractor(s) as they relate to any performance under the service agreements;
- n) During the three (3) years following the entry of this Consent Order, APPLICANT shall pay only those dividends that have been approved in advance and in writing by the OFFICE;
- o) As a condition of the OFFICE's issuance of a Certificate of Authority to APPLICANT, APPLICANT shall maintain a deposit with the Bureau of Collateral Management, in the amount of at least three hundred thousand U.S. Dollars (\$300,000), as required by Section 624.411, Florida Statutes;
- p) APPLICANT shall not transact business until APPLICANT's forms and rates have been approved in writing by the OFFICE;



q) APPLICANT shall take necessary steps to effectuate membership of APPLICANT in the associations and/or funds, as required by the following statutes, and to comply with the conditions contained in such entities' Plan of Operation. Further, APPLICANT agrees to pay any and all assessments levied by such entities and/or applicable laws. APPLICANT acknowledges full responsibility for determining the associations and/or funds APPLICANT is required to join pursuant to, but not limited to, Sections 215.555, 627.311(4), 627.351(1), 627.351(4), 627.351(6), 627.3515, 627.6488, 631.55, 631.715, and 631.911, Florida Statutes. APPLICANT further acknowledges its statutory obligations pursuant to, but not limited to, the aforementioned statutes and will continually monitor the various associations and/or funds that it is required to join as determined by the lines of business on the Certificate of Authority of APPLICANT. Further, APPLICANT shall, based upon the lines of business on its Certificate of Authority, continually monitor and comply with statutory requirements regarding APPLICANT's membership in the associations and funds which are identified herein or which may be established in the future;

r) APPLICANT shall submit to the OFFICE, no less than annually, all required filings, pursuant to Section 627.0645, Florida Statutes, and Rule 69O-170.007, Florida Administrative Code;

s) APPLICANT shall file with the OFFICE all premium growth reports as required by Section 624.4243, Florida Statutes, in a complete and timely manner;

t) Any managing general agent and related contracts entered into by APPLICANT following the issuance of a Certificate of Authority shall meet the requirements of Sections 626.015(14) and 626.7451, Florida Statutes;



u) APPLICANT shall obtain written approval from the OFFICE prior to contracting with any managing general agent or charging any policy fees related to contracting with, or services provided by, a managing general agent other than that approved by the OFFICE with this Application; and

v) APPLICANT shall obtain the prior written approval of the OFFICE before amending, updating, or changing any managing general agent contracts entered into by APPLICANT, including the fee to be paid to Magnolia Agency, L.L.C. as submitted in the Application.

22. APPLICANT acknowledges that it shall continue to provide any such amendments or additions to its reinsurance agreements to the OFFICE on a going-forward basis, and otherwise comply with the provisions of Section 624.610, Florida Statutes.

23. APPLICANT shall report to the OFFICE, Property and Casualty Financial Oversight, any time that it is named as a party defendant in a class action lawsuit, within fifteen (15) days after the class is certified, and APPLICANT shall include a copy of the complaint at the time it reports the class action lawsuit to the OFFICE.

24. Executive Order 13224, signed by President George W. Bush on September 23, 2001, blocks the assets of terrorists and terrorist support organizations identified by the United States Department of the Treasury, Office of Foreign Assets Control. The Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests. The list of identified terrorists and terrorist support organizations is periodically updated at the Office of Foreign Assets Control's website, <http://www.treas.gov/ofac>. APPLICANT shall maintain and adhere to procedures necessary to detect and prevent prohibited transactions with individuals and entities which have been identified at the Office of Foreign Assets Control website.



25. Pursuant to Section 628.071, Florida Statutes, if the OFFICE has not issued APPLICANT a Certificate of Authority within one (1) year of the date of filing this Consent Order, APPLICANT's Permit shall no longer be valid.

26. APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL agree that, if a Certificate of Authority has been issued to APPLICANT, failure to adhere to one or more of the terms and conditions contained herein shall result without further proceedings, in the revocation of APPLICANT's Certificate of Authority in this state in accordance with Sections 120.569(2)(n) and 120.60(6), Florida Statutes.

27. The deadlines set forth in this Consent Order may be extended by written approval of the OFFICE. Approval of any deadline extension is subject to statutory or administrative regulation limitations.

28. APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL expressly waive a hearing in this matter, the making of Findings of Fact and Conclusions of Law by the OFFICE, and all further and other proceedings herein to which the parties may be entitled by law or rules of the OFFICE. APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL hereby knowingly and voluntarily waive all rights to challenge or to 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.

29. Each party to this action shall bear its own costs and fees.

30. The parties agree that this Consent Order shall be deemed to be executed when the OFFICE has executed a copy of this Consent Order bearing the signature of APPLICANT or its authorized representative, IRL FINANCIAL GROUP or its authorized representative, and HENRY JAMES IRL, notwithstanding the fact that the copy may have been transmitted to the

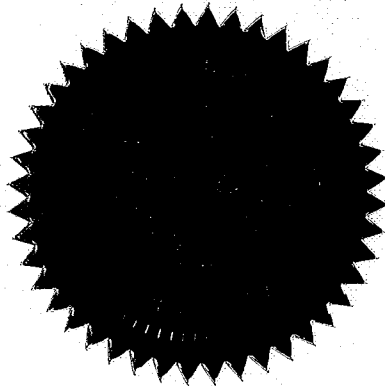


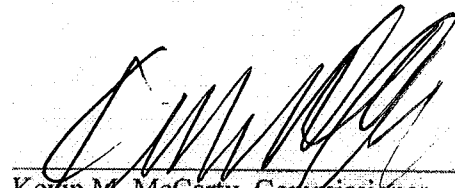
OFFICE electronically. Further, APPLICANT, IRL FINANCIAL GROUP, and HENRY JAMES IRL agree that their signatures as affixed to this Consent Order shall be under the seal of a Notary Public.

WHEREFORE, the agreement between MAGNOLIA INSURANCE COMPANY, IRL FINANCIAL GROUP, INC., HENRY JAMES IRL, and the OFFICE OF INSURANCE REGULATION, the terms and conditions of which are set forth above, is APPROVED, and the Application for the issuance of a Permit to MAGNOLIA INSURANCE COMPANY, pursuant to Sections 628.051, 628.061, 628.071, and 628.081, Florida Statutes, is APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 18<sup>th</sup> day of APRIL, 2008.



  
\_\_\_\_\_  
Kevin M. McCarty, Commissioner  
Office of Insurance Regulation



By execution hereof, Henry James Irl, as incorporator and proposed President of the proposed insurer, MAGNOLIA INSURANCE COMPANY, consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he has the authority to bind MAGNOLIA INSURANCE COMPANY to the terms and conditions of this Consent Order.

MAGNOLIA INSURANCE COMPANY

By: *H James Irl*  
Print Name: H JAMES IRL  
Title: PRESIDENT

STATE OF Florida  
COUNTY OF MIAMI-DADE

The foregoing instrument was acknowledged before me this 18<sup>th</sup> day of April 2008,

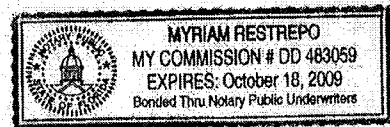
by Henry James Irl as officer  
(name of person) (type of authority .... e.g. officer, trustee attorney in fact)

for MAGNOLIA Insurance Company  
(company name)

*Myriam Restrepo*  
(Signature of the Notary)

MYRIAM RESTREPO  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification ☐  
Type of Identification Produced \_\_\_\_\_





By execution hereof, IRL FINANCIAL GROUP, INC. consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein. The undersigned represents that he/she has the authority to bind IRL FINANCIAL GROUP, INC. to the terms and conditions of this Consent Order.

IRL FINANCIAL GROUP, INC.

By: H. James IRL

Print Name: H JAMES IRL

[Corporate Seal, if available]

Title: PRESIDENT

STATE OF FLORIDA  
COUNTY OF MIAMI-DADE

The foregoing instrument was acknowledged before me this 18<sup>th</sup> day of April 2008,

by HENRY JAMES IRL as Officer  
(name of person) (type of authority .... e.g. officer, trustee attorney in fact)

for IRL FINANCIAL GROUP, INC.  
(company name)

Myriam Restrepo  
(Signature of the Notary)

MYRIAM RESTREPO  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification ☐  
Type of Identification Produced \_\_\_\_\_





By execution hereof, Henry James Irl consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions herein.

Henry James Irl  
Henry James Irl

STATE OF FLORIDA  
COUNTY OF MIAMI-DADE

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of April 2008,

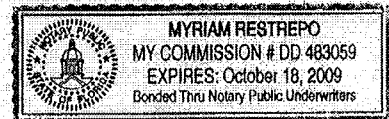
by Henry James Irl as \_\_\_\_\_  
(name of person) (type of authority .... e.g. officer, trustee attorney in fact)

for \_\_\_\_\_  
(company name)

Myriam Restrepo  
(Signature of the Notary)

MYRIAM RESTREPO  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification \_\_\_\_\_  
Type of Identification Produced \_\_\_\_\_





COPIES FURNISHED TO:

H. JAMES IRL, PRESIDENT  
Magnolia Insurance Company  
The Irl Financial Group, Inc.  
260 Glenridge Road  
Key Biscayne, Florida 33149  
Telephone: (305) 365-0181  
Facsimile: (305) 365-1844  
E-Mail: [james@magnoliainsurance.us](mailto:james@magnoliainsurance.us)

ROBERT L. RICKER, PRESIDENT  
Focus Insurance Consultancy, L.L.C.  
P.O. Box 10853  
Tallahassee, Florida 32302  
Telephone: (850) 528-8861  
E-Mail: [ricker@focusic.com](mailto:ricker@focusic.com)

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Property & Casualty Financial Oversight  
Office of Insurance Regulation  
200 East Gaines Street  
216B, Larson Building  
Tallahassee, Florida 32399-0329  
E-Mail: [elizabeth.thomson@flor.com](mailto:elizabeth.thomson@flor.com)

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ALISON BARBER, REINSURANCE/FINANCIAL SPECIALIST  
Property & Casualty Financial Oversight  
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Tallahassee, Florida 32399-0329  
E-Mail: [alison.barber@flor.com](mailto:alison.barber@flor.com)





## Facsimile Cover Page

**To:** Greg Patterson

**From:** Focus Insurance Consultancy

**Fax:** 850-878-6114

**Pages:** 2

**Phone:**

**Date:** 4/29/2008

**Re:**

☐ **Urgent**    ☐ **For Review**    ☐ **Please Comment**    ☐ **Please Reply**    ☐ **Please Recycle**





## 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 28, 2008

Mr. H. James Irl, President  
Magnolia Insurance Company  
The Irl Financial Group, Inc.  
260 Glenridge Road  
Key Biscayne, Florida 33149

Re: Magnolia Insurance Company  
Application for UCAA Primary Certificate of Authority  
App. ID 922946

Dear Mr. Irl:

Enclosed is Magnolia Insurance Company's Certificate of Authority issued by the Florida Office of Insurance Regulation to transact insurance.

A summary of the Office's required filings for new insurers authorized to do business in Florida, including information on licensing of Florida agents, may be obtained from our website at [www.floir.com](http://www.floir.com).

Our Office staff will continue to be available to offer any assistance to you and your company. If you have any questions, you may call the Property and Casualty Financial Oversight Unit at 850/413-3148.

Sincerely,

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation

...

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

Affirmative Action / Equal Opportunity Employer



# MAGNOLIA INSURANCE COMPANY

Is hereby authorized to transact insurance in the State of Florida.

This certificate signifies that the company has satisfied all requirements of Florida Insurance Code for the issuance of a Property And Casualty Insurer Certificate Of Authority and remains subject to the laws of Florida.

Date of Issuance: April 28, 2008

No. 08 - 202878592



Florida  
Office  
of Insurance  
Regulation

A handwritten signature in black ink, appearing to read "K. McCarty".

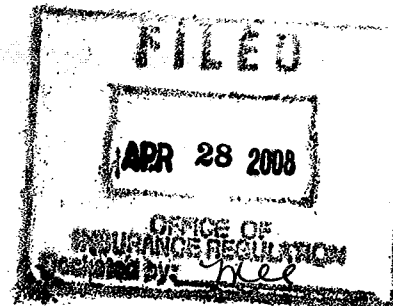
Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation





## OFFICE OF INSURANCE REGULATION

KEVIN MCCARTY  
COMMISSIONER



IN THE MATTER OF:

CASE NO.: 95237-08-CO

MAGNOLIA INSURANCE COMPANY  

---

CONSENT ORDER

THIS CAUSE came on for consideration as a result of MAGNOLIA INSURANCE COMPANY's (hereinafter "MAGNOLIA") proposal to remove selected policies from CITIZENS PROPERTY INSURANCE COMPANY (hereinafter "CITIZENS"), which was submitted to the OFFICE OF INSURANCE REGULATION (hereinafter "OFFICE") for its review on March 24, 2008. After a complete review of the entire record and upon consideration thereof, and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter and of the parties herein.
2. CITIZENS has been established in accordance with the provisions of Section 627.351(6), Florida Statutes, as amended, to provide insurance for residential and commercial property qualified risks under circumstances specified in the statute.
3. Section 627.3511, Florida Statutes, allows for the depopulation of CITIZENS. CITIZENS submitted and the OFFICE adopted by Order No. 94539-08 a plan of depopulation, the terms and conditions upon which this proposed consent order is predicated. MAGNOLIA



shall abide by the terms and conditions of the CITIZENS depopulation plan as a condition of issuance of this consent order.

4. MAGNOLIA is a Florida domiciled property and casualty insurance company authorized to transact insurance in the State of Florida.

5. On or about March 24, 2008, MAGNOLIA submitted a proposal to remove selected policies from CITIZENS. The plan provides for an assumption of up to sixty thousand (60,000) policies from CITIZENS. MAGNOLIA plans to assume the CITIZENS's policies over a period of time, subject to the approval by the OFFICE.

6. MAGNOLIA understands that the selected policies to be removed from CITIZENS on or about June 10, 2008, or at a later date approved by the OFFICE and CITIZENS, will not be subject to any incentive or bonus plan pursuant to Section 627.3511, Florida Statutes, unless and until the OFFICE approves such a plan for use by CITIZENS provided such plan would be retroactive to policies subject to this Consent Order. If the OFFICE approves a bonus plan for use by other take-out companies or for other transactions during the 2008 policy year, the bonus may be paid to MAGNOLIA in accordance with that plan and agreements between MAGNOLIA and CITIZENS. MAGNOLIA shall enter into appropriate agreements with CITIZENS to provide the following:

a. MAGNOLIA, at its own expense, shall give at least thirty (30) days advance notice to affected policyholders, which notice will inform policyholders of the need to contact MAGNOLIA before the removal date if the policyholder desires to stay with CITIZENS.

b. MAGNOLIA shall accumulate any objections, and shall facilitate the return of any policyholder who desires to stay in CITIZENS if that policyholder expresses the desire to stay in CITIZENS within the thirty (30) day notice period prior to the removal of the policy, or within



thirty (30) days after the date of the policy removal. Policyholders shall not be required to make additional payments, nor take any action other than to express the desire to remain with CITIZENS in writing, by electronic mail, or by telephone on or before thirty (30) days following the date of their policy removal.

c. All communications with agents and policyholders regarding any policies to be removed from CITIZENS must be done in accordance with instructions by CITIZENS and the OFFICE. MAGNOLIA shall obtain prior approval from the OFFICE of any letters sent to policy holders regarding any policies to be removed from CITIZENS.

7. MAGNOLIA agrees that any rate charged to policyholders within one year of the actual date of removal of policies removed pursuant to this Consent Order shall remain at or below the approved rate for CITIZENS. MAGNOLIA is subject to the terms stated in this paragraph only in the event that an actual removal of policies from CITIZENS occurs.

8. MAGNOLIA acknowledges neither approval by CITIZENS, nor entry into this Consent Order by the OFFICE, constitutes a guarantee the above referenced policies will ultimately be available to MAGNOLIA for removal from CITIZENS, as the availability of policies for removal may vary over time.

9. MAGNOLIA shall limit its actual removal of policies from CITIZENS to the number and type of policies authorized by the OFFICE. The OFFICE will base its review on MAGNOLIA'S reinsurance program, catastrophe modeling, and financial statement projections, as well as the impact on policyholders. Such reinsurance program, catastrophe modeling, and financial statement profiles shall be based upon MAGNOLIA'S current in-force book of residential property policies, MAGNOLIA'S projected voluntary market writings, and actual



number of policies available in CITIZENS prior to the anticipated assumption date identified by MAGNOLIA as satisfying its filed and approved underwriting guidelines.

10. MAGNOLIA has submitted the proposed reinsurance documentation and financial projections for assumption of up to sixty thousand (60,000) policies, expected to be assumed on June 10, 2008 or on subsequent dates approved by the OFFICE and CITIZENS. Each additional assumption of CITIZENS policies by MAGNOLIA shall be subject to advance written approval by the OFFICE.

11. MAGNOLIA'S acquisition of adequate reinsurance and maintenance of executed reinsurance agreements is material to the OFFICE'S review and analysis of MAGNOLIA'S proposal to remove selected policies from CITIZENS and to the OFFICE's approval of the proposal.

12. The OFFICE and MAGNOLIA expressly waive their rights to any hearing in this matter, the making of findings of fact and conclusions of law by the OFFICE, and all other and further proceedings herein to which the parties may be entitled by law or by rules of the OFFICE. MAGNOLIA agrees not to appeal or otherwise contest this Consent Order in any forum now, or in the future, available to it.

13. MAGNOLIA represents all explanations and documents made or submitted to the OFFICE as part of its proposal to remove selected policies from CITIZENS, including all attachments and supplements thereto, fully describe all transactions, agreements, and understandings relating to the removal of policies from CITIZENS by MAGNOLIA. However, all draft documents and non-executed agreements relating to MAGNOLIA'S plan shall not be deemed approved by this Consent Order until such time as executed agreements or final documents are submitted and approved by the OFFICE.



14. The parties agree this Consent Order will be deemed executed when the OFFICE has signed a copy of this Consent Order bearing signature of MAGNOLIA, or its authorized representative, notwithstanding the fact the copy was transmitted to the OFFICE electronically or via facsimile machine. MAGNOLIA agrees the signature of their representative as affixed to this Consent Order shall be under seal of a Notary Public.

15. Each party to this action shall bear its own costs and attorney fees.

IT IS THEREFORE ORDERED that:

(a) Upon consideration of the proposal to remove selected policies from CITIZENS, including its attachments, the OFFICE approves the proposal to remove selected policies from CITIZENS, subject to adherence to the terms and conditions of this Consent Order by MAGNOLIA.

(b) The OFFICE approves the assumption of up to sixty thousand (60,000) policies, starting on or about June 10, 2008, in accordance with the proposal to remove selected policies from CITIZENS, any agreement(s) between MAGNOLIA and CITIZENS, and this Consent Order.

(c) Regarding all reinsurance matters relating to policies removed from CITIZENS, for a period of three (3) years immediately following the date of entry of this Consent Order, MAGNOLIA shall:

(i) Maintain substantially the same reinsurance coverage as evidenced to the OFFICE in the proposal to remove selected policies from CITIZENS;

(ii) Submit to the OFFICE any and all replacement or additional reinsurance agreement(s), or amendment(s) to reinsurance agreement(s) that materially change the reinsurance coverage in (c)(i). The agreement(s), amendment(s) or plans shall be submitted to



the OFFICE for review, and approval, sixty (60) days prior to the date of effectuation of any such agreement(s) or amendment(s);

(iii) Notify the OFFICE of any termination of any of its reinsurance agreements. The notification shall be made to the OFFICE in writing sixty (60) days prior to the effective date of any such termination;

(iv) Submit in writing to the OFFICE the proposed utilization of any substitute or additional reinsurers for the OFFICE's review and approval sixty (60) days prior to the companies being utilized within MAGNOLIA'S reinsurance program. MAGNOLIA shall further immediately submit to the OFFICE all information as requested which the OFFICE deems necessary for the OFFICE to complete its review; and

(v) Cede reinsurance, or otherwise contract for reinsurance, only with reinsurers who are authorized and/or approved by the OFFICE, or such other reinsurers as may be approved in advance and in writing by the OFFICE. MAGNOLIA shall comply with the requirements of Section 624.610, Florida Statutes, with regard to all of its reinsurance arrangements.

(d) For the three (3) years immediately following the date of entry of this Consent Order, MAGNOLIA shall file with the OFFICE, on an annual basis no later than June 1 of each year, a catastrophe loss model with probable maximum loss estimate amounts from a one hundred-year storm based upon the exposure information gathered from all of its policies in force as of April 15 of each year which would be affected by a catastrophe. MAGNOLIA shall include in this filing an exposure management plan, which will identify the company's ability to provide satisfactory financial capacity to cover the company's exposure to catastrophic hurricane loss. The plan shall identify the reinsurance coverage and surplus levels being utilized to



maintain a satisfactory financial capacity with regard to catastrophe exposure. MAGNOLIA shall also include within the plan specific actions intended to limit catastrophic exposures to the company's financial capacity. Based upon the OFFICE's review of the models and plans, MAGNOLIA may be required at the OFFICE's sole discretion to take corrective action to cure any overexposure identified by the OFFICE. Such action may also include obtaining additional amounts of reinsurance coverage as directed by the OFFICE or suspend writing of any additional business, including the CITIZENS policies;

(e) Any and all policies removed from CITIZENS by MAGNOLIA shall provide coverage substantially equivalent to that afforded by CITIZENS. Any and all policies removed from CITIZENS by MAGNOLIA, pursuant to its proposal to remove selected policies from CITIZENS, must be renewable by the policyholder at approved rates and upon the same terms for a period of three (3) consecutive years, unless such policies are canceled by MAGNOLIA for a lawful reason other than reduction of hurricane exposure;

(f) At the time MAGNOLIA removes any policy of insurance from CITIZENS, MAGNOLIA shall either obtain a new policy application from each affected policyholder or maintain in its files a copy of the policyholder's application on file with CITIZENS. If MAGNOLIA chooses the latter option, MAGNOLIA shall nevertheless be required to obtain a new policy application from each affected policyholder no later than twenty-four (24) months from the effective date of any policy of insurance removed from CITIZENS. MAGNOLIA may not initiate any retrospective increase in rates or the premium or any retrospective decrease in coverage provided under the assumed CITIZENS policy (if applicable) as a result of the information obtained from or through the new policy applications;



(g) For a period of three (3) years immediately following the date of entry of this Consent Order, MAGNOLIA shall abide by the proposal to remove selected policies from CITIZENS in all material respects. Further, MAGNOLIA shall abide by all terms and provisions of any agreement(s) entered into with CITIZENS; and;

(h) Regarding required documentation to be maintained by MAGNOLIA relating to policies removed from CITIZENS:

(i) MAGNOLIA is required to track all agents, as well as the related policy information, who have declined to participate in the takeout process. This information shall be submitted to Citizens by the deadline published in the Citizens Assumption Calendar. Citizens will then mail out notices informing the policyholders of the agent's declination. This will allow the affected policyholders the opportunity to address the declination with their agent and possibly receive their agent's approval in time to be included in the current takeout.

(ii) MAGNOLIA is required to track all agents, as well as the related policy information, who after discussing with the policyholder, decide to participate in the takeout process and submit this information to Citizens by the deadline published in the revised 2008 Assumption Calendar.

(iii) MAGNOLIA is required to keep a record of all agents who decline participation along with an explanation for the declination.

(iv) When contacting an agent regarding a potential takeout policy, MAGNOLIA is required to provide each agent with the policy form to be used, appointment contract and a copy of MAGNOLIA'S most currently available financial statement.

(i) Should the OFFICE determine MAGNOLIA has failed to materially comply with terms of this Consent Order, the proposal to remove selected policies from CITIZENS, including

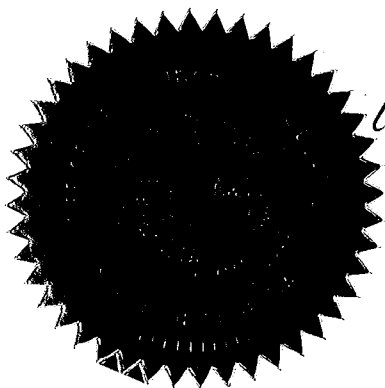



its attachments, the Transition Plan and amendments thereto as submitted to the OFFICE, or terms of any agreement(s) with CITIZENS, MAGNOLIA shall, upon receipt of notice of such material non-compliance, have sixty (60) days to cure its material non-compliance. In the event MAGNOLIA fails to cure any such material non-compliance within the sixty (60) day period, MAGNOLIA expressly agrees the OFFICE may enter an order directing it to immediately cease writing personal lines residential property coverage or other lines of insurance within the State of Florida, or imposing such other sanctions authorized by statute, rule or restrictions, as may be deemed appropriate by the OFFICE.

WHEREFORE, the proposal to remove up to sixty thousand (60,000) policies starting on or about June 10, 2008, subject to the terms and conditions of this Order, are hereby APPROVED.

FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 28<sup>th</sup> day of April, 2008.



  
Kevin M. McCarty, Commissioner  
Office of Insurance Regulation



By execution hereof, MAGNOLIA INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions therein. The undersigned represents that he has the authority to bind MAGNOLIA INSURANCE COMPANY to the terms and conditions of this Consent Order.

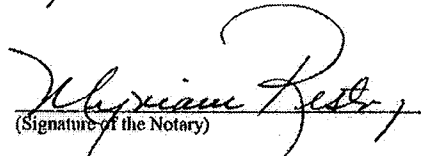
MAGNOLIA INSURANCE COMPANY

  
James Irl, President

Corporate Seal

STATE OF FLORIDA  
COUNTY OF MIAMI-DADE

The foregoing instrument was acknowledged before me this 23<sup>rd</sup> day of April 2008,  
by Henry James Irl as officer  
(name of person) (type of authority ..... e.g. officer, trustee attorney in fact)  
for MAGNOLIA INSURANCE COMPANY.  
(company name)

  
(Signature of the Notary)

Myriam Restrepo  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification \_\_\_\_\_  
Type of Identification Produced \_\_\_\_\_





COPIES FURNISHED TO:

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Robert L. Ricker, President  
Focus Insurance Consultancy, L.L.C.  
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Kelly McGrath  
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Legal Services Office  
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200 East Gaines Street  
Tallahassee, FL 32399-0333  
[kelly.mcgrath@flor.com](mailto:kelly.mcgrath@flor.com)





## OFFICE OF INSURANCE REGULATION

KEVIN McCARTY  
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 96264-08-CO

MAGNOLIA INSURANCE COMPANY  
\_\_\_\_\_**AMENDED CONSENT ORDER**

THIS CAUSE came upon consideration as a result of the proposal by MAGNOLIA INSURANCE COMPANY (hereinafter referred to as "MAGNOLIA") to remove selected policies from CITIZENS PROPERTY INSURANCE CORPORATION (hereinafter referred to as "CITIZENS"), which was submitted to the OFFICE OF INSURANCE REGULATION (hereinafter referred to as the "OFFICE") for its review on March 24, 2008. After a complete review of the entire record and upon consideration thereof and otherwise being fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter and the parties herein.
2. On April 28, 2008, the OFFICE and MAGNOLIA entered into Consent Order No. 95237-08-CO (hereinafter referred to as the "TAKEOUT ORDER"), which approved MAGNOLIA's proposal to remove up to sixty thousand (60,000) policies from CITIZENS. (Attached as Exhibit A). MAGNOLIA is currently subject to all the terms and conditions of the consent order.



3. MAGNOLIA has filed a subsequent proposal on June 5, 2008 to remove an additional sixty thousand (60,000) policies from CITIZENS.

4. Upon consideration of the subsequent proposal to remove the additional sixty thousand (60,000) selected policies from CITIZENS, and reliance upon all representations made in the proposal, the OFFICE amends the TAKEOUT ORDER to approve the proposal to remove the additional selected policies from CITIZENS, subject to the terms and conditions of this Amended Consent Order by MAGNOLIA.

5. The provision of Paragraph (15)(b) is revised to read as follows: "The OFFICE approves the assumption of up to sixty thousand (60,000) policies on or about June 10, 2008 and an additional sixty thousand (60,000) ex-wind policies on or about August 12, 2008 and on additional dates as approved by the OFFICE, in accordance with the proposal to remove selected policies from CITIZENS, any agreement(s) between MAGNOLIA and CITIZENS, and this Consent Order. "

6. In addition to the provision of Consent Order No. 95237-08-CO, MAGNOLIA is required to comply with the following requirements when soliciting an agent's permission to participate in the assumption process:

a. MAGNOLIA must utilize email and at least one other method for contact (i.e. call, fax or regular mail);

b. MAGNOLIA must send out a direct solicitation to the agent of record and copy the agency principal;

c. MAGNOLIA must provide all agents a minimum of 14 days to review the solicitation. This will allow agents adequate time to research the company and make an informed decision;



- d. MAGNOLIA must provide a copy of the appointment contract. MAGNOLIA may opt to provide the agent a link to its website containing the required information;
- e. MAGNOLIA must provide a copy of the policy form. MAGNOLIA may opt to provide the agent a link to its website containing the required information;
- f. MAGNOLIA must provide a chart identifying any differences in coverage from Citizens, which will help both the agent and the policyholder in making an informed decision;
- g. MAGNOLIA must provide a list of policies specific to the agent that it would like to assume;
- h. MAGNOLIA must provide a contact number of qualified staff to answer agent's questions;
- i. MAGNOLIA must provide an overview of its strategy for handling catastrophe and non-catastrophe claims.

WHEREFORE, all other provisions of Consent Order No. 95237-08-CO remain unchanged by this Amended Consent Order and remain in full force and effect with respect to all one hundred twenty (120,000) policies approved for removal.

DONE AND ORDERED this \_\_\_\_ day of \_\_\_\_\_, 2008


---

Kevin M. McCarty, Commissioner  
Office of Insurance Regulation



By execution hereof, MAGNOLIA INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions and shall be bound by all provisions therein. The undersigned represents that he has the authority to bind MAGNOLIA INSURANCE COMPANY to the terms and conditions of this Consent Order.

MAGNOLIA INSURANCE COMPANY

  
James Irl, President

Corporate Seal

STATE OF Florida  
COUNTY OF MIAMI-DADE

The foregoing instrument was acknowledged before me this 25<sup>th</sup> day of JUNE 2008,  
by JAMES IRL as officer  
(name of person) (type of authority .... e.g. officer, trustee attorney in fact)  
for MAGNOLIA INSURANCE COMPANY  
(company name)

  
(Signature of the Notary)

MYRIAM RESTREPO  
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known ☒ OR Produced Identification \_\_\_\_\_  
Type of Identification Produced \_\_\_\_\_





COPIES FURNISHED TO:

Lee Stuart  
Citizens Property Insurance Corporation  
Corporate Offices  
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Tallahassee, FL 32301

James Irl, President  
Magnolia Insurance Company  
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Key Biscayne, Florida 33149

Robin Westcott, Director  
Office of Insurance Regulation  
P&C Financial Oversight  
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Tallahassee, FL 32399-0329

Kelly McGrath, Assistant General Counsel  
Office of Insurance Regulation  
Legal Services Office  
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200 East Gaines Street  
Tallahassee, FL 32399-0333  
[kelly.mcgrath@flor.com](mailto:kelly.mcgrath@flor.com)



FILED



DEC 14 2009

OFFICE OF  
INSURANCE REGULATIONDocketed by: EE

## 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;



(i) 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

(j) 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 Irl 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.

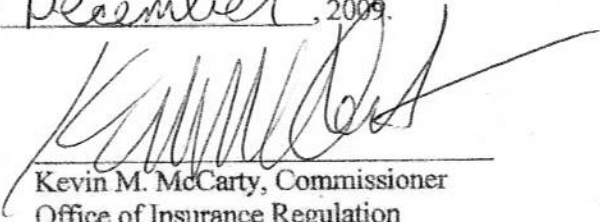
20. The parties agree that this Consent Order will be deemed to be executed when the OFFICE has signed a copy of this Consent Order bearing the signature of MAGNOLIA notwithstanding the fact that the copy was transmitted to the OFFICE electronically or via facsimile machine. MAGNOLIA agrees that the 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 14<sup>th</sup> 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.**

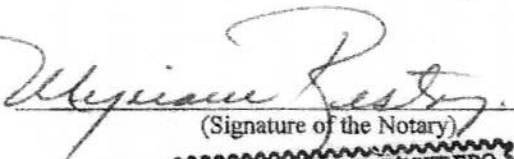
MAGNOLIA INSURANCE COMPANY

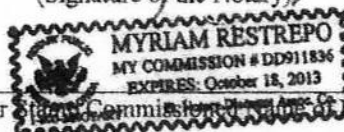
  
H. James Irl, President  
On behalf of Irl Financial Group, Inc.,  
as sole shareholder of Magnolia Insurance Company

Corporate Seal

STATE OF Florida  
COUNTY OF Miami-Dade

The foregoing instrument was acknowledged before me this 10<sup>th</sup> day of December, 2009,  
by H. JAMES IRL as President  
(name of person) (type of authority ..... e.g. officer, trustee attorney in fact)  
for IRL FINANCIAL GROUP  
(company name)

  
(Signature of the Notary)



(Print, Type or Stamp Commission of Notary)

Personally Known X OR Produced Identification \_\_\_\_\_  
Type of Identification Produced \_\_\_\_\_



COPIES FURNISHED TO:

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Amanda Hunter, Assistant General Counsel  
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**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.

Magnolia Insurance Company,  
a Florida corporation,

Respondent.

CASE NO.: 2010- CA-1522

10 MAY 30 PM 12:15  
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



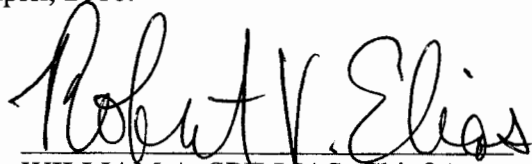
as a result of unpaid reinsurance premiums which exceed \$19 million; the Respondent's assets are approximately \$30 million in cash and liquid assets.

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 30<sup>th</sup> 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**

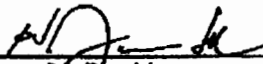
The undersigned, being the President, Directors and Sole Stockholder of Magnolia Insurance Company (the "Company"), hereby certify that the following excerpt is a true and correct copy of resolutions adopted at a combined meeting of the President, Directors, and Sole Stockholder of the Company:

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.


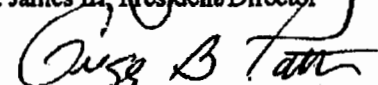
FURTHER, RESOLVED, that the President, Directors and Sole Stockholder of the Company are hereby authorized to execute any and all consent agreements or other documents on behalf of Magnolia Insurance Company, to obtain entry of the Order of Liquidation and are authorized to take any and all additional 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  
  
Gregg 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.



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**

DEC 14 2009

OFFICE OF  
INSURANCE REGULATION  
Dictated by: 22

**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 debt, 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.

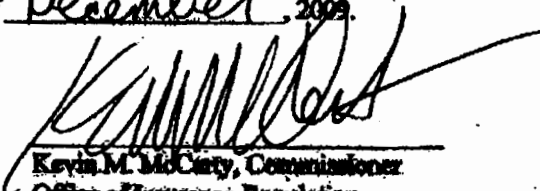
20. The parties agree that this Consent Order will be deemed to be executed when the OFFICE has signed a copy of this Consent Order bearing the signature of MAGNOLIA notwithstanding the fact that the copy was transmitted to the OFFICE electronically or via facsimile machine. MAGNOLIA agrees that the 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 14<sup>th</sup> 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.

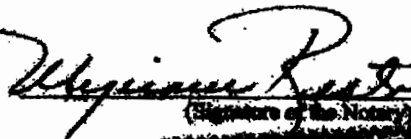
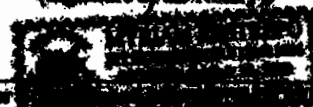
MAGNOLIA INSURANCE COMPANY

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

Corporate Seal

STATE OF Florida  
COUNTY OF Miami-Dade

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

  
(Signature of the Notary)  
  
(Print, Type or Stamp of the Notary)

Personally Known X 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 Schoenwald, Esq.  
204 South Monroe Street (32301)  
P.O. Box 11068  
Tallahassee, Florida 32302**

**Betinda 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 Meritinos Best Estimate

	Dec.31, 2009 Statutory Balance Sheet (Dunlap Loss/Reserves)	Adjust Loss & LAE Reserves To Meritinos Best Estimate	Adjust Q/S Ceding Commission For Loss Ratio Change	Dec.31, 2009 Statutory Balance Sheet (Meritinos Loss Reserves)
<b>ASSETS</b>				
Bonds	\$0			\$0
Common Stock	\$3,125,175			\$3,125,175
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	\$0			\$0
Other Receivables	\$454,383			\$454,383
<b>Total Assets</b>	<b>\$64,021,620</b>	<b>\$0</b>	<b>\$0</b>	<b>\$64,021,620</b>
<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>				
<b>Losses &amp; LAE</b>				
Losses-Direct	\$19,167,856	\$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
<b>Unearned Premiums</b>				
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	(\$11,880,938)			(\$11,880,938)
Net Unearned Premiums	\$9,670,878	\$0	\$0	\$9,670,878
<b>Reinsurance Payables</b>				
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
<b>Advance Premiums</b>				
Payable to Citizens	\$546,737			\$546,737
Accounts payable	\$3,053,255			\$3,053,255
Other Liabilities	\$397,095			\$397,095
Total Liabilities	\$73,509,426	\$9,825,750	\$837,824	\$84,173,000
<b>Common Stock</b>				
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)
<b>Total Liabilities, Capital &amp; Surplus</b>	<b>\$64,021,620</b>	<b>\$0</b>	<b>\$0</b>	<b>\$64,021,620</b>



# 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			2009
	Statutory	Adjust	Adjust	Statutory
	Income	Loss & LAE	Q/S Ceding	Income
	Statement	Reserves To	Commission	Statement
	(Dunlap	Merlinos	For Loss Ratio	
	<u>Loss Reserves</u> )	<u>Best Estimate</u>	<u>Change</u>	<u>Adjusted</u>
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)			(\$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

<b>Merlinos Actuarial Schedule</b>			
	<u>Direct</u>	<u>Reinsurance Ceded</u>	<u>Net Of 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

<b>Merlinos Loss Reserves Reduced For Citizens Claims Erroneously Included</b>			
	<u>Direct</u>	<u>Reinsurance Ceded</u>	<u>Net Of 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

<b>SUMMARY</b>			
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

<b>ADJUSTMENT-Dunlap Loss &amp; LAE Reserves To Merlinos Loss &amp; LAE Reserves</b>			
Loss	\$10,687,057	\$3,970,885	\$6,716,172
LAE	\$3,627,164	\$617,586	\$3,009,578
Loss & LAE	\$14,314,221	\$4,588,471	\$9,725,750



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

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

[illegible]

**MERITOR INC. LOSS & LAE RESERVES--After 4% Limitation of Quota Share Ceded LAE**

[illegible]

Acct Yr	Premiums Earned	Paid Loss & ALAE		Loss & ALAE Reserves		Loss & ALAE Reserves		Loss & ALAE Reserves		Total Loss+ALAE Reserves	Total Loss+ALAE Reserves	ULAE Reserves	Total Loss+ALAE Reserves	Coded Field ALAE
		Paid Loss	Paid ALAE	Case Loss Reserves	Case ALAE Reserves	Loss & ALAE Reserves	INNR Loss Reserves	INNR ALAE Reserves						
DIRECT Jun2009-Dec2009	\$48,439,925	\$11,309,659	\$929,771	\$23,286,980	\$5,699,218	\$466,518	\$7,164,756	\$11,842,118	\$824,778	\$12,666,897	\$19,831,653	\$2,718,682	\$22,550,336	
Coded Before 4% LAE Limit Loss Ratio	\$34,714,963	\$5,654,830	\$161,806	\$11,633,430	\$3,349,119	\$233,259	\$3,582,378	\$5,921,060	\$412,389	\$6,333,449	\$9,915,827	\$1,359,941	\$11,775,168	\$348,981
		16.3%	0.5%	33.5%	9.6%	0.7%	10.3%	17.1%	1.2%	18.2%	28.6%	3.9%	32.5%	0.7%
After 4% LAE Limit	\$34,714,963	\$5,654,830	\$161,806	\$11,633,430	\$3,349,119	\$233,259	\$3,582,378	\$5,921,060	\$412,389	\$6,333,449	\$9,915,827	\$363,022	\$10,278,849	\$348,981
												Total LAE	Total LAE	4.09%

Magnolia  
Magnolia Dec 31 2009 Loss Reserves QSContinues Dunlap vs Merlino's  
Merlino's

**Ben Troder**



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

EXHIBIT I  
SHEET I

COMPARISON OF MERLINOS IBNR TO IBNR CONTAINED IN DUNLAP WORK PAPERS

ACCIDENT YEAR	GROSS				DIFFERENCE Total Reserve
	MERLINOS SELECTED LOSS & ALAE IBNR	MERLINOS SELECTED ADJUSTED IBNR	DUNLAP'S SELECTED LOSS & ALAE IBNR	DUNLAP'S SELECTED AOE IBNR	
	(1)	(2)	(3)	(4)	(5)
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	PAID LOSS AND ALAE AT 12/31/09	SELECTED ULTIMATE LOSS AND ALAE	CASE RESERVES AT 12/31/09	SELECTED IBNR	TOTAL RESERVES
	(1)	(2)	(3)	(4)-(1)-(2)	(5)-(3)-(1)	(6)-(4)+(5)
2008-1	649,048	391,726	680,000	57,322	30,952	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 (8).

**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>	<u>Reinsurance Ceded</u>	<u>Net Of 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>	<u>Reinsurance Ceded</u>	<u>Net Of Reinsurance</u>
Loss Reserves-Case	\$11,979,179	\$3,349,119	\$8,630,060
ALAE Reserves-Case	\$869,960	\$233,259	\$636,701
Loss & LAE Reserves-Case	\$12,849,139	\$3,582,378	\$9,266,761
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
	\$22,212,908	\$5,790,378	\$16,422,530

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**

Acct Year	Premiums Earned			Paid Loss & LAE			Loss & LAE Reserves			Loss & LAE IBNR Reserves			Total Loss & LAE Reserves			Total Loss & LAE Reserves
	Paid	Loss	LAE	Paid	Loss	LAE	Case Loss	Case LAE	Case Reserves	IBNR Loss	IBNR LAE	IBNR Reserves	Case Reserves	Case LAE	Case Reserves	
<b>DIRECT</b>																
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	\$232,000	\$3,735,768	\$3,735,768	\$3,735,768	\$3,735,768
2009	\$123,813,106	\$29,135,784	\$1,083,655	\$30,219,439	\$10,282,609	\$707,402	\$10,990,011	\$5,986,175	\$411,825	\$4,001,511	\$280,856	\$4,302,367	\$17,200,000	\$1,113,000	\$18,313,000	\$18,313,000
	\$191,310,306	\$47,351,561	\$2,126,087	\$49,477,648	\$12,170,238	\$883,541	\$13,053,779	\$7,284,981	\$533,019	\$5,402,051	\$7,284,981	\$5,722,367	\$15,202,768	\$1,365,000	\$16,568,768	\$16,568,768
<b>CEDED</b>																
2008																
<b>NET OF REINSURANCE</b>																
2008																
2009																

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

Acct Year	Premiums Earned			Paid Loss & LAE			Loss & LAE Reserves			Loss & LAE IBNR Reserves			Total Loss & LAE Reserves			Total Loss & LAE Reserves
	Paid	Loss	LAE	Paid	Loss	LAE	Case Loss	Case LAE	Case Reserves	IBNR Loss	IBNR LAE	IBNR Reserves	Case Reserves	Case LAE	Case Reserves	
<b>DIRECT</b>																
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	\$232,000	\$3,735,768	\$3,735,768	\$3,735,768	\$3,735,768
2009	\$123,813,106	\$29,135,784	\$1,083,655	\$30,219,439	\$10,282,609	\$707,402	\$10,990,011	\$5,986,175	\$411,825	\$4,001,511	\$280,856	\$4,302,367	\$17,200,000	\$1,113,000	\$18,313,000	\$18,313,000
	\$191,310,306	\$47,351,561	\$2,126,087	\$49,477,648	\$12,170,238	\$883,541	\$13,053,779	\$7,284,981	\$533,019	\$5,402,051	\$7,284,981	\$5,722,367	\$15,202,768	\$1,365,000	\$16,568,768	\$16,568,768
<b>CEDED</b>																
2008																
<b>NET OF REINSURANCE</b>																
2008																
2009																

Acct Year	Premiums Earned			Paid Loss & LAE			Loss & LAE Reserves			Loss & LAE IBNR Reserves			Total Loss & LAE Reserves			Total Loss & LAE Reserves
	Paid	Loss	LAE	Paid	Loss	LAE	Case Loss	Case LAE	Case Reserves	IBNR Loss	IBNR LAE	IBNR Reserves	Case Reserves	Case LAE	Case Reserves	
<b>DIRECT</b>																
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	\$232,000	\$3,735,768	\$3,735,768	\$3,735,768	\$3,735,768
2009	\$123,813,106	\$29,135,784	\$1,083,655	\$30,219,439	\$10,282,609	\$707,402	\$10,990,011	\$5,986,175	\$411,825	\$4,001,511	\$280,856	\$4,302,367	\$17,200,000	\$1,113,000	\$18,313,000	\$18,313,000
	\$191,310,306	\$47,351,561	\$2,126,087	\$49,477,648	\$12,170,238	\$883,541	\$13,053,779	\$7,284,981	\$533,019	\$5,402,051	\$7,284,981	\$5,722,367	\$15,202,768	\$1,365,000	\$16,568,768	\$16,568,768
<b>CEDED</b>																
2008																
<b>NET OF REINSURANCE</b>																
2008																
2009																

<b>Ceded</b>																
Before 4% LAE 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	\$402,000	\$6,070,011	\$6,070,011	\$6,070,011	\$6,070,011
Loss Ratio	18.5%	0.3%	25.1%	9.6%	0.6%	10.3%	5.7%	0.4%	6.0%	16.3%	1.2%	17.5%	17.5%	17.5%	17.5%	17.5%
Total LAE Ratio																



Magnum Insurance Company  
Loss + LAE Reserve Available As Of 12/31/2009  
Summary And Calculation Of Loss + LAE Reserve  
Dollars In Thousands

[illegible]

(1) Provided for minority groups of subordinates.  
 (2) Based on Industry Loss Development Indicated from the 130-ALAE Schedule P's (part 1A-HO) of companies that write HO (underwriting) in P.L. and further adjusting accident factors reported by an additional 0.6 years.  
 (3) Based on ALAE Ratio Of 23.7% based on the average of Lines + ALAE Ratio for minority accident years 2000-2008 from the 130-ALAE Schedule P's (part 1A-HO) of companies that write HO (underwriting) in P.L.  
 (4) Adversity Selection based on (B).  
 (5) Adversity Selection based on (B).  
 (6) Adversity Selection based on (B).  
 (7) Lines ALAE Ratio of 15.7% based on the average of the paid ALAE to paid loss + ALAE ratio for minority years 2000-2008 (from hardware years). From the latest World's Insurance Example  
 (8) 100% of (98)  
 (9) 110% of (98)



[illegible]

the, and the 2008 midyear development licence issued by an additional 3 months, based on an average accident date in 2008 of 01/10/2008, and an average accident date in 2008 of 10/1/2008.

Research Report 004-2000 received from the Florida Insurance Department. State of

Quantities 1998 versus 1997	
total shipped	27%
total sold	1,788
total sold shipped	1,788
total sold shipped less	69,430
total sold shipped less	34,715
total sold shipped less	1,269
total sold shipped less	269

0.509 Loss+ALAE 100% to Case Ratio - Marginal  
1.147 Loss+ALAE 80% to Case Ratio - Industry  
1.126 UR Loss+ALAE To Total Loss+ALAE - Marginal  
1.128 UR Loss+ALAE To Total Loss+ALAE - Industry

Activity's Total Est. Budgeted Net	Activity's Total Est. Budgeted Net	Activity's Total Est. Budgeted Net
Lower-LAS	Lower-LAS	Lower-LAS
Total Reserve	Total Reserve	Total Reserve
(40-1120-11)	(40-1120-11)	(40-1120-11)
2006	2006	2006
2009	2009	2009
Total	Total	Total
Total At 12/31/2006	Total At 12/31/2006	Total At 12/31/2006



# **MAGNOLIA INSURANCE COMPANY**

**December 31, 2009**

**50% Quota Share Reinsurance**



**Magnolia Insurance Company  
50% Quota Share Reinsurance**

Quota Share %	6/1/09	12/31/09	6/1/09	12/31/09	6/1/09	12/31/09	6/1/09	12/31/09	6/1/09	12/31/09
<b>REINSURANCE-Contract &amp; Assured</b>										
Premiums Written	\$8,885,961	\$7,874,325	\$8,445,300	\$1,185,000	\$6,885,381	\$6,114,130	\$7,548,692	\$7,548,692		
Unearned Premiums-Beginning	\$48,628,048	\$47,417,204	\$6,432,397	\$80,147,883	\$4,228,175	\$51,586,408	\$43,987,338	\$43,987,338		
Unearned Premiums-Ending	\$47,417,204	\$46,432,397	\$6,432,397	\$80,147,883	\$4,228,175	\$51,586,408	\$43,987,338	\$43,987,338		
Premiums Earned	\$12,106,705	\$10,786,730	\$12,728,614	\$4,624,800	\$8,162,134	\$8,162,134	\$8,162,134	\$8,162,134		
<b>REINSURANCE-Contract &amp; PNC</b>										
Premiums Written										
Unearned Premiums-Beginning	\$0									
Unearned Premiums-Ending	\$0									
Premiums Earned										
Less: 40%										
Attributable Q/S Premiums										
Net Earned Premiums										
<b>Quota Share Ceded Earned Premiums</b>										
Subject Written Premium	\$8,885,961	\$7,874,325	\$8,445,300	\$1,185,000	\$6,885,381	\$6,114,130	\$7,548,692	\$7,548,692		
Ceded Written Premium	\$4,442,981	\$3,937,163	\$4,222,650	\$592,500	\$3,442,981	\$3,057,065	\$3,774,346	\$3,774,346		
Cumulative Ceded Written Premium	\$4,442,981	\$4,442,981	\$4,442,981	\$4,442,981	\$4,442,981	\$4,442,981	\$4,442,981	\$4,442,981		
Ceding Commission	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%		
Cumulative Ceding Commission	\$4,335,817	\$4,335,817	\$4,335,817	\$4,335,817	\$4,335,817	\$4,335,817	\$4,335,817	\$4,335,817		
Ceding Commission										
<b>Loss Ratio Analysis For Quota Share Ceding Commission</b>										
Premiums Earned	\$8,885,961	\$7,874,325	\$8,445,300	\$1,185,000	\$6,885,381	\$6,114,130	\$7,548,692	\$7,548,692		
Less: Earned										
LAE Incurred										
Less: & LAE Incurred										
Less: & LAE Ratio										
Treaty Incursion To Date										
Premiums Earned										
Less: & LAE										
Less: & LAE Ratio										
Ceding Commission Ratio										
<b>Losses Incurred - 6/1/09 - 6/30/09 Occurrences</b>										
Paid Losses	\$6,378,945									
Less: Ceded Reserves	\$4,144,914									
Less: BNR Reserves	\$2,233,931									
<b>Losses Incurred - 6/1/09 - 6/30/09 Occurrences</b>										
Paid LAE	\$104,409	\$257,109								
LAE Ceded Reserves	\$24,318	\$24,318								
LAE BNR Reserves	\$185,145	\$185,145								
LAE Unlaid-40% of Premium	\$388,072	\$1,033,350								
<b>Losses Incurred - 6/1/09 - 12/31/09 Occurrences</b>										
Paid Losses	\$11,308,868									
Less: Ceded Reserves	\$4,896,236									
Less: BNR Reserves	\$11,851,133									
<b>Losses Incurred - 6/1/09 - 12/31/09 Occurrences</b>										
Paid LAE	\$123,775	\$123,775								
LAE Ceded Reserves	\$446,518	\$446,518								
LAE BNR Reserves	\$82,475	\$82,475								
LAE Unlaid-40% of Premium	\$871,197	\$1,897,882								
<b>Losses Incurred - 6/1/09 - 12/31/09 Occurrences</b>										
Paid Losses	\$11,308,868									
Less: Ceded Reserves	\$4,896,236									
Less: BNR Reserves	\$11,851,133									
<b>Losses Incurred - 6/1/09 - 12/31/09 Occurrences</b>										
Paid LAE	\$123,775	\$123,775								
LAE Ceded Reserves	\$446,518	\$446,518								
LAE BNR Reserves	\$82,475	\$82,475								
LAE Unlaid-40% of Premium	\$871,197	\$1,897,882								



**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

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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. 1<sup>st</sup> 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.

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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



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-CA-1522

**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. 1<sup>st</sup> 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.

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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 May 30, 2010, 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,



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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



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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;



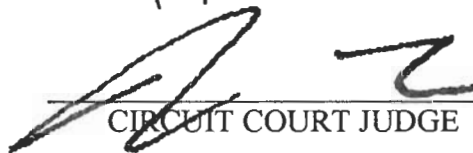
- C. Any act to obtain possession of property of the insurer;
- D. Any act to create, perfect or enforce a lien against property of the insurer, except a secured claim as defined in Section 631.011(21), Florida Statutes;
- E. Any action to collect, assess or recover a claim against the insurer, except 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 30 day of April, 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

A Certified Copy  
Attest:

**Bob Inzer**

Clerk Circuit Court  
Leon County, Florida

By 

APR 30 2010

D.C.





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

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

---

CASE NO.: 2010-CA-1522

**RECEIVER'S MOTION FOR APPROVAL OF THIRD INTERIM CLAIMS  
REPORT AND RECOMMENDATION ON CLAIMS**

The Florida Department of Financial Services, in its capacity as Receiver for Magnolia Insurance Company ("MIC"), hereby files this Motion for Approval of Third Interim Claims Report and Recommendation on Claims, and states as follows:

1. This Court entered a Consent Order Appointing the Florida Department of Financial Services as Receiver of Magnolia Insurance Company for the purposes of Liquidation, Injunction and Notice of Automatic Stay on April 30, 2010.
2. This Court has jurisdiction over the MIC receivership and is "authorized to make all necessary or proper orders to carry out the purposes of" the Florida Insurers Rehabilitation and Liquidation Act, Section 631.021(1), Florida Statutes.
3. MIC, located in Miami-Dade County, wrote homeowners' policies within the state of Florida, and had approximately 36,000 policies at the time of liquidation.
4. This Court entered the Order Approving the Receiver's First Interim Claims Report and Recommendation on Claims on July 10, 2013, which addressed non-guaranty claims in Classes 2 and 3. The Court then entered the Order Approving Receiver's Second Interim Claims Report and Recommendation on Claims on November 12, 2013, which addressed non-guaranty claims in Classes 6 through 8.



5. In accordance with Section 631.182, Florida Statutes, the Receiver has now completed its evaluation and recommendations as to certain non-guaranty claims in Classes 2 and 6 in the MIC receivership estate. The Receiver is continuing to evaluate the remaining classes of non-guaranty claims and guaranty claims and will be submitting a supplemental Claims Report for those classes of claims at a later date.

6. The Receiver's Third Interim Claims Report, Part A, Non-Guaranty Association Claims, dated November 21, 2013, (hereinafter the "Report") is attached as Exhibit A.

7. The Claims Report addresses certain non-guaranty association claimants only. As stated above, there will be another filing at a later date with the court regarding guaranty association claims and potentially any remaining non-guaranty claims. Part A reflects 5 filed claims by non-guaranty association claimants<sup>1</sup> in Classes 2 and 6 totaling \$13,600,036.06 of which the total amount recommended by the Receiver to be allowed is \$145,000.00. The Receiver will file a separate Motion and Interim Claims Report as to Part B, Guaranty Association and any remaining claims at a later date.

8. In order to assure the validity of claim assignments, to assure that the processing of assignments does not create an undue burden on estate resources, and to assure that assignment decisions are made using the best information available, the Receiver does not recognize or accept any assignment of claim by the claimant of record unless the following criteria are met:

---

<sup>1</sup> The claim by the Florida Insurance Guaranty Association is an assessment similar to assessments billed to all insurance companies in the State of Florida, which was billed to MIC prior to liquidation. Therefore, it is categorized as a Class 6 Claim and not a Class 2 GA claim.



- A. A distribution petition has not been filed with this Court;
- B. The Receiver has been provided with a properly executed and notarized assignment of claim agreement entered into between the parties; and
- C. The Receiver has been provided with a properly executed and notarized Receiver's Assignment of Claim Change Form and required supporting documentation.

9. The Receiver's Assignment of Claim Change Form shall contain an acknowledgement by the claimant, or someone authorized to act on behalf of the claimant, that:

- A. The claimant is aware that financial information regarding claims distributions and payments published on the Receiver's website or otherwise available can assist the claimant in making an independent and informed decision regarding the sale of the claim;
- B. The claimant understands that the purchase price being offered in exchange for the assignment may differ from the amount ultimately distributed in the receivership proceeding with respect to the claim;
- C. It is the claimant's intent to sell their claim and have the Receiver's records be permanently changed to reflect the new owner; and
- D. The claimant understands that they will no longer have any title, interest, or rights to the claim including future mailings and distributions if they occur.

10. Pursuant to Section 631.182, Florida Statutes, claimants are entitled to notice of the Receiver's recommendation on their claims and the deadline for filing an



objection. The deadline to be established for filing objections will not be less than forty five (45) days from the date of this Court's Order granting approval of the Report. A sample copy of the "Notice of Determination" containing this information and provided to claimants is attached hereto as Exhibit "B." The Receiver will be issuing a Notice substantially similar to Exhibit B to claimants in the Magnolia estate.

11. The Receiver has a procedure for dealing with late-filed objections. For any objection filed after the deadline, the Receiver will send a letter to the claimant advising the claimant that his/her/its objection was not filed in compliance with the Florida Statutes and this Court's Order and therefore will not be handled as a filed objection. A copy of this letter will be filed with the Court.

12. The Receiver requests that its recommendation set forth in the Report be approved unless an objection is filed thereto within the deadline approved by the Court.

WHEREFORE the Receiver respectfully requests this Court enter an Order:

- A. Approving the Receiver's Third Interim Claims Report and Recommendations on Claims for which no objections are filed.
- B. Authorizing and directing the Receiver to provide notice to each claimant, as herewith reported to the Court, of the Receiver's recommendation regarding his/her/its claim, by United States Mail to the last known address of such person or entity, as shown in the Receiver's files.
- C. Authorizing the Receiver to establish an objection filing deadline that is not less than forty-five (45) days from the date of this Court's Order granting approval of the Receiver's Report.



D. Approving the Receiver's sample Notice of Determination, and directing all persons or entities who have filed claims, or had them deemed filed, to file in writing any objection to the Receiver's Report they might have with the Clerk of this Court by the objection filing deadline, at:

Clerk of the Leon County Circuit Court  
Second Judicial Circuit  
Leon County Courthouse  
301 S. Monroe Street  
Tallahassee, FL 32301

And file a copy of said objection on the Receiver at the following address:

Florida Department of Financial Services, as  
Receiver for Magnolia Insurance Company  
2020 Capital Circle S.E., Suite 310  
Tallahassee, FL 32301

E. Requiring any person filing an objection to clearly state the name and claim identification number of the person filing the objection and to provide documentation supporting the objection and claim, and that the Court will not consider any information or documentation submitted after the objection is filed



F. Approving the Receiver's procedure for addressing late filed objections.

**SUBMITTED** this 4<sup>th</sup> day of December, 2013.



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Jody E. Collins, Senior Attorney  
Florida Bar No. 500445  
Florida Department of Financial Services  
Division of Rehabilitation and Liquidation  
8240 NW 52 Terrace, Suite 102  
Miami, Florida 33152  
(786) 336-1371 – Telephone  
(305) 499-2271 – Facsimile  
[Jody.Collins@myfloridacfo.com](mailto:Jody.Collins@myfloridacfo.com)



FLORIDA DEPARTMENT OF FINANCIAL SERVICES-DIVISION OF REHABILITATION AND LIQUIDATION

MAGNOLIA INSURANCE COMPANY

THIRD INTERIM CLAIMS REPORT

PART A - FOR NON GUARANTY ASSOCIATION CLAIMANTS

COMPANY: 527	POLICY NUMBER: FRJM3378193	INSURED: JAMES TRUSLOW	AMOUNT CLAIMED: \$336,012.94
ID NO: 5564-5	CLAIM NUMBER: M0924FL000213	CLAIMANT: CITIZENS PROPERTY INS ASSO COVE POINT CONDO ASSOC	AMOUNT RECOMMENDED: \$145,000.00
PRIORITY: CLASS 2	INS/CLMT STATE: FL	C/O FORAN GLENNON PALANDECH PC	AMOUNT GUARANTY PAID: \$0.00
STATUS: Evaluated	DATE OF LOSS: 07/03/2009	222 N LASALLE ST SUITE 1400	AMOUNT RECMD CLAIMANT: \$145,000.00
	DATE PROOF FILED: 05/02/2011	CHICAGO,IL 60601	
COMPANY: 527	POLICY NUMBER:	INSURED:	AMOUNT CLAIMED: \$5,053,254.89
ID NO: 20409-1	CLAIM NUMBER:	CLAIMANT: CITIZENS PROPERTY INSURANCE CORP	AMOUNT RECOMMENDED:
PRIORITY: CLASS 6	INS/CLMT STATE:	101 NORTH MONROE ST	AMOUNT GUARANTY PAID:
STATUS: Unevaluated	DATE OF LOSS: 04/30/2010	STE 1000	AMOUNT RECMD CLAIMANT:
	DATE PROOF FILED: 04/06/2011	TALLAHASSEE,FL 32301	
COMPANY: 527	POLICY NUMBER:	INSURED:	AMOUNT CLAIMED: \$172,898.23
ID NO: 20417-1	CLAIM NUMBER:	CLAIMANT: FLORIDA INSURANCE GUARANTY ASSOCIATION INC	AMOUNT RECOMMENDED:
PRIORITY: CLASS 6	INS/CLMT STATE:	PO BOX 14249	AMOUNT GUARANTY PAID:
STATUS: Unevaluated	DATE OF LOSS: 04/30/2010	TALLAHASSEE,FL 32317	AMOUNT RECMD CLAIMANT:
	DATE PROOF FILED: 02/14/2011		
COMPANY: 527	POLICY NUMBER:	INSURED:	AMOUNT CLAIMED: \$6,000,000.00
ID NO: 31613-1	CLAIM NUMBER:	CLAIMANT: NEPHILA CAPITAL LTD	AMOUNT RECOMMENDED:
PRIORITY: CLASS 6	INS/CLMT STATE:	VISTORIA PLACE 3RD FLOOR WEST	AMOUNT GUARANTY PAID:
STATUS: Unevaluated	DATE OF LOSS: 04/30/2010	31 VISTORIA STREET	AMOUNT RECMD CLAIMANT:
	DATE PROOF FILED: 04/29/2011	HAMILTON BERMUDA HM10,FC	
COMPANY: 527	POLICY NUMBER:	INSURED:	AMOUNT CLAIMED: \$2,037,870.00
ID NO: 31624-1	CLAIM NUMBER:	CLAIMANT: ALLIANZ RISK TRANSFER AG	AMOUNT RECOMMENDED:
PRIORITY: CLASS 6	INS/CLMT STATE:	OVERBAY 106 PITTS BAY RD	AMOUNT GUARANTY PAID:
STATUS: Unevaluated	DATE OF LOSS: 04/30/2010	HAMILTON BERMUDA HM08,FC	AMOUNT RECMD CLAIMANT:
	DATE PROOF FILED: 05/02/2011		

Note: Class 10 Claims are comprised of interest per F.S. 631.271 (1) (j) on allowed claims in Classes 1 - 9.  
 \*\*\* If status is unevaluated, then dollar amounts have been suppressed

EXHIBIT "A"

Page number 1 11/21/2013 08:09:17



FLORIDA DEPARTMENT OF FINANCIAL SERVICES -DIVISION OF REHABILITATION AND LIQUIDATION  
MAGNOLIA INSURANCE COMPANY  
THIRD INTERIM CLAIMS REPORT  
PART A - FOR NON GUARANTY ASSOCIATION CLAIMANTS

**SUMMARY TOTALS**

TOTAL AMOUNT CLAIMED BY NON GUARANTY ASSOCIATION CLAIMANTS	\$13,600,036.06
TOTAL AMOUNT RECOMMENDED TO NON GUARANTY ASSOCIATION CLAIMANTS	\$145,000.00
TOTAL NUMBER	5

**Secured Claims**

COUNT OF SECURED CLAIMS :	0
AMOUNT CLAIMED FOR SECURED CLAIMS BY NON GUARANTY ASSOCIATION	\$0.00
AMOUNT RECMD FOR SECURED CLAIMS TO NON GUARANTY ASSOCIATION	

**UnSecured Claims**

COUNT OF CLASS 1 CLAIMS :	0	COUNT OF CLASS 7 CLAIMS :	0
AMOUNT CLAIMED FOR CLASS 1 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00	AMOUNT CLAIMED FOR CLASS 7 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00
AMOUNT RECMD FOR CLASS 1 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS :		AMOUNT RECMD FOR CLASS 7 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:	
COUNT OF CLASS 2 CLAIMS :	1	COUNT OF CLASS 8 CLAIMS :	0
AMOUNT CLAIMED FOR CLASS 2 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS	\$336,012.94	AMOUNT CLAIMED FOR CLASS 8 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00
AMOUNT RECMD FOR CLASS 2 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:	\$145,000.00	AMOUNT RECMD FOR CLASS 8 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:	
COUNT OF CLASS 3 CLAIMS :	0	COUNT OF CLASS 9 CLAIMS :	0
AMOUNT CLAIMED FOR CLASS 3 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00	AMOUNT CLAIMED FOR CLASS 9 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00
AMOUNT RECMD FOR CLASS 3 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:		AMOUNT RECMD FOR CLASS 9 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:	
COUNT OF CLASS 4 CLAIMS :	0	CLASS 10 INTEREST CLAIMS (SEE NOTE):	
AMOUNT CLAIMED FOR CLASS 4 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00		
AMOUNT RECMD FOR CLASS 4 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:			
COUNT OF CLASS 5 CLAIMS :	0	COUNT OF CLASS 11 CLAIMS :	0
AMOUNT CLAIMED FOR CLASS 5 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00	AMOUNT CLAIMED FOR CLASS 11 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:	\$0.00
AMOUNT RECMD FOR CLASS 5 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS:		AMOUNT RECMD FOR CLASS 11 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS :	
COUNT OF CLASS 6 CLAIMS :	4		
AMOUNT CLAIMED FOR CLASS 6 CLAIMS BY NON GUARANTY ASSOCIATION CLAIMANTS:	\$13,264,023.12		
AMOUNT RECMD FOR CLASS 6 CLAIMS TO NON GUARANTY ASSOCIATION CLAIMANTS :			

Note: Class 10 Claims are comprised of interest per F.S. 631.271 (1) (b) on allowed claims in Classes 1 - 9





**FLORIDA DEPARTMENT OF FINANCIAL SERVICES, RECEIVER**  
**«company»**  
**December 4, 2013**  
**NOTICE of DETERMINATION**

RCN: «CD\_COMPANY» «ID\_NO»-«SUFFIX»  
 «FULLNAME»  
 «ADDRESSLINE2»  
 «ADDRESSLINE1»  
 «city» «state» «ZIPCODE»

IDENTIFICATION NUMBER: «cd\_company» «id\_no»-  
 «suffix»  
 INSURED: «policyhold»  
 POLICY NUMBER: «policy\_no»  
 CLAIM NUMBER: «claim\_no»  
 AMOUNT CLAIMED: «amt\_claimd»  
 AMOUNT RECOMMENDED CLAIMANT: «AMT\_DUE\_CL»  
 CLASS: «class»

**THIS IS NOT A BILL**

**THIS IS NOT A BILL**

**RE: «COMPANY»**

**Civil Action: «CASE\_NO»**

**OBJECTION FILING DEADLINE: ?filing deadline?**

**THIS IS NOT A BILL.** The purpose of this Notice of Determination is to inform you of the Receiver's report of its final recommendations to the Circuit Court concerning the classification and amount on a claim filed by you or on your behalf against the Receivership Estate of «COMPANY». A copy of the court order reflecting approval of these recommendations can be obtained at <http://www.myfloridacfo.com/division/receiver>.

The Receiver is evaluating Class XX through Class XX claims submitted in the estate of «COMPANY» and is recommending the amount on the line reading "Amount Recommended Claimant." The Receiver's "Class" or "Priority" of your claim will affect the amount you may receive. **Please be advised that the assets in the Receivership estate of «COMPANY» are not sufficient to fund a distribution payment to all claimants. In fact, the Receiver does not anticipate a distribution to any claimants beyond Class XX.** No claims in Class XX through Class 11 were evaluated. Therefore, if your class has been identified as Class XX through Class 11, you will not see any amount on the line reading "Amount Recommended Claimant". Florida Statute 631.271, "Priority of Claims", defines the classification of claims being reported to Court. Florida Statute 631.271, "Priority of Claims" can be obtained at <http://www.myfloridacfo.com/division/receiver>.

**If you agree with the amount recommended and the class/priority, no further action on your part is necessary.**

**If you object to the recommended amount or to the assigned class of your claim, YOU MUST FILE YOUR WRITTEN OBJECTION WITH BOTH THE RECEIVER (ADDRESS BELOW) AND THE CLERK OF COURT AT:**

**CLERK OF THE LEON COUNTY CIRCUIT COURT  
 LEON COUNTY COURTHOUSE  
 301 S. MONROE STREET  
 TALLAHASSEE, FLORIDA 32301**

**YOUR OBJECTION MUST BE FILED (RECEIVED) BY ?filing deadline?. IT IS SUGGESTED THAT YOU SEND YOUR OBJECTION BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED. LATE FILED OBJECTIONS WILL NOT BE CONSIDERED.**

The objection procedure is:

1. At the top of your statement, include the following information: The Civil Action Number noted above, your identification number noted above, and your correct address and telephone number. State in detail all legal and factual reasons for your objection.
2. Attach a copy of this notice and any documentation to support your objection. By order of the Court, all documentation must be filed with your objection.
3. File the original with the Clerk of Court, file a copy with the Receiver, and keep a copy for yourself.
4. If your objection cannot be resolved, a hearing will be scheduled before the Circuit Court, Leon County, Florida.

**FLORIDA DEPARTMENT OF FINANCIAL SERVICES, RECEIVER**  
**«company»**  
 2020 CAPITAL CIRCLE, S. E., SUITE 310  
 TALLAHASSEE, FLORIDA 32301  
 Website: <http://www.myfloridacfo.com/division/receiver>  
**Telephone: 850-413-3081, Toll Free: 800-882-3054, Facsimile: 850-413-3997**

EXHIBIT "B"

R6-10 (Q) Last Update 02/13/13



# FLORIDA DEPARTMENT OF FINANCIAL SERVICES, RECEIVER «company»

\*\*\*\*\*

## DISTRIBUTION INFORMATION

Distribution of estate funds to claimants will be made in accordance with the priority schedule set forth in Section 631.271, Florida Statutes. All approved claims are organized and paid by priority with a Class 1 claim designated as the highest priority to a Class 11 claim considered the lowest priority. All approved claims in a class must be paid in full before any payment is made to the next class. If the next lower priority class does not have sufficient funds to be paid in full, all approved claims in that class are paid in equal pro rata shares. Therefore, depending on the assets available for distribution, you and other claimants in your classification may only receive a percentage of the amount recommended on your claim (i.e. 25% pro rata share distribution of funds in your class equals 25 cents on the dollar). Further information on the current and projected financial condition of «COMPANY» can be found at <http://www.myfloridacfo.com/division/receiver> or the Global Receivership Information Database (GRID) website at [www.naic.org](http://www.naic.org).

As part of its duties, the Receiver must investigate, collect and convert all company assets into cash, prioritize and value claims, and resolve all objections to the results of the Receiver's evaluations. This process usually takes several years to complete. Distributions to claimants are made only if/when sufficient funds become available and the Court has approved the distribution. We cannot currently estimate if/when a payment may be made. Your patience in this process is appreciated.

## CLAIMANT INFORMATION

If a distribution is made, the payee(s) name(s) on the claim check will be the same as the name(s) appearing on the front of this form. If the information on this form, including address, is incorrect, or becomes incorrect in the future, it is your responsibility to notify the Receiver and document any changes to a claimant's name or address. Information on how to submit a change is available at <http://www.myfloridacfo.com/division/receiver>.

Some non-confidential information (i.e., certain claimant names, addresses and recommended claim information) is compiled by the Receiver and filed with the Court in order to make recommendations regarding the value and class of claims. This information is available to consumers as a public record in accordance with Article I, Section 24 of the Florida State Constitution and Chapter 119, Florida Statutes, and may be accessed through the court files of this receivership or via the Receiver's website.

**IMPORTANT INFORMATION:** You may be contacted by outside third parties who may offer to purchase your claim in exchange for the transfer of your rights to a distribution, if any, in the future. Please be advised that the Receiver is not in any way affiliated with third party purchasers of claims and cannot advise or counsel individual claimants with respect to any potential distribution amounts or assist a claimant in the personal decision to sell their claim to an outside third party. All available information on the current and projected financial condition of «COMPANY» may be found at <http://www.myfloridacfo.com/division/receiver> or the Global Receivership Information Database (GRID) website at [www.naic.org](http://www.naic.org).

### FLORIDA DEPARTMENT OF FINANCIAL SERVICES, RECEIVER «company»

2020 CAPITAL CIRCLE, S. E., SUITE 310  
TALLAHASSEE, FLORIDA 32301

Website: <http://www.myfloridacfo.com/division/receiver>

Telephone: 850-413-3081, Toll Free: 800-882-3054, Facsimile: 850-413-3997



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 an insurance  
business in Florida

CASE NO.: 2010-CA-1522

**ORDER APPROVING RECEIVER'S THIRD INTERIM CLAIMS  
REPORT AND RECOMMENDATION ON CLAIMS**

THIS CAUSE having come before the Court on the Florida Department of Financial Services, as Receiver for Magnolia Insurance Company (hereinafter "Receiver"), Motion for Approval of Third Interim Claims Report and Recommendation on Claims, and the Court having reviewed the pleadings of record and otherwise being fully advised in the premises, it is hereby ORDERED AND ADJUDGED as follows:

1. The Receiver's Third Interim Claims Report and Recommendation on Claims is hereby approved.

2. The Receiver is authorized and directed to notify claimants of the Receiver's recommendations regarding their claims, by U.S Mail to the last known address of such persons, as shown in the Receiver's files.

3. All persons who object to the Receiver's recommendations in its Third Interim Claims Report are hereby directed to file in writing an objection with the Clerk of this Court. All objections are due by the objection filing deadline established by the Receiver which will be no less than forty-five (45) days from the date of this Order and should be filed at:

Clerk of the Leon County Circuit Court  
Second Judicial Circuit  
Leon County Courthouse  
301 S. Monroe Street



Tallahassee, FL 32301

With a copy of said objection to be served on the Receiver at the following address:

Florida Department of Financial Services, as  
Receiver for Magnolia Insurance Company  
2020 Capital Circle S.E., Suite 310  
Tallahassee, FL 32301

Objections shall clearly state the name and claim identification number of the person filing the objection, and shall clearly state the factual and legal reason(s) supporting the objection and claim. Any person filing an objection is required to submit documentation along with the objection to support his/her/its claim. The Court will not consider any information or documentation submitted after the objection is filed. All objections not otherwise resolved shall be set for hearing at a later date and the objectors so notified.

4. The Receiver's procedure for addressing late filed objections as set forth in the Motion is approved.

5. The Receiver's sample Notice of Determination is approved.

6. The Receiver's procedure for processing claim assignments is approved.

DONE AND ORDERED, in Chambers at the Leon County Courthouse in  
Tallahassee, Leon County, Florida, this 4 day of December, 2013

  
KEVIN J. CARROLL  
CIRCUIT JUDGE

Copy furnished to:  
Jody E. Collins, Esq.



**FILED****MAR 11 2008****OFFICE OF INSURANCE REGULATION****KEVIN M. McCARTY**  
COMMISSIONER**OFFICE OF  
INSURANCE REGULATION**  
Decided by: 10/8/8

IN THE MATTER OF:

Case No. 94539-08

CITIZENS PROPERTY INSURANCE CORPORATION  
\_\_\_\_\_ /**ORDER APPROVING CITIZENS PROPERTY INSURANCE CORPORATION'S  
PERSONAL RESIDENTIAL AND COMMERCIAL RESIDENTIAL NON-BONUS  
TAKEOUT PLANS**

TO: Scott Wallace, President  
Citizens Property Insurance Corporation  
101 North Monroe Street, Suite 1000  
Tallahassee, Florida 32301

THIS MATTER came before the Office of Insurance Regulation (hereinafter referred to as the "OFFICE") for consideration upon the filing by Citizens Property Insurance Corporation (hereinafter referred to as "CITIZENS") for the OFFICE's approval of the Personal Residential and Commercial Residential Non-Bonus Takeout Plans (hereinafter referred to as the "Takeout Plans"). The OFFICE, having considered the provisions of the Takeout Plans, and being fully advised in the premises, hereby finds as follows:

1. The OFFICE has jurisdiction over the parties and the subject matter of these proceedings.
2. Pursuant to Section 627.351(6)(p)3.a., Florida Statutes, CITIZENS shall adopt one or more programs for the reduction of both new and renewal writings in the corporation. The programs are subject to approval by the OFFICE.



3. The Board of Governors of CITIZENS at its duly noticed and convened meeting of January 25, 2008, approved the Takeout Plans. On or about February 10, 2008, CITIZENS submitted to the OFFICE for approval, both the Personal Residential and the Commercial Residential Takeout Plans.

4. The Takeout Plans are attached hereto as Exhibits A and B.

5. CITIZENS has developed a takeout process that includes a required notification to policyholders by the takeout companies at least thirty (30) days in advance of a personal lines takeout so that CITIZENS can continue the effort to remove risk to the voluntary market while honoring a new statutory requirement that the policyholder has a right to stay in CITIZENS for a specified period of time, even if the policyholder receives an offer of coverage from the voluntary market. In furtherance of this effort, CITIZENS has been giving notice to takeout companies to avoid the selection of policies where the agent has categorically disapproved of policy removals. The notification is for the very practical purpose of saving the effort to de-select policies after the agent refuses a takeout. Because this process is done prior to policy selection, under current practice, the policyholder is unaware that their policy would have been a potential candidate for an offer of coverage from a voluntary insurer.

6. CITIZENS shall discontinue this notice so that the takeout companies will make their selections without categorically eliminating policies from eligibility for removal. Takeout companies will still notify agents as well as policyholders in advance of the proposed policy removal date, and will seek the approval of the agent for appointment. However, the agents should be required to decline appointment in each instance of a refusal to allow policies to be removed, and the affected policyholders should be notified by CITIZENS that a voluntary insurance company selected their policy for removal, but their agent refused.



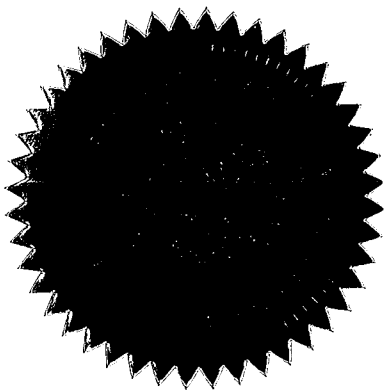
7. For assumptions occurring after May 1, 2008, CITIZENS must send notice to any policyholder whose policy has been selected for assumption by an assuming insurer, but whose agent is unable or unwilling to be appointed for the assuming insurer, that an offer of coverage was made which may have saved them premium dollars. The notice must also provide the policyholder with the offering insurer's contact information to permit the insured to contact the company directly to make a determination on their own of whether to seek coverage from the offering insurer.

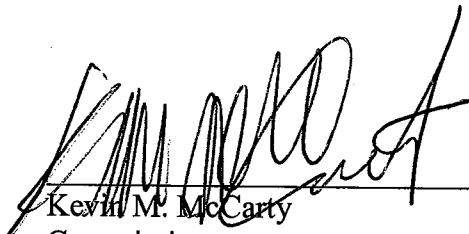
8. Approval of these Takeout Plans shall not constitute the OFFICE's approval of any specific insurance company depopulation plans subject to the OFFICE's review.

**IT IS THEREFORE ORDERED:**

Subject to the terms and conditions outlined above, the Personal Residential and the Commercial Residential Takeout Plans approved by the CITIZENS Board of Governors on January 25, 2008, are APPROVED.

DONE AND ORDERED this 11<sup>th</sup> day of march, 2008.



  
\_\_\_\_\_  
Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation



## **NOTICE OF RIGHTS**

Pursuant to Sections 120.569 and 120.57, Florida Statutes and Rule Chapter 28-106, Florida Administrative Code (F.A.C.), you may have a right to request a proceeding to contest this action by the Office of Insurance Regulation (hereinafter the "Office"). You may request a proceeding by filing a Petition. Your Petition for a proceeding must be in writing and must be filed with the General Counsel acting as the Agency Clerk, Office of Insurance Regulation. If served by U.S. Mail the Petition should be addressed to the Florida Office of Insurance Regulation at 612 Larson Building, Tallahassee, Florida 32399-4206. If Express Mail or hand-delivery is utilized, the Petition should be delivered to 612 Larson Building, 200 East Gaines Street, Tallahassee, Florida 32399-0300. The written Petition must be received by, and filed in the Office no later than 5:00 p.m. on the twenty-first (21) day after your receipt of this notice. Unless your Petition challenging this action is received by the Office within twenty-one (21) days from the date of the receipt of this notice, the right to a proceeding shall be deemed waived. Mailing the response on the twenty-first day will not preserve your right to a hearing.

If a proceeding is requested and there is no dispute of material fact the provisions of Section 120.57(2), Florida Statutes may apply. In this regard you may submit oral or written evidence in opposition to the action taken by this agency or a written statement challenging the grounds upon which the agency has relied. While a hearing is normally not required in the absence of a dispute of fact, if you feel that a hearing is necessary one may be conducted in Tallahassee, Florida or by telephonic conference call upon your request.

If you dispute material facts which are the basis for this agency's action you may request a formal adversarial proceeding pursuant to Sections 120.569 and 120.57(1), Florida Statutes. If you request this type of proceeding, the request must comply with all of the requirements of Rule Chapter 28-106.201, F.A.C., must demonstrate that your substantial interests have been affected by this agency's action, and contain:

- a) A statement of all disputed issues of material fact. If there are none, the petition must so indicate;
- b) A concise statement of the ultimate facts alleged, including the specific facts the petitioner contends warrant reversal or modification of the agency's proposed action;
- c) A statement of the specific rules or statutes the petitioner contends require reversal or modification of the agency's proposed action; and
- d) A statement of the relief sought by the petitioner, stating precisely the action petitioner wishes the agency to take with respect to the agency's proposed action.

These proceedings are held before a State Administrative Law Judge of the Division of Administrative Hearings. Unless the majority of witnesses are located elsewhere, the Office will request that the hearing be conducted in Tallahassee.

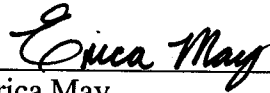
In some instances, you may have additional statutory rights than the ones described herein.

Failure to follow the procedure outlined with regard to your response to this notice may result in the request being denied. Any request for administrative proceeding received prior to the date of this notice shall be deemed abandoned unless timely renewed in compliance with the guidelines as set out above.



**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of this ORDER was sent by Certified Mail to, Scott Wallace, President, Citizens Property Insurance Corporation, 101 North Monroe Street, Suite 1000, Tallahassee, Florida 32301, this 11<sup>th</sup> day of March, 2008.



Erica May  
Assistant General Counsel  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399-4206  
(850) 413-4112



COPIES FURNISHED TO:

Scott Wallace, President  
Citizens Property Insurance Corporation  
101 North Monroe Street, Suite 1000  
Tallahassee, Florida 32301

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

Belinda Miller, Deputy Commissioner  
Office of Insurance Regulation  
Property & Casualty  
200 East Gaines Street  
Tallahassee, FL 32399

Erica May, Assistant General Counsel  
Office of Insurance Regulation  
Legal Services Office  
200 East Gaines Street  
Tallahassee, FL 32399-4206



**Citizens Property Insurance Corporation**  
Personal Residential  
Non-Bonus Takeout Plan

**General**

The contract period to remove policies from Citizens will be eighteen (18) months. High Risk Account (HRA) and Personal Lines Account (PLA) take-outs are exclusive and may not be assumed simultaneously under a single eighteen (18) month take-out contract. This document is provided as an overview of Citizens' take-out plan. Each assuming carrier's assumption agreement (contract) will outline specific details and should be carefully reviewed for additional requirements and specifications. In addition, all assumptions must be done in compliance with the Personal Residential Non-Bonus Take-out Timelines and Requirements attached hereto as Exhibit A.

**PLA or HRA Personal Residential Take-out Plan**

1. During the eighteen (18) month take-out contract period the assuming carrier must remove a minimum of either:
  - a. 10,000\* policies with wind coverage; OR
  - b. Policies with wind coverage that have a cumulative Total Insured Value (coverages A, B, C & D combined) of at least two (2) billion dollars\*.
2. Any single assumption in a take-out contract period must remove a minimum of 2,500 policies or a Total Insured Value (coverages A, B, C & D combined) of 500 million dollars.
3. Policies must be retained by the assuming carrier for a minimum of three (3) years.

\* Take-outs consisting exclusively of Mobile Home policies have the following minimums:

- 2,500 policies
- TIV requirement does not apply to MH only Take-outs.

**Ceding Commission**

Ceding commission is the percentage of unearned premium for assumed policies that Citizens' retains to service those policies during the period of time from the assumption date to the policy term expiration date. Assuming carriers who remove a larger number of policies or TIV from the Personal Lines Account or High Risk Account may be eligible for a reduction in ceding commission. The ceding commission will be reduced for all policies removed in an eighteen (18) month contract period if either the minimum number of policies or TIV are assumed as outlined in the tables below. Ceding commission is removed from the unearned premium payment that is sent to the assuming carrier after each individual assumption, based upon the number of policies or TIV actually assumed to date within the contract period.

**Ceding Commission Table (PLA)**

Number of Policies	Minimum Total Insured Value (TIV)	Ceding Commission
Less than 60,000	N/A	16%
60,000 to 74,999	\$11 Billion	Reduced to 12%
75,000 to 89,999	\$14 Billion	Reduced to 9%
90,000 and up	\$17 Billion	Reduced to 6%

**EXHIBIT**

A



# Citizens Property Insurance Corporation

Personal Residential  
Non-Bonus Takeout Plan

## Ceding Commission

(continued)

**Ceding Commission Table (HRA)**

Number of Policies	Minimum Total Insured Value (TIV)	Ceding Commission
Less than 35,000	N/A	16%
35,000 to 49,999	\$10 Billion	Reduced to 12%
50,000 to 79,999	\$14 Billion	Reduced to 9%
80,000 and up	\$22 Billion	Reduced to 6%

**Ceding Commission Table (Mobile Home\*)**

Number of Policies	Minimum Total Insured Value (TIV)	Ceding Commission
Less than 15,000	N/A	16%
15,000 to 19,999	N/A	Reduced to 12%
20,000 to 29,999	N/A	Reduced to 9%
30,000 and up	N/A	Reduced to 6%

\*Take-outs Consisting Exclusively of Mobile Home

## Policy Cancellations

### Valid Cancellations:

A "Valid Cancellation Reason" includes the following:

1. Non-payment of premium; or
2. Insured initiated cancellation (e.g. transfer of ownership, insured request, policy replaced, etc).

Policies that cancel for a Valid Cancellation Reason will count toward minimum policy / TIV requirements for ceding commission.

### Invalid Cancellations

An "In-valid Cancellation Reason" includes any insurer initiated cancellation, other than described above. Policies that cancel for an Invalid Cancellation Reason will not count toward any minimum policy / TIV requirements for ceding commission.



## EXHIBIT A

### **Personal Residential Non-bonus Take-out Timelines & Requirements**

The process, timelines, and requirements are found in the assumption agreements & published assumption calendar. The Office can specify additional criteria in the assuming carriers Consent order. Citizens can specify additional criteria in the assumption agreement.

- At any point in time, an Insurer may request, for purposes of depopulation and subject to an appropriate confidentiality agreement, a data file of policies from CITIZENS. All policies not currently pending cancellation, not set for non-renewal or tagged for another insurer as described below, will be included in the data file.
- Companies may not be allowed to Depopulate policies in consecutive assumptions. This is dependent upon the number of participants. This determination is based on resources, and solely at the discretion of the Depopulation Manager.

#### **At Least 45 Days Before Initial Assumption**

- The Insurer must provide a Certificate of Authority from the Office, and an Order or letter from the Office approving the assumption.
- The Assuming Carrier must return an executed Requirements and Deadline Letter.
- The Insurer must return an executed Requirements and Deadline Letter.

#### **At Least 40 Days Before Initial Assumption**

- The Assuming Carrier's policy selection must be submitted to Citizens. By submitting this policy selection file the assuming carrier is certifying that all associated have either been appointed by the company or agreed to have their policies assumed by the company under the provisions of "Consumer Choice."
- Citizens must receive the Assuming Carrier's information (company letterhead with logo, signature, etc.) to begin formatting of assumption notices.

#### **At Least 35 Days Before Initial Assumption**

- The Assuming Carrier must mail notice 35 days before the assumption date giving the consumer the option to choose not to be assumed. The Notice must be approved by the O.I.R. and Citizens. It must be sent to each consumer the carrier intends to assume. The Insurer must return an executed Assumption Agreement to CITIZENS.
- It is the Assuming Carrier's responsibility to collect the responses from the above notice, and retain these for documentation. All consumers who indicate they do not want to be assumed need to be entered into an Access data base with their associated Citizens policy number.

#### **At Least 6 Days Before Initial Assumption**

- The Assuming Carrier must provide a data file (Access format) containing each consumer and associated policy number that has chosen to not be assumed. Citizens eliminates the policies of consumers who do not wish to have their policies assumed from the company's policy selection.



## EXHIBIT A

### Recent Process Changes:

Recent changes to Florida law modified Citizens statutory eligibility rules. The changes allow Citizens policyholders to reject an offer from an assuming carrier and choose to remain insured by Citizens. To comply with the changes to law, Citizens implemented notification requirements that assuming carriers must comply with in order to remove policies from Citizens:

1. At least 35 days (65 days for commercial residential) prior to a planned assumption, the assuming carrier must mail notification to each policyholder that gives them the option not to participate in the assumption (sample attached). Approximately 39,000 policyholders have responded to this notification and chosen to remain with Citizens.
2. The official notice of assumption sent to the policyholder, agent, and lien holder clearly indicates that the policyholder can reverse the assumption and choose to remain insured with Citizens all the way until the expiration of the current policy (sample attached). To date, Citizens staff has processed approximately 7,800 policyholder requests to remain with Citizens after they received their official notice of assumption.

### Sample

MM/DD/YYYY

Policy Holder

Street

City, State ZIP

Dear Citizens Policyholder:

Insured Location:

On MM/DD/YYYY, the Florida Office of Insurance Regulation signed a consent order approving ABC Insurance Company's assumption of insurance policies from Citizens Property Insurance Corporation (Citizens). We are pleased to announce that your policy has been selected by ABC. Your agent is aware of this and will continue to represent you. On the assumption date of your policy, ABC Insurance will become responsible for the payment of any claims that occur, under Citizens policy terms, after MM/DD/YYYY. Approximately 45 days prior to when your current Citizens policy renews, you will be offered a policy by ABC Insurance that provides you with a rate that will be at or below what you are currently paying Citizens. Under the new law, you as an insurance consumer have a right to choose to reject this offer from ABC Insurance and stay with Citizens. However, we believe you should carefully consider the offer of ABC. Here are some of the important reasons why:

- **Our rates are lower than what you are currently paying Citizens and you will benefit from this savings when your policy renews later this year.**
- Your current policy will be continued with no change in your coverage or disruption in your policy cycle.
- ABC Insurance intends to provide you with superior customer service, efficient and fast policy service, and expedited claims handling.
- ABC Insurance will offer quarterly, semi-annual, and annual installment payment plans to assist you with budgeting your premiums.

We look forward to providing you high levels of service as your insurance company. If you have any specific coverage and rate questions, please call your insurance agent. For general questions about ABC Insurance, please call 1-866-496-1781 Monday through Friday, from 9:00 to 6:00 p.m., or you can visit our website at [www.homewiseinsurance.com](http://www.homewiseinsurance.com) to learn more about our company and our commitment to you.



EXHIBIT A

NO ACTION IS REQUIRED BY YOU TO PARTICIPATE. HOWEVER, TO PREVENT THE ASSUMPTION OF YOUR POLICY BY ABC, PLEASE DETACH THE FORM BELOW, SIGN AND MAIL TO ABC Insurance BEFORE MM/DD/YYYY.

Thank you.

Sincerely,

President and Chief Executive Officer

-----X-----X-----  
\*\*\*\*\*ONLY RETURN THIS FORM IF YOU ARE REJECTING THE OFFER \*\*\*\*\*

Please mail to: ABC Insurance (or Fax to 777-777-7777)

7777 B Blvd

Tampa, FL 7777-7777

I wish to stay with Citizens and reject this offer.

Printed Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Address/City/State/Zip: \_\_\_\_\_

Citizens Insurance Policy Number: \_\_\_\_\_ Daytime Phone Number: (\_\_\_\_) \_\_\_\_\_

**NOTICE OF ASSUMPTION AND NON RENEWAL**

**Please read carefully as this is the only notice you will receive.**

THIS NOTICE AND THE ENCLOSED CERTIFICATE OF ASSUMPTION CONTAIN IMPORTANT INFORMATION ABOUT CHANGES AFFECTING YOUR POLICY WITH CITIZENS

**You have 30 days from the date of assumption to decline. Please contact your agent by June 16, 2007 if you do not want to participate in this assumption. Your agent's information is listed at the bottom of this notice.**

Dear Policyholder:

On May 17, 2007 at 12:01 AM, ABC Insurance Company assumed full responsibility for your property insurance policy previously issued by the Citizens Property Insurance Corporation (Citizens). The assumption of your policy by ABC Insurance Company is part of a program created by the Florida Legislature to reduce the number of properties insured by Citizens. Your agent consented to this assumption, and you did not request exclusion as provided in the initial notice given to you by ABC Insurance Company. Your current Citizens policy is now considered to be directly issued by ABC Insurance Company and will remain in effect until the expiration date shown above. This also is notice that this policy is non-renewed on the expiration date and any renewal or replacement policy will be issued by ABC Insurance Company.

**TO REPORT CLAIMS:**

For claims on losses **on or after**, 12:01 AM, May 17, 2007 - Call ABC Claims Department at: (877) 123-4567

For claims on losses **prior** to 12:01 AM, May 17, 2007 - Call the Citizens Claims Reporting Center at: (888) 999-9999.

**TO REQUEST POLICY SERVICE AND FOR OTHER QUESTIONS:**

For policy service, including coverage changes or cancellation requests - Contact your Citizens agent at (305) 888-8888.

For questions regarding this notice - Call your Citizens agent at (305) 888-8888.

cc: ABC INSURANCE COMPANY  
3887 E ASSUMPTION LANE  
CORAL SPRINGS, FL 34112

Policyholder Copy

MID: 20332 / AID: 20333 / FID: 8



**Citizens Property Insurance Corporation**  
Commercial Residential  
Non-Bonus Take-out Plan

**General**

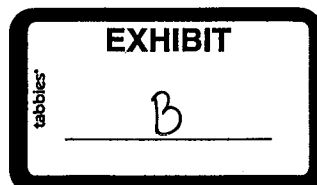
The contract period to remove commercial residential policies from Citizens will be eighteen (18) months. High Risk Account (HRA) and Commercial Lines Account (CLA) take-outs are exclusive and may not be assumed simultaneously under a single (18) month take-out contract. This document is provided as an overview of Citizens' take-out plan. Each assuming carrier's assumption agreement (contract) will outline specific details and should be carefully reviewed for additional requirements and specifications. In addition, all assumptions must be done in compliance with the Commercial Residential Non-Bonus Take-Out Timelines and Requirements attached hereto as Exhibit A.

**CLA or HRA Commercial Residential Take-out Plan**

1. During the eighteen (18) month take-out contract period the assuming carrier must remove a minimum if either:
  - a. 500 policies with wind coverage; OR
  - b. Policies with wind coverage that have a cumulative Total Insured Value (building, Contents, & Special Class items; Coverage's A, B, & C combined) of 3.5 billion dollars.
2. Any single assumption in a take-out contract period must remove a minimum of 100 policies or a Total Insured Value (Building, Contents, & Special Class items; Coverage's A, B, & C combined) of seven (7) hundred million dollars.
3. Policies must be retained by the assuming carrier for a minimum of three (3) years.

**Ceding Commission**

Ceding commission is the percentage of unearned premium for assumed policies that Citizens' retains to service those policies during the period of time from the assumption date to the policy term expiration date. Assuming carriers who remove a larger number of policies or TIV from the Commercial Lines Account or High Risk Account may be eligible for a reduction in ceding commission. The ceding commission will be reduced for all policies removed in an eighteen (18) month contract period if either the minimum number of policies or TIV are assumed as outlined in the table below. Ceding commission is removed from the unearned premium payment that is sent to the assuming carrier after each individual assumption based upon the number of policies or TIV actually assumed to date within the contract period.





**Ceding Commission Table (Commercial Residential)**

<b>Number of Policies</b>	<b>Minimum Total Insured Value (TIV)</b>	<b>Ceding Commission</b>
Less than 599	N/A	16%
600 to 999	\$5.5 Billion	Reduced to 12%
1000 to 1999	\$10 Billion	Reduced to 9%
2000 and up	\$15 Billion	Reduced to 6%

**Policy Cancellations**Valid Cancellations:

A "Valid Cancellation Reason" includes the following:

1. Non-payment of premium; or
2. Insured initiated cancellation (e.g. transfer of ownership, insured request, policy replaced, etc).

Policies that cancel for a Valid Cancellation Reason will count toward minimum policy / TIV requirements for ceding commission.

Invalid Cancellations

An "In-valid Cancellation Reason" includes any insurer initiated cancellation, other than described above. Policies that cancel for an Invalid Cancellation Reason will not count toward any minimum policy / TIV requirements for ceding commission.

\*Carefully review the assumption agreement as there are other requirements and specifications. Assuming carriers are also required to adhere to all requirements of the Florida Office of Insurance Regulation.



## EXHIBIT A

### **Commercial Residential Non-bonus Take-out Timelines & Requirements**

The process, timelines, and requirements are found in the assumption agreements & published assumption calendar. The Office can specify additional criteria in the assuming carriers Consent order. Citizens can specify additional criteria in the assumption agreement. Citizens reserves the right to modify these deadlines.

- At any point in time, an Insurer may request, for purposes of depopulation and subject to an appropriate confidentiality agreement, a data file of policies from CITIZENS. All policies not currently pending cancellation, not set for non-renewal or tagged for another insurer as described below, will be included in the data file.
- Companies may not be allowed to Depopulate policies in consecutive assumptions. This is dependent upon the number of participants. This determination is based on resources, and is at the discretion of the Depopulation Manager.

#### **At Least 71 Days Before Initial Assumption\***

- The Insurer must return an executed Assumption Agreement to CITIZENS.
- The Insurer must provide a Certificate of Authority from the Office, and an Order or letter from the Office approving the assumption.
- The Assuming Carrier must return an executed Requirements and Deadline Letter.

#### **At Least 69 Days Before Initial Assumption\***

- The Assuming Carrier's policy selection must be submitted to Citizens. By submitting this policy selection file the assuming carrier is certifying that all associated agents have agreed to allow their policies to be assumed by the company under the provisions of "Consumer Choice."
- Citizens must receive the Assuming Carrier's information (company letterhead with logo, signature, etc.) to begin formatting of assumption notices.

#### **At Least 65 Days Before Initial Assumption\***

- The Assuming Carrier must mail a notice 65 days before the assumption date giving the consumer the option to choose not to be assumed. The Notice must be approved by the Office and Citizens. It must be sent to each named insured the carrier intends to assume. Before sending any correspondence to the named insured, the associated agent of record must agree to allow policies to be assumed (per consumer choice). The assuming carrier must be able to provide documentation that the agent has affirmative agreed to allow policies to be assumed upon demand.
- It is the Assuming Carrier's responsibility to collect the responses from the above notice, and retain these for documentation. All consumers who indicate they do not want to be assumed need to be entered into an Access data base with their associated Citizens policy number.

\* The personal residential program requires 35 days. The commercial residential process required additional time so condominium associations could respond.

#### **At Least 5 Days Before Initial Assumption**

- The Assuming Carrier must provide a data file (Access format) containing each consumer and associated policy number that has chosen to not be assumed. Citizens eliminates the policies of consumers who do not wish to have their policies assumed from the company's policy selection.



## EXHIBIT A

These deadlines may change depending upon the number of participating companies. The Depopulation manager will notify if modification is necessary.



## F Series – Financial Reporting Documents Referenced





# ANNUAL STATEMENT

For the Year Ended December 31, 2008  
of the Condition and Affairs of the

## Magnolia Insurance Company

NAIC Group Code.....	NAIC Company Code..... 13141	Employer's ID Number..... 20-2878592
(Current Period) (Prior Period)		
Organized under the Laws of FLORIDA	State of Domicile or Port of Entry FLORIDA	Country of Domicile US
Incorporated/Organized..... May 25, 2005	Commenced Business..... April 28, 2008	
Statutory Home Office	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133 (Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133 (Street and Number) (City or Town, State and Zip Code)	305-858-9500 (Area Code) (Telephone Number)
Mail Address	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133 (Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133 (Street and Number) (City or Town, State and Zip Code)	305-858-9500 (Area Code) (Telephone Number)
Internet Web Site Address	www.magnoliainsurance.us	
Statutory Statement Contact	Daverick DeJuan Isaac (Name) daverick.isaac@cgl.com (E-Mail Address)	817-348-3405 (Area Code) (Telephone Number) (Extension) 817-348-3786 (Fax Number)

### OFFICERS

Name	Title	Name	Title
1. Henry James Irl	President	2. Gregg Baird Patterson	Chief Financial Officer/VP of Operations/Treasurer
3. Alberto Francisco Sarasua	Secretary	4.	

### OTHER

### DIRECTORS OR TRUSTEES

Henry James Irl	Peter Richard Harrison	Gregg Baird Patterson	Ernesto Ramon
Alberto Francisco Sarasua			

State of..... FLORIDA  
County of..... MIAMI-DADE

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Henry James Irl	(Signature) Gregg Baird Patterson	(Signature) Alberto Francisco Sarasua
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President	Chief Financial Officer/VP of Operations/Treasurer	Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_ 2009

a. Is this an original filing? Yes [X] No [ ]

b. If no

1. State the amendment number \_\_\_\_\_

2. Date filed \_\_\_\_\_

3. Number of pages attached \_\_\_\_\_



## ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....			0	
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	758,099		758,099	
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....48,658,471, Sch. E-Part 1), cash equivalents (\$.....30,495,533, Sch. E-Part 2) and short-term investments (\$.....10,322,231, Sch. DA).....	89,476,234		89,476,234	
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....			0	
8. Receivables for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	90,234,333	0	90,234,333	0
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	204,935		204,935	
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	11,848,868		11,848,868	
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....			0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
16.2 Net deferred tax asset.....	2,854,947	82,937	2,772,010	
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....			0	
19. Furniture and equipment, including health care delivery assets (\$.....0).....	20,487	20,487	0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	149,600	149,600	0	
22. Health care (\$.....0) and other amounts receivable.....			0	
23. Aggregate write-ins for other than invested assets.....	64,951	42,959	21,992	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	105,378,121	295,983	105,082,138	0
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	105,378,121	295,983	105,082,138	0

## DETAILS OF WRITE-INS

0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Other Receivables.....	1,796	1,796	0	
2302. Prepaid Insurance.....	4,443	4,443	0	
2303. Lease Deposits.....	21,992		21,992	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	36,720	36,720	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	64,951	42,959	21,992	0



## LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 35, Column 8).....	7,083,441	
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6).....		
3. Loss adjustment expenses (Part 2A, Line 35, Column 9).....	1,797,793	
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	5,586,119	
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	1,698,266	
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....	3,315,725	
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (Part 1A, Line 38, Column 5) (after deducting unearned premiums for ceded reinsurance of \$.....25,778,469 and including warranty reserves of \$.....0).....	38,120,588	
10. Advance premium.....	2,267,483	
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	23,214,603	
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19).....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....	85,865	
16. Provision for reinsurance (Schedule F, Part 7).....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....	1,087,214	
20. Payable for securities.....		
21. Liability for amounts held under uninsured plans.....		
22. Capital notes \$.....0 and interest thereon \$.....0.....		
23. Aggregate write-ins for liabilities.....	0	0
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23).....	84,277,097	0
25. Protected cell liabilities.....		
26. Total liabilities (Lines 24 and 25).....	84,277,097	0
27. Aggregate write-ins for special surplus funds.....	0	0
28. Common capital stock.....	10,000	
29. Preferred capital stock.....		
30. Aggregate write-ins for other than special surplus funds.....	0	0
31. Surplus notes.....		
32. Gross paid in and contributed surplus.....	19,990,000	
33. Unassigned funds (surplus).....	805,041	
34. Less treasury stock, at cost:		
34.1 .....0.000 shares common (value included in Line 28 \$.....0).....		
34.2 .....0.000 shares preferred (value included in Line 29 \$.....0).....		
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39).....	20,805,041	0
36. TOTALS (Page 2, Line 26, Col. 3).....	105,082,138	0

## DETAILS OF WRITE-INS

2301. ....		
2302. ....		
2303. ....		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	0	0
2701. ....		
2702. ....		
2703. ....		
2798. Summary of remaining write-ins for Line 27 from overflow page.....	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	0	0
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	0	0



## STATEMENT OF INCOME

UNDERWRITING INCOME		1	2
		Current Year	Prior Year
1. Premiums earned (Part 1, Line 35, Column 4).....		33,856,428	
DEDUCTIONS			
2. Losses incurred (Part 2, Line 35, Column 7).....		14,436,078	
3. Loss adjustment expenses incurred (Part 3, Line 25, Column 1).....		2,125,852	
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2).....		16,528,730	
5. Aggregate write-ins for underwriting deductions.....		0	0
6. Total underwriting deductions (Lines 2 through 5).....		33,090,660	0
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7).....		765,768	0
INVESTMENT INCOME			
9. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		622,462	
10. Net realized capital gains (losses) less capital gains tax of \$.....0 (Exhibit of Capital Gains (Losses)).....		207	
11. Net investment gain (loss) (Lines 9 + 10).....		622,669	0
OTHER INCOME			
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....17,104).....		(17,104)	
13. Finance and service charges not included in premiums.....		10,335	
14. Aggregate write-ins for miscellaneous income.....		0	0
15. Total other income (Lines 12 through 14).....		(6,769)	0
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....		1,381,668	0
17. Dividends to policyholders.....			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17).....		1,381,668	0
19. Federal and foreign income taxes incurred.....		3,315,697	
20. Net income (Line 18 minus Line 19) (to Line 22).....		(1,934,029)	0
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2).....		0	
22. Net income (from Line 20).....		(1,934,029)	0
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....		180,106	
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....		2,854,947	
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26 Column 3).....		(295,983)	
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1).....			
29. Change in surplus notes.....			
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....		10,000	
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....		19,990,000	
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....			
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1).....			
37. Aggregate write-ins for gains and losses in surplus.....		0	0
38. Change in surplus as regards policyholders for the year (Lines 22 through 37).....		20,805,041	0
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35).....		20,805,041	0
DETAILS OF WRITE-INS			
0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page.....		0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....		0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....		0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....		0	0
3701. ....			
3702. ....			
3703. ....			
3798. Summary of remaining write-ins for Line 37 from overflow page.....		0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....		0	0



## CASH FLOW

	1 Current Year	2 Prior Year
<b>CASH FROM OPERATIONS</b>		
1. Premiums collected net of reinsurance.....	85,630,234	
2. Net investment income.....	417,527	
3. Miscellaneous income.....	(6,769)	
4. Total (Lines 1 through 3).....	86,040,991	0
5. Benefit and loss related payments.....	7,352,637	
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	9,572,404	
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	(28)	
10. Total (Lines 5 through 9).....	16,925,013	0
11. Net cash from operations (Line 4 minus Line 10).....	69,115,978	0
<b>CASH FROM INVESTMENTS</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....		
12.2 Stocks.....		
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	2,727	
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	2,727	0
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....		
13.2 Stocks.....	580,512	
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	580,512	0
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....	(577,785)	0
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....	20,000,000	
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	938,041	
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	20,938,041	0
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	89,476,235	0
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	0	
19.2 End of year (Line 18 plus Line 19.1).....	89,476,235	0
Note: Supplemental disclosures of cash flow information for non-cash transactions:		
20.0001		



## UNDERWRITING AND INVESTMENT EXHIBIT

## PART 1 - PREMIUMS EARNED

Line of Business		1 Net Premiums Written per Column 6, Part 1B	2 Unearned Premiums December 31 Prior Year- per Col. 3, Last Year's Part 1	3 Unearned Premiums December 31 Current Year- per Col. 5, Part 1A	4 Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire.....	5,805,286		504,905	5,100,381
2.	Allied lines.....	24,706,286		13,804,332	10,901,953
3.	Farmowners multiple peril.....				0
4.	Homeowners multiple peril.....	41,665,443		23,811,350	17,854,093
5.	Commercial multiple peril.....				0
6.	Mortgage guaranty.....				0
8.	Ocean marine.....				0
9.	Inland marine.....				0
10.	Financial guaranty.....				0
11.1	Medical malpractice - occurrence.....				0
11.2	Medical malpractice - claims-made.....				0
12.	Earthquake.....				0
13.	Group accident and health.....				0
14.	Credit accident and health (group and individual).....				0
15.	Other accident and health.....				0
16.	Workers' compensation.....				0
17.1	Other liability - occurrence.....				0
17.2	Other liability - claims-made.....				0
18.1	Products liability - occurrence.....				0
18.2	Products liability - claims-made.....				0
19.1, 19.2	Private passenger auto liability.....				0
19.3, 19.4	Commercial auto liability.....				0
21.	Auto physical damage.....				0
22.	Aircraft (all perils).....				0
23.	Fidelity.....				0
24.	Surety.....				0
26.	Burglary and theft.....				0
27.	Boiler and machinery.....				0
28.	Credit.....				0
29.	International.....				0
30.	Warranty.....				0
31.	Reinsurance - nonproportional assumed property.....				0
32.	Reinsurance - nonproportional assumed liability.....				0
33.	Reinsurance - nonproportional assumed financial lines.....				0
34.	Aggregate write-ins for other lines of business.....	0	0	0	0
35.	TOTALS.....	71,977,016	0	38,120,568	33,856,428

## DETAILS OF WRITE-INS

3401.				0
3402.				0
3403.				0
3498.	Summary of remaining write-ins for Line 34 from overflow page.....	0	0	0
3499.	Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above).....	0	0	0



**UNDERWRITING AND INVESTMENT EXHIBIT****PART 1A - RECAPITULATION OF ALL PREMIUMS**

Line of Business		1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned But Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire.....	504,905				504,905
2.	Allied lines.....	13,804,332				13,804,332
3.	Farmowners multiple peril.....					0
4.	Homeowners multiple peril.....	23,811,350				23,811,350
5.	Commercial multiple peril.....					0
6.	Mortgage guaranty.....					0
8.	Ocean marine.....					0
9.	Inland marine.....					0
10.	Financial guaranty.....					0
11.1	Medical malpractice - occurrence.....					0
11.2	Medical malpractice - claims-made.....					0
12.	Earthquake.....					0
13.	Group accident and health.....					0
14.	Credit accident and health (group and individual).....					0
15.	Other accident and health.....					0
16.	Workers' compensation.....					0
17.1	Other liability - occurrence.....					0
17.2	Other liability - claims-made.....					0
18.1	Products liability - occurrence.....					0
18.2	Products liability - claims-made.....					0
19.1, 19.2	Private passenger auto liability.....					0
19.3, 19.4	Commercial auto liability.....					0
21.	Auto physical damage.....					0
22.	Aircraft (all perils).....					0
23.	Fidelity.....					0
24.	Surety.....					0
26.	Burglary and theft.....					0
27.	Boiler and machinery.....					0
28.	Credit.....					0
29.	International.....					0
30.	Warranty.....					0
31.	Reinsurance - nonproportional assumed property.....					0
32.	Reinsurance - nonproportional assumed liability.....					0
33.	Reinsurance - nonproportional assumed financial lines.....					0
34.	Aggregate write-ins for other lines of business.....	0	0	0	0	0
35.	TOTALS.....	38,120,588	0	0	0	38,120,588
36.	Accrued retrospective premiums based on experience.....					
37.	Earned but unbilled premiums.....					
38.	Balance (sum of Lines 35 through 37).....					38,120,588

**DETAILS OF WRITE-INS**

3401.					0
3402.					0
3403.					0
3498.	Summary of remaining write-ins for Line 34 from overflow page.....	0	0	0	0
3499.	Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above).....	0	0	0	0

(a) State here basis of computation used in each case:

The premium is calculated on a daily pro rata basis



## UNDERWRITING AND INVESTMENT EXHIBIT

## PART 1B - PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written (Cols. 1 + 2 + 3 - 4 - 5)
		2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	
1. Fire.....	566,447		5,038,839			5,605,286
2. Allied lines.....	3,630,318		21,075,968			24,706,286
3. Farmowners multiple peril.....						.0
4. Homeowners multiple peril.....	17,415,513		83,669,186		59,419,256	41,665,443
5. Commercial multiple peril.....						.0
6. Mortgage guaranty.....						.0
8. Ocean marine.....						.0
9. Inland marine.....						.0
10. Financial guaranty.....						.0
11.1 Medical malpractice - occurrence.....						.0
11.2 Medical malpractice - claims-made.....						.0
12. Earthquake.....						.0
13. Group accident and health.....						.0
14. Credit accident and health (group and individual).....						.0
15. Other accident and health.....						.0
16. Workers' compensation.....						.0
17.1 Other liability - occurrence.....						.0
17.2 Other liability - claims-made.....						.0
18.1 Products liability - occurrence.....						.0
18.2 Products liability - claims-made.....						.0
19.1, 19.2 Private passenger auto liability.....						.0
19.3, 19.4 Commercial auto liability.....						.0
21. Auto physical damage.....						.0
22. Aircraft (all perils).....						.0
23. Fidelity.....						.0
24. Surety.....						.0
26. Burglary and theft.....						.0
27. Boiler and machinery.....						.0
28. Credit.....						.0
29. International.....						.0
30. Warranty.....						.0
31. Reinsurance - nonproportional assumed property.....	.XXX					.0
32. Reinsurance - nonproportional assumed liability.....	.XXX					.0
33. Reinsurance - nonproportional assumed financial lines.....	.XXX					.0
34. Aggregate write-ins for other lines of business.....	.0	.0	.0	.0	.0	.0
35. TOTALS.....	21,612,279	.0	109,783,993	.0	59,419,256	71,977,016

## DETAILS OF WRITE-INS

3401. ....						.0
3402. ....						.0
3403. ....						.0
3498. Summary of remaining write-ins for Line 34 from overflow page.....	.0	.0	.0	.0	.0	.0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above).....	.0	.0	.0	.0	.0	.0

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [ ] No [X]

If yes: 1. The amount of such installment premiums \$.....0.

2. Amount at which such installment premiums would have been reported had they been recorded on an annualized basis \$.....0.



## UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2 - LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage			Net Losses Unpaid Current Year (Part 2A, Col. 8)	Net Losses Unpaid Prior Year	Losses Incurred Current Year (Cols. 4 + 5 - 6)	Percentage of Losses Incurred to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)			
1. Fire.....	634,270			634,270		819,255	16.1
2. Allied lines.....	1,311,299			1,311,299		2,490,730	22.8
3. Fireowners multiple peril.....							
4. Homeowners multiple peril.....	5,407,067			5,407,067		11,126,092	62.3
5. Commercial multiple peril.....							
6. Mortgage guaranty.....							
8. Ocean marine.....							
9. Inland marine.....							
10. Financial guaranty.....							
11.1 Medical malpractice - occurrence.....							
11.2 Medical malpractice - claims-made.....							
12. Earthquake.....							
13. Group accident and health.....							
14. Credit accident and health (group and individual).....							
15. Other accident and health.....							
16. Workers' compensation.....							
17.1 Other liability - occurrence.....							
17.2 Other liability - claims-made.....							
18.1 Products liability - occurrence.....							
18.2 Products liability - claims-made.....							
19.1, 19.2 Private passenger auto liability.....							
19.3, 19.4 Commercial auto liability.....							
21. Auto physical damage.....							
22. Aircraft (all perils).....							
23. Fidelity.....							
24. Surety.....							
26. Burglary and theft.....							
27. Boiler and machinery.....							
28. Credit.....							
29. International.....							
30. Warranty.....							
31. Reinsurance - nonproportional assumed property.....	XXX						
32. Reinsurance - nonproportional assumed liability.....	XXX						
33. Reinsurance - nonproportional assumed financial lines.....	XXX						
34. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0	
35. TOTALS.....	7,352,637	0	0	7,352,637	7,083,441	14,436,078	42.6
DETAILS OF WRITE-INS							
3401.....				0		0	
3402.....				0		0	
3403.....				0		0	
3498.....				0		0	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above).....				0		0	

Summary of remaining write-ins for Line 34 from overflow page.....

Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above)



# **UNDERWRITING AND INVESTMENT EXHIBIT** **PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES										
Line	Line of Business	Reported Losses					Incurred But Not Reported	7 Reinsurance Ceded	8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Net Unpaid Loss Adjustment Expenses
		1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excluding Incurred but not Reported (Cols. 1 + 2 - 3)	5 Direct				
1.	Fire	142,800			142,800	42,385			184,965	42,829
2.	Allied lines	909,192			909,192	270,239			1,179,431	377,852
3.	Farmowners multiple peril									
4.	Homeowners multiple peril	4,408,643			4,408,643	1,310,382			5,719,025	1,377,113
5.	Commercial multiple peril									
6.	Mortgage guaranty									
8.	Ocean marine									
9.	Inland marine									
10.	Financial guaranty									
11.1	Medical malpractice - occurrence									
11.2	Medical malpractice - claims-made									
12.	Earthquake									
13.	Group accident and health								(a)	
14.	Credit accident and health (group and individual)								(a)	
15.	Other accident and health									
16.	Workers' compensation									
17.1	Other liability - occurrence									
17.2	Other liability - claims-made									
18.1	Products liability - occurrence									
18.2	Products liability - claims-made									
19.1, 19.2	Private passenger auto liability									
19.3, 19.4	Commercial auto liability									
21.	Auto physical damage									
22.	Aircraft (all perils)									
23.	Fidelity									
24.	Surety									
26.	Burglary and theft									
27.	Boiler and machinery									
28.	Credit									
29.	International									
30.	Warranty									
31.	Reinsurance - nonproportional assumed property	XXX				XXX				
32.	Reinsurance - nonproportional assumed liability	XXX				XXX				
33.	Reinsurance - nonproportional assumed financial lines	XXX				XXX				
34.	Aggregate write-ins for other lines of business									
35.	TOTALS	5,460,435			5,460,435	1,623,006			7,083,441	1,797,793
DETAILS OF WRITE-INS										
3401.										
3402.										
3403.										
3498.	Summary of remaining write-ins for Line 34 from overflow page									
3499.	Totals (Lines 3401 thru 3403 plus 3498) (Line 34 above)									



## UNDERWRITING AND INVESTMENT EXHIBIT

## PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct.....	2,125,852			2,125,852
1.2 Reinsurance assumed.....				0
1.3 Reinsurance ceded.....				0
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3).....	2,125,852	0	0	2,125,852
2. Commission and brokerage:				
2.1 Direct, excluding contingent.....		2,129,000		2,129,000
2.2 Reinsurance assumed, excluding contingent.....		6,587,040		6,587,040
2.3 Reinsurance ceded, excluding contingent.....				0
2.4 Contingent - direct.....				0
2.5 Contingent - reinsurance assumed.....				0
2.6 Contingent - reinsurance ceded.....				0
2.7 Policy and membership fees.....		322,275		322,275
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7).....	0	9,038,315	0	9,038,315
3. Allowances to manager and agents.....		3,406,401		3,406,401
4. Advertising.....		7,968		7,968
5. Boards, bureaus and associations.....		91,091		91,091
6. Surveys and underwriting reports.....				0
7. Audit of assureds' records.....				0
8. Salary and related items:				
8.1 Salaries.....		772,838		772,838
8.2 Payroll taxes.....		49,577		49,577
9. Employee relations and welfare.....		1,145		1,145
10. Insurance.....		95,992		95,992
11. Directors' fees.....		20,000		20,000
12. Travel and travel items.....		82,359		82,359
13. Rent and rent items.....		61,641		61,641
14. Equipment.....		29,017		29,017
15. Cost or depreciation of EDP equipment and software.....		10,979		10,979
16. Printing and stationery.....		2,478		2,478
17. Postage, telephone and telegraph, exchange and express.....		26,731		26,731
18. Legal and auditing.....		276,721		276,721
19. Totals (Lines 3 to 18).....	0	4,934,936	0	4,934,936
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$.....0.....		1,201,168		1,201,168
20.2 Insurance department licenses and fees.....		3,240		3,240
20.3 Gross guaranty association assessments.....				0
20.4 All other (excluding federal and foreign income and real estate).....				0
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4).....	0	1,204,408	0	1,204,408
21. Real estate expenses.....				0
22. Real estate taxes.....				0
23. Reimbursements by uninsured plans.....				0
24. Aggregate write-ins for miscellaneous expenses.....	0	1,351,071	57,950	1,409,021
25. Total expenses incurred.....	2,125,852	16,528,730	57,950	(a) 18,712,532
26. Less unpaid expenses - current year.....	1,797,793			1,797,793
27. Add unpaid expenses - prior year.....				0
28. Amounts receivable relating to uninsured plans, prior year.....				0
29. Amounts receivable relating to uninsured plans, current year.....				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29).....	328,059	16,528,730	57,950	16,914,739

## DETAILS OF WRITE-INS

2401. Utilities.....		4,082		4,082
2402. Investment Expense.....			57,950	57,950
2403. Other Professional Services.....		1,248,139		1,248,139
2498. Summary of remaining write-ins for Line 24 from overflow page.....	0	96,850	0	96,850
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above).....	0	1,351,071	57,950	1,409,021

(a) Includes management fees of \$.....3,406,401 to affiliates and \$.....0 to non-affiliates.



## EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a)	
1.1 Bonds exempt from U.S. tax.....	(a)	
1.2 Other bonds (unaffiliated).....	(a)	
1.3 Bonds of affiliates.....	(a)	
2.1 Preferred stocks (unaffiliated).....	(b)	
2.11 Preferred stocks of affiliates.....	(b)	
2.2 Common stocks (unaffiliated).....		
2.21 Common stocks of affiliates.....		
3. Mortgage loans.....	(c)	
4. Real estate.....	(d)	
5. Contract loans.....		
6. Cash, cash equivalents and short-term investments.....	(e) 394,753	680,412
7. Derivative instruments.....	(f)	
8. Other invested assets.....		
9. Aggregate write-ins for investment income.....	0	0
10. Total gross investment income.....	394,753	680,412
11. Investment expenses.....		(g) 57,950
12. Investment taxes, licenses and fees, excluding federal income taxes.....		(g)
13. Interest expense.....		(h)
14. Depreciation on real estate and other invested assets.....		(i) 0
15. Aggregate write-ins for deductions from investment income.....		0
16. Total deductions (Lines 11 through 15).....		57,950
17. Net investment income (Line 10 minus Line 16).....		622,462

## DETAILS OF WRITE-INS

0901.		
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page.....	0	0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	0	0
(a) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.		
(b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.		
(c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.		
(d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.		
(e) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.		
(f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.		
(g) Includes \$.....67,950 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.		
(h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.		
(i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.		

## EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....			0		
1.1 Bonds exempt from U.S. tax.....			0		
1.2 Other bonds (unaffiliated).....			0		
1.3 Bonds of affiliates.....			0		
2.1 Preferred stocks (unaffiliated).....			0		
2.11 Preferred stocks of affiliates.....			0		
2.2 Common stocks (unaffiliated).....			0	177,586	
2.21 Common stocks of affiliates.....			0		
3. Mortgage loans.....			0		
4. Real estate.....			0		
5. Contract loans.....			0		
6. Cash, cash equivalents and short-term investments.....	207		207	2,520	
7. Derivative instruments.....			0		
8. Other invested assets.....			0		
9. Aggregate write-ins for capital gains (losses).....	0	0	0	0	0
10. Total capital gains (losses).....	207	0	207	180,106	0

## DETAILS OF WRITE-INS

0901.			0		
0902.			0		
0903.			0		
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0	0



## EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			0
2.2 Common stocks.....			0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			0
3.2 Other than first liens.....			0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			0
4.2 Properties held for the production of income.....			0
4.3 Properties held for sale.....			0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			0
6. Contract loans.....			0
7. Other invested assets (Schedule BA).....			0
8. Receivables for securities.....			0
9. Aggregate write-ins for invested assets.....	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	0	0	0
11. Title plants (for Title insurers only).....			0
12. Investment income due and accrued.....			0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....			0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			0
13.3 Accrued retrospective premiums.....			0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			0
14.2 Funds held by or deposited with reinsured companies.....			0
14.3 Other amounts receivable under reinsurance contracts.....			0
15. Amounts receivable relating to uninsured plans.....			0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0
16.2 Net deferred tax asset.....	82,937		(82,937)
17. Guaranty funds receivable or on deposit.....			0
18. Electronic data processing equipment and software.....			0
19. Furniture and equipment, including health care delivery assets.....	20,487		(20,487)
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0
21. Receivables from parent, subsidiaries and affiliates.....	149,600		(149,600)
22. Health care and other amounts receivable.....			0
23. Aggregate write-ins for other than invested assets.....	42,959	0	(42,959)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	295,983	0	(295,983)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0
26. TOTALS (Lines 24 and 25).....	295,983	0	(295,983)

## DETAILS OF WRITE-INS

0901.....			0
0902.....			0
0903.....			0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0
2301. Other Receivables.....	1,796		(1,796)
2302. Prepaid Insurance.....	4,443		(4,443)
2303. Other Deposits.....	36,720		(36,720)
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	42,959	0	(42,959)



## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 - Summary of Significant Accounting Policies**

- A. Accounting Practices** – The accompanying financial statements have been completed in conformity with the NAIC Accounting Practices and procedures manual and in conformity with the state laws of Florida.
- B. Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.
- C. Accounting policy** – Premiums are earned over the term of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written calculated on a pro rata basis. Expenses incurred in the connection with acquiring new business, including acquisition costs such as sales commissions are charged to operations as incurred.
- In addition, the company uses the following accounting policies:
- i. Short term investments are stated at amortized cost.
  - ii. The company does not own any bonds.
  - iii. Common Stocks are valued at fair value. The company does not own preferred stock.
  - iv. The company does not own any mortgage loans.
  - v. The company does not own any loan backed securities.
  - vi. The company has no investments in affiliated companies.
  - vii. The company has no investments in joint ventures, partnerships or limited liability companies.
  - viii. The company does not invest in derivatives.
  - ix. The company anticipates investment income as a factor in the premium deficiency calculation in accordance with SSAP No 53, Property Casualty Contracts Premiums.
  - x. Unpaid losses and loss adjustment expenses include an amount determined on individual case basis estimates and an amount based on industry experience, for losses incurred but not reported. Management believes that such amounts are adequate, but because such liabilities are based on estimates and assumptions, the ultimate liability may be in excess of, or less than the amounts provided. The process of making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.
  - xi. The company has not changed its capitalization policy from prior periods.

### **Note 2 - Accounting Changes and Corrections of Errors**

- A. The company did not have any material changes in its financial statements as a result of a change in its accounting principles or correction of errors.

### **Note 3 - Business Combinations and Goodwill**

- A. The company did not enter into any business combinations or record any goodwill on its balance sheet.
- B. The company did not recognize any losses due to an impairment of any assets owned.

### **Note 4 - Discontinued Operations**

- A. The company did not discontinue any operations during this time period.

### **Note 5 - Investments**

- A. Mortgage loans – the company did not invest in any mortgage loans during the time period of this report.
- B. Debt restructuring – the company was not a creditor in any restructured debt during the time period of this report.
- C. Reverse mortgages – the company did not invest in reverse mortgages during the time period of this report.
- D. Loan backed securities – the company did not invest in any loan backed securities during the time period of this report.
- E. Repurchase agreements – The company invests in overnight Repos from funds which are swept from its Colonial Bank Company accounts. These investments are in US Treasury and equivalents.
- F. Real Estate – the company did not invest in any real estate during the time period of this report.

### **Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

- A. The company had no investments in Joint Ventures, Partnerships or Limited Liability Companies during the time period of this report.

### **Note 7 - Investment Income**

- A. Schedule E – Part 2 lists income due and accrued. Any amounts over 90 days past due are recognized as non-admitted and excluded from surplus.
- B. There was no investment income due and accrued with amounts over 90 days past due.



**NOTES TO FINANCIAL STATEMENTS****Note 8 - Derivative Instruments**

- A. The company did not hold or issue any derivative instruments

**Note 9 - Income Taxes**

- A. The components of the net deferred tax asset/(liability) are as follows:

	Description	2008
(1)	Total gross deferred tax assets (DTA)	\$2,922,163
(2)	Total gross deferred tax liabilities (DTL)	-67,216
(3)	Net deferred tax asset	2,854,946
(4)	Nonadmitted deferred tax assets	82,937
(5)	Net admitted deferred tax assets	2,772,009
(6)	Increase (decrease) in nonadmitted deferred tax assets	82,937

- B. Unrecognized Deferred Tax Liabilities

None

- C. Current Tax and Change in Deferred Tax

The provision for income taxes incurred on earnings for the period ended December 31 is:

	2008
Current income tax expense	\$ 3,315,725
Taxes recovered	0
Prior year underaccrual (overaccrual)	0
Current income taxes incurred	\$ 3,315,725

The tax effect of temporary differences that give rise to significant deferred tax assets/(liabilities) are as follows:

DTA	Statutory	Tax	Difference	Tax Effect
Unpaid losses and LAE	\$ 8,881,235	\$ 8,289,612	\$ 591,623	\$ 201,152
Unearned premiums	38,120,588	30,496,470	7,624,118	2,592,200
Start-up costs		165,811	165,811	56,376
Total DTAs				2,922,163
DTAs nonadmitted	\$	\$	\$	\$ 82,937

DTL	Statutory	Tax	Difference	Tax Effect
Unrealized gain		\$ (180,106)	\$ (180,106)	\$ (61,236)
Fixed assets		(13,147)	(13,147)	(4,470)
Prepaid expenses		(4,443)	(4,443)	(1,511)
Total DTLs				(67,217)

The changes in main components of DTAs and DTLs are as follows:

DTAs resulting from Book/Tax Differences in	December 31, 2008	December 31, 2007	Change
Unpaid losses and LAE	\$ 201,152	\$	\$ 201,152
Unearned premiums	2,592,200		2,592,200
Start-up costs	56,376		56,376
Nonadmitted assets	72,436		72,436
Total DTAs	\$ 2,922,163	\$	\$ 2,922,163
DTAs nonadmitted	\$ (82,937)	\$	\$



**NOTES TO FINANCIAL STATEMENTS**

DTLs resulting from Book/Tax Differences in	December 31, 2008	December 31, 2007	Change
Unrealized gain	(61,236)	\$	\$ (61,236)
Fixed assets	(4,470)		(4,470)
Prepaid expenses	(1,511)		(1,511)
Total DTLs	\$ (67,217)	\$	\$ (67,217)

The change in gross DTAs/DTLs of \$2,854,947 is the change in net deferred income taxes before the consideration of nonadmitted DTAs/DTLs.

**D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate:**

The significant book to tax adjustments were as follows:

	34%	% of Pre-Tax Income
		1,381,697
Provision computed at statutory rate	\$ 469,777	34.00 %
Nondeductible Items	7,121	.52 %
Tax-exempt items	(4,920)	(.36)%
Nonadmitted Assets	(72,436)	(5.24) %
Unrealized loss	61,236	4.43 %
	460,779	33.35 %

Federal & foreign income tax	3,315,725	239.97 %
Change in net deferred income tax	(2,854,947)	(206.63)%
Statutory income taxes	\$ (460,779)	(33.35) %

**E. Operating Loss and Tax Credit Carryforwards**

- (1) At December 31, 2008, the Company had no unused net operating loss carryforwards available to offset against future taxable income.
- (2) The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

Year	Amount
2008	\$ 3,120,683
2007	\$

**F. Consolidated Federal Income Tax Return**

The Company does not file a consolidated federal income tax return.

**Note 10 - Information Concerning Parent, Subsidiaries and Affiliates**

- A. Nature of Relationships - All outstanding shares of the Company are owned by Irl Financial Group Incorporated, a Florida Corporation. The company has not paid dividends to its parent. The Company has executed a Managing General Agency Agreement with Magnolia Agency, LLC.
- B. The Company received a \$20,000,000 capital contribution from Irl Financial Group on April 25 of the reporting year, to fund the start up of the business. On July 1 of the reporting year, the Company reimbursed \$545,000 of start-up expenses to Irl Financial Group.  
The Company has paid Magnolia Agency, LLC \$3,406,401 in MGA fees for the reporting year.
- C. Change in Terms of Intercompany Arrangements - no changes in terms of intercompany arrangements were made during the year since the original establishments were made upon start-up of the Company.
- D. Amounts Due to or from Related Parties: The Company has a no balance due from Magnolia Agency, LLC of and a balance due to Magnolia Agency, LLC of \$1,087,214. The Company has a balance due from Irl Financial Group of \$149,600 for a life insurance policy issued to Irl Financial Group during the start up period.
- E. Guarantees or Contingencies for Related Parties - the Company has no guarantees or undertakings for the benefit of an affiliate for the reporting period.
- F. Management, Service Contracts, Cost Sharing Arrangements - The Company receives premiums and assessments in the ordinary course of business from Magnolia Agency, LLC and has agreed to pay for certain management and reporting services provided by Magnolia Agency, LLC.
- G. Nature of Relationships that Could Affect Operations - all outstanding shares of the Company are owned by Irl Financial Group, Incorporated.
- H. Amount Deducted for Investment in Upstream Company - not applicable.
- I. Detail of Investments in Affiliates Greater than 10% of Admitted Assets - The Company does not have an investment in SCA entities as of the end of the reporting period.
- J. Writedowns for Impairment of Investments in Affiliates - not applicable.
- K. Foreign Subsidiary Valued Using CARVM - not applicable.
- L. Downstream Holding Company Valued Using Look-Through Method - not applicable.



## **NOTES TO FINANCIAL STATEMENTS**

### **Note 11 - Debt**

- A. The Company has no debt to report for this reporting period.

### **Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

- A. Defined Benefit Plan – the Company had no defined benefit retirement plan as of 12/31/08.  
 B. Defined Contribution Plan – the Company had no defined contribution plan as of 12/31/08.  
 C. Multiemployer Plans – the Company does not participate in any multiemployer plans.  
 D. Consolidated/Holding Company Plans – the Company does not participate in any Consolidated or Holding Company Plans.  
 E. Post employment and Compensated Absences – the company has no liability for post employment or compensated absences.  
 F. Impact of Medicare Modernization Act on Postretirement Benefits (INT-04-17) – The Company has no post-retirement benefit plans.

### **Note 13 - Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

- A. The Company has 10,000 shares authorized, 10,000 shares issued and outstanding. All shares have a par value of \$1.00.  
 B. The Company has no preferred stock outstanding.  
 C. Without prior approval of the domiciliary commissioner, dividends to stockholders are limited by the laws of the State of Florida; the Company's state of Incorporation, to an amount that is based on restrictions relating to Statutory Surplus.  
 D. Within the limitations of (C) above, there are no restrictions placed on the portion of the Company's profits that may be paid as ordinary dividends to stockholders.  
 E. There are no restrictions placed on the Company's surplus, including to whom the surplus is being held.  
 F. There are no advances to Surplus not repaid.  
 G. There is no stock held by the Company for special purposes.  
 H. There are no balances of special surplus funds on 12/31/08.  
 I. The Company purchased equipment in the amount of \$21,927. These are classified as nonadmitted assets in accordance with SSAP 19.  
 J. The Company was funded with \$20,000,000 in Surplus on 04/28/08.  
 K. The Company has not held any quasi-reorganizations.

### **Note 14 - Contingencies**

- A. Contingent Commitments – The Company had no contingent liabilities as of 12/31/08.  
 B. Assessments – The Company had Assessments Receivable of \$241,493 and Assessments Payable of \$ 517,038 for the reporting period 12/31/08.  
 C. Gain Contingencies – The Company was unaware of any gain contingencies at 12/31/08.  
 D. Claims related extra contractual obligation and bad faith losses from lawsuits – The Company had no claims related extra contractual obligations or bad faith losses from lawsuits during 2008.  
 E. All Other Contingencies – The Company had no other contingent liabilities as of 12/31/08.

### **Note 15 - Leases**

- A. Leases – Operating Leases – The Company entered into three Operating Leases during the year for facilities space. Rental expense for the quarter was \$31,446 and \$61,641 for the year. There were no contingent or sublease rentals. Terms of renewal are as follows:  
     a. Lease #1 – Three Year Lease commencing September 1, 2008: the Company has one two-year option to extend the term of the lease.  
     b. Lease #2 – Five Year Lease commencing August 1, 2008: the Company has an Extension Option to extend the term of the lease for the period from August 1, 2013 through July 31, 2018, provided the landlord is notified by October 31, 2012.  
     c. Lease #3 – Month to Month Lease commencing June 1, 2008.  
 B. Lessor Leases – The Company does not have any investment in leases.

### **Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

- A. The Company does not have any financial instruments with off-balance sheet risk.

### **Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

- A. Transfer of Receivables Reported as Sales – The Company has transferred no sales in accordance with SSAP No. 42, Sale of Premiums Receivable.



**NOTES TO FINANCIAL STATEMENTS**

- B. Transfer and Servicing of Financial Assets – The Company has no transactions reportable under SSAP No 91, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.
- C. Wash Sales – The Company did not have any wash sales as defined in paragraph 7 of SSAP No. 91.

**Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

- A. ASO Plans – The Company had no ASO plans as of the end of this reporting period
- B. ASC Plans – The Company had no ASC plans as of the end of this reporting period
- C. Medicare or Similarly Structured cost based reimbursement contracts for the reporting period – The Company had no Medicare or similarly structured cost based reimbursement contracts for the reporting period

**Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

- A. The Company's Dwelling Fire and Homeowners Insurance will be written through Magnolia Agency, LLC under a Managing General Agency (MGA) agreement. The terms of this agreement give the MGA the authority to collect premiums (P) and bind coverage (B). The following information regarding the MGA is listed below:

Name & Address	FEIN	Exclusive Contract	Business Written	Authority Granted	Direct Written Premium
Magnolia Agency, LLC 911E Park Ave, Tallahassee, FL 32301	26-2034245	Yes	Fire, Allied Lines, Homeowners, Other Liability	P, B	\$21,622,279

\* P – Premium Collection

B – Binding Authority

**Note 20 - Other Items**

- A. Extraordinary items – The Company had no extraordinary items to report for the operating period under SSAP No 24 Discontinued Operations and Extraordinary Items.

**Note 21 - Events Subsequent**

- A. The Company has no Events Subsequent to report.

**Note 22 - Reinsurance**

- A. Unsecured Reinsurance Recoverable – The Company had no unsecured reinsurance recoverable for the reporting period.
- B. Reinsurance Recoverable in Dispute – The Company had no reinsurance recoverable in dispute for the reporting period.
- C. Reinsurance Assumed and Ceded – The Company assumed 45,928 policies from Citizens Insurance Corporation on 06/10/08 with an Unearned Premium balance of \$57,601,646. The Company assumed 45,607 policies from Citizens Insurance Corporation on 08/12/08 with an Unearned Premium Balance of \$39,772,386.60. The Company assumed 24,507 policies from Citizens Insurance Corporation on 11/13/08 with an Unearned Premium balance of \$29,550,314. The Company also has a Catastrophe Reinsurance program with Premiums Ceded of \$19,229,685 for the reporting period. This program is layered to cover the Company's PML in the event of a 1/100 storm. This program includes coverage in the private market and with the Florida Hurricane Catastrophe Fund.
- D. Uncollectible Reinsurance – The Company did not write off any uncollectible reinsurance during this statement period.
- E. Commutation of Ceded Reinsurance – The Company did not have any ceded reinsurance commutations to report for the reporting period.
- F. Retroactive Reinsurance – The Company had no retroactive reinsurance agreements for the reporting period.
- G. Reinsurance Accounted for as a Deposit – The Company had no reinsurance agreements accounted for as deposits for the reporting period.

**Note 23 - Retrospectively Rated Contracts & Contracts Subject to Redetermination**

- A. Not Applicable.

**Note 24 - Change in Incurred Losses and Loss Adjustment Expenses**

- A. The Company had a Loss Reserve Balance of \$7,083,441 and a Loss Adjustment Expense Reserve balance of \$1,682,383 for the reporting period. The change in reserves is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.



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## NOTES TO FINANCIAL STATEMENTS

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### **Note 25 - Intercompany Pooling Arrangements**

- G. The Company did not participate in any intercompany pooling arrangements during this reporting period.

### **Note 26 - Structured Settlements**

- A. The Company has no liabilities for structured settlements.

### **Note 27 - Health Care Receivables**

- A. The Company had no Health Care receivables for the reporting period.

### **Note 28 - Participating Policies**

- A. The Company has no participating policies for the reporting period.

### **Note 29 - Premium Deficiency Reserves**

- A. The Company does not have any premium deficiency reserves for the reporting period.

### **Note 30 - High Deductibles**

- A. Not applicable.

### **Note 31 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses**

- A. The Company did not discount any liabilities for unpaid losses or loss adjustment expenses during the time period of this report.

### **Note 32 - Asbestos/Environmental Reserves**

- A. The Company has no exposure to asbestos or environmental claims.

### **Note 33 - Subscriber Savings Accounts**

- A. Not applicable

### **Note 34 - Multiple Peril Crop Insurance**

- A. The Company does not write multiple peril crop insurance.



**GENERAL INTERROGATORIES****PART 1 - COMMON INTERROGATORIES****GENERAL**

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes ☒ No ☐
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System: Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes ☒ No ☐ N/A ☐
- 1.3 State regulating? FLORIDA
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes ☒ No ☐
- 2.2 If yes, date of change: 04/28/2008
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).
- 3.4 By what department or departments?
- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes ☐ No ☐ N/A ☒
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes ☐ No ☐ N/A ☒
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes ☐ No ☒
- 4.12 renewals? Yes ☐ No ☒
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes ☐ No ☒
- 4.22 renewals? Yes ☐ No ☒
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes ☐ No ☒
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Co. Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes ☐ No ☒
- 6.2 If yes, give full information:

- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes ☐ No ☒
- 7.2 If yes,
- 7.21 State the percentage of foreign control ..... %
- 7.22 State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1 Nationality	2 Type of Entity

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes ☐ No ☒
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes ☐ No ☒
- 8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
Thomas Howell Ferguson, P.A.  
2615 Centennial Boulevard, Tallahassee, FL 32308
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
George Dunlap-Partner, Butter Dunlap & Lindquist LLC  
1882 Capital Circle NE Suite 201, Tallahassee, FL 32308
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes ☐ No ☒
- 11.11 Name of real estate holding company
- 11.12 Number of parcels involved
- 11.13 Total book/adjusted carrying value
- 11.2 If yes, provide explanation.



**GENERAL INTERROGATORIES****PART 1 - COMMON INTERROGATORIES****12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:**

12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

N/A

12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [ ] No [ ]

12.3 Have there been any changes made to any of the trust indentures during the year?

Yes [ ] No [ ]

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [ ] No [ ] N/A [ ]

13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [X] No [ ]

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- c. Compliance with applicable governmental laws, rules and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.

13.11 If the response to 13.1 is No, please explain:

13.2 Has the code of ethics for senior managers been amended?

Yes [ ] No [X]

13.21 If the response to 13.2 is Yes, provide information related to amendment(s).

13.3 Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [ ] No [X]

13.31 If the response to 13.3 is yes, provide the nature of any waiver(s).

**BOARD OF DIRECTORS**

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [X] No [ ]

15. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [X] No [ ]

16. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [X] No [ ]

**FINANCIAL**

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes [ ] No [X]

18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11 To directors or other officers

\$.....0

18.12 To stockholders not officers

\$.....0

18.13 Trustees, supreme or grand (Fraternal only)

\$.....0

18.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21 To directors or other officers

\$.....0

18.22 To stockholders not officers

\$.....0

18.23 Trustees, supreme or grand (Fraternal only)

\$.....0

19.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [ ] No [X]

19.2 If yes, state the amount thereof at December 31 of the current year:

19.21 Rented from others

19.22 Borrowed from others

19.23 Leased from others

19.24 Other

20.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [ ] No [X]

20.2 If answer is yes:

20.21 Amount paid as losses or risk adjustment

20.22 Amount paid as expenses

20.23 Other amounts paid

21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [X] No [ ]

21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....149,600

**INVESTMENT**

22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 22.3)?

Yes [X] No [ ]

22.2 If no, give full and complete information relating thereto.

22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 16 where this information is also provided).

N/A

22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [ ] No [ ]

22.5 If answer to 22.4 is yes, report amount of collateral.

22.6 If answer to 22.4 is no, report amount of collateral.

23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3)

Yes [X] No [ ]



**GENERAL INTERROGATORIES****PART 1 - COMMON INTERROGATORIES**

23.2 If yes, state the amount thereof at December 31 of the current year:

23.21 Subject to repurchase agreements	\$.....0
23.22 Subject to reverse repurchase agreements	\$.....0
23.23 Subject to dollar repurchase agreements	\$.....0
23.24 Subject to reverse dollar repurchase agreements	\$.....0
23.25 Pledged as collateral	\$.....0
23.26 Placed under option agreements	\$.....0
23.27 Letter stock or securities restricted as to sale	\$.....0
23.28 On deposit with state or other regulatory body	\$.....305,857
23.29 Other	\$.....0

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

24.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes [ ] No [X]

24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?  
If no, attach a description with this statement.

Yes [ ] No [X] N/A [ ]

25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes [ ] No [X]

25.2 If yes, state the amount thereof at December 31 of the current year:

.....

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [X] No [ ]

26.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
Northern Trust	700 Brickell Ave, Miami, FL 33131
Merrill Lynch	215 S Monroe St Suite 300, Tallahassee FL 32301

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?

Yes [ ] No [X]

26.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
2669	Northern Trust	Miami, FL
7691	Merrill Lynch	Tallahassee FL

27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])?

Yes [ ] No [X]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj. Carrying Value
27.2999. TOTAL		0

27.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	30,177,845		(30,177,845)
28.2 Preferred stocks.....			0
28.3 Totals.....	30,177,845	0	(30,177,845)

28.4 Describe the sources or methods utilized in determining the fair values:

29.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [X] No [ ]

29.2 If no, list exceptions:



**GENERAL INTERROGATORIES****PART 1 - COMMON INTERROGATORIES****OTHER**

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$.....89,072

30.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Insurance Services Office	54,072
Demotech	35,000

31.1 Amount of payments for legal expenses, if any? \$.....162,895

31.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Jennifer Westerland, P.A.	77,923
Becker & Poliakoff	51,180

32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....1,710

32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
Florida Insurance Council	1,710



**GENERAL INTERROGATORIES****PART 2 - PROPERTY AND CASUALTY INTERROGATORIES**

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes ☐ No ☒
- 1.2 If yes, indicate premium earned on U.S. business only. ....
- 1.3 What portion of item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? ....
- 1.31 Reason for excluding: .....
- 
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in item (1.2) above. ....
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. ....
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned .....
- 1.62 Total incurred claims .....
- 1.63 Number of covered lives .....
- All years prior to most current three years:
- 1.64 Total premium earned .....
- 1.65 Total incurred claims .....
- 1.66 Number of covered lives .....
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned .....
- 1.72 Total incurred claims .....
- 1.73 Number of covered lives .....
- All years prior to most current three years:
- 1.74 Total premium earned .....
- 1.75 Total incurred claims .....
- 1.76 Number of covered lives .....
2. Health test:
- |                                   | 1<br>Current Year | 2<br>Prior Year |
|-----------------------------------|-------------------|-----------------|
| 2.1 Premium Numerator .....       | \$.....0          | \$.....0        |
| 2.2 Premium Denominator .....     | \$.....0          | \$.....0        |
| 2.3 Premium Ratio (2.1/2.2) ..... | 0.0               | 0.0             |
| 2.4 Reserve Numerator .....       | \$.....0          | \$.....0        |
| 2.5 Reserve Denominator .....     | \$.....0          | \$.....0        |
| 2.6 Reserve Ratio (2.4/2.5) ..... | 0.0               | 0.0             |
- 3.1 Does the reporting entity issue both participating and non-participating policies? Yes ☐ No ☒
- 3.2 If yes, state the amount of calendar year premiums written on:
- 3.21 Participating policies .....
- 3.22 Non-participating policies .....
4. FOR MUTUAL REPORTING ENTITIES AND RECIPROCAL EXCHANGES ONLY:
- 4.1 Does the reporting entity issue assessable policies? Yes ☐ No ☐
- 4.2 Does the reporting entity issue non-assessable policies? Yes ☐ No ☐
- 4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders? .....%
- 4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums. ....
5. FOR RECIPROCAL EXCHANGES ONLY:
- 5.1 Does the exchange appoint local agents? Yes ☐ No ☐
- 5.2 If yes, is the commission paid:
- 5.21 Out of Attorney's-in-fact compensation Yes ☐ No ☐ N/A ☐
- 5.22 As a direct expense of the exchange Yes ☐ No ☐ N/A ☐
- 5.3 What expenses of the exchange are not paid out of the compensation of the Attorney-in-fact? .....
- 
- 5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred? Yes ☐ No ☐
- 5.5 If yes, give full information: .....
- 
- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss?  
N/A
- 
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:  
The Company has contracted with reinsurance broker, Benfield to model its catastrophe exposure and estimate the probable maximum loss from windstorm events. Benfield uses Risk I by RMS to model the company's business. The company provides homeowners coverage throughout the state of Florida.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?  
The Company has entered into catastrophe excess of loss treaties to cover 100% of the 1/100 year loss in excess of \$6,000,000 for any one event. The company also purchased 90% c by the Florida Hurricane Catastrophe Fund
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes ☒ No ☐
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss: .....
- 
- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes ☐ No ☒
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions. ....
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes ☐ No ☒



## GENERAL INTERROGATORIES

## PART 2 - PROPERTY AND CASUALTY INTERROGATORIES

- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes [ ] No [X]
- 8.2 If yes, give full information:
- 
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
  - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
  - (c) Aggregate stop loss reinsurance coverage;
  - (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
  - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
  - (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?
- Yes [ ] No [X]
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliate represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
  - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?
- Yes [ ] No [X]
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
  - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
  - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
  - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
- Yes [ ] No [X]
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
- 9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
- (a) The entity does not utilize reinsurance; or
  - (b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or
  - (c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement.
- Yes [ ] No [X]
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurance a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes [X] No [ ] N/A [ ]
- 11.1 Has this reporting entity guaranteed policies issued by any other reporting entity and now in force? Yes [ ] No [X]
- 11.2 If yes, give full information:
- 
- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the assets schedule, Page 2, state the amount of corresponding liabilities recorded for:
- 12.11 Unpaid losses \$.....0
- 12.12 Unpaid underwriting expenses (including loss adjustment expenses) \$.....0
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds: \$.....0
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [ ] No [ ] N/A [X]
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
- 12.41 From .....%
- 12.42 To .....%
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by a reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [ ] No [X]
- 12.6 If yes, state the amount thereof at December 31 of current year:
- 12.61 Letters of credit .....0
- 12.62 Collateral and other funds .....0
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$.....1,000,000
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes [ ] No [X]
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. ....0



**GENERAL INTERROGATORIES****PART 2 - PROPERTY AND CASUALTY INTERROGATORIES**

14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes ☐ No ☒

14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:

14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes ☐ No ☐

14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? Yes ☐ No ☐

14.5 If the answer to 14.4 is no, please explain:

15.1 Has the reporting entity guaranteed any financial premium accounts? Yes ☐ No ☒

15.2 If yes, give full information:

16.1 Does the reporting entity write any warranty business? Yes ☐ No ☒

If yes, disclose the following information for each of the following types of warranty coverage:

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11 Home.....					
16.12 Products.....					
16.13 Automobile.....					
16.14 Other.....					

\* Disclose type of coverage:

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F-Part 3 that it excludes from Schedule F-Part 5? Yes ☐ No ☒

Incurred but not reported losses on contracts in force prior to July 1, 1984, and not subsequently renewed are exempt from inclusion in Schedule F-Part 5.

Provide the following information for this exemption:

17.11 Gross amount of unauthorized reinsurance in Schedule F-Part 3 excluded from Schedule F-Part 5

17.12 Unfunded portion of Interrogatory 17.11

17.13 Paid losses and loss adjustment expenses portion of Interrogatory 17.11

17.14 Case reserves portion of Interrogatory 17.11

17.15 Incurred but not reported portion of Interrogatory 17.11

17.16 Unearned premium portion of Interrogatory 17.11

17.17 Contingent commission portion of Interrogatory 17.11

Provide the following information for all other amounts included in Schedule F-Part 3 and excluded from Schedule F-Part 5, not included above:

17.18 Gross amount of unauthorized reinsurance in Schedule F-Part 3 excluded from Schedule F-Part 5

17.19 Unfunded portion of Interrogatory 17.18

17.20 Paid losses and loss adjustment expenses portion of Interrogatory 17.18

17.21 Case reserves portion of Interrogatory 17.18

17.22 Incurred but not reported portion of Interrogatory 17.18

17.23 Unearned premium portion of Interrogatory 17.18

17.24 Contingent commission portion of Interrogatory 17.18



## FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.

	1 2008	2 2007	3 2006	4 2005	5 2004
<b>Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 &amp; 3)</b>					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4).....					
2. Property lines (Lines 1, 2, 9, 12, 21 & 26).....	30,311,572				
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27).....	101,084,699				
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34).....					
5. Nonproportional reinsurance lines (Lines 31, 32 & 33).....					
6. Total (Line 35).....	131,396,272	0	0	0	0
<b>Net Premiums Written (Page 8, Part 1B, Col. 6)</b>					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4).....					
8. Property lines (Lines 1, 2, 9, 12, 21 & 26).....	30,311,572				
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27).....	41,665,443				
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34).....					
11. Nonproportional reinsurance lines (Lines 31, 32 & 33).....					
12. Total (Line 35).....	71,977,016	0	0	0	0
<b>Statement of Income (Page 4)</b>					
13. Net underwriting gain (loss) (Line 8).....	765,768				
14. Net investment gain (loss) (Line 11).....	622,669				
15. Total other income (Line 15).....	(6,769)				
16. Dividends to policyholders (Line 17).....					
17. Federal and foreign income taxes incurred (Line 19).....	3,315,697				
18. Net income (Line 20).....	(1,934,029)	0	0	0	0
<b>Balance Sheet Lines (Pages 2 and 3)</b>					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3).....	105,082,138				
20. Premiums and considerations (Page 2, Col. 3):					
20.1 In course of collection (Line 13.1).....	11,848,868				
20.2 Deferred and not yet due (Line 13.2).....					
20.3 Accrued retrospective premiums (Line 13.3).....					
21. Total liabilities excluding protected cell business (Page 3, Line 24).....	84,277,097				
22. Losses (Page 3, Line 1).....	7,083,441				
23. Loss adjustment expenses (Page 3, Line 3).....	1,797,793				
24. Unearned premiums (Page 3, Line 9).....	38,120,588				
25. Capital paid up (Page 3, Lines 28 & 29).....	10,000				
26. Surplus as regards policyholders (Page 3, Line 35).....	20,805,041				
<b>Cash Flow (Page 5)</b>					
27. Net cash from operations (Line 11).....	69,115,978				
<b>Risk-Based Capital Analysis</b>					
28. Total adjusted capital.....	20,805,041				
29. Authorized control level risk-based capital.....	6,848,231				
<b>Percentage Distribution of Cash, Cash Equivalents and Invested Assets</b> (Page 2, Col. 3) (item divided by Page 2, Line 10, Col. 3) x 100.0					
30. Bonds (Line 1).....					
31. Stocks (Lines 2.1 & 2.2).....	0.8				
32. Mortgage loans on real estate (Lines 3.1 & 3.2).....					
33. Real estate (Lines 4.1, 4.2 & 4.3).....					
34. Cash, cash equivalents and short-term investments (Line 5).....	99.2				
35. Contract loans (Line 6).....					
36. Other invested assets (Line 7).....					
37. Receivable for securities (Line 8).....					
38. Aggregate write-ins for invested assets (Line 9).....					
39. Cash, cash equivalents and invested assets (Line 10).....	100.0	0.0	0.0	0.0	0.0
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
40. Affiliated bonds (Sch. D, Summary, Line 25, Col. 1).....					
41. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1).....					
42. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 1).....					
43. Affiliated short-term investments (Schedule DA, Verification, Col. 5, Line 10).....					
44. Affiliated mortgage loans on real estate.....					
45. All other affiliated.....					
46. Total of above lines 40 to 45.....	0	0	0	0	0
47. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 46 above divided by Page 3, Col. 1, Line 35 x 100.0).....	0.0				



**FIVE-YEAR HISTORICAL DATA**

(Continued)

	1 2008	2 2007	3 2006	4 2005	5 2004
<b>Capital and Surplus Accounts (Page 4)</b>					
48. Net unrealized capital gains (losses) (Line 24).....	180,106				
49. Dividends to stockholders (Line 35).....					
50. Change in surplus as regards policyholders for the year (Line 38).....	20,805,041				
<b>Gross Losses Paid (Page 9, Part 2, Col. 1&amp;2)</b>					
51. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4).....					
52. Property lines (Lines 1, 2, 9, 12, 21 & 26).....	1,945,570				
53. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27).....	5,407,067				
54. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34).....					
55. Nonproportional reinsurance lines (Lines 31, 32 & 33).....					
56. Total (Line 35).....	7,352,637	0	0	0	0
<b>Net Losses Paid (Page 9, Part 2, Col. 4)</b>					
57. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4).....					
58. Property lines (Lines 1, 2, 9, 12, 21 & 26).....	1,945,570				
59. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27).....	5,407,067				
60. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29, 30 & 34).....					
61. Nonproportional reinsurance lines (Lines 31, 32 & 33).....					
62. Total (Line 35).....	7,352,637	0	0	0	0
<b>Operating Percentages</b> (Page 4) (Item divided by Page 4, Line 1) x 100.0					
63. Premiums earned (Line 1).....	100.0	100.0	100.0	100.0	100.0
64. Losses incurred (Line 2).....	42.6				
65. Loss expenses incurred (Line 3).....	6.3				
66. Other underwriting expenses incurred (Line 4).....	48.8				
67. Net underwriting gain (loss) (Line 8).....	2.3				
<b>Other Percentages</b>					
68. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 35 x 100.0).....	23.0				
69. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0).....	48.9				
70. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 35, divided by Page 3, Line 35, Col. 1 x 100.0).....	346.0				
<b>One Year Loss Development (000 omitted)</b>					
71. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2-Summary, Line 12, Col. 11).....					
72. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 71 above divided by Page 4, Line 21, Col. 1 x 100).....					
<b>Two Year Loss Development (000 omitted)</b>					
73. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2-Summary, Line 12, Col. 12).....					
74. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 73 above divided by Page 4, Line 21, Col. 2 x 100.0).....					



## SCHEDULE P - ANALYSIS OF LOSSES AND LOSS EXPENSES

## SCHEDULE P - PART 1 - SUMMARY

(\$000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12 Number of Claims Reported- Direct and Assumed
	1  Direct and Assumed	2  Ceded	3  Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10  Salvage and Subrogation Received	11  Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
				4  Direct and Assumed	5  Ceded	6  Direct and Assumed	7  Ceded	8  Direct and Assumed	9  Ceded			
1. Prior	XXX	XXX	XXX								.0	XXX
2. 1999			.0								.0	XXX
3. 2000			.0								.0	XXX
4. 2001			.0								.0	XXX
5. 2002			.0								.0	XXX
6. 2003			.0								.0	XXX
7. 2004			.0								.0	XXX
8. 2005			.0								.0	XXX
9. 2006			.0								.0	XXX
10. 2007			.0								.0	XXX
11. 2008	67,498	33,641	33,857	7,353		.61		268			7,682	XXX
12. Totals	XXX	XXX	XXX	7,353	.0	.61	.0	268	.0	.0	7,682	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding-Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1. Prior												.0	XXX
2. 1999												.0	XXX
3. 2000												.0	XXX
4. 2001												.0	XXX
5. 2002												.0	XXX
6. 2003												.0	XXX
7. 2004												.0	XXX
8. 2005												.0	XXX
9. 2006												.0	XXX
10. 2007												.0	XXX
11. 2008	5,461		1,623		115		34		1,648			8,882	XXX
12. Totals	5,461	.0	1,623	.0	115	.0	34	.0	1,648	.0	.0	8,882	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves after Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior.....	XXX	XXX	XXX	XXX	XXX	XXX			XXX	.0	.0
2. 1999.....	.0	.0	.0	.0	.0	.0				.0	.0
3. 2000.....	.0	.0	.0	.0	.0	.0				.0	.0
4. 2001.....	.0	.0	.0	.0	.0	.0				.0	.0
5. 2002.....	.0	.0	.0	.0	.0	.0				.0	.0
6. 2003.....	.0	.0	.0	.0	.0	.0				.0	.0
7. 2004.....	.0	.0	.0	.0	.0	.0				.0	.0
8. 2005.....	.0	.0	.0	.0	.0	.0				.0	.0
9. 2006.....	.0	.0	.0	.0	.0	.0				.0	.0
10. 2007.....	.0	.0	.0	.0	.0	.0				.0	.0
11. 2008.....	16,564	.0	16,564	24.5	.0	48.9				7,084	1,798
12. Totals.....	XXX	XXX	XXX	XXX	XXX	XXX	.0	.0	XXX	7,084	1,798

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.



**SCHEDULE P - PART 2 - SUMMARY**

Years in Which Losses Were Incurred	Incurred Net Losses and Defense and Cost Containment Expenses Reported at Year End (\$000 omitted)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	One Year	Two Year
1. Prior.....											0	0
2. 1999.....											0	0
3. 2000.....	XXX										0	0
4. 2001.....	XXX	XXX									0	0
5. 2002.....	XXX	XXX	XXX								0	0
6. 2003.....	XXX	XXX	XXX	XXX							0	0
7. 2004.....	XXX	XXX	XXX	XXX	XXX						0	0
8. 2005.....	XXX	XXX	XXX	XXX	XXX	XXX					0	0
9. 2006.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX				0	0
10. 2007.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX			0	XXX
11. 2008.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	14,647	XXX	XXX
12. Totals.....											0	0

**SCHEDULE P - PART 3 - SUMMARY**

Years in Which Losses Were Incurred	Cumulative Paid Net Losses and Defense and Cost Containment Expenses Reported at Year End (\$000 omitted)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
1. Prior.....	000										XXX	XXX
2. 1999.....											XXX	XXX
3. 2000.....	XXX										XXX	XXX
4. 2001.....	XXX	XXX									XXX	XXX
5. 2002.....	XXX	XXX	XXX								XXX	XXX
6. 2003.....	XXX	XXX	XXX	XXX							XXX	XXX
7. 2004.....	XXX	XXX	XXX	XXX	XXX						XXX	XXX
8. 2005.....	XXX	XXX	XXX	XXX	XXX	XXX					XXX	XXX
9. 2006.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX				XXX	XXX
10. 2007.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX			XXX	XXX
11. 2008.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	7,414	XXX	XXX

**SCHEDULE P - PART 4 - SUMMARY**

Years in Which Losses Were Incurred	Bulk and IBNR Reserves on Net Losses and Defense and Cost Containment Expenses Reported at Year End (\$000 omitted)									
	1	2	3	4	5	6	7	8	9	10
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Prior.....										
2. 1999.....										
3. 2000.....	XXX									
4. 2001.....	XXX	XXX								
5. 2002.....	XXX	XXX	XXX							
6. 2003.....	XXX	XXX	XXX	XXX						
7. 2004.....	XXX	XXX	XXX	XXX	XXX					
8. 2005.....	XXX	XXX	XXX	XXX	XXX	XXX				
9. 2006.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX			
10. 2007.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX		
11. 2008.....	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	1,657



## SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

1 States, Etc.	2 Active Status	3 Gross Premiums, Including Policy and Membership Fees, Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges not Included in Premiums	9 Direct Premiums Written for Federal Purchasing Groups (Incl. in Col. 2)
		Direct Premiums Written	Direct Premiums Earned						
1. Alabama.....AL	N								
2. Alaska.....AK	N								
3. Arizona.....AZ	N								
4. Arkansas.....AR	N								
5. California.....CA	N								
6. Colorado.....CO	N								
7. Connecticut.....CT	N								
8. Delaware.....DE	N								
9. District of Columbia.....DC	N								
10. Florida.....FL	N	21,612,279	2,756,446		7,352,637	14,436,078	7,083,442	10,335	
11. Georgia.....GA	N								
12. Hawaii.....HI	N								
13. Idaho.....ID	N								
14. Illinois.....IL	N								
15. Indiana.....IN	N								
16. Iowa.....IA	N								
17. Kansas.....KS	N								
18. Kentucky.....KY	N								
19. Louisiana.....LA	N								
20. Maine.....ME	N								
21. Maryland.....MD	N								
22. Massachusetts.....MA	N								
23. Michigan.....MI	N								
24. Minnesota.....MN	N								
25. Mississippi.....MS	N								
26. Missouri.....MO	N								
27. Montana.....MT	N								
28. Nebraska.....NE	N								
29. Nevada.....NV	N								
30. New Hampshire.....NH	N								
31. New Jersey.....NJ	N								
32. New Mexico.....NM	N								
33. New York.....NY	N								
34. North Carolina.....NC	N								
35. North Dakota.....ND	N								
36. Ohio.....OH	N								
37. Oklahoma.....OK	N								
38. Oregon.....OR	N								
39. Pennsylvania.....PA	N								
40. Rhode Island.....RI	N								
41. South Carolina.....SC	N								
42. South Dakota.....SD	N								
43. Tennessee.....TN	N								
44. Texas.....TX	N								
45. Utah.....UT	N								
46. Vermont.....VT	N								
47. Virginia.....VA	N								
48. Washington.....WA	N								
49. West Virginia.....WV	N								
50. Wisconsin.....WI	N								
51. Wyoming.....WY	N								
52. American Samoa.....AS	N								
53. Guam.....GU	N								
54. Puerto Rico.....PR	N								
55. US Virgin Islands.....VI	N								
56. Northern Mariana Islands.....MP	N								
57. Canada.....CN	N								
58. Aggregate Other Alien.....OT	XXX	0	0	0	0	0	0	0	0
59. Totals	(a) 1	21,612,279	2,756,446	0	7,352,637	14,436,078	7,083,442	10,335	0

## DETAILS OF WRITE-INS

5801.	XXX								
5802.	XXX								
5803.	XXX								
5898.	Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0	0
5899.	Totals (Lines 5801 thru 5803+ Line 5898) (Line 58 above)	XXX	0	0	0	0	0	0	0

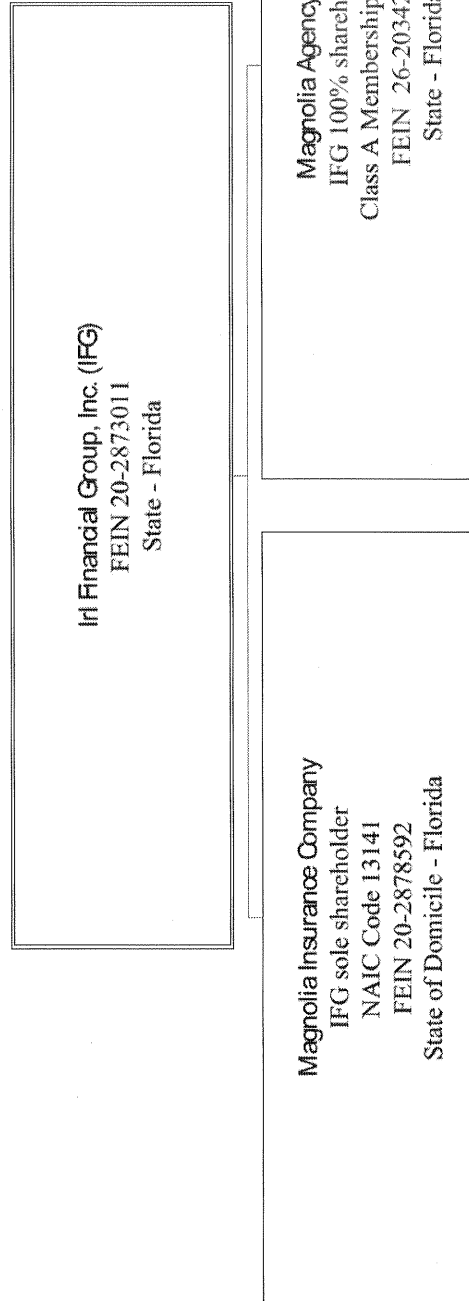
(a) Insert the number of "L" responses except for Canada and Other Alien.

Explanation of Basis of Allocation of Premiums by States, etc.



**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

**PART 1 - ORGANIZATIONAL CHART**





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Statutory Basis Financial Statements  
and Other Financial Information

**Magnolia Insurance Company**

*For the period April 28, 2008 (inception)  
through December 31, 2008  
with Report of Independent Auditors*

Thomas Howell  
 Ferguson P.A.



Magnolia Insurance Company  
Statutory Basis Financial Statements  
and Other Financial Information

For the period April 28, 2008 (inception)  
through December 31, 2008

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## Report of Independent Auditors

The Board of Directors  
Magnolia Insurance Company

We have audited the accompanying statement of admitted assets, liabilities, and capital and surplus - statutory basis of Magnolia Insurance Company (the Company), as of December 31, 2008, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the period April 28, 2008 (inception) through December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of Magnolia Insurance Company as of December 31, 2008, and the results of its operations and its cash flows for the period April 28, 2008 (inception) through December 31, 2008, on the basis of accounting described in Note 1.



Page Two

Our audit was made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The supplemental disclosures included in other financial information as of and for the period ended December 31, 2008, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. This other financial information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of Magnolia Insurance Company and for filing with the Florida Office of Insurance Regulation and should not be used for any other purpose.

Thomas Howell Ferguson P.A.

March 25, 2009



Magnolia Insurance Company

Statement of Admitted Assets, Liabilities, and Capital and  
Surplus - Statutory Basis

December 31, 2008

**Admitted assets**

Cash and invested assets:

Common stock	\$ 758,099
Short-term investments	10,322,231
Cash and cash equivalents	<u>79,151,484</u>
Total cash and invested assets	90,231,814

Accrued investment income	204,935
Premiums receivable	12,151,569
Net deferred tax asset	2,772,010
Other assets	<u>21,992</u>
Total admitted assets	<u><u>\$ 105,382,320</u></u>

**Liabilities and capital and surplus**

Liabilities:

Loss and loss adjustment expense reserves	\$ 8,881,233
Unearned premiums, net	38,120,587
Advance premiums	2,373,345
Reinsurance premiums payable	23,214,603
Accounts payable and other accrued expenses	5,586,121
Taxes, licenses and fees payable	879,221
Federal income taxes payable	3,418,408
Amounts retained by company for others	517,038
Payable to parent and affiliates	<u>1,389,915</u>
Total liabilities	84,380,471

Capital and surplus	<u>21,001,849</u>
Total liabilities and capital and surplus	<u><u>\$ 105,382,320</u></u>

*See accompanying notes.*



# Magnolia Insurance Company

## Statement of Operations - Statutory Basis

For the period April 28, 2008 (inception) through December 31, 2008

Underwriting income:	
Premiums earned, net	\$ 33,856,428
Underwriting expenses:	
Losses and loss adjustment expenses incurred	16,561,927
Underwriting, acquisition, and other expenses	<u>16,226,693</u>
	<u>32,788,620</u>
Net underwriting income	1,067,808
Other income (expense)	
Net investment income	622,668
Other expense	<u>(6,769)</u>
	<u>615,899</u>
Income before federal income taxes	1,683,707
Federal income taxes	<u>3,418,408</u>
Net loss	<u><u>\$ (1,734,701)</u></u>

*See accompanying notes.*



Magnolia Insurance Company

Statement of Changes in Capital and Surplus - Statutory Basis

For the period April 28, 2008 (inception) through December 31, 2008

	<u>Common Stock</u>		<u>Paid-in</u>	<u>Unassigned</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Surplus</u>	<u>Funds</u>	
Balance as of April 28, 2008	-	\$ -	\$ -	\$ -	\$ -
Issuance of common stock	10,000	10,000	19,990,000	-	20,000,000
Change in nonadmitted assets	-	-	-	(295,983)	(295,983)
Change in deferred income taxes	-	-	-	2,854,947	2,854,947
Change in unrealized capital gains	-	-	-	177,586	177,586
Net loss	-	-	-	(1,734,701)	(1,734,701)
Balance as of December 31, 2008	<u>10,000</u>	<u>\$ 10,000</u>	<u>\$ 19,990,000</u>	<u>\$ 1,001,849</u>	<u>\$ 21,001,849</u>



# Magnolia Insurance Company

## Statement of Cash Flows - Statutory Basis

For the period April 28, 2008 (inception)  
through December 31, 2008

### Operating activities

Premiums collected, net of reinsurance	\$ 85,413,394
Net investment income received	417,733
Losses and loss adjustment expenses paid	(7,680,694)
Underwriting, acquisition, and other expenses paid	(8,106,540)
Other income received	10,335
Net cash provided by operating activities	<u>70,054,228</u>

### Investing activities

Purchases of investments	<u>(580,513)</u>
Net cash used in investing activities	<u>(580,513)</u>

### Financing activities

Proceeds from paid-in capital and surplus	<u>20,000,000</u>
Net cash provided by financing activities	<u>20,000,000</u>

Net increase in cash 89,473,715

Cash at beginning of year -  
Cash at end of year \$ 89,473,715

Cash consists of the following:

Cash and cash equivalents	\$ 79,151,484
Short-term investments	<u>10,322,231</u>
	<u>\$ 89,473,715</u>

*See accompanying notes.*



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

For the period April 28, 2008 (inception) through December 31, 2008

### 1. Summary of Significant Accounting Policies

#### Organization and Description of Company

Magnolia Insurance Company (the Company), a wholly-owned subsidiary of Irl Financial Group (the Group), is domiciled in the state of Florida. The Company was incorporated on May 25, 2005, and received its certificate of authority from the Florida Office of Insurance Regulation and began insurance operations on April 28, 2008.

The Company writes homeowners' coverage exclusively in the state of Florida, an area that is exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing catastrophic reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company. The Company has purchased reinsurance protection to the level of a "one hundred year" storm event.

#### Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Florida Office of Insurance Regulation (the Office). Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Investments in bonds or debt securities are reported at amortized cost or market value based on their NAIC rating; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a component of other comprehensive income for those designated as available-for-sale.
- Fair values of certain investments in bonds are based on values specified by the NAIC rather than on actual or estimated market values as would be required under GAAP. Changes between cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to other comprehensive income as would be required under GAAP.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### Basis of Presentation (continued)

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statement of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.
- Cash in the statement of cash flows includes cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the balance sheet date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.
- Commissions allowed by reinsurers on business ceded are reported as income when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs as would be required by GAAP. Commissions in excess of the acquisition costs, if any, would be deferred and recognized over the policy term consistent with GAAP.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### Basis of Presentation (continued)

- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

Other significant accounting practices are as follows:

#### Recognition of Premium Revenues

Premiums are recorded as earned on a monthly pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as advance premiums.

#### Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less, and certificates of deposit with original maturities of one year or less and are principally stated at cost, which approximates fair value.

#### Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO). The valuation technique used to measure fair value (market value) is to obtain the published securities' fair value from the SVO publication, *Valuation of Securities*. If the specific security is not listed in this publication, then the fair value is obtained from a registered U.S. exchange.

Common stocks are reported at quoted market value from a registered U.S. Exchange and the related net unrealized capital gains (losses) are reported in unassigned surplus.

Short-term investments include investments with original maturities of one year or less from the time of acquisition and are principally stated at cost, which approximates fair value.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, investments, reinsurance recoveries, and premium revenue. The Company maintains its cash and cash equivalents at several quality financial institutions. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on higher quality, fixed income securities, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

#### Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (see Note 6). Those reinsurance arrangements allow management to control exposure to potential losses arising from large risks. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

#### Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### Loss and Loss Adjustment Expense (LAE) Reserves (continued)

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

#### Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund and several residual market pools. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Citizens Property Insurance Corporation (Citizens) and the Florida Hurricane Catastrophe Fund (FHCF).

The Company's policy is to recognize its obligation for guaranty fund, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. Guaranty fund assessments are generally available for recoupment from policyholders and as such, amounts assessed are recorded as a recoverable asset. There were no guaranty fund assessments in 2008. Assessments made by Citizens and FHCF are collected prior to remitting payment to the assessing entity. Assessments collected but not remitted to Citizens and FHCF totaled \$468,303 at December 31, 2008.

#### Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

#### Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 2. Regulatory Requirements and Restrictions

Florida Statutes Section 624.408 requires the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements (see Note 9). Additionally, Florida Statutes Section 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

Additionally, the Company is required to maintain a deposit pursuant to Florida Statutes to help secure the payment of claims. A cash deposit of \$300,000 has been assigned to the Office to satisfy this requirement. This amount is included in cash and cash equivalents in the accompanying statement of admitted assets, liabilities, and capital and surplus at December 31, 2008.

### 3. Investments

Short-term investments consist of U.S. Government securities that have a maturity of less than one year from the date of purchase.

The Company's investment income consists of amounts earned on its cash, cash equivalents, and short-term investments totaling \$622,668, net of investment expenses of \$57,950, for the period April 28, 2008 (inception) through December 31, 2008.

### 4. Premiums Receivable

Premiums receivable includes amounts due from insureds for billed premiums. The Company nonadmits balances due from insureds for which a portion of the receivable is more than 90 days past due and deferred installments that exceed the related unearned premium. Premiums receivable is charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received. At December 31, 2008, premiums receivable totaled \$12,151,569, with no nonadmitted premiums receivable.

### 5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending loss reserve balances for losses and LAE at December 31, 2008:

	<i>(in thousands)</i>
Loss and LAE reserves at beginning of period	\$ -
Losses and LAE incurred related to:	
Current year	16,562
Prior years	<u>-</u>
	16,562
Losses and LAE paid related to:	
Current year	7,681
Prior years	<u>-</u>
	<u>7,681</u>
Loss and LAE reserves at end of period	<u><u>\$ 8,881</u></u>



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### **5. Loss and Loss Adjustment Expense (LAE) Reserves (continued)**

There were no anticipated reinsurance recoverables on paid or unpaid losses and LAE at December 31, 2008.

### **6. Reinsurance**

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. As of December 31, 2008, the Company's reinsurance program consisted of catastrophe excess of loss reinsurance treaties. Following is a summary of the reinsurance coverage.

The catastrophe excess of loss coverage is provided by agreements with private reinsurers and by the Florida Hurricane Catastrophe Fund (FHCF). In 2008, the excess of loss treaties generally provide coverage on ultimate net losses of approximately \$385,101,000 in excess of \$6 million per occurrence with the FHCF providing coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$47,503,000 up to approximately \$283,023,000. The private excess of loss agreements provide coverage through multiple layer agreements that attach at \$6 million and provide coverage for ultimate catastrophe losses continuously up to approximately \$391,101,000, excluding the coverage provided by the FHCF.

The private catastrophe excess of loss agreements include reinstatement of Layers 1 through 3 at 100% as to time up to the maximum policy limits. Layer 4 of the private catastrophe excess of loss agreements include reinstatements at 100% as to time and pro rata as to amount.

The FHCF provides coverage for named hurricanes only and provides no coverage after the one-time limit is exhausted. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a FHCF loss assessment, the Company may recoup the assessments from its policyholders.

The Company's reinsured risks are treated, to the extent of reinsurance, as though they are risks for which the Company is not liable. However, the Company remains contingently liable in the event the reinsuring companies do not meet their obligations under these reinsurance contracts. Given the quality of the reinsuring companies, management believes this possibility to be remote.

The Company did not commute any reinsurance or enter into or engage in any loss portfolio transfers during 2008.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 6. Reinsurance (continued)

The effects of reinsurance on premiums written and earned for the year ended December 31, 2008, are as follows:

	2008	
	Written	Earned
Direct premiums	\$ 21,612,278	\$ 2,756,446
Ceded premiums	(59,419,256)	(33,640,787)
Assumed premiums	<u>109,783,993</u>	<u>64,740,769</u>
Net premiums	<u>\$ 71,977,015</u>	<u>\$ 33,856,428</u>

At December 31, 2008, the Company had no unsecured reinsurance recoverables on paid and unpaid losses and LAE, ceded reinsurance premiums payable, and unearned premiums by reinsurer that were equal to or greater than 3% of surplus.

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity (none) at December 31, 2008:

Direct unearned premiums	\$ 18,855,832
Assumed unearned premiums	45,043,224
Ceded unearned premiums	<u>(25,778,469)</u>
Unearned premiums, net	<u>\$ 38,120,587</u>
Commission equity, net	<u>\$ -</u>

### 7. Policy Assumption Agreements

The Company assumed written premiums of \$109,783,993 during 2008 under policy assumption agreements with Citizens. The Company provides a ceding commission to Citizens of 6% of assumed premiums to cover the acquisition costs incurred by Citizens. Total ceding commissions charged to operations in 2008 were \$6,587,039.

### 8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves, unearned premiums, and loss carryovers for tax and statutory basis financial reporting purposes.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 8. Income Taxes (continued)

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

Gross DTAs	\$ 2,922,163
Gross DTLs	<u>(67,217)</u>
Net DTAs	2,854,946
Nonadmitted DTAs	<u>(82,936)</u>
Net admitted DTAs	<u>\$ 2,772,010</u>
Increase in nonadmitted DTAs	<u>\$ 82,936</u>

### B. Unrecognized DTLs

There are no unrecognized DTLs.

### C. Current tax and change in deferred tax:

The provision for income taxes incurred for the period ended December 31, 2008, is \$3,418,408.

The tax effect of temporary differences at December 31, 2008 that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

DTAs	<u>Statutory</u>	<u>Tax</u>	<u>Difference</u>	<u>Tax Effect</u>
Unpaid losses and LAE	\$ 8,881,235	\$ 8,289,612	\$ 591,623	\$ 201,152
Unearned premiums	38,120,587	30,496,470	7,624,117	2,592,200
Start-up costs	-	165,810	165,810	56,375
Nonadmitted assets	-	213,046	213,046	72,436
Net operating (loss) gain	-	-	-	-
Gross DTAs				<u>\$ 2,922,163</u>
Nonadmitted DTAs				<u>\$ 82,936</u>
	<u>Statutory</u>	<u>Tax</u>	<u>Difference</u>	<u>Tax Effect</u>
Unrealized gains	\$ -	\$ 180,106	\$ (180,106)	\$ (61,236)
Fixed assets	-	13,147	(13,147)	(4,470)
Prepaid expenses	-	4,443	(4,443)	<u>(1,511)</u>
Gross DTLs				<u>\$ (67,217)</u>



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 8. Income Taxes (continued)

The changes in the main components of DTAs and DTLs are as follows:

#### DTAs Resulting from Book/Tax Differences

Unpaid losses and LAE	\$ 201,152
Unearned premiums	2,592,200
Start-up costs	56,375
Nonadmitted assets	<u>72,436</u>
Gross DTAs	<u>\$ 2,922,163</u>

Nonadmitted DTAs	<u>\$ 82,936</u>
------------------	------------------

#### DTLs Resulting from Book/Tax Differences

Unrealized gains	\$ (61,236)
Fixed assets	(4,470)
Prepaid expenses	<u>(1,511)</u>
Gross DTLs	<u>\$ (67,217)</u>

The change in gross DTAs and DTLs of \$2,854,946 is the change in net deferred income taxes before the consideration of nonadmitted DTAs.

#### D. Reconciliation of federal income tax rate to actual effective rate:

The significant book-to-tax adjustments were as follows:

	<u>2008</u>	<u>Effective Tax Rate</u>
Provision computed at statutory	\$ 572,459	34.00 %
Nondeductible items	7,121	0.42
Tax-exempt items	(4,918)	(0.29)
Nonadmitted assets	(72,436)	(4.30)
Unrealized gains	<u>61,236</u>	<u>3.64</u>
Total	<u>\$ 563,462</u>	<u>33.47 %</u>
Federal income tax	\$ 3,418,408	203.03 %
Change in net deferred income tax	<u>(2,854,946)</u>	<u>(169.56)</u>
Statutory income taxes	<u>\$ 563,462</u>	<u>33.47 %</u>

#### E. Operating loss and tax credit carryforwards:

- At December 31, 2008, the Company had no unused capital loss carryforwards available to offset against future taxable income.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 8. Income Taxes (continued)

2. The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2008	\$ 3,217,325

#### F. Consolidated federal income tax return:

The Company does not file a consolidated federal income tax return.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses in the accompanying statement of operations.

### 9. Capital and Surplus

The Company has authorized 10,000 shares of \$1 par value common stock, of which 10,000 shares are issued and outstanding. The parent company, Irl Financial Group, is the sole shareholder. No other classes of common or preferred shares were issued during the period ended December 31, 2008.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2008.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. The Company did not declare or pay any dividends during the period ended December 31, 2008.

### 10. Related Party Transactions

The Company is affiliated with Magnolia Agency, LLC (MA), a wholly-owned subsidiary of Irl Financial Group. Effective February 26, 2008, the Company engaged MA to manage the Company's policy and claims administration functions. The agreement with MA continues in force for one year and will automatically renew each year unless otherwise terminated within the guidelines of the agreement. Expenses incurred under the agreement that have been charged to underwriting, acquisition, and other expenses totaled \$5,535,401 during 2008. The amount payable under this agreement is \$1,389,915 at December 31, 2008, and is included in payable to parent and affiliates on the statement of admitted assets, liabilities, and capital and surplus.



# Magnolia Insurance Company

## Notes to Statutory Basis Financial Statements

### 11. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent (MGA), MA, to write and administer products. The terms of the MGA contract grant MA the authority for binding, premium collection, and claims adjusting. The Company retains underwriting authority for all policies issued under this agreement.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
Magnolia Agency, LLC 911 East Park Avenue Tallahassee, FL 32301	26-2034245	Yes	Homeowners, Fire, Allied lines	Binding, premium collection, claims adjusting	\$ 21,612,278

### 12. Reconciliation of Annual Statement to Audited Financial Statements

Differences exist between amounts reported in the audited statutory financial statements and those reported in the annual statement of the Company for the period April 28, 2008 (inception) through December 31, 2008 resulting from reclassification of cash equivalents, short-term investments, and adjustments to premiums receivable, accrued expenses, payable to parent and affiliates, and income taxes. Presented below is a reconciliation of amounts previously reported to the Office and those amounts appearing in the audited statutory financial statements for the period April 28, 2008 (inception) through December 31, 2008.

	<u>Audited Financial Statement Amount</u>	<u>Annual Statement Amount</u>	<u>Increase (Decrease)</u>
Total admitted assets	\$ 105,382,320	\$ 105,082,137	\$ 300,183
Total liabilities	84,380,471	84,277,096	103,375
Total capital and surplus	21,001,849	20,805,041	196,808
Net loss	(1,734,701)	(1,934,029)	(199,328)



## Other Financial Information



**SUMMARY INVESTMENT SCHEDULE**

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....		0.0		0.0
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....		0.0		0.0
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....	758,099	0.8	758,099	0.8
3.4 Other equity securities:				
3.41 Affiliated.....		0.0		0.0
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....	89,476,233	99.2	89,476,233	99.2
9. Other invested assets.....		0.0		0.0
10. Total invested assets.....	90,234,332	100.0	90,234,332	100.0

See report of independent auditors.



**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**

For the year ended December 31, 2008

(To be filed by April 1)

Of Magnolia Insurance Company

Address (City, State, Zip Code): Coconut Grove FL 33133

NAIC Group Code.....0

NAIC Company Code.....13141

Employer's ID Number.....20-2878592

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....105,082,138

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 U.S. GOVERNMENT.....	TREASURY BILLS.....	\$.....30,177,845	.....28.718 %
2.02 COLONIAL BANK.....	SWEEP REPURCHASE AGREEMENT.....	\$.....10,639,918	.....10.125 %
2.03 ALLIANZ.....	ALLIANZ SE SPD ADR.....	\$.....758,100	.....0.721 %
2.04 .....	.....	\$.....	.....0.000 %
2.05 .....	.....	\$.....	.....0.000 %
2.06 .....	.....	\$.....	.....0.000 %
2.07 .....	.....	\$.....	.....0.000 %
2.08 .....	.....	\$.....	.....0.000 %
2.09 .....	.....	\$.....	.....0.000 %
2.10 .....	.....	\$.....	.....0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds	1	2
3.01 NAIC-1.....	\$.....30,177,845	.....28.718 %
3.02 NAIC-2.....	\$.....	.....0.000 %
3.03 NAIC-3.....	\$.....	.....0.000 %
3.04 NAIC-4.....	\$.....	.....0.000 %
3.05 NAIC-5.....	\$.....	.....0.000 %
3.06 NAIC-6.....	\$.....	.....0.000 %
Preferred Stocks	3	4
3.07 P/RP-1.....	\$.....	.....0.000 %
3.08 P/RP-2.....	\$.....	.....0.000 %
3.09 P/RP-3.....	\$.....	.....0.000 %
3.10 P/RP-4.....	\$.....	.....0.000 %
3.11 P/RP-5.....	\$.....	.....0.000 %
3.12 P/RP-6.....	\$.....	.....0.000 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

4.02 Total admitted assets held in foreign investments

\$.....0.000 %

4.03 Foreign-currency-denominated investments

\$.....0.000 %

4.04 Insurance liabilities denominated in that same foreign currency

\$.....0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1.....	\$.....	.....0.000 %
5.02 Countries rated NAIC-2.....	\$.....	.....0.000 %
5.03 Countries rated NAIC-3 or below.....	\$.....	.....0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01 Country 1: .....	\$.....	.....0.000 %
6.02 Country 2: .....	\$.....	.....0.000 %
Countries rated NAIC-2:		
6.03 Country 1: .....	\$.....	.....0.000 %
6.04 Country 2: .....	\$.....	.....0.000 %
Countries rated NAIC-3 or below:		
6.05 Country 1: .....	\$.....	.....0.000 %
6.06 Country 2: .....	\$.....	.....0.000 %



		1	2	
7.	Aggregate unhedged foreign currency exposure:	\$.....	.....	0.000 %
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2	
8.01	Countries rated NAIC-1.....	\$.....	.....	0.000 %
8.02	Countries rated NAIC-2.....	\$.....	.....	0.000 %
8.03	Countries rated NAIC-3 or below.....	\$.....	.....	0.000 %
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:	1	2	
	Countries rated NAIC-1:			
9.01	Country 1: .....	\$.....	.....	0.000 %
9.02	Country 2: .....	\$.....	.....	0.000 %
	Countries rated NAIC-2:			
9.03	Country 1: .....	\$.....	.....	0.000 %
9.04	Country 2: .....	\$.....	.....	0.000 %
	Countries rated NAIC-3 or below:			
9.05	Country 1: .....	\$.....	.....	0.000 %
9.06	Country 2: .....	\$.....	.....	0.000 %
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1	2		
	<u>Issuer</u>	<u>NAIC Rating</u>	3	4
10.01	.....	.....	\$.....	.....0.000 %
10.02	.....	.....	\$.....	.....0.000 %
10.03	.....	.....	\$.....	.....0.000 %
10.04	.....	.....	\$.....	.....0.000 %
10.05	.....	.....	\$.....	.....0.000 %
10.06	.....	.....	\$.....	.....0.000 %
10.07	.....	.....	\$.....	.....0.000 %
10.08	.....	.....	\$.....	.....0.000 %
10.09	.....	.....	\$.....	.....0.000 %
10.10	.....	.....	\$.....	.....0.000 %
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:			
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No [ ]
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
11.02	Total admitted assets held in Canadian Investments		\$.....	.....0.000 %
11.03	Canadian currency-denominated investments		\$.....	.....0.000 %
11.04	Canadian-denominated insurance liabilities		\$.....	.....0.000 %
11.05	Unhedged Canadian currency exposure		\$.....	.....0.000 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.			
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No [ ]
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
	1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions:	\$.....	.....	0.000 %
	Largest three investments with contractual sales restrictions:			
12.03	.....	\$.....	.....	0.000 %
12.04	.....	\$.....	.....	0.000 %
12.05	.....	\$.....	.....	0.000 %
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No [ ]
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			
	1	2	3	
	<u>Name of Issuer</u>			
13.02	.....	\$.....	.....	0.000 %
13.03	.....	\$.....	.....	0.000 %
13.04	.....	\$.....	.....	0.000 %
13.05	.....	\$.....	.....	0.000 %
13.06	.....	\$.....	.....	0.000 %
13.07	.....	\$.....	.....	0.000 %
13.08	.....	\$.....	.....	0.000 %
13.09	.....	\$.....	.....	0.000 %
13.10	.....	\$.....	.....	0.000 %
13.11	.....	\$.....	.....	0.000 %



## 14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$.....	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:		
14.03 .....	\$.....	0.000 %
14.04 .....	\$.....	0.000 %
14.05 .....	\$.....	0.000 %

## 15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$.....	0.000 %
Largest three investments in general partnership interests:		
15.03 .....	\$.....	0.000 %
15.04 .....	\$.....	0.000 %
15.05 .....	\$.....	0.000 %

## 16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02 .....	\$.....	0.000 %
16.03 .....	\$.....	0.000 %
16.04 .....	\$.....	0.000 %
16.05 .....	\$.....	0.000 %
16.06 .....	\$.....	0.000 %
16.07 .....	\$.....	0.000 %
16.08 .....	\$.....	0.000 %
16.09 .....	\$.....	0.000 %
16.10 .....	\$.....	0.000 %
16.11 .....	\$.....	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans.....	\$.....	0.000 %
16.13 Mortgage loans over 90 days past due.....	\$.....	0.000 %
16.14 Mortgage loans in the process of foreclosure.....	\$.....	0.000 %
16.15 Mortgage loans foreclosed.....	\$.....	0.000 %
16.16 Restructured mortgage loans.....	\$.....	0.000 %

## 17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %

## 18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02 .....	\$.....	0.000 %
18.03 .....	\$.....	0.000 %
18.04 .....	\$.....	0.000 %
18.05 .....	\$.....	0.000 %
18.06 .....	\$.....	0.000 %

## 19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$.....	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03 .....	\$.....	0.000 %
19.04 .....	\$.....	0.000 %
19.05 .....	\$.....	0.000 %



## 20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....10,639,918	10.125 %	\$.....	\$.....9,050,000	\$.....6,404,790
20.03 Reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....

## 21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....	0.000 %	\$.....	0.000 %

## 22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

## 23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....



## Magnolia Insurance Company

## Selected General Interrogatories Relating to Reinsurance

December 31, 2008

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?.....Yes ☐ No ☒
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?.....Yes ☐ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
  - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
  - (c) Aggregate stop loss reinsurance coverage;
  - (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
  - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
  - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity.....Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
  - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.....Yes ☐ No ☒
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
  - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
  - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.



Magnolia Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2008

- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
  - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.

*See report of independent auditors.*





# QUARTERLY STATEMENT

As of June 30, 2009  
of the Condition and Affairs of the

## Magnolia Insurance Company

NAIC Group Code.....  
(Current Period) (Prior Period)  
Organized under the Laws of FLORIDA  
Incorporated/Organized..... May 25, 2005  
Statutory Home Office  
Main Administrative Office  
Mail Address  
Primary Location of Books and Records  
Internet Web Site Address  
Statutory Statement Contact

NAIC Company Code..... 13141  
State of Domicile or Port of Entry FLORIDA  
Commenced Business..... April 28, 2008  
2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133  
(Street and Number) (City or Town, State and Zip Code)  
2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133  
(Street and Number) (City or Town, State and Zip Code)  
2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133  
(Street and Number or P. O. Box) (City or Town, State and Zip Code)  
2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133  
(Street and Number) (City or Town, State and Zip Code)  
www.magnoliainsurance.us  
Daverick DeJuan Isaac  
(Name)  
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(E-Mail Address)

Employer's ID Number..... 20-2878592  
Country of Domicile US  
305-858-9500  
(Area Code) (Telephone Number)  
305-858-9500  
(Area Code) (Telephone Number)  
817-348-3405  
(Area Code) (Telephone Number) (Extension)  
817-348-3786  
(Fax Number)

### OFFICERS

Name	Title	Name	Title
1. Henry James Irl	President	2. Gregg Baird Patterson	Chief Financial Officer/VP of Operations/Treasurer
3. Alberto Francisco Sarasua	Secretary	4.	

### OTHER

### DIRECTORS OR TRUSTEES

Henry James Irl	Peter Richard Harrison	Gregg Baird Patterson	Ernesto Ramon
Alberto Francisco Sarasua			

State of..... FLORIDA  
County of..... MIAMI-DADE ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions there from for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Henry James Irl	(Signature) Gregg Baird Patterson	(Signature) Alberto Francisco Sarasua
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President	Chief Financial Officer/VP of Operations/Treasurer	Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to before me  
This \_\_\_\_\_ day of \_\_\_\_\_

a. Is this an original filing?  
b. If no: 1. State the amendment number  
2. Date filed  
3. Number of pages attached

Yes [ X ] No [ ]



## ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds.....			0	
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	1,069,902		1,069,902	758,099
3. Mortgage loans on real estate:				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....48,503,179), cash equivalents (\$.....20,006,504) and short-term investments (\$.....10,322,231).....	78,831,913		78,831,913	89,476,234
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets.....			0	
8. Receivables for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	79,901,815	0	79,901,815	90,234,333
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	102,885	43,025	59,860	204,935
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection.....	17,083,692	53,860	17,029,832	11,848,868
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....	182,665		182,665	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....			0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....	2,138,030		2,138,030	
16.2 Net deferred tax asset.....	2,672,292	1,179,365	1,492,927	2,772,010
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	22,317		22,317	
19. Furniture and equipment, including health care delivery assets (\$.....0).....	3,022	3,022	0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	149,600	149,600	0	
22. Health care (\$.....0) and other amounts receivable.....			0	
23. Aggregate write-ins for other than invested assets.....	503,022	27,216	475,806	21,992
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	102,759,340	1,456,088	101,303,252	105,082,138
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. Total (Lines 24 and 25).....	102,759,340	1,456,088	101,303,252	105,082,138

## DETAILS OF WRITE-INS

0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Other Receivables.....	481,030	5,224	475,806	
2302. Lease Deposits.....	21,992	21,992	0	21,992
2303. Prepaid Insurance.....			0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	503,022	27,216	475,806	21,992



## LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....5,904,117).....	10,735,391	7,083,441
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	1,921,117	1,797,793
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	3,871,226	5,586,119
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	652,091	1,698,266
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		3,315,725
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....61,252,710 and including warranty reserves of \$.....0).....	5,010,494	38,120,588
10. Advance premium.....	1,966,225	2,287,483
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	60,158,736	23,214,603
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....	481,545	85,665
16. Provision for reinsurance.....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....	96,845	1,087,214
20. Payable for securities.....		
21. Liability for amounts held under uninsured plans.....		
22. Capital notes \$.....0 and interest thereon \$.....0.....		
23. Aggregate write-ins for liabilities.....	0	0
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23).....	84,893,671	84,277,097
25. Protected cell liabilities.....		
26. Total liabilities (Lines 24 and 25).....	84,893,671	84,277,097
27. Aggregate write-ins for special surplus funds.....	0	0
28. Common capital stock.....	10,000	10,000
29. Preferred capital stock.....		
30. Aggregate write-ins for other than special surplus funds.....	0	0
31. Surplus notes.....		
32. Gross paid in and contributed surplus.....	19,990,000	19,990,000
33. Unassigned funds (surplus).....	(3,590,418)	805,041
34. Less treasury stock, at cost:		
34.1 .....0.000 shares common (value included in Line 28 \$.....0).....		
34.2 .....0.000 shares preferred (value included in Line 29 \$.....0).....		
35. Surplus as regards policyholders (Lines 27 to 33, less 34).....	16,409,582	20,805,041
36. Totals.....	101,303,252	105,082,138

## DETAILS OF WRITE-INS

2301. ....		
2302. ....		
2303. ....		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	0	0
2701. ....		
2702. ....		
2703. ....		
2798. Summary of remaining write-ins for Line 27 from overflow page.....	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	0	0
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	0	0



## STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct..... (written \$.....77,495,114).....	32,988,606	200	2,756,446
1.2 Assumed..... (written \$.....7,294,802).....	33,683,558	4,989,845	64,740,769
1.3 Ceded..... (written \$.....69,186,085).....	33,711,844	4,380,148	33,640,787
1.4 Net..... (written \$.....1,004,227).....	32,960,320	609,898	33,856,428
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....16,390,648):			
2.1 Direct.....	23,162,362	457,977	14,436,078
2.2 Assumed.....			
2.3 Ceded.....	999,555		
2.4 Net.....	22,162,807	457,977	14,436,078
3. Loss adjustment expenses incurred.....	2,811,131	52,143	2,125,852
4. Other underwriting expenses incurred.....	13,428,654	7,940,029	16,528,730
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	38,402,592	8,450,149	33,090,660
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(5,442,272)	(7,840,251)	785,768
<b>INVESTMENT INCOME</b>			
9. Net investment income earned.....	571,986	68,143	622,462
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....			207
11. Net investment gain (loss) (Lines 9 + 10).....	571,986	68,143	622,669
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....18,103).....	(18,103)		(17,104)
13. Finance and service charges not included in premiums.....	154,393		10,335
14. Aggregate write-ins for miscellaneous income.....	0	0	0
15. Total other income (Lines 12 through 14).....	136,290	0	(6,769)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	(4,733,996)	(7,772,108)	1,381,668
17. Dividends to policyholders.....			
18. Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17).....	(4,733,996)	(7,772,108)	1,381,668
19. Federal and foreign income taxes incurred.....	(1,723,756)		3,315,697
20. Net income (Line 18 minus Line 19) (to Line 22).....	(3,010,240)	(7,772,108)	(1,934,029)
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year.....	20,805,041		
22. Net income (from Line 20).....	(3,010,240)	(7,772,108)	(1,934,029)
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....	(42,458)		180,106
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....	(182,655)	2,642,517	2,854,947
27. Change in nonadmitted assets.....	(1,160,105)	(642,517)	(295,983)
28. Change in provision for reinsurance.....			
29. Change in surplus notes.....			
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....		20,000,000	10,000
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....			19,990,000
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....			
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	0	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(4,395,459)	14,227,892	20,805,041
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	16,409,582	14,227,892	20,805,041
<b>DETAILS OF WRITE-INS</b>			
0501.....			
0502.....			
0503.....			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401.....			
1402.....			
1403.....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
3701.....			
3702.....			
3703.....			
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	0	0	0



## CASH FLOW

	1 Current Year to Date	2 Prior Year Ended December 31
<b>CASH FROM OPERATIONS</b>		
1. Premiums collected net of reinsurance.....	31,238,277	85,630,234
2. Net investment income.....	674,036	417,527
3. Miscellaneous income.....	136,290	(6,769)
4. Total (Lines 1 through 3).....	32,048,603	86,040,991
5. Benefit and loss related payments.....	16,693,522	7,352,637
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	18,877,530	9,572,404
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	3,729,999	(26)
10. Total (Lines 5 through 9).....	41,301,050	16,925,013
11. Net cash from operations (Line 4 minus Line 10).....	(8,252,447)	69,115,978
<b>CASH FROM INVESTMENTS</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....		
12.2 Stocks.....		
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(2,520)	2,727
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	(2,520)	2,727
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....		
13.2 Stocks.....	351,741	580,512
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	351,741	580,512
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	(354,261)	(577,785)
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		20,000,000
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(1,037,613)	938,041
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	(1,037,613)	20,938,041
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(10,644,321)	89,476,235
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	89,476,235	
19.2 End of period (Line 18 plus Line 19.1).....	78,831,914	89,476,235

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.001



**NOTES TO FINANCIAL STATEMENTS****Note 1 - Summary of Significant Accounting Policies**

- A. Accounting Practices – No Significant Changes
- B. Use of Estimates in the Preparation of Financial Statements – No Significant Changes
- C. Accounting policy – No Significant Changes

**Note 2 - Accounting Changes and Corrections of Errors**

No Significant Changes

**Note 3 - Business Combinations and Goodwill**

None

**Note 4 - Discontinued Operations**

None

**Note 5 - Investments**

- A. Mortgage loans – None
- B. Debt restructuring – None
- A. Reverse mortgages – None.
- B. Loan backed securities – None
- C. Repurchase agreements – The company invests in overnight Repos from funds which are swept from its Colonial Bank Company accounts. These investments are in US Treasury and equivalents.
- D. Real Estate – None.

**Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

None

**Note 7 - Investment Income**

No Significant Changes

**Note 8 - Derivative Instruments**

None

**Note 9 - Income Taxes**

A. The components of the net deferred tax asset/(liability) are as follows:

	Description	2009	2008
(1)	Total gross deferred tax assets (DTA)	\$2,725,073	2,922,163
(2)	Total gross deferred tax liabilities (DTL)	(52,781)	(67,217)
(3)	Net deferred tax asset	2,672,293	2,854,946
(4)	Nonadmitted deferred tax assets	(1,179,365)	(82,937)
(5)	Net admitted deferred tax assets	1,492,927	
(6)	Increase (decrease) in nonadmitted deferred tax assets	(1,096,428)	(82,937)

B. Unrecognized Deferred Tax Liabilities

None

C. Current Tax and Change in Deferred Tax

The provision for income taxes incurred on earnings for the period ended December 31 is:

	2009	2008
Current income tax expense	\$ (1,816,901)	3,315,725
Taxes recovered	0	0
Prior year underaccrual (overaccrual)	93,145	0
Current income taxes incurred	\$ (1,723,756)	3,315,725

The tax effect of temporary differences that give rise to significant deferred tax assets/(liabilities) are as follows:



**NOTES TO FINANCIAL STATEMENTS**

DTA	Statutory	Tax	Difference	Tax Effect
Unpaid losses and LAE	\$12,656,508	11,813,395	843,113	286,659
Unearned premiums	33,675,294	26,940,235	6,735,059	2,289,920
Start-up costs		160,027	160,027	54,409
Nonadmitted assets		276,723	276,723	94,086
Total DTAs	\$	\$	\$	2,725,073
DTAs nonadmitted				(1,179,365)

DTL	Statutory	Tax	Difference	Tax Effect
Unrealized gain		(137,648)	(137,648)	(46,800)
Fixed assets		(13,147)	(13,147)	(4,470)
Prepaid expenses		(4,443)	(4,443)	(1,511)
Total DTLs				(52,781)

The changes in main components of DTAs and DTLs are as follows:

DTAs resulting from Book/Tax Differences in	June 30, 2009	December 31, 2008	Change
Unpaid losses and LAE	\$ 286,659	\$ 201,152	\$ 85,507
Unearned premiums	2,289,920	2,592,200	(302,280)
Start-up costs	54,409	56,376	(1,967)
Nonadmitted assets	94,086	72,436	21,650
Total DTAs	\$ 2,725,073	\$ 2,922,163	\$ (197,091)
DTAs nonadmitted	\$ (1,179,365)	\$ (82,937)	\$(1,096,428)

DTLs resulting from Book/Tax Differences in	June 30, 2009	December 31, 2008	Change
Unrealized gain	(46,800)	\$ (61,236)	\$ 14,436
Fixed assets	(4,470)	(4,470)	0
Prepaid expenses	(1,511)	(1,511)	0
Total DTLs	\$ (52,781)	\$ (67,217)	\$ 14,436

The change in gross DTAs/DTLs of \$ 263,269 is the change in net deferred income taxes before the consideration of nonadmitted DTAs/DTLs.

**D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate:**

The significant book to tax adjustments were as follows:

	34%	% of Pre-Tax Income
		\$ (4,733,996)
Provision computed at statutory rate	\$ (1,609,559)	34.00%
Nondeductible items	4,988	-0.11%
Tax-exempt items	99,555	-2.10%
Nonadmitted Assets	(21,650)	0.46%
Unrealized loss	(14,436)	0.30%
	(1,541,101)	32.55%



**NOTES TO FINANCIAL STATEMENTS**

Federal & foreign income tax	\$ (1,723,756)	36.41%
Change in net deferred income tax	182,654	-3.86%
Statutory income taxes	(1,541,101)	32.55%

**E. Operating Loss and Tax Credit Carryforwards**

- (1) At June 30, 2009, the Company had no unused net operating loss carryforwards available to offset against future taxable income.
- (2) The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

Year	Amount
2009	\$
2008	\$ 1,492,927

**F. Consolidated Federal Income Tax Return**

The Company does not file a consolidated federal income tax return.

**Note 10 - Information Concerning Parent, Subsidiaries and Affiliates**

- A. All outstanding shares of the Company are owned by Irl Financial Group Incorporated, a Florida Corporation. The Company has not paid dividends to its parent.
- B. The Company did not incur any expenses with any affiliates during the period of this report.
- C. The Company has an executed Managing General Agency Agreement with its affiliate, Magnolia Agency, LLC.
- D. Net amounts due to or due from affiliates. The Company has a balance due to Magnolia Agency, LLC of \$96,845 and a balance due from Irl Financial Group for \$149,600. There were no other balances due to, or due from affiliates during the period of this report.
- E. The Company has no guarantees or undertakings for the benefit of an affiliate for the reporting period.
- F. The Company does not own any shares in its Parent or affiliates as of the end of the reporting period.
- G. The Company holds no investment in its Parent or affiliates as of the end of the reporting period.
- H. The Company is a wholly-owned subsidiary of Irl Financial Group Incorporated.
- I. The Company does not have an investment in SCA entities as of the end of the reporting period.

**Note 11 - Debt**

No Significant Changes

**Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

No Significant Changes

**Note 13 - Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

- A. The Company has 10,000 shares authorized, 10,000 shares issued and outstanding. All shares have a par value of \$1.00.
- B. The Company has no preferred stock outstanding.
- C. Without prior approval of the domiciliary commissioner, dividends to stockholders are limited by the laws of the State of Florida; the Company's state of Incorporation, to an amount that is based on restrictions relating to Statutory Surplus.
- D. Within the limitations of (C) above, there are no restrictions placed on the portion of the Company's profits that may be paid as ordinary dividends to stockholders.
- E. There are no restrictions placed on the Company's surplus, including to whom the surplus is being held.
- F. There are no advances to Surplus not repaid.
- G. There is no stock held by the Company for special purposes.
- H. There are no balances of special surplus funds for this reporting period.
- I. During the reporting period, the company disposed of equipment with a cost of \$17,000. The related non-admitted balance of \$13,971.67, related to the equipment was credited to the Company's surplus at the time of disposition.
- J. The Company was funded with \$20,000,000 in Surplus on 04/28/08.
- K. The Company has not held any quasi-reorganizations.

**Note 14 - Contingencies**

No Significant Changes



**NOTES TO FINANCIAL STATEMENTS****Note 15 - Leases**

- A. Leases – Operating Leases – The Company had two Operating Leases in effect during the quarter for facilities space. Rental expense for the quarter was \$37,350.11. There were no contingent or sublease rentals. Terms of renewal are as follows:
- a. Lease #1 – Five Year Lease commencing August 1, 2008: the Company has an Extension Option to extend the term of the lease for the period from August 1, 2013 through July 31, 2018, provided the landlord is notified by October 31, 2012. The future minimum lease payments are as follows:
    - i. 2009: \$52,463.33 \*Note lease is 7/1/09-12/31/2009
    - ii. 2010: \$107,060.25
    - iii. 2011: \$110,807.34
    - iv. 2011: \$114,686.07
    - v. 2012: \$68,245.62 \*Note lease ends 7/31/2013
  - b. Lease #2 – Month to Month Lease commencing June 1, 2008.
- B. Lessor Leases – The Company does not have any investment in leases.

**Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

None

**Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

None

**Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

None

**Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

- A. The Company's Dwelling Fire and Homeowners Insurance will be written through Magnolia Agency, LLC under a Managing General Agency (MGA) agreement. The terms of this agreement give the MGA the authority to collect premiums (P) and bind coverage (B). The following information regarding the MGA is listed below:

Name & Address	FEIN	Exclusive Contract	Business Written	Authority Granted	Direct Written Premium
Magnolia Agency, LLC 911E Park Ave, Tallahassee, FL 32301	26-2034245	Yes	Fire, Allied Lines, Homeowners, Other Liability	P, B	\$77,485,114

\* P – Premium Collection

B – Binding Authority

**Note 20 - Other Items**

- A. Extraordinary items – The Company had no extraordinary items to report for the operating period under SSAP No 24 Discontinued Operations and Extraordinary Items.
- B. Agents' Balances Certification, Section 625.012(5), Florida Statutes –
1. Uncollected premiums and agents' balances in course of collection at June 30, 2009 was \$17,083,692. Of this amount, \$8,233,039.07 was due from the Magnolia Agency, LLC.
  2. The amount due from the Magnolia Agency, LLC is deemed to be from a "controlling" person, defined as "any person that, individually or in combination with other such person, owes to the insurer an amount that exceeds 50 percent of the insurer's total premiums in course of collection as stated on the insurer's financial statement."
  3. The entire amount due from Magnolia Agency, LLC, is secured by a Premium Trust Agreement that has been filed with the Office of Insurance Regulation.

**Note 21 - Events Subsequent**

None

**Note 22 - Reinsurance**

- A. **Unsecured Reinsurance Recoverables** – The Company does not have any unsecured aggregate reinsurance recoverables for paid and unpaid losses, loss adjustment expenses and unearned premiums due from any individual reinsurer, authorized or unauthorized, that is in excess of 3% of policyholder's surplus.
- B. **Reinsurance Recoverable in Dispute** – The Company does not have any recoverables in dispute for paid losses and loss adjustment expenses that exceed 5% of policyholder's surplus from an individual reinsurer or exceed 10% of policyholder's surplus in the aggregate.



## **NOTES TO FINANCIAL STATEMENTS**

- C. Reinsurance Assumed and Ceded – The Company's maximum amount of return commissions that would have been due to the quota-share reinsurer if the agreement were cancelled at June 30, 2009 is \$1,602,768.27. The maximum amount of ceding commission due to the Company on policies assumed from Citizens Property Insurance Company(CPIC) as of June 30, 2009 should all policies revert to CPIC is \$243,891.8
- D. Uncollectible Reinsurance – The Company did not write off any balances as a result of uncollectible reinsurance during the period.
- E. Commutation of Reinsurance – The Company did not commute reinsurance during the period.
- F. Retroactive Reinsurance – The Company did not have any retroactive reinsurance.
- G. Reinsurance Accounted for as a Deposit – The Company did not have any reinsurance accounted for as a deposit.

### **Note 23 - Retrospectively Rated Contracts & Contracts Subject to Redetermination**

None

### **Note 24 - Change in Incurred Losses and Loss Adjustment Expenses**

- A. The Company had a Loss Reserve Balance of \$10,735,391 and a Loss Adjustment Expense Reserve balance of \$1,921,117 for the reporting period. The change in reserves is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

### **Note 25 - Intercompany Pooling Arrangements**

None

### **Note 26 - Structured Settlements**

None

### **Note 27 - Health Care Receivables**

None

### **Note 28 - Participating Policies**

None

### **Note 29 - Premium Deficiency Reserves**

None

### **Note 30 - High Deductibles**

None

### **Note 31 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses**

None

### **Note 32 - Asbestos/Environmental Reserves**

None

### **Note 33 - Subscriber Savings Accounts**

None

### **Note 34 - Multiple Peril Crop Insurance**

None



**GENERAL INTERROGATORIES**

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted)

**PART 1 - COMMON INTERROGATORIES****GENERAL**

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes [ ] No [ X ]
- 1.2 If yes, has the report been filed with the domiciliary state? Yes [ ] No [ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change: .....
3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes [ X ] No [ ]  
If yes, complete the Schedule Y-Part 1 - Organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes [ ] No [ X ] N/A [ ]  
If yes, attach an explanation.

The Company entered into an agreement with National Catastrophe Adjusters Group "NCA" to manage its daily and catastrophe claims  
This agreement has filed with the State of Florida Office of Insurance Regulation

- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. ....
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. ....
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). ....
- 6.4 By what department or departments?  
.....  
.....

- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [ ] No [ ] N/A [ X ]
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ ] No [ ] N/A [ X ]
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [ X ]
- 7.2 If yes, give full information:  
.....  
.....

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
.....  
.....

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [ X ]

- 8.4 If the response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency (i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)) and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [ X ] No [ ]
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

- 9.11 If the response to 9.1 is No, please explain:  
.....  
.....

- 9.2 Has the code of ethics for senior managers been amended? Yes [ ] No [ X ]

- 9.21 If the response to 9.2 is Yes, provide information related to amendment(s).  
.....  
.....

- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [ X ]



**GENERAL INTERROGATORIES**

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted)

**PART 1 - COMMON INTERROGATORIES**

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

**FINANCIAL**

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes ☒ No ☐

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:

\$.....149,600

**INVESTMENT**

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.)

Yes ☐ No ☒

11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA:

\$.....0

13. Amount of real estate and mortgages held in short-term investments:

\$.....0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates?

Yes ☐ No ☒

14.2 If yes, please complete the following:

	1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds.....	\$.....0	\$.....
14.22 Preferred Stock.....	\$.....0	\$.....
14.23 Common Stock.....	\$.....0	\$.....
14.24 Short-Term Investments.....	\$.....0	\$.....
14.25 Mortgage Loans on Real Estate.....	\$.....0	\$.....
14.26 All Other.....	\$.....0	\$.....
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$.....0	\$.....0
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$.....	\$.....

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB?

Yes ☐ No ☒

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes ☐ No ☐

If no, attach a description with this statement.

16. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III. Conducting Examinations, F-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes ☒ No ☐

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
Northern Trust	Miami, FL
Merrill Lynch	Miami, FL
Colonial Bank	Birmingham, AL

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation.

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter?

Yes ☐ No ☒

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
2669	Northern Trust	Miami, FL
7691	Merrill Lynch	Miami, FL
111668	Colonial Bank	Birmingham, AL

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes ☒ No ☐

17.2 If no, list exceptions:



Statement for June 30, 2009 of the **Magnolia Insurance Company**  
**GENERAL INTERROGATORIES (continued)**  
**PART 2**  
**PROPERTY & CASUALTY INTERROGATORIES**

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes ☐ No ☐ N/A ☒  
 If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes ☐ No ☒  
 If yes, attach an explanation.

- 3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes ☐ No ☒  
 3.2 If yes, give full and complete information thereto:

- 4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation liabilities tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero? Yes ☐ No ☒  
 4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period			
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total
						0				0
Total	XXX	XXX	0	0	0	0	0	0	0	0



**SCHEDULE F - CEDED REINSURANCE**

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Location	5 Is Insurer Authorized? (YES or NO)
<b>U.S. Insurers</b>				
10103.....	36-2661954.....	American Agricultural Insurance Company.....	IN.....	YES.....
26921.....	22-2005057.....	Everest Reinsurance Company.....	DE.....	YES.....
23680.....	47-0698507.....	Odyssey America Reinsurance Corporation.....	CT.....	YES.....
<b>All Other Insurers</b>				
.....	AA-1464104.....	Allianz Risk Transfer AG, Switzerland, Bermuda Branch.....	SWITZERLAND.....	YES.....
.....	AA-1460006.....	Flagstone Reassurance Suisse SA.....	SWITZERLAND.....	NO.....
.....	AA-3190770.....	ACE Tempest Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190966.....	Actua Re Ltd.....	BERMUDA.....	NO.....
.....	AA-3190873.....	Ariel Reinsurance Company Limited.....	BERMUDA.....	NO.....
.....	AA-3194161.....	Catlin Insurance Company Limited.....	BERMUDA.....	NO.....
.....	AA-3194122.....	DeVinci Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190060.....	Hannover Re (Bermuda), Ltd.....	BERMUDA.....	NO.....
.....	AA-3194129.....	Montpelier Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190339.....	Renaissance Reinsurance, Ltd.....	BERMUDA.....	NO.....
.....	AA-1128033.....	Syndicate No. 0033 Hiscox (HIS).....	UNITED KINGDOM.....	YES.....
.....	AA-1128001.....	Syndicate No. 2001 Amfin Underwriting Limited (AML).....	UNITED KINGDOM.....	YES.....
.....	AA-1128003.....	Syndicate No. 2003 S.J.O. Catlin and Others (SJC).....	UNITED KINGDOM.....	YES.....
.....	AA-1120071.....	Syndicate No. 2007 Novae (NVA).....	UNITED KINGDOM.....	YES.....
.....	AA-1128010.....	Syndicate No. 2010 Cathedral (MMX).....	UNITED KINGDOM.....	YES.....



**SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN**

Current Year to Date - Allocated by States and Territories

States, Etc.	1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date	7 Prior Year to Date
1. Alabama.....AL	N						
2. Alaska.....AK	N						
3. Arizona.....AZ	N						
4. Arkansas.....AR	N						
5. California.....CA	N						
6. Colorado.....CO	N						
7. Connecticut.....CT	N						
8. Delaware.....DE	N						
9. District of Columbia.....DC	N						
10. Florida.....FL	L	77,485,114	2,401	18,681,618	7,856	11,564,185	450,120
11. Georgia.....GA	N						
12. Hawaii.....HI	N						
13. Idaho.....ID	N						
14. Illinois.....IL	N						
15. Indiana.....IN	N						
16. Iowa.....IA	N						
17. Kansas.....KS	N						
18. Kentucky.....KY	N						
19. Louisiana.....LA	N						
20. Maine.....ME	N						
21. Maryland.....MD	N						
22. Massachusetts.....MA	N						
23. Michigan.....MI	N						
24. Minnesota.....MN	N						
25. Mississippi.....MS	N						
26. Missouri.....MO	N						
27. Montana.....MT	N						
28. Nebraska.....NE	N						
29. Nevada.....NV	N						
30. New Hampshire.....NH	N						
31. New Jersey.....NJ	N						
32. New Mexico.....NM	N						
33. New York.....NY	N						
34. North Carolina.....NC	N						
35. North Dakota.....ND	N						
36. Ohio.....OH	N						
37. Oklahoma.....OK	N						
38. Oregon.....OR	N						
39. Pennsylvania.....PA	N						
40. Rhode Island.....RI	N						
41. South Carolina.....SC	N						
42. South Dakota.....SD	N						
43. Tennessee.....TN	N						
44. Texas.....TX	N						
45. Utah.....UT	N						
46. Vermont.....VT	N						
47. Virginia.....VA	N						
48. Washington.....WA	N						
49. West Virginia.....WV	N						
50. Wisconsin.....WI	N						
51. Wyoming.....WY	N						
52. American Samoa.....AS	N						
53. Guam.....GU	N						
54. Puerto Rico.....PR	N						
55. US Virgin Islands.....VI	N						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CN	N						
58. Aggregate Other Alien.....OT	XXX	0	0	0	0	0	0
59. Totals.....	(a) 1	77,485,114	2,401	18,681,618	7,856	11,564,185	450,120

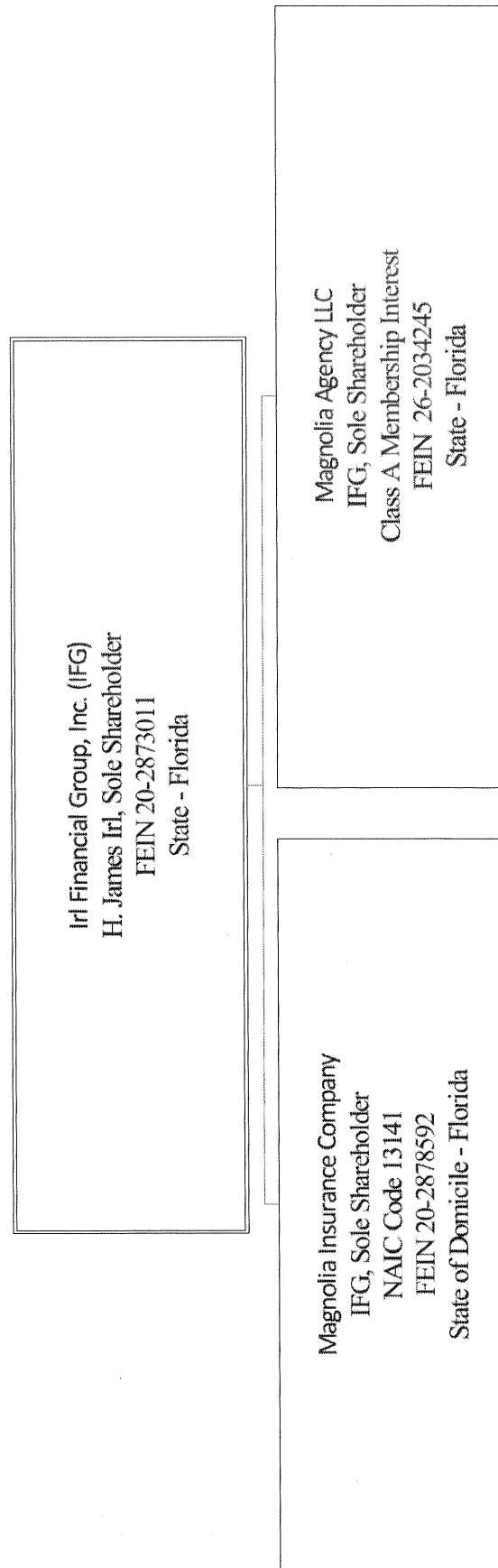
**DETAILS OF WRITE-INS**

5801. ....	XXX						
5802. ....	XXX						
5803. ....	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	0	0	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....	XXX	0	0	0	0	0	0

(a) Insert the number of L responses except for Canada and Other Alien.



**SCHEDULE Y -- INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 -- ORGANIZATIONAL CHART





**PART 1 - LOSS EXPERIENCE**

Lines of Business	Current Year to Date			Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire.....	1,177,532	845,200	71.8	
2. Allied lines.....	7,196,214	6,054,431	84.1	
3. Farmowners multiple peril.....			0.0	
4. Homeowners multiple peril.....	24,614,861	16,262,731	66.1	202,406.5
5. Commercial multiple peril.....			0.0	
6. Mortgage guaranty.....			0.0	
8. Ocean marine.....			0.0	
9. Inland marine.....			0.0	
10. Financial guaranty.....			0.0	
11.1. Medical professional liability - occurrence.....			0.0	
11.2. Medical professional liability - claims made.....			0.0	
12. Earthquake.....			0.0	
13. Group accident and health.....			0.0	
14. Credit accident and health.....			0.0	
15. Other accident and health.....			0.0	
16. Workers' compensation.....			0.0	
17.1. Other liability-occurrence.....			0.0	
17.2. Other liability-claims made.....			0.0	
18.1. Products liability-occurrence.....			0.0	
18.2. Products liability-claims made.....			0.0	
19.1, 19.2 Private passenger auto liability.....			0.0	
19.3, 19.4 Commercial auto liability.....			0.0	
21. Auto physical damage.....			0.0	
22. Aircraft (all perils).....			0.0	
23. Fidelity.....			0.0	
24. Surety.....			0.0	
26. Burglary and theft.....			0.0	
27. Boiler and machinery.....			0.0	
28. Credit.....			0.0	
29. International.....			0.0	
30. Warranty.....			0.0	
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0.0	
35. Totals.....	32,988,606	23,162,362	70.2	228,988.6
<b>DETAILS OF WRITE-INS</b>				
3401.....			0.0	
3402.....			0.0	
3403.....			0.0	
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0.0	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0.0	

**PART 2 - DIRECT PREMIUMS WRITTEN**

Lines of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1. Fire.....	1,754,984	3,456,797	
2. Allied lines.....	6,891,467	15,254,850	
3. Farmowners multiple peril.....			
4. Homeowners multiple peril.....	27,713,185	58,773,467	2,401
5. Commercial multiple peril.....			
6. Mortgage guaranty.....			
8. Ocean marine.....			
9. Inland marine.....			
10. Financial guaranty.....			
11.1. Medical professional liability - occurrence.....			
11.2. Medical professional liability - claims made.....			
12. Earthquake.....			
13. Group accident and health.....			
14. Credit accident and health.....			
15. Other accident and health.....			
16. Workers' compensation.....			
17.1. Other liability-occurrence.....			
17.2. Other liability-claims made.....			
18.1. Products liability-occurrence.....			
18.2. Products liability-claims made.....			
19.1, 19.2 Private passenger auto liability.....			
19.3, 19.4 Commercial auto liability.....			
21. Auto physical damage.....			
22. Aircraft (all perils).....			
23. Fidelity.....			
24. Surety.....			
26. Burglary and theft.....			
27. Boiler and machinery.....			
28. Credit.....			
29. International.....			
30. Warranty.....			
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0
35. Totals.....	36,358,637	77,485,114	2,401
<b>DETAILS OF WRITE-INS</b>			
3401.....			
3402.....			
3403.....			
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0



**PART 3 (000 omitted)**

**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE**

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2009 Loss and LAE Payments on Claims Reported as of Prior Year-End	2009 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2009 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols. 7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 11 + 12)
1. 2006 + Prior			.0			.0				.0	.0	.0	.0
2. 2007			.0			.0				.0	.0	.0	.0
3. Subtotals 2007 + Prior	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. 2008	6,615	2,266	8,881	7,429	3,285	10,714	2,425	866		3,291	3,239	1,885	5,124
5. Subtotals 2008 + Prior	6,615	2,266	8,881	7,429	3,285	10,714	2,425	866	.0	3,291	3,239	1,885	5,124
6. 2009	XXX	XXX	XXX	XXX	10,487	10,487	XXX	5,904	3,461	9,365	XXX	XXX	XXX
7. Totals	6,615	2,266	8,881	7,429	13,771	21,200	2,425	6,770	3,461	12,656	3,239	1,885	5,124
8. Prior Year-End's Surplus As Regards Policyholders	20,805												
											Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1. 49.0 %	2. 83.2 %	3. 57.7 %
													Col. 13, Line 7 Line 8
													4. 24.6 %



## SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason, enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	Response
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	<u>NO</u>
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	<u>NO</u>
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	<u>NO</u>

**Explanation:**

- 1.
- 2.
- 3.

**Bar Code:**





Statement for June 30, 2009 of the **Magnolia Insurance Company**  
**Overflow Page for Write-Ins**

**Additional Write-ins for Assets:**

	Current Statement Date			4 December 31, Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
2304. Other Deposits.....			0	
2397. Summary of remaining write-ins for Line 23.....	0	0	0	0



Statement for June 30, 2009 of the **Magnolia Insurance Company**  
**SCHEDULE A - VERIFICATION**  
Real Estate

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Current year change in encumbrances.....		
4. Total gain (loss) on disposals.....		
5. Deduct amounts received on disposals.....		
6. Total foreign exchange change in book/adjusted carrying value.....		
7. Deduct current year's other than temporary impairment recognized.....		
8. Deduct current year's depreciation.....		
9. Book/adjusted carrying value at end of current period (Lines 1+2+3+4-5+6-7-8).....	0	0
10. Deduct total nonadmitted amounts.....		
11. Statement value at end of current period (Line 9 minus Line 10).....	0	0

**SCHEDULE B - VERIFICATION**  
Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and mortgage interest points and commitment fees.....		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	0	0
12. Total valuation allowance.....		
13. Subtotal (Line 11 plus Line 12).....	0	0
14. Deduct total nonadmitted amounts.....		
15. Statement value at end of current period (Line 13 minus Line 14).....	0	0

**SCHEDULE BA - VERIFICATION**  
Other Long-Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	0	0
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	0	0

**SCHEDULE D - VERIFICATION**  
Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	758,100	
2. Cost of bonds and stocks acquired.....	351,741	580,512
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....	(39,939)	177,588
5. Total gain (loss) on disposals.....		
6. Deduct consideration for bonds and stocks disposed of.....		
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	1,069,902	758,100
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	1,069,902	758,100



## SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity

During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a)	19,851,469	19,855,306	19,699,471	(800)	19,851,469	20,006,504		30,177,845
2. Class 2 (a)								
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	19,851,469	19,855,306	19,699,471	(800)	19,851,469	20,006,504		30,177,845
<b>PREFERRED STOCK</b>								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock	19,851,469	19,855,306	19,699,471	(800)	19,851,469	20,006,504		30,177,845

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation:  
NAIC 1 \$ 0; NAIC 2 \$ 0; NAIC 3 \$ 0; NAIC 4 \$ 0; NAIC 5 \$ 0; NAIC 6 \$ 0.



**SCHEDULE DA - PART 1**

## Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999. Totals.....	10,322,231	XXX	10,322,231		

**SCHEDULE DA - VERIFICATION**

## Short-Term Investments

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	10,322,231	
2. Cost of short-term investments acquired.....		10,322,231
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....		
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	10,322,231	10,322,231
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	10,322,231	10,322,231



**Sch. DB-Part F-Section 1**  
**NONE**

**Sch. DB-Part F-Section 2**  
**NONE**



**SCHEDULE E- VERIFICATION**

## Cash Equivalents

	<sup>1</sup> Year to Date	<sup>2</sup> Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	30,495,533	
2. Cost of cash equivalents acquired.....	19,854,504	30,544,436
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		(48,903)
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....	30,343,533	
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/ adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	20,006,504	30,495,533
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	20,006,504	30,495,533



**Sch. A-Part 2**  
**NONE**

**Sch. A-Part 3**  
**NONE**

**Sch. B-Part 2**  
**NONE**

**Sch. B-Part 3**  
**NONE**

**Sch. BA-Part 2**  
**NONE**

**Sch. BA-Part 3**  
**NONE**



### SCHEDULE D - PART 3

Show all Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
<b>Common Stocks - Industrial and Miscellaneous</b>									
018805 10 1	ALLIANZ SE SPD ADR		04/27/2009	MERRILL LYNCH	20,000,000	173,240	XXX		
478160 10 4	JOHNSON AND JOHNSON		04/27/2009	MERRILL LYNCH	1,000,000	51,188	XXX		
909989	Total - Common Stocks - Industrial & Miscellaneous					224,428	XXX	0	XXX
979987	Total - Common Stocks - Part 3					224,428	XXX	0	XXX
979989	Total - Preferred and Common Stocks					224,428	XXX	0	XXX
989989	Total - Bonds, Preferred and Common Stocks					224,428	XXX	0	XXX
999989						224,428	XXX	0	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues: 0.



**Sch. D-Part 4**  
**NONE**

**Sch. DB-Part A-Section 1**  
**NONE**

**Sch. DB-Part B-Section 1**  
**NONE**

**Sch. DB-Part C-Section 1**  
**NONE**

**Sch. DB-Part D-Section 1**  
**NONE**



## SCHEDULE E - PART 1 - CASH

## Month End Depository Balances

1	2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
Depository	Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6	7	8	*
					First Month	Second Month	Third Month	
Open Depositories								
Merrill Lynch.....	Key Biscayne, FL.....	1.000			977,481	1,008,207	1,419,823	XXX
Colonial Bank.....	Key Biscayne, FL.....				9,858,890	8,599,368	11,316,651	XXX
State of Florida Collateral Securities.....	Tallahassee, FL.....	1.000	1,850	1,885	307,706	307,706	309,591	XXX
CDARS - COLONIAL BANK.....	Key Biscayne, FL.....	3.800	186,612	101,038	35,279,278	35,457,113	35,457,113	XXX
0199999. Total Open Depositories.....	XXX	XXX	188,462	102,923	46,423,355	45,372,395	48,503,179	XXX
0399999. Total Cash on Deposit.....	XXX	XXX	188,462	102,923	46,423,355	45,372,395	48,503,179	XXX
0599999. Total Cash.....	XXX	XXX	188,462	102,923	46,423,355	45,372,395	48,503,179	XXX



## SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1	2	3	4	5	6	7	8
Description	Code	Date Acquired	Rate of Interest	Maturity Date	Book/Adjusted Carrying Value	Amount of Interest Due & Accrued	Amount Received During Year
<b>U.S. Government Issuer Obligations</b>							
MFE NORTHERN INSTL FDS GOVT SELECT		06/31/2009		06/30/2009	20,006,504	2,189	
0199999 U.S. Government Issuer Obligations					20,006,504	2,189	0
0399999 Total - U.S. Government Bonds					20,006,504	2,189	0
<b>Total</b>							
7799999 Subtotals - Issuer Obligations					20,006,504	2,189	0
8399999 Subtotals - Bonds					20,006,504	2,189	0
8699999 Total - Cash Equivalents					20,006,504	2,189	0



**QUARTERLY STATEMENT**  
**OF THE**  
**Magnolia Insurance Company**  
**Of**  
**Coconut Grove**  
**in the state of FL**

**to the Insurance Department**  
**of the State of**

For the Period Ended  
September 30, 2009

**2009**





QUARTERLY STATEMENT

As of September 30, 2009

of the Condition and Affairs of the

Magnolia Insurance Company

NAIC Group Code.....	NAIC Company Code..... 13141	Employer's ID Number..... 20-2878592
(Current Period) (Prior Period)		
Organized under the Laws of FLORIDA	State of Domicile or Port of Entry FLORIDA	Country of Domicile US
Incorporated/Organized..... May 25, 2005	Commenced Business..... April 28, 2008	
Statutory Home Office	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133	
	(Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133	305-858-9500
	(Street and Number) (City or Town, State and Zip Code)	(Area Code) (Telephone Number)
Mail Address	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133	
	(Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	2601 South Bayshore Drive Suite 1215..... Coconut Grove ..... FL ..... 33133	305-858-9500
	(Street and Number) (City or Town, State and Zip Code)	(Area Code) (Telephone Number)
Internet Web Site Address	www.magnoliainsurance.us	
Statutory Statement Contact	Gregg Baird Patterson	850-391-4030-103
	(Name)	(Area Code) (Telephone Number) (Extension)
	gregg.patterson@magnolia.us	866-468-4008
	(E-Mail Address)	(Fax Number)

OFFICERS

Name	Title	Name	Title
1. Henry James Irl	President	2. Gregg Baird Patterson	Chief Financial Officer/VP of Operations/Treasurer
3. Alberto Francisco Sarasua	Secretary	4.	

OTHER

DIRECTORS OR TRUSTEES

Henry James Irl	Peter Richard Harrison	Gregg Baird Patterson	Ernesto Ramon
Alberto Francisco Sarasua			

State of..... FLORIDA

County of..... MIAMI-DADE

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Henry James Irl	Gregg Baird Patterson	Alberto Francisco Sarasua
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President	Chief Financial Officer/VP of Operations/Treasurer	Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to before me	a. Is this an original filing?	Yes [ X ] No [ ]
This _____ day of _____	b. If no:	
	1. State the amendment number	
	2. Date filed	
	3. Number of pages attached	



ASSETS

	Current Statement Date			4
	1	2	3	
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	December 31 Prior Year Net Admitted Assets
1. Bonds.....			.0	
2. Stocks:				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....	2,996,546		2,996,546	758,099
3. Mortgage loans on real estate:				
3.1 First liens.....			.0	
3.2 Other than first liens.....			.0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			.0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			.0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			.0	
5. Cash (\$.....43,137,954), cash equivalents (\$.....20,009,930) and short-term investments (\$.....0).....	63,147,885		63,147,885	89,476,234
6. Contract loans (including \$.....0 premium notes).....			.0	
7. Other invested assets.....			.0	
8. Receivables for securities.....			.0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	66,144,431	0	66,144,431	90,234,333
11. Title plants less \$.....0 charged off (for Title insurers only).....			.0	
12. Investment income due and accrued.....	90,253		90,253	204,935
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection.....	12,156,910	40,372	12,116,538	11,848,868
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			.0	
13.3 Accrued retrospective premiums.....			.0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....	3,117,747		3,117,747	
14.2 Funds held by or deposited with reinsured companies.....			.0	
14.3 Other amounts receivable under reinsurance contracts.....			.0	
15. Amounts receivable relating to uninsured plans.....			.0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....	3,524,081		3,524,081	
16.2 Net deferred tax asset.....	5,812,192	5,812,192	.0	2,772,010
17. Guaranty funds receivable or on deposit.....			.0	
18. Electronic data processing equipment and software.....	20,760		20,760	
19. Furniture and equipment, including health care delivery assets (\$.....0).....	2,841	2,841	.0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
21. Receivables from parent, subsidiaries and affiliates.....	2,920,031	149,600	2,770,431	
22. Health care (\$.....0) and other amounts receivable.....			.0	
23. Aggregate write-ins for other than invested assets.....	614,309	21,992	592,317	21,992
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	94,403,555	6,026,997	88,376,558	105,082,138
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0	
26. Total (Lines 24 and 25).....	94,403,555	6,026,997	88,376,558	105,082,138

DETAILS OF WRITE-INS

0901. ....			.0	
0902. ....			.0	
0903. ....			.0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	.0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	.0	0
2301. Other Receivables.....	592,317		592,317	
2302. Lease Deposits.....	21,992	21,992	.0	21,992
2303. ....			.0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	.0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	614,309	21,992	592,317	21,992



LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....8,808,344).....	13,405,925	7,083,441
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	2,843,330	1,797,793
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	4,949,593	5,586,119
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	532,976	1,698,266
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		3,315,725
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....47,146,181 and including warranty reserves of \$.....0).....	7,082,023	38,120,588
10. Advance premium.....	3,167,257	2,287,483
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	55,642,729	23,214,603
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....	88,906	85,865
16. Provision for reinsurance.....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		1,087,214
20. Payable for securities.....		
21. Liability for amounts held under uninsured plans.....		
22. Capital notes \$.....0 and interest thereon \$.....0.....		
23. Aggregate write-ins for liabilities.....	0	0
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23).....	87,712,739	84,277,097
25. Protected cell liabilities.....		
26. Total liabilities (Lines 24 and 25).....	87,712,739	84,277,097
27. Aggregate write-ins for special surplus funds.....	0	0
28. Common capital stock.....	10,000	10,000
29. Preferred capital stock.....		
30. Aggregate write-ins for other than special surplus funds.....	0	0
31. Surplus notes.....		
32. Gross paid in and contributed surplus.....	19,990,000	19,990,000
33. Unassigned funds (surplus).....	(19,336,181)	805,041
34. Less treasury stock, at cost:		
34.1 .....0.000 shares common (value included in Line 28 \$.....0).....		
34.2 .....0.000 shares preferred (value included in Line 29 \$.....0).....		
35. Surplus as regards policyholders (Lines 27 to 33, less 34).....	663,819	20,805,041
36. Totals.....	88,376,558	105,082,138

DETAILS OF WRITE-INS

2301. ....		
2302. ....		
2303. ....		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	0	0
2701. ....		
2702. ....		
2703. ....		
2798. Summary of remaining write-ins for Line 27 from overflow page.....	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	0	0
3001. ....		
3002. ....		
3003. ....		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	0	0



Magnolia Insurance Company  
STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct..... (written \$ ....94,053,542).....	59,066,752	27,407	2,756,446
1.2 Assumed..... (written \$ ....(8,459,440)).....	36,198,203	32,050,534	64,740,769
1.3 Ceded..... (written \$ ....77,176,366).....	55,808,654	17,879,521	33,640,787
1.4 Net..... (written \$ ....8,417,735).....	39,456,301	14,198,420	33,856,428
DEDUCTIONS:			
2. Losses incurred (current accident year \$ ....25,818,923):			
2.1 Direct.....	39,751,413	7,043,316	14,436,078
2.2 Assumed.....			
2.3 Ceded.....	6,487,557		
2.4 Net.....	33,263,856	7,043,316	14,436,078
3. Loss adjustment expenses incurred.....	5,493,110	740,653	2,125,852
4. Other underwriting expenses incurred.....	22,656,579	8,400,702	16,528,730
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	61,413,545	16,184,671	33,090,660
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(21,957,244)	(1,986,251)	765,768
INVESTMENT INCOME			
9. Net investment income earned.....	843,435	216,343	622,462
10. Net realized capital gains (losses) less capital gains tax of \$ .....0.....		207	207
11. Net investment gain (loss) (Lines 9 + 10).....	843,435	216,550	622,669
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ .....0 amount charged off \$ ....13,650).....	(13,650)	(159)	(17,104)
13. Finance and service charges not included in premiums.....	237,782	642	10,335
14. Aggregate write-ins for miscellaneous income.....	0	0	0
15. Total other income (Lines 12 through 14).....	224,132	483	(6,769)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	(20,889,677)	(1,769,218)	1,381,668
17. Dividends to policyholders.....			
18. Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17).....	(20,889,677)	(1,769,218)	1,381,668
19. Federal and foreign income taxes incurred.....	(3,109,807)	627,437	3,315,697
20. Net income (Line 18 minus Line 19) (to Line 22).....	(17,779,870)	(2,396,655)	(1,934,029)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....	20,805,041		
22. Net income (from Line 20).....	(17,779,870)	(2,396,655)	(1,934,029)
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ .....0.....	412,417	195,800	180,106
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....	2,957,245	1,228,927	2,854,947
27. Change in nonadmitted assets.....	(5,731,014)	(145,256)	(295,983)
28. Change in provision for reinsurance.....			
29. Change in surplus notes.....			
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....		20,000,000	10,000
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....			19,990,000
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....			
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	0	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(20,141,222)	18,882,816	20,805,041
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	663,819	18,882,816	20,805,041
DETAILS OF WRITE-INS			
0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
3701. ....			
3702. ....			
3703. ....			
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	0	0	0



Magnolia Insurance Company

CASH FLOW

	1 Current Year to Date	2 Prior Year Ended December 31
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	41,417,595	85,630,234
2. Net investment income.....	958,117	417,527
3. Miscellaneous income.....	224,132	(6,769)
4. Total (Lines 1 through 3).....	42,599,844	86,040,991
5. Benefit and loss related payments.....	30,059,119	7,352,637
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	28,905,968	9,572,404
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	3,729,999	(28)
10. Total (Lines 5 through 9).....	62,695,086	16,925,013
11. Net cash from operations (Line 4 minus Line 10).....	(20,095,242)	69,115,978
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....		
12.2 Stocks.....		
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(2,520)	2,727
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	(2,520)	2,727
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....		
13.2 Stocks.....	1,823,510	580,512
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	1,823,510	580,512
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	(1,826,030)	(577,785)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		20,000,000
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(4,407,076)	938,041
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	(4,407,076)	20,938,041
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(26,328,348)	89,476,235
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	89,476,235	
19.2 End of period (Line 18 plus Line 19.1).....	63,147,886	89,476,235

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001 .....	.....	.....
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NOTES TO FINANCIAL STATEMENTS

**Note 1 - Summary of Significant Accounting Policies**

- A. Accounting Practices – No Significant Changes
- B. Use of Estimates in the Preparation of Financial Statements – No Significant Changes
- C. Accounting policy –No Significant Changes

**Note 2 - Accounting Changes and Corrections of Errors**

No Significant Changes

**Note 3 - Business Combinations and Goodwill**

None

**Note 4 - Discontinued Operations**

None

**Note 5 - Investments**

- A. Mortgage loans – None
- B. Debt restructuring – None
- C. Reverse mortgages – None
- D. Loan backed securities – None
- E. Repurchase agreements – None
- F. Real Estate – None

**Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

None

**Note 7 - Investment Income**

No Significant Changes

**Note 8 - Derivative Instruments**

None

**Note 9 - Income Taxes**

A. The components of the net deferred tax asset/(liability) are as follows:

	Description	2009	2008
(1)	Total gross deferred tax assets (DTA)	\$6,018,122	2,922,163
(2)	Total gross deferred tax liabilities (DTL)	(205,930)	(67,217)
(3)	Net deferred tax asset	5,812,192	2,854,946
(4)	Nonadmitted deferred tax assets	(5,812,192)	(82,937)
(5)	Net admitted deferred tax assets	0	2,772,009
(6)	Increase (decrease) in nonadmitted deferred tax assets	(5,729,255)	(82,937)

B. Unrecognized Deferred Tax Liabilities

None

C. Current Tax and Change in Deferred Tax

The provision for income taxes incurred on earnings for the period ended December 31 is:

	2009	2008
Current income tax expense	\$ (3,202,951)	3,315,725
Taxes recovered	0	0
Prior year underaccrual (overaccrual)	93,145	0
Current income taxes incurred	\$ (3,109,806)	3,315,725

The tax effect of temporary differences that give rise to significant deferred tax assets/(liabilities) are as follows:

DTA	Statutory	Tax	Difference	Tax Effect
Unpaid losses and LAE	\$15,178,187	14,167,092	1,011,095	343,772
Unearned premiums	7,082,023	5,665,618	1,416,405	481,578
Start-up costs		157,135	157,135	53,426
Charitable Contribution		3,500	3,500	1,190
Net Operating Loss		14,897,420	14,897,420	5,065,123
Nonadmitted assets		214,804	214,804	73,033



**NOTES TO FINANCIAL STATEMENTS**

Total DTAs	\$			6,018,122
DTAs nonadmitted				(5,812,192)

DTL	Statutory	Tax	Difference	Tax Effect
Unrealized gain		(592,523)	(592,523)	(201,458)
Fixed assets		(8,711)	(8,711)	(2,962)
Prepaid expenses		(4,443)	(4,443)	(1,511)
Total DTLs				(205,930)

The changes in main components of DTAs and DTLs are as follows:

DTAs resulting from Book/Tax Differences in	September 30, 2009	December 31, 2008	Change
Unpaid losses and LAE	\$ 343,772	\$ 201,152	\$ 142,620
Unearned premiums	481,578	2,592,200	(2,110,622)
Start-up costs	53,426	56,376	(2,950)
Charitable Contributions	1,190		1,190
Net Operating Loss	5,065,123		5,065,123
Nonadmitted assets	73,033	72,436	597
Total DTAs	\$ 6,018,122	\$ 2,922,164	3,095,958
DTAs nonadmitted	\$ (5,812,192)	\$ (82,937)	(5,729,255)

DTLs resulting from Book/Tax Differences in	September 30, 2009	December 31, 2008	Change
Unrealized gain	(201,458)	\$ (61,236)	\$ 140,222
Fixed assets	(2,962)	(4,470)	1,508
Prepaid expenses	(1,511)	(1,511)	0
Total DTLs	\$ (205,930)	\$ (67,217)	\$ 138,713

The change in gross DTAs/DTLs of \$ 2,957,245 is the change in net deferred income taxes before the consideration of nonadmitted DTAs/DTLs.

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

The significant book to tax adjustments were as follows:

	34%	% of Pre-Tax Income
		\$ (19,156,223)
Provision computed at statutory rate	\$ (6,513,116)	34.00%
Nondeductible Items	6,701	-0.03%
Prior period adjustment	99,555	-0.52%
Nonadmitted Assets	(597)	0.00%
AMT Adjustment	200,184	-1.05%
Unrealized loss	140,222	-0.73%
	(6,067,051)	31.67%

Federal & foreign income tax	\$ (3,109,806)	16.23%
Change in net deferred income tax	(2,957,245)	15.44%
Statutory income taxes	(6,067,051)	31.67%

E. Operating Loss and Tax Credit Carryforwards

- (1) At September 30, 2009, the Company had no unused capital and \$14,897,420 of net operating loss carryforwards available to offset against future taxable income.



**NOTES TO FINANCIAL STATEMENTS**

- (2) The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

Year	Amount
2009	\$ 0
2008	\$ 0

F. Consolidated Federal Income Tax Return

The Company does not file a consolidated federal income tax return.

**Note 10 - Information Concerning Parent, Subsidiaries and Affiliates**

- A. All outstanding shares of the Company are owned by Irl Financial Group Incorporated, a Florida Corporation. The company has not paid dividends to its parent.
- B. The Company did not incur any expenses with any affiliates during the period of this report.
- C. The Company has an executed Managing General Agency Agreement with its affiliate, Magnolia Agency, LLC.
- D. Net amounts due to or due from affiliates. The Company has a balance due from Magnolia Agency, LLC of \$2,770,431 and a balance due from Irl Financial Group for \$149,600 which has been non-admitted. There were no other balances due to, or due from affiliates during the period of this report.
- E. The Company has no guarantees or undertakings for the benefit of an affiliate for the reporting period.
- F. The Company does not own any shares in its Parent or affiliates as of the end of the reporting period.
- G. The Company holds no investment in its Parent or affiliates as of the end of the reporting period.
- H. The Company is a wholly-owned subsidiary of Irl Financial Group Incorporated.
- I. The Company does not have an investment in SCA entities as of the end of the reporting period.

**Note 11 – Debt**

No Significant Changes.

**Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

No Significant Changes

**Note 13 - Capital and Surplus, Shareholders’ Dividend Restrictions and Quasi-Reorganizations**

- A. The Company has 10,000 shares authorized, of which 10,000 shares are issued and outstanding. All shares have a par value of \$1.00.
- B. The Company has no preferred stock outstanding.
- C. Without prior approval of the domiciliary commissioner, dividends to stockholders are limited by the laws of the State of Florida, the Company’s state of incorporation, to an amount that is based on restrictions relating to Statutory Surplus.
- D. Within the limitations of (C) above, there are no restrictions placed on the portion of the Company’s profits that may be paid as ordinary dividends to stockholders.
- E. There are no restrictions placed on the Company’s surplus, including to whom the surplus is being held.
- F. There are no advances to Surplus not repaid.
- G. There is no stock held by the Company for special purposes.
- H. There are no balances of special surplus funds for this reporting period.
- I. There were no purchases or disposals of equipment during this reporting period.
- J. The Company was funded with \$20,000,000 in Surplus on 04/28/08.
- K. The Company has not held any quasi-reorganizations.

**Note 14 - Contingencies**

- A. The terms of the Company’s excess catastrophe reinsurance contract contains a provision which requires an adjustment based on business inforce as of September 30, 2009. The contract’s ceded written premium is adjusted based upon the Company’s actual probable maximum loss (PML) as determined by the catastrophe modeling software utilized by the reinsurance intermediary (RMS Version 8.0). The actual PML calculation is based on the September 30, 2009 inforce policy data. This policy data requires performance of certain analyses and integrity checks before it can be relied upon which has not been completed at this time, therefore a final September 30, 2009 actual PML and final reinsurance premium adjustment is not determinable at this time and is not recorded in the accompanying financial statements.

**Note 15 - Leases**

- A. Leases – Operating Leases – The Company had two Operating Leases in effect during the quarter for facilities space. Rental expense for the quarter was \$37,350.11 There were no contingent or sublease rentals. Terms of renewal are as follows:
  - a. Lease #1 – Five Year Lease commencing August 1, 2008: the Company has an Extension Option to extend the term of the lease for the period from August 1, 2013 through July 31, 2018, provided the landlord is notified by October 31, 2012. The future minimum lease payments are as follows:



NOTES TO FINANCIAL STATEMENTS

- i. 2009: \$26,380 \*Note lease is 7/1/09-12/31/2009
  - ii. 2010: \$107,060
  - iii. 2011: \$110,807
  - iv. 2011: \$114,686
  - v. 2012: \$68,245.62 \*Note lease ends 7/31/13
  - b. Lease #2 – Month to Month Lease commencing June 1, 2008.
- B. Lessor Leases – The Company does not have any investment in leases.

Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

None

Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

None

Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

None

Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

- A. The Company's Dwelling Fire and Homeowners Insurance is written through Magnolia Agency, LLC under a Managing General Agency (MGA) agreement. The terms of this agreement give the MGA the authority to collect premiums (P) and bind coverage (B). The following information regarding the MGA is listed below:

Name & Address	FEIN	Exclusive Contract	Business Written	Authority Granted	Direct Written Premium
Magnolia Agency, LLC Tallahassee, FL 32301	26-2034245	Yes	Fire, Allied Lines, Homeowners, Other Liability	P, B	\$94,053,542

\* P – Premium Collection                      B – Binding Authority

Note 20 - Other Items

- A. Extraordinary items – The Company had no extraordinary items to report for the reporting period under SSAP No 24 Discontinued Operations and Extraordinary Items.
- B. Agents' Balances Certification, Section 625.012(5), Florida Statutes –
- 1. Uncollected premiums and agents' balances in course of collection at September 30, 2009 was \$12,156,910. Of this amount, \$6,411,580 was due from Magnolia Agency, LLC
  - 2. The amount due from the Magnolia Agency, LLC is deemed to be from a “controlling” person, defined as “any person that, individually or in combination with other such person, owes to the insurer an amount that exceeds 50 percent of the insurer’s total premiums in course of collection as stated on the insurer’s financial statement.”
  - 3. The entire amount due from Magnolia Agency, LLC, is secured by a Premium Trust Agreement that has been filed with the Office of Insurance Regulation.

Note 21 - Events Subsequent

- A. The Company received notice on November 11, 2009, that the 50% Quota Share Reinsurance Contract with Allianz Risk Transfer AG (Bermuda Branch) (“ART Branch”) will be terminated effective October 1, 2009. The Company does not believe the reinsurer has a cause for termination in accordance with the terms of the contract and intends to enforce the contract terms including the policy period. The outcome of this matter is not determinable as of the date of this filing.

Note 22 - Reinsurance

- A. Unsecured Reinsurance Recoverables –The Company has unsecured aggregate reinsurance recoverables for paid and unpaid losses, loss adjustment expenses and unearned premiums due from individual reinsurers, both authorized or unauthorized, in excess of 3% of policyholder’s surplus, according to the following schedule:

Name of Reinsurer	Federal ID Number	Paid Loss Recoverables	Ceded Loss & LAE Reserves	Unearned Premiums	Total
Citizens Property Insurance Corporation	59-3164851	553,142.0	0	(385,581)	167,561
Allianz Risk Transfer AG (Bermuda Branch)	AA-1464104	3,117,746.7	5,011,616	7,082,023	15,211,386
Florida Hurrican CAT Fund	59-6001872			13,808,891	13,808,891



NOTES TO FINANCIAL STATEMENTS

American Agricultural Insurance Company	36-2661954			76,933	76,933
Everest Reinsurance Company	22-2005057			297,267	297,267
Odyssey America Reinsurance Corp.	47-0698507			669,467	669,467
ACE Tempest Reinsurance Limited	AA-3190770			2,128,550	2,128,550
Ariel Reinsurance Company Limited, Bermuda	AA-3190873			326,093	326,093
Catlin Insurance Company Limited	AA-3194161			462,333	462,333
DaVinci Reinsurance Ltd	AA-3194122			5,518,580	5,518,580
Flagstone Reassurance Suisse SA	AA-1460006			1,001,367	1,001,367
Hannover Re (Bermuda) Limited	AA-3190060			106,167	106,167
Montpelier Reinsurance Ltd.	AA-3194129			1,746,883	1,746,883
Renaissance Reinsurance Ltd.	AA-3190339			8,126,420	8,126,420
Amlin Syndicate No. 2001	AA-1128001			530,033	530,033
Cathedral Syndicate No. 2010	AA-1128010			102,727	102,727
Hiscox Syndicate No. 33	AA-1126033			172,333	172,333
Novae Syndicate No. 2007	AA-1120071			132,240	132,240
SJO Catlin & Others Syndicate No. 2003	AA-1128003			389,833	389,833
Actua Re (Juniperus)	AA-3190966			1,750,880	1,750,880
Nephila (ART Bermuda)	AA-3194158			2,717,160	2,717,160

- B. Reinsurance Recoverable in Dispute –The Company does not have any recoverables in dispute for paid losses and loss adjustment expenses that exceed 5% of policyholder’s surplus from an individual reinsurer or exceed 10% of policyholder’s surplus in the aggregate.
- C. Reinsurance Assumed and Ceded –The Company’s maximum amount of return commissions that would have been due to the quota share reinsurer if the agreement were cancelled at September 30, 2009 is \$920,663. The maximum amount of ceding commission due to the Company on policies assumed from Citizens Property Insurance Company (CPIC) as of September 30, 2009, should all policies revert back to CPIC is \$23,135.
- D. Uncollectible Reinsurance – The Company did not write off any balances as a result of uncollectible reinsurance during the period.
- E. Commutation of Reinsurance – The Company did not commute reinsurance during the period.
- F. Retroactive Reinsurance – The Company did not have any retroactive reinsurance.
- G. Reinsurance Accounted for as a Deposit – The Company did not have any reinsurance accounted for as a deposit.

Note 23 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

None

Note 24 - Change in Incurred Losses and Loss Adjustment Expenses

- A. The Company had a Loss Reserve Balance of \$12,444,189 and a Loss Expense Reserve balance of \$2,733,998 at the end of the reporting period. The change in reserves is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 25 - Intercompany Pooling Arrangements

None

Note 26 - Structured Settlements

None

Note 27 - Health Care Receivables



NOTES TO FINANCIAL STATEMENTS

None

**Note 28 - Participating Policies**

None

**Note 29 - Premium Deficiency Reserves**

None

**Note 30 - High Deductibles**

None

**Note 31 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses**

None

**Note 32 - Asbestos/Environmental Reserves**

None



GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act?

Yes [ ☐ ]No [ ☒ X ]
- 1.2 If yes, has the report been filed with the domiciliary state?

Yes [ ☐ ]No [ ☐ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [ ☐ ]No [ ☒ X ]
- 2.2 If yes, date of change:

.....
3. Have there been any substantial changes in the organizational chart since the prior quarter end?

Yes [ ☐ ]No [ ☒ X ]

If yes, complete the Schedule Y-Part 1 - Organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [ ☐ ]No [ ☒ X ]
- 4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved?

Yes [ ☐ ]No [ ☒ X ]N/A [ ☐ ]

If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made.

December, 2008.....

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

N/A.....

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

N/A.....

6.4 By what department or departments?

Florida Office of Insurance Regulation
- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments?

Yes [ ☐ ]No [ ☐ ]N/A [ ☒ X ]

6.6 Have all of the recommendations within the latest financial examination report been complied with?

Yes [ ☐ ]No [ ☐ ]N/A [ ☒ X ]

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [ ☐ ]No [ ☒ X ]

7.2 If yes, give full information:
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [ ☐ ]No [ ☒ X ]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [ ☐ ]No [ ☒ X ]

8.4 If the response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator].
- | 1              | 2                      | 3   | 4   | 5   | 6    | 7   |
|----------------|------------------------|-----|-----|-----|------|-----|
| Affiliate Name | Location (City, State) | FRB | OCC | OTS | FDIC | SEC |
|                |                        |     |     |     |      |     |
- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [ ☒ X ]No [ ☐ ]

(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

(c) Compliance with applicable governmental laws, rules and regulations;

(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

(e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:

9.2 Has the code of ethics for senior managers been amended?

Yes [ ☐ ]No [ ☒ X ]

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

9.3 Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [ ☐ ]No [ ☒ X ]

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GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since prior year end unless otherwise noted)

PART 1 - COMMON INTERROGATORIES

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ X ] No [ ]

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$.....149,600

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes [ ] No [ X ]

11.2 If yes, give full and complete information relating thereto:

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$.....0

13. Amount of real estate and mortgages held in short-term investments: \$.....0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes [ ] No [ X ]

14.2 If yes, please complete the following:

	1	2
	Prior Year-End	Current Quarter
	Book/Adjusted Carrying Value	Book/Adjusted Carrying Value
14.21 Bonds.....	\$ .....0	\$ .....0
14.22 Preferred Stock.....	\$ .....0	\$ .....0
14.23 Common Stock.....	\$ .....0	\$ .....0
14.24 Short-Term Investments.....	\$ .....0	\$ .....0
14.25 Mortgage Loans on Real Estate.....	\$ .....0	\$ .....0
14.26 All Other.....	\$ .....0	\$ .....0
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ .....0	\$ .....0
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$ .....0	\$ .....0

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes [ ] No [ X ]

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ]  
If no, attach a description with this statement.

16. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III. Conducting Examinations, F-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [ X ] No [ ]

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1	2
Name of Custodian(s)	Custodian Address
Northern Trust	Miami, FL
Merrill Lynch	Miami, FL

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation.

1	2	3
Name(s)	Location(s)	Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes [ X ] No [ ]

16.4 If yes, give full and complete information relating thereto:

1	2	3	4
Old Custodian	New Custodian	Date of Change	Reason
Colonial Bank	BB&T	8/14/2009	BB&T Acquisition of Colonial Bank

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1	2	3
Central Registration Depository	Name(s)	Address
2669	Northern Trust	Miami, FL
7691	Merrill Lynch	Miami, FL
111668	BB&T	Key Biscayne, FL

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [ X ] No [ ]

17.2 If no, list exceptions:



Magnolia Insurance Company

GENERAL INTERROGATORIES (continued)

PART 2

PROPERTY & CASUALTY INTERROGATORIES

1.

If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change?  
If yes, attach an explanation.

Yes [ ]    No [ ]    N/A [ X ]

2.

Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?  
If yes, attach an explanation.

Yes [ ]    No [ X ]

3.1

Have any of the reporting entity's primary reinsurance contracts been canceled?

Yes [ ]    No [ X ]

3.2

If yes, give full and complete information thereto:

4.1

Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation liabilities tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero?

Yes [ ]    No [ X ]

4.2

If yes, complete the following schedule:

1	2	3	Total Discount				Discount Taken During Period			
	Maximum	Disc.	4	5	6	7	8	9	10	11
Line of Business	Interest	Rate	Unpaid Losses	Unpaid LAE	IBNR	Total	Unpaid Losses	Unpaid LAE	IBNR	Total
	.....	.....	.....	.....	.....	.....0	.....	.....	.....	.....0
Total.....	.....XXX...	.....XXX.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0



Magnolia Insurance Company  
SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3  Name of Reinsurer	4  Location	5 Is Insurer Authorized? (YES or NO)
U.S. Insurers				
10103.....	36-2661954.....	American Agricultural Insurance Company.....	IN.....	YES.....
26921.....	22-2005057.....	Everest Reinsurance Company.....	DE.....	YES.....
23680.....	47-0698507.....	Odyssey America Reinsurance Corporation.....	CT.....	YES.....
All Other Insurers				
.....	AA-1464104.....	Allianz Risk Transfer AG, Switzerland, Bermuda Branch.....	SWITZERLAND.....	YES.....
.....	AA-1460006.....	Flagstone Reassurance Suisse SA.....	SWITZERLAND.....	NO.....
.....	AA-3190770.....	ACE Tempest Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190966.....	Actua Re Ltd.....	BERMUDA.....	NO.....
.....	AA-3194158.....	Allianz Risk Transfer (Bermuda) Limited.....	BERMUDA.....	NO.....
.....	AA-3190873.....	Ariel Reinsurance Company Limited.....	BERMUDA.....	NO.....
.....	AA-3194161.....	Catlin Insurance Company Limited.....	BERMUDA.....	NO.....
.....	AA-3194122.....	DaVinci Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190060.....	Hannover Re (Bermuda), Ltd.....	BERMUDA.....	NO.....
.....	AA-3194129.....	Montpelier Reinsurance Ltd.....	BERMUDA.....	NO.....
.....	AA-3190339.....	Renaissance Reinsurance, Ltd.....	BERMUDA.....	NO.....
.....	.....	Benfield Limited.....	UNITED KINGDOM.....	YES.....
.....	AA-1120071.....	Syndicate No. 2007 Novae (NVA).....	UNITED KINGDOM.....	YES.....
.....	AA-1126033.....	Syndicate No. 0033 Hiscox (HIS).....	UNITED KINGDOM.....	YES.....
.....	AA-1128001.....	Syndicate No. 2001 Amlin Underwriting Limited (AML).....	UNITED KINGDOM.....	YES.....
.....	AA-1128003.....	Syndicate No. 2003 S.J.O. Catlin and Others (SJC).....	UNITED KINGDOM.....	YES.....
.....	AA-1128010.....	Syndicate No. 2010 Cathedral (MMX).....	UNITED KINGDOM.....	YES.....



SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

		1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
			2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date	7 Prior Year to Date
States, Etc.								
1.	Alabama.....AL	N						
2.	Alaska.....AK	N						
3.	Arizona.....AZ	N						
4.	Arkansas.....AR	N						
5.	California.....CA	N						
6.	Colorado.....CO	N						
7.	Connecticut.....CT	N						
8.	Delaware.....DE	N						
9.	District of Columbia.....DC	N						
10.	Florida.....FL	L	94,053,542	1,054,654	29,666,292	1,033,094	17,016,646	6,426,368
11.	Georgia.....GA	N						
12.	Hawaii.....HI	N						
13.	Idaho.....ID	N						
14.	Illinois.....IL	N						
15.	Indiana.....IN	N						
16.	Iowa.....IA	N						
17.	Kansas.....KS	N						
18.	Kentucky.....KY	N						
19.	Louisiana.....LA	N						
20.	Maine.....ME	N						
21.	Maryland.....MD	N						
22.	Massachusetts.....MA	N						
23.	Michigan.....MI	N						
24.	Minnesota.....MN	N						
25.	Mississippi.....MS	N						
26.	Missouri.....MO	N						
27.	Montana.....MT	N						
28.	Nebraska.....NE	N						
29.	Nevada.....NV	N						
30.	New Hampshire.....NH	N						
31.	New Jersey.....NJ	N						
32.	New Mexico.....NM	N						
33.	New York.....NY	N						
34.	North Carolina.....NC	N						
35.	North Dakota.....ND	N						
36.	Ohio.....OH	N						
37.	Oklahoma.....OK	N						
38.	Oregon.....OR	N						
39.	Pennsylvania.....PA	N						
40.	Rhode Island.....RI	N						
41.	South Carolina.....SC	N						
42.	South Dakota.....SD	N						
43.	Tennessee.....TN	N						
44.	Texas.....TX	N						
45.	Utah.....UT	N						
46.	Vermont.....VT	N						
47.	Virginia.....VA	N						
48.	Washington.....WA	N						
49.	West Virginia.....WV	N						
50.	Wisconsin.....WI	N						
51.	Wyoming.....WY	N						
52.	American Samoa.....AS	N						
53.	Guam.....GU	N						
54.	Puerto Rico.....PR	N						
55.	US Virgin Islands.....VI	N						
56.	Northern Mariana Islands.....MP	N						
57.	Canada.....CN	N						
58.	Aggregate Other Alien.....OT	XXX	0	0	0	0	0	0
59.	Totals.....	(a).....1	94,053,542	1,054,654	29,666,292	1,033,094	17,016,646	6,426,368

DETAILS OF WRITE-INS								
5801. ....	XXX							
5802. ....	XXX							
5803. ....	XXX							
5898. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	0	0	0	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....	XXX	0	0	0	0	0	0	0

(a) Insert the number of L responses except for Canada and Other Alien.



**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 – ORGANIZATIONAL CHART

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PART 1 - LOSS EXPERIENCE

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire.....	2,319,950	712,669	30.7	67,476.4
2. Allied lines.....	12,346,643	9,606,986	77.8	5,312.3
3. Farmowners multiple peril.....			0.0	
4. Homeowners multiple peril.....	44,400,158	29,431,758	66.3	27,155.2
5. Commercial multiple peril.....			0.0	
6. Mortgage guaranty.....			0.0	
8. Ocean marine.....			0.0	
9. Inland marine.....			0.0	
10. Financial guaranty.....			0.0	
11.1. Medical professional liability - occurrence.....			0.0	
11.2. Medical professional liability - claims made.....			0.0	
12. Earthquake.....			0.0	
13. Group accident and health.....			0.0	
14. Credit accident and health.....			0.0	
15. Other accident and health.....			0.0	
16. Workers' compensation.....			0.0	
17.1. Other liability-occurrence.....			0.0	17,108.9
17.2. Other liability-claims made.....			0.0	
18.1. Products liability-occurrence.....			0.0	
18.2. Products liability-claims made.....			0.0	
19.1, 19.2 Private passenger auto liability.....			0.0	
19.3, 19.4 Commercial auto liability.....			0.0	
21. Auto physical damage.....			0.0	
22. Aircraft (all perils).....			0.0	
23. Fidelity.....			0.0	
24. Surety.....			0.0	
26. Burglary and theft.....			0.0	
27. Boiler and machinery.....			0.0	
28. Credit.....			0.0	
29. International.....			0.0	
30. Warranty.....			0.0	
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0.0	
35. Totals.....	59,066,751	39,751,413	67.3	25,699.0
DETAILS OF WRITE-INS				
3401. ....			0.0	
3402. ....			0.0	
3403. ....			0.0	
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0.0	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0.0	

PART 2 - DIRECT PREMIUMS WRITTEN

Lines of Business	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1. Fire.....	1,008,989	4,465,786	33,792
2. Allied lines.....	3,712,707	18,967,557	135,991
3. Farmowners multiple peril.....			
4. Homeowners multiple peril.....	11,846,732	70,620,199	878,164
5. Commercial multiple peril.....			
6. Mortgage guaranty.....			
8. Ocean marine.....			
9. Inland marine.....			
10. Financial guaranty.....			
11.1. Medical professional liability - occurrence.....			
11.2. Medical professional liability - claims made.....			
12. Earthquake.....			
13. Group accident and health.....			
14. Credit accident and health.....			
15. Other accident and health.....			
16. Workers' compensation.....			
17.1. Other liability-occurrence.....			6,707
17.2. Other liability-claims made.....			
18.1. Products liability-occurrence.....			
18.2. Products liability-claims made.....			
19.1, 19.2 Private passenger auto liability.....			
19.3, 19.4 Commercial auto liability.....			
21. Auto physical damage.....			
22. Aircraft (all perils).....			
23. Fidelity.....			
24. Surety.....			
26. Burglary and theft.....			
27. Boiler and machinery.....			
28. Credit.....			
29. International.....			
30. Warranty.....			
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0
35. Totals.....	16,568,428	94,053,542	1,054,654
DETAILS OF WRITE-INS			
3401. ....			
3402. ....			
3403. ....			
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0



PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13									
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2009 Loss and LAE Payments on Claims Reported as of Prior Year-End	2009 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2009 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols. 7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/Deficiency (Cols. 11 + 12)									
1. 2006 + Prior.....			.....0			.....0				.....0	.....0	.....0	.....0									
2. 2007.....			.....0			.....0				.....0	.....0	.....0	.....0									
3. Subtotals 2007 + Prior.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0									
4. 2008.....	.....6,615	.....2,266	.....8,881	.....9,572	.....2,044	.....11,616	.....2,006	.....410	.....2,300	.....4,716	.....4,963	.....2,487	.....7,450									
5. Subtotals 2008 + Prior.....	.....6,615	.....2,266	.....8,881	.....9,572	.....2,044	.....11,616	.....2,006	.....410	.....2,300	.....4,716	.....4,963	.....2,487	.....7,450									
6. 2009.....	.....XXX	.....XXX	.....XXX	.....XXX	.....19,773	.....19,773	.....XXX	.....7,404	.....4,128	.....11,532	.....XXX	.....XXX	.....XXX									
7. Totals.....	.....6,615	.....2,266	.....8,881	.....9,572	.....21,817	.....31,389	.....2,006	.....7,814	.....6,428	.....16,248	.....4,963	.....2,487	.....7,450									
8. Prior Year- End's Surplus As Regards Policyholders	.....20,805										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7									
																				1. ....75.0 %	2. ....109.7 %	3. ....83.9 %
																				Col. 13, Line 7 Line 8		
																				4. ....35.8 %		

Q13



SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason, enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	Response
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	<div>NO</div>
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	<div>NO</div>
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	<div>NO</div>

Explanation:

1.
2.
3.

Bar Code:





**Magnolia Insurance Company**  
**Overflow Page for Write-Ins**

**NONE**



Magnolia Insurance Company  
SCHEDULE A - VERIFICATION  
Real Estate

	1	2
	Year to Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Current year change in encumbrances.....		
4. Total gain (loss) on disposals.....		
5. Deduct amounts received on disposals.....		
6. Total foreign exchange change in book/adjusted carrying value.....		
7. Deduct current year's other than temporary impairment recognized.....		
8. Deduct current year's depreciation.....		
9. Book/adjusted carrying value at end of current period (Lines 1+2+3+4-5+6-7-8).....	0	0
10. Deduct total nonadmitted amounts.....		
11. Statement value at end of current period (Line 9 minus Line 10).....	0	0

SCHEDULE B - VERIFICATION  
Mortgage Loans

	1	2
	Year to Date	Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and mortgage interest points and commitment fees.....		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	0	0
12. Total valuation allowance.....		
13. Subtotal (Line 11 plus Line 12).....	0	0
14. Deduct total nonadmitted amounts.....		
15. Statement value at end of current period (Line 13 minus Line 14).....	0	0

SCHEDULE BA - VERIFICATION  
Other Long-Term Invested Assets

	1	2
	Year to Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	0	0
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	0	0

SCHEDULE D - VERIFICATION  
Bonds and Stocks

	1	2
	Year to Date	Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	758,100	
2. Cost of bonds and stocks acquired.....	1,823,510	580,512
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....	414,935	177,588
5. Total gain (loss) on disposals.....		
6. Deduct consideration for bonds and stocks disposed of.....		
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	2,996,545	758,100
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	2,996,545	758,100



SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a).....	20,006,504			3,427	19,851,469	20,006,504	20,009,930	30,177,845
2. Class 2 (a).....								
3. Class 3 (a).....								
4. Class 4 (a).....								
5. Class 5 (a).....								
6. Class 6 (a).....								
7. Total Bonds.....	20,006,504	0	0	3,427	19,851,469	20,006,504	20,009,930	30,177,845
PREFERRED STOCK								
8. Class 1.....								
9. Class 2.....								
10. Class 3.....								
11. Class 4.....								
12. Class 5.....								
13. Class 6.....								
14. Total Preferred Stock.....	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock.....	20,006,504	0	0	3,427	19,851,469	20,006,504	20,009,930	30,177,845

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation:  
NAIC 1 \$.....0; NAIC 2 \$.....0; NAIC 3 \$.....0; NAIC 4 \$.....0; NAIC 5 \$.....0; NAIC 6 \$.....0.

QSI02

12/29/2009 12:27:18 PM



SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Per Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999. Totals.....		XXX			

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	10,322,231	
2. Cost of short-term investments acquired.....		10,322,231
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....	10,322,231	
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	0	10,322,231
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	0	10,322,231



**Sch. DB-Part F-Section 1**  
**NONE**

**Sch. DB-Part F-Section 2**  
**NONE**



SCHEDULE E- VERIFICATION

Cash Equivalents

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	30,495,533	
2. Cost of cash equivalents acquired.....	19,854,504	30,544,436
3. Accrual of discount.....	3,427	
4. Unrealized valuation increase (decrease).....		(48,903)
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....	30,343,533	
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/ adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	20,009,930	30,495,533
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	20,009,930	30,495,533



Sch. A-Part 2

NONE

Sch. A-Part 3

NONE

Sch. B-Part 2

NONE

Sch. B-Part 3

NONE

Sch. BA-Part 2

NONE

Sch. BA-Part 3

NONE



SCHEDULE D - PART 3

Show all Long-Term Bonds and Stock Acquired During the Current Quarter

1	2		3	4	5		6	7	8	9	10
CUSIP Identification	Description		Foreign	Date Acquired	Name of Vendor		Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator (a)
Common Stocks - Industrial and Miscellaneous											
00206R 10 2	AT&T INC.....			07/22/2009.....	MERRILL LYNCH.....		2,000.000	49,738	XXX.....		L.....
05964H 10 5	BANCO SANTANDER SA ADR.....			07/29/2009.....	MERRILL LYNCH.....		10,000.000	136,200	XXX.....		L.....
110122 10 8	BRISTOL-MYERS SQUIBB.....			07/01/2009.....	MERRILL LYNCH.....		10,000.000	207,685	XXX.....		L.....
166764 10 0	CHEVRON CORP.....			07/22/2009.....	MERRILL LYNCH.....		1,000.000	66,370	XXX.....		L.....
209115 10 4	CONSOLIDATED EDISON INC.....			07/01/2009.....	MERRILL LYNCH.....		4,000.000	148,210	XXX.....		L.....
478160 10 4	JOHNSON AND JOHNSON .....			07/01/2009.....	MERRILL LYNCH.....		3,500.000	195,997	XXX.....		L.....
580135 10 1	MCDONALDS CORP.....			07/23/2009.....	MERRILL LYNCH.....		6,000.000	340,400	XXX.....		L.....
589331 10 7	MERCK & CO INC.....			07/22/2009.....	MERRILL LYNCH.....		3,000.000	88,908	XXX.....		L.....
842587 10 7	SOUTHERN COMPANY.....			07/01/2009.....	MERRILL LYNCH.....		7,500.000	238,262	XXX.....		L.....
9099999.	Total - Common Stocks - Industrial & Miscellaneous.....							1,471,769	XXX.....	0	XXX.....
9799997.	Total - Common Stocks - Part 3.....							1,471,769	XXX.....	0	XXX.....
9799999.	Total - Common Stocks.....							1,471,769	XXX.....	0	XXX.....
9899999.	Total - Preferred and Common Stocks.....							1,471,769	XXX.....	0	XXX.....
9999999.	Total - Bonds, Preferred and Common Stocks.....							1,471,769	XXX.....	0	XXX.....

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues:.....0.



**Sch. D-Part 4**  
**NONE**

**Sch. DB-Part A-Section 1**  
**NONE**

**Sch. DB-Part B-Section 1**  
**NONE**

**Sch. DB-Part C-Section 1**  
**NONE**

**Sch. DB-Part D-Section 1**  
**NONE**



SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1		2	3	4	5	Book Balance at End of Each Month During Current Quarter			9
Depository		Code	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	6	7	8	*
						First Month	Second Month	Third Month	
Open Depositories									
Merrill Lynch.....	Key Biscayne, FL.....					.....173,385	....15,116,160	....20,628,272	XXX
CD Merrill Lynch Southside Bank.....	Key Biscayne, FL.....		.....3.750		.....195	.....95,000	.....95,000	.....95,000	XXX
CD Merrill Lynch Discover BK.....	Key Biscayne, FL.....		.....3.000		.....547	.....95,000	.....95,000	.....95,000	XXX
CD Merrill Lynch BNC NATL BK.....	Key Biscayne, FL.....		.....3.000		.....86	.....95,000	.....95,000	.....95,000	XXX
Colonial Bank.....	Key Biscayne, FL.....					.....10,175,305	.....677,450	.....4,108,247	XXX
State of Florida Collateral Securities.....	Tallahasee, FL.....		.....2.469	.....1,885	.....1,925	.....309,591	.....309,591	.....311,516	XXX
CDARS - COLONIAL BANK.....	Key Biscayne, FL.....		.....1.000		.....36,725	.....7,641,552	.....7,641,552	.....7,641,552	XXX
CDARS - COLONIAL BANK.....	Key Biscayne, FL.....		.....1.250	.....84,195	.....51,293	.....20,216,752	.....10,163,367	.....10,163,367	XXX
0199999. Total Open Depositories.....	.....XXX.....	.....XXX.....		.....86,080	.....90,770	.....38,706,586	.....34,193,120	.....43,137,954	XXX
0399999. Total Cash on Deposit.....	.....XXX.....	.....XXX.....		.....86,080	.....90,770	.....38,706,586	.....34,193,120	.....43,137,954	XXX
0599999. Total Cash.....	.....XXX.....	.....XXX.....		.....86,080	.....90,770	.....38,706,586	.....34,193,120	.....43,137,954	XXX



SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1	2	3	4	5	6	7	8
Description	Code	Date Acquired	Rate of Interest	Maturity Date	Book/Adjusted Carrying Value	Amount of Interest Due & Accrued	Amount Received During Year
U.S. Government Issuer Obligations							
MFB NORTHERN INSTL FDS GOVT SELECT .....	.....	.....09/30/2009	.....	.....10/01/2009	.....20,009,930	.....1,406	.....7,537
0199999. U.S. Government Issuer Obligations.....					.....20,009,930	.....1,406	.....7,537
0399999. Total - U.S. Government Bonds.....					.....20,009,930	.....1,406	.....7,537
Total							
7799999. Subtotals - Issuer Obligations.....					.....20,009,930	.....1,406	.....7,537
8399999. Subtotals - Bonds.....					.....20,009,930	.....1,406	.....7,537
8699999. Total - Cash Equivalents.....					.....20,009,930	.....1,406	.....7,537



## O Series – Other Documents Referenced



# Magnolia Insurance Company

260 Glenridge Road

Key Biscayne, FL 33149



# Magnolia Insurance Company

## Contact Information

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# Magnolia Insurance Company

## Company Background

Business Plan including

Plan of Operations

Biographical information on Principals, Officers and Key Personnel

CGI - Policy and Claims Administrative Provider – background

CGI - Agreement

Copy of Certificate of Authority



# MAGNOLIA INSURANCE COMPANY

## Overview

Magnolia Insurance Company received its Certificate of Authority from the Florida Department of Insurance Regulation on April 28, 2008. The initial \$ 20M surplus funding for Magnolia was from Allianz Risk Transfer "ART". This initial level of surplus reflects Magnolia's long-term commitment to the Florida property insurance market. We believe that through careful underwriting, responsive customer service and fast and fair claims adjusting we believe we will surpass the expectations of our insureds.

Magnolia will participate in a depopulation program from Citizens Property Insurance Corporation ("Citizens"). We anticipate assuming up to 120,000 policies from Citizens. The initial depopulation of 60,000 policies has been approved and will commence on June 10, 2008.

The rate structure is a "me-too" of Citizens current rates minus a discount of approximately 5.5%. The rules and forms are also a 'me-too' filing of Citizens. Initially, all homes will be required to be of masonry construction.

The Company will also begin marketing a voluntary homeowners program in December, 2008.

## Organizational Structure and Ownership

Irl Financial Group (IFG) wholly owns Magnolia Insurance Company and fifty percent of Magnolia Agency LLC. Allianz Risk Transfer owns fifty percent of Magnolia Agency LLC. H. James Irl is the sole shareholder of IFG.

## Management

**H. James Irl is President/CEO/CTO of Magnolia.** He will work closely with Magnolia and CGI staff in developing the internet based voluntary rating system. He will also manage the initial voluntary marketing effort with the help from a marketing consulting firm. A marketing manager will be hired in the future.

Mr. Irl has over ten years experience in the insurance industry. He has been a licensed Florida general lines agent. Mr. Irl is an experienced catastrophe modeler having used the RMS modeling software extensively. He developed proprietary modeling scenarios while analyzing various portfolios for potential transfer, renewal and assumption. He will develop an internal modeling department that will run daily models to determine catastrophic exposure and perform continuous 'what-if' analysis on current and projected underwritings. Benfield will supplement Magnolia's efforts with their modeling staff.

Prior to forming Magnolia, he provided consulting services for a Florida managing general agency. During his tenure there he wrote an internet based rating system; managed the policy administration function; and marketed to independent agencies a homeowners and mobile homeowners program in Florida and throughout the Southeast. Companies represented included American Bankers. Concurrently, he was the founder and President of a Florida premium finance company, whose license he closed to form Magnolia.

Mr. Irl also has over twenty years experience in providing financial software systems for insurance companies, financial institutions and government agencies.



# MAGNOLIA INSURANCE COMPANY

**Gregg B. Patterson is the Vice President of Operations and Chief Financial Officer of Magnolia.** He will also serve on the Board of Directors.

He has served multiple leadership roles during his 30 years tenure. These senior management roles have ranged from CEO to Chief Financial Officer to VP of Operations. Mr. Patterson began his insurance career while serving as the Controller of Protective Indemnity Insurance Company. While with Protective he also was a key leader in operations, agent relations, reinsurance/Cat placements and the assumption of business from Florida Home Insurance Company through the Florida Department of Insurance Division of Rehab and Liquidation.

While serving as CFO and VP of Operations with Public Employees Services Co., Mr. Patterson helped to negotiate and implement with a joint venture with MetLife. The resulting venture provided financial and insurance products to Educators throughout Florida. He was also instrumental in developing a strategic partnership with Liberty Mutual Insurance with the Educators Plus auto and homeowners program. While with Innovative Management Services/Innovative Insurance Resources, LLC he has provided lead advisory services related to agency mergers and consultation on insurance related matters.

Mr. Patterson is a graduate from the Florida State University School of Business where he majored in Accounting. He is also a licensed 220 Agent.

The CGI reporting system provides all necessary reports for both statutory and GAAP reporting. A standard set of reports to support the actuarial, accounting and audit functions will also be utilized. Mr. Patterson will utilize the account services of Thomas, Howell, Ferguson for general accounting and reporting support; the actuarial services of Butler, Dunlap and Lindquist and the auditing firm of Kaufman & Rossin to assess our financial positions, review reserve policies and review our internal accounting standards of procedures and to complete our general and statutory financial statements. To round out the Magnolia financial team, Northern Trust Bank will develop a conservative investment portfolio consisting of investment grade instruments. Magnolia will track the performance and reevaluate positions as needed.

**Lou A. DiPaolo is the Claims Manager of Magnolia.** He will oversee the claims administration, claims adjusting and catastrophe administration functions provided by CGI and related companies. He is also responsible for inspections (which will be outsourced to a firm to be named), reinspections and loss control analysis. During his 26 year career, Mr. DiPaolo has led various insurance claims operations and is a results-oriented leader. In addition, he has extensive experience in Catastrophe Response Management and Emergency Response Planning and Design.

Prior to joining Magnolia, Lou served as Claims Manager of GeoVera Specialty Insurance Services Florida Claims Operations, where as an initial member of the management team established the Florida Claims Office and led daily operations. In addition, Lou served as Chief Claims Officer of Florida Citizens Property Insurance Corporation where he restructured and consolidated two separate claims organization into a centralized claims handling center, along with restructuring external claims adjuster resources to support an explosive policy growth and internal claim handling objectives for Daily and Catastrophic claims handling. Lou has also held management positions with DeSoto Insurance Company, USF&G Insurance/St. Paul Insurance and Aetna Life & Casualty.

Mr. DiPaolo holds a B.S. in Business Management from West Liberty State College.



# MAGNOLIA INSURANCE COMPANY

**VP, Underwriting.** We have identified a candidate that has over 15 years experience in the property and casualty market and will oversee the Company's voluntary underwriting area. He will oversee the CGI policy administration. CGI also provides experienced senior underwriting as part of their service. The Company will also hire an assistant underwriter upon formation. Mr. Aide and Mr. Parsons will oversee the underwriting area until our underwriters comes on board.

## **Magnolia Board of Directors**

**Peter R. Harrison**, is a Senior Vice President of Transwestern, a national commercial real estate firm. Mr. Harrison has 35 years of commercial real estate experience. He established the Miami office of Cushman & Wakefield and spent 27 years there. He has an MBA from the University of Miami and a BA from Denison University.

**Ernesto Ramon**, former president of both Ingersoll-Rand and Dow Chemical, both of Latin America, brings over 40 years of exceptional business best practices.

**Alberto Sarasua**, Esq., is a former New York prosecutor and current private practitioner. Mr. Sarasua will oversee the company's legal representation. Our board members represent insurance, business and legal areas of expertise and will be fully utilized.

**Mr. Patterson and Mr. Irl are also members of the board.**

## **Marketing Plan**

Magnolia will begin as a Citizens takeout company. After the 2008 hurricane season, Magnolia will begin a voluntary program. Magnolia has already reached agreements with State Farm, Allstate, Nationwide, and Brown and Brown. We look forward to acquiring business from other insurers.

We have begun working with entities such as the FAIA to develop beneficial agency relationships for Magnolia.

The marketing staff of Magnolia will work towards achieving significant market penetration in Florida. Through catastrophe modeling, daily capacity guidelines will be established.

The Company has agreed to retain the services of Tom Aide of American Insurance Consultants as a Marketing Consultant for Magnolia. Mr. Aide has held various marketing and underwriting management positions at CNA/Encompass for over 20 years.

Magnolia expects to appoint over 400+ carefully and strategically placed Florida independent agencies.

Magnolia will diligently strive to achieve market penetration which will provide favorable growth to our company.

## **Policy Administration Service Provider**

Magnolia Agency has contracted with CGI, a leading global IT service provider. CGI is a multi-billion dollar revenue company with over 100 offices throughout the world. CGI has over 4,300 professionals dedicated to the firm's insurance industry practice; 75 of the country's top 100 insurance carriers are clients of CGI.



# MAGNOLIA INSURANCE COMPANY

CGI has two (2) service centers dedicated to the servicing of Florida clients such as Magnolia. The firm's main operations are in Tampa, Florida, with a completely redundant location in Fort Worth, Texas. Automatic switch over to either can occur at any time with no down time.

CGI's two service centers employ over 100+ staff in policy administration roles – providing an end-to-end solution for Magnolia. More specifically, CGI has underwriting, customer service, call center and related support staff to implement and service Magnolia in a very large Citizens portfolio assumption this June.

CGI currently administers over 150,000 policies for a carrier in Florida and has established numerous procedures, processes and staffing models to allow us to not only perform excellent service, but also to adjust to any new volumes that might arise. Within three months CGI created two service centers for business continuity purposes, hired over 80 insurance practiced employees and trained them to the underwriting guidelines and rules for the carrier.

## **Magnolia Assumption**

CGI will utilize their staff ramp up model. CGI has established procedures, processes and staffing models that allow them adjust for volume increases or decreases quickly. As new hires are required, CGI will identify and train these individuals. This methodology would be employed throughout the course of the year, based on the anticipated renewal volume, until the full course of renewals is completed. Any new voluntary business that would be written would be added as part of this model.

CGI full system implementation plans include the full suite of CGI policy/claims processing systems and all applicable hardware and software.

Magnolia is ready to be serviced by CGI on Day 1.

CGI's plans include utilizing established call center infrastructure to handle phone calls. They have established call center management systems that allows CGI to schedule staff and rotate staff as required. This leveraging allows CGI to maintain the highest level of service in the handling of calls.

Current in house experienced call center staff and underwriters will be utilized to "seed" the Magnolia operation giving an instant staff to handle calls and administer policies for them. This leveraging allows for experienced people on all accounts as CGI ramps up the staff through training. Current staff will train and supervise the new hires as they establish the Magnolia team.

CGI's business continuity process ensures uninterrupted service to Magnolia. CGI has offices in Florida and Texas containing redundant systems.



# MAGNOLIA INSURANCE COMPANY

## Policy statistics (2007)

Number of Staff members – 62

Policy Administration		2007	TOTAL
Service		Standard	2007 YTD
Call Center Service Times			
*	Call Center Services will be provided from 8:00 AM to 5:30 PM local time on Monday through Friday (excluding 8 holidays) and any other time period during which a CGI call center is supporting Universal, utilizing toll-free inbound telephone service	100%	100.0%
Call Center			
	Calls Received (ACD)		299,662
	Number of Calls Answered within 60 sec		287,569
*	% Calls Answered within 60 Seconds	90% within 60 sec	96%
	Abandoned Calls	<5%	2,335
	% Abandon Calls	Less than 5%	0.8%
	Avg Hold Time (Speed of Answer)	Avg hold time < 60 sec	0.09



# MAGNOLIA INSURANCE COMPANY

<b>Processing - New Business</b>			
	Total number of new business processed	Total Number	37,789
	Number of new business processed within 3 days	< 3 business days	37,689
	Number of new business processed > 3 days	> 3 business days	100
*	% of all new business processed	95% within 3 business days	99.7%
<b>Processing – Endorsements</b>			
	Total number of endorsements processed	Total Number	115,823
	Number of endorsements processed w/in 5 days	< 5 business days	114,230
	Number of endorsements processed > 5 days	> 5 business days	1,593
	% of all endorsements processed	95% within 5 business days	98.6%



# MAGNOLIA INSURANCE COMPANY

<b>Processing - Inspections</b>			
	Total number of inspections processed	Total Number	22,761
	Number of inspections processed w/in 7 days	< 7 business days	22,488
	Number of inspections processed > 7 days	> 7 business days	605
	% of all inspections processed	95% within 7 business days	98.8%
<b>Quality Control</b>			
	Total items reviewed for period		6,530
	Total items reviewed with no errors		6,195
	Total items reviewed with minor errors		225
	Total items reviewed with major errors		110
*	Major Error Rate (defined as those errors affecting coverage or premium) - CGI will maintain a major error rate of less than 3%	<3%	1.68%

Concurrently, Benfield will provide exposure analysis, consultation, and underwriting support. CGI will utilize the professionals in the Customer Services and technology group of the company to provide full function insurance services.

We believe this approach will allow us to establish our insurance operation quickly and focus our attention building and growing our book of business.



# MAGNOLIA INSURANCE COMPANY

## Claims Management

Magnolia's claims will be managed through CGI. CGI has a thorough knowledge and understanding of the Florida property claims environment. Claims policies and procedures are documented and closely monitored in order to drive superior claim loss control and support exemplary customer service standards. The overall knowledge and experience of CGI claim associates has allowed the company to develop and maintain high levels of competency with regard to best claims practices in the adjustment, authorization and settlement processes.

CGI will provide services including first notice of loss receipt, policy status verification, file auditing, and subcontractor oversight if it becomes necessary to use external resources.

In addition, CGI will handle claims investigations, damage assessments, and claim negotiation and settlement activities. The CGI team provides full claims administration for both day-to-day and catastrophe claims. The interaction between Magnolia and CGI will allow us to provide a transparent, seamless claims operation to our claimants.

## Daily Claims Operations

Magnolia Insurance Company has entered into agreement with CGI, Inc. to serve as third party administrator of Daily and Catastrophe claims services. CGI provides a full menu of claims administration outsourcing services for property and casualty needs including:

- 24/7/365 First Notice of Loss Claim Reporting Center
- Claims Adjusting
- Special Investigation Unit
- Recovery
- Litigation Management and
- Catastrophe Management

In addition, Magnolia has developed a suite of claim handling guidelines (*see Magnolia Insurance Company Claims Handling Guidelines*) to compliment our commitment to superior customer service.

These guidelines will be implemented by CGI's management and adjustment staff and offer claim handling direction and serve as benchmarks for measuring performance.

Magnolia's daily claims will be administered from CGI's Claims Office located at 8610 Hidden River Parkway, Tampa, Florida, 33637. Based on a monthly new claim frequency of 220~ new assignments, CGI will provide five (5) claims representatives, one (1) claims support personnel, one (1) Claims Supervisor and one (1) Claims Manager. The Claims Management team and the adjusters will be licensed in the state of Florida.

All new claim assignments will be entered into CGI's exclusive and internally managed paperless claims management system, InsideOUT. InsideOUT is a full end-to-end claims administration and management/statistical reporting system.

CGI's management and adjustment will receive training on Magnolia's Claims Handling guidelines prior to the commencement of claims operations. Magnolia Claims management will maintain oversight management of particular operations critical to our success, such as Indemnity and Expense Management, Large Loss Management, Litigation Management and Consumer Complaint.



# MAGNOLIA INSURANCE COMPANY

## Catastrophe Claims Operations

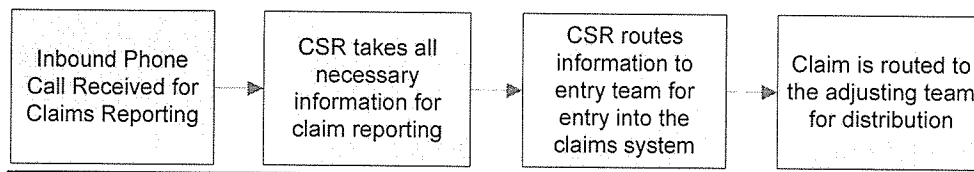
The purpose of the Catastrophe Plan is to provide Magnolia with a model for the processes required to effectively prepare, manage and respond to any natural disaster.

### **24/7/365 Call Center**

Call Center staffing needs for the Catastrophe Unit will be based on forecasting results and call volume. The goal is to maintain normal service levels during a catastrophic event. CGI maintains contracts with Staffing Agencies, who can provide immediate assistance to the call center within 24 hours. As noted in Daily ops, the call center will use the InsideOut application for first notice of loss.

In the event of a natural disaster, all Customer Service Representatives will be provided the proper tools and training to respond appropriately when taking the first notice of loss, regardless of whether the call was received as part of a catastrophe or not.

### Catastrophe Workflow:



### Initial Deployment - Claims Adjusters

CGI monitors NOAA for strike weather events throughout the year. In the event of an impending event, CGI staff begins monitoring the event and tracks its development daily.

Once strike possibilities have been broadcast, CGI places its adjusters on standby for deployment and conducts the following activities:

- ✓ CGI's Mobile Emergency Response Vehicle (**MERV**) is prepared and readied for immediate deployment to possibly extensively damaged areas. **MERV** is a fully contained unit that offers satellite uplink capabilities and power to operate their computers to complete their estimates and upload the claim file.
- ✓ Adjusters are instructed to deploy the same day as the **MERV** is placed 'on the road', or within 24 hours of notification. All adjusters must be on site within 48 hours of deployment.
- ✓ If needed, CGI's Tampa staff adjusters will be sent to the site the same day as the event, or as soon as local authority allows entry. However, daily claims operations will not be compromised by the event.



# MAGNOLIA INSURANCE COMPANY

- ✓ Home office catastrophe team members will be on site, as required, at the location designated by CGI or its client within 24 hours of landfall.

## Adjusting Staffing

CGI currently has one hundred thirty (130) catastrophe adjusters that will be exclusively dedicated to the Magnolia's account. These adjusters will be supported by two supervisors and a manager plus additional administrative personnel. All catastrophe personnel have a minimum of five (5) years catastrophe experience and have prior experience with Florida hurricanes in years 2004 and 2005.

In addition to the adjusters located in North America CGI also can utilize the services of Canadian based CGI Adjusters. CGI Adjusters has over two-hundred (200) adjusters and have utilized these services in both 2004 and 2005 Florida storm season. CGI is currently compiling a list of available CGI field adjusters for the 2008 storm season.

Based on an average work load of 150 claims per adjuster over the course of a hurricane, CGI has capacity from day one to handle an event that would produce in excess of 10,000 claims. CGI will expand this capacity over the next sixty (60) days by finalizing the CGI Adjusters listing and developing supplemental staffing relations with ASU and Cunningham-Lindsey and other potential catastrophe resources.

## Service Standards

### **Loss Assignments**

The losses will be processed in the I/O system, and the claims will be transmitted to the field adjusters for inspection. Losses will be placed on diary by the handling supervisor for timely follow up per the requirements listed below.

Service	Standard
Policyholder contact from date of assignment	24 hours
Site inspection from date of assignment	72 hours
Completion of damage estimate, when appropriate from date of inspection	10 working days



# MAGNOLIA INSURANCE COMPANY

Phone call follow ups from date of receipt	24 hours
Acknowledge and respond to receipt of all claims by adjuster	24 hours
Loss and Expense Reserve adjustments from date of assignment	10 working days
First Party Property Loss Reports from date of assignment, where applicable	10 working days
Submission of Claims Payments receipt post completion and final estimate or from receipt of the proof of loss.	72 hours

## **Supervision**

CGI will maintain a ratio of 1 supervisor for every 10 adjusters at any given time. Each supervisor follows up with the adjusters for timeliness of contact, inspection, reserves and completion of reports within the "Performance Criteria" guidelines. Supervisors or Team Leads are responsible for keeping their assigned adjuster in compliance of the guidelines, as well as completing their weekly reports to management, resolving complaints, notifying upper management of large losses outside their authority and providing claims coverage answers to insured's with questions as well as confirming payments have been issued correctly.

Claims supervisors report to the catastrophe claims manager. The catastrophe claims manager is responsible for compiling all weekly reports for submitting to the state, overseeing the large losses, determining the need for more or less staffing, weekly round table meetings for coverage issues and questions, state compliance and reporting issues, and completion and follow up of any DOI complaints. The catastrophe claims manager is also responsible for resolving any issues that the supervisor is unable to resolve. The claims manager reports to the VP of claims.

## **Reporting**

CGI has its own internal report that is required on each catastrophic event. This report is completed weekly and submitted to the VP of Claims. This report is used as a tool to remain in compliance with all local and state government entities, as well as to keep management aware of best practices and any potential problems that might exist so those issues can be corrected and resolved in an expedient manner.



# MAGNOLIA INSURANCE COMPANY

## Reinspection

CGI's supervisors and team leads are required to randomly reinspect losses. The amount of losses to be reinspected will depend on the location of the storm, the severity and the number of claims received.

## **Catastrophic Claims**

When a catastrophe strikes, policyholders are often devastated emotionally and financially. While an event like this can often be personally distressing, it can provide an insurer with an excellent opportunity to show their commitment to excel in customer service.

The purpose of the Catastrophe Plan is to provide CGI with a model for the processes required to effectively prepare, manage and respond to any natural disaster.

## **Call Center Procedures Disaster Preparation**

### **Staff Planning:**

Staffing needs for the Catastrophe Unit will be based on forecasting results and call volume. Our goal is to maintain service levels, even at a catastrophe level. The Call Center is prepared to take phone calls for the catastrophe event immediately.

CGI maintains contracts with Staffing Agencies, who can provide immediate assistance to the call center within 24 hours.

Training is provided immediately for the additional staff in how to take the information for the catastrophe loss. Once the information is obtained, entry into the CGI system is completed and forwarded to the claims adjusting team for handling.

Based on claim volume, additional staffing is designated as follows:

Claims Volume	Additional Staff Needed
201-500	10
501-999	20
1000-3000	30
Over 3000	40-50

Claims service is available 24 hours a day, 7 days a week.

### **Phone System:**



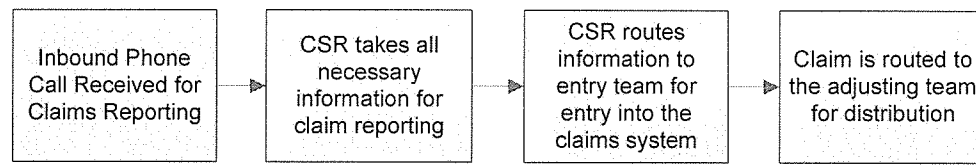
# MAGNOLIA INSURANCE COMPANY

Calls are handled through a Customer Call Center. In the event of a natural disaster, all Customer Service Representatives will be provided the proper tools and training to respond appropriately when taking the first notice of loss, regardless of whether the call was received as part of a catastrophe or not.

If no customer service representative is readily available, the call will be placed in a "queue" and the designated hold messages are played in 20 second intervals. If the calls are received during "off" hours when the call center is normally closed, the caller is directly sent to an after hours service.

The after hours service has designated emergency adjuster contact information for contact. Information is provided to the call center concerning claims reported during the closed time through a direct fax server which displays directly into designated individuals at CGI email address.

## **Catastrophe Workflow:**



## **Training:**

Supervisor for the Call Center will designate trainers for the additional staff designated for the call center and entry team for the claims information.

A team lead will be designated for each call shift.

Team lead will be responsible for the following:

- Gather completed loss notices from CSR
- Distribute all losses to the Entry Team
- Provide management team with updated numbers of calls received, claims taken, claims entered at the end of each business day

CSR taking the first notice of loss will be responsible for the following:

- Catastrophe manual scripts provided to team member
- Information sheet for completion of all applicable information required for the loss entry

Entry team will be responsible for the following:

- Input all loss reports into the designated CGI system database
- Provide claim number to the loss report document

## **Additional Call Center Responsibilities as designated through Catastrophe Needs:**

- Answer telephones
- Take first notice of loss and record the information



# MAGNOLIA INSURANCE COMPANY

- Provide answers to basic general information (length of time before contact is made, make temporary repairs to prevent further damage, begin inventory listing, etc.)
- Take messages, as needed, for the catastrophe adjusting team
- Provide basic outline of claims handling process
- Solve immediate issues (these would be designated from the adjusting team on issues)
- Extended hours as needed
- Fast paced environment for handling claims
- Customer Service focused since most individuals are in a catastrophe situation

## **Potential Scripting (Customer Based):**

“Thank you for calling the Magnolia claims reporting center. This is (state your name), are you calling to report a new claim?”

If no, the adjusting team will advise the call center where existing claims are handled.

If yes, the claim information is taken from the customer.

Once the claim information is taken:

“Now that your claim has been reported, a claims representative will be in contact within (timeframe is provided by the claims adjusting team – normally 24 hour contact). They will call you to arrange a specific date to inspect your home. At this time, you should take reasonable steps to protect your house and personal property from further damage. If you have any questions between now and the time the claims representative contacts you, you may call us at (designated number).”

Claims adjusting team may supply additional information for the Customer Service Team to assist the caller on the initial claim contact.

## **Initial Deployment - Claims Adjusters**

CGI monitors NOAA for strike weather events throughout the year. In the event of a tropical system, CGI staff begins monitoring the event and tracks its development daily.

Once strike possibilities have been broadcast, CGI places its adjusters on standby for deployment. CGI has been successful in the past years of placing adjusters on standby and having them at the required location within 24 hours of landfall

The CGI MERV (Mobile Emergency Response Vehicle) is ready for immediate deployment at all times. In the event of a hurricane, the MERV unit is sent to a “safe area” before landfall, until such time that we are allowed into areas of heavy impact that may not have utility services. MERV is set up in extensively damaged areas so the adjusters will have access to a fully contained unit that offers satellite uplink capabilities and power to operate their computers to complete their estimates and upload the claim file. Once utilities and lodging are available, the MERV is used as an office location in the area of damage, or is returned to Texas until such time as it is needed again.

Adjusters are instructed to deploy the same day as the MERV is placed 'on the road', or within 24 hours of notification.



# MAGNOLIA INSURANCE COMPANY

CGI's staff adjusters located in our Tampa, Florida office will be sent to the site the same day as the event, or as soon as local authority allows entry. Our Texas staff will be in deployed to a "safe area" before landfall, and will be on site within the first 24 hours of landfall, or as soon as local authority allows entry.

The adjusters living closest to the area of damage are required to be on location within 24 hours of landfall with additional adjusters in route in that same period of time. All adjusters must be on site within 48 hours of deployment. We maintain and continually update a master resource listing of independent adjusters available to us.

CGI Canadian adjuster's can be called upon in the event of a major catastrophe event. These adjusters are on site within 72 hours of notice to deploy.

The adjusters closest to the area of damage (those that live in the State of Florida and states (nearby) will be deployed and begin handling claims within 24 hours of receipt of the first assignment. All other out of state adjusters will be on the ground within 48 hours of a catastrophic event.

Home office catastrophe team members will be on site, as required, at the location designated by CGI or its client within 24 hours of landfall.

## **Staffing**

CGI currently has 70 catastrophe adjusters that will be exclusively dedicated to the Magnolia account. These 70 adjusters will be supported by two supervisors and a manager plus additional administrative personnel. The 70 adjusters are located primarily in Texas and Florida but others are located in Alabama, Kansas, Arkansas, Georgia and South Carolina. All of the adjusters have a minimum of five (5) years catastrophe experience and all have worked with CGI on Florida hurricanes in years 2004 and 2005.

In addition to the 70 adjusters located in North America we also will be able to utilize the services of CGI Adjusters located in Canada. CGI Adjusters has over 200 adjusters and we have utilized their services in both 2004 and 2005. We are currently compiling a list of available CGI adjusters that will be available for 2008.

Based on an average work load of 150 claims per adjuster over the course of a hurricane, we have capacity from day one to handle an event that would produce in excess of 10,000 claims. CGI will expand this capacity over the next 60 days by finalizing the CGI Adjusters listing and developing supplemental staffing relations with ASU and Cunningham-Lindsey.

## **Service Standards**

### **Loss Assignments**

The losses will be processed in the I/O system, and the claims will be transmitted to the field adjusters for inspection. Losses will be placed on diary by the handling supervisor for timely follow up per the requirements listed below.

### **Twenty-four (24) hour contact from date of assignment.**

CGI requires that all adjusters make 24 hour contact with insured's. All CGI adjusters are instructed that, in the event contact is not made in the first 24 hours, subsequent follow up attempts will be made until contact is achieved.

### **Seventy-two (72) hour site inspection from date of contact.**



# MAGNOLIA INSURANCE COMPANY

CGI requires the Adjuster's to conduct the initial inspection within 72 hours of contact being made with the insured, or at the insured's earliest convenience. CGI adjusters are instructed to document their files to reflect the date the inspection is set for and to confirm inspection took place. CGI further requires our adjusters to complete their estimate of repair within 10 working days of the completed inspection. If the estimate can not be completed, the adjuster is told to document the file as to the status and an approximate time frame of when the estimate should be completed.

## **Twenty-four (24) follow-up on all phone messages.**

We require all adjusters to return phone calls within 24 hours of receipt of them. The adjusters must check their voice mail twice a day in order to make sure all calls are returned. CGI supervisors will follow up with each adjuster on a daily basis to confirm the adjusters are in compliance.

## **Acknowledge and respond to receipt of all claims.**

Adjusters for CGI are instructed to acknowledge and confirm receipt of assignment within 24 hours of receipt of the new. Team Leads / Supervisors will monitor the claims to make sure the adjusters are following up on claims communications. At the onset of an event, Team Leads / Supervisors begin to review claim files for activity and response.

## **Completed claim files.**

CGI adjusters are required to upload their completed estimates within 10 working days from the date of the final inspection. If this can not be done, the adjuster must notify the team lead to the reason for delay.

## **Adjust loss and expense reserves within ten (10) days of assignment.**

All adjusters working for CGI must notify us of reserve increases as soon as possible, but no later than 24 hours of the date of inspection.

## **Adjuster First Party Property Reports ten (10) days from assignment.**

Adjusters for CGI are required to submit their first report to us on large and complex claims within 10 days from the date of the assignment. This report should reflect damages observed recommended reserves, and any potential areas of problems that might be known at the time of the inspection. CGI also required that adjusters follow up within 30 days of the initial report to provide a continual update of the claims progress.

## **Claim Payment**

Once the completed estimate is received and reviewed by CGI staff, the claim payment is submitted for payment. This must be done within 72 hours of receipt of the completed and final estimate or from receipt of the proof of loss.

## **Supervision**

CGI maintains a ratio of 1 supervisor for every 10 adjusters at any given time. Each supervisor follows up with the adjusters for timeliness of contact, inspection, reserves and completion of reports within the "Performance Criteria" guidelines. Supervisors or Team Leads are responsible for keeping their assigned adjuster in compliance of the guidelines, as well as completing their weekly reports to management, resolving complaints, notifying upper management of large losses outside their authority and providing claims coverage answers to insured's with questions as well as confirming payments have been issued correctly.



# MAGNOLIA INSURANCE COMPANY

Claims supervisors report to the catastrophe claims manager. The catastrophe claims manager is responsible for compiling all weekly reports for submitting to the state, overseeing the large losses, determining the need for more or less staffing, weekly round table meetings for coverage issues and questions, state compliance and reporting issues, and completion and follow up of any DOI complaints. The catastrophe claims manager is also responsible for resolving any issues that the supervisor is unable to resolve. The claims manager reports to the VP of claims.

## **Reporting**

As a former Catastrophe provider for Citizens Insurance Company, CGI is familiar with the State required reporting format and time frames. We are able to complete and submit the information as required to the State.

CGI has its own internal report that is required on each catastrophic event. This report is completed weekly and submitted to the VP of Claims. This report is used as a tool to remain in compliance with all local and state government entities, as well as to keep management aware of best practices and any potential problems that might exist so those issues can be corrected and resolved in an expedient manner.

## **Reinspection**

CGI's supervisors and team leads are required to randomly reinspect losses. The amount of losses to be reinspected will depend on the location of the storm, the severity and the number of claims received. Benfield is Magnolia's broker of record. Benfield will assist Magnolia in reinsuring its portfolio using multiple types of reinsurance. It will purchase Per Risk Excess of Loss reinsurance to protect against ordinary (non-catastrophe) 'shock losses', being large losses to single risks. This policy will limit the liability (for both property and personal liability losses) to Magnolia on any one risk. Magnolia will purchase a robust catastrophe reinsurance program, involving both the mandatory Florida Hurricane Catastrophe Fund and voluntarily placed catastrophe reinsurance, which combined with the quota share protection, will enable the company to withstand two 1 in 100 year event, either from one storm or a series of storms, with no more than a 30% loss of surplus. The program will treat FHCF as inuring reinsurance, so that the limits purchased will be for ultimate net loss after FHCF recovery. The Company will license RMS hurricane modeling software. In addition to determining exposures, the software will be an integral part of our underwriting process.



# MAGNOLIA INSURANCE COMPANY

## **Reinsurance Program.**

For charts, layering and costs please refer to the Reinsurance section of this plan. Benfield, Inc will serve as Magnolia's reinsurance Intermediary.

Magnolia will purchase 2x1:100 programs prior to the 2008 season. Magnolia Agency will purchase asset protection for benefit of the lender.

## **Consultants & Service Providers**

We have assembled a group of superior service providers to help assume policies from Citizens. In addition, we would like to work with the Office of Insurance Regulation to address the Florida property capacity shortage by providing a voluntary market.

We believe that our alliance of service providers represents a unique combination of financial strength, underwriting skills, analytical skills, and claims and policyholder services necessary to provide Florida policyholders with a new, committed, high quality property insurance alternative.

Consultants. The company has retained Focus Insurance Consulting, headed by Bob Ricker, and Southern Strategy as its governmental relations firms. The company has also retained Parsons Consulting and Butler, Dunlap & Lindquist as its rates, rules and forms filing consultants. The company has retained American Insurance Consultants regarding marketing support.

Service providers include:

**Benfield.** Reinsurance Intermediaries.

**CGI**, a leading provider of business process outsourcing and claims administration services to the insurance industry nationwide.

**Northern Trust Bank**, a national bank and brokerage firm, will be Magnolia's fund manager/investment advisor.

**Thomas, Howell, Ferguson** is the Company's auditing firm.

**Kaufman and Rossin** will provide lead accounting services for Magnolia.

**Jennifer Westerlund, PA** is the Company's attorney.

**Focus Insurance Consulting** and **Southern Strategy** are the Company's governmental relations firm.

**Parsons Insurance Consulting** is our forms and rules consulting firm.

**Butler, Dunlap & Lindquist** is Magnolia's actuarial consulting firm.

**American Insurance Consultants** provides marketing support.

**Risk Management Solutions** will lease their modeling software to Magnolia.

**Lines of Insurance.** Homeowners multi-peril 0040, Fire 0010, Allied lines 0020 and Other Liability 0170. A "me-too" of Citizens rates and forms. The Company will begin a voluntary homeowners multi-peril program.



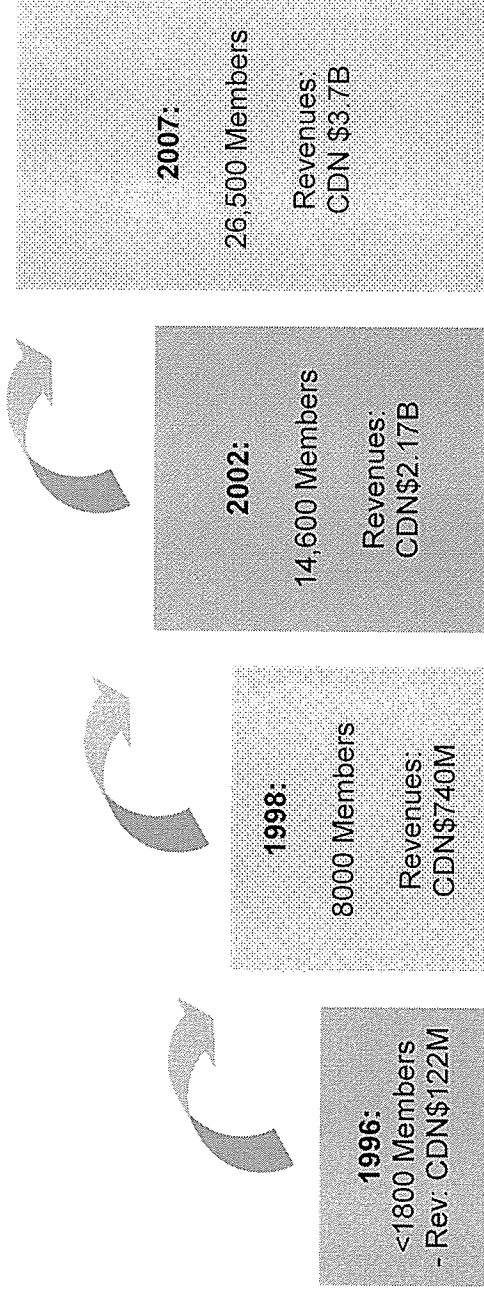
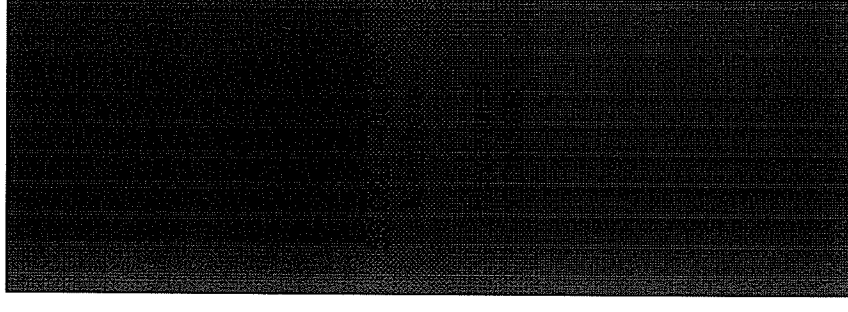
# **CGI BPO Overview**

## **April, 2008**



# CGI: Sustained Profitable Growth

- 8<sup>th</sup> largest independent IT services firm in the world
- Revenue run rate: US\$3.2B+; backlog of US\$12.04B+
- Leader in outsourcing and remote service delivery
- Leading practices in M&A integration and human resource transition





# CGI: An End-to-End Service Provider

## Delivering services tailored to clients' needs

End-to-end service management | Business transformation | Architecture evolution

### Business process services

Management of back-office business processes

### Systems integration and consulting

Solution development, design and implementation

### Application management

Day-to-day maintenance and improvement

### Technology management

Full infrastructure management capabilities

Client partnership  
management

Business solutions

## Maximum value through globally diversified sourcing

© CGI Group Inc.



# CGI: A Passion for The Insurance Sector

- **Comprehensive Service Offering:** Insurance software products for underwriting and rating, policy and claims administration, channel management and premium accounting; insurance consulting and applications development.
- **Depth:** Bringing the expertise of 4,500+ professionals working in the insurance sector. Centers of expertise in insurance software development, spend management, ERP systems, Enterprise Application Integration, Testing and Quality, and Change Management.
- **Industry Presence:** \$200m+ invested in insurance capabilities, 75+ of the top 100 carriers are clients, insurance solutions and services used by 300+ carriers. Over \$50b in premium is handled by CGI solutions and services.
- **Managed Services:** Full range of insurance business process services including policy, claims and billing administration, actuarial, bureau reporting, loss adjustment, investigations and claims management, as well as technology and insurance applications maintenance services, and technology infrastructure.

**25+ - Year Commitment to Providing Leadership and Solution Delivery to Insurance Carriers**



# Our quality approach - Industry leading customer satisfaction (8.8 of 10)

I S O 9 0 0 1									
Dream, Mission, Vision, Values, Quality Policies, Strategic Directions & Plans									
Governance Policies, Management Frameworks, HR Policies, Financial Policies & Organizational Model									
Business Unit Processes						Corporate Processes			
Client Partnership Management Framework					Member Partnership Management Framework			Shareholder Partnership Management Framework	
Proposal	Contract	Management Plan	Delivery	Closing					
Technology Management  TIER 1	Application Management  TIER 2		System Integration & Development  TIER 3		Business Process Services  TIER 4				
	CMMi Level 5								
Client Satisfaction Assessment Program						Member Satisfaction Assessment Program		Shareholder Satisfaction Assessment Program	

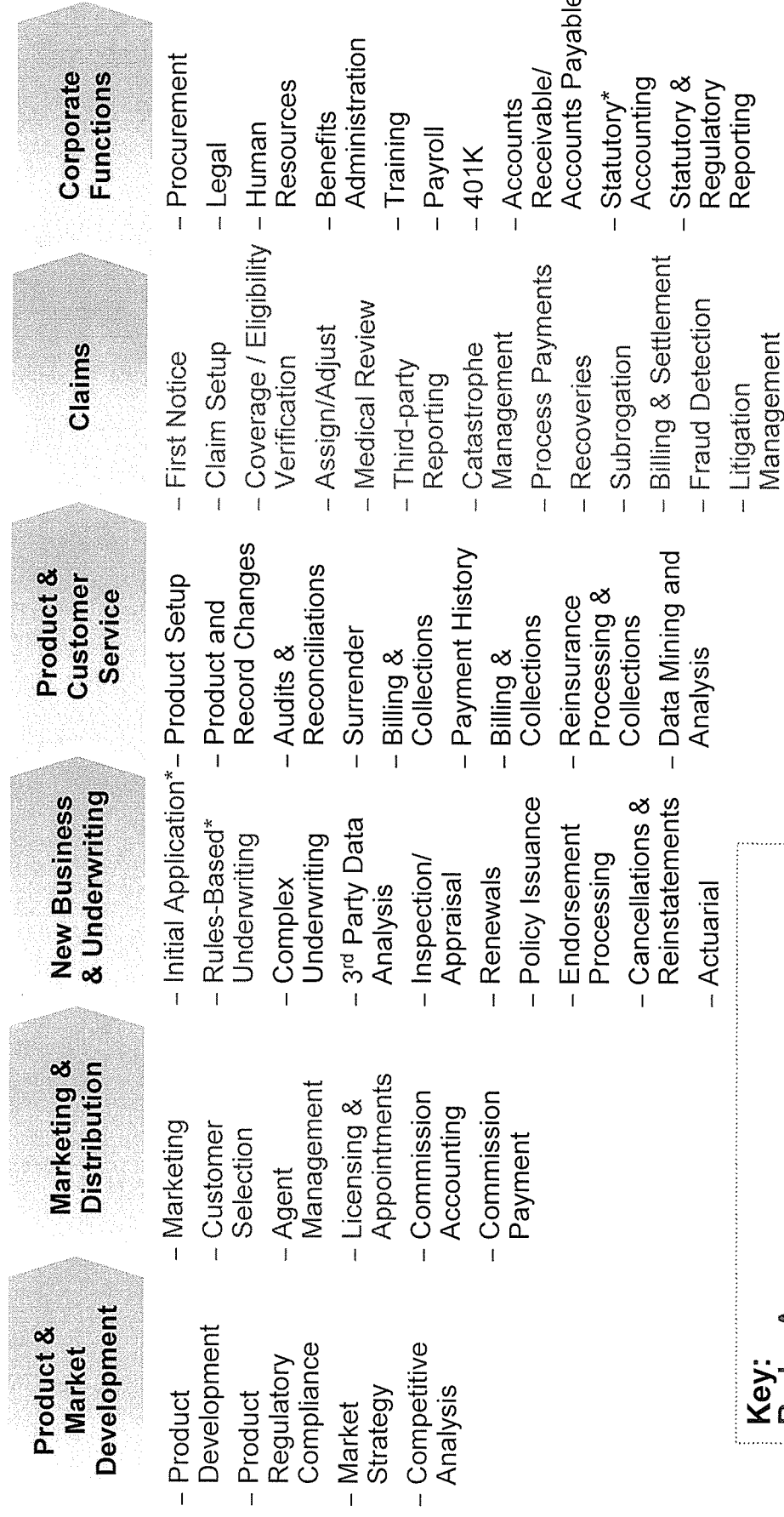


## What it Means for Our Clients:

- **End-to-end, full service offering**
- **Global delivery capability**
  - ✓ Largest near-shore capability for the US market
  - ✓ CMMI certified centers
- **Local CGI executive accountability**
- **Excellence in execution**
  - ✓ 95% of our engagement are on time on budget
  - ✓ ISO 9001 Certified



# P&C Insurance Functions



**Key:**  
 Red = Agency  
 Blue = Company  
 Black = Policy Service Provider(s)  
 Claims = Service Provider(s)

\* Indicates that this function may be handled by Service Provider if desired



# P&C Insurance Functions – Actual Client

Product & Market Development	Marketing & Distribution	New Business & Underwriting	Product & Customer Service	Claims	Corporate Functions
<ul style="list-style-type: none"> <li>- Product Development</li> <li>- Product Regulatory Compliance</li> <li>- Market Strategy</li> <li>- Competitive Analysis</li> </ul>	<ul style="list-style-type: none"> <li>- Marketing</li> <li>- Customer Selection</li> <li>- Agent Management</li> <li>- Licensing &amp; Appointments</li> <li>- Commission Accounting</li> <li>- Commission Payment</li> </ul>	<ul style="list-style-type: none"> <li>- Initial Application*</li> <li>- Rules-Based Underwriting</li> <li>- Complex Underwriting</li> <li>- 3<sup>rd</sup> Party Data Analysis</li> <li>- Inspection/ Appraisal</li> <li>- Renewals</li> <li>- Policy Issuance</li> <li>- Endorsement Processing</li> <li>- Cancellations &amp; Reinstatements</li> <li>- Actuarial</li> </ul>	<ul style="list-style-type: none"> <li>- Product Setup</li> <li>- Product and Record Changes</li> <li>- Audits &amp; Reconciliations</li> <li>- Surrender</li> <li>- Billing &amp; Collections</li> <li>- Payment History</li> <li>- Billing &amp; Collections</li> <li>- Reinsurance Processing &amp; Collections</li> <li>- Data Mining and Analysis</li> </ul>	<ul style="list-style-type: none"> <li>- First Notice</li> <li>- Claim Setup</li> <li>- Coverage / Eligibility Verification</li> <li>- Assign/Adjust</li> <li>- Medical Review</li> <li>- Third-party Reporting</li> <li>- Catastrophe Management</li> <li>- Process Payments</li> <li>- Recoveries</li> <li>- Subrogation</li> <li>- Billing &amp; Settlement</li> <li>- Fraud Detection</li> <li>- Litigation Management</li> </ul>	<ul style="list-style-type: none"> <li>- Procurement</li> <li>- Legal</li> <li>- Human Resources</li> <li>- Benefits Administration</li> <li>- Training</li> <li>- Payroll</li> <li>- 401K</li> <li>- Accounts Receivable/Accounts Payable</li> <li>- Statutory* Accounting</li> <li>- Statutory &amp; Regulatory Reporting</li> </ul>

**Key:**  
 Red = Agency  
 Blue = Company  
 Black = CGI

\* Indicates that this function may be handled by Service Provider if desired



# Claim Operations

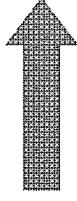
\_experience the commitment™



# Claims Administration

## What We Do

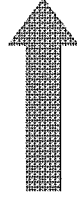
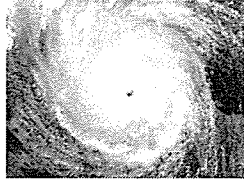
### ➤ Claims Handling



## Why We Excel At It

- ✓ Customized service/performance standards
- ✓ 24x7 claims services
- ✓ Paperless environment
- ✓ Proven track record with start-up operations/take-outs
- ✓ Experience with large volume, multi-state operations

### ➤ Catastrophe Claims Handling



- ✓ Mobile Emergency Response Vehicle (MERV) fully contained with satellite system
- ✓ Core adjuster group that can respond within 24 hours
- ✓ Hurricane Charley, Rita, Wilma and Katrina experience with less than 2% compliant ratio

### ➤ Special Investigative Unit



- ✓ Both State Compliance and field investigations provided
- ✓ Approved State mandated fraud plans in place
- ✓ Over 200 years of law enforcement experience
- ✓ Both National and Regional carriers represented



## PROCESSING SERVICES AGREEMENT

This Processing Services Agreement, effective as of March 1, 2008 ("Effective Date"), is by and between CGI Technologies and Solutions Inc. ("CGI"), with a principal place of business at 300 Burnett Street, Fort Worth, TX 76102, and Magnolia Agency, LLC ("Magnolia"), with a principal place of business at 260 Glenridge Road, Key Biscayne, Florida, 33149, collectively referred to as the "Parties" and individually referred to as a "Party." This Processing Services Agreement, together with the Schedules and Statements of Work referenced herein and attached hereto, are collectively referred to as the/this "Processing Services Agreement" or the/this "Agreement".

### ARTICLE 1 SERVICES; TERM; FEES

- 1.1 **Services.** CGI agrees to provide the services set forth in following attachment(s) to this Agreement ("Initial Services"):

Schedule 1 - Florida Homeowners Policy Processing Services

Schedule 2 - Florida Homeowners Claims Processing Services

CGI may provide to Magnolia additional services as Magnolia may reasonably request in writing from time to time during the Term and with respect to which the Parties agree regarding the scope, nature, and pricing of such services and the time period during which such services will be provided ("Additional Services"). Initial Services and the Additional Services are sometimes referred to collectively as the "Services."

- 1.2 **Service Levels.** CGI and Magnolia shall agree in each attachment to any applicable service levels.

- 1.3 **Term.** The term during which CGI will provide Services shall be specified in each Schedule and Statement of Work to this Agreement. Either Party may terminate this Agreement in the event that there are no unexpired Schedules or Statements of Work incorporated into this Agreement that have been approved by both Parties. The term of this Agreement (the "Term") shall be from the Effective Date until such termination by either Party.

- 1.4 **Service Fees and Payments.**

- a) **Service Fees.** During the Term, Magnolia will pay CGI for the performance of Services at the fees set forth in any executed Schedule or Statement of Work ("Service Fees").
- b) **Payment.** Any sum due CGI pursuant to this Agreement for which payment terms are not otherwise specified shall be due and payable thirty (30) days from the invoice date.
- c) **Interest on Past Due Payments.** Any sum due CGI pursuant to this Agreement that is not paid on the date on which payment is due shall bear interest from that date until the date such sum is paid at the lesser of 1.5 percent per month or the maximum rate of interest allowed by applicable law. Magnolia will also pay CGI for any reasonable expenses, including attorney's fees, incurred

by CGI in the collection of any amounts due and payable under this Agreement.

- d) **Payment Disputes.** In the event of any disagreement between the Parties with respect to payments, the Parties shall resolve the dispute as specified in Article 9. Notwithstanding any dispute, Magnolia is still obligated to pay all undisputed amounts on all invoices.
- 1.5 **Changes.** Each Party agrees to negotiate in good faith for an adjustment to the Services Fees in the event of any material changes in the Services requested or in how the Services are delivered. These include, but are not limited to, changes due to statutory, regulatory, judicial, or Magnolia requirements, not then provided for pursuant to this Agreement.
- 1.6 **Taxes.** Magnolia shall be responsible for any tariffs and taxes, however designated or levied, now existing or imposed in the future, which are applicable to the Services. Such tariffs and taxes include state and local privilege and excise taxes, sales, use and personal property taxes and any other tariff or tax based on Services performed, equipment used, and the communication or storage of data.
- 1.7 **Travel.** CGI personnel will undertake reasonable travel necessary for the performance of the Services. All CGI travel requests will be approved by Magnolia prior to incurring any expenses. CGI personnel will make travel arrangements and incur travel expenses pursuant to the terms of CGI's then current Travel and Expense Policy. Expenses will be billed to Magnolia at actual cost. Travel fees will be invoiced monthly.

### ARTICLE 2 REPRESENTATION AND WARRANTIES OF MAGNOLIA

Magnolia represents and warrants that the statements contained in this Article are correct and complete as of the Effective Date.

- 2.1 **Status; Qualification.** Magnolia is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Florida. There is no pending or, to Magnolia's knowledge, threatened proceeding for the dissolution, liquidation, insolvency or rehabilitation of Magnolia. Magnolia is duly qualified and in good standing as a foreign entity under the laws of each jurisdiction where qualification is required, except where the lack of such qualification would not have a material adverse effect.
- 2.2 **Power and Authority.** Magnolia has the limited liability company power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. Magnolia has taken all limited liability company action necessary to authorize its execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby.



## PROCESSING SERVICES AGREEMENT

- 2.3 **Enforceability.** This Agreement has been duly executed and delivered by Magnolia and constitutes a legal, valid and binding obligation of Magnolia enforceable against it in accordance with the terms of this Agreement, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

## ARTICLE 3

## REPRESENTATIONS AND WARRANTIES OF CGI

CGI represents and warrants that the statements contained in this Article are correct and complete as of the Effective Date.

- 3.1 **Corporate Status; Qualification.** CGI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. There is no pending or, to CGI's knowledge, threatened proceeding for the dissolution, liquidation, insolvency or rehabilitation of CGI. CGI is duly qualified and in good standing as a foreign entity under the laws of each jurisdiction where qualification is required, except where the lack of such qualification would not have a material adverse effect.
- 3.2 **Corporate Power and Authority.** CGI has the corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. CGI has taken all corporate action necessary to authorize its execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby.
- 3.3 **Enforceability.** This Agreement has been duly executed and delivered by CGI and constitutes a legal, valid and binding obligation of CGI enforceable against it in accordance with the terms of this Agreement, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

## ARTICLE 4

## PERFORMANCE OF SERVICES

- 4.1 **Designated Representative.** Each Party will appoint an individual (a "Designated Representative") who will (a) oversee and manage the performance of its obligations under this Agreement, (b) serve as such Party's primary managerial point of contact with the other Party and (c) be authorized to act for it and on its behalf with respect to all matters relating to this Agreement.
- 4.2 **Access to Records and Facilities.** CGI will provide Magnolia and its representatives reasonable access to its facilities and all books, records and accounts necessary to verify compliance with this Agreement. Such access will be made available upon prior written notice during normal business hours for the Term of this Agreement and during the periods in which CGI is required to maintain such records.

CGI will provide the appropriate state insurance department reasonable access to its facilities and all necessary books, records and accounts in a form usable by such department. Magnolia remains responsible for ensuring that all persons given access comply with the confidentiality provisions of Article 5.

4.3 **Ownership of Property.**

- a) **Magnolia's Property.** Magnolia will own all right, title, and interest in and to the content of the data, output, files, and computer images created or developed in connection with, as a result of or incident to the performance of the Services.
- b) **CGI's Property.** Subject to the immediately preceding paragraph, CGI will own all right, title and interest in and to any and all tools, techniques, processes, procedures, inventions, software, patents, know how, trade secrets and copyrights that it had as of the Effective Date or that are discovered, created or developed by CGI in connection with, as a result of or incident to the performance of the Services, or independent of the performance of the Services.

- 4.4 **Maintenance of Documents and Files.** CGI will maintain appropriate documents and files as required by any Schedule or Statement of Work. Unless otherwise specified in such Schedule or Statement of Work, CGI will not destroy these documents and files without the written permission of Magnolia for a period of at least three (3) years from the event that created the document or file, or the period specified by the applicable state or federal statute regulating preservation of records, whichever is longer. CGI may, at its discretion, use magnetic, optical, and other types of technology to store such data.

- 4.5 **Commercially Reasonable Efforts.** Each Party will use its commercially reasonable efforts to satisfy its respective obligations hereunder.

- 4.6 **Performance Warranties.** Any warranties relating to CGI's performance of the Services, and any associated remedies, shall be set forth in the applicable Schedule or Statement of Work. ANY SUCH WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, INTEGRATION, QUALITY, OR PERFORMANCE AND ACCURACY, AND ANY IMPLIED WARRANTIES ARISING FROM STATUTE, COURSE OF DEALING, COURSE OF PERFORMANCE OR USAGE OF TRADE.

## ARTICLE 5

## CONFIDENTIALITY

- 5.1 **Definitions.** For purposes of this Article the following definitions will apply:

- a) **"Affiliate"** means, as to either Party, any other entity that, directly or indirectly controls, is controlled by or is under common control with such Party, as used herein, entity shall mean any company, partnership, joint venture or other form of enterprise, domestic or foreign,



## PROCESSING SERVICES AGREEMENT

and control refers to the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities (or other ownership interest), by contract or otherwise. Affiliates include, but are not limited to, any parent corporations, subsidiaries, and sister corporations.

- b) "**Magnolia**" means Magnolia and its Affiliates, directors, officers, and Representatives, but in no circumstances includes a third party competitor of CGI.
- c) "**CGI**" means CGI and its Affiliates, directors, officers, and Representatives.
- d) "**Confidential Information**" means any information, oral or written, that is provided to the Receiving Party by or on behalf of the Disclosing Party on or after the Effective Date. Such information includes, but is not limited to, financial information, trade secrets, processes, inventory, formulas, prices, markets, employee lists, salaries, reports, computer files, software, maps, drawings, specifications, title reports, Magnolia information and lists, vendor sources, development and marketing plans, statistical data, forecasts, marketing strategies, or other commercial, technical, strategic or human resources information, and know how obtained from the foregoing. The term "Confidential Information" does not include: (a) information that is or becomes generally available to the public other than as a result of any unauthorized disclosure or wrongful act of the Receiving Party; (b) information that is already known by the Receiving Party at the time of its disclosure by the Disclosing Party or that is independently developed by the Receiving Party without the use of Confidential Information from the Disclosing Party; (c) information that is rightfully received from a third party whose disclosure would not violate any confidentiality obligation or breach of any agreement; or (d) information that is approved for release by the Disclosing Party in writing signed by the Disclosing Party specifying the information to be released.
- e) "**Disclosing Party**" means Magnolia or CGI, as the case may be, with respect to any Confidential Information provided by such Party to the other Party.
- f) "**Receiving Party**" means Magnolia or CGI, as the case may be, with respect to any Confidential Information received by such Party from the other Party.
- g) "**Representative**" means any employee, agent, attorney, accountant, financial advisor, or person under a contractual relationship, acting on behalf of a Party in connection with this Agreement.

## 5.2 Nondisclosure. The Parties hereby agree as follows:

- a) **Use of Information.** All Confidential Information will be used solely for the purpose of performing or receiving the Services. In no event will Confidential Information be used by the Receiving Party for purposes of competing with the Disclosing Party.

- b) **Confidentiality.** All Confidential Information will be kept strictly confidential by the Receiving Party and the Receiving Party will restrict disclosure of Confidential Information to only those employees, agents and advisors of the Receiving Party who have a need to know such information for the purpose of performing or receiving the Services.

- c) **Disclosure to Representatives.** Representatives of the Receiving Party shall be informed by the Receiving Party of the confidential nature of Confidential Information and the covenant of confidentiality by the Receiving Party hereunder, and they shall be directed by the Receiving Party to, and shall agree to, treat such information confidentially.

- 5.3 **No Solicitation.** Each Party acknowledges that the other Party makes a substantial investment in the training and development of its employees and each Party therefore agrees, during the Term of this Agreement and for a period of eighteen (18) months thereafter, not to hire, either directly or indirectly, whether through solicitation or otherwise, any employee of the other Party who has been directly involved in the delivery or utilization of the Services without the other Party's prior express written consent.

- 5.4 **Required Disclosure.** In the event the Receiving Party or its Representatives are requested or required in a judicial, administrative or governmental proceeding to disclose any Confidential Information, the Receiving Party shall provide prompt notice of any such request to the Disclosing Party so that the Disclosing Party may seek an appropriate protective order and/or waive the Receiving Party's compliance with the provisions of this Agreement. If, in the absence of a protective order or the receipt of a waiver hereunder, the Receiving Party or its Representatives are nonetheless, in the opinion of the Receiving Party's attorneys, legally required to disclose Confidential Information, the Receiving Party may disclose such information without liability hereunder, provided that the Receiving Party complies with the notice provisions of this paragraph and discloses only the minimum amount of Confidential Information required to satisfy its legal obligations.

- 5.5 **Return of Confidential Information.** Upon termination of this Agreement, the Receiving Party shall promptly deliver to the Disclosing Party all Confidential Information of the Disclosing Party, including all written and electronically stored copies. Neither the Receiving Party nor its Representatives will retain any copies, extracts or other reproductions, in whole or in part, of such Confidential Information except where such Confidential Information is stored by CGI as part of its process of copying data for disaster recovery purposes. At the Disclosing Party's request, all documents, memoranda, notes and other writings prepared by the Receiving Party or its Representatives based on the information in the Disclosing Party's Confidential Information, or which quote from or summarize any Confidential Information of the Disclosing Party, will be destroyed as soon as reasonably practicable, and such destruction shall be certified in writing to the Disclosing



## PROCESSING SERVICES AGREEMENT

Party by an authorized officer of the Receiving Party supervising such destruction.

- 5.6 **Remedies for Breach.** The Parties acknowledge that a breach of the covenant of confidentiality contained in this Agreement will result in irreparable and continuing damage to the Disclosing Party for which there will be no adequate remedy at law. In the event of any breach of said covenant, the Receiving Party agrees that the Disclosing Party shall be entitled to seek and obtain specific performance of this Agreement by the Receiving Party, including, upon making the requisite showing that it is entitled thereto, provisional injunctive relief restraining the Receiving Party from committing such breach, in addition to such other and further relief, including monetary damages, as provided by law.

### ARTICLE 6

#### TRADE SECRETS AND PROPRIETARY RIGHTS

- 6.1 **No Rights to Software.** Notwithstanding CGI's use of its proprietary computer software programs, or other trade secrets, in the performance of the Services, neither this Agreement nor the performance of any Services hereunder will be construed as a grant of a license or any other interest in or to CGI's computer software programs or other trade secrets. Further, this Agreement grants to Magnolia no right to possess or reproduce, or any other interest in, any of the computer software programs or other trade secrets used in the performance of all or any part of the Services or their specifications in any tangible or intangible medium. Magnolia may not mortgage, hypothecate, sell, assign, pledge, lease, transfer, license, sublicense, provide access to, transmit, copy, use, decompile, or reverse engineer any computer software programs or other trade secrets used in the performance of all or any part of the Services, nor allow any person or entity to transmit, copy, use, decompile, or reverse engineer any such computer software programs or other trade secrets. In the event Magnolia comes into possession of the computer software programs or other trade secrets used in the performance of all or any part of the Services, Magnolia will immediately notify CGI and return such computer software programs or other trade secrets and all copies of any kind thereof to CGI, unless such possession is authorized in writing by CGI as part of providing the Services.
- 6.2 **Nondisclosure.** The Parties acknowledge that the duties related to protection of trade secrets are often more stringent than those for protection of other forms of proprietary information. Other than Magnolia's employees who need access to CGI's computer software programs or other trade secrets for the performance of their duties, Magnolia covenants and agrees not to disclose or otherwise make available to any person any computer software programs or trade secrets used in the performance of all or any part of the Services. Magnolia agrees to take all reasonable steps, necessary to obligate each of its employees who is given access to such computer software programs or other trade secrets to a level of care sufficient to protect the computer software programs or other trade secrets from unauthorized

disclosure, and to comply with all applicable laws and regulations pertaining to protection of trade secrets.

### ARTICLE 7

#### TERMINATION

- 7.1 **Termination of Agreement.** In addition to the termination provision provided in Section 1.3, this Agreement may be terminated as follows:

- a) by written notice from the non-breaching Party upon a material breach by the other Party of its duties or obligations under this Agreement (excluding failure to pay by Magnolia, which is addressed below); provided, however, that (i) such breach remains substantially uncured for sixty (60) days after written notice specifying such breach is received by the breaching Party or (ii) with respect to a breach that cannot be reasonably cured within a sixty (60) day period, should the defaulting Party fail to proceed within sixty (60) days after written notice specifying the breach to commence curing the breach or thereafter fails to proceed with all reasonable diligence to substantially cure the breach; or
- b) by a Party in the event (i) the other Party makes a general assignment for the benefit of creditors, (ii) the other Party files a voluntary petition in bankruptcy or petitions for reorganization or similar arrangement under the bankruptcy laws, (iii) a petition in bankruptcy is filed against the other Party by a third party and such petition is not dismissed within ninety (90) days of its filing date, or (iv) a receiver or trustee is appointed for all or any part of the property and assets of the other Party; or
- c) by CGI, if Magnolia agrees or becomes obligated at any time to make any loan payment to the Administrative Agent (as defined below) prior to January 1, 2009, or
- d) by CGI, if Magnolia fails to reimburse CGI in full within 3 business days for any sum CGI is required to pay in connection with the letter of credit described in Article 11 ("Letter of Credit"); or
- e) by CGI, if Magnolia fails to receive a Certificate of Authority to conduct business from the Florida Office of Insurance Regulation by June 1, 2008, or
- f) by CGI, if Magnolia fails to receive approval for a policy assumption from Citizens Property Insurance Corporation by July 1, 2008, or does not meet the threshold of 45,000 policies (assumed or direct) by December 31, 2008, or
- g) by CGI, if CGI fails to receive when due any amount owed under any Schedule to this Agreement, and such failure continues for more than 10 business days following written notice to each of Magnolia and the Administrative Agent (as defined below).

- 7.2 **Procedure upon Expiration or Termination.** Upon expiration or termination of this the Processing Services Agreement:



## PROCESSING SERVICES AGREEMENT

- a) CGI will, as soon as practicable, transfer all data, files, and images to Magnolia. This transfer will be completed in a format mutually acceptable to Magnolia and CGI. Magnolia will reimburse CGI for its reasonable expenses incurred in connection with transferring such data, files, and images.
- b) Magnolia shall be obligated to pay CGI all amounts due and owing to CGI through the date of termination or expiration in accordance with the payment terms of this Agreement.
- c) Magnolia will immediately pay to CGI all amounts drawn under the Letter of Credit; and
- d) Magnolia shall obtain from the third party providing the Letter of Credit evidence that the Letter of Credit has been terminated and that the third party has released CGI from any obligation.

Such expiration or termination will not in any way limit, restrict or relieve any Party of liability for any breach of this Agreement or any Schedule hereto.

- 7.3 **Procedure Upon Magnolia Financial Distress.** If Magnolia is the subject of any of the events described in Section 7.1(b) above, Magnolia shall promptly perform the obligations described in Sections 7.2(b), (c) and (d) above, regardless of whether CGI elects or attempts to terminate this Agreement.

## ARTICLE 8 - INDEMNIFICATION AND LIMITATION OF LIABILITY

- 8.1 **Indemnification of the Parties.** Each Party (the "Indemnitor") will indemnify, defend, and hold harmless the other Party (the "Indemnitee") from and against any claim, cost, damage, demand, expense, fine, liability, lawsuit, obligation, payment or penalty of any kind or nature whatsoever, including any reasonable attorneys' fees and expenses, (a "Claim") incurred by the Indemnitee and that arises out of (1) any third party Claim that relates to the Indemnitor's breach of this Agreement, or (2) any third party Claim that the Indemnitor violated the proprietary rights of such a third party. Upon an Indemnitee's request, the Indemnitor will indemnify the Indemnitee's directors, employees, officers, agents, attorneys, representatives and shareholders to the same extent as such Indemnitee. No such person, however, will be a third party beneficiary of this Agreement.
- 8.2 **Limitations of Liability.** IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, PUNITIVE, MULTIPLE, EXEMPLARY OR CONSEQUENTIAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS OR LOST DATA, ARISING OUT OF OR RELATED TO THIS AGREEMENT, EVEN IF ADVISED IN ADVANCE OF THE LIKELIHOOD THEREOF. EXCEPTING ONLY CLAIMS BY CGI FOR NONPAYMENT, EACH PARTY'S ENTIRE LIABILITY ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL NOT EXCEED THE AMOUNT PAID TO CGI BY MAGNOLIA UNDER

THIS AGREEMENT DURING THE TWELVE (12) MONTHS PRIOR TO THE EVENT THAT IS THE SUBJECT OF THE CLAIM; PROVIDED THAT IF LESS THAN TWELVE (12) MONTHS OF THE TERM HAVE ELAPSED AT THE TIME OF SUCH EVENT, THE AMOUNT PAID BY MAGNOLIA TO CGI UNDER THIS AGREEMENT DURING THE PERIOD PRIOR TO THE EVENT WILL BE PRORATED TO A TWELVE (12) MONTH PERIOD. IF SUCH CLAIM FOR DAMAGES OR INDEMNIFICATION ARISES UNDER A SCHEDULE OR STATEMENT OF WORK THAT FORMS PART OF THIS AGREEMENT, THEN THE ABOVE TWELVE (12) MONTH LIMITATION SHALL BE DETERMINED WITH RESPECT TO THE AMOUNTS PAID UNDER THE SCHEDULE OR STATEMENT OF WORK GIVING RISE TO SUCH CLAIM FOR DAMAGES OR INDEMNIFICATION.

- 8.3 **Hold Harmless and Indemnification.** Magnolia shall defend, indemnify and hold harmless CGI, including its officers, directors, shareholders and employees, from and against any and all losses, damages, liabilities, fines, settlements, penalties and judgments (including reasonable costs and attorney's fees) arising out of or resulting from the denial of any claim, or the limitation or modification of any settlement offer, by or at the direction of Magnolia.
- 8.4 **Limitation Acknowledgement.** Each Party expressly acknowledges that the limitations set forth in this Article represent the express agreement of the Parties with respect to the allocation of risks between the Parties, including the level of risk to be associated with the performance of the Services as related to the amount of the payments to be made to CGI for such Services, and each Party fully understands and irrevocably accepts such limitations.
- 8.5 **Notice of Claim.** Any indemnification pursuant to this Agreement is conditioned upon the Indemnitor having received full and prompt notice in writing of the Claim and the Indemnitee allowing the Indemnitor to fully direct the defense and settlement of such Claim; provided, however, that (i) the Indemnitor may not settle any Claim without the consent of the Indemnitee, which consent shall not be unreasonably withheld, unless such settlement involves only the payment of money by Indemnitor in exchange for a complete release of Indemnitee; and (ii) the failure to receive prompt notice relieves the Indemnitor of its obligations under this Article only if the Indemnitor is materially prejudiced by the failure to receive such notice. The Indemnitor will not be responsible for any settlement or compromise made without its consent.

## ARTICLE 9

## ARBITRATION AND EQUITABLE REMEDIES

- 9.1 **Settlement Meeting.** The Parties will attempt in good faith to resolve promptly through negotiations any dispute under this Agreement. If any such dispute should arise, the Parties will meet at least once to attempt to resolve the



## PROCESSING SERVICES AGREEMENT

matter (a "Settlement Meeting"). Any Party may request the other Party to attend a Settlement Meeting at a mutually agreed time and place within ten (10) business days after delivery of a notice of a dispute. The occurrence of a Settlement Meeting with respect to a dispute will be a condition precedent to seeking any arbitration or judicial remedy, provided that if a Party refuses to attend a Settlement Meeting or no Settlement Meeting occurs within twenty (20) business days after delivery of a notice of dispute, the other Party may proceed to seek such remedy.

9.2 **Arbitration Proceedings.** If the Parties have not resolved a dispute at the Settlement Meeting, either Party may submit the matter to arbitration. A panel of three arbitrators will conduct the arbitration proceedings in accordance with the provisions of the Federal Arbitration Act (99 U.S.C. Section 1 et seq.) and the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association ("AAA"). The decision of a majority of the panel will be the decision of the arbitrators.

9.3 **Arbitration Notice.** To submit a dispute to arbitration, a Party will furnish the other Party and the AAA with a notice (the "Arbitration Notice") containing (i) the name and address of such Party, (ii) the nature of the dispute in reasonable detail, (iii) the Party's intent to commence arbitration proceedings under this Agreement, and (iv) any other information required under the Federal Arbitration Act and the Arbitration Rules.

9.4 **Selection of Arbitrators.** Within ten (10) business days after delivery of the Arbitration Notice, each Party will select one arbitrator from the list of the AAA's National Panel of Commercial Arbitrators. Within ten (10) business days after the selection of the two arbitrators, those two arbitrators will select the third arbitrator from such list and two alternates, and each Party shall have one veto, to use at its sole discretion, to disqualify a selected third arbitrator, in which case, the two arbitrators will select from the remaining alternate arbitrators. If the first two arbitrators cannot select a third arbitrator and two alternate arbitrators within such ten-day period, the AAA will select such third arbitrator from the list and neither Party shall have veto power over such AAA-selected third arbitrator. Each arbitrator will be an individual not subject to disqualification under the Arbitration Rules with experience in settling complex litigation involving the insurance industry.

9.5 **Arbitration Final.** The arbitration of the matters in controversy and the determination of any amount of damages or indemnification will be final and binding upon the Parties to the maximum extent permitted by law, provided that any Party may seek any equitable remedy available under law as provided in this Agreement. This agreement to arbitrate is irrevocable.

9.6 **Place and Timing of Arbitration.** Any arbitration proceedings will be conducted at such location as the Parties may agree. If the Parties cannot agree on a mutually acceptable location, the location of the arbitration shall be Miami, Florida. The Parties will be prepared to proceed

with the arbitration, and will encourage the arbitrators to hold the arbitration proceedings, within sixty (60) calendar days after the selection of the third arbitrator.

9.7 **Discovery.** During the period beginning with the selection of the third arbitrator and ending upon the conclusion of the arbitration proceedings, the arbitrators will have the authority to permit the Parties to conduct such discovery as the arbitrators consider appropriate.

9.8 **Equitable Remedies.** Notwithstanding anything else in this Agreement to the contrary, a Party will be entitled at any time to seek any equitable remedies available under law. Any such equitable remedies will be in addition to any damages or indemnification rights that such Party may assert in an arbitration proceeding.

9.9 **Judgments.** Any arbitration award under this Agreement will be final and binding. Any court having jurisdiction may enter judgment on such arbitration award upon application of a Party.

9.10 **Expenses.** If any Party commences arbitration or court proceedings permitted under this Agreement, the prevailing Party in such arbitration or court proceedings will receive as part of any award or judgment reimbursement of such Party's reasonable attorneys' fees and expenses to the extent that the arbitrators or court considers appropriate.

9.11 **Cost of the Arbitration.** The arbitrators will assess the costs of the arbitration proceedings, including their fees, to the Parties in such proportions as the arbitrators consider reasonable under the circumstances.

9.12 **Exclusivity of Remedies.** To the extent permitted by law, the arbitration and judicial remedies set forth in this Article will be the exclusive remedies available to the Parties with respect to any dispute under this Agreement or claim for damages or indemnification under this Agreement.

## ARTICLE 10 MISCELLANEOUS

10.1 **Amendment.** No amendment of this Agreement will be effective unless in writing, signed by the Parties.

10.2 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original agreement, but all of which will constitute one and the same agreement.

10.3 **Entire Agreement.** With respect to the subject matter of this Agreement, this Agreement constitutes the entire agreement and understanding between the Parties and supersedes all prior agreements and understandings, both written and oral.

10.4 **Expenses.** Each Party will bear its own expenses with respect to the negotiation and preparation of this Agreement.

10.5 **Governing Law.** THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS



## PROCESSING SERVICES AGREEMENT

OF LAWS, PRINCIPLES OR PROVISIONS THEREOF, WITH RESPECT TO THIS AGREEMENT, EACH PARTY SUBMITS TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE OF FLORIDA.

- 10.6 **No Assignment.** Neither Party may assign its benefits or delegate its duties under this Agreement without the prior written consent of the other Party. Notwithstanding the foregoing, each Party may assign its rights under this Agreement to any third party that acquires (through purchase, merger, reorganization or other combination) all or substantially all of the assets or equity of such Party without the other Party's consent, but with notice to the other Party. Any attempted assignment or delegation in violation of this Section 10.6 will be void.
- 10.7 **No Third Party Beneficiaries.** This Agreement is solely for the benefit of the Parties and no other person will have any right, interest, or claim under this Agreement (other than the Administrative Agent (as defined below) solely with respect to Section 11.7 hereof).
- 10.8 **Public Announcements.** The Parties will consult with each other and reach agreement on the terms of any press releases or other public announcements related to this Agreement before issuing any such press releases or other public announcements. However, either Party may include the other Party's name and a factual description of the work performed under this Agreement in its lists of references, customer presentations, the experience section of proposals to third parties, internal business planning documents and annual reports, and whenever required for legal, accounting or regulatory purposes.
- 10.9 **Representation by Legal Counsel.** Each Party is a sophisticated entity that was advised by experienced legal counsel and other advisors in the negotiation of this Agreement. As the terms hereof have been fully negotiated by the parties, it is their intent that neither this Agreement nor any of its provisions shall be construed against either Party pursuant to the common law rule of construction against the drafter.
- 10.10 **Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction will not invalidate the remaining provisions of this Agreement or affect the validity or enforceability of such provision in any other jurisdiction. In addition, any such prohibited or unenforceable provision will be given effect to the extent possible in the jurisdiction where such provision is prohibited or unenforceable.
- 10.11 **Successors.** This Agreement will be binding upon and will inure to the benefit of each Party and its permitted assigns, and successors.
- 10.12 **Waiver.** No provision of this Agreement will be considered waived unless such waiver is in writing and signed by the Party that benefits from the enforcement of such provision. No waiver of any provision in this Agreement, however, will be deemed a waiver of a subsequent breach of such provision or a waiver of a similar provision. In addition, a waiver of any breach or a failure to enforce any term or condition of this Agreement will not in any way affect, limit, or waive a Party's rights under this Agreement at any time to enforce strict compliance thereafter with every term and condition of this Agreement.
- 10.13 **Force Majeure.** The Parties will not be liable or deemed to be in default for any delay or failure in performance under this Agreement or interruption of Services resulting, directly or indirectly, from acts of God, acts of terrorism, civil or military authority, labor disputes, epidemics or public health restrictions, shortages of suitable materials, transportation, or any other cause beyond the reasonable control of the Parties.
- 10.14 **Relationship of the Parties.** The Parties are independent contractors of one another, and shall not be construed to be partners or joint ventures.
- 10.15 **Headings.** Article and section headings are used in this Agreement only as a matter of convenience and will not have any effect upon the construction or interpretation of this Agreement.
- 10.16 **Survival.** Any provision of this Agreement that creates or limits rights or obligations of a Party that by their nature should be expected to extend beyond termination of this Agreement will survive such termination. The termination or expiration of any particular Schedule or Statement of Work will not affect the parties' respective rights and obligations under any other Schedules or Statements of Work then in effect.
- 10.17 **Precedence.** In the event of any conflicting provisions, any signed Schedule or Statement of Work will have precedence over this Processing Services Agreement.

## ARTICLE 11 LETTER OF CREDIT

- 11.1 CGI shall facilitate the issuance of the Letter of Credit for Magnolia in favor of the Allianz Risk Transfer, Inc. in the amount of \$2,200,000, and shall cosign for (or otherwise act as guarantor of) the Letter of Credit. The Letter of Credit is to provide that no sums may be drawn thereon prior to January 1, 2009, and shall terminate immediately upon termination or expiration of this Agreement.
- 11.2 The Letter of Credit shall terminate 61 months from the Effective Date, unless terminated earlier pursuant to Section 11.1 above or Section 11.3 below.
- 11.3 The Letter of Credit shall terminate immediately upon termination of the loan agreement between Magnolia and the Allianz Risk Transfer, Inc. that is the subject of the Letter of Credit.
- 11.4 Magnolia shall reimburse CGI in full within 3 business days for any sum CGI is required to pay in connection with the Letter of Credit. CGI's right to terminate this Agreement for failure to do so pursuant to Section 7.1(d) shall not be an



**PROCESSING SERVICES AGREEMENT**

exclusive remedy; such right shall be in addition to any other right or remedy to which CGI may be entitled, whether at law or equity.

11.5 CGI acknowledges that Magnolia's rights under this Agreement have been pledged to Allianz Risk Transfer, Inc., as administrative agent (the "Administrative Agent") under that certain Credit Agreement dated as of February 27, 2008, pursuant to a Security Agreement dated as of February 27, 2008.

11.6 CGI agrees that the Administrative Agent shall have the right, but not any obligation, to perform the obligations of Magnolia hereunder, and that such performance will be deemed to have been made by Magnolia for all purposes under this Agreement.

11.7 CGI Agrees to provide to the Administrative Agent a copy of any notice delivered to Magnolia hereunder, contemporaneously with such delivery, to 350 Park Avenue, 10th Floor, New York, NY 10022, Attention: Legal Department, Telephone: (646) 840-5000, Facsimile: (212) 754-2330, with a copy to Bill Guffey, Allianz Risk Transfer (Bermuda) Limited, Overbay, 106 Pitts Bay Road, Pembroke HM 08, Bermuda, Telephone: (441) 295-4722, Facsimile: (441) 295-2367, or such other address as the Administrative Agent may provide to CGI in writing.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in duplicate by their duly authorized representatives as of the day and year first written above.

**CGI Technologies and Solutions Inc.**

*Donna S. Morea*  
Authorized Signature  
Donna S. Morea  
Name  
PRESIDENT 2-26-08  
Title Date

**Magnolia Agency, LLC**

*James IRL*  
Authorized Signature  
James IRL  
Name  
PRESIDENT 2/27/08  
Title Date





## PROCESSING SERVICES AGREEMENT SCHEDULE 1 - POLICY PROCESSING SERVICES

This Schedule is an attachment to the Processing Services Agreement, dated March 1, 2008, between CGI and Magnolia.

CGI will perform the following services for Magnolia's Florida Homeowners, Dwelling/Fire, Condo, and Renters policies. This schedule is subject to the provisions to which the Parties have agreed. These services will be performed exclusively by CGI unless either party has given termination notice as permitted in this Agreement. The term of this Schedule starts on the Effective Date and ends on the tenth anniversary of the date upon which CGI processes the first new or renewal policy.

Magnolia agrees to cooperate with CGI and provide any information, data and/or documentation that CGI reasonably requests from Magnolia that is necessary for CGI to properly perform its obligations hereunder.

### SECTION 1 - POLICY PROCESSING SERVICES

1. **New Business and Underwriting Guidelines.** CGI will process and underwrite, as specified by Magnolia, including inspection review and replacement cost estimator (as selected by Magnolia), all new business applications in accordance with the Florida Department of Insurance ("FDOT") approved underwriting guidelines developed by Magnolia.
2. **Policy Service Guidelines.** CGI will process renewals, endorsements, cancellations, and reinstatements in accordance with the underwriting guidelines developed by Magnolia and approved by the FDOT. CGI will utilize Magnolia's inspection ordering procedure on renewals and will underwrite policies according to findings on reports. CGI will use such non-renewal or cancellation notices as may be required by policy wording or regulatory authority.
3. **Customer Service.** Inquiries and responsible requests from agents, insureds and other relevant third parties (mortgagees or others) will be handled on behalf of Magnolia. Customer-facing activities will be conducted from CGI's North Americans facilities.
4. **Document Management Service.** CGI will produce and distribute all necessary policy documents through either mail or electronic means to relevant parties. All documents will be printed on generic (standard letter-size 8.5"x11") 20 lb. paper and envelope stock with black on white print. Color printing or custom stock paper and envelopes can be provided for an additional fee.
5. **Mail Services.** CGI will process and mail all necessary policy documents to relevant parties. CGI and Magnolia agree to work collaboratively to deliver any policy document(s) in an electronic format where feasible. CGI will pay postage as part of the service fees up to an annual cap of \$3.94 per policy for the first year of processing starting with the first policy (new or renewal) and \$3.25 per policy thereafter. This cap shall be adjusted each year by the price adjustment mechanism defined in Section 8, #9 of this Schedule. The policy count will be determined by calculating the average policy-in-force count at the end each

calendar month. The 12 month period used in the calculation shall start with the first day of the full processing month following the date upon which CGI processes the first new or renewal policy in the first year and the anniversary of that date thereafter. A true-up will be performed at the end of each 12 month period. CGI shall make use of cost savings measures such as presort postage savings and using the minimum size envelop for any mailing. In addition, CGI shall pass through to Magnolia all presort savings. Postal services are limited to usual and customary policy and claims transactions such as issuance, renewals, endorsements, invoices, cancellations, reinstatements, and claims letters and correspondence. Any special mailings requested by Magnolia shall be billed separately. The included mailing fees assume that agents receive their correspondence electronically.

### SECTION 2 - POLICY SERVICE LEVELS

1. **Call Center Services Hours.** These services will be provided by CGI from 8:00 a.m. to 6:00 p.m. Eastern Time on Monday through Friday (excluding 8 holidays) for insureds, agents, and other relevant third parties (mortgagees or others) utilizing toll-free inbound telephone service.
2. **Call Center Response.** During the times specified above, the CGI Call Center will answer at least 80% of all calls received within 60 seconds or less.
3. **Call Center Abandonment Rate.** The Call Center will have a call abandonment rate of 5% or less.
4. **Overall Error Rate.** CGI will maintain an overall error rate of less than 5%. Overall error rates will be measured based on routine, internal audits of selected transactions. CGI and Magnolia will mutually agree on audit methodology and transaction audit process. Audits will occur weekly and include a sample of 5% of transactions unless another timeframe or sample set is mutually agreed upon.
5. **Major Error Rate.** CGI will maintain a major error rate (defined as those errors affecting coverage and premium) of less than 3%. Major error rates will be measured based on routine, internal audits of selected transactions.
6. **New Business Issuance.** At least 95% of new policies will be issued within 3 business days upon receipt of the required information necessary to process the policy.
7. **Renewals.** At least 99% of renewal policies/offers will be reviewed, underwritten and mailed to the insured in compliance with state specific regulations. Renewals not processed at the request of Magnolia due to pending rate or other changes will not be included in this measurement.
8. **Endorsements.** At least 95% of all endorsement transactions received by CGI's mailroom, online, or by facsimile will be processed within 5 business days of the receipt of all the information necessary to process the transaction.
9. **Policy Report Reviews.** At least 95% of all third party



## PROCESSING SERVICES AGREEMENT

### SCHEDULE 1 - POLICY PROCESSING SERVICES

reports received by CGI's mailroom, online, or via facsimile will be processed within 7 business days of the receipt from the third-party vendor(s).

10. **Bills.** At least 99.9% of regularly scheduled billing invoices will be mailed within two business days from the day on which they are produced.
11. **Cancellations.** At least 99.9% of cancellations, including non-renewals, will be printed and mailed within two business days from the day on which they are produced and will at all times be in accordance with statutory requirements. Installment notices and renewal offers that provide statutory notice are deemed to fall under this standard.
12. **Renewal Mailings.** At least 99.9% of renewals will be mailed within the legally mandated number of days prior to the expiration of the policy.
13. **Billing/Invoicing.** At least 95% of required billing invoices will be printed and mailed at the end of each business day.
14. **Proof of Mailing.** Any mailing that requires proof of mailing will be processed as required by statute and said proof of mailing will be maintained and stored as required by statute.
15. **DOI Complaints.** All DOI complaints related to CGI services will be logged by CGI within 24 hours of receipt. A response will be created and forwarded to Magnolia for review and approval within 5 business days of receipt.
16. **Statutory.** 100% of items will be processed within required statutory timeframe if applicable.
17. **Service Level Reporting.** A monthly processing report will be provided to Magnolia advising of CGI's adherence to policy service levels.

#### SECTION 3 - ACCOUNTING SERVICES

1. **Billing/Invoicing.** Invoices will be processed for installment billings, additional premium, and renewal billings.
2. **Refunds.** Refunds will be processed for return premiums.
3. **Magnolia Billing.** Magnolia billing will be supported through direct bill.
4. **Payment Processing.** CGI will coordinate with the lockbox vendor handling payments received. CGI will process any payment that the lockbox vendor is unable to process.
5. **Accounting Services.** Accounting services will be provided for premiums by receiving and distributing premiums, maintaining bank accounts and paying agent commissions, in accordance with Magnolia's obligations including but not limited to:
  - a. **Depository Bank Account.** Within two (2) business days of receipt, CGI shall deposit all premiums and other funds collected for business written under this Agreement into a deposit-only bank account to be established and controlled by Magnolia (the "Depository

Bank Account"). CGI shall reconcile the Depository Account at month end.

- b. **Other Bank Accounts.** Magnolia shall establish and maintain a Premium Refund Account, Commissions Account, and Claims Account for disbursements only. CGI will use these accounts to pay return premiums due policyholders, pay commissions due agents, and disburse claim checks, respectively. CGI shall reconcile all disbursement accounts, and furnish a copy of the bank reconciliation to Magnolia.
- c. **Operating Account.** Magnolia shall establish and control an Operating Account to fund disbursement accounts using automated zero balance transfers. Any deposits made in the Depository Account will automatically transfer to the Operating Account.
- d. **Reports.** All reports and month-end balancing reconciliations shall be provided to Magnolia under this Agreement (whether in hard copy or maintained online).
5. **Commission Handling.** CGI will calculate and pay commissions to producers on Magnolia's behalf and will invoice and receive the return of commission from the producer on return premium transactions. CGI will produce and mail Federal 1099 tax statements.
6. **Statutory Reporting.** CGI will manage and coordinate the following statutory reporting requirements:
  - a. **Financial Reporting.** CGI will prepare and submit the monthly, quarterly, and annual statutory financial statements and filings according to state and statutory guidelines.
  - b. **Supplemental State Filings.** CGI will prepare and submit required supplemental filings according to state and statutory guidelines. The Florida Premium Growth Report and Quarterly Supplemental Report will be prepared and maintained.
  - c. **Premium Taxes.** CGI will prepare and submit premium tax reports in accordance with state and statutory guidelines.
  - d. **Audited Financial Statements.** CGI will prepare financial statements in accordance with state and statutory guidelines. Magnolia will obtain an independent auditor to audit and render an audit opinion.
  - e. **NAIC/AM Best statutory financial filings.** CGI will prepare and submit statutory financial filings for AM Best and NAIC.
  - f. **Magnolia will be responsible for the actuarial review and preparation of Loss Triangles.** CGI will report Loss Triangles (Schedule P) in accordance with statutory financial filing guidelines.
  - g. **Magnolia will be responsible for management and preparation of investment activity.** CGI will report



## PROCESSING SERVICES AGREEMENT

### SCHEDULE 1 - POLICY PROCESSING SERVICES

investment activity (Schedule D) in accordance with statutory financial filing guidelines.

- h. CGI will print and mail all statements and financial filings.

#### SECTION 4 - ACCOUNTING SERVICE LEVELS

1. **Payments.** At least 98% of payments will be posted to the policy (or suspense) within 2 business days of receipt. 100% of payments will be posted to the policy (or suspense) within 5 business days of receipt.
2. **NSFs.** At least 98% of NSFs will be processed with 24 hours of receipt. 100% of NSFs will be processed within 3 business days of receipt.
3. **Refunds.** At least 95% of refunds will be mailed on the tenth business day, but not later than required by statute.
4. **Stop payments.** Stop payments will be requested through the banking system within 24 hours and confirmed to the requester.
5. **Commission checks.** At least 98% of commission checks be mailed by the 10th business day and 100% by the 15th business day.
6. **Daily balancing.** Daily balancing will be kept current and will be current at month-end.
7. **Month-end balancing.** Month-end balancing will start on the first business day of the month and be delivered to Magnolia on the sixth business day of the month. The bank reconciliation will be provided to Magnolia by the 15th business day of the month as long as CGI has the bank statement by the 10th business day of the month.
8. **Bank Reconciliation.** Bank statement reconciliation will be completed, approved, and ready to transmit by the 15th of each month.
9. **Overall Error Rate.** The overall error rate (major plus all other errors) will be no greater than 6%.
10. **Major Error Rate.** The major error rate (any error affecting coverage or premium) will be no greater than 2%.
11. **Research.** Reasonable research requests will be completed within 48 hours.
12. **Statutory** - 100% of items will be processed within required statutory timeframe if applicable.
13. **Service Level Reporting** - A monthly processing report will be provided to Magnolia advising of CGI's adherence to accounting service levels.
14. **Statutory Reporting.**
  - a. CGI will submit to Magnolia monthly statutory financial statements 10 business days from the last business day of the previous month.
  - b. CGI will submit to Magnolia quarterly statutory statements and premium tax reports for review and signatures 25 calendar days following the end of the previous quarter.
  - c. CGI will submit to Magnolia the annual statutory statements and premium tax reports for review and signatures 35 calendar days following the end of the previous year.
  - d. CGI will submit to Magnolia state supplemental filings for review and signatures at least 10 days prior to the state-imposed due date.
  - e. CGI will submit to Magnolia auditable financial statements for review and signature at least 30 days prior to the state-imposed due date.
  - f. **Magnolia Responsibilities.** Magnolia will forward to CGI, within a commercially reasonable time not to exceed 10 business days or other mutually agreed to timeframe, all financial data, checks, and reports needed by CGI to prepare and submit all statutory financial filings. The following critical reports are the responsibility of Magnolia and must be submitted to CGI to complete all statutory financial filings:
    - i. Investments reports and data files
    - ii. General expenses reports and data files
    - iii. Completion of notes to the financial statements with assistance from CGI
    - iv. Completion of general interrogatories to the financial statements with assistance from CGI
    - v. Completion of management discussion and analysis with assistance from CGI
    - vi. Completion of Schedule F - Reinsurance with assistance from CGI
    - vii. Organizational Chart - Schedule Y
    - viii. Completion of Schedule E - Cash for operating accounts
    - ix. Completion of Schedule A - Real Estate with assistance from CGI

#### SECTION 5 - STATISTICAL AND REGULATORY REPORTING SERVICES

CGI will prepare and submit statistical data and reports directly to the Insurance Services Office (ISO) for PLSP reporting, Quasar reporting, and Florida Cat Fund Annual Reporting within the timeframe designated by the respective agencies.

1. **Magnolia Responsibilities.** Magnolia will forward to CGI, within a commercially reasonable time not to exceed 10 business days or other mutually agreed to timeframe, notification of stat agent circulars and bulletins to ensure CGI has the necessary time to review and implement any necessary changes prompted by these circulars and bulletins.
2. **Bureau Fees.** Magnolia is responsible for bureau affiliation fees, including edit package affiliations. In the event external edit package processing is required, this cost will be passed on to Magnolia.



## PROCESSING SERVICES AGREEMENT

### SCHEDULE 1 - POLICY PROCESSING SERVICES

3. **Fines or assessments.** CGI will be liable for fines and assessments due to CGI's failure to meet submission due dates. CGI will not be liable for fines and assessments if submission due dates are not met because Magnolia does not respond to data error questions or requests within a reasonable time not to exceed 2 business days or other mutually agreed to timeframe. CGI will be liable for fines and assessments in the event that CGI transmits invalid data to ISO after processing data through the ISO edit package, and CGI does not take corrective action based on the edit package results. CGI will not be liable for fines and assessments if CGI transmits invalid data to ISO due to the ISO edit package not flagging invalid data.
4. **Changes.** Magnolia will be charged on a time and materials basis for changes or additions to statistical reporting requirements such as additional statistical agents, additional statistical plans, changing reporting levels or frequency, or adding new lines of business or states to the reporting service.

#### SECTION 6 - TECHNOLOGY SERVICES

This section defines a set of technology services that CGI will perform on behalf of Magnolia.

1. **Software.** CGI will deploy the version of the INSideOUT system currently used by the CGI Tampa and Ft. Worth teams to process Florida business. Specific components to be deployed and maintained shall be listed in an implementation SOW.
2. **Software Maintenance.** CGI warrants that INSideOUT will materially conform to the specifications as defined in the system documentation. CGI shall address material errors and malfunctions ("Software Errors") through the process defined in this Section. If Magnolia accepts Updates from CGI, INSideOUT will materially conform to the new specifications delivered with the Updates.
3. **Issue Reporting Process.** The following is the process Magnolia and CGI shall follow to evaluate, document, report, prioritize, and resolve any issue Magnolia encounters with either System Access or Software Errors (collectively "Issues").
  - a. **Magnolia Representative.** Magnolia will designate one primary contact and one secondary contact (each a "Magnolia Representative"). All suspected Issues will be reported by Magnolia personnel to the CGI Help Desk. The Magnolia Representative has the responsibility to determine whether the suspected Issue should be forwarded to CGI for review.
  - b. **Notification.** Magnolia Representative shall notify CGI of any suspected Issue that the Magnolia Representative warrants reporting. The Magnolia Representative shall, upon request of CGI, submit to CGI a list of output and any other data that CGI may require in order to reproduce the operating conditions under which the

suspected Issue occurred or was discovered, and that which may further support CGI in its attempts to address and correct any Issue.

- c. **CGI Review.** A CGI Representative will review the request for requirement/problem information, troubleshoot or request additional information, determine severity, and disburse the suspected Issue to the appropriate support team for resolution.
  - d. **Response Location.** CGI shall primarily provide telephone services to correct any Issue. If deemed necessary, CGI shall provide on-site support within a time period mutually agreed upon between the Parties to correct an Issue.
  - e. **Severity Codes and Responses.** CGI and Magnolia will mutually agree on the assignment of a severity code to a suspected Issue based on its reported effect. Depending on the severity of any Issue, CGI may provide an immediate fix, provide a manual "work-around" solution, or provide a fix in the subsequent release of the software.
    - i. **Severity 1.** INSideOUT is not operating or cannot be accessed, which precludes Magnolia from successful operation of either all the INSideOUT components or a core component that is critical to operation and requires immediate attention (for example, INSideOUT is not accessible or usable by a majority of Magnolia's users).
    - ii. **Severity 2.** INSideOUT has significant outages and/or failures precluding successful operation. The programs may operate but are severely restricted (for example, severe data integrity problems).
    - iii. **Severity 3.** A problem exists with INSideOUT but the majority of the functions are still usable and some circumvention may be required to provide service (for example, a frequently used command gives an incorrect response, but most Magnolia functionality is still available by using other system functions and/or by using a manual work-around).
    - iv. **Severity 4.** A minor problem that does not affect key INSideOUT functionality.
  - f. **Resolution.** The support team will analyze the request and will 1) provide a resolution to any Issue based on severity and 2) supply time and, if any, cost estimates as necessary.
4. **Software Updates.** CGI may from time to time make enhancements to INSideOUT and release new versions of the system initially deployed for Magnolia ("Updates"). CGI shall make available to Magnolia such Updates for no fee other than the time and material needed to install such Updates. Updates will be applied on a mutually agreeable date after new versions of the programs are made available to all customers by CGI.



## PROCESSING SERVICES AGREEMENT

### SCHEDULE 1 - POLICY PROCESSING SERVICES

5. **System Access.** Magnolia and Magnolia's agents will have access to the INSideOUT system 24 hours a day, 7 days a week except during the nightly cycle, system back-up periods, change management, and pre-notified regular system maintenance ("System Access").
  - a. Magnolia employees will be provided a single Citrix session per environment as needed, up to a maximum of 20 Magnolia employees.
  - b. CGI will support remote Citrix printing to any user defined printers that are supported by Citrix.
  - c. Access to the Citrix farm will be provided via dedicated circuit or VPN. Unsecured internet access is not provided. CGI will provide the hardware required at the CGI location, but Magnolia shall adhere to CGI's communications standards. Equipment at Magnolia's location is the responsibility of Magnolia.
  - d. Agents and other web users will have INSideOUT Web access only. Agents will not have Citrix access to the system.
6. **Help Desk.** A data center contact ("Help Desk") will be provided for all system access and system availability issues. Toll free Help Desk support will be available from 7:00 AM to 7:00 PM CT Monday through Friday (excluding eight holidays).
7. **Back-ups.** CGI will perform back-ups of all data located at CGI. Incremental back-ups will be performed daily and full system back-ups will be performed weekly.
8. **Off-site Storage.** CGI will provide offsite storage of back-up media created at CGI for disaster recovery purposes.
9. **Disaster Recovery.** CGI will provide disaster recovery for production hardware and software located at CGI. Magnolia connectivity to a recovery location will be provided via the internet. The disaster recovery plan will be implemented if, in the reasonable judgment of CGI, services cannot be restored in less than 24 hours after a disaster. Services at the disaster recovery site will be provided within 72 hours of the recovery team's arrival at the recovery site with the system back-up media. A copy of the disaster recovery plan is attached to this schedule as Attachment A.
10. **Change Management.** CGI will control changes to the INSideOUT environments. Production changes will be limited to once per week whenever possible. Magnolia will be notified in advance of changes and upon completion of changes by written bulletin.
11. **Security.** CGI will secure the INSideOUT environments located at CGI. Routine password changes will be required and password guidelines will be enforced. At least one firewall will separate Magnolia's network from the CGI environment. Antivirus protection will be maintained on all critical Windows servers.
12. **Database Services.** Database services for INSideOUT system on Oracle databases are:
  - a. Database maintenance, including database reorganization and resequencing;
  - b. Performance tuning;
  - c. Patch analysis and installation;
  - d. Migration to new Oracle versions;
  - e. Load balancing;
  - f. Database statistics; and
  - g. Database communication with CGI and Magnolia approved third party applications.

Database access, other than what is provided through the INSideOUT application, is not included.
13. **Environments.** CGI will maintain five processing environments to support Magnolia's processing: 1) a Development environment to which CGI will develop modifications, 2) a test environment to which CGI will have exclusive access to test modifications to the system, 3) a user acceptance environment in which CGI and Magnolia will coordinate final testing and acceptance of modifications, 4) a model office environment to simulate production to testing and training use, and 5) a production environment. CGI staff dedicated to Magnolia will have exclusive access to the production system to process policy data.
14. **Fax Services.** CGI will provide two inbound fax lines into the CGI fax server. All faxes received will be routed to the INSideOUT production workflow system.
15. **Email Services.** CGI will provide one inbound e-mail address and inbox. All items that are policy related will be stored using a workflow system. All other e-mail correspondence will be stored (i.e. "backed up") on electronic media.
16. **File Transfers.** All file transfers to or from the Magnolia location will be done via SFTP. CGI will provide an SFTP server to facilitate file transfers. Items will be removed from the CGI SFTP server after 10 days. Magnolia may also provide an SFTP server at its location.
17. **Daily Reports.** CGI will provide daily output reports in PDF format to either a CGI or Magnolia SFTP Server.
18. **Management Reporting.** Magnolia may choose to receive any of the standardized system and management reports at no additional charge. See Appendix B for a list of these reports.
19. **Document Storage.** CGI will provide storage for all policy or claim related documents. At least 90% of the documents must require less than 100K of storage.
20. **SAS70.** CGI will provide Magnolia with the results of an annual Type II SAS70 audit that evaluates the testing of the documented CGI controls. Magnolia will receive the results of CGI's SAS70 Audit and any related or follow-up audits performed within 7 days of any audit's availability.



## PROCESSING SERVICES AGREEMENT

### SCHEDULE 1 - POLICY PROCESSING SERVICES

21. **Data Warehouse.** CGI will provide Magnolia with use of the INSIDEOUT Analytics and Reporting component. The data will be updated on a daily basis.

22. **Magnolia Web Site.** CGI will host Magnolia's non-transactional web site of approximately five web pages.

#### SECTION 7 - TECHNOLOGY SERVICE LEVELS

This section defines service levels that CGI and Magnolia will use to jointly measure the effectiveness of the technology services. All service levels are measured and reported monthly.

1. **System Availability.** The system will be available at least 98% of the time on Monday through Friday, 7:00 AM to 7:00 PM CT (excluding 8 holidays). Outages that are outside of CGI's control will not be included in the availability statistic.

2. **Web Access.** Web access will be available 98% of the time between 7:00 AM and 9:00 PM ET. Web Access will be measured at CGI with an automated tool by logging into the core INSIDEOUT Web Interface several times per hour. Outages that are outside of CGI's control will not be included in the Web Access statistic.

3. **Help Desk.** 95% of all calls placed to the Help Desk during the hours of coverage will be responded to within five minutes. A minimum of 10 calls is required for this measurement to be applicable. Measurement will be performed using an automated tool that captures and tracks call statistics within CGI's phone system. Outages that are outside of CGI's control will not be included in the help desk statistic.

4. **Issue Response.** CGI shall respond to Issues depending on their reported severity.

Severity 1. CGI shall respond within one (1) hour to the Issue whether identified by CGI or by Magnolia and shall not substantially interrupt its resolution until the Issue is corrected or another solution is developed that enables Magnolia to perform the business function.

Severity 2. CGI shall respond promptly to the Issue whether identified by CGI or by Magnolia, normally providing a response within one (1) business day, and shall not substantially interrupt its resolution during business hours until the Issue is corrected or another solution is developed that enables Magnolia to perform the business function.

Severity 3. CGI and Magnolia will review the Issue at a regularly scheduled issue review meeting. Depending on the Issue's priority in relation to other Issues, a correction or other resolution may be provided as a onetime correction, as part of an interim release, or as part of a future software release.

Severity 4. CGI and Magnolia will review the issue at a regularly scheduled issue review meeting. These Issues will be considered for resolution when they can be resolved in

conjunction with other work and will be delivered, when completed, in a subsequent release of the system.

5. **Estimates.** High level time and cost estimates for INSIDEOUT normal modifications requested by Magnolia will be completed within 10 working days after receipt of a written request that includes Magnolia's specifications. Major projects estimates shall be provided within 20 days or as mutually agreed to.

6. **Rate Changes.** Rate changes involving table changes only will be programmed and tested within 20 business days after Magnolia provides the required documentation. Code/algorithm changes will be handled via a Statement of Work.

7. **Daily Output Files.** All daily output files will be provided for download by 8:00 AM ET.

8. **Month End.** Month end system processing will be completed within 24 hours after the end of the day on the established close date. Close dates will be defined for each month of the calendar year by a document provided by Magnolia and agreed to by CGI. No processing will occur on weekends or holidays.



## PROCESSING SERVICES AGREEMENT SCHEDULE 1 - POLICY PROCESSING SERVICES

### SECTION 8 - SERVICE FEES

**Policy and Accounting Fees.** CGI will perform the services defined in this schedule for the following fees.

1. **Issuance Fee.** For each policy issued (new or renewed), Magnolia will pay CGI a fee as defined below.

Policies Issued / Year	Fee
0 - 50,000	\$32.75
50,001 to 100,000	\$31.75
100,001 to 150,000	\$30.75
150,001 and over	\$29.75

Thus, during each year that this Schedule 1 is in effect (measured from the Schedule 1 Effective Date), the foregoing fee will be calculated as follows:

the first 50,000 policies issued that year will be charged at \$32.75; plus

all policies issued that year greater than 50,000 but less than 100,001 will be charged at \$31.75; plus

all policies issued that year greater than 100,000 but less than 150,001 will be charged at \$30.75; plus

all policies issued that year greater than 150,000 will be charged at \$29.75.

Magnolia will receive a credit of \$2.89 per policy for any policy issued or renewed in 2008.

2. **Renewal Fee.** For each policy on which a renewal offer is processed and a renewal mailed, Magnolia will pay CGI a fee of \$2.00.
3. **In-Force Fee.** For each policy in force and processed by CGI, at the end of each month, Magnolia will pay CGI based on the fee detailed in following table. This fee shall commence in the month that Magnolia issues (new or renewed) its first policy.

Policies	Fee
0 - 50,000	\$2.90
50,001 to 100,000	\$2.81
100,001 to 150,000	\$2.73
150,001 and over	\$2.65

The in-force fee payable each month shall equal:

\$2.90 times up to and including 50,000 policies; plus

\$2.81 times any policies greater than 50,000 but less than 100,001, plus

\$2.73 times any policies greater than 100,000 but less than 150,000, plus

\$2.65 times any policies in-force over 150,000.

For example:

Policies in-force	Calculation
40,000	$\$2.90 \times 40,000 = \$116,000$
70,000	$(\$2.90 \times 50,000) + (\$2.81 \times 20,000) = \$201,200$
160,000	$(\$2.90 \times 50,000) + (\$2.81 \times 50,000) + (\$2.73 \times 50,000) + (\$2.65 \times 20,000) = \$475,000$

4. **Inspection Fee.** The fee for ordering, receiving and interpreting property inspection reports is \$5.00.
5. **Paper Application Fee.** The above pricing anticipates that all policy quotes and issuance will occur electronically through CGI's web component. Should paper applications be submitted, a fee of \$10.00 per application will be charged.
6. **Installment Fee.** The fee for each installment payment, other than the down payment which is included in the fee, will be \$1.00 and charged when the installment is paid.
7. **Payment.** On a monthly basis, on the last day of each month, CGI will calculate the payment due under paragraphs 1-7 in this section 8. CGI will invoice Magnolia and payment shall be due within 30 days.
8. **Minimum Fee.** Upon the Effective Date, the minimum monthly fee that CGI will charge for policy processing and all the services in this Schedule is \$250,000, which shall be paid on the first day of each month prior to the Services being delivered. CGI shall subtract this payment from the invoice for Services provided in such month that has been computed in accordance with paragraph 7 of this section 8. Notwithstanding the foregoing and any contrary provision in the Processing Services Agreement, the parties agree that payment of the minimum monthly fee for March 2008, April 2008, and May 2008 may be deferred in each case without penalty or interest for up to 90 days if Magnolia has assumed policies from Citizens Insurance Corporation or another carrier by May 18, 2008. Otherwise, the minimum monthly fee for March 2008, April 2008, May 2008, and June 2008 may be deferred in each case without penalty or interest for up to 120 days.
9. **Price Adjustment.** All fees will be subject to an annual increase. The fees will be adjusted effective as of each anniversary of the Effective Date during the existence of the Agreement by the percentage increase in the United States Consumer Price Index for all Urban Users (CPI-U) published by the United States Bureau of Labor Statistics, for the immediately preceding calendar year.
10. **Rate change.** CGI will provide, at no cost to Magnolia, one



## PROCESSING SERVICES AGREEMENT SCHEDULE 1 - POLICY PROCESSING SERVICES

base rate change per contract year, per line of business. This will cover rate changes consisting of simple base rate factor changes. This does not cover rate algorithm changes or impacts for new forms or changes to other components of the system.

11. **Time and Materials.** Technology Services not specifically detailed in this Agreement will be provided on a time and materials basis at \$125 per hour unless otherwise agreed to in the applicable schedule or statement of work.

### SECTION 9 - SCHEDULE TERMINATION

1. **Termination for Convenience.** This Schedule may be terminated by either Party upon 180 days written notice as long as the effective date of the termination is equal to or greater than 60 months after CGI processed the first new or renewal policy. Magnolia may not execute this termination unless the Letter of Credit CGI secured for Magnolia has been terminated and all amounts drawn under the Letter of Credit have been repaid.
2. **Termination for Cause.** This Schedule may be terminated upon 180 days written notice by Magnolia if CGI fails to meet two or more of the same service levels for three consecutive months.
3. **Procedure upon Expiration or Termination.** Upon expiration or termination of this Schedule, the Parties will abide by the procedure for termination detailed in Section 7.2 of the Processing Services Agreement in relation to the data, files, and images associated with the services performed in this schedule.

### SECTION 10 - IMPLEMENTATION

1. **Payment.** Magnolia shall pay to CGI \$333,000 on August 29, 2008, \$333,000 on September 30, 2008, and \$334,000 on October 31, 2008 for implementation of the technology and processes necessary to perform the Services defined in this Schedule 1 and Schedule 2.
2. **Scope.** CGI shall implement the technology and processes necessary to perform the Services defined in this Schedule 1 and Schedule 2. The implementation shall be completed by July 1, 2008.
3. **Software.** CGI shall configure its software solution to be able to process Magnolia's products based on the company's filings implementing the Version 8.5 of:

INSideOUT policy  
INSideOUT billing (direct bill insured only)  
INSideOUT claims  
INSideOUT rating  
INSideOUT ordering and receiving  
INSideOUT workflow and imaging  
INSideOUT Enterprise Analytics  
INSideOUT Web user interface  
INSideOUT print  
INSideOUT correspondence

### INSideOUT UES (underwriting)

4. **Citizens Conversion.** CGI shall build and execute the load of Citizens policies onto the CGI system.
5. **Policy and Claims Processes.** CGI shall implement and document the processes required to process Magnolia's business.
6. **Acceptance.** Prior to July 1, 2008;
  - a. CGI shall demonstrate to Magnolia that the CGI policy and claims processing teams have verified functionality and accepted the functionality required to process the business. Sign off will be completed by Magnolia via the System Acceptance document.
  - b. CGI shall review and obtain Magnolia's approval of the policy and claims processing manuals.

### SECTION 11 - REPORTS TO ADMINISTRATIVE AGENT

CGI will provide to the Administrative Agent a copy of any filing, statement or report prepared on a monthly or less frequent basis by CGI for or on behalf of Magnolia under this Schedule, contemporaneously with the delivery of such filing, statement or report.

IN WITNESS WHEREOF, the Parties hereto have caused this Schedule 1 to be executed in duplicate by their duly authorized representatives as of the day and year first written above.

CGI Technologies and Solutions Inc.

*D. S. Mirea*  
Authorized Signature  
SONIA S. MIREA  
Name  
PRESIDENT 2-26-08  
Title Date

Magnolia Agency, LLC

*H. James Tru*  
Authorized Signature  
H. James Tru  
Name  
PRESIDENT 2/27/08  
Title Date





## PROCESSING SERVICES AGREEMENT - SCHEDULE 2 CLAIMS PROCESSING SERVICES

This Schedule is an attachment to the Processing Services Agreement, dated March 1, 2008, between CGI and Magnolia. CGI will perform the following services for Magnolia subject to the provisions to which the Parties have agreed. The term of this Schedule shall be coterminous with Schedule 1.

### SECTION 1- SERVICES

This section defines a set of services, both under normal claims situations as well as during times of a Declared Catastrophe (defined as a single event that the Insurance Service Office (ISO) Property Claims Services determines and numbers as an event that qualifies as a catastrophe under its criteria) that CGI will perform on behalf and in support of Magnolia's Homeowners, Dwelling/Fire, Condo, and Renters policies in the State of Florida.

1. **Claims Processing.** CGI shall investigate, evaluate, and handle each claim reported according to applicable state law, the terms and conditions of the policy and standards provided by Magnolia. CGI will not have any authority to alter, discharge or waive any policy provision or condition. CGI's services will include the prompt and diligent management, processing, investigating, adjusting, and reasonable settlement of claims.
2. **First Notice.** Loss reporting capability will be provided to agents and insureds through a toll free telephone number, web access, and fax.
3. **Coverage Verification.** Coverage will be verified on all cases. Magnolia will make the final determination of coverage in any situation where there may be a dispute.
4. **Appraisals.** CGI will administer the appraisal/assessment process utilizing a combination of staff and vendor adjusters, and appraisers.
5. **Clerical Support.** CGI will perform all reasonable and necessary administrative and clerical work in connection with claim or loss reports.
6. **Claim Files.** CGI will establish and maintain a claim file for each reported claim or incident report. The claim file will have a daily activity log that will be reviewable at any and all reasonable times by Magnolia subject to the provisions of the Agreement.
7. **Reserves.** CGI will record each claim promptly and establish a recommended reserve.
8. **Administration.** CGI will report to and consult with Magnolia designated representative with respect to any of the following:
  - a. Any loss or claim resulting in legal action being instituted against CGI or Magnolia;
  - b. Any loss or claim causing a complaint to be filed with any regulatory authority;
  - c. Any inquiry from any regulatory authority, including but not limited to any insurance department, with respect to any claim or claims, even if no complaint causes such inquiry;
- d. Any claim CGI deems appropriate to deny policy coverage or involves a Coverage dispute unless otherwise directed by Magnolia;
- e. Any claim which is likely to result in payment(s) of an amount established by Magnolia as a reporting guideline, an amount in excess of policy limits or an amount that Magnolia is required to report to one of its reinsurance carriers. Magnolia is responsible for informing CGI in writing as to the reinsurance reporting requirements.
- f. Any claim involving an allegation of extra-contractual obligations;
- g. Any claim involving a fatality, amputation, spinal cord or brain damage, loss eyesight, extensive burns, poisoning, or multiple fractures; or
- h. Any claim where fraudulent activity is suspected.
9. **Reports.** Within five business days after the end of each calendar month, CGI will provide monthly, year-to-date and inception-to-date reports on all claims activity, including new claims, claims closed without payment, and changes to outstanding reserves. The claim reports will include:
  - a. Information and statistical data (A) required by Insurance Services Office (ISO) and (B) necessary for Magnolia to prepare any reports required by the National Association of Insurance Commissioners. When appropriate, filings will be made directly with the above entities;
  - b. Loss runs with paid claims and outstanding reserves remaining at the end of each monthly report period, categorized as indemnity, or loss adjustment expense, plus any other information required by the annual statement instructions or state regulatory agencies; and
  - c. Check Registers.
10. **Loss and Expense Payments.** CGI will prepare checks and vouchers, compromises, releases, agreements and any other documents reasonably necessary to finalize and close claims on forms approved by Magnolia. CGI will issue payments of claims and allocated loss adjustment expenses only on checks of, and as authorized by, Magnolia.
  - a. For purposes of settling claims and paying claim related expenses, Magnolia has agreed to establish, maintain and fund a separate bank account which CGI may draw against as hereinafter set forth (the *Claim Account*).
  - b. Magnolia agrees to deposit additional funds into the Claim Account on a weekly basis if necessary to maintain it at a level sufficient to allow CGI to carry out its obligations under this Agreement. CGI will regularly provide information and estimates to Magnolia to enable Magnolia to maintain the Claim Account at an appropriate level. Magnolia will provide to CGI such information as is necessary for CGI to draw checks on the Claim Account.



## PROCESSING SERVICES AGREEMENT - SCHEDULE 2

### CLAIMS PROCESSING SERVICES

- c. CGI hereby covenants that any check it prepares will be signed and issued only in accordance with the procedures approved by Magnolia.
- d. CGI will maintain a daily register of checks drawn on the Claim Account for each loss payment (the "Claim Register"). CGI will provide Magnolia access to this information. The Claim Register will include, for each claim and/or claimant, the claim number, policy number, loss date, the name of the payee, the date and check number of the disbursement, and the amount and type or purpose of the payment (i.e. indemnity, loss adjustment expense, etc.). CGI will forward a copy of the Claim Register to Magnolia on a monthly basis.
11. **Reconciliation of Salvage and Subrogation Register.** CGI will provide access to the information necessary for Magnolia to reconcile the Claim Register and the salvage and subrogation register to the Claim Account on a monthly basis.
12. **Salvage and Subrogation.** CGI will diligently pursue and protect Magnolia's salvage and subrogation rights relating to any losses. CGI will use reasonable efforts to collect and deposit funds arising from the enforcement of such rights into the Claim Account. CGI will report monthly on salvage/subrogation receipts.
13. **Special Investigation Unit.** CGI will maintain a Special Investigative Unit (SIU) to:
  - a. Investigate suspected fraudulent claims and claim activity;
  - b. Report fraudulent and suspected fraudulent claim activity to appropriate regulatory and law enforcement agencies;
  - c. Cooperate with local law enforcement agencies;
  - d. File mandatory fraud and annual SIU activity reports with D.O.I. or O.I.R. as required for compliance; and
  - e. Notify the appropriate agencies, both regulatory and criminal, in the event of identified fraud.
14. **SIU Referral Guidelines.** CGI will establish SIU referral guidelines and obtain prior Magnolia approval to pursue any investigations.
15. **Catastrophe Services:**
  - a. CGI will establish a dedicated catastrophe claims office on location when appropriate;
  - b. CGI will dispatch dedicated storm adjusters to the catastrophe site within 24 hours after the catastrophe has concluded;
  - c. CGI will maintain a separate catastrophe storm team until the conclusion of all catastrophe-related claims;
  - d. CGI will provide orientation and training on Magnolia-specific issues to all adjusters;
  - e. CGI will deploy a Mobile Emergency Response Vehicle (MERV) to the most heavily damaged area;
- f. CGI will provide Identification Cards to all adjusters plus SERT Cards (provided by Magnolia as mandated by FL Statute 252) as required;
- g. CGI will provide licenses and confirm all adjusters are in compliance with State Licensing rules and regulations;
- h. CGI will monitor and update DFS rules and regulations and confirm all adjusters are informed and in compliance;
- i. CGI will provide Magnolia with periodic statistical reports covering catastrophe loss activity to update reinsurers;
- j. CGI will perform re-inspections and customer satisfaction to maintain quality control; and
- k. CGI will track and maintain claims information for all claims being handled by CGI for State Reporting requirements.
- l. Special catastrophe claimant services not defined in this Schedule can be performed for an additional fee upon agreement by the Parties.
15. **Service Standards and Claim Documentation.** Service standards and claims documentation will be to standards set by Magnolia and agreed to by CGI. At a minimum, CGI will be in compliance with all state regulations dealing with the adjusting and handling of claims. CGI will periodically review the claims handling procedures and service standards with Magnolia.
16. **Magnolia Claim Assumption.** Magnolia may assume the management of any specified claim upon its request. Magnolia and CGI will negotiate, in good faith, the CGI fee for any assumed claims based on the amount of work performed by CGI.

### SECTION 2 - SERVICE LEVELS

This section defines service levels that CGI and Magnolia will use to jointly measure the effectiveness of the services. All service levels are measured and reported monthly.

1. **Contact.** CGI will make at least 3 attempts within 24 hours to contact the insureds and/or claimants, in 90% of reports, from the date the claim is reported to CGI. If no direct contact can be established, CGI will mail a letter(s) to the parties.
2. **Case Reviews.** Thirty-day (calendar days) case reviews will be completed and documented in every claims file.
3. **Reserves.** Initial reserves, as agreed upon between CGI and Magnolia, will be set up on all new claims reported. At least 98% will be set up within two business days of First Notice of Loss. Loss reserves will be adjusted to reflect exposure as the claim progresses.
4. **Subrogation.** Subrogation will be pursued on all claims with subrogation potential and will be evidenced by documentation contained in the claims file. At least 98% will



## PROCESSING SERVICES AGREEMENT - SCHEDULE 2 CLAIMS PROCESSING SERVICES

be pursued within 3 business days after the identification of potential subrogation.

5. **Loss Reporting.** All losses that meet or exceed an amount established by Magnolia will be reported within 3 business days.
6. **Claims Checks.** All claims checks will be issued and mailed to the appropriate party within 2 business days of a payment being determined.
7. **Regulatory Responses.** All inquiries from regulatory bodies will be answered within the time set by the regulatory body.
8. **Correspondence Responses.** At least 98% of written correspondence requiring a response will be answered promptly and no later than fifteen (15) calendar days of receipt.

### SECTION 3 - SERVICE FEES

This section defines payments Magnolia will make to CGI for the services defined within this schedule.

1. **Claims Adjustment.** CGI will perform the services defined in this schedule, except for those services that have a separate fee listed in this section, for the following fees.

Claim Amount	Fee
Erroneous Assignment	\$ 60.00
All Other Claims	\$675.00

Magnolia will receive a credit of \$25.00 per claim for any claim occurring in 2008.

2. **Catastrophe Claims.** Claims that occur as a result of a Declared Catastrophe shall use the following fee schedule.

Claim Amount	Fee
Withdrawn w/o inspection	\$ 60.00
No Claim - w/o inspection	\$ 60.00
No Claim - w/inspection	\$135.00
\$0 - \$2,500	\$625.00
\$2,501-\$5,000	\$625.00
\$5,001-\$7,500	\$625.00
\$7,501-\$10,000	\$625.00
\$10,001-\$20,000	\$625.00
\$20,001-\$37,500	\$698.00
\$37,501-\$50,000	\$968.00
Over \$50,000	\$1,170.00

3. **Subrogation.** Subrogation will be performed at 15% of net recoveries. CGI shall reduce this fee to 5% if CGI needs to engage legal counsel.
4. **Salvage.** Salvage will be performed at 10% of net recoveries.
5. **Fraud Investigation.** Special Investigations (SIU) will be performed at \$75 per hour plus expenses.
6. **Additional fees.** Expenses for any expert or legal services

are not covered and will be passed through to Magnolia.

7. **CPI.** Any fixed or hourly rate will be adjusted effective as of each anniversary date of the Schedule 1 Effective Date during the existence of the Agreement by the United States Consumer Price Index for all Urban Users (CPI-U) published by the United States Bureau of Labor Statistics, for the immediately preceding calendar year.

### SECTION 4 - SCHEDULE TERMINATION

1. **Termination for Convenience.** This Schedule may be terminated by either Party upon 180 days written notice as long as the effective date of the termination is equal to or greater than 60 months after the date upon which CGI processes the first new or renewal policy. Magnolia may not execute this termination unless the Letter of Credit CGI secured for Magnolia has been terminated and all amounts drawn under the Letter of Credit have been repaid.
2. **Termination for Cause.** This Schedule may be terminated upon 180 days written notice by Magnolia if CGI fails to meet two or more of the same service levels for three consecutive months.
3. **Procedure upon Expiration or Termination.** Upon expiration or termination of this Schedule, the Parties will abide by the procedure for termination detailed in Section 7.2 of the Processing Services Agreement in relation to the data, files, and images associated with the services performed in this schedule.

### SECTION 5 - REPORTS TO ALLIANZ RISK TRANSFER

CGI will provide to the Administrative Agent a copy of any filing, statement or report prepared on a monthly or less frequent basis by CGI for or on behalf of Magnolia under this Schedule, contemporaneously with the delivery of such filing, statement or report.

[This space intentionally left blank.]



**PROCESSING SERVICES AGREEMENT - SCHEDULE 2  
CLAIMS PROCESSING SERVICES**

IN WITNESS WHEREOF, the Parties hereto have caused this Schedule 2 to be executed in duplicate by their duly authorized representatives as of the day and year first written above.

**CGI Technologies and Solutions Inc.**

*A. S. Ch*

Authorized Signature

*DONNA J. MOREA*

Name

*PRESIDENT*

*2-26-08*

Title

Date

**Magnolia Agency, LLC**

*M. James IRL*

Authorized Signature

*M. JAMES IRL*

Name

*PRESIDENT*

*2/27/8*

Title

Date





## OFFICE OF INSURANCE REGULATION

KEVIN M. MCCARTY  
COMMISSIONER

April 28, 2008

Mr. H. James Irl, President  
Magnolia Insurance Company  
The Irl Financial Group, Inc.  
260 Glenridge Road  
Key Biscayne, Florida 33149

Re: Magnolia Insurance Company  
Application for UCAA Primary Certificate of Authority  
App. ID 922946

Dear Mr. Irl:

Enclosed is Magnolia Insurance Company's Certificate of Authority issued by the Florida Office of Insurance Regulation to transact insurance.

A summary of the Office's required filings for new insurers authorized to do business in Florida, including information on licensing of Florida agents, may be obtained from our website at [www.floir.com](http://www.floir.com).

Our Office staff will continue to be available to offer any assistance to you and your company. If you have any questions, you may call the Property and Casualty Financial Oversight Unit at 850/413-3148.

Sincerely,

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation

FINANCIAL SERVICES  
COMMISSION

CHARLIE CRIST  
GOVERNOR

ALEX SINK  
CHIEF FINANCIAL OFFICER

BILL MCCOLLUM  
ATTORNEY GENERAL

CHARLES BRONSON  
COMMISSIONER OF  
AGRICULTURE

...

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

Affirmative Action / Equal Opportunity Employer



# MAGNOLIA INSURANCE COMPANY

Is hereby authorized to transact insurance in the State of Florida.

This certificate signifies that the company has satisfied all requirements of Florida Insurance Code for the issuance of a Property And Casualty Insurer Certificate Of Authority and remains subject to the laws of Florida.

Date of Issuance: April 28, 2008

No. 08 - 202878592

Florida  
Office  
of Insurance  
Regulation



A handwritten signature in black ink, appearing to read "K. McCarty", is written over the printed name and title.

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation



# Magnolia Insurance Company

## Other Data and Information

### Rates, Rules, Forms and Underwriting

All filings of rates, rules and forms are the same as Citizens Insurance Company as prescribed by Florida Office of Insurance Regulation Consent Order.

### Investments

All investments will be restricted by company policy to United States Treasury Bills, Notes and other similar government instruments



# Magnolia Insurance Company

## Financial Data

RBC Calculations 12/31/08

Minimum Capital and Surplus Requirement Calculations

Pro forma Financial Statements as submitted to Florida Office of Insurance  
Regulation

Please note – pro forma statements based on two 1/100 storms occurring in 2008



December 31, 2008

COMPARISON OF TOTAL ADJUSTED CAPITAL TO RISK-BASED CAPITAL PR028

(1)	Total Adjusted Capital (Post-Deferred Tax: PR024 Line 14)	Abbreviation	(1)	
			Amount	
(1)			24,732,389	
(2)	Company Action Level=200% of Authorized Control Level	CAL	17,782,416	139%
(3)	Regulatory Action Level=150% of Authorized Control Level	RAL	13,336,812	185%
(4)	Authorized Control Level=100% of Authorized Control Level	ACL	8,891,208	278%
(5)	Mandatory Control Level=70% of Authorized Control Level	MCL	6,223,846	397%
(6)	Level of Action, if Any		NONE	

THE FOLLOWING NUMBERS MUST BE REPORTED IN THE FIVE YEAR HISTORY EXHIBIT ON THE INDICATED LINE

Total Adjusted Surplus to Policyholders	Five Yr Hist C1 L27	24,732,389
Authorized Control Level Risk-Based Capital	Five Yr Hist C1 L28	8,891,208



**Magnolia Insurance Company**  
**Minimum Capital and Surplus Requirement Calculation**  
**December 31, 2008**

Attachment 4

Fl. Statute 624.4095 (1) Whenever an insurer's ratio of actual or projected annual written premiums as adjusted in accordance with subsection (4) to current or projected surplus as to policyholders as adjusted in accordance with subsection (6) exceeds 10 to 1 for gross written premiums or exceeds 4 to 1 for net written premiums, the office shall suspend the insurer's certificate of authority or establish by order maximum gross or net annual premiums to be written by the insurer consistent with maintaining the ratios specified herein unless the insurer demonstrates to the office's satisfaction that exceeding the ratios of this section does not endanger the financial condition of the insurer or endanger the interests of the insurer's policyholders.

		<b>June</b>	<b>September</b>	<b>December</b>
Gross Written Premiums (Direct + Assumed)		55,411,000	102,848,000	143,818,667
Statutory factor	<b>F.S. 624.4095(4)(a)</b>	0.90	0.90	0.90
Subject Premiums		49,869,900	92,563,200	129,436,800
Gross Written Premiums/10		4,986,990	9,256,320	12,943,680
Total Surplus		10,433,024	15,380,620	24,732,389
		4.78	6.02	5.23
In Compliance?		YES	YES	YES
Net Written Premiums		25,769,411	67,556,627	108,527,294
Statutory factor	<b>F.S. 624.4095(4)(a)</b>	0.90	0.90	0.90
Subject Premiums		23,192,470	60,800,964	97,674,564
Net Written Premiums/4		5,798,117	15,200,241	24,418,641
Total Surplus		10,433,024	15,380,620	24,732,389
		2.22	3.95	3.95
In Compliance?		YES	YES	YES
In Compliance with s. 624.4095(1)		YES	YES	YES



Company Name:  
Magnolia Insurance Company  
Pro Forma Statutory Balance Sheet (Nationwide)  
(In Thousands)

	1st Year	2nd Year	3rd Year
<b>Admitted Assets</b>			
-----			
1. Invested Assets	\$ 81,035	\$ 103,068	\$ 108,432
2. Other Assets	\$ 18,473	\$ 18,525	\$ 18,570
3. Total Admitted Assets	\$ 99,508	\$ 121,593	\$ 127,002
<b>Liabilities</b>			
-----			
4. Unpaid Losses (Case & IBNR)	\$ 6,741	\$ 13,140	\$ 13,142
5. Unpaid Loss Adjustment Expenses	\$ 153	\$ 153	\$ 153
6. Unearned Premiums	\$ 69,152	\$ 77,562	\$ 77,562
7. Other Liabilities	\$ 1,626	\$ 3,839	\$ 3,989
8. Total Liabilities	\$ 77,672	\$ 94,694	\$ 94,846
<b>Capital and Surplus</b>			
-----			
9. Paid-In Capital	\$ 20,000	\$ 20,000	\$ 20,000
10. Contributed Surplus			
11. Unassigned Surplus	\$ 1,835	\$ 6,899	\$ 12,156
12. Total Capital and Surplus	\$ 21,835	\$ 26,899	\$ 32,156
13. Total Liabilities, Capital and Surplus	\$ 99,508	\$ 121,593	\$ 127,002
<b>Risk-Based Capital Analysis</b>			
-----			
14. Total Adjusted Capital	\$ 21,835	\$ 26,899	\$ 32,156
15. Authorized Control Level Risk-Based Capital	\$ 5,730	\$ 7,026	\$ 7,296
16. Calculated Risk-Based Capital (14/15)	381%	383%	441%

Projections must follow this format.



Company Name:  
**Magnolia Insurance Company**  
**Pro Forma Statutory Profit & Loss Statement (Nationwide)**  
(In Thousands)

	1st Year	2nd Year	3rd Year
1. Net Premiums Earned	\$ 66,621	\$ 106,757	\$ 106,757
2. Net Losses Incurred (Case & IBNR)	\$ 36,067	\$ 54,993	\$ 55,039
3. Net Loss Adjustment Expenses Incurred	\$ 1,145	\$ 2,707	\$ 2,707
4. Direct Commissions Paid	\$ 5,748	\$ -	\$ -
5. Ceded Commissions		\$ -	\$ -
6. Net Commissions Incurred (4-5)	\$ 5,748	\$ 0	\$ 0
7. Other Contractual Agreements*	\$ 17,722	\$ 42,705	\$ 42,705
8. All Other Expenses	\$ 5,083	\$ 5,530	\$ 5,832
9. Underwriting Gain (Loss) (1-(2+3+6+7+8))	\$ 856	\$ 822	\$ 474
10. Net Investment Income	\$ 2,203	\$ 7,616	\$ 8,289
11. Net Operating Income (Loss) Before Taxes (9+10)	\$ 3,059	\$ 8,439	\$ 8,763
12. Income Taxes Incurred	\$ 1,224	\$ 3,375	\$ 3,505
13. Net Operating Income (Loss) After Taxes (11+12)	\$ 1,835	\$ 5,063	\$ 5,258
<b>Operating Percentages:</b>			
Net Premiums Earned	100.00%	100.00%	100.00%
14. Net Losses Incurred (2/1)	54.14%	51.51%	51.56%
15. Net Loss Adjustment Expenses Incurred (3/1)	1.72%	2.54%	2.54%
16. Other Underwriting Expenses Incurred ((6+7+8)/1)	42.86%	45.18%	45.47%
17. Net Underwriting Gain Or (Loss) (9/1)	1.29%	0.77%	0.44%
<b>Other Percentages:</b>			
18. Other Underwriting Expenses to Net Premiums Written ((6+7+8)/Total Net Premiums Written, pages 8, 9 & 10))	21.03%	45.18%	45.46%
19. Losses and Loss Expenses Incurred to Net Premiums Earned ((2+3)/1)	55.86%	54.05%	54.09%
20. Adjusted Net Premiums Written to Policyholders' Surplus (Total Adjusted Net Premiums Written, pages 8, 9 & 10/ Total Capital and Surplus, page 5)	727.16%	464.16%	388.27%

\*ie... MGA, service contracts, claims payment contracts

**Projections must follow this format.**



Company Name:  
Magnolia Insurance Company  
Net Premium and Loss Developments By Line of Business (Nationwide)

Annual Statement Page 15		<----- Year 1 ----->				<----- Year 2 ----->				<----- Year 3 ----->			
LOB Line	Description	Premiums Earned	Losses Incurred*	Loss Ratio		Premiums Earned	Losses Incurred*	Loss Ratio		Premiums Earned	Losses Incurred*	Loss Ratio	
0010	Fire	\$ 5,423	\$ 3,029	56%		\$ 8,690	\$ 4,697	54%		\$ 8,690	\$ 4,700	54%	
0020	Allied Lines	\$ 9,913	\$ 5,537	56%		\$ 15,886	\$ 8,586	54%		\$ 15,886	\$ 8,593	54%	
0570	Multiple Peril Crop												
0200	Federal Flood												
0030	Farmowners Multiple Peril												
0040	Homeowners Multiple Peril												
0050	Commercial Multiple Peril (Non-Liability Portion)	\$ 51,131	\$ 28,560	56%		\$ 81,935	\$ 44,284	54%		\$ 81,945	\$ 44,320	54%	
0050	Commercial Multiple Peril (Liability Portion)												
0310	Mortgage Guaranty												
0080	Ocean Marine												
0090	Inland Marine												
0100	Financial Guaranty												
0110	Medical Malpractice												
0120	Earthquake												
0450	Group A&H												
0450	Credit A&H (Group & Individual)												
0450	Collectively Renewable A&H												
0450	Non-Cancellable A&H												
0450	Guaranteed Renewable A&H												
0450	Non-Renew-Statd Reasons Only A&H												
0450	Other Accident Only												
0450	All Other A&H												
0450	Federal Employees Health Benefits Program	\$ 153	\$ 86	56%		\$ 246	\$ 133	54%		\$ 246	\$ 133	54%	
0160	Workers' Compensation												
0170	Other Liability												
0191	Private Passenger Auto No-Fault (PIP)												
0192	Other Private Passenger Auto Liability												
0193	Commercial Auto No-Fault (PIP)												
0194	Other Commercial Auto Liability												
0211	Private Passenger Auto Phys Damage												
0212	Commercial Auto Physical Damage												
0220	Aircraft (All Perils)												
0230	Fidelity												
0240	Surety												
0260	Burglary and Theft												
0270	Boiler and Machinery												
0280	Credit												
0441	Credit Disability												
0106	Auto Warranties												
0173	Prepaid Legal												
0245	Bail Bonds												
0250	Glass												
0285	Title												
0290	Livestock												
0520	Industrial Extended Coverage												
0540	Mobile Home Multiple Peril												
0550	Mobile Home Physical Damage												
0607	Home Warranties												
0608	Service Warranties												
31.0	Reinsurance												
31.0	Other												
31.0	Other												
31.0	Other												
Total		66,621	37,212	56%		106,757	57,700	54%		106,767	57,746	54%	
Verification from Page 6 - should equal line above.		66,621	37,212			106,757	57,700			106,757	57,746		

\* Include loss adjustment expenses.

Projections must follow this format.



Company Name:  
Magnolia Insurance Company

Planned Premium Volume By Line of Business (Nationwide)

Annual Statement Page 15			Year 1							
LOB	Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Adjusted Net Premiums Written*	Direct Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
0010	1.0	Fire	\$ 4,689	\$ 7,799	\$ 1,436	\$ 11,052	\$ 9,947	\$ 1,857	\$ 1,436	\$ 5,423
0020	2.1	Allied Lines	\$ 8,572	\$ 14,257	\$ 2,626	\$ 20,203	\$ 18,183	\$ 3,394	\$ 2,626	\$ 9,913
0570	2.2	Multiple Peril Crop								
0020	2.3	Federal Flood								
0030	3.0	Farmowners Multiple Peril								
0040	4.0	Homeowners Multiple Peril								
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)								
0050	5.2	Commercial Multiple Peril (Liability Portion)								
0310	6.0	Mortgage Guaranty								
0080	8.0	Ocean Marine								
0090	9.0	Inland Marine								
0100	10.0	Financial Guaranty								
0110	11.0	Medical Malpractice								
0120	12.0	Earthquake								
0450	13.0	Group A&H								
0450	14.0	Credit A&H (Group & Individual)								
0450	15.1	Collectively Renewable A&H								
0450	15.2	Non-Cancellable A&H								
0450	15.3	Guaranteed Renewable A&H								
0450	15.4	Non-Renew-Statd Reasons Only A&H								
0450	15.5	Other Accident Only								
0450	15.6	All Other A&H								
0450	15.7	Federal Employees Health Benefits Program								
0160	16.0	Workers' Compensation								
0170	17.0	Other Liability	\$ 132	\$ 220	\$ 41	\$ 312	\$ 390	\$ 52	\$ 41	\$ 153
0191	19.1	Private Passenger Auto No-Fault (PIP)								
0192	19.2	Other Private Passenger Auto Liability								
0193	19.3	Commercial Auto No-Fault (PIP)								
0194	19.4	Other Commercial Auto Liability								
0211	21.1	Private Passenger Auto Phys Damage								
0212	21.2	Commercial Auto Physical Damage								
0220	22.0	Aircraft (All Perils)								
0230	23.0	Fidelity								
0240	24.0	Surety								
0260	26.0	Burglary and Theft								
0270	27.0	Boiler and Machinery								
0280	28.0	Credit								
0441	28.0	Credit Disability								
0106	31.0	Auto Warranties								
0173	31.0	Prepaid Legal								
0245	31.0	Bail Bonds								
0250	31.0	Glass								
0285	31.0	Title								
0290	31.0	Livestock								
0520	31.0	Industrial Extended Coverage								
0540	31.0	Mobile Home Multiple Peril								
0550	31.0	Mobile Home Physical Damage								
0607	31.0	Home Warranties								
0608	31.0	Service Warranties								
	31.0	Reinsurance								
	31.0	Other - Property								
	31.0	Other - Casualty								
	31.0	Other								
Total			\$ 57,608	\$ 95,812	\$ 17,646	\$ 135,774	\$ 158,778	\$ 22,810	\$ 17,646	\$ 66,621

\* Pursuant to Section 624-4095(4), Florida Statutes  
Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Planned Premium Volume By Line of Business (Nationwide)

Planned Premium Volume By Line of Business (Nationwide)											Year 2
LOB	Annual Statement Page 15 Line	Description	Direct	Assumed	Ceded	Net	Adjusted	Direct	Assumed	Ceded	Net
			Premiums Written	Premiums Written	Premiums Written	Premiums Written	Net Premiums Written*	Premiums Earned	Premiums Earned	Premiums Earned	Premiums Earned
00010	1.0	Fire	\$ 13,370		\$ 4,679	\$ 8,691	\$ 7,821	\$ 12,132	\$ 1,238	\$ 4,679	\$ 8,690
00020	2.1	Allied Lines	\$ 24,440		\$ 8,554	\$ 15,886	\$ 14,298	\$ 22,177	\$ 2,263	\$ 8,554	\$ 15,886
00570	2.2	Multiple Peril Crop									
00020	2.3	Federal Flood									
00030	3.0	Farmowners Multiple Peril									
00040	4.0	Homeowners Multiple Peril									
00050	5.1	Commercial Multiple Peril (Non-Liability Portion)									
00050	5.2	Commercial Multiple Peril (Liability Portion)	\$ 125,062		\$ 44,121	\$ 81,941	\$ 102,426	\$ 114,384	\$ 11,672	\$ 44,121	\$ 81,935
00310	6.0	Mortgage Guaranty									
00080	8.0	Ocean Marine									
00090	9.0	Inland Marine									
010100	10.0	Financial Guaranty									
010110	11.0	Medical Malpractice									
010120	12.0	Earthquake									
0450	13.0	Group A&H									
0450	14.0	Credit A&H (Group & Individual)									
0450	15.1	Collectively Renewable A&H									
0450	15.2	Non-Cancellable A&H									
0450	15.3	Guaranteed Renewable A&H									
0450	15.4	Non-Renew-Statd Reasons Only A&H									
0450	15.5	Other Accident Only									
0450	15.6	All Other A&H									
0450	15.7	Federal Employees Health Benefits Program									
010160	16.0	Workers' Compensation									
010170	17.0	Other Liability	\$ 378		\$ 132	\$ 246	\$ 307	\$ 343	\$ 35	\$ 132	\$ 246
010191	19.1	Private Passenger Auto No-Fault (PIP)									
010192	19.2	Other Private Passenger Auto Liability									
010193	19.3	Commercial Auto No-Fault (PIP)									
010194	19.4	Other Commercial Auto Liability									
020211	21.1	Private Passenger Auto Phys Damage									
020212	21.2	Commercial Auto Physical Damage									
020220	22.0	Aircraft (All Perils)									
020230	23.0	Fidelity									
020240	24.0	Surety									
020260	26.0	Burglary and Theft									
020270	27.0	Boiler and Machinery									
020280	28.0	Credit									
04041	28.0	Credit Disability									
010106	31.0	Auto Warranties									
010173	31.0	Prepaid Legal									
020245	31.0	Bail Bonds									
020250	31.0	Glass									
020285	31.0	Title									
020290	31.0	Livestock									
05020	31.0	Industrial Extended Coverage									
05040	31.0	Mobile Home Multiple Peril									
05050	31.0	Mobile Home Physical Damage									
06007	31.0	Home Warranties									
06008	31.0	Service Warranties									
	31.0	Reinsurance									
	31.0	Other - Property									
	31.0	Other - Casualty									
	31.0	Other									
Total			\$ 164,250		\$ 57,487	\$ 106,763	\$ 124,852	\$ 149,036	\$ 15,208	\$ 57,487	\$ 106,757

\* Pursuant to Section 624-4095(4), Florida Statutes  
Projections must follow this format.



### Planned Premium Volume By Line of Business (Nationwide)

**Company Name:**

**Magnolia Insurance Company**

### Planned Premium Volume By Line of Business (Nationwide)

Year 3

Annual Statement Page 15		Statement of Premiums Written and Earned									
LOB	Line	Description	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Adjusted Net Premiums Written*	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
0010	1.0	Fire	\$ 13,370		\$ 4,679	\$ 8,691	\$ 7,821	\$ 13,370		\$ 4,679	\$ 8,690
0020	2.1	Allied Lines	\$ 24,440		\$ 8,554	\$ 15,886	\$ 14,298	\$ 24,440		\$ 8,554	\$ 15,886
0570	2.2	Multiple Peril Crop									
0020	2.3	Federal Flood									
0030	3.0	Farmowners Multiple Peril									
0040	4.0	Homeowners Multiple Peril									
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)									
0050	5.2	Commercial Multiple Peril (Liability Portion)	\$ 126,062		\$ 44,121	\$ 81,941	\$ 102,426	\$ 126,066		\$ 44,121	\$ 81,945
0310	6.0	Mortgage Guaranty									
0080	8.0	Ocean Marine									
0090	9.0	Inland Marine									
0100	10.0	Financial Guaranty									
0110	11.0	Medical Malpractice									
0120	12.0	Earthquake									
0450	13.0	Group A&H									
0450	14.0	Credit A&H (Group & Individual)									
0450	15.1	Collectively Renewable A&H									
0450	15.2	Non-Cancellable A&H									
0450	15.3	Guaranteed Renewable A&H									
0450	15.4	Non-Renew-Statd Reasons Only A&H									
0450	15.5	Other Accident Only									
0450	15.6	All Other A&H									
0450	15.7	Federal Employees Health Benefits Program									
0160	16.0	Workers' Compensation									
0170	17.0	Other Liability	\$ 378		\$ 132	\$ 246	\$ 307	\$ 378		\$ 132	\$ 246
0191	19.1	Private Passenger Auto No-Fault (PIP)									
0192	19.2	Other Private Passenger Auto Liability									
0193	19.3	Commercial Auto No-Fault (PIP)									
0194	19.4	Other Commercial Auto Liability									
0211	21.1	Private Passenger Auto Phys Damage									
0212	21.2	Commercial Auto Physical Damage									
0220	22.0	Aircraft (All Perils)									
0230	23.0	Fidelity									
0240	24.0	Surety									
0260	26.0	Burglary and Theft									
0270	27.0	Boiler and Machinery									
0280	28.0	Credit									
0441	28.0	Credit Disability									
0106	31.0	Auto Warranties									
0173	31.0	Prepaid Legal									
0245	31.0	Bail Bonds									
0250	31.0	Glass									
0285	31.0	Title									
0290	31.0	Livestock									
0520	31.0	Industrial Extended Coverage									
0540	31.0	Mobile Home Multiple Peril									
0550	31.0	Mobile Home Physical Damage									
0607	31.0	Home Warranties									
0608	31.0	Service Warranties									
	31.0	Reinsurance									
	31.0	Other - Property									
	31.0	Other - Casualty									
	31.0	Other									
		Total	\$ 164,250		\$ 57,487	\$ 106,763	\$ 124,852	\$ 164,254		\$ 57,487	\$ 106,767

\* Pursuant to Section 624-4095(4), Florida Statutes  
Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Nationwide)

Year 1

Annual Statement Page 15		Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
LOB Line						
0010	1.0	Fire				
0020	2.0	Allied Lines	\$ 818	\$ 2,211		\$ 3,029
0570	2.2	Multiple Peril Crop				
0020	2.3	Federal Flood	\$ 1,495	\$ 4,042		\$ 5,537
0030	3.0	Farmowners Multiple Peril				
0040	4.0	Homeowners Multiple Peril				
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)				
0050	5.2	Commercial Multiple Peril (Liability Portion)	\$ 7,711	\$ 20,849		\$ 28,560
0310	6.0	Mortgage Guaranty				
0080	8.0	Ocean Marine				
0090	9.0	Inland Marine				
0100	10.0	Financial Guaranty				
0110	11.0	Medical Malpractice				
0120	12.0	Earthquake				
0450	13.0	Group A&H				
0450	14.0	Credit A&H (Group & Individual)				
0450	15.1	Collectively Renewable A&H				
0450	15.2	Non-Cancellable A&H				
0450	15.3	Guaranteed Renewable A&H				
0450	15.4	Non-Renew - Stated Reasons Only A&H				
0450	15.5	Other Accident Only				
0450	15.6	All Other A&H				
0450	15.7	Federal Employees Health Benefits Program				
0160	16.0	Workers' Compensation				
0170	17.0	Other Liability	\$ 23	\$ 62		\$ 86
0191	19.1	Private Passenger Auto No-Fault (PIP)				
0192	19.2	Other Private Passenger Auto Liability				
0193	19.3	Commercial Auto No-Fault (PIP)				
0194	19.4	Other Commercial Auto Liability				
0211	21.1	Private Passenger Auto Phys Damage				
0212	21.2	Commercial Auto Physical Damage				
0220	22.0	Aircraft (All Perils)				
0230	23.0	Fidelity				
0240	24.0	Surety				
0260	26.0	Burglary and Theft				
0270	27.0	Boiler and Machinery				
0280	28.0	Credit				
0441	28.0	Credit Disability				
0106	31.0	Auto Warranties				
0173	31.0	Prepaid Legal				
0245	31.0	Bail Bonds				
0250	31.0	Glass				
0285	31.0	Title				
0290	31.0	Livestock				
0520	31.0	Industrial Extended Coverage				
0540	31.0	Mobile Home Multiple Peril				
0550	31.0	Mobile Home Physical Damage				
0607	31.0	Home Warranties				
0608	31.0	Service Warranties				
	31.0	Reinsurance				
	31.0	Other				
	31.0	Other				
	31.0	Other				
Total			\$ 10,047	\$ 27,165		\$ 37,212
Verification from page 6			=====	=====		37,212

\* Include loss adjustment expenses.

Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Nationwide)

Annual Statement Page 15		Year 2			
LOB Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
0010 1.0	Fire	\$ 4,265	\$ 432		\$ 4,697
0020 2.0	Allied Lines	\$ 7,796	\$ 790		\$ 8,586
0570 2.2	Multiple Peril Crop				
0020 2.3	Federal Flood				
0030 3.0	Farmowners Multiple Peril				
0040 4.0	Homeowners Multiple Peril				
0050 5.1	Commercial Multiple Peril (Non-Liability Portion)	\$ 40,210	\$ 4,074		\$ 44,284
0050 5.2	Commercial Multiple Peril (Liability Portion)				
0310 6.0	Mortgage Guaranty				
0080 8.0	Ocean Marine				
0090 9.0	Inland Marine				
0100 10.0	Financial Guaranty				
0110 11.0	Medical Malpractice				
0120 12.0	Earthquake				
0450 13.0	Group A&H				
0450 14.0	Credit A&H (Group & Individual)				
0450 15.1	Collectively Renewable A&H				
0450 15.2	Non-Cancellable A&H				
0450 15.3	Guaranteed Renewable A&H				
0450 15.4	Non-Renew - Stated Reasons Only A&H				
0450 15.5	Other Accident Only				
0450 15.6	All Other A&H				
0450 15.7	Federal Employees Health Benefits Program				
0160 16.0	Workers' Compensation				
0170 17.0	Other Liability	\$ 120	\$ 12		\$ 133
0191 19.1	Private Passenger Auto No-Fault (PIP)				
0192 19.2	Other Private Passenger Auto Liability				
0193 19.3	Commercial Auto No-Fault (PIP)				
0194 19.4	Other Commercial Auto Liability				
0211 21.1	Private Passenger Auto Phys Damage				
0212 21.2	Commercial Auto Physical Damage				
0220 22.0	Aircraft (All Perils)				
0230 23.0	Fidelity				
0240 24.0	Surety				
0260 26.0	Burglary and Theft				
0270 27.0	Boiler and Machinery				
0280 28.0	Credit				
0441 28.0	Credit Disability				
0106 31.0	Auto Warranties				
0173 31.0	Prepaid Legal				
0245 31.0	Bail Bonds				
0250 31.0	Glass				
0285 31.0	Tile				
0290 31.0	Livestock				
0520 31.0	Industrial Extended Coverage				
0540 31.0	Mobile Home Multiple Peril				
0550 31.0	Mobile Home Physical Damage				
0607 31.0	Home Warranties				
0608 31.0	Service Warranties				
	Reinsurance				
	Other				
	Other				
Total		\$ 52,391	\$ 5,308		\$ 57,700
Verification from page 6					57,700

\* Include loss adjustment expenses.

Projections must follow this format.

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**Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Nationwide)**

\* Include loss adjustment expenses.

**Projections must follow this format.**



## Net Premium and Loss Developments By Line of Business (Florida Business Only)

Net Premium and Loss Developments By Line of Business (Florida Business Only)										
Annual Statement Page 15		Year 1			Year 2			Year 3		
LOB Line	Description	Premiums Earned	Losses Incurred*	Loss Ratio	Premiums Earned	Losses Incurred	Loss Ratio	Premiums Earned	Losses Incurred*	Loss Ratio
0010 1.0	Fire	\$ 5,423	\$ 3,029	56%	\$ 8,690	\$ 4,697	54%	\$ 8,690	\$ 4,700	54%
0020 2.1	Allied Lines	\$ 9,913	\$ 5,537	56%	\$ 15,886	\$ 8,586	54%	\$ 15,886	\$ 8,593	54%
0020 2.2	Multiple Peril Crop									
0020 2.3	Federal Flood									
0030 3.0	Farmowners Multiple Peril									
0040 4.0	Homeowners Multiple Peril									
0050 5.1	Commercial Multiple Peril (Non-Liability Portion)									
0050 5.2	Commercial Multiple Peril (Liability Portion)									
0050 5.3	Mortgage Guaranty									
0060 6.0										
0080 8.0	Ocean Marine									
0090 9.0	Inland Marine									
0100 10.0	Financial Guaranty									
0110 11.0	Medical Malpractice									
0120 12.0	Earthquake									
0450 13.0	Group A&H									
0450 14.0	Credit A&H (Group & Individual)									
0450 15.1	Collectively Renewable A&H									
0450 15.2	Non-Cancellable A&H									
0450 15.3	Guaranteed Renewable A&H									
0450 15.4	Non-Renew-States Reasons Only A&H									
0450 15.5	Other Accident Only									
0450 15.6	All Other A&H									
0450 15.7	Federal Employees Health Benefits Program									
0160 16.0	Workers' Compensation									
0170 17.0	Other Liability									
0191 19.1	Private Passenger Auto No-Fault (PIP)									
0192 19.2	Other Private Passenger Auto Liability									
0193 19.3	Commercial Auto No-Fault (PIP)									
0194 19.4	Other Commercial Auto Liability									
0211 21.1	Private Passenger Auto Phys Damage									
0212 21.2	Commercial Auto Physical Damage									
0220 22.0	Aircraft (All Perils)									
0230 23.0	Fidelity									
0240 24.0	Surety									
0260 26.0	Burglary and Theft									
0270 27.0	Boiler and Machinery									
0280 28.0	Credit									
0441 28.0	Credit Disability									
0106 31.0	Auto Warranties									
0173 31.0	Prepaid Legal									
0245 31.0	Bail Bonds									
0250 31.0	Glass									
0285 31.0	Title									
0290 31.0	Livestock									
0520 31.0	Industrial Extended Coverage									
0540 31.0	Mobile Home Multiple Peril									
0550 31.0	Mobile Home Physical Damage									
0607 31.0	Home Warranties									
0608	Service Warranties									
31.0	Reinsurance									
31.0	Other									
31.0	Other									
31.0	Other									
Total		\$ 86,621	\$ 37,212	56%	\$ 106,757	\$ 57,700	54%	#####	\$ 57,746	54%

Projections must follow this format.



Company Name:

Magnolia Insurance Company

Planned Premium Volume By Line of Business (Florida Business Only)

Year 1

Annual Statement Page 15		Description	Planned Premium Volume by Line of Business (Florida Business Only)					Year 1		
LOB	Line		Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned
0010	1.0	Fire	\$ 4,689	\$ 7,799	\$ 1,436	\$ 11,052	\$ 1,857	\$ 5,003	\$ 1,436	\$ 5,423
0020	2.1	Allied Lines	\$ 8,572	\$ 14,257	\$ 2,626	\$ 20,203	\$ 3,394	\$ 9,145	\$ 2,626	\$ 9,913
0070	2.2	Multiple Peril Crop								
0020	2.3	Federal Flood								
0030	3.0	Farmowners Multiple Peril								
0040	4.0	Homeowners Multiple Peril								
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)								
0050	5.2	Commercial Multiple Peril (Liability Portion)								
00310	6.0	Mortgage Guaranty								
0080	8.0	Ocean Marine								
0090	9.0	Inland Marine								
0100	10.0	Financial Guaranty								
0110	11.0	Medical Malpractice								
0120	12.0	Earthquake								
0450	13.0	Group A&H								
0450	14.0	Credit A&H (Group & Individual)								
0450	15.1	Collectively Renewable A&H								
0450	15.2	Non-Cancellable A&H								
0450	15.3	Guaranteed Renewable A&H								
0450	15.4	Non-Renew-Statred Reasons Only A&H								
0450	15.5	Other Accident Only								
0450	15.6	All Other A&H								
0450	15.7	Federal Employees Health Benefits Program								
0160	16.0	Workers' Compensation								
0170	17.0	Other Liability	\$ 132	\$ 220	\$ 41	\$ 312	\$ 52	\$ 141	\$ 41	\$ 153
0191	19.1	Private Passenger Auto No-Fault (PIP)								
0192	19.2	Other Private Passenger Auto Liability								
0193	19.3	Commercial Auto No-Fault (PIP)								
0194	19.4	Other Commercial Auto Liability								
0211	21.1	Private Passenger Auto Phys Damage								
0212	21.2	Commercial Auto Physical Damage								
0220	22.0	Aircraft (All Perils)								
0230	23.0	Fidelity								
0240	24.0	Surety								
0260	26.0	Burglary and Theft								
0270	27.0	Boiler and Machinery								
0280	28.0	Credit								
0441	28.0	Credit Disability								
0106	31.0	Auto Warranties								
0173	31.0	Prepaid Legal								
0245	31.0	Bail Bonds								
0250	31.0	Glass								
0285	31.0	Title								
0290	31.0	Livestock								
0520	31.0	Industrial Extended Coverage								
0540	31.0	Mobile Home Multiple Peril								
0550	31.0	Mobile Home Physical Damage								
0607	31.0	Home Warranties								
0608	31.0	Service Warranties								
	31.0	Reinsurance								
	31.0	Other								
	31.0	Other								
Total			\$ 57,608	\$ 95,812	\$ 17,646	\$ 135,774	\$ 22,810	\$ 61,456	\$ 17,646	\$ 66,621
Verification from page 14										\$ 66,621

Projections must follow this format.



Annual Statement Page 16 Line	LOB	Description	Year 2					Year 2				
			Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Written	Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned		
0010	1.0	Fire	\$ 13,370			\$ 8,691	\$ 12,132	\$ 1,238	\$ 4,679	\$ 8,690		
0020	2.1	Allied Lines	\$ 24,440		\$ 4,679	\$ 15,886	\$ 22,177	\$ 2,263	\$ 8,554	\$ 15,886		
0570	2.2	Multiple Peril Crop										
0020	2.3	Federal Flood										
0030	3.0	Farmowners Multiple Peril										
0040	4.0	Homeowners Multiple Peril										
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)										
0050	5.2	Commercial Multiple Peril (Liability Portion)	\$ 126,062		\$ 44,121	\$ 81,941	\$ 114,384	\$ 11,672	\$ 44,121	\$ 81,935		
0310	6.0	Mortgage Guaranty										
0080	8.0	Ocean Marine										
0090	9.0	Inland Marine										
0100	10.0	Financial Guaranty										
0110	11.0	Medical Malpractice										
0120	12.0	Earthquake										
0450	13.0	Group A&H										
0450	14.0	Credit A&H (Group & Individual)										
0450	15.1	Collectively Renewable A&H										
0450	15.2	Non-Cancellable A&H										
0450	15.3	Guaranteed Renewable A&H										
0450	15.4	Non-Renew-Statred Reasons Only A&H										
0450	15.5	Other Accident Only										
0450	15.6	All Other A&H										
0450	15.7	Federal Employees Health Benefits Program										
0160	16.0	Workers' Compensation										
0170	17.0	Other Liability	\$ 378		\$ 132	\$ 246	\$ 343	\$ 35	\$ 132	\$ 246		
0191	19.1	Private Passenger Auto No-Fault (PIP)										
0192	19.2	Other Private Passenger Auto Liability										
0193	19.3	Commercial Auto No-Fault (PIP)										
0194	19.4	Other Commercial Auto Liability										
0211	21.1	Private Passenger Auto Phys Damage										
0212	21.2	Commercial Auto Physical Damage										
0220	22.0	Aircraft (All Perils)										
0230	23.0	Fidelity										
0240	24.0	Surety										
0260	26.0	Burglary and Theft										
0270	27.0	Boiler and Machinery										
0280	28.0	Credit										
0441	28.0	Credit Disability										
0106	31.0	Auto Warranties										
0173	31.0	Prepaid Legal										
0245	31.0	Bail Bonds										
0250	31.0	Glass										
0285	31.0	Title										
0290	31.0	Livestock										
0520	31.0	Industrial Extended Coverage										
0540	31.0	Mobile Home Multiple Peril										
0550	31.0	Mobile Home Physical Damage										
0607	31.0	Home Warranties										
0608	31.0	Service Warranties										
	31.0	Reinsurance										
	31.0	Other										
	31.0	Other										
		Total	\$ 164,250		\$ 57,487	\$ 106,763	\$ 149,036	\$ 15,208	\$ 57,487	\$ 106,757		
		Verification from page 14										

Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Planned Premium Volume By Line of Business (Florida Business Only)

Planned Premium Volume By Line of Business (Florida Business Only)											
Annual Statement Page 15		Description	Year 3				Net Premiums Written	Direct Premiums Written	Assumed Premiums Written	Ceded Premiums Written	Net Premiums Earned
LOB	Line		Direct Premiums Earned	Assumed Premiums Earned	Ceded Premiums Earned	Net Premiums Earned					
0010	1.0	Fire	\$ 13,370		\$ 4,679	\$ 8,691	\$ 13,370		\$ 4,679	\$ 8,690	
0020	2.1	Allied Lines	\$ 24,440		\$ 8,554	\$ 15,886	\$ 24,440		\$ 8,554	\$ 15,886	
0570	2.2	Multiple Peril Crop									
0020	2.3	Federal Flood									
0030	3.0	Farmowners Multiple Peril									
0040	4.0	Homeowners Multiple Peril									
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)									
0050	5.2	Commercial Multiple Peril (Liability Portion)									
0310	6.0	Mortgage Guaranty	\$ 126,062		\$ 44,121	\$ 81,941	\$ 126,066		\$ 44,121	\$ 81,945	
0080	8.0	Ocean Marine									
0090	9.0	Inland Marine									
0100	10.0	Financial Guaranty									
0110	11.0	Medical Malpractice									
0120	12.0	Earthquake									
0450	13.0	Group A&H									
0450	14.0	Credit A&H (Group & Individual)									
0450	15.1	Collectively Renewable A&H									
0450	15.2	Non-Cancellable A&H									
0450	15.3	Guaranteed Renewable A&H									
0450	15.4	Non-Renew-Statd Reasons Only A&H									
0450	15.5	Other Accident Only									
0450	15.6	All Other A&H									
0450	15.7	Federal Employees Health Benefits Program									
0160	16.0	Workers' Compensation									
0170	17.0	Other Liability	\$ 378		\$ 132	\$ 246	\$ 378		\$ 132	\$ 246	
0191	19.1	Private Passenger Auto No-Fault (PIP)									
0192	19.2	Other Private Passenger Auto Liability									
0193	19.3	Commercial Auto No-Fault (PIP)									
0194	19.4	Other Commercial Auto Liability									
0211	21.1	Private Passenger Auto Phys Damage									
0212	21.2	Commercial Auto Physical Damage									
0220	22.0	Aircraft (All Perils)									
0230	23.0	Fidelity									
0240	24.0	Surety									
0260	26.0	Burglary and Theft									
0270	27.0	Boiler and Machinery									
0280	28.0	Credit									
0441	28.0	Credit Disability									
0106	31.0	Auto Warranties									
0173	31.0	Prepaid Legal									
0245	31.0	Bail Bonds									
0250	31.0	Glass									
0285	31.0	Title									
0290	31.0	Livestock									
0520	31.0	Industrial Extended Coverage									
0540	31.0	Mobile Home Multiple Peril									
0550	31.0	Mobile Home Physical Damage									
0607	31.0	Home Warranties									
0608	31.0	Service Warranties									
	31.0	Reinsurance									
	31.0	Other									
	31.0	Other									
	31.0	Other									
Total			\$ 164,250		\$ 57,487	\$ 106,763	\$ 164,254		\$ 57,487	\$ 106,767	
Verification from page 14											

Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Florida Business Only)

Annual Statement		Year 1			
LOB	Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*
					Net Losses Incurred*
0010	1.0	Fire	\$ 818	\$ 2,211	\$ 3,029
0020	2.0	Allied Lines	\$ 1,495	\$ 4,042	\$ 5,537
0570	2.2	Multiple Peril Crop			
0020	2.3	Federal Flood			
0030	3.0	Farmowners Multiple Peril			
0040	4.0	Homeowners Multiple Peril			
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)			
0050	5.2	Commercial Multiple Peril (Liability Portion)			
0310	6.0	Mortgage Guaranty	\$ 7,711	\$ 20,849	\$ 28,560
0080	8.0	Ocean Marine			
0090	9.0	Inland Marine			
0100	10.0	Financial Guaranty			
0110	11.0	Medical Malpractice			
0120	12.0	Earthquake			
0450	13.0	Group A&H			
0450	14.0	Credit A&H (Group & Individual)			
0450	15.1	Collectively Renewable A&H			
0450	15.2	Non-Cancellable A&H			
0450	15.3	Guaranteed Renewable A&H			
0450	15.4	Non-Renew - Stated Reasons Only A&H			
0450	15.5	Other Accident Only			
0450	15.6	All Other A&H			
0450	15.7	Federal Employees Health Benefits Program			
0160	16.0	Workers' Compensation			
0170	17.0	Other Liability	\$ 23	\$ 62	\$ 86
0191	19.1	Private Passenger Auto No-Fault (PIP)			
0192	19.2	Other Private Passenger Auto Liability			
0193	19.3	Commercial Auto No-Fault (PIP)			
0194	19.4	Other Commercial Auto Liability			
0211	21.1	Private Passenger Auto Phys Damage			
0212	21.2	Commercial Auto Physical Damage			
0220	22.0	Aircraft (All Perils)			
0230	23.0	Fidelity			
0240	24.0	Surety			
0260	26.0	Burglary and Theft			
0270	27.0	Boiler and Machinery			
0280	28.0	Credit			
0441	28.0	Credit Disability			
0106	31.0	Auto Warranties			
0173	31.0	Prepaid Legal			
0245	31.0	Bail Bonds			
0250	31.0	Glass			
0285	31.0	Title			
0290	31.0	Livestock			
0520	31.0	Industrial Extended Coverage			
0540	31.0	Mobile Home Multiple Peril			
0550	31.0	Mobile Home Physical Damage			
0607	31.0	Home Warranties			
0607	31.0	Service Warranties			
0608	31.0	Reinsurance			
	31.0	Other			
	31.0	Other			
Total			\$ 10,047	\$ 27,165	\$ 37,212
Verification from page 14			=====	=====	=====

\* Include loss adjustment expenses.

Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Florida Business Only)

Annual Statement Page 15		Year 2			
LOB Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
0010	1.0 Fire				
0020	2.0 Allied Lines	\$ 4,265	\$ 432		\$ 4,697
0570	Multiple Peril Crop	\$ 7,796	\$ 790		\$ 8,586
0020	2.2 Federal Flood				
0030	3.0 Farmowners Multiple Peril				
0040	4.0 Homeowners Multiple Peril				
0050	5.1 Commercial Multiple Peril (Non-Liability Portion)				
0050	5.2 Commercial Multiple Peril (Liability Portion)	\$ -	\$ 4,074		\$ 44,284
0310	6.0 Mortgage Guaranty	\$ 40,210			
0060	8.0 Ocean Marine				
0080	9.0 Inland Marine				
0100	10.0 Financial Guaranty				
0110	11.0 Medical Malpractice				
0120	12.0 Earthquake				
0450	13.0 Group A&H				
0450	14.0 Credit A&H (Group & Individual)				
0450	15.1 Collectively Renewable A&H				
0450	15.2 Non-Cancelable A&H				
0450	15.3 Guaranteed Renewable A&H				
0450	15.4 Non-Renew - Stated Reasons Only A&H				
0450	15.5 Other Accident Only				
0450	15.6 All Other A&H				
0450	15.7 Federal Employees Health Benefits Program				
0160	16.0 Workers' Compensation				
0170	17.0 Other Liability	\$ 120	\$ 12		\$ 133
0191	19.1 Private Passenger Auto No-Fault (PIP)				
0192	19.2 Other Private Passenger Auto Liability				
0193	19.3 Commercial Auto No-Fault (PIP)				
0194	19.4 Other Commercial Auto Liability				
0211	21.1 Private Passenger Auto Phys Damage				
0212	21.2 Commercial Auto Physical Damage				
0220	22.0 Aircraft (All Perils)				
0230	23.0 Fidelity				
0240	24.0 Surety				
0260	26.0 Burglary and Theft				
0270	27.0 Boiler and Machinery				
0280	28.0 Credit				
0441	28.0 Credit Disability				
0106	31.0 Auto Warranties				
0173	31.0 Prepaid Legal				
0245	31.0 Bail Bonds				
0250	31.0 Glass				
0285	31.0 Tile				
0290	31.0 Livestock				
0520	31.0 Industrial Extended Coverage				
0540	31.0 Mobile Home Multiple Peril				
0550	31.0 Mobile Home Physical Damage				
0607	31.0 Home Warranties				
0608	31.0 Service Warranties				
	31.0 Reinsurance				
	31.0 Other				
	31.0 Other				
Total		\$ 52,391	\$ 5,308		\$ 57,700
Verification from page 14		=====	=====		\$ 57,700
* Include loss adjustment expenses.					

Projections must follow this format.



Company Name:  
Magnolia Insurance Company  
Incurred Loss Summary By Line of Business (Florida Business Only)

Incurred Loss Summary By Line of Business (Florida Business Only)						Year 3
Annual Statement Page 15	LOB Line	Description	Direct Losses Incurred*	Assumed Losses Incurred*	Ceded Losses Incurred*	Net Losses Incurred*
	0010	1.0 Fire	\$ 4,700			\$ 4,700
	0020	2.0 Allied Lines	\$ 8,593			\$ 8,593
	0570	2.2 Multiple Peril Crop				
	0020	2.3 Federal Flood				
	0030	3.0 Farmowners Multiple Peril				
	0040	4.0 Homeowners Multiple Peril				
	0050	5.1 Commercial Multiple Peril (Non-Liability Portion)	\$ -			
	0050	5.2 Commercial Multiple Peril (Liability Portion)	\$ 44,320			\$ 44,320
	0310	6.0 Mortgage Guaranty				
	0080	8.0 Ocean Marine				
	0090	9.0 Inland Marine				
	0100	10.0 Financial Guaranty				
	0110	11.0 Medical Malpractice				
	0120	12.0 Earthquake				
	0450	13.0 Group A&H				
	0450	14.0 Credit A&H (Group & Individual)				
	0450	15.1 Collectively Renewable A&H				
	0450	15.2 Non-Cancellable A&H				
	0450	15.3 Guaranteed Renewable A&H				
	0450	15.4 Non-Renew - Stated Reasons Only A&H				
	0450	15.5 Other Accident Only				
	0450	15.6 All Other A&H				
	0450	15.7 Federal Employees Health Benefits Program				
	0160	16.0 Workers' Compensation	\$ 133			\$ 133
	0170	17.0 Other Liability				
	0191	19.1 Private Passenger Auto No-Fault (PIP)				
	0192	19.2 Other Private Passenger Auto Liability				
	0193	19.3 Commercial Auto No-Fault (PIP)				
	0194	19.4 Other Commercial Auto Liability				
	0211	21.1 Private Passenger Auto Phys Damage				
	0212	21.2 Commercial Auto Physical Damage				
	0220	22.0 Aircraft (All Perils)				
	0230	23.0 Fidelity				
	0240	24.0 Surety				
	0260	Burglary and Theft				
	0270	Boiler and Machinery				
	0280	Credit				
	0441	Credit Disability				
	0106	Auto Warranties				
	0173	Prepaid Legal				
	0245	Bail Bonds				
	0250	Glass				
	0285	Title				
	0290	Livestock				
	0520	Industrial Extended Coverage				
	0540	Mobile Home Multiple Peril				
	0550	Mobile Home Physical Damage				
	0607	Home Warranties				
	0608	Service Warranties				
		Reinsurance				
		Other				
		Other				
		Other				
		Total	\$ 57,746			\$ 57,746
		Verification from page 14				



Annual Statement Page 15 Line		Premiums, Losses, Expenses and Percentages To Premiums Earned for Direct Business Written	Direct Premiums Written		Direct Premiums Earned		Losses Incurred		Loss Adjustment Expenses Incurred		Commission & Brokerage Expenses Incurred		Taxes, Licenses, & Fees Incurred		Other Acquisition Expenses Incurred		All Other Expenses Incurred		
	LOB		Amount		Amount		%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
0010		Fire	\$	4,689	\$	1,857	100%	\$	2,936	158%	\$	93	5%	\$	1,910	103%	\$	82	4%
0020		Allied Lines	\$	8,572	\$	3,394	100%	\$	5,367	158%	\$	170	5%	\$	3,492	103%	\$	150	4%
0570		Multiple Peril Crop																	
0020		Federal Flood																	
0030		Farmowners Multiple Peril																	
0040		Homeowners Multiple Peril																	
0050		Commercial Multiple Peril (Non-Liability Portion)	\$	44,214	\$	17,507	100%	\$	27,681	158%	\$	879	5%	\$	18,013	103%	\$	774	4%
0050		Commercial Multiple Peril (Liability Portion)																	
0310		Mortgage Guaranty																	
0080		Ocean Marine																	
0090		Inland Marine																	
0100		Financial Guaranty																	
0110		Medical Malpractice																	
0120		Earthquake																	
0450		Group A&H																	
0450		Credit A&H (Group & Individual)																	
0450		Collectively Renewable A&H																	
0450		Non-Cancellable A&H																	
0450		Guaranteed Renewable A&H																	
0450		Non-Renew-States Reasons Only A&H																	
0450		Other Accident Only																	
0450		All Other A&H																	
0450		Federal Employees Health Benefits Program																	
0160		Workers' Compensation																	
0170		Other Liability	\$	132	\$	52	100%	\$	83	158%	\$	3	5%	\$	54	103%	\$	2	4%
0191		Private Passenger Auto No-Fault (PIP)																	
0192		Other Private Passenger Auto Liability																	
0193		Commercial Auto No-Fault (PIP)																	
0194		Other Commercial Auto Liability																	
0211		Private Passenger Auto Phys Damage																	
0212		Commercial Auto Physical Damage																	
0220		Aircraft (All Perils)																	
0230		Fidelity																	
0240		Surety																	
0260		Burglary and Theft																	
0270		Boiler and Machinery																	
0280		Credit																	
0441		Credit Disability																	
0106		Auto Warranties																	
0173		Prepaid Legal																	
0245		Bail Bonds																	
0250		Glass																	
0285		Tile																	
0290		Livestock																	
0520		Industrial Extended Coverage																	
0540		Mobile Home Multiple Peril																	
0550		Mobile Home Physical Damage																	
0607		Home Warranties																	
0608		Service Warranties																	
3100		Reinsurance																	
3100		Other																	
3100		Other																	
3100		Other																	
Total			\$	57,608	\$	22,810	100%	\$	36,067	158%	\$	1,145	5%	\$	23,470	103%	\$	1,008	4%
Verification from Page 15 - should equal line above.			\$	57,608	\$	22,810	100%	\$	36,067	158%	\$	1,145	5%	\$	23,470	103%	\$	1,008	4%



Company Name:  
Magnolia Insurance Company  
Expense Allocation to Lines of Business Net of Reinsurance (Florida Business Only)

Year 1

Annual Statement Page 15 Line	LOB	Premiums, Losses, Expenses and Percentages To Premiums Earned for Business Net of Reinsurance	Net Premiums Written		Net Premiums Earned		Losses Incurred		Loss Adjustment Expenses Incurred		Commission & Brokerage Expenses Incurred		Taxes, Licenses, & Fees Incurred		Other Acquisition Expenses Incurred		All Other Expenses Incurred	
			Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
0010	1.0	Fire	\$ 11,052	100%	\$ 5,423	100%	\$ 2,936	54%	\$ 93	54%	\$ 1,910	35%	\$ 82	35%	\$ 332	0%	\$ 332	6%
0020	2.1	Allied Lines	\$ 20,203	100%	\$ 9,913	100%	\$ 5,367	54%	\$ 170	54%	\$ 3,492	35%	\$ 150	35%	\$ 606	0%	\$ 606	6%
0070	2.2	Multiple Peril Crop																
0020	2.3	Federal Flood																
0030	3.0	Farmowners Multiple Peril																
0040	4.0	Homeowners Multiple Peril																
0050	5.1	Commercial Multiple Peril (Non-Liability Portion)																
0050	5.2	Commercial Multiple Peril (Liability Portion)																
00310	6.0	Mortgage Guaranty	\$ 104,207	100%	\$ 51,131	100%	\$ 27,681	54%	\$ 879	54%	\$ 18,013	35%	\$ 774	35%	\$ 3,128	0%	\$ 3,128	6%
0080	8.0	Ocean Marine																
0090	9.0	Inland Marine																
0100	10.0	Financial Guaranty																
0110	11.0	Medical Malpractice																
0120	12.0	Earthquake																
0450	13.0	Group A&H																
0450	14.0	Credit A&H (Group & Individual)																
0450	15.1	Collectively Renewable A&H																
0450	15.2	Non-Cancellable A&H																
0450	15.3	Guaranteed Renewable A&H																
0450	15.4	Non-Renew-States Reasons Only A&H																
0450	15.5	Other Accident Only																
0450	15.6	All Other A&H																
0450	15.7	Federal Employees Health Benefits Program																
0160	16.0	Workers' Compensation																
0170	17.0	Other Liability	\$ 312	100%	\$ 153	100%	\$ 83	54%	\$ 3	54%	\$ 54	35%	\$ 2	35%	\$ 9	0%	\$ 9	6%
0191	19.1	Private Passenger Auto No-Fault (PIP)																
0192	19.2	Other Private Passenger Auto Liability																
0193	19.3	Commercial Auto No-Fault (PIP)																
0194	19.4	Other Commercial Auto Liability																
0211	21.1	Private Passenger Auto Phys Damage																
0212	21.2	Commercial Auto Physical Damage																
0220	22.0	Aircraft (All Perils)																
0230	23.0	Fidelity																
0240	24.0	Surety																
0260	26.0	Burglary and Theft																
0270	27.0	Boiler and Machinery																
0280	28.0	Credit																
0441	28.0	Credit Disability																
0106	31.0	Auto Warranties																
0173	31.0	Prepaid Legal																
0245	31.0	Bail Bonds																
0250	31.0	Glass																
0285	31.0	Title																
0290	31.0	Livestock																
0520	31.0	Industrial Extended Coverage																
0540	31.0	Mobile Home Multiple Peril																
0550	31.0	Mobile Home Physical Damage																
0607	31.0	Home Warranties																
0608	31.0	Service Warranties																
	31.0	Reinsurance																
	31.0	Other																
	31.0	Other																
		Total	\$ 135,774	100%	\$ 66,621	100%	\$ 36,067	54%	\$ 1,145	54%	\$ 23,470	35%	\$ 1,008	35%	\$ 4,075	0%	\$ 4,075	6%

Projections must follow this format.



# Magnolia Insurance Company

## Reinsurance Program Intermediary – Benfield, Inc.

Reinsurance Layers

Reinsurance Placement

Reinsurance Contract

1/100 PML – Summary Catastrophe Modeling

Magnolia Insurance Company will utilize and have access to Benfield's ReMetrics, and RiskOnline Products and Services including CAT Modeling products.



Description	Placed	Layer	ROL	Cost	Reinstatement	ROL
Private 1	100%	28,691,255	68.0%	19,510,053	Free	
FHCF	90%	100,777,963	6.2%	5,623,410	4,535,008	5.0%
TICL	90%	24,772,782	2.2%	490,501	1,114,775	5.0%
Private 2	100%	12,555,075	32.0%	4,017,624	Free	

Retention \$ 29,641,589 \$ 5,649,784

**Grand Total: \$ 35,291,372**

\$211,792,068	TICL Coverage Projection	
\$160,242,000	90% of \$76,322,850 xs \$135,469,218	
\$135,469,218	FHCF Coverage Projection	
	90% of \$100,777,963 xs \$34,691,255	
\$34,691,255	Private Reinsurance Layer 1	Private Reinsurance Layer 2
	\$28,691,255 xs \$6,000,000	\$12,555,075 xs \$34,691,255
\$6,000,000	Company Retention	

Notes:

FHCF/TICL estimates are based on 2007 rates



## Magnolia Insurance Company

Effective: June 1, 2008

	Layer 1	Layer 2	Layer 3
	\$15M XS \$6M	\$33.37M XS \$21M	\$25.1M XS \$54.37M
	78.75% ROL	53.67% ROL	26.07% ROL
	2.60%	2.60%	
	20.15%	25.65%	21.75%
	6.00%	10.00%	9.00%
	4.00%	4.00%	8.00%
		10.00%	20.00%
	4.00%	4.00%	
			8.00%
	57.00%	35.00%	
Catlin BDA			
DE Shaw			
Everest Re			
Flagstone Re			
Nephila			
New Castle			
Odyssey			
Renaissance Re			
London			
Amlin Syndicate #2001 (AML)		2.50%	7.50%
Ascot Syndicate #1414 (RTH)			10.00%
Catlin Syndicate #2003 (SJC)	2.50%	2.50%	
MAP Syndicate #2791 (MAP)	3.75%	3.75%	3.75%
Novae Syndicate #2007 (NVA)			5.00%
Omega Syndicate #958 (GSC)			5.00%
S.A. Meacock & Others Syndicate #727 (SAM)			2.00%
Grand Totals	100.00%	100.00%	100.00%
London Totals	6.25%	8.75%	33.25%

Layers include a prepaid reinstatement

Please note that Brokerage is 10% of gross reinsurance premium to Benfield Inc; additional 5% of gross reinsurance premium to Benfield UK as respects shares placed by Benfield UK in London-based Lloyds' Syndicates or Other London Companies. 5% on reinstatement premium to Benfield Inc; nil on reinstatement as



**Magnolia - Hurricane (Long Term)**  
**Probable Maximum Loss - RiskLink v7.0**  
*Citizens PLA Insurance in Force as of February 29, 2008*  
*Losses are Gross (Net of Deductibles) and Exclude Loss Amplification and Storm Surge*

**PML Analysis**

Probability Non-Exceed	Avg Return Time (Years)	[1] 60,000 RLv7LTnoLASS (000s)
99.99%	10,000	\$1,115,226
99.95%	2,000	\$729,639
99.90%	1,000	\$551,830
99.80%	500	\$388,331
99.60%	250	\$269,583
99.50%	200	\$238,003
99.00%	100	\$160,242
98.00%	50	\$108,477
96.00%	25	\$71,819
95.00%	20	\$61,896
90.00%	10	\$34,684

**Portfolio Summary**

Insurance In Force (000s)	\$14,929,526
Premium (000s)	\$94,990
Units In Force	60,000

**Average Annual Loss & Ratios**

Average Annual Loss	\$13,582,624
PML:Premium	1.69

[1] DPO selection of 60,000 policies





**Excess Catastrophe Reinsurance Contract**  
**Effective: June 1, 2008**

issued to

Magnolia Insurance Company  
Miami, Florida

*(hereinafter referred to as the "Company")*

by

The Subscribing Reinsurer(s) Executing the  
Interests and Liabilities Agreement(s)  
Attached Hereto  
*(hereinafter referred to as the "Reinsurer")*

**Article I - Classes of Business Reinsured**

By this Contract the Reinsurer agrees to reinsure the excess liability which may accrue to the Company under its policies, contracts and binders of insurance or reinsurance (hereinafter called "policies") in force at the effective date hereof or issued or renewed on or after that date, and classified by the Company as Property business, including Homeowners and Mobile Home, subject to the terms, conditions and limitations set forth herein and in Schedule A attached to and forming part of this Contract.

**Article II - Commencement and Termination**

- A. This Contract shall become effective June 1, 2008, with respect to losses arising out of loss occurrences commencing on or after that date, and shall remain in force through May 31, 2009, both days inclusive.
- B. Notwithstanding the provisions of paragraph A above, the Company may terminate a Subscribing Reinsurer's percentage share in this Contract at any time by giving written notice to the Subscribing Reinsurer in the event any of the following circumstances occur:
  - 1. The Subscribing Reinsurer's policyholders' surplus at any time during the term of this Contract has been reduced by more than 20.0% of the amount of surplus at the date of the Subscribing Reinsurer's most recent financial statement filed with regulatory authorities and available to the public as of the inception of this Contract; or
  - 2. The Subscribing Reinsurer's A.M. Best's rating has been assigned or downgraded below A- and/or Standard & Poor's rating has been assigned or downgraded below BBB+; or
  - 3. The Subscribing Reinsurer has become merged with, acquired by or controlled by any other company, corporation or individual(s), except for any transactions as to which,



immediately thereafter, such successor (a) is owned directly or indirectly by parties who held a majority of the shares or voting power of the Subscribing Reinsurer or whose board of directors is composed of a majority of individuals who served on the board of the Subscribing Reinsurer or whose nomination or election was approved by a vote of the directors of the Subscribing Reinsurer; or

4. A State Insurance Department or other legal authority has ordered the Subscribing Reinsurer to cease writing business; or
  5. The Subscribing Reinsurer has become insolvent or has been placed into liquidation or receivership (whether voluntary or involuntary) or proceedings have been instituted against the Subscribing Reinsurer for the appointment of a receiver, liquidator, rehabilitator, conservator or trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations.
- C. If this Contract is terminated or expires while a loss occurrence covered hereunder is in progress, the Reinsurer's liability hereunder shall, subject to the other terms and conditions of this Contract, be determined as if the entire loss occurrence had occurred prior to the termination or expiration of this Contract, provided that no part of such loss occurrence is claimed against any renewal or replacement of this Contract.

### **Article III - Territory**

The liability of the Reinsurer shall be limited to losses under policies covering property located within the territorial limits of the State of Florida; but this limitation shall not apply to moveable property if the Company's policies provide coverage when said moveable property is outside the aforesaid territorial limits.

### **Article IV - Exclusions**

- A. This Contract does not apply to and specifically excludes the following:
1. Reinsurance assumed by the Company under obligatory reinsurance agreements, except business assumed by the Company from Citizens Property Insurance Corporation.
  2. Hail damage to growing or standing crops.
  3. Flood Insurance when written and classified as such.
  4. Mortgage Impairment and Difference in Conditions when written as such.
  5. Title Insurance and all forms of Financial Guarantee, Credit and Insolvency Insurance.
  6. Aviation, Ocean Marine, Boiler and Machinery, Fidelity and Surety, Accident and Health, Animal Mortality and Workers' Compensation and Employers Liability.
  7. Errors and Omissions, Malpractice and any other type of Professional Liability insurance.



8. Loss and/or damage and/or costs and/or expenses arising from seepage and/or pollution and/or contamination, other than contamination from smoke. Nevertheless, this exclusion does not preclude payment of the cost of removing debris of property damaged by a loss otherwise covered hereunder, subject always to a limit of 25.0% of the Company's property loss under the applicable original policy.
9. Loss or liability as excluded under the provisions of the "War Exclusion Clause" attached to and forming part of this Contract.
10. Nuclear risks as defined in the "Nuclear Incident Exclusion Clause - Physical Damage - Reinsurance (U.S.A.)" attached to and forming part of this Contract.
11. Loss or liability from any Pool, Association or Syndicate and any assessment or similar demand for payment related to the FHCF or Citizens Property Insurance Corporation.
12. Loss or liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, however denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.
13. Transmission and distribution lines.
14. Mold, other than as a result of a covered peril.
15. Loss or liability as excluded under the provisions of the "Terrorism Exclusion (NMA 2930b)" attached to and forming part of this Contract.
16. All property loss, damage, destruction, erasure, corruption or alteration of Electronic Data from any cause whatsoever (including but not limited to Computer Virus) or loss of use, reduction in functionality, cost, expense or whatsoever nature resulting therefrom, unless resulting from a peril otherwise covered under the policy involved.

"Electronic Data" as used herein means facts, concepts and information converted to a form usable for communications, interpretation or processing by electronic and electromechanical data processing or electronically-controlled equipment and includes programs, software and other coded instructions for the processing and manipulation of data or the direction and manipulation of such equipment.

"Computer Virus" as used herein means a set of corrupting, harmful or otherwise unauthorized instructions or code, including a set of maliciously-introduced, unauthorized instructions or code, that propagate themselves through a computer system network of whatsoever nature.



However, in the event that a peril otherwise covered under the policy results from any of the matters described above, this Contract, subject to all other terms and conditions, will cover physical damage directly caused by such listed peril.

## **Article V - Retention and Limit**

- A. As respects each excess layer of reinsurance coverage provided by this Contract, the Company shall retain and be liable for the first amount of ultimate net loss, shown as "Company's Retention" for each excess layer in Schedule A attached hereto, arising out of each loss occurrence. The Reinsurer shall then be liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's retention, but the liability of the Reinsurer under each excess layer shall not exceed the amount, shown as "Reinsurer's Per Occurrence Limit" for that excess layer in Schedule A attached hereto, as respects any one loss occurrence.
- B. Notwithstanding the provisions above, no claim shall be made hereunder as respects losses arising out of loss occurrences commencing during the term of this Contract unless at least two risks insured or reinsured by the Company are involved in such loss occurrence. For purposes hereof, the Company shall be the sole judge of what constitutes "one risk."

## **Article VI - Florida Hurricane Catastrophe Fund**

The FHCF mandatory layer of coverage and any Temporary Increase in Coverage Limits ("TICL") coverage purchased by the Company shall be deemed to inure to the benefit of this Contract. Further, any FHCF loss reimbursement shall be deemed to be paid to the Company in accordance with the FHCF reimbursement contract at the full payout level set forth therein and will be deemed not to be reduced by any reduction or exhaustion of the FHCF's claims-paying capacity as respects both the mandatory FHCF coverage and the Company's elected coverage under TICL.

## **Article VII - Other Reinsurance**

The Company shall be permitted to carry other reinsurance, recoveries under which shall inure solely to the benefit of the Company and be entirely disregarded in applying all of the provisions of this Contract.

## **Article VIII - Reinstatement**

- A. In the event all or any portion of the reinsurance under any excess layer of reinsurance coverage provided by this Contract is exhausted by loss, the amount so exhausted shall be reinstated immediately from the time the loss occurrence commences hereon. For each amount so reinstated under any Excess Layer, no additional premium shall be due from the Company.



- B. Notwithstanding anything stated herein, the liability of the Reinsurer under any excess layer of reinsurance coverage provided by this Contract shall not exceed either of the following:
1. The amount, shown as "Reinsurer's Per Occurrence Limit" for that excess layer in Schedule A attached hereto, as respects loss or losses arising out of any one loss occurrence; or
  2. The amount, shown as "Reinsurer's Term Limit" for that excess layer in Schedule A attached hereto, in all during the term of this Contract.

## Article IX - Definitions

- A. "Ultimate net loss" as used herein is defined as the sum or sums (including loss in excess of policy limits, extra contractual obligations and loss adjustment expense, as hereinafter defined) paid or payable by the Company in settlement of claims and in satisfaction of judgments rendered on account of such claims, after deduction of all salvage, all recoveries and all claims on inuring insurance or reinsurance, whether collectible or not. Nothing herein shall be construed to mean that losses under this Contract are not recoverable until the Company's ultimate net loss has been ascertained.
- B. "Loss in excess of policy limits" and "extra contractual obligations" as used herein shall be defined as follows:
1. "Loss in excess of policy limits" shall mean 90.0% of any amount paid or payable by the Company in excess of its policy limits, but otherwise within the terms of its policy, such loss in excess of the Company's policy limits having been incurred because of, but not limited to, failure by the Company to settle within the policy limits or by reason of the Company's alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action. ✓
  2. "Extra contractual obligations" shall mean 90.0% of any punitive, exemplary, compensatory or consequential damages paid or payable by the Company, not covered by any other provision of this Contract and which arise from the handling of any claim on business subject to this Contract, such liabilities arising because of, but not limited to, failure by the Company to settle within the policy limits or by reason of the Company's alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action. An extra contractual obligation shall be deemed, in all circumstances, to have occurred on the same date as the loss covered or alleged to be covered under the policy.

Notwithstanding anything stated herein, this Contract shall not apply to any loss in excess of policy limits or any extra contractual obligation incurred by the Company as a result of any fraudulent and/or criminal act by any officer or director of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.



Further, any loss in excess of policy limits or extra contractual obligations that are made in connection with this Contract shall not exceed 25.0% of the actual catastrophe loss.

If any provision of this paragraph B shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Contract or the enforceability of such provision in any other jurisdiction.

- C. "Loss adjustment expense" as used herein shall mean expenses assignable to the investigation, appraisal, adjustment, settlement, litigation, defense and/or appeal of specific claims, regardless of how such expenses are classified for statutory reporting purposes. Loss adjustment expense shall include, but not be limited to interest on judgments, expenses of outside adjusters and declaratory judgment expenses or other legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto, but shall not include office expenses or salaries of the Company's regular employees.

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## **Article X - Loss Occurrence**

- A. The term "loss occurrence" shall mean the sum of all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event which occurs within the area of one state of the United States or province of Canada and states or provinces contiguous thereto and to one another. However, the duration and extent of any one "loss occurrence" shall be limited to all individual losses sustained by the Company occurring during any period of 168 consecutive hours arising out of and directly occasioned by the same event, except that the term "loss occurrence" shall be further defined as follows:
1. As regards windstorm, hail, tornado, hurricane, cyclone, including ensuing collapse and water damage, all individual losses sustained by the Company occurring during any period of 96 consecutive hours arising out of and directly occasioned by the same event. However, the event need not be limited to one state or province or states or provinces contiguous thereto.
  2. As regards riot, riot attending a strike, civil commotion, vandalism and malicious mischief, all individual losses sustained by the Company occurring during any period of 72 consecutive hours within the area of one municipality or county and the municipalities or counties contiguous thereto arising out of and directly occasioned by the same event. The maximum duration of 72 consecutive hours may be extended in respect of individual losses which occur beyond such 72 consecutive hours during the continued occupation of an assured's premises by strikers, provided such occupation commenced during the aforesaid period.
  3. As regards earthquake (the epicenter of which need not necessarily be within the territorial confines referred to in the introductory portion of this paragraph A) and fire following directly occasioned by the earthquake, only those individual fire losses which commence during the period of 168 consecutive hours may be included in the Company's "loss occurrence."



4. As regards "freeze," only individual losses directly occasioned by collapse, breakage of glass and water damage (caused by bursting frozen pipes and tanks) may be included in the Company's "loss occurrence."
  5. As regards conflagration, brush fires and any other fires, irrespective of origin (except as provided in subparagraphs 2 and 3 above), which spread through trees, grassland or other vegetation, all individual losses sustained by the Company which occur during any period of 168 consecutive hours within a 150-mile radius of the location where the fire originated may be included in the Company's "loss occurrence."
- B. The Company may choose the date and time when any such period of consecutive hours commences, provided that it is not earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss, and provided that only one such period of 168 consecutive hours shall apply with respect to one event, except for any "loss occurrence" referred to in subparagraph 1 of paragraph A above where only one such period of 96 consecutive hours shall apply with respect to one event, regardless of the duration of the event, and except for any "loss occurrence" referred to in subparagraph 2 of paragraph A above, where only one such period of 72 consecutive hours shall apply with respect to one event, regardless of the duration of the event.
- C. No individual losses occasioned by an event that would be covered by a 96 or 72 hours clause may be included in any "loss occurrence" claimed under a 168 hours provision.

## **Article XI - Loss Notices and Settlements**

- A. Whenever losses sustained by the Company are reserved by the Company for an amount greater than 50.0% of the Company's retention under any excess layer hereunder and/or appear likely to result in a claim under such excess layer, the Company shall notify the Subscribing Reinsurers under that excess layer and shall provide updates related to development of such losses. The Reinsurer shall have the right to participate in the adjustment of such losses at its own expense.
- B. All loss settlements made by the Company, provided they are within the terms of this Contract and the terms of the original policy (with the exception of loss in excess of policy limits or extra contractual obligations coverage, if any, under this Contract), shall be binding upon the Reinsurer, and the Reinsurer agrees to pay all amounts for which it may be liable upon receipt of reasonable evidence of the amount paid by the Company.

## **Article XII - Salvage and Subrogation**

The Reinsurer shall be credited with salvage (i.e., reimbursement obtained or recovery made by the Company, less the actual cost, excluding salaries of officials and employees of the Company and sums paid to attorneys as retainer, of obtaining such reimbursement or making such recovery) on account of claims and settlements involving reinsurance hereunder. Salvage thereon shall always be used to reimburse the excess carriers in the reverse order of their priority according to their participation before being used in any way to reimburse the Company for its primary loss. The Company hereby agrees to enforce its rights to salvage or subrogation



relating to any loss, a part of which loss was sustained by the Reinsurer, and to prosecute all claims arising out of such rights.

### Article XIII - Reinsurance Premium

- A. As premium for each excess layer of reinsurance coverage provided by this Contract, the Company shall pay the Reinsurer premium determined by multiplying the amount, shown as "Annual Deposit Premium" in Schedule A attached hereto, by the fraction calculated by dividing the Company's Total Insured Value as respects business subject to this Contract in force on September 30, 2008, by the amount, shown as "Original Total Insured Value" in Schedule A attached hereto, subject to a minimum premium of the amount, shown as "Minimum Premium" in Schedule A attached hereto. In the event this Contract is terminated in accordance with the provisions of paragraph C of the Commencement and Termination Article, the applicable amount determined in accordance with this paragraph shall be pro-rated.
- B. The Company shall pay the Reinsurer an annual deposit premium for each excess layer of the amount, shown as "Annual Deposit Premium" for that excess layer in Schedule A attached hereto, in four equal installments of the amount, shown as "Deposit Premium Installments" for that excess layer in Schedule A attached hereto, on July 1 and October 1 of 2008, and January 1 and April 1 of 2009. However, in the event this Contract is terminated, no deposit premium installments shall be due after the effective date of termination.
- C. On or before May 31, 2009, the Company shall provide a report to the Reinsurer setting forth the premium due hereunder for each excess layer, computed in accordance with paragraphs A and B above, and any premium due the Reinsurer or return premium due the Company for each such excess layer shall be remitted promptly.

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### Article XIV - Late Payments

- A. The provisions of this Article shall not be implemented unless specifically invoked, in writing, by one of the parties to this Contract.
- B. In the event any premium, loss or other payment due either party is not received by the intermediary named in the Intermediary Article (BRMA 23A) (hereinafter referred to as the "Intermediary") by the payment due date, the party to whom payment is due may, by notifying the Intermediary in writing, require the debtor party to pay, and the debtor party agrees to pay, an interest penalty on the amount past due calculated for each such payment on the last business day of each month as follows:
1. The number of full days which have expired since the due date or the last monthly calculation, whichever the lesser; times
  2. 1/365ths of the six-month United States Treasury Bill rate as quoted in *The Wall Street Journal* on the first business day of the month for which the calculation is made; times
  3. The amount past due, including accrued interest.



It is agreed that interest shall accumulate until payment of the original amount due plus interest penalties have been received by the Intermediary.

- C. The establishment of the due date shall, for purposes of this Article, be determined as follows:
1. As respects the payment of routine deposits and premiums due the Reinsurer, the due date shall be as provided for in the applicable section of this Contract. In the event a due date is not specifically stated for a given payment, it shall be deemed due 30 days after the date of transmittal by the Intermediary of the initial billing for each such payment.
  2. Any claim or loss payment due the Company hereunder shall be deemed due 10 days after the proof of loss or demand for payment is transmitted to the Reinsurer. If such loss or claim payment is not received within the 10 days, interest will accrue on the payment or amount overdue in accordance with paragraph B above, from the date the proof of loss or demand for payment was transmitted to the Reinsurer.
  3. As respects any payment, adjustment or return due either party not otherwise provided for in subparagraphs 1 and 2 of this paragraph C, the due date shall be as provided for in the applicable section of this Contract. In the event a due date is not specifically stated for a given payment, it shall be deemed due 10 days following transmittal of written notification that the provisions of this Article have been invoked.

For purposes of interest calculations only, amounts due hereunder shall be deemed paid upon receipt by the Intermediary.

- D. Nothing herein shall be construed as limiting or prohibiting a Subscribing Reinsurer from contesting the validity of any claim, or from participating in the defense of any claim or suit, or prohibiting either party from contesting the validity of any payment or from initiating any arbitration or other proceeding in accordance with the provisions of this Contract. If the debtor party prevails in an arbitration or other proceeding, then any interest penalties due hereunder on the amount in dispute shall be null and void. If the debtor party loses in such proceeding, then the interest penalty on the amount determined to be due hereunder shall be calculated in accordance with the provisions set forth above unless otherwise determined by such proceedings. If a debtor party advances payment of any amount it is contesting, and proves to be correct in its contestation, either in whole or in part, the other party shall reimburse the debtor party for any such excess payment made plus interest on the excess amount calculated in accordance with this Article.
- E. Interest penalties arising out of the application of this Article that are \$1,000 or less from any party shall be waived unless there is a pattern of late payments consisting of three or more items over the course of any 12-month period.

## **Article XV - Offset (BRMA 36C)**

The Company and the Reinsurer shall have the right to offset any balance or amounts due from one party to the other under the terms of this Contract. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise.



## **Article XVI - Access to Records (BRMA 1D)**

The Reinsurer or its designated representatives shall have access at any reasonable time to all records of the Company which pertain in any way to this reinsurance.

## **Article XVII - Liability of the Reinsurer**

- A. The liability of the Reinsurer shall follow that of the Company in every case and be subject in all respects to all the general and specific stipulations, clauses, waivers and modifications of the Company's policies and any endorsements thereon. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract.
- B. Nothing herein shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third party or any persons not parties to this Contract.

## **Article XVIII - Net Retained Lines (BRMA 32E)**

- A. This Contract applies only to that portion of any policy which the Company retains net for its own account (prior to deduction of any underlying reinsurance specifically permitted in this Contract), and in calculating the amount of any loss hereunder and also in computing the amount or amounts in excess of which this Contract attaches, only loss or losses in respect of that portion of any policy which the Company retains net for its own account shall be included.
- B. The amount of the Reinsurer's liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer(s), whether specific or general, any amounts which may have become due from such reinsurer(s), whether such inability arises from the insolvency of such other reinsurer(s) or otherwise.

## **Article XIX - Errors and Omissions (BRMA 14F)**

Inadvertent delays, errors or omissions made in connection with this Contract or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred, provided always that such error or omission is rectified as soon as possible after discovery.

## **Article XX - Currency (BRMA 12A)**

- A. Whenever the word "Dollars" or the "\$" sign appears in this Contract, they shall be construed to mean United States Dollars and all transactions under this Contract shall be in United States Dollars.



- B. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.

## **Article XXI - Taxes (BRMA 50B)**

In consideration of the terms under which this Contract is issued, the Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America or the District of Columbia.

## **Article XXII - Federal Excise Tax**

- A. The Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon as imposed under Section 4371 of the Internal Revenue Code to the extent such premium is subject to the Federal Excise Tax.
- B. In the event of any return of premium becoming due hereunder the Reinsurer will deduct the applicable percentage from the return premium payable hereon and the Company or its agent should take steps to recover the tax from the United States Government.

## **Article XXIII - Reserves**

- A. The Reinsurer agrees to fund its share of amounts, including but not limited to, the Company's ceded unearned premium and outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported from known loss occurrences) by:

1. Clean, irrevocable and unconditional letters of credit issued and confirmed, if confirmation is required by the insurance regulatory authorities involved, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to said insurance regulatory authorities; and/or
2. Escrow accounts for the benefit of the Company; and/or
3. Cash advances;

if the Reinsurer:

1. Is unauthorized in any state of the United States of America or the District of Columbia having jurisdiction over the Company and if, without such funding, a penalty would accrue to the Company on any financial statement it is required to file with the insurance regulatory authorities involved; or
2. Has an A.M. Best Company's rating equal to or below B++ at the inception of this Contract.



The Reinsurer, at its sole option, may fund in other than cash if its method and form of funding are acceptable to the insurance regulatory authorities involved.

- B. With regard to funding in whole or in part by letters of credit, it is agreed that each letter of credit will be in a form acceptable to insurance regulatory authorities involved, will be issued for a term of at least one year and will include an "evergreen clause," which automatically extends the term for at least one additional year at each expiration date unless written notice of non-renewal is given to the Company not less than 30 days prior to said expiration date. The Company and the Reinsurer further agree, notwithstanding anything to the contrary in this Contract, that said letters of credit may be drawn upon by the Company or its successors in interest at any time, without diminution because of the insolvency of the Company or the Reinsurer, but only for one or more of the following purposes:
1. To reimburse itself for the Reinsurer's share of unearned premiums returned to insureds on account of policy cancellations, unless paid in cash by the Reinsurer;
  2. To reimburse itself for the Reinsurer's share of losses and/or loss adjustment expense paid under the terms of policies reinsured hereunder, unless paid in cash by the Reinsurer;
  3. To reimburse itself for the Reinsurer's share of any other amounts claimed to be due hereunder, unless paid in cash by the Reinsurer;
  4. To fund a cash account in an amount equal to the Reinsurer's share of amounts, including but not limited to, any ceded unearned premium and/or outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported from known loss occurrences) funded by means of a letter of credit which is under non-renewal notice, if said letter of credit has not been renewed or replaced by the Reinsurer 10 days prior to its expiration date;
  5. To refund to the Reinsurer any sum in excess of the actual amount required to fund the Reinsurer's share of amounts, including but not limited to, the Company's ceded unearned premium and/or outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported from known loss occurrences), if so requested by the Reinsurer.

In the event the amount drawn by the Company on any letter of credit is in excess of the actual amount required for B(1), B(2) or B(4), or in the case of B(3), the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn.

## **Article XXIV - Insolvency**

- A. In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Company without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the policy or bond



reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

- B. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Contract as though such expense had been incurred by the Company.
- C. It is further understood and agreed that, in the event of the insolvency of the Company, the reinsurance under this Contract shall be payable directly by the Reinsurer to the Company or to its liquidator, receiver or statutory successor, except as provided by Section 4118(a) of the New York Insurance Law or except (1) where this Contract specifically provides another payee of such reinsurance in the event of the insolvency of the Company or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the Company to such payees.

#### **Article XXV - Arbitration (BRMA 6J)**

- A. As a condition precedent to any right of action hereunder, in the event of any dispute or difference of opinion hereafter arising with respect to this Contract, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration. One Arbiter shall be chosen by the Company, the other by the Reinsurer, and an Umpire shall be chosen by the two Arbiters before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance or reinsurance companies or Lloyd's London Underwriters. In the event that either party should fail to choose an Arbiter within 30 days following a written request by the other party to do so, the requesting party may choose two Arbiters who shall in turn choose an Umpire before entering upon arbitration. If the two Arbiters fail to agree upon the selection of an Umpire within 30 days following their appointment, each Arbiter shall nominate three candidates within 10 days thereafter, two of whom the other shall decline, and the decision shall be made by drawing lots.
- B. Each party shall present its case to the Arbiters within 30 days following the date of appointment of the Umpire. The Arbiters shall consider this Contract as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the Arbiters shall be final and binding on both parties; but failing to agree, they shall call in the Umpire and the decision of the majority shall be final and binding upon both parties. Judgment upon the final decision of the Arbiters may be entered in any court of competent jurisdiction.
- C. If more than one reinsurer is involved in the same dispute, all such reinsurers shall constitute and act as one party for purposes of this Article and communications shall be



made by the Company to each of the reinsurers constituting one party, provided, however, that nothing herein shall impair the rights of such reinsurers to assert several, rather than joint, defenses or claims, nor be construed as changing the liability of the reinsurers participating under the terms of this Contract from several to joint.

- D. Each party shall bear the expense of its own Arbiter, and shall jointly and equally bear with the other the expense of the Umpire and of the arbitration. In the event that the two Arbiters are chosen by one party, as above provided, the expense of the Arbiters, the Umpire and the arbitration shall be equally divided between the two parties.
- E. Any arbitration proceedings shall take place at a location mutually agreed upon by the parties to this Contract, but notwithstanding the location of the arbitration, all proceedings pursuant hereto shall be governed by the law of the state in which the Company has its principal office.

#### **Article XXVI - Service of Suit (BRMA 49C)**

(Applicable if the Reinsurer is not domiciled in the United States of America, and/or is not authorized in any State, Territory or District of the United States where authorization is required by insurance regulatory authorities)

- A. It is agreed that in the event the Reinsurer fails to pay any amount claimed to be due hereunder, the Reinsurer, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.
- B. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereby designates the party named in its Interests and Liabilities Agreement, or if no party is named therein, the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract.

#### **Article XXVII - Governing Law (BRMA 71B)**

This Contract shall be governed by and construed in accordance with the laws of the State of Florida.

#### **Article XXVIII - Intermediary (BRMA 23A)**

Benfield Inc. is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including but not limited to notices, statements, premium, return premium, commissions, taxes, losses, loss adjustment expense, salvages and loss



settlements) relating thereto shall be transmitted to the Company or the Reinsurer through Benfield Inc. Payments by the Company to the Intermediary shall be deemed to constitute payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed to constitute payment to the Company only to the extent that such payments are actually received by the Company.



**Schedule A**  
**Excess Catastrophe Reinsurance Contract**  
**Effective: June 1, 2008**

issued to

Magnolia Insurance Company  
Miami, Florida

	<b>First Excess</b>	<b>Second Excess</b>	<b>Third Excess</b>
Company's Retention	\$6,000,000	\$21,000,000	\$54,370,703
Reinsurer's Per Occurrence Limit	\$15,000,000	\$33,370,703	\$25,121,084
Reinsurer's Term Limit	\$30,000,000	\$66,741,406	\$50,242,168
Original Total Insured Value	\$18,500,000,000	\$18,500,000,000	\$18,500,000,000
Minimum Premium	\$9,450,000	\$14,328,243	\$5,239,555
Annual Deposit Premium	\$11,812,500	\$17,910,304	\$6,549,444
Deposit Premium Installments	\$2,953,125	\$4,477,576	\$1,637,361

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The figures listed above for each excess layer shall apply to each Subscribing Reinsurer in the percentage share for that excess layer as expressed in its Interests and Liabilities Agreement attached hereto.



## **War Exclusion Clause**

As regards interests which at time of loss or damage are on shore, no liability shall attach hereto in respect of any loss or damage which is occasioned by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority.



## Nuclear Incident Exclusion Clause - Physical Damage - Reinsurance (U.S.A.)

1. This Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.
2. Without in any way restricting the operation of paragraph (1) of this Clause, this Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:
  - I. Nuclear reactor power plants including all auxiliary property on the site, or
  - II. Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and "critical facilities" as such, or
  - III. Installations for fabricating complete fuel elements or for processing substantial quantities of "special nuclear material," and for reprocessing, salvaging, chemically separating, storing or disposing of "spent" nuclear fuel or waste materials, or
  - IV. Installations other than those listed in paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.
3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate
  - (a) where Reassured does not have knowledge of such nuclear reactor power plant or nuclear installation, or
  - (b) where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (b) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.
4. Without in any way restricting the operations of paragraphs (1), (2) and (3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.
5. It is understood and agreed that this Clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reassured to be the primary hazard.
6. The term "special nuclear material" shall have the meaning given it in the Atomic Energy Act of 1954 or by any law amendatory thereof.
7. Reassured to be sole judge of what constitutes:
  - (a) substantial quantities, and
  - (b) the extent of installation, plant or site.

*Note.*-Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

- (a) all policies issued by the Reassured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.
- (b) with respect to any risk located in Canada policies issued by the Reassured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.



## **Terrorism Exclusion** **(Property Treaty Reinsurance)**

Notwithstanding any provision to the contrary within this Contract or any amendment thereto, it is agreed that this Contract excludes loss, damage, cost or expense directly or indirectly caused by, contributed to by, resulting from or arising out of or in connection with any act of terrorism, as defined herein, regardless of any other cause or event contributing concurrently or in any other sequence to the loss.

An act of terrorism includes any act, or preparation in respect of action, or threat of action designed to influence the government *de jure* or *de facto* of any nation or any political division thereof, or in pursuit of political, religious, ideological or similar purposes to intimidate the public or a section of the public of any nation by any person or group(s) of persons whether acting alone or on behalf of or in connection with any organization(s) or government(s) *de jure* or *de facto*, and which:

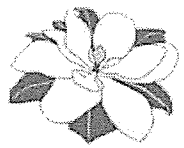
1. Involves violence against one or more persons, or
2. Involves damage to property; or
3. Endangers life other than the person committing the action; or
4. Creates a risk to health or safety of the public or a section of the public; or
5. Is designed to interfere with or disrupt an electronic system.

This Contract also excludes loss, damage, cost or expense directly or indirectly caused by, contributed to by, resulting from or arising out of or in connection with any action in controlling, preventing, suppressing, retaliating against or responding to any act of terrorism.

Notwithstanding the above and subject otherwise to the terms, conditions, and limitations of this Contract, in respect only of personal lines, this Contract will pay actual loss or damage (but not related cost and expense) caused by any act of terrorism provided such act is not directly or indirectly caused by, contributed to by, resulting from or arising out of or in connection with biological, chemical, or nuclear pollution or contamination.

N.M.A. 2930b  
12/19/01





*Magnolia Insurance*

# **CLAIMS HANDLING GUIDELINES**



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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## **Magnolia Insurance Company Claims Handling Guidelines**

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**Magnolia Insurance Company**  
**Claims Handling Guidelines**

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## **Introduction**

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Magnolia Insurance Company prepared this guide for the use of its staff, its service providers, and other organizations that might be involved in the servicing of Magnolia's claims. All procedures apply to daily and catastrophe claim handling unless a catastrophe bulletin is issued stating otherwise. The application of the principles and guidelines described in this guide will differ in each claim depending on its unique facts and circumstances and should not be regarded as a definitive list.

The culture of our industry calls for excellence in service. To champion this cause, it is imperative there be established guidelines to assist and lend direction in order to compliment our commitment to superior customer service.

The intent of these guidelines is not that we will meet each standard on every claim but more importantly to challenge our ability to exceed the needs and expectations of our customers, thus distinguishing Magnolia as a provider of superior customer service.

It is important to note that where these guidelines may conflict with applicable local or state regulatory laws the applicable local or state regulatory law will take precedent.

Magnolia reserves the right to make changes to this guide at any time as needs arise.

## **Training**

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- All claims staff handling Magnolia business will be properly trained and well versed in Magnolia's service standards and claims handling guidelines as set by Magnolia.
- Claim training is an essential part in the development of the claims personnel entrusted to handle Magnolia's claims. Training can be conducted on the job in the form of in-house training sessions, seminars both inside and outside the office, approved continuing educational courses, and other related and approved academic courses.
- Continuing education required for the Claims Examiners, Supervisor, and Manager to maintain his/her Claims Examiner license is mandatory and separate from general claims training for education purposes other than that required for licensing. Failure to maintain a required license will not be eligible to handle Magnolia's claims. (see Licensing for further information).
- The needs for specific training or education should be identified by the Claims Examiner's Supervisor or Manager on an ongoing basis, and addressed during performance reviews. Goals should be set, and an agreed plan and timetable established for meeting these goals.
- Supervisors and/or Managers are encouraged to set aside time, at least monthly, to conduct staff training either in a formal or informal setting. These sessions can include presentations on subrogation, salvage, and material damage issues, SIU (Special Investigations Unit), claim procedures, updates in the law that effect the handling of claims, and other related matters that will enhance the knowledge of the claims staff.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Licensing**

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- All Claims Examiners and management, handling Magnolia's claims, are required to pass the licensing exams and complete the application requirements for applicable licensed state(s) before handling Magnolia's claims. Those who fail to do so will not be eligible to handle Magnolia claims.
- All licensing exam and application fees will be the responsibility of the provider.
- Claims Examiner Licensing status is to be monitored/tracked to ensure they are current and in compliance with state licensing requirements. As requested by Magnolia, documentation shall be produced to ensure compliance with state licensing requirements.

### **Customer Service**

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Service to our customers is paramount to our success as a claims organization. Every aspect of our business hinges on our personal ability and willingness to meet or exceed the expectations of our customers, internal and external to the organization.

The following are ways of enhancing and building relationships with our insureds:

- Engage in and display ethical behavior and professionalism in all dealings with all business partners and customers.
- View every contact, in person or by phone as an opportunity to furnish superior customer service and a way to enrich company/customer relationships.
- Always exhibit a thorough knowledge and understanding of Magnolia products.
  - Formal training classes, as well as discussions between Claims Managers and their staff, ensure the staff is current on policies and the coverage they afford.
  - Ensure policy forms are readily available and frequently reviewed.
  - Conduct training, as needed (See Training for further information).
- Function with a proactive frame of mind and act upon problems before they affect the insured or other parties to the claim.
- Possess a thorough knowledge of Magnolia's products, our customers and our business.
- Keep abreast of current industry legislative, regulatory, and statutory activity. Be responsible for contacting and reviewing any new and/or modified legislative, regulatory, and statutory rules and regulations.
- Reflect a personal commitment to high standards of excellence through continuing education.
- Communication is to be polite and professional without slang or jargon.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Initial Contact**

- The initial contact with an insured or claimant is very important towards setting expectations and the tone of how the claim will proceed. The following are guidelines for initial contact:
  - Make at least three (3) attempts within twenty-four (24) hours to contact the insureds and/or claimants, in 90% of reports, from the date the claim is reported and assigned. If no direct contact, mail contact letter(s) to the parties.
  - Explain the claim handling process during the initial contact, so that the parties to a loss understand the process, and document the conversation in the electronic file notes.
  - All discussions with our customers should conclude with the following understanding:
    - What is expected of them? Within what timeframe?
    - What can they expect from us? Within what timeframe?
  - All verbal contacts are to be summarized and documented in the file.

### **On Going Contact-Written and Verbal**

- All phone messages and inquiries are to be responded to in a timely fashion, generally within the same day the inquiry is received and documented in the claim file, however no response should be greater than one (1) business day from the day of inquiry.
- All verbal or written communication should demonstrate a pro-active and service oriented attitude and be professional while demonstrating empathy and effective listening skills.
- Care should be taken over the course of a claim investigation to explain and discuss any issues about the claim with the parties to the claim or their representative as they arise.
- The following guidelines apply to all written correspondence.
  - Be clear and concise, utilizing proper grammar and spelling typed on formal company letterhead.
  - Include the name of the insuring company as required by most Departments of Insurance.
  - Include the Claims Examiner's name, address, and telephone numbers.
  - Critical correspondence (i.e. Reservations of Rights and coverage denial letters) are reviewed and approved by Magnolia's designated Claims Examiner (see the Coverage section for additional details regarding coverage letters).



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Electronic mail correspondence is to be clear and concise, utilizing proper grammar and spelling and summarized in the electronic file notes, and be a part of the permanent claim file record.
- Telephone calls are to be answered promptly with the name of the Company and the Claims Examiner's name, followed by an offer to assist.
- Phone acknowledgement of written communication, requiring a response generally occurs the same day that mail is received.
  - All written correspondences are to be date stamped the day it is received, then subsequently date stamped by the recipient.
  - The determination of whether a response is required is made by the Claims Examiner based on the content of the letter or at the discretion of management.
  - All calls are documented in the electronic file notes
- A comprehensive response to all written inquiries, requiring a response should occur within five (5) business days of receipt.
  - There may be times when the Claims Examiner does not have all of the information necessary to provide a response and it will take longer than five (5) business days. The Claims Examiner is to contact the other party to let them know that they are waiting for additional information and when they expect to have it and when they should expect a response to their inquiry.
- If an in-person meeting is required:
  - Appropriate business attire should be worn.
  - Arrival should be punctual.
  - Preparation for meetings should be evident.
- Voicemail is employed only as its backup role was intended. Voicemail coverage should be provided during the absence of all claim personnel.
  - Voicemail greetings provide an option for the call to transfer to a live person and it is recommended that outgoing greetings be updated daily.
  - Appropriate outgoing greetings should be left during extended periods away from the office.
- If a complaint is made regarding the handling of a file or communication, there is a complaint system in place to respond and monitor them. (See Complaint Handling for further information).
- Track and record all regulatory complaints in the Complaint Registry and submit the registry to Magnolia's designated Claims Examiner within five (5) days after the end of each calendar month.



# Magnolia Insurance Company

## Claims Handling Guidelines

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### Loss Assignment

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- New losses are reported 24/7 via phone, fax or web access.
- **During regular business hours, 8:00 AM EST to 5:00 PM EST:**
  - Calls involving fatalities, serious injuries (Burns, spinal cord, head injury, amputation, loss of sight), or property damage from fire, smoke, or flood making the home uninhabitable OR if the damage/loss interrupts the use of utility services (water or electricity) should be escalated to the Claims Manager by calling XXX-XXX-XXX.
  - Let the Claim Manager know where the loss occurred prior to transferring the call. The Customer Service Representative will then transfer the call to the appropriate manager.
- **After regular business hours, 5:00 EST to 8:00 AM EST:**
  - If the caller insists on speaking to a Claims Examiner after normal business hours, the CSR should do their best to identify the reason.
  - If the situation **does not** involve a fatality, serious injury (Burns, spinal cord, head injury, amputation, loss of sight), or uninhabitable dwelling (Fire, smoke, flooded homes, power outage, lack of water, etc.), the CSR should use the following script language:

"I am sorry but the claims center is currently closed. I would be happy to transfer you to the claim center where you can leave a detailed message including your name, phone number and policy or claim number. A Claims Examiner from the claims department will call you back on the next business day. I will transfer you now. Thank you for calling."
  - If the situation **does** involve a fatality, serious injuries (Burns, spinal cord, head injury, amputation, loss of sight), or property damage from fire, smoke, or flood and makes the home uninhabitable OR if the damage/loss interrupts the use of utility services (water or electricity), or the caller is inconsolable, the CSR is to escalate the call accordingly:
    - Call the claims after hours personnel at XXX-XXX-XXXX
    - If there is no answer at the above contact number, the CSR is to leave a detailed message with the following information:
      - Insured name and contact number(s),
      - Description of Loss
      - Call Center CSR name and contact number(s)
      - As soon as the emergency contact retrieves the message, they should call to alert them of the received message and will contact the insured.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- If the After Hours contact does not return the call within **15 minutes**, the CSR is to attempt contact with the Claims Supervisor at <<Phone Number>>.
- If the After Hours Claims Examiner is not able to make successful contact with the Claims Manager, then escalate the call to the Claims VP at <<Phone Number>>.
- If the After Hours Claims Examiner is not able to make successful contact with the Claims Manager, then escalate the call to the Claims VP at <<Phone Number>>.
- If the After Hours Claims Examiner is not able to make successful contact with the Claims Manager, then escalate the call to Magnolia's Claims VP or designee at 850.363.2409.

### **Settlement Authority**

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- Magnolia has established monetary settlement authorities for each Claims Examiner, supervisor, and manager in the handling and adjustment of Magnolia's claims.
- Settlement authority is not a matter to be taken lightly. Authority granted to an individual should be considered a privilege that has been earned through hard work and achieving consistently good results in the handling of his/her claims.
- The amount of settlement authority granted is dependent on a number of factors that include; but are not limited to:
  - Magnolia's discretion,
  - Claims Examiner's experience level and expertise in handling claims assigned,
  - Overall job performance, and the results achieved,
  - The ability to effectively and efficiently evaluate and settle claims within that person's authority level or
  - Whether or not that person is currently on a probationary status
- If the evaluation is within the Claims Examiner's authority, the examiner must document the file to reflect the basis and support for their evaluation in the electronic file. If the request exceeds the Claims Examiner's authority, the file is brought to the Supervisor attention for review and approval. If the request exceeds the Supervisor's authority, the file must be referred to the Claim Manager for review and approval.
- If the request exceeds the Claim Manager's authority, the file must be referred to the Magnolia's VP for review and approval.

### **Coverage Verification**

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- Coverage should be verified, as soon as possible, after the claim is assigned to allow for proper claim handling and coverage analysis.



## **Magnolia Insurance Company**

### **Claims Handling Guidelines**

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- Coverage verification consists of ensuring that the policy exists, such as policy effective dates, deductible, and mortgagee information (See File Documentation for further information).
- When coverage cannot be verified on line, contact Underwriting to assist in verifying coverage.
- Current and archived policy forms and endorsements are to be available and accessible.

#### **Investigation**

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- Investigations are to be pro-active and completed expeditiously in order to establish and maintain information, for file reserving adequacy, proper coverage analysis, liability determination and claim resolution.
- Property investigations will be substantially completed and documented in accordance with the following:

Claims with an initial estimated value of less than \$25K, with clear coverage	Within ten (10) business days of receipt of claim assignment
Large or complex claims (other than defined above)	Within 30 days of receipt of claim assignment

- Liability investigations will be conducted promptly, documented thoroughly by the Liability Claims Examiners, and substantially complete on the majority of claims within 30 days of receipt of claim assignment.
- Each claim presents a unique set of circumstances that should be investigated accordingly, however investigations are to consider and include, but not be limited to the following:
  - Cause of loss
  - The insured's version of the loss
  - The claimant's version of the loss
  - The witness' version of the loss
  - Diagrams, photographs, physical inspection
  - Experts opinions
  - Recovery opportunities and potential
  - Suspicious claim activity
  - Possible referral to the Special Investigations Unit (SIU) or the Recovery Unit (see SIU and Recovery Referral Narratives)



## **Magnolia Insurance Company Claims Handling Guidelines**

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- An investigative action plan and status should be clearly documented in the file. The investigation action plan can be communicated, to the insured and the claimant as appropriate, when it does not affect the company's liability or property investigation.
- Recorded statements and/or Examinations Under Oath (EUO) are considered when there is a need to preserve a person's version of the facts surrounding a claim.
  - Recorded statements are taken over the phone by the Claims Examiner using industry standardized opening and closing formats. Detailed statements and summaries must be taken as warranted from insureds, claimants, and witnesses. Statements must be taken with the involved parties on claims with disputed or questionable liability, no contact, or minimal impact claims involving bodily injury, or if the claim has subrogation potential. Statements should also be taken on all claims alleging bodily injuries.
  - EUO's must be reported to the Claims Manager and have the handling Claims Examiner's Manager /Supervisor's approval documented in the electronic file notes.
- 24 hour contact with insureds and claimants must be attempted from the date the claim was reported and assigned.
- 48 hour contact with witnesses must be attempted from the date the claim was reported and assigned.
- Proper reserves must be established and continually maintained for each damaged party until the claim is closed, according to established reserving procedures.
- All claim files must be maintained in chronological order with the most recent correspondence placed on top. There should be no duplication of file material.
- All correspondence received by the Claims Examiner that requires a response, must be responded to five (5) business days of receipt.
- All claim activity must be documented in writing as soon as the activity has been completed reflecting the date and nature of the activity.
- ISOClaimSearch and NICB reports must be completed and processed as required.
- Diaries (see Diary Maintenance for further information) must be established on all claims and kept current until the claim file is closed.
- Supervisors and Managers must maintain their own duplicate diary on the Claims Examiner's files as required.
- Claim Referral Reports for Underwriting are required on any questionable information developed during the investigation of a claim on the risk being insured (see Underwriting Claim Referral Report for further information).
- All state and regulatory agency requirements must be fulfilled on each claim depending on the state involved.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Subrogation must be recognized where indicated, documented and a letter sent to the third party advising them of a potential claim (see Recovery for further information).
  - Other responsible third parties should be placed on written notice of our potential claim. The liability of the third party should be fully investigated.
  - Salvage must be handled according to established procedures and properly documented in the claim file.
- Suspicious claims, or claims where there are indications of potential fraud, should be discussed with the Supervisor or Manager, and a referral made to the Special Investigations Unit if warranted (see SIU for further information).
- Large Loss Caption Reports must be completed as required (see Large Loss for further information).
- Police, Fire, theft, and other official reports must be obtained if applicable. This is mandatory on any claim where potential or actual subrogation exists.
- The Supervisor must approve the use of any Independent Adjusting firms, experts, or any other outside vendor firms. If an outside vendor is used, the Supervisor or Manager must also approve all expense bills. The claims examiner is responsible for timely reporting by any vendor. Independent Adjusters should only be used when any part of the investigation cannot be completed from the office. Only specific task assignments should be referred to an Independent unless otherwise approved by the Supervisor. Only itemized billings from outside vendors will be accepted. If not itemized, the Claims Examiner must request one. (see Vendor Management for further information).
- All file closure procedures must be followed as required.
- Contributory/comparative negligence must be considered and applied to the evaluation and settlement negotiations on all claims.
- Complete copies of all contracts, estimates, bills, invoices, etc., required for the evaluation and settlement of a claim must be obtained.
- Proofs of Loss and releases must be secured as required (see Proof of Loss for further information).

### **Property Loss Assessment**

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- Utilize all resources, techniques, or programs to facilitate timely, accurate assessment of property damages, such as the following:
  - Xactimate estimating programs
  - Fastrack Programs
  - Inside/Field Claims Examiners
  - Replacement vendors
  - Catastrophe Response Plan



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Large Loss Program
- Xactimate software is the preferred tool for estimating property damages.
- When needed initiate a physical inspection to scope and verify damages.
- The use of outside vendors is evaluated and monitored to ensure it is a value-added service and the associated expense is reviewed during the damage assessment process (see Vendor Management for further information).
- For claims, involving additional living expenses (ALE) the Property Claims Examiner will complete an ALE Worksheet.
- For claims involving damaged contents, the Property Claims Examiner will supply and request an inventory from the insured.
  - Claims involving extensive inventories may be referred to an inventory valuation/replacement service with Claim Manager/Supervisor's approval if it is cost effective to do so.
- If a settlement evaluation is over the Claims Examiner's autonomy, they must obtain authority from their Claim Manager/Supervisor and obtain authority before a settlement offer is communicated to the insured. Authority is requested as follows:
  - For claims under \$25K, the Property Claims Examiner will submit an electronic request to their Claims Manager/Supervisor. The Claims Manager/Supervisor will review the request and if agreed submit the request to Magnolia for final authority. A Captioned Report based on the circumstances of the claim may be requested at the Claims Manager's discretion.
    - If the Claims Manager/Supervisor does not approve the request, then the Examiner will be requested to re-evaluate and then resubmit for approval.
  - For claims over \$25K, the Property Claims Examiner will complete and submit a Captioned Report to their Claims Manager for Large Loss Committee review, after which the Large Loss Program will apply (see Large Loss Program for further information).
- Settlement offers with supporting documentation should be tendered in a timely manner.
  - Most states have a published Fair Claims Practice Acts, which provide guidelines for timely settlement offers. Timely is generally defined as when all of the pertinent information is obtained and the claim is ready to be evaluated.

### **General Liability Evaluation**

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Liability Claims Examiner will utilize resources, techniques, or programs that are in place to facilitate timely, accurate assessment of bodily injury claims including:

- Bodily injury worksheet
- Independent medical examinations



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Medical bill reviews
- Jury verdict research
- Outside investigator to verify property damage, (refer to Vendor Management for further information)
- All necessary medical bills, wage loss verifications, and other supporting loss information must be secured prior to preparing a bodily injury settlement evaluation.

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# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Medical Authorizations**

Liability Claims Examiners will obtain medical authorizations and secure medical reports rather than relying on the claimant or their attorney to supply them.

- Claimant(s) must grant permission for the Liability Claims Examiner to obtain their medical records by signing a medical authorization.
- Liability Claims Examiner will send the standard medical authorization to the claimant or their Claims Examiner as soon as possible after the initial contact.
- Claimant(s) signs the authorization form and returns it to the Claims Examiner.
- The signed medical authorization is retained in the physical claim file.
- Liability Claims Examiners then send a copy of the signed authorization to the Claimant's treatment facilities requesting the medical records.

### **Wage Loss Verification**

Liability Claims Examiner will independently verify wage loss claims, rather than accepting the information provided by the claimant or their attorney by doing the following:

- The Liability Claims Examiner must have the Claimant's permission to obtain lost wage information from their employer, this is granted by signing a wage loss authorization
- The Liability Claims Examiner will send a standard wage loss authorization form to the claimant or representative.
- The Claimant signs the authorization form and returns it to the Claims Examiner.
- The signed wage loss authorization form is retained in the physical claim file.
- The Liability Claims Examiners then sends a copy of the signed authorization to the Claimant's employer requesting the wage information.

The Liability Claims Examiner will obtain receipts, repair estimates, salvage values, and replacement costs for property damaged as a result of a general liability claim.

- A settlement evaluation should be prepared once liability has been determined, and all supporting documentation has been secured. When placing a settlement value on a claim, the Claims Examiner must consider the nature and extent of the injury/damages, comparative/contributory laws, and the jurisdiction. The claimant should then be contacted to negotiate the claim. Frequent contact with the claimant is necessary until a settlement is reached to maintain control of the claim and to avoid legal involvement.
- First Call settlements should be attempted on minor claims where appropriate.
- Structured settlements should be considered as an alternative settlement tool.
- Reserve/Settlement Authority must be obtained on all evaluations exceeding the Claims Examiners authority, and submitted to the Supervisor for approval. Settlement evaluations within the Claims Examiner's authority must be fully documented and explained in the electronic file.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Evaluations should be prepared with a low to high settlement range, and negotiations conducted within the range established.
- The details of all settlement negotiations must be documented using the electronic file, which reflect the date and nature of the discussion.
- Prior to evaluating and conducting any negotiations, the Claims Examiner must verify, and have documentation of, any liens that will need to be protected or otherwise negotiated.
- Once a settlement is reached and approved as required, send the appropriate release(s) for execution. Once the properly executed release(s) is returned, payment should be made within five (5) business days.
- Independent Claims Examiners are NOT authorized to conduct any settlement negotiations. This remains the Claims Examiner's responsibility.

The Liability Claims Examiner in any general liability claim evaluation will consider comparative negligence.

### **Settlement**

If a settlement evaluation is over the Liability Claims Examiner's autonomy, they must discuss the case with their Claims Manager and obtain authority before a settlement offer is communicated to the claimant or their attorney. Authority is requested as follows:

- For claims under \$25K, the Liability Claims Examiner will submit an electronic request to their Claims Manager/Supervisor. The Claims Manager/Supervisor will review the request and if agreed submit the request to Magnolia for final authority. A Captioned Report based on the circumstances of the claim may be requested at the Claims Managers' discretion.
  - If the Claims Manager/Supervisor does not approve the request, then the Examiner will be requested to re-evaluate and then resubmit for approval.
- For claims over \$25K, the Liability Claims Examiner will complete and submit a Captioned Report to their Claims Manager for Large Loss Committee review, after which the Large Loss Program will apply (see Large Loss Program for further information):

### **Reserving**

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The reserves must be maintained at a proper level over the life of the file. Every claim file must exhibit ongoing, clear, and timely evaluations, based on credible and factual information.

Statistical values may be used to assist in the initial process, however the claim professional is ultimately responsible for reserve determination and accuracy.

Reserve revisions, exceeding claim handler authority, will be reviewed with TPAI management for authority and will be posted the same day reserve authority is granted.



## **Magnolia Insurance Company Claims Handling Guidelines**

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In addition, reserve revisions, exceeding approved authorities, will be reviewed with Magnolia's Claims VP or designee for authority and will be posted the same day reserve authority is granted.

The Claims Examiner is ultimately responsible for establishing accurate reserves in a timely manner in accordance with the following guidelines:

- Initial statistical reserves are established on all claim files as soon as possible and but no more than five (5) working days after receipt of assignment.
- Claims Examiner will monitor initial reserve activity. After ten (10) working days, the Claims Examiner is to re-evaluate initial reserves. If found to be inadequate; the Claims Examiner will review the claim and revise the reserve as necessary, within their authority.
  - If a Claims Examiner's reserve evaluation exceeds their authority, they must then refer the evaluation and reserve request to their Supervisor for review and approval. If the request exceeds the Supervisor's authority, the file must be referred to the Claim Manager for review and approval. If the request exceeds the Claim Manager's authority, the file is discussed with the Claims Vice President.
- Initial case reserves are determined by the Claims Examiner based on the individual facts of the case and scope of loss. Case reserves will be established in accordance with the following:
  - Property losses under \$25K: No later than ten (10) business days from date of assignment
  - Property Losses \$25K and over: No later than thirty (30) business days from date of assignment
  - Liability losses: No later than thirty (30) business days from date of assignment
- Reserve re-evaluations are performed by Claims Examiners throughout the life of a claim and promptly revised as needed upon receipt of new information or subsequent to a Large Loss Program review and based on the anticipated net estimated amount of the covered loss.
  - Upon completion of a re-evaluation, reserves are revised to reflect the amount that will likely and ultimately paid. The timeframe depends on the information and if the Claims Examiner will need to conduct additional investigation.
  - Reserve revisions, exceeding Claims Examiners authority, are reviewed by a Claims Manager/Supervisor and are posted the same day reserve authority is granted.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Coverage Analysis**

The product sold is a "promise to pay", in the event of a covered loss or occurrence as specified by the terms of the insured's policy. When an insured submits a claim, we have a duty to the insured to search for coverage.

Therefore, upon receipt of a new loss, the Claims Examiners will promptly conduct an initial coverage analysis.

- The purpose of an initial coverage analysis is to identify all known, available coverage applicable to the claim and, barring any coverage issues, clearly explain how coverage will or will not respond to the loss, based on the information known to date.
- Claims Examiners are to be familiar with coverage, extensions of coverage, exclusions, and limitations of the policy forms and endorsements and appropriately apply all provisions thereof to the facts and circumstances of each individual loss based on training provided, as previously discussed.
- The Claims Examiners will thoroughly analyze the insured's coverage in relationship to the facts of the loss and to identify and explain all known, available coverage applicable to their claims.
- Re-analyze coverage as soon as new pertinent information is obtained and keep the insured advised throughout the life of the file, in accordance with state rules or regulations, regarding any coverage questions or issues.

### **Coverage Questions/Issues**

Losses involving questionable and/or undeterminable coverage are reviewed by the Claims Examiners per the coverage review process, outlined below:

- Identify and understand the question or issue giving rise to questionable coverage.
- Discuss the issues with the Claims Manager/Supervisor.
  - Coverage questions or issues should always be discussed with the Claims Manager/Supervisor immediately when it becomes known that a possible coverage question exists and before drafting a coverage letter or verbally advising the insured or their agent of a potential issue.
- Discuss the issue with the agent, if necessary
  - Contact the agent to apprise them of the issues in order to determine their position and identify if they have any additional information.
- Draft the appropriate letter
  - Reservations of Rights
  - Non-Waiver Agreements
  - Partial or Full Coverage Denials



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Reservation of Rights Letters and Non-waiver Agreements**

Reservation of Rights Letters and Non-Waiver Agreements are the methods by which the Company attempts to preserve its rights until a claim investigation develops sufficient information upon which a well-informed decision concerning coverage can be made.

#### **Non-Waiver Agreements:**

- If a Non-Waiver Agreement is needed, it can be obtained in person or through the mail.
- A hard copy of the Non-Waiver is placed in the file, with corresponding electronic file notes.

#### **Reservation of Right Letters:**

- Before drafting a Reservation of Right Letter, the Claims Examiner will discuss the coverage issues with their Claims Manager/Supervisor.
- Ultimate responsibility for drafting a proper Reservation of Rights Letters rests with the Claims Examiner.
- Magnolia's coverage position will be clearly stated. Coverage positions varies depending on the type of loss and the coverage issues involved. The specifics may vary by jurisdiction, so the letter will be drafted in accordance with the applicable law.
- Reservations of Rights Letters clearly state the issues giving rise to the coverage question and accurately quote the applicable sections of the policy.
- Magnolia's Claims VP or designee will approve all Reservation of Rights Letters before they are sent.
- The letters give the insured the opportunity to provide any additional pertinent information and notify the company if the facts and assumptions stated in the letter are incorrect.
- A copy of the Reservations of Rights letter is placed in the file, with corresponding electronic file notes.
- A copy of the Reservation of Rights Letter is also sent to the agent.

### **File Maintenance**

The handling Claims Examiner is responsible for maintaining all documents relating to the claim file using the paperless system required by Magnolia.

Paper less claim files are handled in I/O and maintained electronically with the following two exceptions:



# Magnolia Insurance Company

## Claims Handling Guidelines

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- Cassette tapes of recorded statements are filed in the claims file room in appropriate containers clearly marked. Tapes are filed by year, month (date claim entered into I/O determines month), and claim number order within month. The electronic file will be documented that the cassette tape is filed in the claim file room.
- Selected photographs. The Claims Examiner determines if the scanned photograph is not of sufficient clarity to depict needed information for the claim. If it is not, the photograph will be filed in the same manner as the cassette tapes. The electronic file will be documented that the photos are filed separately. NOTE: filing of photos rather than scanning is the exception, not the rule.

### File Documentation

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File documentation is a major component of our overall work product. It is both a presentation and a confirmation to all customers, regulators, and other interested parties of our actions, commitments, and values. The file must speak for itself. Comprehensive file documentation is necessary to demonstrate superior claim service and to explain how we arrive at our decisions.

File documentation will be the sole repository for all strategy and disposition information, for the action plan developed, and for the activities conducted. Therefore, all file documentation will be recorded on the company approved file documentation forum, in compliance with the following guidelines.

To achieve the goal of maintaining a professional file, documentation should:

- Be worded professionally and legible;
- Be chronological and factual;
- Reflect the exact date and time of each activity, telephone conversation and/or investigative transaction;
- Be recorded on the same day of the related activity
- Contain the following investigative topics. Some topics will require periodical updates:

**COVERAGE VERIFICATION:** In this section recap all policy pertinent information; policy number, effective dates, named insured, limits of liability, deductibles, policy forms and endorsements, mortgagees, leinholders, additional insured(s)...

**INVESTIGATION:** Prepare a professional and chronological account of the investigation to date along with a detailed and pro-active Plan of Action. Brevity is strongly recommended keeping in mind the need for factual and detailed information.

**DAMAGES/INJURY:** This section will offer a detailed recap of the damage investigation, relative to applicable policy coverage and limits of liability.



# Magnolia Insurance Company

## Claims Handling Guidelines

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Supplemental damages/injury is to be offered based on highly probable findings.

**COVERAGE ANALYSIS:** This section is encapsulating a detailed explanation of the damages as they compare to applicable coverage.

**SETTLEMENT:** Based on preceding categories, prepare detailed settlement recommendation(s). Future factors and/or supplemental exposures are to be considered as a part of this category.

**SUBROGATION/SALVAGE:** Prepare an analysis and plan of recovery of any subrogation and salvage possibilities relative to the comments offered in the INVESTIGATION heading.

**ACTION PLAN:** An up-to-date chronological account of the investigation accompanied by a detailed and pro-active plan of action. Brevity is strongly recommended keeping in mind the need for factual and detailed information.

- Be reviewed by the claim handler and revised as necessary within ten (10) days of transmittal, thereafter as developments dictate and prior to file closing;
- All internally generated documents must be professional in appearance. Written correspondence will be chronologically maintained in the file along with all other investigative and settlement documentation.
- Claims Managers and Supervisors are required to maintain a diary on all open claims and review the files continuously.
- Written correspondence should be chronologically maintained in the physical file.

### Diary Maintenance

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Proper claim file diaries are necessary to maintain control of the claim, to insure that the handling and investigation of the claim is being done on a timely basis, and to develop the information necessary to conclude claims quickly. Specific diaries are also needed to comply with all applicable regulatory requirements from the various Departments of Insurance that might apply to the claim.

#### ▪ CLAIMS EXAMINER NEW CLAIMS:

- New claims should first be set up on a five (5) calendar day diary to make sure that all contacts have been made, if possible, or are in the process of being made, to acknowledge our receipt of the claim, reserve adequacy and to make sure that the investigation is proceeding.

#### ▪ CLAIMS EXAMINER SUBSEQUENT DIARIES:

- Following the initial diary, claims should be reviewed and documented on a thirty (30) calendar day basis, or sooner if the claim warrants. If the claim does not need to be reviewed in thirty (30) calendar days, the file documentation must contain the reason why. Good claims judgment should be used if the claim is being diaried for more than thirty (30) calendar days.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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- Requests to extend a thirty (30) calendar day diary must be approved and documented by the Supervisor.
- **SUPERVISOR DIARIES:**
  - Supervisors will maintain their own duplicate diary on any claim that exceeds the Claims Examiner's reserve/settlement authority, claims where the policy limits could or will be exposed, or any other unusual or complex case that they wish to follow on diary. It is also recommended that the Supervisor diary any claim that involves our issuing a Reservation of Rights letter or denial of coverage at least until the coverage issue(s) is resolved. Judgment is left up to the Supervisor as to what claims they want to maintain on diary in addition to the above procedures.
  - Supervisors should diary files for a minimum of thirty (30) calendar days. This time frame can be adjusted either up or down depending on the nature and complexity of the claim.
  - When reviewing a claim on diary, the Supervisor should document their review and comments in the Notepad.
- **CLAIM MANAGER DIARIES:**
  - The Claim Managers should maintain their own duplicate diary on any claims that exceed the Supervisor's reserve/settlement authority, any policy limits claims, or other unusual or complex claims that may require the Manager's periodic review. Judgment is left up to the Managers as to what claims they want to maintain on diary in addition to the above procedures.
  - The timing of diaries are left up to the discretion of the Claim Manager, but sixty (60) calendar day intervals are suggested.
  - The Claim Manager must document the review of the file and note any comments in the notepad. A new diary date should be shown in the notepad by the examiner, Supervisor, and Claim Manager, after their review of the file on the current diary date.

### **Partial/Full Declination of Coverage**

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There are cases where a thorough investigation of the facts and review of the policy leads to the conclusion that part or all of the claim is not covered by the insured's policy and therefore the Claims Examiner will deny part or all of the claim.

- The Claims Examiner cannot rely on idle conversation, hearsay, or sketchy reports from the agent or other sources as a basis on which to deny coverage.
- A coverage declination will occur only after a thorough investigation of the loss and after the matter has been discussed and approved by the Claims Manager.
- When it is concluded that there is no coverage for a portion or all of the loss a partial or full declination of coverage letter is sent.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Partial or full declinations of coverage are reviewed and approved by the appropriate Claim Manager/Supervisor and Magnolia Claims VP or designee before the declination is communicated to the insured.
- Declinations of coverage are communicated verbally and then followed up in writing within five (5) working days of the verbal communication. The verbal notification is documented in the electronic file notes.
- Contact must be made with and an explanation provided to the agent or producer prior to sending any denial letter to the insured. Contact can be made at any time during the approval process.
- Declination of Coverage Letters should be drafted to include yet not be limited to the following:
  - An outline of the facts of the loss as we understand them.
  - A clear explanation of the reason(s) for the denial of coverage.
  - A citation of the applicable policy provisions.
  - The facts upon which the coverage decision was based.
  - An opportunity for the insured to provide additional information for reconsideration
  - Any local, state specific required language provided by the Compliance Manager.
- If the loss involves both non-covered and covered items, the Claims Examiner may reference the non-covered items within the estimate, provided an appropriate reference is made to the policy section that causes the item(s) to be "not covered".
- Once approved by the Claims Manager/Supervisor, Declination of Coverage Letters will be forwarded to Magnolia's Claims VP or designee for final approval.
- Declination of Coverage Letters will be sent to the last known address of the recipient.
- A copy of the letter must be sent to the agent and another copy maintained in the claim file.
- In the event an agent disagrees with our position, the Claims Examiner will determine the reasons why and consult their Claims Manager. If necessary, the Claims Manager will contact the agent to discuss and resolve the issue prior to sending the letter.
- If, after the letter has been mailed, the insured or their Claims Examiner disputes our coverage position, the matter will be re-reviewed by the Claims Examiner and discussed with their Claims Manager and Claims VP, or his designee.

### **DEPRECIATION**

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Depreciation on any item must be based on the age and condition of the item. The Claims Examiner's experienced judgment must be employed when determining depreciation.

Documentation must include, at minimum, the age of the item and any serial or model numbers being depreciated. If the Claims Examiner determines that no depreciation will be



## **Magnolia Insurance Company**

### **Claims Handling Guidelines**

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applied to an item to which depreciation would normally be applied, a written explanation must be provided, either in the narrative or in the estimate itself. Likewise, if the Claims Examiner determines that depreciation should be applied to an item to which depreciation normally would not apply, an explanation must be provided.

- No depreciation should be applied to repair items or partial replacements such as spot repairs on a roof and minimum charges for painting.
- The estimate must differentiate between recoverable and non-recoverable depreciation (reference the appropriate policy form to determine items that are subject to non-recoverable depreciation).

#### **Proof of Loss**

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- Complete and send a proof of loss for the following claims:
  - Any claim in excess of \$50,000
  - Claims involving questionable coverage, causes of loss or insurable interest.
  - Any other claim at the manager's discretion.
- Upon receipt of the signed proof of loss from the insured, the Claims Examiner will accept or reject it within the timeline specified by the applicable rules and regulations of the state where the loss occurred.
- At the Manager or Claims Examiner's discretion, a blank Proof of Loss may be sent with a letter citing the "Duties After Loss" section of the policy.

#### **Property Loss Payees**

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- All structural payments issued in the amount of \$2,500 or more must include the name of the mortgagee or loss payee, if applicable, in addition to all named insureds listed on the policy. Any deviation must be approved by Magnolia.

#### **Large Loss Program**

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The definition of a large loss, as it relates to the Large Loss Program, is any property or liability claim with an expected aggregate incurred loss of \$25K or more. All losses fitting this description go through a large loss review process before reserves are established.

The following activities are triggered at the point during the Claims Examiner's investigation where they determine the loss has a potential of meeting the description of a large loss.

Procedures for the Large Loss Review Program and granting of monetary authority will be as follows:

- Within one (1) business day of identifying a potential large loss the handling Claims Examiner prepares and submits a Large Loss Notice to their Claims Supervisor/Manager.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- The Claims Supervisor/Manager reviews the Large Loss Notice along with the file and any supporting documentation and once approved emails the Large Loss Notice to Magnolia's Claims VP or designee.
- The Claims Supervisor/Manager will enter required information onto a large loss spreadsheet, which is distributed weekly to Magnolia's Claims VP or designee, unless the claims management system is capable of generating such report as agreed by Magnolia.
- Within ten (10) business days or less of the Large Loss Notice, the Claims Examiner completes and submits a First Captioned Report along with the physical file to their Claims Manager for review.
- The Claims Manager reviews the First Captioned Report along with the claim file and if it meets their approval, they will update the file notes with their comments. If not approved it is returned to the Claims Examiner with comments for editing.
- Within one (1) business day or less of the Claims Manager's approval, the First Captioned Report is emailed to Magnolia's Claims VP or designee. If unable to complete this within one (1) business day, the Claims Manager verbally discusses the reasons why with Magnolia.
- All Large Loss claims are reviewed on a weekly basis, as designated, before establishing subsequent reserves in excess of \$25,000.
- Claims Managers will remain on diary on all large losses until they are concluded, reviewing them monthly at a minimum and providing appropriate comments and direction in the electronic file notes to ensure proper handling, reserve adequacy, and timely resolution (see Diary Maintenance for further information).

### **Underwriting Claim Referral Report**

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The Underwriting Claim Referral Report is designed to inform Underwriting when, during a claim investigation, facts regarding a risk develop or uncover certain information that raises questions or concerns about the desirability of the risk.

The Referral Report should be completed as soon as any questionable information is obtained. The original report should be sent to Underwriting, and a copy retained in the claim file.

The Claims Examiner should refrain from making any recommendations as to the cancellation of the policy as this is strictly an Underwriting decision.

Good communication between the Claims Department and Underwriting is extremely important, and essential to maintaining profitable results. Therefore, the Referral Report should be used whenever necessary.

### **Overhead and Profit Allowance**

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A maximum amount of twenty percent (20%) overhead and profit [ten percent (10%) overhead and ten percent (10%) profit] for the building estimate is available to the



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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policyholder when it is likely and probable that the services of a general contractor employed are necessary to oversee the repair of the policyholder's insured property.

Emergency or temporary repairs and the policyholder's own labor should not be included in the overhead and profit figures.

Overhead and profit must be separately noted on the estimate.

### **Recovery**

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#### **Salvage**

The Claims Examiner must address all issues pertaining to salvage before concluding the claim. Salvage cannot be abandoned arbitrarily. Depending on the number and potential value of salvageable items, the insured may retain the salvage or the Company will dispose of it.

However, no Claims Examiner should personally dispose of salvage unless specifically instructed by their Supervisor/Manager.

#### **▪ Buy Back**

- When relatively small dollar amounts are at issue, it is admissible to allow the insured to retain the salvage in exchange for an appropriate credit in the adjustment of the claim. When an insured retains any salvage, the Claims Examiner must document that agreement in the estimate. As with all other issues of the claim, the Claims Examiner must also take necessary steps to ensure that the insured understands that process.

#### **▪ Company Disposal**

- If the Company is going to dispose of the salvage, the Claims Examiner will contact an industry-recognized salvor located in the area of the claim to pick up and dispose of the salvageable items.
- The Claims Examiner will track and monitor the sale of the salvage.
- Salvage recovery payments will be credited to the claim file.

#### **Subrogation**

The Claims Examiner must address subrogation potential on all claims. The Claims Examiner's supervisor or subrogation unit must be placed on notice of all potential subrogation claims in order to ensure Magnolia's subrogation rights are protected.

#### **Identifying Potential Recoveries**

The following list of claims offer potential subrogation and warrant further investigation.

- Fire claims:
  - where expected loss is in excess of \$50,000
  - which are electrical in nature



## **Magnolia Insurance Company**

### **Claims Handling Guidelines**

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- All vehicle damage claims
- All claims involving a third party (contractor, neighbor, guest, etc...)
- All vandalism or theft claims where a suspect has been apprehended
- Any non-CAT property claim where anticipated payment is greater than \$100,000
- Any theft or fire claims where the insured had security service
- Any claim involving an alleged product or service defect
- Any claim involving salvage
- Any water damage claim involving an appliance under ten (10) years of age or a washing machine hose under five (5) years of age
- All claims where the loss originated off premises (i.e. upstairs unit leaks into insured's unit, fire at neighboring house, etc.)

The following investigation guidelines should be followed on any claim with possible subrogation:

- When the potential for subrogation is first recognized, it will be the Claims Examiner's responsibility to send out a Subrogation Notice letter to the adverse carrier, or uninsured party, even if no payments have been made. A copy of this letter should also be sent to the insured and the agent. This will protect our interests until the investigation is completed and a liability evaluation can be made, and at the same time keep the insured and agent advised on the status of our activity. Once all payments have been made subrogation should be pursued. A follow up letter should be sent which states the amount being subrogated.
- Secure Police, Fire Department, theft, or any other investigative reports that are available through official agencies.
- Obtain recorded statements and summaries from the parties to the loss, including any witnesses.
- Photographs and diagrams of the loss are recommended in complex cases, when comparative negligence exists, or in any situation, which would assist us to better evaluate the liability issues. Sound claim judgment should be used in these situations. When in doubt, consult with your Supervisor.
- Secure information on the adverse carrier to include company name, address, telephone number, claim number, and the handling Claims Examiner.
- If the responsible party is uninsured, obtain the driver's name, address, and phone number, in addition to the owner of the vehicle if different from the driver.
- The Claims Examiner will consider the use of alternate dispute resolution (ADR) to resolve the claim when appropriate.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- All recovery related legal work is approved by the Claims Examiner prior to that work being done.
- Document the claim file with your assessment and the basis for your liability evaluation
- The Claims Examiner should continue pursuit of meritorious subrogation claims through negotiations with the adverse carrier, attempts to obtain installment repayment agreements with uninsured parties, arbitration, use of collection agencies, referral to attorneys to obtain judgments, and application of State safety responsibility statutes which usually result in the loss of driving and registration privileges of uninsured drivers.
- Subrogation activity should be clearly documented in the claim file. Abandonment of subrogation requires the approval of the Claims Examiner's Supervisor.

### **Subrogation Checklist**

The Subrogation Checklist provided below is intended to assist in identifying potential subrogation, properly documenting the claim and preventing spoliation of evidence.

- What is the cause of loss? The actual specific cause – not just the peril. Remember, acts of God many times involve the intervening negligence of mankind.
- Did the cause of loss result from the acts of some third person (a person other than the insured, his agent or employees)?
- Can you prove the cause of loss? By:
  - Substantiating evidence
  - Direct or circumstantial
- How can you prove it? - **Very Important!**
  - Witnesses' statements
  - Photographs
  - Experts' analysis
  - Written description
  - Diagrams
- What duties were owed by the third party to the insured?
  - Common law – due care
  - Statutory
  - Contract, e.g., bailment or lease
- Is the duty apparent or must you obtain a legal opinion?
  - Uncertain – discuss with your supervisor.
- What is the loss or damage? Can you prove it?



## **Magnolia Insurance Company Claims Handling Guidelines**

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- How: Surveys, records, estimates, expert opinion
- Was the insured notified of the company's possible subrogation claim upon payment of loss? If not, your chance of subrogation may be waived.
- How is the insured notified of the company's subrogation claim?
  - Subrogation Receipt
  - Loan Receipt
  - Assignment
  - Letter
  - Law
- Have you determined that there was no subrogation waiver that would eliminate subrogation?
- Is a potentially responsible third party financially responsible? This must be determined.
  - What insurance is available?
  - Limits
  - Name of carrier, policy number
  - What assets other than insurance?
  - Financial worth
- Has your insured asked the third party or his insurance company to pay? (Give no legal advice – you can't practice law.)
- Is the subrogation claim subject to an arbitration agreement?
- Has evidence been obtained to present a good file for arbitration if the subrogation claim cannot be settled?
  - Statements
  - Diagrams
  - Photographs
  - Substantiation of paid loss amount.

### **Special Investigations**

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The examiners are the key persons to discover and report suspected fraudulent claims. Insurance fraud profiles should alert the examiners to possible fraud. Each examiner must be thoroughly familiar with these profiles.

### **Claim Referrals**

All suspected fraud claims will be referred directly to the Special Investigations Unit with claims management approval where required.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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### **Claims to be referred may include:**

- All suspicious claims.
- Any claim which involves a direct contact with or by an informant.
- All claims in which there has been law enforcement contact regarding the possibility of fraud or arson.
- Claims containing fraud profile indicators, or other objective evidence of fraud.
- All other claims as directed by the Claim Manager.

### **Timing of Referrals**

To ensure a prompt investigation, all suspect claims must be referred to the Special Investigations Unit IMMEDIATELY upon recognition of possible fraud indicators.

### **Documentation of the Facts:**

- If at any time during the handling of a claim the Claims Examiner feels a claim may be suspicious, Special Investigation Unit (SIU) should be alerted of a potential referral, along with an electronic file note, which contains a recap of the claim, including notes pertaining to the issues that cause the Claims Examiner to be suspicious.
  - The electronic file notes do not specifically say the claim is fraudulent or suspicious but rather clearly state the facts that cause the claim to appear suspicious.
  - For example, the file notes might state, "the limits were raised two weeks before the loss occurred" or "the insured has no receipt for any of the items that they allege were new". The notes should not contain any editorializing regarding the claim, the insured, or the claimant, only the facts of the loss should be commented on.
  - If the Claims Examiner fails to identify these instances, the Claims Manager or Claims Supervisor may identify the suspicious activity as part of the file review.

### **SIU Investigator:**

- The SIU Investigator will review the file to determine if further investigation is needed.
- If it is determined that there is not enough information in the file to make a referral to the SIU, the SIU investigator will confer with the handling Claims Examiner to discuss what further investigation should be done and/or advise that the claim is not deemed to be suspicious.

### **SIU Claim Handling:**

- The SIU investigator directs the investigation into the suspicious elements of the claim in collaboration with the handling Claims Examiner.
- The handling Claims Examiner will retain the responsibility for the adjustment of the claim after the claim is referred to SIU. However, no loss payments are made without consulting SIU so as not to compromise the investigation.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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- All required reporting to ISO and fraud bureaus is the responsibility of CGI.
- If after investigating a suspicious case it is determined that no fraud exists, SIU will complete a final report and send it to the handling Claims Examiner with a copy to the Claims Manager and the claim will continue to be handled to conclusion by the handling Claims Examiner.
- If SIU determines there is fraudulent activity, they report it to the handling Claims Examiner and Claims Manager. SIU, Claims Examiner, and the Claims Manager, coordinate to determine the appropriate handling of the claim to conclusion, which is dependent upon the facts of the claim.

### **Notification to Underwriting:**

- Depending on the circumstances of the claim the handling Claims Examiner will submit an Underwriting Claim Referral Report to Underwriting in accordance with the Underwriting Claim Referral Guidelines.

### **Monitoring of the SIU:**

- SIU has an Integrated Fraud Plan documented specifically for Magnolia Insurance Company.
- Special investigation claims are reviewed and monitored by CGI Claims management through the periodic reviews of the SIU's work product.

### **Vendor Management**

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The primary goal of these vendor management guidelines is to ensure sound decision-making in determining when vendors and/or experts are needed and supply a value-added service to the claim handling process. In addition, these guidelines assist in driving front-end management, as well as direction through the life of the assignment, and finally expense management of invoices received to be sure the billing is fair and in line with the tasks assigned. The following are general requirements of the vendor management process:

- The use of any vendor requires the Claims Examiners to receive Claims Manager/Supervisor approval prior to engaging the vendor.
- The Claims Examiner documents approval in the electronic file notes.
- Vendors are not assigned to tasks that can be completed in-house.
  - If a vendor is needed, assignments are on a task basis and clearly communicated to the vendor. The Claims Examiner will continue to complete any tasks that can be handled telephonically. Claims Examiners will document the reason a vendor is needed or used in the electronic file notes.
- Claims Examiners will provide vendors specific instructions regarding the tasks the vendor needs to perform in all cases either verbally or in writing. These tasks are documented in the electronic file notes.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- Budgets are required on all vendor assignments when the fees are expected to reach or exceed \$1,500.
  - Budgets are set and confirmed in writing, via email.
  - Vendors are instructed to contact the Company in advance, if they feel they need to go outside assigned tasks or over budget. This is documented in writing and retained in the claim file.
  - Invoices are reviewed by the Claims Examiner to be sure all billed tasks were assigned by the Claims Examiner. The Company will not pay for additional work beyond the scope of the assignment unless prior approval was requested and received.
- Vendor services are no longer needed when it is determined by the Claims Examiner they are no longer adding value to the claim handling process.
- All vendor billings are reviewed by the Claims Examiner and approved prior to payment within their respective monetary authority. For approved invoiced services exceeding Claims Examiner authority, the Claims Supervisor/Manager will approve within their authority.
  - When an invoice is received, it is carefully reviewed to ensure the task performed and the hours charged are aligned with the work involved and the fee is in line with the billing agreement.
  - Discrepancies in the billing are reviewed with the vendor by the Claims Examiner and reconciled prior to payment.
- All billing and/or performance issues are reported to the Claims Managers.
- Any vendor not meeting billing guidelines and/or quality requirements will be terminated by the Claims VP.

### **Litigation Management**

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The best form of litigation management is suit avoidance. There are times, however, when your best efforts to resolve claims through a negotiated settlement are not successful. In those cases, an effective program of litigation management is essential.

Litigation management occurs throughout the life of a claim. Each Claims Examiner has the responsibility to make an effort to resolve all legitimate claims prior to suit.

Magnolia's objective is to identify and litigate only defensible suits and those for which no reasonable compromise is possible. The key to cost-effective litigation management (and to minimizing the number of claims that end-up in suit) is to complete the basic investigation necessary to evaluate the insured's or Company's exposure, and then pursue settlement before the claim becomes a suit.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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In those instances where litigation is unavoidable, sound litigation management practices are used to ensure that insureds receive quality, cost-effective representation to resolve litigated claims properly. The following guidelines address the methods and procedures necessary to fulfill this responsibility.

### **Lawsuit receipt and referral procedures**

These procedures vary depending on if the suit is served on the insured or the company.

However, immediately, upon receipt of any lawsuit the electronic file notes should be documented with details regarding the suit.

### **SUIT CLASSIFICATION AND PRIMARY RESPONSIBILITIES**

Suits Received Directly must be communicated immediately to Magnolia's Claims VP or designee. The original lawsuit with attachments and a copy of the complete claim file must be sent via overnight mail to \_\_\_\_\_. A suit report is required or capable of producing such report, acceptable to Magnolia and supplied within five (5) after the first of the month.

### **Special Handling Suits**

Immediately report to Magnolia's Claims VP or designee any indication, from any insured, claimant or representative of either, even if such indication occurs before the institution of litigation, of any of the following types of actions:

- Suits involving allegations of bad faith, or punitive damages,
- Unfair insurance practices or
- Any other at the discretion of Magnolia.

### **First Party Suits**

When suit is brought on first party claims and a prompt reasonable resolution cannot be achieved, it is the responsibility of the Claims Examiner to coordinate all litigation activity with the CGI Claims Manager and assigned counsel, if applicable.

### **Third Party Suits**

The management of third party claims requires the Claims Examiner to act with due regard for the interest of each insured who has been sued. Coordination between all involved parties is imperative. The Claims Examiner must document the claim file to reflect that the Claims Examiner and appointed counsel has communicated with the insured on all matters that would be of interest to the insured. That duty includes, but is not limited to:

- Advising each insured of all settlement negotiations.
- Informing each insured as to the probable outcome of litigation.
- Warning each insured both verbally and in writing of the possibility of an excess verdict.
- Advising the insured of steps that may be taken to avoid an excess verdict.



# Magnolia Insurance Company

## Claims Handling Guidelines

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**Where a third party lawsuit presents both liability issues and coverage issues, conduct the following activities:**

- Create a separate file for the underlying liability litigation. Continue to handle as directed.
- Return the coverage file to the Claims Manager for review and reassignment, if necessary.
- The Claims Examiner assigned to the coverage file must keep the insured informed, through appointed counsel or directly if indicated by counsel, of the progress of the coverage investigation and promptly communicate the outcome of that investigation to the insured and appointed counsel.
- Claims Examiners are responsible for the maintenance of all applicable Claims Files and for timely completion of all required reports.

### **RESERVING**

- No later than five (5) business days from receipt of a lawsuit, an indemnity reserve reflecting the Claims Examiner's anticipated net estimate of the covered loss must be set. Upon agreement of a case budget, a **separate reserve for expense** must be set. The expense reserve should be set at the anticipated amount that is expected to be incurred in defending the case, and consistent with the approved budget (see Vendor Management for further information).

**Immediately after receipt of a suit on a closed file, the Claims Examiner should re-open the file and reserve in accordance with the above guidelines.**

- Suit files should not be closed until a Dismissal of the suit or Petition has been received.
- Once a lawsuit has been filed, all settlement offers and release dismissal conditions must be approved by Magnolia's Claims VP or designee.

### **LITIGATION PROCEDURES**

#### **Receipt and Assignment**

#### **New Claims or Pre-Existing Claims**

- Suit papers are delivered to the Claim Manager for review. If the Claim Manager is out of the office or otherwise unavailable the papers should be given to a Supervisor for handling. Under no circumstances should any suit papers go unattended.
  - On pre-existing claims, a complete copy of the claims file is made. The copy will be retained in the claims office. The original will be sent to Counsel with a cover letter, along with the Claims Examiner preparing a report summarizing the claim and relevant case issues.

#### **Coverage Verification & Analysis**

Upon receipt of suit documents, the Claims Examiner must determine if all of the allegations fall within coverage of the policy against which the claim is made. The **Suit**



# Magnolia Insurance Company

## Claims Handling Guidelines

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**Acknowledgment Report** containing the Claims Examiner's findings must be furnished to the Claims Manager, with a copy to appointed counsel within five (5) business days of receipt of the lawsuit.

### Requesting Suit Extensions

The Claims Examiner must determine if the suit is:

- A first notice of claim, or
- An existing claim that, with some further information, can be negotiated.

If either of these conditions exists, the Claims Examiner is to contact plaintiff counsel and request, a written extension of time to file a responsive pleading. The request must be communicated verbally and in writing.

If an extension is granted, the Claims Examiner must diligently make every effort to complete the necessary investigation within the time of the extension, and report same to appointed counsel, if appointed, and to the Claims Manager. If possible, the Claims Examiner must attempt to resolve the claim. If the claim is resolved after the filing of suit, the Claims Examiner must coordinate with counsel, if appointed, to obtain all releases and dismissal of the litigation.

As noted, it may be necessary for the Claims Manager to assign counsel on claims falling within the above conditions. When counsel is assigned, the attorney must be asked, by the Claims Examiner, to file a responsive pleading or obtain an extension, and then refrain from any further action, pending the outcome of the Claims Examiner's efforts to resolve the matter.

### Statement of Insured Client's Rights

On third party cases, the Claims Examiner must make certain that the assigned defense counsel has provided a "Statement of Insured Client's Rights" to each insured for whom Magnolia is providing a defense. The Claims Examiner's file must contain a copy or copies of the required Certificate signed by defense counsel.

### Communication and Acknowledgement Responsibilities

During the life of the case it is important for the Claims Examiner to maintain open communication with counsel and parties to the loss. In first party cases, both counsel and the Claims Examiner are representing the interests of Magnolia. In third party cases, the interests of each insured must be fostered. Both of these goals must be achieved in an efficient and cost effective manner.

### Claims Administrator Acknowledgement to Insured(s)

- Within five (5) business days of the Claims Examiner's receipt of a third party lawsuit, the Claims Examiner must acknowledge its receipt to the insured(s) verbally and in writing. The acknowledgment letter must provide the insured(s) with the name and contact information for the attorney appointed to defend the insured and contain the following language:



## Magnolia Insurance Company Claims Handling Guidelines

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*The defense of this case has been referred to \_\_\_\_\_ of the firm of \_\_\_\_\_, (address). You have the right to have mutually agreeable counsel and you may object to the selected defense counsel. If you do object to the selection of \_\_\_\_\_ as your counsel, please immediately notify us in writing so that we may propose other counsel to defend you.*

- Where there is no specific demand for damages or there is a demand in excess of the policy limits, the letter must inform the insured of the possibility of an excess judgment and the right of the insured to have counsel of the insured's own choice represent the insured at the insured's own expense.
- **If there are both covered and non-covered allegations**, the assigned Claims Examiner(s) will prepare and communicate, verbally and in writing that:
- A defense will be provided by Magnolia to each defendant qualifying as an insured or potential insured, and
- A reservation of rights letter will be sent to each party against whom there are one or more non-covered allegations after explaining the circumstances to that person. This action must be coordinated with appointed counsel.

### **Acknowledgement to Defense Counsel and Case Development/Discovery**

The Claims Examiner and counsel must work together to assemble the facts important to continuing evaluation and defense. The investigation and evaluation of the claim is not to be abandoned to the defense attorney. Coordination of the litigation must begin immediately following assignment of the suit to counsel. The Claims Examiner must, at all times, be aware of the plan of discovery agreed on between the attorney and all involved parties. The Claims Examiner is required to perform all of the needed non-legal functions requested by defense counsel.

To properly reserve, evaluate settlement options and to maintain an appropriate defense strategy, a thorough file review must be made by the Claims Examiner as new information is developed during the course of litigation.

If the Claims Examiner believes that a settlement attempt should be made, the Claims Examiner must convey that to the defense attorney and all involved parties so a joint strategy may be developed. It is not necessary to wait for court ordered mediation to attempt settlement.

Alternate Dispute Resolution (ADR), such as Mediation, Arbitration, Settlement Conference, etc., must be considered and utilized whenever the possibility of an equitable settlement appears unlikely without utilizing one of these methods. As with any negotiation, the timing of requesting ADR will depend on the circumstances of the particular case. The Claims Examiner must coordinate, and participate in, all efforts at ADR with the attorney.

**Mediations** – immediately after receipt by the Claims Examiner, send Notices of Mediation to the Claims Manager and Magnolia's Claims VP or designee. Magnolia must receive copies of all Mediation Summaries, along with a mediation plan within ten (10) business days of the scheduled mediation. Attendance at mediations is mandatory.



## **Magnolia Insurance Company**

### **Claims Handling Guidelines**

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**Prior to undertaking any of the following actions**, counsel is to communicate with the Claims Examiner, Claims Manager and then referred to Magnolia and Magnolia shall approve the necessity of the action. Future actions will be reflected in Counsel's Initial Report and commensurate with the agreed upon case budget.

- Depositions: The taking of depositions must be carefully considered in each instance and must not be conducted routinely. Counsel's deposition reports must be carefully reviewed by the Claims Examiner. The Claims Examiner must not request a copy of the transcript unless absolutely necessary for the Claims Examiner's understanding of the case.
- Expert Witnesses, Independent Medical Examinations, and Independent Contractors must only be retained after approval of the Claims Manager.
- Legal Research may be necessary in complex cases or cases of first impression for counsel. Counsel must not conduct legal research without first discussing the need to do so with the Claims Manager whenever counsel makes a request to conduct research.
  - When requested, the Claims Examiner must assist counsel in preparing responses to Requests for Production. Defense Counsel must discuss Requests for Admissions with the Claims Examiner.

#### **Defense Counsel Acknowledgement and Communication to:**

- All counsel who may be assigned to the defense of a lawsuit will confirm receipt of the suit in writing to the claim Claims Examiner within five (5) business days of counsel receiving the suit. The assigned attorney must confirm, in writing, to the Claims Examiner that a responsive pleading has been entered on behalf of all insured defendants or that an extension of the time to respond to the suit has been granted.
- The attorney is required to send a letter informing each insured of the attorney's representation of them, and providing them with a copy of the "Statement of Insured Client's Rights." The insured will be requested to complete the following and return the letter or a copy to the attorney:

*I hereby acknowledge that \_\_\_\_\_, the attorney assigned to me by <<Company Name>> on behalf of Magnolia Insurance Company in the case of \_\_\_\_\_ is acceptable to me and that I am satisfied that he / she can serve as an effective advocate and protect my interests.*

\_\_\_\_\_  
*Signature of Insured*

\_\_\_\_\_  
*Date*



# Magnolia Insurance Company

## Claims Handling Guidelines

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### **Trial**

Trial dates will be communicated immediately by defense counsel to the Claims Examiner. The Claims Examiner will notify their Claims Manager, who will advise Magnolia's Claims VP or designee by the **Pre-Trial Report**. The attorney will notify the insured and coordinate the insured's attendance and participation at trial.

- There is much activity in the weeks immediately preceding trial, witnesses may be named, depositions may be finalized and additional motions may be necessary. This is an important time for the Claims Examiner to maintain close contact with the defense counsel and to evaluate any changes that take place because of pre-trial activities. This pre-trial period is a time when the attorney and the Claims Examiner must again review all of the discovery material and re-evaluate the value and direction of the case. The Claims Examiner must their Claims Manager closely informed of activities and changes in evaluation.

If an opinion as to trial strategy or case evaluation is being sought, all pertinent information must be conveyed as early in the pre-trial phase as possible and during trial as may be required. The Claims Manager must promptly advise Magnolia of all cases with extra-contractual exposure or that we otherwise classified as Special Handling Suits.

The Trial phase requires on-going communication between defense counsel and the Claims Examiner regarding trial progress and current settlement opportunities. Trial counsel must immediately report the outcome of the trial, or any settlement negotiations, to the Claims Examiner. The Claims Examiner shall then immediately report any trial results to the Claims Manager. The Claims Manager will immediately report trial results to Magnolia's Claims VP or designee. Within five (5) business days of its conclusion, the Claims Examiner will prepare and submit the **Post-Trial Report**. The Post-Trial Report must be accompanied by defense counsel's trial summary report and a copy of the verdict form, together with a description of Post-Trial motions that counsel and the Claims Examiner deem appropriate.

**All Appeals require Magnolia's prior approval** who will collaborate with the Claims Manager and decide on choice of appellate counsel. Requests for appeals must be directed to Magnolia.

### **Excess Judgments**

**In the event any trial results in an excess verdict over and above the available policy limits, Magnolia must be notified immediately by telephone. Thereafter, a copy of the verdict form must be promptly sent to Magnolia. The Claims Manager, Magnolia and counsel will decide all Post-Trial strategies.**

### **SUIT REPORTING AND FORMS GUIDELINES**

#### **Suit Acknowledgment Report**

The Claims Examiner must complete and send the Suit Acknowledgment Report to their Claims Manager, along with a copy to Magnolia within five (5) business days of receipt of a lawsuit. If a written extension of time to respond has been obtained, the letter or pleading evidencing the extension must be attached to the Suit Acknowledgement Report. The



## **Magnolia Insurance Company Claims Handling Guidelines**

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report will also set forth what actions are being undertaken by the Claims Examiner during the extension period to either resolve or investigate the matter.

### **Initial Post-Suit Report**

Within thirty (30) days of receipt of a copy of the lawsuit by the Claims Examiner, the Claims Examiner will complete an initial captioned report and send to their Claims Manager, along with a copy to Magnolia. The report must be in detailed captioned report format, including the following captions:

- **Coverage.**
- **Liability**, including available defenses (on first party cases, give an analysis of Citizens' chances of prevailing).
- **Damages**, both established and alleged.
- **Reserve analysis**, both indemnity and expense.
- **Specific reasons suit was brought** and **why claim has not settled.**
- A **plan for settlement** or resolution.
- **Additional investigation** to be conducted by the Claims Examiner.
- **Acknowledgment** that the Claims Examiner has forwarded a copy of the claim file to the attorney.

### **Status Reports**

Forty-five (45) calendar days after the Initial Suit Report and every ninety (90) calendar days thereafter, the Claims Examiner must submit a status report to their Claims Manager, along with a copy to Magnolia. The report must identify the Insured, Claim Number, and Date of the Report. The report must be a narrative summary of only those changes that have taken place since the previous report. Where reserves have been changed, the Claims Examiner must state the previous reserve and the reserve after change.

### **Settlement Reporting**

Immediately upon settlement of any litigated claim, the Claims Examiner will submit to their Claims Manager, along with a copy to Magnolia, a detailed Settlement Report.

### **Pre-Trial Report**

As soon as a trial date has been set, the Claims Examiner shall submit a Pre-Trial Report to their Claims Manager, along with a copy to Magnolia.

If the trial is continued beyond the reported trial date, their Claims Manager, along with a Magnolia must be made aware of a new trial date when known.

### **Post-Trial Report**

Within five (5) calendar days after a verdict, the Claims Examiner will submit a Post Trial Report to their Claims Manager, along with a copy to Magnolia.



# **Magnolia Insurance Company**

## **Claims Handling Guidelines**

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If the file must remain open, the Claims Examiner must submit a narrative report of any changes since the previous report every forty-five (45) days following the previous report.

### **Complaint Handling**

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The following procedures shall apply to responses made to any complaint. A "complaint" means any written communication primarily expressing a grievance. Examples of a "complaint" include expressions of dissatisfaction or of protest regarding our business practices.

- All Consumer complaints, whether registered with the regulatory agency or in writing directly to Magnolia or any of its service providers, should be referred immediately to Magnolia's Claims VP or designee. The Claims Manager will record the complaint in the Complaint Registry and calendar for a reply in compliance with applicable state rules and regulations. It will then be forwarded to Magnolia's Claims VP or designee.
- It is the Claims Manager's responsibility to insure that all complaints are reviewed and responded to within designated time restraints as dictated by the State Department of Insurance or State regulatory agency.
- Upon receipt of the complaint, it will immediately be given to the Claim Manager for review and creation of a follow up to assure that a proper and prompt response is made. The Claim Manager will review the claim file and prepare a formal written response.
  - The response must clearly state
    - The company is handling claims for the Insurance Company against which the complaint has been made.
    - Provide a reasonable explanation of the position being taken on the claim,
    - Based on the circumstances of the complaint made, enclose sufficient documentation to support the actions taken in the handling of the claim.
    - Comply with any other special requests or documents requested by the State agency.
- The proposed letter of reply will be forwarded to Magnolia's Claims VP or designee for review and final approval. Upon Magnolia's approval, the Claims Manager will send the response to the appropriate regulatory agency and/or consumer via facsimile, mail or other means.
- As a general rule, the company file will not be sent to the regulatory agency or consumer. Should it be necessary to forward a copy of the company's file, effort should be made to preserve the confidentiality of the file either by appropriate language in the letter of transmittal.
- Should the regulatory agency deem further correspondence necessary on a particular matter, it is recommended that such additional requests be directed to the Claims Manager, with a copy to Magnolia Claims VP or designee.



## **Magnolia Insurance Company Claims Handling Guidelines**

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- It is expected that replies will be furnished to the regulatory agency or the consumer within ten (10) working days of receipt of complaints. In the event information is not available within the office and a meaningful reply cannot be made within this time, the Claims Manager will contact Magnolia and explain why a meaningful reply can not be prepared at this time and will establish a reasonable response date. The Claims Manager, with Magnolia's authority, will immediately forward a letter of acknowledgement to the regulatory agency or consumer and give a date that the reply will be sent.
- When the case is closed, the statistical data will be indexed, recorded and used to develop the Company's Complaint Registry.

### **Complaint Retention**

All written complaints with responses and supporting documentation should be maintained for seven (7) years.





FLORIDA DEPARTMENT OF STATE  
Division of Corporations

June 2, 2008

Gregg B. Patterson  
2122 Jenette St.  
Tallahassee, FL 32308

Re: Document Number P05000075735

The Amended and Restated Articles of Incorporation for MAGNOLIA INSURANCE COMPANY, a Florida corporation, were filed on June 2, 2008.

The certification you requested is enclosed.


Should you have any questions concerning this matter, please telephone (850) 245-6050, the Amendment Filing Section.

Annette Ramsey  
Regulatory Specialist II  
Division of Corporations

Letter Number: 708A00034228



# State of Florida



Department of State

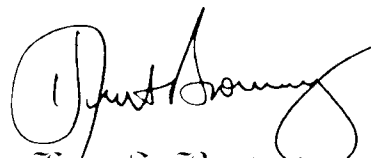
I certify the attached is a true and correct copy of the Amended and Restated Articles of Incorporation, filed on June 2, 2008, for MAGNOLIA INSURANCE COMPANY, a Florida corporation, as shown by the records of this office.

The document number of this corporation is P05000075735.

Given under my hand and the  
Great Seal of the State of Florida  
at Tallahassee, the Capitol, this the  
Second day of June, 2008



CR2EO22 (01-07)



Kurt S. Browning  
Secretary of State



**AMENDED AND RESTATED ARTICLES OF INCORPORATION**

**OF**

**MAGNOLIA INSURANCE COMPANY**

**ARTICLE I:**

**NAME**

The name of the corporation shall be Magnolia Insurance Company.

**ARTICLE II:**

**PRINCIPAL OFFICE**

The principal office of the corporation shall be 260 Glenridge Road, Key Biscayne, Miami-Dade County, Florida 33149.

**ARTICLE III:**

**PURPOSE**

The purpose for which the corporation is formed is to transact Homeowners Multi Peril insurance business, and any other line of insurance it may subsequently be authorized to write pursuant to the laws of the United States and Florida.

**ARTICLE IV:**

**DURATION**

The duration of the corporation shall be perpetual.

**FILED**  
2008 JUN -2 PM 12:14  
SECRETARY OF STATE  
TALLAHASSEE, FLORIDA



## **ARTICLE V:**

### **AUTHORIZED SHARES**

The number of shares of common stock that this corporation is authorized to have outstanding at anyone time is 10,000, with a par value of \$1.00. However, the corporation shall not conduct business until it has \$5 million dollars of surplus as to policyholders.

## **ARTICLE VI:**

### **REGISTERED OFFICE AND AGENT**

The registered office of this Corporation shall be 10620 Griffin Road, Suite 202, Cooper City, Florida, 33328 and the registered agent of this Corporation at such office is Jennifer D. Westerlund, P.A., who, upon accepting this designation, agrees to comply with the provisions of Section 48.091, Florida Statutes, as amended from time to time, with respect to keeping an office open to receive service of process from the Treasurer and Insurance Commissioner of the State of Florida.

## **ARTICLE VII:**

### **BOARD OF DIRECTORS**

The corporation shall have at least five (5) directors, who are over the age of eighteen (18) years. The following individual persons shall serve, for an initial term of not more than one year, as the initial directors of the corporation:

<b>Name</b>	<b>Title(s)</b>	<b>Address</b>
H. James Irl	Director President	260 Glenridge Road, Key Biscayne, FL
Peter Harrison	Director	669 S. Mashta Drive, Key Biscayne, FL
Gregg Patterson	Director Treasurer	2122 Jenette St., Tallahassee, FL
Ernesto Ramon	Director	781 Crandon Blvd., #806, Key Biscayne, FL
Alberto Sarasua	Director Secretary	442 Hampton Lane, Key Biscayne, FL



## **ARTICLE VIII:**

### **BY-LAWS**

The power to adopt, alter, amend, or repeal by-laws shall be vested in the Board of Directors.

## **ARTICLE IX:**

### **AMENDMENTS**

The corporation reserves the right to amend, alter, or repeal any provision in these Articles of Incorporation in the manner prescribed by Chapter 607, Florida Statutes, and all rights conferred on shareholders are subject to this reservation. These Articles may be amended prior to the issuance of shares of the Corporation by the unanimous approval or consent of the shareholders. Thereafter, every amendment shall be approved by the shareholders at a shareholders' meeting as provided in the by-laws and by Chapter 607, Florida Statutes.



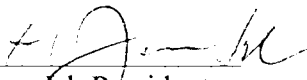
**ARTICLE X:**

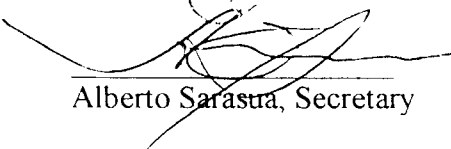
**INCORPORATORS**

The following individual persons are the incorporators of the corporation:

<b>Name</b>	<b>Title(s)</b>	<b>Address</b>
H. James Irl	Director President	260 Glenridge Road, Key Biscayne, FL
John Phillips	Retired	7 Balniel Gate, London, England
Felix Rodriguez	Retired	201 Crandon Blvd, #329, Key Biscayne, FL
Ernesto Ramon	Director	781 Crandon Blvd., #806, Key Biscayne, FL
Alberto Sarasua	Director Secretary	442 Hampton Lane, Key Biscayne, FL

The undersigned President and Secretary of Magnolia Insurance Company have executed these Amended and Restated Articles of Incorporation this 7 day of May, 2008.

  
\_\_\_\_\_  
H. James Irl, President

  
\_\_\_\_\_  
Alberto Sarasua, Secretary



**RESOLUTION OF THE BOARD OF DIRECTORS**  
**OF**  
**MAGNOLIA INSURANCE COMPANY**

WHEREAS, the undersigned members of the Board of Directors of MAGNOLIA INSURANCE COMPANY, a Florida corporation (the "Corporation"), does hereby consent to, approve, adopt, ratify and confirm the following resolution:

RESOLVED, that H. James Irl, Chief Executive Officer is duly empowered to issue instructions and enter into agreements or contracts with the Chief Financial Officer, State of Florida, concerning any and all cash, book-entry and security transactions on behalf of Magnolia Insurance Company, is hereby adopted and approved, and is in the best interest of the Corporation.

RESOLVED, that Gregg Patterson, Chief Financial Officer and Vice President of Operations, is duly empowered to issue instructions and enter into agreements or contracts with the Chief Financial Officer, State of Florida, concerning any and all cash, book-entry and security transactions on behalf of Magnolia Insurance Company, is hereby adopted and approved, and is in the best interest of the Corporation.

RESOLVED, that the H. James Irl, Chief Executive Officer is duly empowered to open all bank and investment accounts that are deemed necessary by the Management of the Corporation for the operation of the Corporation, and that such opening and empowerment have been approved and are in the best interest of the Corporation.

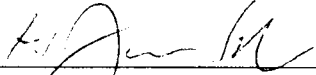
RESOLVED, that the Gregg Patterson, Chief Financial Officer and Vice President of Operations, is duly empowered to open all bank and investment accounts that are deemed necessary by the Management of the Corporation for the operation of the Corporation, and that such opening and empowerment have been approved and are in the best interest of the Corporation.

RESOLVED, that the Board of Directors of Magnolia Insurance Company, pursuant to Chapter 607 of the Florida Statutes, authorize amendment of the Articles of Incorporation filed with the Florida Department of State, Division of Corporations and active as of May 25, 2005 and hereby adopt the Amended Articles of Incorporation, attached hereto, and that such amendment and adoption are in the best interest of the Corporation.

The amendments are solely with respect to the names and addresses of the initial directors (pursuant to Chapter 607.1002(2) and with respect to the name and address of the initial registered agent (pursuant to Chapter 607.1002(3), for which a statement of change was filed with the Department of State on March 17, 2008, and such amendments made by the board of directors pursuant to this resolution are authorized by Chapter 607.1002 and do not require shareholder approval or action.


IN WITNESS WHEREOF, the undersigned, constituting the Board of Directors of the Corporation has executed this resolution effective as of the 7<sup>th</sup> day of May, 2008.





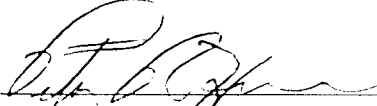
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H. James Irl, Director



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Alberto Sarasua, Director



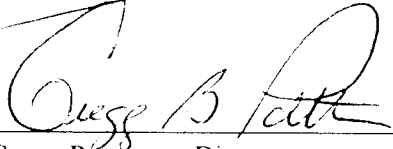
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Peter Harrison, Director



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Ernesto Ramon, Director



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Gregg Patterson, Director



## BYLAWS

## OF

## Magnolia Insurance Company

A Florida Corporation

## ARTICLE 1 -- SHAREHOLDERS

1.1 Annual Meeting. A meeting of shareholders shall be held each year for the election of directors and for the transaction of any other business that may come before the meeting. The time and place of the meeting shall be designated by the Board of Directors.

1.2 Special Meeting. Special meetings of the shareholders, for any purpose or purposes, shall be held when directed by the President or at the request of the holders of not less than one tenth of all outstanding shares of the corporation entitled to vote at the meeting.

1.3 Place of Meeting. The Board of Directors may designate any place, either within or without the State of Florida, as the place of meeting for any annual or special meeting of the shareholders. If no designation is made, the place of meeting shall be the principal office of the corporation in the State of Florida.

1.4 Action Without a Meeting. Unless otherwise provided in the Articles of Incorporation, action required or permitted to be taken at any meeting of the shareholders may be taken without a meeting, without prior notice and without a vote if the action is taken by the holders of outstanding shares of each voting group entitled to vote on it having not less than the minimum number of votes with respect to each voting group that would be necessary to authorize or take such action at a meeting at which all voting groups and shares entitled to vote were present and voted. In order to be effective, the action must be evidenced by one or more written consents describing the action taken, dated and signed by approving shareholders having the requisite number of votes of each voting group entitled to vote, and delivered to the corporation at its principal office in Florida or its principal place of business, or to the corporate secretary or another office or agent of the corporation having custody of the book in which proceedings of meetings of shareholders are recorded. No written consent shall be effective to take corporate action unless, within 60 days of the date of the earliest dated consent delivered in the manner required by this section, written consents signed by the number of holders required to take action are delivered to the corporation.

Any written consent may be revoked before the date that the corporation receives the required number of consents to authorize the proposed action. No revocation is effective unless in writing and until received by the corporation at its principal office or its principal place of business, or received by the corporate secretary or other officer or agent



of the corporation having custody of the book in which proceedings of meetings of shareholders are recorded.

Within 10 days after obtaining authorization by written consent, notice must be given to those shareholders who have not consented in writing or who are not entitled to vote on the action. The notice shall fairly summarize the material features of the authorized action and, if the action is one for which dissenters' rights are provided under the Articles of Incorporation or by law, the notice shall contain a clear statement of the right of dissenting shareholders to be paid the fair value of their shares on compliance with applicable law.

A consent signed as required by this section has the effect of a meeting vote and may be described as such in any document.

Whenever action is taken as provided in this section, the written consent of the shareholders consenting or the written reports of inspectors appointed to tabulate such consents shall be filed with the minutes of proceedings of shareholders.

**1.5 Notice of Meeting.** Except as provided in F.S. Chapter 607, the Florida Business Corporation Act, written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, either personally or by first-class mail, by, or at the direction of, the president or the secretary, or the officer or other persons calling the meeting, to each shareholder of record entitled to vote at the meeting. If the notice is mailed at least 30 days before the date of the meeting, it may be effected by a class of United States mail other than first-class. If mailed, the notice shall be effective when mailed, if mailed postage prepaid and correctly addressed to the shareholder's address shown in the current record of shareholders of the corporation.

When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. If, however, after the adjournment the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given as provided in this section to each shareholder of record on the new record date entitled to vote at such meeting.

**1.6 Waiver of Notice of Meeting.** Whenever any notice is required to be given to any shareholder, a waiver in writing signed by the person or persons entitled to such notice, whether signed before, during, or after the time of the meeting and delivered to the corporation for inclusion in the minutes or filing with the corporate records, shall be equivalent to the giving of such notice. Attendance of a person at a meeting shall constitute a waiver of (a) lack of or defective notice of the meeting, unless the person



objects at the beginning of the meeting to the holding of the meeting or the transacting of any business at the meeting, or (b) lack of defective notice of a particular matter at a meeting that is not within the purpose or purposes described in the meeting notice, unless the person objects to considering the matter when it is presented.

**1.7 Fixing of Record Date.** In order that the corporation may determine the shareholders entitled to notice of, or to vote at, any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to demand a special meeting, the board of directors may fix, in advance, a record date, not more than 70 days before the date of the meeting or any other action. A determination of shareholders of record entitled to notice of, or to vote at, a meeting of shareholders shall apply to any adjournment of the meeting unless the board fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

If no prior action is required by the board, the record date for determining shareholders entitled to take action without a meeting is the date the first signed written consent is delivered to the corporation under Section 1.4 of this Article.

**1.8 Voting Record.** After fixing a record date for a meeting of shareholders, the corporation shall prepare an alphabetical list of the names of all its shareholders entitled to notice of the meeting, arranged by voting group with the address of, and the number, class, and series, if any, of shares held by, each shareholder. The shareholders' list must be available for inspection by any shareholder for a period of 10 days before the meeting or such shorter time as exists between the record date and the meeting and continuing through the meeting at the corporation's principal office, at a place identified in the meeting notice in the city where the meeting will be held, or at the office of the corporation's transfer agent or registrar. Any shareholder of the corporation or the shareholder's agent or attorney is entitled on written demand to inspect the shareholders' list (subject to the requirements of F.S. 607.1602(3)) during regular business hours and at the shareholder's expense, during the period it is available for inspection.

The corporation shall make the shareholders' list available at the meeting of shareholders, and any shareholder or the shareholder's agent or attorney is entitled to inspect the list at any time during the meeting or any adjournment.

**1.9 Voting Per Share.** Except as otherwise provided in the Articles of Incorporation or by F.S. 607.0721, each shareholder is entitled to one vote for each outstanding share held by him or her on each matter voted at a shareholders' meeting.

**1.10 Voting of Shares.** A shareholder may vote at any meeting of shareholders of the corporation, either in person or by proxy.

Shares standing in the name of another corporation, domestic or foreign, may be voted by the officer, agent, or proxy designated by the bylaws of the corporate shareholder



or, in the absence of any applicable bylaw, by a person or persons designated by the board of directors of the corporate shareholder. In the absence of any such designation or, in case of conflicting designation by the corporate shareholder, the chairman of the board, the president, any vice president, the secretary, and the treasurer of the corporate shareholder, in that order, shall be presumed to be fully authorized to vote the shares.

Shares held by an administrator, executor, guardian, personal representative, or conservator may be voted by him or her, either in person or by proxy, without a transfer of such shares into his or her name. Shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by him or her without a transfer of such shares into his or her name or the name of his or her nominee.

Shares held by, or under the control of, a receiver, a trustee in bankruptcy proceedings, or an assignee for the benefit of creditors may be voted by such person without the transfer into his or her name.

If shares stand of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two or more persons have the same fiduciary relationship respecting the same shares, unless the secretary of the corporation is given notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, then acts with respect to voting shall have the following effect: (a) if only one of the persons votes, in person or by proxy, that act binds all; (b) if more than one votes, in person or by proxy, the act of the majority so voting binds all; (c) if more than one votes, in person or by proxy, but the vote is evenly split on any particular matter, each faction is entitled to vote the share or shares in question proportionally; or (d) if the instrument or order so filed shows that any such tenancy is held in unequal interest, a majority or a vote evenly split for purposes hereof shall be a majority or a vote evenly split in interest. The principles of this paragraph shall apply, as far as possible, to execution of proxies, waivers, consents, or objections and for the purpose of ascertaining the presence of a quorum.

**1.11 Proxies.** Any shareholder of the corporation, other person entitled to vote on behalf of a shareholder under F.S. 607.0721, or attorney-in-fact for such persons, may vote the shareholder's shares in person or by proxy. Any shareholder may appoint a proxy to vote or otherwise act for him or her by signing an appointment form, either personally or by an attorney-in-fact. An executed telegram or cablegram appearing to have been transmitted by such person, or a photographic, photostatic, or equivalent reproduction of an appointment form, shall be deemed a sufficient appointment form.

An appointment of a proxy is effective when received by the secretary of the corporation or such other officer or agent authorized to tabulate votes, and shall be valid for up to 11 months, unless a longer period is expressly provided in the appointment form.



The death or incapacity of the shareholder appointing a proxy does not affect the right of the corporation to accept the proxy's authority unless notice of the death or incapacity is received by the secretary or other officer or agent authorized to tabulate votes before the proxy exercises authority under the appointment.

An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

**1.12 Quorum.** Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Except as otherwise provided in the Articles of Incorporation or by law, a majority of the shares entitled to vote on the matter by each voting group, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders, but in no event shall a quorum consist of less than one third of the shares of each voting group entitled to vote. If less than a majority of outstanding shares entitled to vote is represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. After a quorum has been established at any shareholders' meeting, the subsequent withdrawal of shareholders, so as to reduce the number of shares entitled to vote at the meeting below the number required for a quorum, shall not affect the validity of any action taken at the meeting or any adjournment thereof.

Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

**1.13 Manner of Action.** If a quorum is present, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater or lesser number of affirmative votes is required by the Articles of Incorporation or by law.

**1.14 Voting for Directors.** Unless otherwise provided in the Articles of Incorporation, directors will be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present.

**1.15 Inspectors of Election.** Before each shareholders' meeting, the board of directors or president shall appoint one or more inspectors of election. On appointment, each inspector shall take and sign an oath to faithfully execute the duties of inspector at the meeting with strict impartiality and to the best of his or her ability. Inspectors shall determine the number of shares outstanding, the number of shares present at the meeting, and whether a quorum is present. The inspectors shall receive votes and ballots and determine all challenges and questions as to the right to vote. The inspectors shall count and tabulate all votes and ballots and determine the result. Inspectors shall perform other duties as are proper to conduct elections of directors and votes on other matters with fairness to all shareholders. Inspectors shall make a certificate of the results of elections of



directors and votes on other matters. No inspector shall be a candidate for election as a director of the corporation.

## ARTICLE 2 -- BOARD OF DIRECTORS

2.1 General Powers. Except as provided in the Articles of Incorporation and by law, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, its board of directors.

2.2 Number, Terms, Classification, and Qualification. The board of directors of the corporation shall consist of a minimum of 5 persons. The majority of the board shall be independent. The number of directors may at any time and from time to time be increased or decreased by action of either the shareholders or the board of directors, but no decrease in the number of directors shall a) cause the board to consist of less than 5 members; b) cause the independent board members to be in the minority; and c) have the effect of shortening the term of any incumbent director. A director must be a natural person of at least 18 years of age but need not be a citizen of the United States of America (so long as a majority of the directors are citizens of the United States of America), a resident of the State of Florida or a shareholder of the corporation. Directors shall be elected by the shareholders at the Annual Meeting, and shall serve for a term of not more than one year. Such term shall expire on the date of each Annual Meeting. Each director shall hold office until a successor has been elected and qualified or until an earlier resignation, removal from office or death.

2.3 Regular Meetings. An annual regular meeting of the board of directors shall be held without notice immediately after, and at the same place as, the annual meeting of the shareholders and at such other time and place as may be determined by the board of directors. The board may, at any time and from time to time, provide by resolution the time and place, either within or without the State of Florida, for the holding of the annual regular meeting or additional regular meeting of the board without other notice than the resolution.

2.4 Special Meetings. Special meetings of the board of directors may be called by the president or any 1 director.

The person or persons authorized to call special meetings of the board may designate any place, either within or without the State of Florida, as the place for holding any special meeting of the board called by them. If no designation is made, the place of the meeting shall be the principal office of the corporation in Florida.

Notice of any special meeting of the board may be given by any reasonable means, oral or written, and at any reasonable time before the meeting. The reasonableness of notice given in connection with any special meeting of the board shall be determined in light of all pertinent circumstances. It shall be presumed that notice of any special meeting given at least two days before the meeting either orally (by telephone or in person), or by written notice delivered personally or mailed to each director at his or her business or



residence address, is reasonable. If mailed, the notice of any special meeting shall be deemed to be delivered on the second day after it is deposited in the United States mail, so addressed, with postage prepaid. If notice is given by telegram, it shall be deemed to be delivered when the telegram is delivered to the telegraph company. Neither the business to be transacted at, nor the purpose or purposes of, any special meeting need be specified in the notice or in any written waiver of notice of the meeting.

**2.5 Waiver of Notice of Meeting.** Notice of a meeting of the board of directors need not be given to any director who signs a written waiver of notice before, during, or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of the meeting and a waiver of any and all objections to the place of the meeting, the time of the meeting, and the manner in which it has been called or convened, except when a director states, at the beginning of the meeting or promptly on arrival at the meeting, any objection to the transaction of business because the meeting is not lawfully called or convened.

**2.6 Quorum.** A majority of the number of directors fixed by, or in the manner provided in, these bylaws shall constitute a quorum for the transaction of business; provided, however, that whenever, for any reason, a vacancy occurs in the board of directors, a quorum shall consist of a majority of the remaining directors until the vacancy has been filled.

**2.7 Manner of Action.** The act of a majority of the directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the board of directors.

**2.8 Presumption of Assent.** A director of the corporation who is present at a meeting of the board of directors or a committee of the board when corporate action is taken shall be presumed to have assented to the action taken, unless he or she objects at the beginning of the meeting, or promptly on arrival, to holding the meeting or transacting specific business at the meeting, or he or she votes against or abstains from the action taken.

**2.9 Action Without a Meeting.** Any action required or permitted to be taken at a meeting of the board of directors or a committee of it may be taken without a meeting if a consent in writing, stating the action so taken, is signed by all the directors. Action taken under this section is effective when the last director signs the consent, unless the consent specifies a different effective date. A consent signed under this section shall have the effect of a meeting vote and may be described as such in any document.

**2.10 Meetings by Means of Conference Telephone Call or Similar Electronic Equipment.** Members of the board of directors may participate in a meeting of the board by means of a conference telephone call or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation by such means constitutes presence in person at a meeting.

**2.11 Resignation.** Any director may resign at any time by giving written notice to the



corporation, the board of directors, or its chairman. The resignation of any director shall take effect when the notice is delivered unless the notice specifies a later effective date, in which event the board may fill the pending vacancy before the effective date if it provides that the successor does not take office until the effective date.

2.12 Removal. Any director, or the entire board of directors, may be removed at any time, with or without cause, by action of the shareholders, unless the Articles of Incorporation provide that directors may be removed only for cause. If a director was elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove that director. The notice of the meeting at which a vote is taken to remove a director must state that the purpose or one of the purposes of the meeting is the removal of the director or directors.

2.13 Vacancies. Any vacancy in the board of directors, including any vacancy created by an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the board of directors, or by the shareholders.

2.14 Compensation. Each director that is neither an employee nor an officer of may be paid the expenses, if any, of attendance at each meeting of the board of directors, and may be paid a fixed sum for attendance at each meeting of the board of directors as may from time to time be determined by action of the board of directors. No such payment shall be paid to any director that also serves as an officer or employee or in any other capacity and receives compensation for those services.

2.15 Notice of Change in Directors. Any change among the directors shall be notified in writing to the Office of Insurance Regulation within 45 days of such change, and shall be in compliance with F.S. Chapter 628.61.

### ARTICLE 3 -- COMMITTEES OF THE BOARD OF DIRECTORS

The board of directors, by resolution adopted by a majority of the full board, may designate from among its members an executive committee and one or more other committees, each of which, to the extent provided in the resolution, shall have and may exercise all the authority of the board of directors, except as prohibited by F.S. 607.0825(1). Below is a list of the initial committees.

Each committee must have a minimum of two members (unless specified otherwise) who serve at the pleasure of the board. The board of directors, by resolution adopted in accordance with this article, may designate one or more directors as alternate members of any committee, who may act in the place and stead of any absent member or members at any meeting of the committee.

Initial Board Committees are as follows:



3.1 Executive. The majority of committee members will be independent. The committee may hold meetings without executive management.

3.2 Nominating /Corporate Governance. All committee members are independent. The committee will have a written charter.

3.3 Underwriting. The committee at all times will contain a Company representative from the following departments: underwriting, reinsurance, claims, operations, catastrophe modeling and marketing. The committee will have a written charter.

3.4 Compensation. All committee members are independent. The committee will have a written charter.

3.5 Legal. The committee will have a written charter.

3.6 Audit/Compliance. All committee members are independent. There will be a minimum of three members. At least one member will be financially literate. The committee will have a written charter.

#### ARTICLE 4 -- OFFICERS

4.1 Officers. The officers of the corporation shall be a president, secretary and treasurer, and any other officers and assistant officers as may be deemed necessary, and as shall be approved, by the board of directors. Any two or more offices may be held by the same person.

4.2 Appointment and Term of Office. The officers of the corporation shall be appointed annually by the board of directors at the first meeting of the board held after the shareholders' annual meeting. If the appointment of officers does not occur at this meeting, the appointment shall occur as soon thereafter as practicable. Each officer shall hold office until a successor has been duly appointed and qualified, or until an earlier resignation, removal from office or death.

4.3 Resignation. Any officer of the corporation may resign from his or her respective office or position by delivering written notice to the corporation. The resignation is effective when delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the corporation accepts the future effective date, the board of directors may fill the pending vacancy before the effective date if the board provides that the successor does not take office until the effective date.

4.4 Removal. Any officer of the corporation may be removed from his or her respective office or position at any time, with or without cause, by the board of directors.

4.5 President. The president shall be the chief executive officer of the corporation



and shall, subject to the control of the board of directors, generally supervise and control all of the business and affairs of the corporation, and preside at all meetings of the shareholders, the board of directors, and all committees of the board of directors on which he or she may serve. In addition, the president shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the board of directors, and as are incident to the offices of president and chief executive officer.

4.6 Vice Presidents. Each vice president shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the board of directors.

4.7 Secretary. The secretary shall keep the minutes of the proceedings of the shareholders and of the board of directors in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; be custodian of the corporate records and the seal of the corporation; and keep a register of the post office address of each shareholder of the corporation. In addition, the secretary shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the board of directors and as are incident to the office of secretary.

4.8 Treasurer. The treasurer shall have charge and custody of, and be responsible for, all funds and securities of the corporation; receive and give receipts for money due and payable to the corporation from any source whatsoever; and deposit all such money in the name of the corporation in such banks, trust companies, or other depositories as shall be used by the corporation. In addition, the treasurer shall possess, and may exercise such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the board of directors and as are incident to the office of treasurer.

4.9 Other Officers, Employees, and Agents. Each and every other officer, employee, and agent of the corporation shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the board of directors, the officer appointing him or her, and such officer or officers who may from time to time be designated by the board to exercise supervisory authority.

4.10 Compensation. The compensation of the officers of the corporation shall be fixed from time to time by the board of directors.

4.11 Notice of Change in Officers. Any change among the officers shall be notified in writing to the Office of Insurance Regulation within 45 days of such change, and shall be in compliance with F.S. Chapter 628.61.

## ARTICLE 5 -- CERTIFICATES OF STOCK



5.1 Certificates for Shares. All shares of the corporation shall be certificated. Certificates representing shares in the corporation shall be signed (either manually or by facsimile) by the president or vice president and the secretary or an assistant secretary and may be sealed with the seal of the corporation or a facsimile thereof. A certificate that has been signed by an officer or officers who later ceases to be such officer shall be valid.

5.2 Transfer of Shares; Ownership of Shares. Transfers of shares of stock of the corporation shall be made only on the stock transfer books of the corporation, and only after the surrender to the corporation of the certificates representing such shares. Except as provided by F.S. 607.0721, the person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes, and the corporation shall not be bound to recognize any equitable or other claim to, or interest in, such shares on the part of any other person, whether or not it shall have express or other notice thereof.

5.3 Lost Certificates. The corporation shall issue a new stock certificate in the place of any certificate previously issued if the holder of record of the certificate (a) makes proof in affidavit form that the certificate has been lost, destroyed, or wrongfully taken; (b) requests the issuance of a new certificate before the corporation has notice that the lost, destroyed, or wrongfully taken certificate has been acquired by a purchaser for value in good faith and without notice of any adverse claim; (c) at the discretion of the board of directors, gives bond in such form and amount as the corporation may direct, to indemnify the corporation, the transfer agent, and the registrar against any claim that may be made on account of the alleged loss, destruction, or theft of a certificate; and (d) satisfies any other reasonable requirements imposed by the corporation.

## ARTICLE 6 -- ACTIONS WITH RESPECT TO SECURITIES OF OTHER CORPORATIONS


Unless otherwise directed by the board of directors, the president or a designee of the president shall have power to vote and otherwise act on behalf of the corporation, in person or by proxy, at any meeting of shareholders of, or with respect to any action of shareholders of, any other corporation in which this corporation may hold securities and to otherwise exercise any and all rights and powers that the corporation may possess by reason of its ownership of securities in other corporations.

## ARTICLE 7 -- AMENDMENTS

These bylaws may be altered, amended or repealed, and new bylaws may be adopted, by action of the board of directors, subject to the limitations of F.S. 607.1020(1). The shareholders of the corporation may alter, amend or repeal these bylaws or adopt new bylaws even though these bylaws also may be amended or repealed by the board of directors.

## ARTICLE 8 -- CORPORATE SEAL





The board of directors shall provide for a corporate seal that shall be circular and shall have the name of the corporation, the year of its incorporation, and the state of incorporation inscribed on it.



## PR-M Non-Bonus Assumption Agreement



THIS ASSUMPTION AGREEMENT (the "Agreement") is executed as of the 10 day of June, 2008 ("Execution Date") by and between Magnolia Insurance Company, a Florida licensed and authorized insurance company ("Insurer"); and Citizens Property Insurance Corporation, an entity created by the Legislature of the State of Florida pursuant to Subsection 627.351(6), and any successor entity ("CITIZENS").

### RECITALS

WHEREAS, Insurer and CITIZENS desire, pursuant to this Agreement, to have the Insurer remove up to a maximum of 60,000 Policies by Assumption from CITIZENS in accordance with the terms and conditions of this Agreement.

WHEREAS, CITIZENS desires to allow qualifying insurers to participate in the Program and remove policies from CITIZENS;

WHEREAS, Insurer has made application to CITIZENS to participate in the Program; and

WHEREAS, the Office of Insurance Regulation ("OIR") has issued a Consent Order to this Insurer approving its Depopulation Plan.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the Parties hereto do covenant and agree as follows:

### DEFINITIONS

For purposes of this Agreement:

A. "Aggregate Losses" shall mean those losses which include, but are not limited to, compensatory, punitive, bad faith and other damages arising from, and all loss adjustment expenses relating to, the adjustment or defense of any and all claims with respect to losses on policies of insurance of Citizens or Issuer.

B. "Assumed Premium" shall mean Initial Assumed Premium as adjusted by a monthly remittance and bordereau process developed by the Insurer and CITIZENS to account for policy cancellations, return premiums, policyholder requested coverage changes, and Returned Policies after the Assumption Date, with the positive and negative adjustments.



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C. "Assumption" shall mean the transference of risks from CITIZENS to the Insurer on a Removed Policy, whereby the Insurer is deemed to have directly issued the Removed Policy as provided in subparagraph (p)6 of Subsection 627.351(6) (as added by Chapter 2007-1 Laws of Florida).

D. "Assumption Date" shall mean that date upon which the Assumption of a Removed Policy occurs.

E. "Assumption Procedures" shall mean those procedures applicable to the depopulation of CITIZENS policies under subparagraphs (p) 3-6 of Subsection 627.351(6), Section 627.3511, and Section 627.3517, Florida Statutes, and this Agreement, as set forth in Exhibit D attached hereto.

F. "Ceding Commission Rate" shall be as defined in Exhibit B attached hereto.

G. "Independent Auditor" shall mean a certified public accountant or certified public accounting firm, licensed in the State of Florida, to perform professional auditing services and who is without bias with respect to the outcome of the audit services and with respect to the Insurer.

H. "Initial Assumed Premium" shall mean Written Premium, less the Written Premium earned by CITIZENS with respect to the Removed Policies as of the respective Assumption Dates of such policies.

I. "Initial Notice" shall mean a notice, in substantially form attached as Exhibit F, mailed to a policyholders more than thirty days prior to the Assumption Date of a Tagged Policy.

J. "Office" shall mean the Florida Office of Insurance Regulation.

K. "Parties" shall mean the Insurer and CITIZENS.

L. "Plan" shall mean the Plan of Operation of CITIZENS, as amended.

M. "Rejected Policy" shall mean any Tagged Policy the offer of which has been rejected by a policyholder as provided in section 3.E. of this Agreement.

N. "Replacement Policy" shall mean a policy offered or issued by Insurer on its own policy forms, to take effect upon the expiration or cancellation of a Removed Policy.

O. "Removed Policy or "Removed Policies" shall mean a CITIZENS Policy that is assumed by the Insurer under this Agreement and is not a Rejected Policy.

P. "Program" shall mean any program for the depopulation of policies by assumption or other take-out as approved by CITIZENS and the Office pursuant to subparagraph (p)3-6 of Subsection 627.351(6).

Q. "Returned Policy" shall mean a Removed Policy that is returned to Citizens as provided in section 3.F. of this Agreement.

R. "Subsection 627.351(6)" shall mean subsection 627.351(6), Florida Statutes (2006), which is Citizens' enabling statute.



## PR-M Non-Bonus Assumption Agreement

S. "Tagged Policies" shall mean the Policies identified by CITIZENS policy number and expiration date on Exhibit A or any supplement thereto.

T. "Written Premium" shall mean the gross written premium of CITIZENS on the Removed Policies, less policy cancellation and return premiums, as of the respective Assumption Dates of such policies. Written Premium shall not include fees or surcharges invoiced for collection by CITIZENS on the Policies, including a(n) (i) market equalization surcharge, (ii) CITIZENS policyholder surcharge, (iii) nonhomestead policyholder assessment, (iv) Citizens additional policyholder assessment, (v) regular assessment, (vi) emergency assessment, (vii) tax-exempt surcharge, (viii) reinsurance or catastrophe financing surcharge, or (ix) other fees, taxes, assessments, or surcharges imposed on CITIZENS policyholders as determined by CITIZENS.

### TERMS AND CONDITIONS

1. **Term of this Agreement.** This Agreement shall terminate 18 months from the date it is signed. No Assumptions may occur after the Agreement terminates.

2. **Agreement to Remove Policies.**

A. The Insurer and CITIZENS shall, prior to an Assumption Date, agree upon those Tagged Policies eligible to be removed under the Program by the Insurer on the Assumption Date and shall set forth those Policies by CITIZENS policy number and expiration date on Exhibit A or any supplement thereto, which Exhibit A or supplement shall be attached hereto and made a part hereof by reference.

B. Pursuant to this Agreement and the Assumption Procedures, the Insurer shall remove by Assumption all of the Tagged Policies set forth on Exhibit A or supplements thereto, if available for removal on the Assumption Date pursuant to this Agreement and as approved by the Office.

3. **Terms of Assumption.**

A. **Liabilities.**

(i) With respect to a Removed Policy, the Insurer is liable and obligated to pay all Aggregate Losses occurring on or after 12:01 A.M. Eastern Standard Time on the Assumption Date of a Removed Policy and CITIZENS has no obligation or liability with respect to such Aggregate Losses.

(ii) The Insurer, in addition, agrees to assume and undertake all other obligations with respect to the Removed Policies in the manner provided herein. Such obligations include, but are not limited to, accepting that the policy as written, and assumed, may not accurately reflect the risk.

(iii) CITIZENS shall remain liable for all Aggregate Losses for the Removed Policies occurring prior to the Assumption Date, and all Aggregate Losses for the Rejected Policies and the Returned Policies, and the Insurer shall have no responsibility with respect to such losses.

(iv) The Insurer shall comply with all applicable Assumption Procedures.



## **PR-M Non-Bonus Assumption Agreement**

### **B. Notices.**

(i) The cost of any notice and ancillary documentation to current CITIZENS policyholders to effectuate Assumption of the Policies shall be borne equally by the Parties, except that the cost of the Initial Notice shall be borne solely by the Insurer. If CITIZENS bears the cost for any expenditures, the Insurer agrees that its portion of such costs may be withheld from any Assumed Premium paid to Insurer by CITIZENS pursuant to this Agreement or any amendments or addenda to this Agreement. In the event CITIZENS, for whatever reason, does not withhold the Insurer's portion of such cost from any Assumed Premium paid to Insurer, Insurer agrees to pay said sum to CITIZENS within thirty (30) days of its receipt of a billing statement from CITIZENS.

(ii) The parties shall coordinate the mailing of any documentation or notices required by this Agreement.

### **C. Assumed Premium.**

(i) CITIZENS shall pay by wire transfer to the Insurer the Assumed Premium multiplied by 1.000 minus the applicable Ceding Commission Rate on or before the 20th day following the Assumption Date. Any subsequent amounts due to or from CITIZENS as a result of the monthly remittance and bordereau process shall be remitted to the appropriate Party net of Ceding Commission within ten (10) days following the end of each month without interest.

**D. Servicing of Policies.** Commencing on the Assumption date of a Removed Policy:

(i) Until a Removed Policy is renewed onto an Insurers policy form, on behalf of the Insurer, CITIZENS shall process endorsements and cancellations and provide other policy services with respect to the Removed Policy. The consideration for services to be performed by CITIZENS on behalf of the Insurer is specifically encompassed in the Ceding Commission Rate referenced in Exhibit B attached hereto.

(ii) The Insurer is responsible for offering and processing offers of renewal coverage with respect to its Replacement Policies, utilizing its approved rates and forms. Insurer is responsible for all policyholder services with respect to its Replacement Policies.

### **E. Rejected Policies.**

The parties acknowledge that policyholders of Tagged Policies have the right to reject Insurer's offer of coverage and to remain policyholders of Citizens. Accordingly, Insurer shall mail to the policyholders the Initial Notice disclosing such right. After the mailing of the Initial Notice, and prior to the Assumption Date, the Insurer shall be responsible for obtaining written confirmation from any Policyholder requesting that their Policy not be removed from CITIZENS. Such information shall be remitted to CITIZENS in an electronic format acceptable to CITIZENS.

### **F. Returned Policies.**

Any policyholder under a Removed Policy may return to CITIZENS within thirty days after the Assumption Date and shall be reinstated by CITIZENS. The insurer shall process all such received policyholder requests to return to CITIZENS and forward such requests, along with the



## **PR-M Non-Bonus Assumption Agreement**

appropriate unearned premium attributable to the Returned Policy, on a monthly basis to CITIZENS in an electronic format acceptable to CITIZENS. After the thirty-day period following an Assumption Date, but prior to the date on which they are renewed onto a Replacement Policy issued by the Insurer, any assumed policyholder that elects to return to CITIZENS may cancel their Policy with the Insurer, and may make application to CITIZENS for a new Policy, and shall be accepted for coverage by CITIZENS if otherwise eligible.

### **G. Claims Servicing.**

(i) CITIZENS is solely responsible for the servicing of claims for losses occurring (a) prior to the Assumption Date under a Removed Policy, (b) at any time under a Rejected Policy, and (c) at any time under a Returned Policy.

(ii) Insurer is solely responsible for the servicing of claims for losses occurring on or after an Assumption Date under a Removed Policy. CITIZENS shall have no responsibility for payment of losses or loss adjustment expenses or for the servicing of claims with respect to losses occurring under any Removed Policy on or after the Assumption Date.

(iii) CITIZENS agrees that in instances where the sharing of information will facilitate the resolution of a claim which has occurred after the Assumption Date, and in accordance with applicable state and federal laws, it will share prior claims, underwriting and other information with the Insurer. CITIZENS reserves the right at any time to deny access to any and all such information or to seek the permission of the Policyholder for release of such information. Insurer agrees to treat all information provided to them as confidential and certifies that all such information provided to them by CITIZENS shall be used strictly to adjust a claim and for no other purpose.

(iv) With regard to losses occurring on Removed Policies after the Assumption Date, CITIZENS shall give notice promptly to the Insurer of any claim by a third party or the commencement of any legal proceedings against CITIZENS with respect to such claim. The Insurer shall have the exclusive right to control the contest and defense for any such claim incurred or litigation initiated as of the Assumption Date. The liability of the Insurer under the Removed Policies shall always follow that of CITIZENS, and any error or omission of CITIZENS or its agents shall in no way relieve the Insurer of its liability or obligations in respect of the matters affected by such errors or omissions, it being understood and agreed that the Insurer shall follow and share the same fortune as CITIZENS under all circumstances.

(v) CITIZENS agrees to assign to the Insurer any and all salvage and subrogation rights arising with respect to losses occurring on or after an Assumption Date, which CITIZENS may have with respect to the Removed Policies.

### **H. Conditions to Closing.**

The following conditions must be met prior to an Assumption Date:

(i) Approval by the Office of an Assumption by issuance of a Consent Order or letter, which Consent Order or letter shall be attached hereto as Exhibit C.

(ii) Satisfactory compliance with all requirements of CITIZENS for participation in the Assumption.



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(iii) The mailing, more than thirty days in advance of the Assumption Date, of the Initial Notice to each putative Policyholder of a Tagged Policy.

### **I. Implementation.**

(i) The parties hereto acknowledge that, pursuant to all applicable laws and this Agreement, CITIZENS will use its sole judgment and discretion in implementing the Assumption Procedures for participating Insurers.

(ii) Should the parties fail to agree on the Tagged Policies to be set forth on Exhibit A, no obligation shall be created pursuant to this Agreement.

(iii) The Insurer and CITIZENS agree to allow the Insurer to supplement Exhibit A from time to time with lists of additional Tagged Policies, but such additional Tagged Policies must be designated and assumed by the Insurer not later than eighteen (18) months from the initial Assumption Date. All Assumptions for each supplement to Exhibit A (e.g., Exhibit A-1, A-2, etc.) shall be in accordance with the terms and provisions of this Agreement and the Assumption Procedures. The Policies so identified in any such supplement to Exhibit A shall be treated as Removed Policies as of the date of their Assumption for the purposes of this Agreement. All such supplements to this Agreement shall be executed in writing by the Parties to effectuate and document such additional Assumptions.

(iv) CITIZENS shall not enter into an agreement with any other insurer for the removal of the Tagged Policies unless such policies are not removed by the Insurer in accordance with the terms and provisions of this Agreement, or are Rejected Policies or Returned Policies or are written new by Citizens after their removal by Insurer.

### **4. Conditions of Assumption.**

A. The Insurer shall remove the Removed Policies by Assumption in accordance with this Agreement and the Assumption Procedures and shall offer to renew the Insurer's Replacement Policy for a period of three (3) years subsequent to the expiration of the Removed Policy. During the aforementioned period, the Insurer's renewals of the Replacement Policy shall be at the Insurer's approved rates and on substantially similar terms or on such forms and rates as approved by the Office. No such Policy may be cancelled or nonrenewed by the Insurer during this period except for nonpayment of premium or in accordance with the provisions of the Consent Order attached as Exhibit C.

B. CITIZENS shall provide, or has provided, to the Insurer, by electronic data transfer, or by such other means as is acceptable to CITIZENS, relevant information regarding the Tagged Policies available for assumption. The Insurer understands that CITIZENS cannot guarantee the reliability and accuracy of this data and the Insurer agrees that policies will not be cancelled upon discovery that this information was not accurate, unless such inaccuracy amounts to a material misrepresentation or fraud on behalf of the insured.

C. The Insurer understands that CITIZENS makes no guarantee that a Tagged Policy will be available for removal on the Assumption Date.



## PR-M Non-Bonus Assumption Agreement

D. Thirty-six (36) months after the first Assumption Date, the Insurer shall provide to CITIZENS an Independent Auditor's report performed in accordance with the instructions provided in the Audit Scope attached hereto and incorporated herein by reference as Exhibit E. At a minimum the Audit shall contain all pertinent data to verify the satisfactory completion of the Insurer's performance pursuant to this agreement. Prior to commencing work, the Independent Auditor shall be approved by CITIZENS, which approval shall not be unreasonably withheld. All expenses of the Independent Auditor shall be paid by the Insurer. At the beginning of the Audit CITIZENS shall provide the approved auditor the procedures to be followed in meeting the requirements of Exhibit E.

E. The Insurer agrees that as of the Assumption Date, no bonus, incentive plan, or consideration beyond the assumed premium will be paid by CITIZENS for the Insurer's removal of Removed Policies.

F. By signing this Agreement, Insurer certifies that its assumption of policies complies with Section 627.3517, Florida Statutes. It is the Insurer's sole responsibility to contact all agents involved with the Tagged Policies in order to obtain their permission to include those particular policies in the Assumption.

5. **Office Oversight.** CITIZENS shall provide a fully executed copy of this Agreement to the Office. The Insurer shall respond to any requests for information by the Office regarding the proposal or this Agreement. The Insurer and CITIZENS are, and shall remain, subject to all applicable laws of the State of Florida and the supervision, rules, regulations and orders of the Office.

6. **Right of Audit.** CITIZENS or its representatives, upon reasonable advance written notice, shall be entitled to audit, at its own cost and expense, the relevant books and records of the Insurer during normal business hours to confirm the Insurer's compliance with the terms and conditions of this Agreement.

7. **Indemnification.** Insurer shall indemnify CITIZENS, its Board of Governors, officers, agents and employees ("CITIZENS Indemnitees") against any costs, expenses (including reasonable counsel fees and costs of litigation), claims, demands, actions, losses or liabilities that CITIZENS Indemnitees may suffer or that may be asserted or claimed against CITIZENS Indemnitees, caused by or arising directly out of any breach of this Agreement by the Insurer or Insurer's Assumption of Removed Policies.

8. **Insurer's Continuing Status.** The Insurer, during the period of this Agreement, shall remain duly licensed and authorized to transact property and casualty insurance business in the State of Florida and the lines of insurance applicable to Removed Policies and Replacement Policies.

9. **Breach, Default, Cure, Termination and Other Remedies.**

A. **Events of Default.** A default under this Agreement occurs in the event of any material breach of an obligation, representation or undertaking of a party as set forth in this Agreement, including without limitation:

(i) (a) Insurer fails to maintain its authority and licensing to conduct its business as provided in Section 8 of this Agreement; or



## PR-M Non-Bonus Assumption Agreement

(b) Insurer becomes subject to an adverse finding or an order of supervision, rehabilitation, or liquidation pursuant to Chapter 631, Florida Statutes; or

(c) The issuance of any other order of the Office or a court of competent jurisdiction that in any material form or manner limits or constrains the ability of the Insurer to engage in the business of property and casualty insurance, which results in the Insurer canceling or nonrenewing Removed Policies or Replaced Policies, other than the initial Consent Order issued by the Office in connection with this Agreement.

(d) No notice or curative period is required for a material breach occurring pursuant to this Section (i).

(ii) Insurer's assumption of Tagged Policies, Replacement Policies, or Removed Policies at unapproved rates within one year of the Assumption Date.

(iii) The Insurer's cancellation or non-renewal of a Removed Policy for an invalid reason. For purposes of this paragraph, an "invalid reason" shall be a cancellation or non-renewal not authorized by the terms of this Agreement or by the Consent Order attached as Exhibit C.

(iv) The Insurer fails to materially comply with Section 627.3517, Florida Statutes. In addition to any other remedies provided in this Agreement, if Section 627.3516 is violated, Insurer will be liable for any costs associated with CITIZENS re-assuming any Removed Policies, if Citizens in its sole discretion determines to do so. In addition, Insurer will be assessed a monetary penalty in the amount of \$1000.00 per Policy for every Policy assumed without the permission of the agent, if Insurer fails to cure under the provision of Paragraph 9.B.

**B. Cure.** In the event of a default that may be cured, the non-defaulting party shall give the defaulting party written notice of the material breach or default. Failure of the defaulting party to cure the material breach or default within fifteen (15) days of the receipt of the written notice as herein provided shall constitute and be deemed a material breach and default of this Agreement unless the material breach or default is not capable of being cured within such period of time, and the defaulting party has commenced good faith efforts to cure such material breach or default within fifteen (15) days, and thereafter continues in good faith to diligently pursue curing until the material breach or default is cured to the reasonable satisfaction of the non-breaching party.

**C. Termination and Other Remedies.** Should the Insurer materially breach or default in any obligation as set forth in this Agreement and not timely cure such material default and breach as set forth in this section, CITIZENS may in its sole discretion, take any or all of the follow actions:

(i) Terminate this Agreement or declare this Agreement canceled or void.

(ii) Prohibit Insurer from further assumption of policies pursuant to this Agreement or any future agreement.

(iii) Notify the Office of the violation of the Agreement and request that the Office take appropriate administrative action.



## PR-M Non-Bonus Assumption Agreement

(iv) Forfeiture of up to the entire amount of any escrowed bonus instituted pursuant to Paragraph 4.E., which shall be set forth in detail in any addendum negotiated pursuant to Paragraph 4.E.

(v) In addition to any rights and remedies set forth in this Agreement, the non-defaulting party shall have all rights and remedies available at law and/or equity, including, but not being limited to, the right to specific performance, damages or injunctive relief.

D. **Removed Policies.** Notwithstanding any breach of this Agreement, the Insurer shall remain responsible for Removed Policies unless and until a judicial determination is rendered relieving, altering or limiting Insurer's responsibility.

10. **Attorney's Fees.** If either of the parties hereto shall bring a Court action alleging material breach of this Agreement or seeking to enforce, rescind, renounce, declare void or terminate this Agreement or any provisions thereof, the prevailing party shall be entitled to recover all of its legal expenses, including reasonable attorney's fees and costs (including attorney's fees and costs for any appeals taken), and to have the same awarded as part of the judgment in the proceeding in which such legal expenses and attorney's fees and costs were incurred.

11. **Benefits.** This Agreement shall be binding upon the parties, their heirs, legal representatives, successors and assigns.

12. **Captions.** The paragraph captions as to contents of the particular paragraphs herein are inserted only for convenience and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular paragraph in which they are referred.

13. **Construction of Agreement.** Words of a gender used in this Agreement shall be held to include any other gender, and words in a singular number shall be held to include the plural, when the sentence so requires.

14. **Entire Agreement.** This Agreement contains all of the oral and/or previously written agreements, representations, and arrangements between the parties hereto concerning the Program, and all rights which the respective parties may have had under any prior written or oral agreements are hereby canceled and terminated, and all parties agree that there are no representations or warranties other than those set forth herein.

15. **Florida Law and jurisdiction.** It is acknowledged that this Agreement was executed in and shall be construed and governed in accordance with the laws of the State of Florida and the rules, orders and regulations of the Office in effect at the time of the execution of this Agreement. In the event of any conflict between such laws, rules, orders and regulations and Subsection 627.351(6), the provisions of that Subsection govern. If any legal action is filed pursuant to this agreement such action must be filed in a court of competent jurisdiction in Leon County Florida.

16. **Assignment.** The Insurer may not assign or transfer this Agreement, or any benefit or right under this Agreement without Citizens' prior written consent. Any change in control or ownership is deemed a transfer of this Agreement requiring Citizens' written consent.



## PR-M Non-Bonus Assumption Agreement

17. **Invalidation.** In the event any provision of this Agreement is determined to be invalid by a court of competent jurisdiction, the remaining provisions of this Agreement remain in full force and effect.

18. **No Intermediary.** The Insurer represents and warrants that it has not, and CITIZENS represents and warrants that it has not, incurred an obligation to make payment of any fees to any intermediary with respect to the obligations afforded under this Agreement.

19. **Modification.** No change or modification of this Agreement shall be valid unless the same shall be in writing and signed by all of the parties hereto and not disapproved by the Office.

20. **Notices.** Any and all notices, designations, consents, offers, acceptances, or any other communications provided for herein shall be given in writing, by hand delivery, by overnight mail, by registered or certified mail, or by facsimile transmission and shall be addressed as follows:

Notice to Insurer:

Mr. H. James Irl  
President & CEO  
Magnolia Insurance Company c/o CGI  
300 Burnett Street  
Fort Worth, TX 76102  
(877) 828-2149

Notice to CITIZENS:

Mr. Scott Wallace  
President Executive Director  
CITIZENS Property Insurance Corporation  
101 North Monroe Street, Suite 1000  
Tallahassee, Florida 32301  
(850) 513-3780

Notices sent by hand delivery shall be deemed delivered on the date of hand delivery. Notices sent by overnight Insurer shall be deemed delivered on the next business day after being placed into the hands of the overnight Insurer. Notices sent by registered or certified mail shall be deemed delivered on the third business day after being deposited into the post office. Notices sent by facsimile transmission shall be deemed to be delivered on the day when sent if sent prior to 4:30 p.m. (the time being determined by the time zone of the recipient) otherwise they shall be deemed delivered on the next business day.

21. **Parties Represented.** The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

22. **Survival of Terms.** Sections 3, 4, 5, 6, 7, 10, 15, 16, 17, and 20 shall survive the termination of this Agreement.



## PR-M Non-Bonus Assumption Agreement

IN WITNESS WHEREOF, the parties hereto have set their hands and seals as of the day and year first above set forth.

### CITIZENS PROPERTY INSURANCE CORPORATION

BY: 

Mr. Scott Wallace  
President and Executive Director

INSURER: Magnolia Insurance Company.

BY: 

Mr. H. James Irl  
President and Chief Executive Officer



## PR-M Non-Bonus Assumption Agreement

### Exhibits:

- A. Schedule of Policies
- B. Ceding Commission Rate
- C. Consent Order
- D. Timeline and Requirements for Assumption
- E. Audit Scope
- F. Initial Notice



## PR-M Non-Bonus Assumption Agreement

### EXHIBIT B

#### Ceding Commission Rate

The contract period to remove policies from CITIZENS will be eighteen (18) months. Any single assumption in a take-out contract period must remove a minimum of 2,500 policies or a Total Insured Value (coverages A, B, C & D combined) of five hundred (500) million dollars. High Risk Account (HRA) and Personal Lines Account (PR-M) take-outs are exclusive and may not be assumed simultaneously under a single eighteen (18) month take-out contract.

There are additional incentives for assuming Insurers that remove larger numbers of eligible policies or TIV from the Personal Lines Account or High Risk Account. CITIZENS agrees to reduce the ceding commission for all policies in a take-out if either the minimum number of policies or TIV are assumed. No agreement may be modified mid-term to change to a different bonus program, unless specified in the assumption agreement.

#### **Ceding Commission (PR-M)**

Number of Policies	Minimum Eligible Total Insured Value (TIV)	Ceding Commission	
Less than 60,000	N/A	16%	
60,000 to 74,999	\$11 Billion	Reduced to 12%	
75,000 to 89,999	\$14 Billion	Reduced to 9%	
90,000 and up	\$17 Billion	Reduced to 6%	

#### **Ceding Commission (HRA)**

Number of Policies	Minimum Eligible Total Insured Value (TIV)	Ceding Commission	
Less than 35,000	N/A	16%	
35,000 to 49,999	\$10 Billion	Reduced to 12%	
50,000 to 79,999	\$14 Billion	Reduced to 9%	
80,000 and up	\$22 Billion	Reduced to 6%	



## PR-M Non-Bonus Assumption Agreement

### Ceding Commission (Mobile Home)

Number of Policies	Minimum Eligible Total Insured Value (TIV)	Ceding Commission	
Less than 15,000	N/A	16%	
15,000 to 19,999	N/A	Reduced to 12%	
20,000 to 29,999	N/A	Reduced to 9%	
30,000 and up	N/A	Reduced to 6%	



## **PR-M Non-Bonus Assumption Agreement**

### **EXHIBIT D**

#### **Timeline and Requirements for Assumption**

- At any point in time, an Insurer may request, for purposes of depopulation and subject to an appropriate confidentiality agreement, a data file of policies from CITIZENS. All policies not currently pending cancellation, not set for non-renewal or tagged for another insurer as described below, will be included in the data file.
- Companies may not be allowed to Depopulate policies in consecutive assumptions. This is dependent upon the number of participants. This determination is based on resources, and solely at the discretion of the Depopulation Manager.

#### **At Least 45 Days Before Initial Assumption**

- The Insurer must provide a Certificate of Authority from the Office, and an Order or letter from the Office approving the assumption.
- The assuming carrier must return an executed Assumption Agreement and an executed Requirements and Deadline Letter to Citizens.

#### **At Least 40 Days Before Initial Assumption**

- The assuming carrier's policy selection and company information for the assumption notice (i.e. company letterhead with logo, signature, etc.) must be submitted to Citizens. By submitting this policy selection file, the assuming carrier is certifying that all associated agents have either been appointed by the assuming carrier or agreed to have their policies assumed under the provisions of "Consumer Choice."
- Per Order 94539-08 assuming carriers must submit a list of policies (Access format) associated with agents that have declined to participate or did not respond to the assuming carrier (specific to this assumption date). The file must be submitted to Citizens in Access format and include the Citizens policy number and policyholders name.
- Assuming carriers must provide contact information to be inserted into a notice to policyholders whose agents have declined to participate in the assumption process. This includes legal name, mailing address, and a contact number. Per Order 94539-08, the notice will provide the policyholder with the offering insurer's contact information and allow the policyholder to contact the carrier directly to make a determination on their own about the offer of coverage from the carrier. The assuming carrier must have knowledgeable staff available to answer the policyholders questions regarding the offer, coverages, etc. and be ready to write the coverage outside of the assumption process.

#### **At Least 35 Days Before Initial Assumption**

- The assuming carrier must mail notice at least 35 days prior to the assumption date giving all policyholders the option to choose not to be assumed ("opt out"). The notice must be approved by the OIR and Citizens and must be sent to every policyholder the assuming carrier intends to assume. It is the assuming carriers responsibility to collect, retain and report responses from the above notice. All policyholders who indicate that they do not want to be assumed must be collected in an Access database (policyholder name and Citizens policy number).



## **PR-M Non-Bonus Assumption Agreement**

### **At Least 6 Days Before Initial Assumption**

- The assuming carrier must provide the Access database with the name and associated Citizens policy number for all policyholders that have chosen not to be assumed. Citizens will remove those policyholders from the assuming carriers policy selection file for that assumption date.
- Citizens reserves the right to modify any deadline or requirement.



## PR-M Non-Bonus Assumption Agreement

### EXHIBIT E Audit Scope

This Audit Scope provides the directions for the audit which will occur 36 months after the last assumption date. By signing the overall assumption agreement the Insurer has agreed to abide by the terms of this document.

1. Approximately sixty (60) days prior to the end of the 36-month period following the date that the Insurer last removed policies under the Non-Bonus Takeout Program, the Insurer will provide to CITIZENS a computer file (hereinafter referred to as the "Policy Computer File") in ACCESS format sorted by CITIZENS policy number, which contains the following information on each policy:

- a. Complete CITIZENS policy number;
- b. Year and month in which policy was removed from CITIZENS;
- c. Insurer's policy number;
- d. Policy effective date of the Insurer's initial policy;
- e. Policy expiration date of the Insurer's initial policy;
- f. County of property location;
- g. Property address; and
- h. Indicate if the policy is in-force, or canceled.
- i. For all cancelled policies, the effective date of the cancellation.

2. CITIZENS will select a random sample of 400 policies, hereinafter referred to as the "Sample Policies", from the Policy Computer File and provide a list of the selected policies to the Insurer.

3. The Insurer will select an Independent Auditor subject to the concurrence of Citizens, which concurrence shall not be unreasonably withheld. The Insurer will provide its Independent Auditor with the list of the Sample Policies. The Independent Auditor, at the expense of the Insurer, will conduct agreed-upon procedures pursuant to this Agreement, and will perform the following:

a. For in force Sample Policies:

1. Verify that there were offers of coverage and policyholder payments; and
2. Verify that the effective date, county and property address are correct; and
3. Verify that the policy was in-force with no lapse in coverage through the end of the initial 36-month period.
4. Identify and explain any exceptions.

b. For Sample Policies no longer in force:

1. Verify that there were offers of coverage and policyholder payments; and
2. Verify that the effective date, county, and property address are correct; and
3. Identify and explain any exceptions; and
4. For Sample Policies no longer in force due to voluntary cancellation by the insured (including those cancelled for non-payment of premium), review the policy file for documentation or other data entry, e.g., diary comments, letters from insured, etc., regarding the cancellation and document the reason(s) for cancellation and the effective date of the cancellation.



## **PR-M Non-Bonus Assumption Agreement**

5. For Sample Policies no longer in force due to cancellation by the Insurer for fraud, i.e., material misrepresentation, review the policy file for supporting documentation for the cancellation and document the reason(s) for cancellation and the effective date of the cancellation.
  6. Identify any Sample Policies that were cancelled or non-renewed by the Insurer to reduce the Insurer's hurricane exposure or for any other reason other than in 4 and 5, above, and provide the effective date of the cancellation and reason for cancellation.
4. The Independent Auditor will provide an agreed-upon procedures report (hereinafter referred to as "Report") to the Insurer and CITIZENS detailing its findings on each policy reviewed. The Report will list CITIZENS and its auditor, Ernst & Young, as users.
5. CITIZENS will review and verify the Report of the Independent Auditor. Within 10 working days of receipt of the Report, CITIZENS will verify whether the Report has been prepared in compliance with the agreed-upon procedures set forth in this Agreement. If the Report is not verified, CITIZENS will advise the Independent Auditor on how to correct any deficiencies noted during the verification process and may require that additional policies be sampled in order to validate the findings in the Report.
6. After verification of the Independent Auditor's Report by Citizens, either the Insurer or CITIZENS may elect, at its own expense, to expand the review sample to enhance the accuracy of the data to be used in extrapolating findings to the entire population. This election may only be made once by each party to this Agreement. The party making such election must notify the other party of its intent within 14 days after receipt of notice of verification of the Independent Auditor's Report prepared pursuant to Paragraphs 4 and 5, above.
7. The Report shall be referred to the Office.



## MANAGING GENERAL AGENCY AGREEMENT

between

MAGNOLIA INSURANCE COMPANY

and

MAGNOLIA AGENCY, LLC

Subject to the terms, conditions and restrictions hereinafter set forth, Magnolia Insurance Company (the "Company") hereby appoints Magnolia Agency, LLC (the "MGA") as its exclusive agent and representative for the production, servicing and acceptance of the classes and kinds of insurance hereinafter set forth effective as of the date of the issuance of a certificate of authority to the Company by the Florida Department of Financial Services, Office of Insurance Regulation (the "Department").

## ARTICLE I.

## BUSINESS COVERED BY THIS AGREEMENT

It is understood that the business contemplated by this Agreement consists solely of insurance as may from time to time be referred to the MGA from the Company. Initially, this business shall consist solely of homeowners insurance and any other lines of business Magnolia Insurance Company becomes authorized to write in the State of Florida. For purposes of this Agreement, such insurance shall be considered property insurance.

## ARTICLE II.

## SERVICES AND RESPONSIBILITIES OF THE MGA

(1) It shall be the responsibility of the MGA to enter into and issue on behalf of the Company insurance policies, binders, endorsements and other forms of insurance contracts and all manner or variations, amendments, terminations and cancellations thereof to the extent permitted by applicable regulatory authorities. The MGA shall be subject to underwriting guidelines regarding all matters specified in section 626.7451 (6), Florida Statutes, in accordance with the Company's rate filings with the Department and the underwriting guidelines and selection criteria specified to the Florida Residential Property and Casualty Joint Underwriting Association. The MGA may not issue any policy for a period in excess of twelve months plus odd time not exceeding eighteen months in all. The limits for which the MGA may bind the Company shall be set forth specifically for each line of insurance handled by the MGA hereunder.

(2) The MGA shall be responsible for billing, receiving and rendering receipts for premiums due to the Company in accordance with the terms of each insurance or reinsurance contract. All premiums collected by the MGA shall be remitted to the Company within thirty (30) days after the close of each month. All funds collected for the account of the Company shall be held by the MGA in a fiduciary capacity in a bank which is a member of the Federal Reserve system. This account shall be used for all payments as directed by the Company. The MGA may retain no more than 60 days of estimated claims payments and allocated loss adjustment expenses. The MGA shall have full authority to take whatever



action is necessary, including legal proceedings and the cancellation of policies with regard to the collection of premiums.

(3) (a) The MGA is hereby given authority to reject, adjust, compromise, and pay claims and claims expense. All claims must be adjusted by properly licensed persons. All settlements shall be in the discretion of the MGA, subject, however, to the fact that final authority as to claims rests with the Company. The MGA will pay, or refrain from paying any claim upon the specific instructions of the Company. The Company may, upon notice to the MGA, supersede the MGA in the adjustment of any such claim. The Company reserves the right to contract with Company, or its affiliate, to handle and adjust claims. The settlement authority granted to the MGA by the Company may be terminated for cause upon the Company's written notice to the MGA or upon the termination of this Agreement pursuant to Article VI. The Company may suspend the MGA's settlement authority during the pendency of any dispute regarding the cause for termination.

(b) All claims must be reported to the Company in a timely manner. If electronic claims files exist, such data shall be transmitted to the Company on a monthly basis or more frequently as otherwise required herein. Further notice of a claim shall be sent by the MGA to the Company as soon as it becomes known that the claim: (1) exceeds the limits set by the Company; (2) involves a coverage dispute; (3) exceeds the MGA's claims settlement authority; (4) is open for more than six months; or (5) is closed by payment of an amount set by the Department or an amount set by the Company whichever is less. In addition, the MGA shall notify the Company of any claim which gives rise to litigation, or is denied, or gives rise to claims under the Company's reinsurance Agreements, or results in a complaint to any regulatory authority.

(c) All claims files shall be the joint property of the Company and the MGA. However, upon an order of liquidation of the Company, the claims and related application files shall become the sole property of the Company or its estate. The MGA shall have reasonable access to and the right to copy the files on a timely basis.

(4) The MGA shall maintain separate records of the insurance business under its supervision, and shall report in such form and manner as required by the Company, from time to time, including, but not limited to, a monthly bordereau or report which shall contain all the information which the Company shall require or consider-necessary, including but not limited to, premium transactions such as original premiums, additional premiums, return premiums and such other items as may be chargeable by either party against the other. The Company shall have access and the right to copy all accounts and records related to its business in a form usable by the insurer. Such records must be retained according to Section 626.561, Florida Statutes. The Department shall have access to all books, bank accounts, and records of the MGA in a form usable to the Department.

(5) The MGA shall prepare and submit rate and form filings to the Company for filing with the Department. The MGA shall also furnish all necessary statistical data for the Company's annual statement preparation and all necessary statistical data for reporting to rating bureaus.

(6) The MGA may request that the Company appoint specified agents. The Company has the sole and unqualified right to appoint or reject appointments of agents.

(7) The MGA may not:

(a) Bind reinsurance or retrocessions on behalf of the Company.



- (b) Commit the insurer to participate in insurance or reinsurance syndicates.
- (c) Appoint any producer without assuring that the producer is lawfully licensed to transact the type of insurance for which he is appointed.
- (d) Without prior approval of the Company, pay or commit the insurer to pay a claim over a specified amount, net of reinsurance, which exceeds one percent (1 %) of the Company's policyholder's surplus as of December 31 of the last completed calendar year.
- (e) Collect any payment from a reinsurer or commit the Company to any claims settlement with a reinsurer without prior approval of the Company. If prior approval is given, a report must be promptly forwarded to the Company.
- (f) Permit its subproducer to serve on its board of directors.
- (g) Appoint a submanaging general agent.
- (h) Assign this Agreement in whole or in part to any other person.

(8) It shall be the duty of the MGA to maintain sufficient staff of competent trained personnel and adequate supplies and equipment, to develop, underwrite and supervise the business covered by this Agreement. The MGA shall use its best efforts to serve faithfully the Company and at all times promote and safeguard the company's best interest and to perform all acts necessary to the proper conduct of such business on behalf of the Company.

(9) The MGA shall bear and pay all charges and expenses incurred in its operations including compensation of the MGA's employees, office expenses, agents' or brokers' commissions, other acquisition expenses (including postage, agency license fees, retail credit or other mercantile reports including costs of compliance with disclosure requirements), and other charges in connection with the Company's unallocated loss adjusting expenses incurred pursuant to its obligations under Article II (3). The MGA shall be responsible for all fees payable to Magnolia Insurance Company or its successor with respect to the services provided by Magnolia Agency, LLC under Contract with the Company, which contract has been assigned by the Company to the MGA and assumed by the MGA. The MGA agrees to maintain sufficiently detailed cost records of the amounts specified above to enable the Company, at its option, to inspect and verify such expenses. Such records shall include time sheets supporting allocations of any indirect management costs. However, the MGA shall not be responsible for payments due in accordance with Article IV(2) of this Agreement. The Company shall itself be responsible for all (a) premium taxes, (b) Insurance Services Office, bureau, and license fees, (c) Florida Insurance Guaranty Association, Florida Hurricane Catastrophe Fund, and other state assessments, (d) statutory policy fees, and (3) all fees payable to a claims servicing company or its affiliate, and any successor thereto, regarding handling and adjustment of claims. The Company shall itself be responsible for the payment of all loss claims and loss adjusting expenses, including legal expenses which arise from all claims on insurance contemplated by this Agreement.

### ARTICLE III. REMUNERATION AND COMPENSATION

- (1) In consideration for the services provided hereunder, the Company shall



compensate the MGA as follows:

(a) The MGA shall be entitled to a base fee equal to twenty-six (26%) percent of the Company's Direct Written Premium, less pass through surcharges, and net of cancellations, payable within thirty (30) days after the end of each calendar month during the term of this Agreement.

(2) In addition, the MGA shall be entitled to charge the Company's insureds a policy fee not to exceed \$25.00 per policy for each line of business handled under this Agreement. In no instance shall the aggregate of per-policy fees for a placement of business hereunder, when combined with any other per-policy fee charged by the Company or the MGA, result in per-policy fees which exceed the aggregate of \$25.00. The per-policy fee shall be a component of the Company's rate filing and shall be fully earned.

#### ARTICLE IV. RIGHTS AND OBLIGATIONS OF THE COMPANY

(1) The Company, without restrictions or limitations, shall have the authority to inspect and audit the records of the MGA pertaining to the business of the Company, including, but not limited to, policy files and loss and claim files, at any time during reasonable business hours, and it may make copies or extracts of any records pertaining thereto. When the Company conducts such an audit or inspection, it shall at the request of the Company to make any necessary reports of premiums, losses, or the like to the Insurance Services Office or other statistical recording organizations with copies to the Company.

(2) The Company shall submit to the MGA during the first quarter of each calendar year a statement of all business derived directly or indirectly from any pool or association however denominated and all business derived directly or indirectly arising, by contract, operation of law, or otherwise from its participation or membership, whether voluntary or involuntary in any Insolvency Fund. "Insolvency Fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement however denominated, established or governed; which provide for any assessment of or payment or assumption by the Company of part of all of any claim, debt, charge, fee or other obligation of an insurer or its successor or assigns, which has been declared by any competent authority to be insolvent or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part. Payments of any amounts under such arrangements defined herein are the responsibility of the Company.

(3) The Company shall print such policies and documents as the MGA may require for the proper production and pricing of business contemplated to be written under this Agreement. The expense of such printing shall be the responsibility of the MGA.

#### ARTICLE V. INDEMNIFICATION BY THE MANAGING GENERAL AGENT

(1) The MGA agrees that it will hold the Company harmless and defend the Company for any lawsuits or claims arising out of or in connection with the exercise of the authority granted in Article II.

(2) As between the MGA and the Company, the MGA will be solely responsible for any actions of its employees of an unlawful or criminal nature, as well as for acts or omissions on the



part of its employees which result in a claim or lawsuit against the Company, and will pay all legal costs where it is legally responsible and will provide its own attorneys and make payment of all legal claims as finally determined to be due and owing. This is not intended, and shall not be construed, to confer upon any person other than the parties hereto, and their successors and assigns, any rights or remedies under or by reason of this Agreement.

## ARTICLE VI. DURATION AND TERMINATION PROVISIONS

(1) The Agreement shall have an initial term commencing on the effective date specified above herein and terminating on December 31, 2008, and shall be renewed automatically for successive one (1) year terms unless the MGA gives the Company six (6) months prior written notice of termination.

(2) After the effective date of termination, the MGA shall have no further authority to bind and/or write insurance contracts for the Company. However, after receiving written approval from the Company, the MGA may modify existing contracts. Applicable terms and provisions of the Agreement shall continue to apply to the run-off of liability under existing policies until normal expiration, or, in the case of policies issued for more than one year, to the next anniversary date, subject to the right of the Company to effect selective cancellation for cause at any time.

(3) At the option of the Company, the MGA will handle, to conclusion, the runoff of any open or developed claims.

(4) In the event of termination of this Agreement, the MGA, having promptly accounted for and paid over premiums for which it may be liable, shall be the owner of all insurance expirations as that term is used by the Company for purposes of solicitations.

(5) Should a difference of opinion exist with respect to balances owed the Company by the MGA, the MGA shall immediately post collateral as required by the Company until the differences are resolved. Posting of collateral as provided shall retain for the MGA ownership of the Company's expirations. In the event the parties hereto are unable to reconcile said difference within sixty (60) days after written notice of said differences is given by either party, then the matter shall be submitted to arbitration for reconciliation. Each party shall submit the name of an arbitrator (who shall be skilled in insurance industry accounting) to the other, and the two arbitrators shall select a third arbitrator (who shall also be skilled in insurance industry accounting). The arbitrators shall reconcile the differences as soon as possible. The finding(s) of the arbitrators shall be final. Each side shall pay the costs of its arbitrator and both sides shall share the costs of the third arbitrator equally.

(6) Notwithstanding the foregoing, the MGA's authority to bind, write or modify insurance contracts and collect and hold money for the Company may be terminated for cause by the Company at any time and with immediate effect. For purposes of this Agreement, "Cause" shall be defined to include the MGA becoming insolvent, making an assignment for the benefit of creditors, having its license or certificate of authority revoked by any insurance department, or committing fraud or gross or willful misconduct. In the event of such termination for Cause, the right of the Company to benefit from this Agreement in election with the business written by the MGA or its agents for the company shall be conceded and held inviolate, it being further understood that should the Company at its option effect the collections of monies from agents, policyholders or others from whom monies may be due on account of



Company's policies issued hereunder, the Company shall give the MGA credit for such sums in their mutual account.

(7) Should existing reinsurance be cancelled or voided, the right of the MGA to bind, write new policies or reissue existing policies is immediately terminated unless immediately replaced without lapse by a reinsurer acceptable to the Company. The MGA agrees to notify the Company immediately in the event of any cancellation of the reinsurance or notice of cancellation from any insurer.

## ARTICLE VII MISCELLANEOUS PROVISIONS

(1) Nothing in this Agreement shall constitute a partnership or joint venture between the parties.

(2) Nothing in this Agreement shall in any way prevent the MGA from performing similar services for other companies.

(3) All currency exchange gains or losses shall be for account of the Company.

(4) This Agreement shall bind and ensure to the benefit of the respective successors or representatives of the parties.

(5) The headings in this Agreement are for ease of reference only and shall not affect the interpretation hereof.

(6) The construction, validity and performance of this Agreement shall be governed in all respects by Florida law, both substantive and procedural, and the parties hereto hereby accept the exclusive jurisdiction of the Miami-Dade County, Florida courts (Federal and state).

(7) Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and shall be deemed served if deposited in the United States Registered or Certified Mail, Return Receipt Requested, or reasonable equivalent, and addressed as set forth below, or to such other address as the parties may from time to time designate by written notice given in conformity herewith.

To the MGA:                      Magnolia Agency, LLC  
   260 Glenridge Road  
   Key Biscayne, FL 33149

To the Company:              Magnolia Insurance Company  
   260 Glenridge Road  
   Key Biscayne, FL 33149  
   Attn: H. James Irl

(8) The failure of any provision of this Agreement shall in no manner affect the right to enforce the balance of this Agreement, and the waiver by any party of any breach of any provision of this Agreement shall not be construed to be a waiver of such party' of any succeeding breach of such

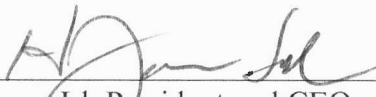


provision or a waiver by such party of any breach of any other provision.

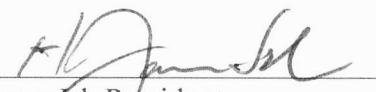
(9) The foregoing contains the entire Agreement of the Company and the MGA, and no modification thereof shall be binding upon these parties unless the same is in writing signed by the respective parties thereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate by their duly authorized representatives this 24 day of APRIL, 2008

MAGNOLIA INSURANCE COMPANY

By:   
H. James Irl, President and CEO

MAGNOLIA AGENCY, LLC

By:   
H. James Irl, President



**STATE OF FLORIDA**  
**DEPARTMENT OF FINANCIAL SERVICES**  
**OFFICE OF INSURANCE REGULATION**  
  
**INSURANCE HOLDING COMPANY SYSTEM**  
**REGISTRATION STATEMENT**  
**OF**  
  
**MAGNOLIA INSURANCE COMPANY**  
  
**And**  
  
**IRL FINANCIAL GROUP INCORPORATED**  
  
**And**  
  
**MAGNOLIA AGENCY, LLC**  
  
**And**  
  
**MAGNOLIA CLAIMS SERVICES, LLC**

The Registrants hereby report to the Florida Department of Financial Services, Office of Insurance Regulation, for the purpose of filing its Insurance Holding Company System Registration Statement, as required by Rule 69O-143, *Florida Administrative Code*, and states as follows:

Item I

Magnolia Insurance Company ("Company") is a Florida-domiciled property and casualty insurer which is the wholly owned subsidiary of Irl Financial Group Incorporated. H. James Irl is the sole shareholder of the Irl Financial Group Incorporated. Company maintains two additional affiliates, Magnolia Agency, LLC of which Irl Financial Group Incorporated owns 100% of the Class A shares and Allianz Risk Transfer, Inc. owns 100% of the Class B shares and Magnolia Claims Services, LLC of which Magnolia Agency, LLC owns 100%. Company's 2008 Financial Statement is hereby incorporated by reference.



## Item II

### **Magnolia Insurance Company**

The principal officers and directors of Company are as follows:

1. H. James Irl
2. Peter Harrison
3. Ernesto Ramon
4. Alberto Sarasua
5. Gregg Patterson

IRL Financial Group Incorporated owns 100% of Company.

### **IRL Financial Group Incorporated:**

The officers and directors of Irl Financial Group Incorporated are as follows:

1. H. James Irl

H. James Irl owns 100% of IRL Financial Group Incorporated.

### **Magnolia Agency, LLC:**

The officers and directors of Magnolia Agency, LLC are as follows:

1. H. James Irl
2. Gregg Patterson

IRL Financial Group Incorporated owns 100% of Magnolia Agency, LLC class A shares and Allianz Risk Transfer owns 100% of Magnolia Agency, LLC class B shares.

### **Magnolia Claims Services, LLC:**

The officers and directors of Magnolia Claims Services, LLC are as follows:

1. H. James Irl
2. Gregg Patterson

Magnolia Agency, LLC owns 100% of Magnolia Claims Services, LLC class A shares.



### Item III

The following is a list of agreements in force, relationships subsisting and transactions currently outstanding, between Company and one or more of its affiliates:

- (1) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the Insurer;

None

- (2) Purchases, sales, or exchanges of assets;

None

- (3) Transactions not in the ordinary course of business;

None

- (4) Guarantee or undertakings for the benefit of an affiliate which result in an actual contingent exposure or the insurer's assets to liability, other than insurance contracts entered into in the ordinary course of the insurance's business;

None

- (5) All management and service contracts and all cost-sharing arrangements, other than cost allocation arrangements based upon generally accepted accounting principles;

Managing General Agency Agreement between Company and Magnolia Agency, LLC

- (6) Reinsurance agreements covering all of one or more lines of insurance of the ceding company;

None

### Item IV

There are currently no employment agreements in effect between Company and each of its affiliates with any officer or director of Company.

### Item V

The following is a brief description of any litigation or administrative proceedings of the following types, either than pending or concluded within the proceeding fiscal year, to which any person reporting herewith or any of its directors or executive officers was a party or of which the



property of any such person is or was the subject;

- (a.) Criminal prosecutions or administrative proceedings by any government agency or authority which may be relevant to the trustworthiness or any party thereto; and

None.

- (b.) proceedings which may have material effect upon the solvency or capital structure of any admitted insurer member of the holding company system including, but not necessarily limited to, bankruptcy, receivership, other corporate reorganizations, and litigation drawing in question the validity of the issued and outstanding shares of any such admitted or nonadmitted insurer member.

None.



I have reviewed the above, and to the best of my knowledge, information and belief, it is true and correct.

3/2/9  
Date

H. James Irl  
President  
Irl Financial Group Incorporated

STATE OF FLORIDA

COUNTY OF DADE

The foregoing instrument was sworn to and subscribed before me this 2<sup>nd</sup> day of March, 2009, by H. James Irl, as President of Irl Financial Group Incorporated. He is personally known to me or has produced \_\_\_\_\_ as identification.

Yesenia Avila  
NOTARY PUBLIC  
State of Florida at Large

Yesenia Avila  
Printed Name of Notary

My commission expires: Aug. 7, 2010



YESENIA AVILA  
MY COMMISSION # DD 582246  
EXPIRES: August 7, 2010  
Bonded Thru Budget Notary Services





# Demotech, Inc.

June 11, 2009

Mr. Gregg B. Patterson  
Chief Financial Officer and Vice President of Operations  
Magnolia Insurance Company  
2601 South Bayshore Drive  
Suite 1215  
Coconut Grove, FL 33133

Concerning: Withdrawal of Financial Stability Rating<sup>®</sup>

Dear Mr. Patterson,

Subsequent to my correspondence dated May 22, 2009, we have had an opportunity to review the additional information that Magnolia submitted to us. Based upon the information provided by Magnolia and our interpretation of it, we have concluded that the current Financial Stability Rating<sup>®</sup> (FSR) assigned to Magnolia Insurance Company (Magnolia) will be withdrawn.

This decision is based upon our interpretation of the information submitted by Magnolia. We remain concerned about the following items:

1. Leverage, as measured by the ratio of total liabilities to surplus (page 3, line 26, column 1 to page 3, line 35, column 1), is well above the ratio that is normally acceptable for companies assigned FSRs at the A level or above.
2. The actual operating results, as reported in the latest available balance sheet and income statement of Magnolia, are inconsistent with the pro forma financial results that were reviewed and relied upon to assign an initial FSR of A to Magnolia. Specifically, Magnolia projected to have surplus as regards policyholders of \$21,835,000 at the end of the first year, with \$26,899,000 as its projected surplus as regards policyholders at the 2<sup>nd</sup> year. Surplus at March 31, 2009 is approximately \$7,000,000 below the projected level for the first year and approximately \$12,000,000 below the projected level for the end of the second year.

These matters, in conjunction with the current net retention underlying Magnolia's catastrophe reinsurance program, result in a decision to withdraw the FSR that is currently assigned to Magnolia. We will withdraw Magnolia's FSR of A on June 15, 2009. References to Magnolia's Financial Stability Rating<sup>®</sup> of A should cease on June 15, 2009.

Very truly yours,

Joseph L. Petrelli  
President



**Magnolia Insurance Company**  
**Reinsurance Premiums Summary Schedule**  
**June 2008 - May 2009 Underwriting Year**

**Schedule 1**

Private Layer		
Deposit Premium		
First Excess Layer	\$	11,527,944
Second Excess Layer		21,504,335
Third Excess Layer		7,501,623
Fourth Excess Layer		14,997,198
Subtotal		<u>55,531,100</u>
Less TIV Adjustment (deducted from the fourth quarterly deposit payment)		<u>(4,550,948)</u>
Net after TIV Adjustment		50,980,152
Less Commission Sharing		(750,000)
Total Private Layer		<u>50,230,152</u>
FHCF Premium (Base)		9,189,104
Less Return Premium on Cat XOL	<b>Note 4</b>	(198,264)
Total Net Reinsurance Premiums		<u>\$ 59,220,992</u>
Payments		
Private		
Wire transfer 7/15/2008	<b>Note 1</b>	\$ 1,013,347
Wire transfer 7/25/2008	<b>Note 1</b>	3,040,043
Wire transfer 9/4/2008	<b>Note 1</b>	1,499,720
Wire transfer 10/1/2008	<b>Note 1</b>	22,212,439
Wire transfer 1/5/2009	<b>Note 2</b>	13,882,776
Wire transfer 4/15/2009	<b>Note 3</b>	<u>9,117,225</u>
		50,765,550
FHCF		
Wire transfer 12/1/2008	<b>Note 2</b>	<u>9,189,104</u>
		9,189,104
Receipt from Benfield for Commission Sharing	<b>Note 4</b>	(750,000)
Total Reinsurance Payments for 2008-2009 Underwriting Year		<u>\$ 59,204,654</u>
Unidentified difference between Deposit Premiums and Actual Payments		<u>\$ (16,338)</u>

**Note 1** - Vouched payment to wire transfer out of MIC Operating Account.

**Note 2** - Vouched payment to wire transfer out of MIC Master Deposit Account.

**Note 3** - Vouched payment to wire transfer out of MIC Merrill Lynch Account.

**Note 4** - Vouched receipt to wire transfer into MIC Master Deposit Account (from Benfield).



**Magnolia Insurance Company**  
**Reinsurance Premiums Summary Schedule\***  
**June 2009 - May 2010 Underwriting Year**

**Schedule 3**

**\* Excludes premiums ceded under the Quota Share Agreement**

Private Layer		
Deposit Premium		
First Excess Layer	\$	8,700,000
Second Excess Layer		12,240,000
Third Excess Layer		5,170,000
Fourth Excess Layer		1,200,000
Subtotal		<u>27,310,000</u>
Reinstatement Premium Protection		
First Excess		4,524,000
Second Excess		4,896,000
Third Excess		1,395,900
Fourth Excess		207,000
Subtotal		<u>11,022,900</u>
2nd and 3rd Event Cover		<u>1,050,000</u>
Total Private Layer		<u>39,382,900</u>
FHCF Premium (Base)	<b>Note 3</b>	20,713,336
Reinsurance Premiums, Excluding Quota Share Agreement		<u>\$ 60,096,236</u>
Payments		
Private		
Wire transfer 7/7/2009	<b>Note 1</b>	\$ 9,845,725
Wire transfer 10/9/2009	<b>Note 2</b>	9,845,725
		<u>19,691,450</u>
FHCF		
Wire transfer 8/3/2009	<b>Note 1</b>	5,367,414
Wire transfer 10/1/2009	<b>Note 2</b>	5,367,414
Wire transfer 12/1/2009	<b>Note 1</b>	10,316,307
	<b>Note 3</b>	<u>21,051,135</u>
Total Reinsurance Payments for 2009-2010 Underwriting Year		<u>\$ 40,742,585</u>
Net Unpaid Premiums, Excluding Quota Share Agreement	<b>Note 4</b>	<u>\$ 19,353,651</u>

**Note 1** - Vouched payment to wire transfer out of MIC Master Deposit Account.

**Note 2** - Vouched payment to wire transfer out of MIC Merrill Lynch Account.

**Note 3** - Actual payments to FHCF were \$337,799 more than the base amount per the above summary.

**Note 4** - No evidence found that the remaining premiums were paid.



**Magnolia Insurance Company**  
**Loan Transactions - Amortization Schedule and Payment Summary**  
**Schedule 1**

<b>Source:</b>	Magnolia Insurance Company (MIC) server data provided to LRCM by FDFS Division of Rehab and Liquidation for forensic analysis.
<b>Note 1:</b>	Amounts in this column were modified to agree to actual payments made and increased principal payments due per Credit Agreement beginning in 2010.
<b>Note 2:</b>	Amounts in these columns were modified by LRCM due to change in principal payments per <b>Note 1</b> .
<b>Note 3:</b>	Column was added by LRCM.

[illegible]



### Loan Transactions - Amortization Schedule and Payment Summary

#### Schedule 1

<b>Source:</b>	Magnolia Insurance Company (MIC) server data provided to LRCM by FDFS Division of Rehab and Liquidation for forensic analysis.
<b>Note 1:</b>	Amounts in this column were modified to agree to actual payments made and increased principal payments due per Credit Agreement beginning in 2010.
<b>Note 2:</b>	Amounts in these columns were modified by LRCM due to change in principal payments per <b>Note 1</b> .
<b>Note 3:</b>	Column was added by LRCM.

[illegible]

<u>Recap of Actual Payments</u>		<u>Recap of Scheduled Payments</u>	
Principal payments made (11 pymts at \$320,000)	3,520,000	Principal due	23,800,000
Interest payments made (per schedule above)	3,158,074	Interest (assuming no change in prime rate)	6,050,693
Total payments made on the loan (traced to bank wires; see legend)	<u>6,678,074</u>	Total scheduled payments from 12/2008 - 2/1/2013	<u>29,850,693</u>

(a) Traced payment to wire transfer/bank statement transaction from Irl Financial Group Operating Account to Allianz Risk Transfer.

(b) Traced payment to wire transfer/bank statement transaction from Magnolia Agency Operating Account to Allianz Risk Transfer.

(c) Traced payment of \$461,661.99 to wire transfer/bank statement transaction from Irl Financial Group Operating Account to Allianz Risk Transfer; remaining amount of \$85.51 paid by manual check from Magnolia Agency Operating Account.



**Magnolia Insurance Company**  
**Loan Transactions - Flow of Funds Recap**  
**Schedule 2**

**Recap of Loan Proceeds per Credit Agreement, Letter Agreement and Flow of Funds Memorandum**

Date	Description		Per Credit Agreement	Change	As Revised Per Letter Agreement
2/27/2008	First Closing Fees	(a)	\$ 1,595,000	\$ (140,000)	\$ 1,455,000
installments	Second Closing Fees (Initial Funding)	(b)	405,000	140,000	545,000
2/27/2008	Structuring Fees	(a)	1,000,000	-	1,000,000
2/27/2008	Expense Reimbursements	(a)	800,000	-	800,000
2/27/2008	Escrow Funds	(c)	20,000,000	-	20,000,000
	Loan Amount		<u>\$ 23,800,000</u>	<u>-</u>	<u>\$ 23,800,000</u>

**Recap of Initial Funding**

Date	Description		Amount
2/27/2008	Initial Funding - 1st Installment	(d)	\$ 170,000
4/30/2008	Initial Funding - 2nd & 3rd Installments	(d)	185,000
5/29/2008	Initial Funding - 4th Installment	(d)	50,000
	Subtotal Funds Wired In To IFG Account		<u>405,000</u>
5/30/2008	Funds Wired In To Magnolia Insurance Company Account	(e)	<u>139,260</u>
	Total Funds Received Per Wire Transfers		544,260
	Difference (appears to be rounding)		740
7/1/2008	Total Second Closing Fees Remitted to ART	(f)	<u><u>\$ 545,000</u></u>

**Legend**

- (a) These amounts were deducted from the loan proceeds and retained by Allianz Risk Transfer (ART, the Lender and Administrative Agent).
- (b) This amount was remitted to Irl Financial Group (IFG, the Borrower) in installments based on timeline established in the credit agreement. See recap schedule above.
- (c) Loan proceeds were held in an escrow account at The Bank of New York Mellon after closing. On April 25, 2008, a wire transfer in of \$19,700,000 was received into an account at Northern Trust in the name of Magnolia insurance Company (MIC). The remaining escrow funds of \$300,000 were placed on deposit as collateral with the Florida Department of Financial Services, Division of Treasury.
- (d) Traced to wire transfers in to IFG's bank account at Northern Trust.
- (e) Traced to wire transfer in to MIC's trust account at Northern Trust. Source of the wired funds is unclear from the transaction description, but appears to be additional funding from ART in relation to the Letter Agreement that basically shifted funds from the "First Closing Fees" to the "Second Closing Fees." This also appears to be reimbursement for an insurance policy purchased through American National Insurance Company for key man insurance as required by the Credit Agreement (Traced payment by wire transfer out of MIC's trust account at Northern Trust on May 28, 2008).
- (f) Traced to wire transfer out from IFG to ART.



**Magnolia Insurance Company**  
**Loan Transactions - Advisory Services Agreement**  
**Schedule 3**

<b>Date Due</b>	<b>Description</b>	<b>Amount Due</b>	<b>Amount Paid</b>	<b>Date Paid</b>	
12/1/2008	Initial Advisory Fee	\$ 3,000,000.00	\$ 3,000,000.00	12/1/2008	(a)
3/1/2009	Quarterly Advisory Fee	1,000,000.00	1,000,000.00	3/2/2009	(a)
6/1/2009	Quarterly Advisory Fee	1,000,000.00	1,000,000.00	6/3/2009	(a)
9/1/2009	Quarterly Advisory Fee	1,000,000.00	1,000,000.00	9/10/2009	(a)
12/1/2009	Quarterly Advisory Fee	1,000,000.00	-	n/a	(b)
3/1/2010	Quarterly Advisory Fee	1,000,000.00	-	n/a	
6/1/2010	Quarterly Advisory Fee	1,000,000.00	-	n/a	
9/1/2010	Quarterly Advisory Fee	1,000,000.00	-	n/a	
12/1/2010	Quarterly Advisory Fee	1,000,000.00	-	n/a	
3/1/2011	Quarterly Advisory Fee	1,000,000.00	-	n/a	
		<u>\$ 12,000,000.00</u>	<u>\$ 6,000,000.00</u>		

**Legend**

- (a) Traced payment to wire transfer/bank statement transaction from Magnolia Agency Operating Account to Allianz Risk Transfer.
- (b) Magnolia Insurance Company under administrative supervision at the time this quarterly payment was due. No further payments made under this agreement.



## PROCESSING SERVICES AGREEMENT

This Processing Services Agreement, effective as of March 1, 2008 ("Effective Date"), is by and between CGI Technologies and Solutions Inc. ("CGI"), with a principal place of business at 300 Burnett Street, Fort Worth, TX 76102, and Magnolia Agency, LLC ("Magnolia"), with a principal place of business at 260 Glenridge Road, Key Biscayne, Florida, 33149, collectively referred to as the "Parties" and individually referred to as a "Party." This Processing Services Agreement, together with the Schedules and Statements of Work referenced herein and attached hereto, are collectively referred to as the "Processing Services Agreement" or the "Agreement".

### ARTICLE 1 SERVICES; TERM; FEES

- 1.1 **Services.** CGI agrees to provide the services set forth in following attachment(s) to this Agreement ("Initial Services"):

Schedule 1 - Florida Homeowners Policy Processing Services

Schedule 2 - Florida Homeowners Claims Processing Services

CGI may provide to Magnolia additional services as Magnolia may reasonably request in writing from time to time during the Term and with respect to which the Parties agree regarding the scope, nature, and pricing of such services and the time period during which such services will be provided ("Additional Services"). Initial Services and the Additional Services are sometimes referred to collectively as the "Services."

- 1.2 **Service Levels.** CGI and Magnolia shall agree in each attachment to any applicable service levels.
- 1.3 **Term.** The term during which CGI will provide Services shall be specified in each Schedule and Statement of Work to this Agreement. Either Party may terminate this Agreement in the event that there are no unexpired Schedules or Statements of Work incorporated into this Agreement that have been approved by both Parties. The term of this Agreement (the "Term") shall be from the Effective Date until such termination by either Party.

#### 1.4 Service Fees and Payments.

- a) **Service Fees.** During the Term, Magnolia will pay CGI for the performance of Services at the fees set forth in any executed Schedule or Statement of Work ("Service Fees").
- b) **Payment.** Any sum due CGI pursuant to this Agreement for which payment terms are not otherwise specified shall be due and payable thirty (30) days from the invoice date.
- c) **Interest on Past Due Payments.** Any sum due CGI pursuant to this Agreement that is not paid on the date on which payment is due shall bear interest from that date until the date such sum is paid at the lesser of 1.5 percent per month or the maximum rate of interest allowed by applicable law. Magnolia will also pay CGI for any reasonable expenses, including attorney's fees, incurred

by CGI in the collection of any amounts due and payable under this Agreement.

- d) **Payment Disputes.** In the event of any disagreement between the Parties with respect to payments, the Parties shall resolve the dispute as specified in Article 9. Notwithstanding any dispute, Magnolia is still obligated to pay all undisputed amounts on all invoices.
- 1.5 **Changes.** Each Party agrees to negotiate in good faith for an adjustment to the Services Fees in the event of any material changes in the Services requested or in how the Services are delivered. These include, but are not limited to, changes due to statutory, regulatory, judicial, or Magnolia requirements, not then provided for pursuant to this Agreement.
- 1.6 **Taxes.** Magnolia shall be responsible for any tariffs and taxes, however designated or levied, now existing or imposed in the future, which are applicable to the Services. Such tariffs and taxes include state and local privilege and excise taxes, sales, use and personal property taxes and any other tariff or tax based on Services performed, equipment used, and the communication or storage of data.
- 1.7 **Travel.** CGI personnel will undertake reasonable travel necessary for the performance of the Services. All CGI travel requests will be approved by Magnolia prior to incurring any expenses. CGI personnel will make travel arrangements and incur travel expenses pursuant to the terms of CGI's then current Travel and Expense Policy. Expenses will be billed to Magnolia at actual cost. Travel fees will be invoiced monthly.

### ARTICLE 2 REPRESENTATION AND WARRANTIES OF MAGNOLIA

Magnolia represents and warrants that the statements contained in this Article are correct and complete as of the Effective Date.

- 2.1 **Status; Qualification.** Magnolia is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Florida. There is no pending or, to Magnolia's knowledge, threatened proceeding for the dissolution, liquidation, insolvency or rehabilitation of Magnolia. Magnolia is duly qualified and in good standing as a foreign entity under the laws of each jurisdiction where qualification is required, except where the lack of such qualification would not have a material adverse effect.
- 2.2 **Power and Authority.** Magnolia has the limited liability company power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. Magnolia has taken all limited liability company action necessary to authorize its execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby.



## PROCESSING SERVICES AGREEMENT

**2.3 Enforceability.** This Agreement has been duly executed and delivered by Magnolia and constitutes a legal, valid and binding obligation of Magnolia enforceable against it in accordance with the terms of this Agreement, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

### ARTICLE 3

#### REPRESENTATIONS AND WARRANTIES OF CGI

CGI represents and warrants that the statements contained in this Article are correct and complete as of the Effective Date.

**3.1 Corporate Status; Qualification.** CGI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. There is no pending or, to CGI's knowledge, threatened proceeding for the dissolution, liquidation, insolvency or rehabilitation of CGI. CGI is duly qualified and in good standing as a foreign entity under the laws of each jurisdiction where qualification is required, except where the lack of such qualification would not have a material adverse effect.

**3.2 Corporate Power and Authority.** CGI has the corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. CGI has taken all corporate action necessary to authorize its execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby.

**3.3 Enforceability.** This Agreement has been duly executed and delivered by CGI and constitutes a legal, valid and binding obligation of CGI enforceable against it in accordance with the terms of this Agreement, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

### ARTICLE 4

#### PERFORMANCE OF SERVICES

**4.1 Designated Representative.** Each Party will appoint an individual (a "Designated Representative") who will (a) oversee and manage the performance of its obligations under this Agreement, (b) serve as such Party's primary managerial point of contact with the other Party and (c) be authorized to act for it and on its behalf with respect to all matters relating to this Agreement.

**4.2 Access to Records and Facilities.** CGI will provide Magnolia and its representatives reasonable access to its facilities and all books, records and accounts necessary to verify compliance with this Agreement. Such access will be made available upon prior written notice during normal business hours for the Term of this Agreement and during the periods in which CGI is required to maintain such records.

CGI will provide the appropriate state insurance department reasonable access to its facilities and all necessary books, records and accounts in a form usable by such department. Magnolia remains responsible for ensuring that all persons given access comply with the confidentiality provisions of Article 5.

#### 4.3 Ownership of Property.

a) *Magnolia's Property.* Magnolia will own all right, title, and interest in and to the content of the data, output, files, and computer images created or developed in connection with, as a result of or incident to the performance of the Services.

b) *CGI's Property.* Subject to the immediately preceding paragraph, CGI will own all right, title and interest in and to any and all tools, techniques, processes, procedures, inventions, software, patents, know how, trade secrets and copyrights that it had as of the Effective Date or that are discovered, created or developed by CGI in connection with, as a result of or incident to the performance of the Services, or independent of the performance of the Services.

**4.4 Maintenance of Documents and Files.** CGI will maintain appropriate documents and files as required by any Schedule or Statement of Work. Unless otherwise specified in such Schedule or Statement of Work, CGI will not destroy these documents and files without the written permission of Magnolia for a period of at least three (3) years from the event that created the document or file, or the period specified by the applicable state or federal statute regulating preservation of records, whichever is longer. CGI may, at its discretion, use magnetic, optical, and other types of technology to store such data.

**4.5 Commercially Reasonable Efforts.** Each Party will use its commercially reasonable efforts to satisfy its respective obligations hereunder.

**4.6 Performance Warranties.** Any warranties relating to CGI's performance of the Services, and any associated remedies, shall be set forth in the applicable Schedule or Statement of Work. ANY SUCH WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, INTEGRATION, QUALITY, OR PERFORMANCE AND ACCURACY, AND ANY IMPLIED WARRANTIES ARISING FROM STATUTE, COURSE OF DEALING, COURSE OF PERFORMANCE OR USAGE OF TRADE.

### ARTICLE 5

#### CONFIDENTIALITY

**5.1 Definitions.** For purposes of this Article the following definitions will apply:

a) *"Affiliate"* means, as to either Party, any other entity that, directly or indirectly controls, is controlled by or is under common control with such Party as used herein, entity shall mean any company, partnership, joint venture or other form of enterprise, domestic or foreign,





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and control refers to the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities (or other ownership interest), by contract or otherwise. Affiliates include, but are not limited to, any parent corporations, subsidiaries, and sister corporations.

- b) "**Magnolia**" means Magnolia and its Affiliates, directors, officers, and Representatives, but in no circumstances includes a third-party competitor of CGI.
- c) "**CGI**" means CGI and its Affiliates, directors, officers, and Representatives.
- d) "**Confidential Information**" means any information, oral or written, that is provided to the Receiving Party by or on behalf of the Disclosing Party on or after the Effective Date. Such information includes, but is not limited to, financial information, trade secrets, processes, inventory, formulas, prices, markets, employee lists, salaries, reports, computer files, software, maps, drawings, specifications, title reports, Magnolia information and lists, vendor sources, development and marketing plans, statistical data, forecasts, marketing strategies, or other commercial, technical, strategic or human resources information, and know how obtained from the foregoing. The term "Confidential Information" does not include: (a) information that is or becomes generally available to the public other than as a result of any unauthorized disclosure or wrongful act of the Receiving Party; (b) information that is already known by the Receiving Party at the time of its disclosure by the Disclosing Party or that is independently developed by the Receiving Party without the use of Confidential Information from the Disclosing Party; (c) information that is rightfully received from a third party whose disclosure would not violate any confidentiality obligation or breach of any agreement; or (d) information that is approved for release by the Disclosing Party in writing signed by the Disclosing Party specifying the information to be released.
- e) "**Disclosing Party**" means Magnolia or CGI, as the case may be, with respect to any Confidential Information provided by such Party to the other Party.
- f) "**Receiving Party**" means Magnolia or CGI, as the case may be, with respect to any Confidential Information received by such Party from the other Party.
- g) "**Representative**" means any employee, agent, attorney, accountant, financial advisor, or person under a contractual relationship, acting on behalf of a Party in connection with this Agreement.

### 5.2 Nondisclosure. The Parties hereby agree as follows:

- a) **Use of Information.** All Confidential Information will be used solely for the purpose of performing or receiving the Services. In no event will Confidential Information be used by the Receiving Party for purposes of competing with the Disclosing Party.
- b) **Confidentiality.** All Confidential Information will be kept strictly confidential by the Receiving Party and the Receiving Party will restrict disclosure of Confidential Information to only those employees, agents and advisors of the Receiving Party who have a need to know such information for the purpose of performing or receiving the Services.
- c) **Disclosure to Representatives.** Representatives of the Receiving Party shall be informed by the Receiving Party of the confidential nature of Confidential Information and the covenant of confidentiality by the Receiving Party hereunder, and they shall be directed by the Receiving Party to, and shall agree to, treat such information confidentially.
- 5.3 **No Solicitation.** Each Party acknowledges that the other Party makes a substantial investment in the training and development of its employees and each Party therefore agrees, during the Term of this Agreement and for a period of eighteen (18) months thereafter, not to hire, either directly or indirectly, whether through solicitation or otherwise, any employee of the other Party who has been directly involved in the delivery or utilization of the Services without the other Party's prior express written consent.
- 5.4 **Required Disclosure.** In the event the Receiving Party or its Representatives are requested or required in a judicial, administrative or governmental proceeding to disclose any Confidential Information, the Receiving Party shall provide prompt notice of any such request to the Disclosing Party so that the Disclosing Party may seek an appropriate protective order and/or waive the Receiving Party's compliance with the provisions of this Agreement. If, in the absence of a protective order or the receipt of a waiver hereunder, the Receiving Party or its Representatives are nonetheless, in the opinion of the Receiving Party's attorneys, legally required to disclose Confidential Information, the Receiving Party may disclose such information without liability hereunder, provided that the Receiving Party complies with the notice provisions of this paragraph and discloses only the minimum amount of Confidential Information required to satisfy its legal obligations.
- 5.5 **Return of Confidential Information.** Upon termination of this Agreement, the Receiving Party shall promptly deliver to the Disclosing Party all Confidential Information of the Disclosing Party, including all written and electronically stored copies. Neither the Receiving Party nor its Representatives will retain any copies, extracts or other reproductions, in whole or in part, of such Confidential Information except where such Confidential Information is stored by CGI as part of its process of copying data for disaster recovery purposes. At the Disclosing Party's request, all documents, memoranda, notes and other writings prepared by the Receiving Party or its Representatives based on the information in the Disclosing Party's Confidential Information, or which quote from or summarize any Confidential Information of the Disclosing Party, will be destroyed as soon as reasonably practicable, and such destruction shall be certified in writing to the Disclosing



## PROCESSING SERVICES AGREEMENT

Party by an authorized officer of the Receiving Party supervising such destruction.

- 5.6 **Remedies for Breach.** The Parties acknowledge that a breach of the covenant of confidentiality contained in this Agreement will result in irreparable and continuing damage to the Disclosing Party for which there will be no adequate remedy at law. In the event of any breach of said covenant, the Receiving Party agrees that the Disclosing Party shall be entitled to seek and obtain specific performance of this Agreement by the Receiving Party, including, upon making the requisite showing that it is entitled thereto, provisional injunctive relief restraining the Receiving Party from committing such breach, in addition to such other and further relief, including monetary damages, as provided by law.

### ARTICLE 6

#### TRADE SECRETS AND PROPRIETARY RIGHTS

- 6.1 **No Rights to Software.** Notwithstanding CGI's use of its proprietary computer software programs, or other trade secrets, in the performance of the Services, neither this Agreement nor the performance of any Services hereunder will be construed as a grant of a license or any other interest in or to CGI's computer software programs or other trade secrets. Further, this Agreement grants to Magnolia no right to possess or reproduce, or any other interest in, any of the computer software programs or other trade secrets used in the performance of all or any part of the Services or their specifications in any tangible or intangible medium. Magnolia may not mortgage, hypothecate, sell, assign, pledge, lease, transfer, license, sublicense, provide access to, transmit, copy, use, decompile, or reverse engineer any computer software programs or other trade secrets used in the performance of all or any part of the Services, nor allow any person or entity to transmit, copy, use, decompile, or reverse engineer any such computer software programs or other trade secrets. In the event Magnolia comes into possession of the computer software programs or other trade secrets used in the performance of all or any part of the Services, Magnolia will immediately notify CGI and return such computer software programs or other trade secrets and all copies of any kind thereof to CGI, unless such possession is authorized in writing by CGI as part of providing the Services.
- 6.2 **Nondisclosure.** The Parties acknowledge that the duties related to protection of trade secrets are often more stringent than those for protection of other forms of proprietary information. Other than Magnolia's employees who need access to CGI's computer software programs or other trade secrets for the performance of their duties, Magnolia covenants and agrees not to disclose or otherwise make available to any person any computer software programs or trade secrets used in the performance of all or any part of the Services. Magnolia agrees to take all reasonable steps necessary to obligate each of its employees who is given access to such computer software programs or other trade secrets to a level of care sufficient to protect the computer software programs or other trade secrets from unauthorized

disclosure, and to comply with all applicable laws and regulations pertaining to protection of trade secrets.

### ARTICLE 7

#### TERMINATION

- 7.1 **Termination of Agreement.** In addition to the termination provision provided in Section 1.3, this Agreement may be terminated as follows:

- by written notice from the non-breaching Party upon a material breach by the other Party of its duties or obligations under this Agreement (excluding failure to pay by Magnolia, which is addressed below); provided, however, that (i) such breach remains substantially uncured for sixty (60) days after written notice specifying such breach is received by the breaching Party or (ii) with respect to a breach that cannot be reasonably cured within a sixty (60) day period, should the defaulting Party fail to proceed within sixty (60) days after written notice specifying the breach to commence curing the breach or thereafter fails to proceed with all reasonable diligence to substantially cure the breach; or
- by a Party in the event (i) the other Party makes a general assignment for the benefit of creditors, (ii) the other Party files a voluntary petition in bankruptcy or petitions for reorganization or similar arrangement under the bankruptcy laws, (iii) a petition in bankruptcy is filed against the other Party by a third party and such petition is not dismissed within ninety (90) days of its filing date, or (iv) a receiver or trustee is appointed for all or any part of the property and assets of the other Party; or
- by CGI, if Magnolia agrees or becomes obligated at any time to make any loan payment to the Administrative Agent (as defined below) prior to January 1, 2009, or
- by CGI, if Magnolia fails to reimburse CGI in full within 3 business days for any sum CGI is required to pay in connection with the letter of credit described in Article 11 ("Letter of Credit"); or
- by CGI, if Magnolia fails to receive a Certificate of Authority to conduct business from the Florida Office of Insurance Regulation by June 1, 2008, or
- by CGI, if Magnolia fails to receive approval for a policy assumption from Citizens Property Insurance Corporation by July 1, 2008, or does not meet the threshold of 45,000 policies (assumed or direct) by December 31, 2008, or
- by CGI, if CGI fails to receive when due any amount owed under any Schedule to this Agreement, and such failure continues for more than 10 business days following written notice to each of Magnolia and the Administrative Agent (as defined below).

- 7.2 **Procedure upon Expiration or Termination.** Upon expiration or termination of this the Processing Services Agreement:



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- a) CGI will, as soon as practicable, transfer all data, files, and images to Magnolia. This transfer will be completed in a format mutually acceptable to Magnolia and CGI. Magnolia will reimburse CGI for its reasonable expenses incurred in connection with transferring such data, files, and images.
- b) Magnolia shall be obligated to pay CGI all amounts due and owing to CGI through the date of termination or expiration in accordance with the payment terms of this Agreement.
- c) Magnolia will immediately pay to CGI all amounts drawn under the Letter of Credit; and
- d) Magnolia shall obtain from the third party providing the Letter of Credit evidence that the Letter of Credit has been terminated and that the third party has released CGI from any obligation.

Such expiration or termination will not in any way limit, restrict or relieve any Party of liability for any breach of this Agreement or any Schedule hereto.

- 7.3 **Procedure Upon Magnolia Financial Distress.** If Magnolia is the subject of any of the events described in Section 7.1(b) above, Magnolia shall promptly perform the obligations described in Sections 7.2(b), (c) and (d) above, regardless of whether CGI elects or attempts to terminate this Agreement.

## ARTICLE 8 - INDEMNIFICATION AND LIMITATION OF LIABILITY

- 8.1 **Indemnification of the Parties.** Each Party (the "Indemnitor") will indemnify, defend, and hold harmless the other Party (the "Indemnitee") from and against any claim, cost, damage, demand, expense, fine, liability, lawsuit, obligation, payment or penalty of any kind or nature whatsoever, including any reasonable attorneys' fees and expenses, (a "Claim") incurred by the Indemnitee and that arises out of (1) any third party Claim that relates to the Indemnitor's breach of this Agreement, or (2) any third party Claim that the Indemnitor violated the proprietary rights of such a third party. Upon an Indemnitee's request, the Indemnitor will indemnify the Indemnitee's directors, employees, officers, agents, attorneys, representatives and shareholders to the same extent as such Indemnitee. No such person, however, will be a third party beneficiary of this Agreement.
- 8.2 **Limitations of Liability.** IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, PUNITIVE, MULTIPLE, EXEMPLARY OR CONSEQUENTIAL DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS OR LOST DATA, ARISING OUT OF OR RELATED TO THIS AGREEMENT, EVEN IF ADVISED IN ADVANCE OF THE LIKELIHOOD THEREOF. EXCEPTING ONLY CLAIMS BY CGI FOR NONPAYMENT, EACH PARTY'S ENTIRE LIABILITY ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL NOT EXCEED THE AMOUNT PAID TO CGI BY MAGNOLIA UNDER

THIS AGREEMENT DURING THE TWELVE (12) MONTHS PRIOR TO THE EVENT THAT IS THE SUBJECT OF THE CLAIM; PROVIDED THAT IF LESS THAN TWELVE (12) MONTHS OF THE TERM HAVE ELAPSED AT THE TIME OF SUCH EVENT, THE AMOUNT PAID BY MAGNOLIA TO CGI UNDER THIS AGREEMENT DURING THE PERIOD PRIOR TO THE EVENT WILL BE PRORATED TO A TWELVE (12) MONTH PERIOD. IF SUCH CLAIM FOR DAMAGES OR INDEMNIFICATION ARISES UNDER A SCHEDULE OR STATEMENT OF WORK THAT FORMS PART OF THIS AGREEMENT, THEN THE ABOVE TWELVE (12) MONTH LIMITATION SHALL BE DETERMINED WITH RESPECT TO THE AMOUNTS PAID UNDER THE SCHEDULE OR STATEMENT OF WORK GIVING RISE TO SUCH CLAIM FOR DAMAGES OR INDEMNIFICATION.

- 8.3 **Hold Harmless and Indemnification.** Magnolia shall defend, indemnify and hold harmless CGI, including its officers, directors, shareholders and employees, from and against any and all losses, damages, liabilities, fines, settlements, penalties and judgments (including reasonable costs and attorney's fees) arising out of or resulting from the denial of any claim, or the limitation or modification of any settlement offer, by or at the direction of Magnolia.
- 8.4 **Limitation Acknowledgement.** Each Party expressly acknowledges that the limitations set forth in this Article represent the express agreement of the Parties with respect to the allocation of risks between the Parties, including the level of risk to be associated with the performance of the Services as related to the amount of the payments to be made to CGI for such Services, and each Party fully understands and irrevocably accepts such limitations.
- 8.5 **Notice of Claim.** Any indemnification pursuant to this Agreement is conditioned upon the Indemnitor having received full and prompt notice in writing of the Claim and the Indemnitee allowing the Indemnitor to fully direct the defense and settlement of such Claim; provided, however, that (i) the Indemnitor may not settle any Claim without the consent of the Indemnitee, which consent shall not be unreasonably withheld, unless such settlement involves only the payment of money by Indemnitor in exchange for a complete release of Indemnitee; and (ii) the failure to receive prompt notice relieves the Indemnitor of its obligations under this Article only if the Indemnitor is materially prejudiced by the failure to receive such notice. The Indemnitor will not be responsible for any settlement or compromise made without its consent.

## ARTICLE 9 ARBITRATION AND EQUITABLE REMEDIES

- 9.1 **Settlement Meeting.** The Parties will attempt in good faith to resolve promptly through negotiations any dispute under this Agreement. If any such dispute should arise, the Parties will meet at least once to attempt to resolve the





## PROCESSING SERVICES AGREEMENT

matter (a "Settlement Meeting"). Any Party may request the other Party to attend a Settlement Meeting at a mutually agreed time and place within ten (10) business days after delivery of a notice of a dispute. The occurrence of a Settlement Meeting with respect to a dispute will be a condition precedent to seeking any arbitration or judicial remedy, provided that if a Party refuses to attend a Settlement Meeting or no Settlement Meeting occurs within twenty (20) business days after delivery of a notice of dispute, the other Party may proceed to seek such remedy.

9.2 **Arbitration Proceedings.** If the Parties have not resolved a dispute at the Settlement Meeting, either Party may submit the matter to arbitration. A panel of three arbitrators will conduct the arbitration proceedings in accordance with the provisions of the Federal Arbitration Act (99 U.S.C. Section 1 et seq.) and the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association ("AAA"). The decision of a majority of the panel will be the decision of the arbitrators.

9.3 **Arbitration Notice.** To submit a dispute to arbitration, a Party will furnish the other Party and the AAA with a notice (the "Arbitration Notice") containing (i) the name and address of such Party, (ii) the nature of the dispute in reasonable detail, (iii) the Party's intent to commence arbitration proceedings under this Agreement, and (iv) any other information required under the Federal Arbitration Act and the Arbitration Rules.

9.4 **Selection of Arbitrators.** Within ten (10) business days after delivery of the Arbitration Notice, each Party will select one arbitrator from the list of the AAA's National Panel of Commercial Arbitrators. Within ten (10) business days after the selection of the two arbitrators, those two arbitrators will select the third arbitrator from such list and two alternates; and each Party shall have one veto, to use at its sole discretion, to disqualify a selected third arbitrator, in which case, the two arbitrators will select from the remaining alternate arbitrators. If the first two arbitrators cannot select a third arbitrator and two alternate arbitrators within such ten-day period, the AAA will select such third arbitrator from the list and neither Party shall have veto power over such AAA-selected third arbitrator. Each arbitrator will be an individual not subject to disqualification under the Arbitration Rules with experience in settling complex litigation involving the insurance industry.

9.5 **Arbitration Final.** The arbitration of the matters in controversy and the determination of any amount of damages or indemnification will be final and binding upon the Parties to the maximum extent permitted by law, provided that any Party may seek any equitable remedy available under law as provided in this Agreement. This agreement to arbitrate is irrevocable.

9.6 **Place and Timing of Arbitration.** Any arbitration proceedings will be conducted at such location as the Parties may agree. If the Parties cannot agree on a mutually acceptable location, the location of the arbitration shall be Miami, Florida. The Parties will be prepared to proceed

with the arbitration, and will encourage the arbitrators to hold the arbitration proceedings, within sixty (60) calendar days after the selection of the third arbitrator.

9.7 **Discovery.** During the period beginning with the selection of the third arbitrator and ending upon the conclusion of the arbitration proceedings, the arbitrators will have the authority to permit the Parties to conduct such discovery as the arbitrators consider appropriate.

9.8 **Equitable Remedies.** Notwithstanding anything else in this Agreement to the contrary, a Party will be entitled at any time to seek any equitable remedies available under law. Any such equitable remedies will be in addition to any damages or indemnification rights that such Party may assert in an arbitration proceeding.

9.9 **Judgments.** Any arbitration award under this Agreement will be final and binding. Any court having jurisdiction may enter judgment on such arbitration award upon application of a Party.

9.10 **Expenses.** If any Party commences arbitration or court proceedings permitted under this Agreement, the prevailing Party in such arbitration or court proceedings will receive as part of any award or judgment reimbursement of such Party's reasonable attorneys' fees and expenses to the extent that the arbitrators or court considers appropriate.

9.11 **Cost of the Arbitration.** The arbitrators will assess the costs of the arbitration proceedings, including their fees, to the Parties in such proportions as the arbitrators consider reasonable under the circumstances.

9.12 **Exclusivity of Remedies.** To the extent permitted by law, the arbitration and judicial remedies set forth in this Article will be the exclusive remedies available to the Parties with respect to any dispute under this Agreement or claim for damages or indemnification under this Agreement.

## ARTICLE 10 MISCELLANEOUS

10.1 **Amendment.** No amendment of this Agreement will be effective unless in writing, signed by the Parties.

10.2 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original agreement, but all of which will constitute one and the same agreement.

10.3 **Entire Agreement.** With respect to the subject matter of this Agreement, this Agreement constitutes the entire agreement and understanding between the Parties and supersedes all prior agreements and understandings, both written and oral.

10.4 **Expenses.** Each Party will bear its own expenses with respect to the negotiation and preparation of this Agreement.

10.5 **Governing Law.** THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS



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OF LAWS PRINCIPLES OR PROVISIONS THEREOF; WITH RESPECT TO THIS AGREEMENT, EACH PARTY SUBMITS TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE OF FLORIDA.

- 10.6 **No Assignment.** Neither Party may assign its benefits or delegate its duties under this Agreement without the prior written consent of the other Party. Notwithstanding the foregoing, each Party may assign its rights under this Agreement to any third party that acquires (through purchase, merger, reorganization or other combination) all or substantially all of the assets or equity of such Party without the other Party's consent, but with notice to the other Party. Any attempted assignment or delegation in violation of this Section 10.6 will be void.
- 10.7 **No Third Party Beneficiaries.** This Agreement is solely for the benefit of the Parties and no other person will have any right, interest, or claim under this Agreement (other than the Administrative Agent (as defined below) solely with respect to Section 11.7 hereof).
- 10.8 **Public Announcements.** The Parties will consult with each other and reach agreement on the terms of any press releases or other public announcements related to this Agreement before issuing any such press releases or other public announcements. However, either Party may include the other Party's name and a factual description of the work performed under this Agreement in its lists of references, customer presentations, the experience section of proposals to third parties, internal business planning documents and annual reports, and whenever required for legal, accounting or regulatory purposes.
- 10.9 **Representation by Legal Counsel.** Each Party is a sophisticated entity that was advised by experienced legal counsel and other advisors in the negotiation of this Agreement. As the terms hereof have been fully negotiated by the parties, it is their intent that neither this Agreement nor any of its provisions shall be construed against either Party pursuant to the common law rule of construction against the drafter.
- 10.10 **Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction will not invalidate the remaining provisions of this Agreement or affect the validity or enforceability of such provision in any other jurisdiction. In addition, any such prohibited or unenforceable provision will be given effect to the extent possible in the jurisdiction where such provision is prohibited or unenforceable.
- 10.11 **Successors.** This Agreement will be binding upon and will inure to the benefit of each Party and its permitted assigns, and successors.
- 10.12 **Waiver.** No provision of this Agreement will be considered waived unless such waiver is in writing and signed by the Party that benefits from the enforcement of such provision. No waiver of any provision in this Agreement, however, will be deemed a waiver of a subsequent breach of such provision or a waiver of a similar

provision. In addition, a waiver of any breach or a failure to enforce any term or condition of this Agreement will not in any way affect, limit, or waive a Party's rights under this Agreement at any time to enforce strict compliance thereafter with every term and condition of this Agreement.

- 10.13 **Force Majeure.** The Parties will not be liable or deemed to be in default for any delay or failure in performance under this Agreement or interruption of Services resulting, directly or indirectly, from acts of God, acts of terrorism, civil or military authority, labor disputes, epidemics or public health restrictions, shortages of suitable materials, transportation, or any other cause beyond the reasonable control of the Parties.
- 10.14 **Relationship of the Parties.** The Parties are independent contractors of one another, and shall not be construed to be partners or joint ventures.
- 10.15 **Headings.** Article and section headings are used in this Agreement only as a matter of convenience and will not have any effect upon the construction or interpretation of this Agreement.
- 10.16 **Survival.** Any provision of this Agreement that creates or limits rights or obligations of a Party that by their nature should be expected to extend beyond termination of this Agreement will survive such termination. The termination or expiration of any particular Schedule or Statement of Work will not affect the parties' respective rights and obligations under any other Schedules or Statements of Work then in effect.
- 10.17 **Precedence.** In the event of any conflicting provisions, any signed Schedule or Statement of Work will have precedence over this Processing Services Agreement.

## ARTICLE 11 LETTER OF CREDIT

- 11.1 CGI shall facilitate the issuance of the Letter of Credit for Magnolia in favor of the Allianz Risk Transfer, Inc. in the amount of \$2,200,000, and shall cosign for (or otherwise act as guarantor of) the Letter of Credit. The Letter of Credit is to provide that no sums may be drawn thereon prior to January 1, 2009, and shall terminate immediately upon termination or expiration of this Agreement.
- 11.2 The Letter of Credit shall terminate 61 months from the Effective Date, unless terminated earlier pursuant to Section 11.1 above or Section 11.3 below.
- 11.3 The Letter of Credit shall terminate immediately upon termination of the loan agreement between Magnolia and the Allianz Risk Transfer, Inc. that is the subject of the Letter of Credit.
- 11.4 Magnolia shall reimburse CGI in full within 3 business days for any sum CGI is required to pay in connection with the Letter of Credit. CGI's right to terminate this Agreement for failure to do so pursuant to Section 7.1(d) shall not be an



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exclusive remedy; such right shall be in addition to any other right or remedy to which CGI may be entitled, whether at law or equity.

11.5 CGI acknowledges that Magnolia's rights under this Agreement have been pledged to Allianz Risk Transfer, Inc., as administrative agent (the "Administrative Agent") under that certain Credit Agreement dated as of February 27, 2008, pursuant to a Security Agreement dated as of February 27, 2008.

11.6 CGI agrees that the Administrative Agent shall have the right, but not any obligation, to perform the obligations of Magnolia hereunder, and that such performance will be deemed to have been made by Magnolia for all purposes under this Agreement.

11.7 CGI Agrees to provide to the Administrative Agent a copy of any notice delivered to Magnolia hereunder, contemporaneously with such delivery, to 350 Park Avenue, 10th Floor, New York, NY 10022, Attention: Legal Department, Telephone: (646) 840-5000, Facsimile: (212) 754-2330, with a copy to Bill Guffey, Allianz Risk Transfer (Bermuda) Limited, Overbay, 106 Pitts Bay Road, Pembroke HM 08, Bermuda, Telephone: (441) 295-4722, Facsimile: (441) 295-2367, or such other address as the Administrative Agent may provide to CGI in writing.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in duplicate by their duly authorized representatives as of the day and year first written above.

**CGI Technologies and Solutions Inc.**

*Donna S. Morea*  
Authorized Signature  
Donna S. Morea  
Name  
PRESIDENT 2-26-08  
Title Date

**Magnolia Agency, LLC**

*James Irl*  
Authorized Signature  
James Irl  
Name  
PRESIDENT 2/27/8  
Title Date





**SETTLEMENT AGREEMENT AND RELEASE**

THIS SETTLEMENT AGREEMENT AND RELEASE ("**Settlement Agreement**") is made this 2nd day of September, 2009, by and among CGI Technologies and Solutions Inc. ("**CGI**"), Magnolia Agency, LLC ("**Magnolia Agency**" or "**Magnolia**") and Allianz Risk Transfer, Inc., as administrative agent under that certain Credit Agreement (the "**Credit Agreement**") dated as of February 27, 2008 ("**ART**").

**WITNESSETH:**

WHEREAS, CGI and Magnolia Agency entered into a Processing Services Agreement dated March 1, 2008, including Schedules 1 and 2 (the "**PSA**"); and

WHEREAS, pursuant to Article 11 of the PSA, CGI facilitated the issuance of an irrevocable standby letter of credit dated February 27, 2008, by the National Bank of Canada for Magnolia in the amount of \$2.2 million in favor of ART (the "**Letter of Credit**") and cosigned for (or otherwise acted as guarantor of) the Letter of Credit; and

WHEREAS, in connection with the issuance of the Letter of Credit, CGI entered into an Agreement with ART dated February 27, 2008 (the "**ART Agreement**"); and

WHEREAS, also in connection with the issuance of the Letter of Credit, CGI entered into a Subordination Agreement with ART dated February 27, 2008 (the "**Subordination Agreement**"); and

WHEREAS, disputes have arisen among CGI and Magnolia relating to payments CGI alleges are owed to it by Magnolia under the PSA, and with respect to damages that Magnolia alleges were caused by CGI's performance under the PSA (the "**Disputes**"); and

WHEREAS, CGI disputes the claims of Magnolia; and

WHEREAS, Magnolia disputes the claims of CGI; and



WHEREAS, the Parties have negotiated this settlement to avoid the uncertainties, inconvenience, and expense of any arbitration and/or litigation through an amicable resolution of these Disputes;

NOW, THEREFORE, in consideration of the matters described above and more fully described below and in consideration of the covenants and other agreements of the parties as more particularly set forth below, it is agreed by and between CGI, Magnolia and ART as follows:

### **SECTION I – EFFECTIVE DATE**

With the exception of Section VIII as described in more detail below, the effective date of this Settlement Agreement (“**Effective Date**”) shall be the date upon which all parties have caused each of this Settlement Agreement, the Amendment to the PSA, and the ART Agreement Amendment (each as defined herein, and together with the Settlement Agreement, the “**Settlement Documents**”) to be executed by their duly authorized officers.

### **SECTION II - PAYMENT BY MAGNOLIA TO CGI**

By no later than 3:00 p.m. on Thursday, September 3, 2009, Magnolia shall pay CGI \$2.1 million to be delivered by wire transfer pursuant to the wire transfer instructions provided by CGI to Magnolia and attached hereto as Exhibit “D”. This payment shall be deemed to be payment in full for any and all unpaid amounts owed under the PSA, including, without limitation, Schedules 1 and 2 thereto, which arose prior to the Effective Date of this Settlement Agreement, with the exception of those unpaid amounts for services that have been performed prior to the Effective Date as identified in Exhibit “A” attached hereto. For the avoidance of doubt, payment of such \$2.1 million represents full satisfaction of any and all amounts incurred prior to the Effective Date, except as set forth in Exhibit “A.” The only amounts Magnolia shall be obligated to pay to CGI in the future are those set forth in Exhibit “A” which have not yet



been paid or for services rendered by CGI to Magnolia after the Effective Date.

### **SECTION III – AMENDMENT TO PSA**

CGI and Magnolia Agency agree that they shall each immediately execute Amendment #1 to the Processing Services Agreement and Schedules 1 and 2 to the Processing Services Agreement attached to this Settlement Agreement as Exhibit “B” (the “**Amendment to the PSA**”).

### **SECTION IV – AMENDMENT TO ART AGREEMENT**

CGI and ART agree that they shall each immediately execute Amendment No. 1 to the ART Agreement attached to this Settlement Agreement as Exhibit “C” (the “**ART Agreement Amendment**”).

### **SECTION V - CANCELLATION OF LETTER OF CREDIT**

Pursuant to the ART Agreement Amendment, the Letter of Credit shall be returned undrawn to the National Bank of Canada for cancellation. ART agrees that upon cancellation of the Letter of Credit it will use commercially reasonable efforts to obtain the approval of the Lenders (as defined in the Credit Agreement) to terminate the Subordination Agreement.

### **SECTION VI – AGREEMENT TO TERMINATE PSA AND MAGNOLIA’S TRANSFER TO A NEW SERVICE PROVIDER**

In accordance with the Amendment to the PSA that is attached as Exhibit “B” and is the subject of Section III of this Settlement Agreement, CGI and Magnolia agree to continue to perform their respective obligations under and pursuant to the PSA and Schedule 1 thereto, each as amended.

CGI shall use commercially reasonable efforts to assist Magnolia in its transition of all services contemplated under the PSA from CGI to a new service provider selected by Magnolia in its sole and absolute discretion (the “**New Provider**”) prior to the termination of the PSA, as



provided in Section 3.1 of the Amendment to the PSA. Prior to such date of termination, CGI shall cooperate in good faith with each of Magnolia and the New Provider to facilitate the transition with minimal disruption to Magnolia's business, and at no additional expense to Magnolia over and above the services fees as set forth in Section 1.2 of the Amendment to the PSA and as provided in Section 7.2 of the PSA, with the exception that expense reimbursement to CGI pursuant to Section 7.2(a) be agreed to in writing in advance by Magnolia.

Nothing herein or in the Amendment to the PSA attached hereto as Exhibit "B" shall prevent Magnolia from terminating the PSA prior to midnight on December 31, 2009, in the event its transition to the New Provider is completed prior to such date. For the avoidance of doubt, payment through and including the earlier of the termination date or December 31, 2009 will be made by Magnolia to CGI pursuant to the terms of the PSA, as amended.

#### **SECTION VII - RELEASE OF CGI BY MAGNOLIA**

Effective only upon CGI's release of Magnolia pursuant to Section VIII, Magnolia, including its parent, subsidiaries, and any other entities related to or affiliated with Magnolia, including but not limited to Magnolia Insurance Company and Irl Financial Group Incorporated, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby, and on behalf of all successors and assigns, mutually and unconditionally acquit, release and forever discharge CGI and its current and former officers, directors, shareholders, principals, employees, agents, servants, officials, attorneys or representatives, and any other entities related to or affiliated therewith; of and from all and any manner of actions, cause, and causes of action, suits, claims, demands, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, penalties, judgments, executions, losses, charges, expenses, claims, demands, attorneys fees and costs,



whether due or not, direct or contingent, liquidated or unliquidated, patent or latent, known or unknown, asserted or unasserted, of any kind or character whatsoever and all suits at law and equity, of whatsoever kind, that Magnolia may have, ever had or might have in the future against any of those persons or entities, whether known or unknown, from the beginning of time to the Effective Date of this Settlement Agreement which are in any way related to or growing out of the PSA, including but not limited to the Disputes.

### **SECTION VIII - RELEASE OF MAGNOLIA BY CGI**

Effective only upon CGI receiving the payment from Magnolia contemplated by and pursuant to Section II above and upon the Letter of Credit being returned undrawn to and cancelled by the National Bank of Canada as contemplated by Section V above, CGI, including its parent, subsidiaries, and any other entities related to or affiliated with CGI, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby, and on behalf of all successors and assigns, mutually and unconditionally acquit, release and forever discharge Magnolia and its current and former officers, directors, shareholders, principals, employees, agents, servants, officials, attorneys or representatives, and any other entities related to or affiliated therewith; of and from all and any manner of actions, cause, and causes of action, suits, claims, demands, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, penalties, judgments, executions, losses, charges, expenses, claims, demands, attorneys fees and costs, whether due or not, direct or contingent, liquidated or unliquidated, patent or latent, known or unknown, asserted or unasserted, of any kind or character whatsoever and all suits at law and equity, of whatsoever kind, that CGI may have, ever had or might have in the future against any of those persons or entities, whether known or unknown, from the beginning of time to the Effective Date of



this Settlement Agreement which are in any way related to or growing out of the PSA, including but not limited to the Disputes.

#### **SECTION IX - RELEASE OF CGI BY ART**

Effective only upon CGI's release of ART pursuant to Section X below and upon CGI's release of Magnolia pursuant to Section VIII above, ART, including its parent, subsidiaries, and any other entities related to or affiliated with ART, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby, and on behalf of all successors and assigns, mutually and unconditionally acquit, release and forever discharge CGI and its current and former officers, directors, shareholders, principals, employees, agents, servants, officials, attorneys or representatives, and any other entities related to or affiliated therewith; of and from all and any manner of actions, cause, and causes of action, suits, claims, demands, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, penalties, judgments, executions, losses, charges, expenses, claims, demands, attorneys fees and costs, whether due or not, direct or contingent, liquidated or unliquidated, patent or latent, known or unknown, asserted or unasserted, of any kind or character whatsoever and all suits at law and equity, of whatsoever kind, that ART may have, ever had or might have in the future against any of those persons or entities, whether known or unknown, from the beginning of time to the Effective Date of this Settlement Agreement which are in any way related to or growing out of the PSA, including but not limited to the Disputes.

#### **SECTION X - RELEASE OF ART BY CGI**

Effective only upon CGI receiving the payment from Magnolia contemplated by and pursuant to Section II above and upon the Letter of Credit being returned undrawn to and



cancelled by the National Bank of Canada as contemplated by Section V above, CGI, including its parent, subsidiaries, and any other entities related to or affiliated with CGI, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby, and on behalf of all successors and assigns, mutually and unconditionally acquit, release and forever discharge ART and its current and former officers, directors, shareholders, principals, employees, agents, servants, officials, attorneys or representatives, and any other entities related to or affiliated therewith; of and from all and any manner of actions, cause, and causes of action, suits, claims, demands, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, penalties, judgments, executions, losses, charges, expenses, claims, demands, attorneys fees and costs, whether due or not, direct or contingent, liquidated or unliquidated, patent or latent, known or unknown, asserted or unasserted, of any kind or character whatsoever and all suits at law and equity, of whatsoever kind, that CGI may have, ever had or might have in the future against any of those persons or entities, whether known or unknown, from the beginning of time to the Effective Date of this Settlement Agreement which are in any way related to or growing out of the PSA, including but not limited to the Disputes.

#### **SECTION XI – LIMITATIONS ON DISCLOSURE**

Each of CGI, Magnolia and ART agree that the terms of this Settlement Agreement shall not be disclosed to third parties without the consent of all of the other parties to the Settlement Agreement (with the exception of such party's legal and financial advisors and affiliates who have a need to know such information in connection with the administration and performance of the Settlement Documents and the agreements, documents and instruments described or referenced therein or contemplated thereby or for purposes of risk management and control). Further, each



party shall use its best efforts to see that any party released by this Settlement Agreement refrains from making remarks to third parties which would be derogatory of the reputation of the other party, its products, and services. The foregoing requirements, however, shall not apply to judicial proceedings relating to the enforcement of this Settlement Agreement or to disclosures required by Governmental Authority or Applicable Law (as defined below). For purposes of this Settlement Agreement, "**Applicable Law**" shall mean all provisions of any constitution, statute, law, rule, regulation, decision, order, decree, judgment, release, license, permit, stipulation, or other official pronouncement enacted, promulgated or issued by any governmental authority. For purposes of this Settlement Agreement, the term "**Governmental Authority**" shall mean any legislative, executive, judicial, quasi-judicial, or other public authority, agency, department, bureau, division, unit, court, or other body or public person.

## **SECTION XII – FULL AND FINAL SETTLEMENT**

The parties hereto agree that the payment by Magnolia to CGI pursuant to Section II, cancellation of the Letter of Credit by the National Bank of Canada, and the execution of this Settlement Agreement including the mutual releases herein and of the other Settlement Documents shall together constitute a full and final settlement of all claims, demands, damages, prejudgment interest, post-judgment interest, penalties, costs, attorneys' fees, actions, and causes of action, whether arising in law or in equity, whether known or unknown, that the parties claimed or could have claimed against any other party and/or their parents, subsidiaries, predecessors, successors, or affiliated or related entities, or against any of the present or former officers, directors, employees, agents, officials, attorneys or representatives of such entities in connection with the PSA or the above described Disputes which arose or may have arisen prior to the Effective Date, with the exception of those unpaid amounts identified in Exhibit "A."



### **SECTION XIII – ACKNOWLEDGMENT, REPRESENTATION AND WARRANTY**

The undersigned acknowledge full and complete satisfaction; and represent and warrant that, except as set forth in the immediately succeeding sentence, they have not assigned any right, claim or cause of action against any party herein released and they declare and represent that no promises, inducements, or agreements not herein expressed respecting the above-described Disputes have been made. CGI acknowledges that Magnolia's rights under this Agreement have been pledged to ART pursuant to a Security Agreement dated as of February 27, 2008.

### **SECTION XIV – NO ADMISSIONS**

The execution of this Settlement Agreement shall not be construed as an admission by any party as to the validity or invalidity of any other party's position with reference to the issues resolved in this Settlement Agreement.

### **SECTION XV – INCORPORATION OF RECITALS**

The recitals at the beginning of this Settlement Agreement are intended to be and are covenants of the parties and are a material part of this Settlement Agreement and are binding on the parties.

### **SECTION XVI – PARTIES BOUND**

The provisions and stipulations in this Settlement Agreement shall inure to the benefit of and shall be binding on the assigns or successors in interest of the parties.

### **SECTION XVII – PRIOR NEGOTIATIONS**

This Settlement Agreement contains the entire agreement between the parties with regard to the matters set forth above and herein and supersedes any and all prior negotiations, correspondence, understandings, and agreements among the parties with respect to the subject matter hereof. There are no other understandings or agreements, verbal or otherwise in relation



thereto, between the parties, except as herein expressly set forth in writing.

#### **SECTION XVIII – EXECUTION OF DOCUMENTS**

All parties agree to cooperate fully, to execute any and all supplementary documents including, without limitation, such documentation by ART to cancel the Letter of Credit, and to take all actions that may be necessary to implement this Settlement Agreement. This Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same agreement. In the event that any signature or counterpart is delivered by facsimile, e-mail or other electronic transmission, such signature or counterpart shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile, e-mail or other electronically transmitted signature page were an original thereof, and shall be admissible in any proceeding to the same extent as an original.

#### **SECTION XIX – MODIFICATIONS TO SETTLEMENT AGREEMENT**

This Settlement Agreement may not be altered, amended, modified or terminated except by instrument in writing executed by the authorized representatives of each of the parties hereto.

#### **SECTION XX – GOVERNING LAW**

This Settlement Agreement shall be construed and governed in accordance with the laws of the State of Florida, without regard to the conflicts of laws principles or provisions thereof.

#### **SECTION XXI – AUTHORIZATION**

Each of CGI, Magnolia Agency and ART represents and warrants to each of the other parties that it has full and complete authority and the necessary approvals to enter into and perform this Settlement Agreement and any release in accordance with its terms, that this Settlement Agreement has been duly executed and delivered by it and constitutes its legal, valid



and binding obligation, enforceable in accordance with its terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles regardless of whether such enforceability is considered in a proceeding at law or in equity.

#### **SECTION XXII – REPRESENTATION BY COUNSEL**

In entering into this Settlement Agreement and any release, the parties represent that they have completely read all terms hereof and that such terms are fully understood and voluntarily accepted by them and that they have been adequately represented by counsel of choice.

[signature pages follow]

IN WITNESS WHEREOF, the parties execute this Settlement Agreement as of this 2nd



IN WITNESS WHEREOF, the parties execute this Settlement Agreement as of this 2nd day of September, 2009.

MAGNOLIA AGENCY, LLC

By: 21 J. Su

As Its: President

Date: 9/2/9



CGI TECHNOLOGIES AND SOLUTIONS INC.

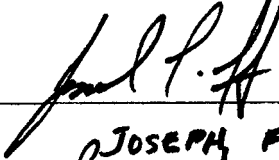
By: ASL


As Its PRESIDENT

Date: 9-2-09



ALLIANZ RISK TRANSFER, INC.

By:   
As Its JOSEPH FLYNN  
Principal

By:   
As Its KARSTEN BERLAGE  
PRINCIPAL

Date: SEPT. 2, 2009

# 8807924\_v1



**EXHIBIT "A"**

<b>Category</b>	<b>Invoice #</b>	<b>Invoice Description</b>	<b>Date of Invoice</b>	<b>Payment Due Date</b>	<b>Amount</b>
<b><u>Contract Minimums</u></b>					
	271457	September 2009 Minimum	7/26/09	9/1/09	\$250,000.00 (pending receipt by CGI of Check #1579 which Magnolia represents was sent on 9/1/09).
	271528	October 2009 Minimum	8/26/09	10/1/09	\$250,000.00
<b><u>True-Ups</u></b>					
	271527	July 2009 True-Up	8/26/09	9/25/09	\$92,211.70
	TBD	August 2009 True-Up	TBD	TBD	TBD
	TBD	September 2009 True-Up	TBD	TBD	TBD
<b><u>Implementation</u></b>					
	271101	Payment 7 Magnolia Voluntary	7/27/09	8/26/09	\$30,600.00
<b><u>Claims</u></b>					
	271056	July Claims Transition	8/7/09	9/6/09	\$7,750.00 (includes application of \$7,000.00 credit from June Claims Transition).
	271574	August Claims Transition	8/28/09	9/28/09	\$16,500.00
	TBD	August Claims Systems Charge	TBD	TBD	\$5,000.00
	TBD	September Claims Transition	TBD	TBD	TBD
	TBD	September Claims Systems Charge	TBD	TBD	\$5,000.00
<b><u>Other</u></b>					
	271101	MAG T3 CR's	7/27/09	8/26/09	\$9,062.50
	271290	MAG T3 CR's	8/7/09	9/6/09	\$35,812.50
	271501	MAG T2 CR's	8/7/09	9/6/09	\$16,250.00



	271575	MAG T2 CR's	8/28/09	9/27/09	\$20,062.50
	271576	MAG T3 CR's - Voluntary	8/28/09	9/27/09	\$20,945.75
	263904	May 2008 Opt Out Letter Mailing	6/9/08	7/9/08	\$27,500.00 (pending receipt by CGI of Check #1678 which Magnolia represents was sent on 9/1/09).
	265817	July 2008 Opt Out Letter Mailing	9/9/08	10/9/08	\$27,434.00 (pending receipt by CGI of Check #1678 which Magnolia represents was sent on 9/1/09).
	270760	MAG 13 CR's	7/6/09	8/5/09	\$1,000.00

# 8802911\_v2



**EXHIBIT "B"**  
**AMENDMENT #1 TO PROCESSING SERVICES AGREEMENT**  
**AND SCHEDULES 1 AND 2 TO PROCESSING SERVICES AGREEMENT**

This Amendment Number 1 (the "*Amendment*") to that certain processing services agreement dated February 27, 2008 and effective as of March 1, 2008 (the "*Agreement*"), is effective as of September 2, 2009 ("*Effective Date*") and only upon execution of the Settlement Documents as such term is defined in the settlement agreement of even date herewith (the "*Settlement Agreement*"), is by and between CGI Technologies and Solutions Inc. ("*CGI*"), with a principal place of business at 11325 Random Hills Road, Fairfax, Virginia, 22033, and Magnolia Agency, LLC ("*Magnolia*"), with a principal place of business at 911 Park Avenue, Tallahassee, Florida, 32301, collectively referred to as the "*Parties*" and individually referred to as "*Party*."

**ARTICLE 1**  
**TERM; FEES; EXPENSES**

- 1.1 **Term.** Upon the later of the expiration of Schedule 1 or Schedule 2 to the Agreement, as set forth in Articles 3 and 4 below, the Parties agree that this Agreement shall terminate in its entirety.
- 1.2 **Fees.** During the Term, Magnolia will pay CGI service fees as set forth in Section 8 "Service Fees" of Schedule 1 "Policy Processing Services" to the Agreement.
- 1.3 **Expenses.** Any expenses to be reimbursed by Magnolia to CGI pursuant to Section 7.2(a) of the Agreement must be agreed to by Magnolia in writing in advance of CGI incurring such expense. Provided, however, CGI shall have no obligation to incur any transition expenses that are not agreed to by Magnolia in writing in advance.

**ARTICLE 2**  
**LETTER OF CREDIT**

- 2.1 **Letter of Credit Eliminated.** Paragraphs 11.1, 11.2 and 11.3 of Article 11 "Letter of Credit" are hereby deleted from the Agreement.

**ARTICLE 3**  
**SCHEDULE 1 – POLICY PROCESSING**

- 3.1 **Term.** The term of Schedule 1 to the Agreement shall expire on or before midnight on December 31, 2009 (unless earlier terminated by Magnolia upon at least 10 calendar days written notice to CGI in the event its transition to a New Provider, as such term is defined in the Settlement Agreement, is completed), after which time CGI shall have no further obligations to Magnolia under Schedule 1 or the Agreement, except as

provided in Section 7.2 of the Agreement. CGI shall assist Magnolia with reasonable and mutually-agreed transition activities to the New Provider (as such term is defined in the Settlement Agreement) prior to the date of termination of Schedule 1 as provided in the Settlement Agreement.

**ARTICLE 4**  
**SCHEDULE 2 – CLAIMS PROCESSING**

- 4.1 **Term.** The term of Schedule 2 to the Agreement shall be deemed to be expired as of the Effective Date, after which time CGI shall have no further obligations to Magnolia under Schedule 2.

**ARTICLE 5**  
**GENERAL**

- 5.1 **Terms Not Subject to Amendment.** All terms and conditions of the Agreement, including terms and conditions of Schedule 1 and 2 to the Agreement, not otherwise amended by this Amendment shall remain in full force and effect through the effective date of termination of the Agreement as provided by Section 1.1 of this Amendment.

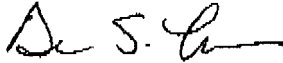
IN WITNESS WHEREOF, the Parties hereto have caused this Amendment to be executed by their duly authorized representatives as of the Effective Date.

[signature pages follow]



**EXHIBIT "B"**  
**AMENDMENT #1 TO PROCESSING SERVICES AGREEMENT**  
**AND SCHEDULES 1 AND 2 TO PROCESSING SERVICES AGREEMENT**

**CGI Technologies and Solutions Inc.**



\_\_\_\_\_  
Authorized Signature

DONNA S. MOREA

Name

PRESIDENT

Title

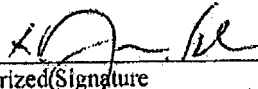
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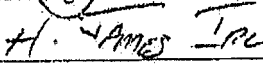
Date

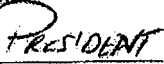


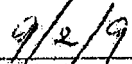
**EXHIBIT "B"**  
**AMENDMENT #1 TO PROCESSING SERVICES AGREEMENT**  
**AND SCHEDULES 1 AND 2 TO PROCESSING SERVICES AGREEMENT**

**Magnolia Agency, LLC**

  
\_\_\_\_\_  
Authorized Signature

  
\_\_\_\_\_  
Name

  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Date

# 8801804\_v2



## **EXHIBIT "C"**

### **AMENDMENT NO. 1 TO AGREEMENT**

This Amendment No. 1 (the "**Amendment**") to the Agreement entered into on the 27<sup>th</sup> day of February, 2008 (the "**Agreement**"), by and between Allianz Risk Transfer, Inc. ("**ART**") and CGI Technologies and Solutions Inc. ("**CGI**") is effective as of September 2, 2009 (the "**Effective Date**").

WHEREAS, CGI and Magnolia Agency, LLC ("**Magnolia**") have, effective September 2, 2009, entered into Amendment No. 1 to the Processing Services Agreement dated February 27, 2008 and effective as of March 1, 2008 and Schedules 1 and 2 thereto (the "**Magnolia Amendment**"); and

WHEREAS, the Magnolia Amendment relieves CGI from the obligation of facilitating the Irrevocable Standby Letter of Credit naming ART as beneficiary issued by the National Bank of Canada on February 27, 2008 (the "**LOC**"); and

WHEREAS, the Magnolia Amendment further requires Magnolia to provide CGI with evidence that the LOC has been cancelled and that ART has released CGI from any obligations related to the LOC; and

WHEREAS, in consideration for the transactions and other matters contemplated by that certain Settlement Agreement, dated as of September 2, 2009, ART is willing to relinquish the LOC and return it to National Bank of Canada for cancellation;

NOW THEREFORE, for good and valuable consideration, ART and CGI hereby agree as follows:

1. Article I of the Agreement entitled "LOC Rights and Responsibilities" is deleted in its entirety and replaced with the following:

"I. LOC RIGHTS AND OBLIGATIONS, ART agrees that, following its actual receipt of copies of all of the Settlement Documents (as defined in that certain Settlement Agreement effective September 2, 2009 among ART, CGI and Magnolia), executed by duly authorized representatives of CGI and Magnolia, on and after the date of such receipt ART agrees that it will not seek to obtain, or obtain, any payment under the LOC and will promptly (and, in any event, within three (3) business days) of such receipt complete and provide to National Bank of Canada such documentation as required to cancel the LOC. Promptly (and, in any event, within three (3) business days) following such receipt, ART will also return to National Bank of Canada the original of the LOC and any amendments thereto, and shall notify CGI and Magnolia when such documents have been tendered to the National Bank of Canada."

2. All terms and conditions of the Agreement not otherwise amended by this Amendment shall remain in full force and effect.



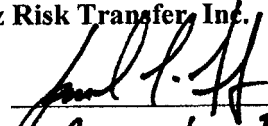
3. This Agreement and all matters and disputes arising out of or in any way relating to this Agreement, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles.

4. This Amendment may be executed in counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their duly authorized representatives as of the Effective Date first written above.


Allianz Risk Transfer, Inc.

By:

  
Principal JOSEPH FLYNN

Its:

By:

  
KARSTEN BERLAGE

Its:

PRINCIPAL

Date:

SEPT. 2, 2009



**CGI Technologies and Solutions Inc.**

By: A. S. Curran

Its: PRESIDENT

Date: 9-2-09



**Bank of America**



Bank of America NT&SA  
Mail Code: IL4-540-16-05  
540 W Madison, 16th Floor  
Chicago, IL 60661  
[www.bankamerica.com](http://www.bankamerica.com)

Arcelia Lopez  
AVP –Treasury Services Consultant  
Integrated Treasury Services – Chicago  
Phone: 1-800-699-7188 X 86148  
Fax 312-453-4753  
[Arcelia.Lopez@BankofAmerica.com](mailto:Arcelia.Lopez@BankofAmerica.com)

February 24, 2009

To Whom It May Concern:

Reference: Account Verification for CGI Technologies and Solutions Inc.

Banking Information:

Account Number: 3752064485  
Account Name: CGI Technologies and Solutions Inc.

Address of Record:  
1130 Sherbrooke Street West, 5<sup>th</sup> Floor  
Montreal Quebec, H3A 2M8 Canada

Payments ABA Information

<i>Domestic Wires</i>	<i>International Wires</i>	<i>ACH Payments</i>
Bank of America	Bank of America	Bank of America
ABA: 026009593	SWIFT Number: BOFAUS3N	ABA Number: 111000012
	ABA Number: 026009593	

If there are any questions, please contact me.

Thank you,  
Arcelia Lopez  
AVP; Treasury Services Consultant  
Bank of America

Toll free: 1-800-699-7188 X 86148  
Intl .number: 1-312-356-0488 X 86148  
Fax: 312-453-4753  
[arcelia.lopez@bankofamerica.com](mailto:arcelia.lopez@bankofamerica.com)



**Quota Share  
Reinsurance Contract  
Effective: June 1, 2009**

issued to

**Magnolia Insurance Company**  
Coconut Grove, Florida

By

Allianz Risk Transfer AG (Bermuda Branch)



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**Quota Share  
Reinsurance Contract  
Effective: June 1, 2009**

issued to

**Magnolia Insurance Company**  
Coconut Grove, Florida  
(hereinafter referred to as the "Company")

by

**Allianz Risk Transfer AG (Bermuda Branch)**  
(hereinafter referred to as the "Reinsurer")

**Article I - Definitions**

- A. "Net Liability" as used herein is defined as the Company's Ultimate Net Loss under its Policies remaining after cessions, if any, to other pro rata reinsurers, and after deducting recoveries, or so deemed, from all Inuring Contracts.
- B. "Underwriting Year" as used herein shall mean the period from 12:01 a.m., Eastern Standard Time, June 1, 2009, through 11:59 p.m., Eastern Standard Time, May 31, 2010, and each subsequent 12-month period, if any, shall be a separate Underwriting Year. All premiums and Ultimate Net Loss from Policies allocated to an Underwriting Year shall be credited or charged, respectively, to such Underwriting Year, regardless of the date said premiums earn or such losses occur (however, as respects Policies in force at the effective time and date of this Contract, only premiums earned and Ultimate Net Loss paid in respect of Loss Occurrences at or after the effective time and date of this Contract shall be credited or charged, respectively, to the Underwriting Year which is in effect as of the effective time and date of this Contract). It is understood that a Policy will be allocated to the Underwriting Year which is in effect as of:
1. As respects all new Policies, the effective date of such Policies;
  2. As respects renewals of one year (plus odd time, not exceeding 18 months in all) or less term Policies, the renewal date of such Policies;
  3. As respects continuous or greater than one year (plus odd time, not exceeding 18 months in all) term Policies, the premium anniversary date of such Policies.

Notwithstanding anything herein to the contrary, in the event this Contract is not cancelled in accordance with Article III B (a "Continuation"), as respects Policies in force at the effective time and date of such Continuation, all premiums unearned at that time and Ultimate Net Loss paid in respect of Loss Occurrences at or after the effective time and date of such Continuation from such Policies shall be allocated to the Underwriting Year commencing at the date of such Continuation (for the avoidance of doubt, 12:01 a.m. Eastern Standard Time, any June 1 after June 1, 2009).

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- C. "Gross Net Written Premium" as used herein shall be defined as the Company's gross written premium on subject Policies, less cancellations and return premiums.
- D. "Gross Net Ceded Written Premium" as used herein shall be defined as the Company's Gross Net Written Premium multiplied by the Quota Share Percentage.
- E. "Net Ceded Written Premium" as used herein shall be defined as the Company's Net Written Premium ceded to the Reinsurer hereunder.
- F. "Net Written Premium" as used herein shall be defined as the Company's Gross Net Written Premium, less premiums (net of any return premiums), if any, ceded by the Company in respect of Inuring Contracts identified in Schedule 1, provided the premium ceded in respect of such Inuring Contracts, together with the FHCF, TICL and LAC (as herein defined) premium cessions shall be limited to forty-nine percent (49%) of Gross Net Written Premium..
- G. "Loss Adjustment Expense" as used herein shall mean expenses assignable to the investigation, appraisal, adjustment, settlement, litigation, defense and/or appeal of specific claims, regardless of how such expenses are classified for statutory reporting purposes. Loss Adjustment Expense shall include, but not be limited to interest on judgments, expenses of outside adjusters, expenses and a pro rata share of salaries of the Company's field employees, expenses of other employees of the Company who have been temporarily diverted from their normal and customary duties and assigned to the adjustment of losses covered by this Contract, expenses of the Company's officials incurred in connection with losses covered by this Contract (but not including office expenses or salaries of the Company's other regular employees), advertising or other extraordinary communication expenses incurred as a result of a covered loss occurrence, costs of supersedeas and appeal bonds, monitoring counsel expenses, and declaratory judgment expenses or other legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto. However, for purposes of this Contract, Loss Adjustment Expenses ceded hereunder shall not exceed four percent (4%) of Gross Net Written Premium.
- H. "Inuring Contracts" as used herein shall be defined as those policies and/or contracts identified in the attached Schedule 1.
- I. "Ultimate Net Loss" as used herein shall be defined as the sums actually paid by the Company in settlement of claims or losses, payments of benefits or satisfaction of verdicts, awards or judgments for which it is liable, including pre-judgment interest, Loss in Excess of Policy Limits and Extra Contractual Obligations, and Loss Adjustment Expense, as specified in their respective articles, after deduction of all net recoveries, salvages and amounts due from other reinsurance which inures to the benefit of the Reinsurer under this Contract, whether collectible or not. However, in the event of insolvency of the Company, "Ultimate Net Loss" shall mean the amount of loss which the Company has incurred or for which it is liable after deduction of all net recoveries, salvages and amounts due from other reinsurance which inures to the benefit of the Reinsurer under this Contract, whether collectible or not, and payment by the Reinsurer shall be made to the liquidator, receiver or statutory successor of the Company in accordance with the provisions of the article entitled "Insolvency". Nothing in this clause shall be construed to mean that losses are not recoverable hereunder until the Ultimate Net Loss of the Company has been ascertained.



- J. "Loss Ratio" as used herein shall mean the percentage arrived at by dividing (i) the sum of Ultimate Net Loss plus the Company's loss reserves, including reserves for losses incurred but not reported (as stated in the Company's statutory filings), net of recoveries from Inuring Contracts, for an Underwriting Year by (ii) the Gross Net Written Premium for said Underwriting Year.
- K. "Loss Occurrence" as used herein shall be defined as set forth in the relevant Policy. If the relevant Policy does not define 'Loss Occurrence' (or a substantially similar term), 'Loss Occurrence' shall mean each and every loss and/or catastrophe and/or calamity and/or occurrence and/or accident and/or casualty and/or series thereof arising out of and directly occasioned by one event or series of related events involving one or more subject Policies.

## **Article II - Classes of Business Reinsured**

- A. By this Contract the Company obligates itself to cede to the Reinsurer and the Reinsurer obligates itself to accept the Quota Share Percentage of the Company's Net Liability under policies, contracts and binders of insurance or reinsurance (hereinafter called "Policies") in force at the Effective Date hereof or issued or renewed on or after the Effective Date, and classified by the Company as Fire, Allied Lines and Homeowners Multi-Peril business.
- B. The liability of the Reinsurer with respect to each cession hereunder shall commence obligatorily and simultaneously with that of the Company, subject to the terms, conditions and limitations hereinafter set forth.

## **Article III - Term**

- A. This Contract shall become effective at 12:01 a.m., Eastern Standard Time, June 1, 2009 (the "Effective Date"), with respect to losses occurring at or after that time and date under Policies allocated to Underwriting Years commencing at or after that time and date, and shall remain in force until cancelled in accordance with sub-clause B hereof.
- B. Either party shall have the right to cancel this Contract effective 11:59 p.m., Eastern Standard Time, as of the end of each Underwriting Year upon written notice to the other party.
- C. If either party elects to cancel this Contract as above, the Company shall reassume the Quota Share Percentage of the company's Net Liability for Loss Occurences after the effective date of cancellation , if any, and ceded unearned premium on Policies in force on the effective date of cancellation and the Reinsurer shall be released from any and all liability for Loss Occurences after the effective date of cancellation in respect of such Policies.





**Article IV - Territory**

The liability of the Reinsurer shall be limited to losses under Policies issued in the State of Florida.

**Article V – Quota Share Percentage, Retention and Limit**

- A. As respects business subject to this Contract, the Company shall cede and the Reinsurer hereby accepts the Quota Share Percentage of the Company's Net Liability. The Quota Share Percentage in respect of the Underwriting Year beginning June 1, 2009 (the "2009 Underwriting Year") shall be fifty percent (50%).
- B. Annual Limits of Liability. At no time and in no event shall Ultimate Net Loss ceded hereunder (i) prior to the deduction of recoveries in respect of Inuring Contracts, exceed 200% of the Gross Net Ceded Written Premium for that Underwriting Year. or (ii) 200% of Net Ceded Written Premium for the Underwriting Year.

**Article VI - Loss in Excess of Policy Limits/Extra Contractual Obligations**

- A. In the event the Company pays or is held liable to pay an amount of loss in excess of its Policy limit, but otherwise within the terms of its Policy (hereinafter called "Loss in Excess of Policy Limits") or any punitive, exemplary, compensatory or consequential damages related to claims under a Policy, other than Loss in Excess of Policy Limits (hereinafter called "Extra Contractual Obligations") because of alleged or actual bad faith, negligence or fraud on its part in rejecting an offer of settlement within Policy limits, or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action, or in otherwise handling a claim under a Policy subject to this Contract, the Loss in Excess of Policy Limits and/or the Extra Contractual Obligations shall be added to the Company's loss, if any, under the Policy involved, and the sum thereof shall be subject to the provisions of the Retention and Limit Article. For the purposes of the definition of Loss in Excess of Policy Limits, the word 'loss' shall mean any amounts for which the Company would have been contractually liability to pay had it not been for the limit of the original Policy.
- B. An Extra Contractual Obligation shall be deemed to have occurred on the same date as the loss covered or alleged to be covered under the Policy.
- C. Notwithstanding anything stated herein, this Contract shall not apply to any Loss in Excess of Policy Limits or any Extra Contractual Obligation incurred by the Company as a result of any fraudulent and/or criminal act by any officer or director of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.
- D. Recoveries from any form of insurance or reinsurance which protects the Company against claims the subject matter of this Article shall inure to the benefit of this Contract.
- E. If any provision of this Article shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Contract or the enforceability of such provision in any other jurisdiction.



## Article VII - Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund ("FHCF") mandatory layer of coverage, any Temporary Increase in Coverage Limits ("TICL") coverage purchased by the Company, and the additional coverage option available to Limited Apportionment Companies based on statutory limits of coverage as of June 1 of the Underwriting Year ("LAC"), if purchased by the Company, shall be deemed to inure to the benefit of this Contract. Further, any FHCF loss reimbursement shall be deemed to be paid to the Company in accordance with the FHCF reimbursement contract at the full payout level set forth therein and will be deemed not to be reduced by any reduction or exhaustion of the FHCF's claims-paying capacity as respects both the mandatory FHCF coverage and the Company's elected coverage under TICL and LAC.

## Article VIII - Warranties

- A. The Company warrants that it shall maintain in force the Inuring Contracts listed in Schedule 1 hereto, or it is so deemed, for so long as the Reinsurer has any liability hereunder. All Inuring Contracts listed in Schedule 1, together with the FHCF, TICL and LAC coverages (as defined in Article VII hereof), shall be deemed recoverable by the Company.
- B. The Company warrants that it will adhere to the Company's Underwriting Guidelines dated June 10, 2008 for Policies assumed from Citizens Property Insurance Corporation and September 17, 2008 for other Policies when writing Policies subject to this Contract.
- C. The Company and the Reinsurer warrants that (i) it has reviewed its accounting treatment of the business ceded under and in connection with this Contract with its auditors, (ii) its auditors have not objected to or contested, as of the date of this Contract, the manner in which it accounts in its audited and statutory financials statements for this Contract and the risk ceded hereunder, and (iii) it has correctly accounted for the transaction in its financial statements for the reporting period incorporating the Effective Date of this Contract, and will correctly account for the transaction in its financial statements for all applicable future reporting periods.

## Article IX – Losses and Loss Adjustment Expense

- A. Losses shall be reported by the Company in summary form as hereinafter provided, but the Company shall notify the Reinsurer immediately when a specific case or Loss Occurrence involves unusual circumstances or large loss possibilities. The Reinsurer shall have the right to participate, at its own expense, in the defense of any claim or suit or proceeding involving this reinsurance.
- B. All loss settlements made by the Company, whether under strict Policy conditions or by way of compromise, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay or allow, as the case may be, its proportion of each such settlement in accordance with the Reports and Remittances Article.
- C. In the event of a claim under a Policy subject hereto, the Reinsurer shall be liable for its proportionate share of Loss Adjustment Expense incurred by the Company in connection



therewith, and shall be credited with its proportionate share of any recoveries of such expense.

### **Article X - Salvage and Subrogation**

The Reinsurer shall be credited with its proportionate share of salvage (i.e., reimbursement obtained or recovery made by the Company, less the actual cost, excluding salaries of officials and employees of the Company and sums paid to attorneys as retainer, of obtaining such reimbursement or making such recovery) on account of claims and settlements involving reinsurance hereunder. The Company hereby agrees to enforce its rights to salvage or subrogation relating to any loss, a part of which loss was sustained by the Reinsurer, and to prosecute all claims arising out of such rights if, in the Company's opinion, it is economically reasonable to do so.

### **Article XI - Original Conditions (BRMA 37B)**

- A. All reinsurance under this Contract shall be subject to the same rates, terms, conditions, waivers and interpretations, and to the same modifications and alterations as the respective Policies of the Company. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract. The Reinsurer shall be credited with its exact proportion of the original premiums received by the Company, prior to disbursement of any dividends, but after deduction of premiums, if any, ceded by the Company for Inuring Contracts.
- B. Nothing herein shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third party or any persons not parties to this Contract.

### **Article XII - Commission**

- A. The Reinsurer will allow the Company a provisional Ceding Commission of 24% on Gross Net Written Premium ceded for each Underwriting Year, and a return ceding commission shall be allowed on return premiums at the same rate. Such provisional Ceding Commission shall be paid in accordance with the Reports and Remittances Article XIII and is subject to adjustment as provided for herein.
- B. The final Ceding Commission allowance that the Reinsurer shall make to the Company shall equal the Ceding Commission Rate times the Gross Net Written Premium ceded for a particular Underwriting Year. The Ceding Commission Rate shall be determined in accordance with the following:

Should the Loss Ratio for a particular Underwriting Year exceed 26%, the Ceding Commission Rate shall decrease from 24% by 1% for each 1% increase in the cumulative Loss Ratio above 26%, down to a minimum Ceding Commission Rate of 13% at an actual Loss Ratio of 37% or more. Should the Loss Ratio be less than 26% for a particular Underwriting Year, the Ceding Commission Rate shall increase from 24% by 1% for each 1% decrease in the Loss Ratio below 26%, up to a maximum Ceding Commission Rate allowable of 30% at an actual Loss Ratio of 20% or less.



The provisional Ceding Commission for each Underwriting Year shall be adjusted at every May 1, beginning May 1, 2010 and each anniversary thereafter until all premiums as respects each Underwriting Year, have been earned and all Ultimate Net Loss as respects such Underwriting Year, have been finally settled. In the event that the amount determined by multiplying the most recent Ceding Commission Rate (determined in accordance with the Loss Ratio per above) by the Gross Net Written Premium for a particular Underwriting Year is greater than the provisional Ceding Commission previously allowed for such Underwriting Year, the Reinsurer shall remit such difference to the Company. In the event that the amount determined by multiplying the Ceding Commission Rate by the Gross Net Written Premium for a particular Underwriting Year is less than the provisional Ceding Commission previously allowed for such Underwriting Year, the Company shall pay such difference to the Reinsurer. After all Ultimate Net Loss has been settled and all premiums earned and paid for all Policies allocated to a particular Underwriting Year, the final Ceding Commission for that Underwriting Year shall be determined and the balance paid by the appropriate party. All interim settlements shall be provisional.

- B. It is expressly agreed that the ceding commission allowed the Company includes provision for all dividends, commissions, taxes, assessments, and all other expenses of whatever nature, except Loss Adjustment Expense.

### **Article XIII - Reports and Remittances**

- A. As promptly as possible after the Effective Date of this Contract, the Company shall remit the following to the Reinsurer:

The Reinsurer's Quota Share Percentage of the Company's unearned premium applicable to subject business in force at the Effective Date of this Contract, after deduction of any premiums paid for Inuring Contracts and net of provisional Commission.

- B. Within 15 days after the end of each calendar month after the Effective Date, the Company shall report to the Reinsurer:
1. Ceded (i.e. the Quota Share Percentage of) Net Written Premium for the month;
  2. The Quota Share Percentage of Ultimate Net Loss (including Loss Adjustment Expense) paid during the month.
  3. Provisional Commission on the Reinsurer's share of the Company's Gross Net Written Premium for the month;

Subject to the Article V B hereof, the positive balance of (1) less (2) less (3) shall be remitted by the Company with its report. If the same balance is negative, then the absolute



positive value of any undipusted portion of such balance shown to be due the Company shall be remitted by the Reinsurer within 15 days after receipt of the Company's report.

- C. Within 15 days after the end of each calendar quarter, the Company shall report to the Reinsurer the ceded unearned premiums and ceded outstanding loss reserves as of the end of the calendar quarter.
- D. Annually, the Company shall furnish the Reinsurer with such information as the Reinsurer may require to complete its regulatory filings or such other information as the Reinsurer deems reasonable and appropriate for its own risk management and reporting purposes.

#### Article XIV - Late Payments

- A. The provisions of this Article shall not be implemented unless specifically invoked, in writing, by one of the parties to this Contract.
- B. In the event any premium, loss or other payment due either party is not received by the payment due date, the party to whom payment is due may, by notifying the other party in writing, require the debtor party to pay, and the debtor party agrees to pay, an interest penalty on the amount past due calculated for each such payment on the last business day of each month as follows:
  - 1. The number of full days which have expired since the due date or the last monthly calculation, whichever the lesser; times
  - 2. 1/365ths of the six-month United States Treasury Bill rate as quoted in *The Wall Street Journal* on the first business day of the month for which the calculation is made; times
  - 3. The amount past due, including accrued interest.

It is agreed that interest shall accumulate until payment of the original amount due plus interest penalties have been received by the party to whom payment is due.

- C. The establishment of the due date shall, for purposes of this Article, be determined as follows:
  - 1. As respects any routine payment, adjustment or return due either party, the due date shall be as provided for in Article XIII B.1.C. of this Contract. In the event a due date is not specifically stated for a given payment, it shall be deemed due 30 days after the date of transmittal by the relevant party of the initial billing for each such payment.
  - 2. As respects any payment, adjustment or return due either party not otherwise provided for in subparagraphs 1 of this paragraph, the due date shall be deemed as 10 days following transmittal of written notification that the provisions of this Article have been invoked.
- D. Nothing herein shall be construed as limiting or prohibiting a Reinsurer from contesting the validity of any claim, or from participating in the defense of any claim or suit, or prohibiting either party from contesting the validity of any payment or from initiating any arbitration or



other proceeding in accordance with the provisions of this Contract. If the debtor party prevails in an arbitration or other proceeding, then any interest penalties due hereunder on the amount in dispute shall be null and void. If the debtor party loses in such proceeding, then the interest penalty on the amount determined to be due hereunder shall be calculated in accordance with the provisions set forth above unless otherwise determined by such proceedings. If a debtor party advances payment of any amount it is contesting, and proves to be correct in its contestation, either in whole or in part, the other party shall reimburse the debtor party for any such excess payment made plus interest on the excess amount calculated in accordance with this Article.

- E. Interest penalties arising out of the application of this Article that are \$1,000 or less from any party shall be waived unless there is a pattern of late payments consisting of three or more items over the course of any 12-month period.

#### **Article XV - Offset (BRMA 36C)**

The Company and the Reinsurer shall have the right to offset any balance or amounts due from one party to the other under the terms of this Contract or any other amounts due from one to the other. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise.

#### **Article XVI - Access to Records (BRMA 1D)**

The Reinsurer or its designated representatives shall have access at any reasonable time to all records of the Company or its agents which pertain in any way to this reinsurance. This right shall continue so long as the Reinsurer has any liability hereunder.

#### **Article XVII - Errors and Omissions (BRMA 14F)**

Inadvertent delays, errors or omissions made in connection with this Contract or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred, provided always that such error or omission is rectified as soon as possible after discovery.

#### **Article XVIII - Currency (BRMA 12A)**

- A. Whenever the word "Dollars" or the "\$" sign appears in this Contract, they shall be construed to mean United States Dollars and all transactions under this Contract shall be in United States Dollars.
- B. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.



**Article XIX - Taxes (BRMA 50B)**

In consideration of the terms under which this Contract is issued, the Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America or the District of Columbia.

**Article XX - Federal Excise Tax (BRMA 17D)**

- A. The Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon as imposed under Section 4371 of the Internal Revenue Code to the extent such premium is subject to the Federal Excise Tax.
- B. In the event of any return of premium becoming due hereunder the Reinsurer will deduct the applicable percentage from the return premium payable hereon and the Company or its agent should take steps to recover the tax from the United States Government.

**Article XXI - Reserves**

- A. The Reinsurer agrees to fund its share of amounts, including but not limited to, the Company's ceded unearned premium and outstanding Ultimate Net Loss reserves (including incurred but not reported loss reserves) (the "Reinsurer's Obligations") by:
  - 1. Clean, irrevocable and unconditional letters of credit issued and confirmed, if confirmation is required by the insurance regulatory authorities involved, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to said insurance regulatory authorities; and/or
  - 2. Escrow accounts for the benefit of the Company; and/or
  - 3. Cash advances; and/or
  - 4. Trust agreement.

if the Reinsurer:

- 1. Is unauthorized in any state of the United States of America or the District of Columbia having jurisdiction over the Company and if, without such funding, a penalty would accrue to the Company on any financial statement it is required to file with the insurance regulatory authorities involved; or
- 2. Has an A.M. Best's rating equal to or below B++ at the inception of this Contract.

The Reinsurer, at its sole option, may fund in other than cash if its method and form of funding are acceptable to the insurance regulatory authorities involved.

- B. With regard to funding in whole or in part by letters of credit, it is agreed that each letter of credit will be in a form acceptable to insurance regulatory authorities involved, will be issued



for a term of at least one year and will include an "evergreen clause," which automatically extends the term for at least one additional year at each expiration date unless written notice of non-renewal is given to the Company not less than 30 days prior to said expiration date. The Company and the Reinsurer further agree, notwithstanding anything to the contrary in this Contract, that said letters of credit may be drawn upon by the Company or its successors in interest at any time, without diminution because of the insolvency of the Company or the Reinsurer, but only for one or more of the following purposes:

1. To reimburse itself for the Reinsurer's share of unearned premiums returned to insureds on account of Policy cancellations, unless paid in cash by the Reinsurer;
2. To reimburse itself for the Reinsurer's share of Ultimate Net Losses paid under the terms of Policies reinsured hereunder, unless paid in cash by the Reinsurer;
3. To reimburse itself for the Reinsurer's share of any other amounts claimed to be due hereunder, unless paid in cash by the Reinsurer;
4. To fund a cash account in an amount equal to the Reinsurer's share of amounts, including but not limited to, any ceded unearned premium and/or outstanding Ultimate Net Loss reserves (including incurred but not reported loss reserves) funded by means of a letter of credit which is under non-renewal notice, if said letter of credit has not been renewed or replaced by the Reinsurer 10 days prior to its expiration date;
5. To refund to the Reinsurer any sum in excess of the actual amount required to fund the Reinsurer's share of amounts, including but not limited to, the Company's ceded unearned premium and/or outstanding Ultimate Net Loss reserves (including incurred but not reported loss reserves), if so requested by the Reinsurer.

In the event the amount drawn by the Company on any letter of credit is in excess of the actual amount required for B(1), B(2) or B(4), or in the case of B(3), the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn.

At annual intervals, or more frequently as agreed but never more frequently than quarterly, the Company shall prepare a specific statement of the Reinsurer's Obligations for the purpose of amending the Letter of Credit in the following manner:

- A. If the statement shows that the Reinsurer's Obligations exceed the balance of credit as of the statement date, the Reinsurer shall, within thirty days after receipt of notice of such excess, secure delivery to the Company of an amendment to the Letter of Credit, increasing the amount of credit by the amount of such difference.
- B. If however, the statement shows that the Reinsurer's Obligations are less than the balance of credit as of the statement date, the Company shall, within thirty days of receipt of notice from the Reinsurer, release such excess credit by agreeing to secure an amendment to the Letter of Credit, reducing the amount of credit available by the amount of such excess credit.



**Article XXII - Insolvency**

- A. In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Company without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the Policy reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.
- B. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Contract as though such expense had been incurred by the Company.
- C. It is further understood and agreed that, in the event of the insolvency of the Company, the reinsurance under this Contract shall be payable directly by the Reinsurer to the Company or to its liquidator, receiver or statutory successor, except (1) where this Contract specifically provides another payee of such reinsurance in the event of the insolvency of the Company or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such Policy obligations of the Company as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Company to such payees.

**Article XXIII - Arbitration (BRMA 6J)**

- A. As a condition precedent to any right of action hereunder, in the event of any dispute or difference of opinion hereafter arising with respect to this Contract, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration. One Arbiter shall be chosen by the Company, the other by the Reinsurer, and an Umpire shall be chosen by the two Arbiters before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance or reinsurance companies or Lloyd's London Underwriters. In the event that either party should fail to choose an Arbiter within 30 days following a written request by the other party to do so, the requesting party may choose two Arbiters who shall in turn choose an Umpire before entering upon arbitration. If the two Arbiters fail to agree upon the selection of an Umpire within 30 days following their appointment, each Arbiter shall nominate three candidates within 10 days thereafter, two of whom the other shall decline, and the decision shall be made by drawing lots.
- B. Each party shall present its case to the Arbiters within 30 days following the date of appointment of the Umpire. The Arbiters shall consider this Contract as an honorable



engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. To the extent, and only to the extent, that the provisions of this Contract are ambiguous, the panel shall make its decision considering the custom and practice of the applicable reinsurance business. The decision of the Arbiters shall be final and binding on both parties; but failing to agree, they shall call in the Umpire and the decision of the majority shall be final and binding upon both parties. Judgment upon the final decision of the Arbiters may be entered in any court of competent jurisdiction.

- C. If more than one reinsurer is involved in the same dispute, all such reinsurers shall constitute and act as one party for purposes of this Article and communications shall be made by the Company to each of the reinsurers constituting one party, provided, however, that nothing herein shall impair the rights of such reinsurers to assert several, rather than joint, defenses or claims, nor be construed as changing the liability of the reinsurers participating under the terms of this Contract from several to joint.
- D. Each party shall bear the expense of its own Arbiter, and shall jointly and equally bear with the other the expense of the Umpire and of the arbitration. In the event that the two Arbiters are chosen by one party, as above provided, the expense of the Arbiters, the Umpire and the arbitration shall be equally divided between the two parties.
- E. Any arbitration proceedings shall take place at a location mutually agreed upon by the parties to this Contract, but notwithstanding the location of the arbitration, all proceedings pursuant hereto shall be governed by the law of the state in which the Company has its principal office.
- F. Judgment upon the award may be entered in any court having jurisdiction thereof.

#### **Article XXIV - Service of Suit (BRMA 49C)**

(Applicable if the Reinsurer is not domiciled in the United States of America, and/or is not authorized in any State, Territory or District of the United States where authorization is required by insurance regulatory authorities)

- A. It is agreed that in the event the Reinsurer fails to pay any amount claimed to be due hereunder, the Reinsurer, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.
- B. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereby designates Corporation Service Company of 1201 Hays Street, Tallahassee, Florida 32301, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract.



**Article XXV - Governing Law (BRMA 71B)**

This Contract shall be governed by and construed in accordance with the laws of the State of Florida.

**Article XXVI - Notices and Contract Execution**

- A. Whenever a notice, statement, report or any other written communication is required by this Contract, unless otherwise specified, such notice, statement, report or other written communication may be transmitted by certified or registered mail, nationally or internationally recognized express delivery service, personal delivery, electronic mail, facsimile, or first class mail.
- B. The use of any of the following shall constitute a valid execution of this Contract or any amendments thereto:
  - 1. Paper documents with an original ink signature;
  - 2. Facsimile or electronic copies of paper documents showing an original ink signature; and/or
  - 3. Electronic records with an electronic signature made via an electronic agent. For the purposes of this Contract, the terms "electronic record," "electronic signature" and "electronic agent" shall have the meanings set forth in the Electronic Signatures in Global and National Commerce Act of 2000 or any amendments thereto.
- C. This Contract may be executed in one or more counterparts, each of which, when duly executed, shall be deemed an original.



**In Witness Whereof**, the parties, by their duly authorized representatives have executed this Contract as of the date undermentioned at:

Coconut Grove, Florida, this \_\_\_\_\_ day of \_\_\_\_\_ in the year \_\_\_\_\_.

\_\_\_\_\_  
Magnolia Insurance Company

Pembroke, Bermuda, this 19<sup>th</sup> day of August, 2009

  
Allianz Risk Transfer AG (Bermuda Branch)

  
Allianz Risk Transfer AG (Bermuda Branch)



SCHEDULE 1

INURING COVERAGE:

- A. Excess Catastrophe Reinsurance Contract, Effective June 1, 2009
- B. Reinstatement Premium Protection Reinsurance Contract, Effective June 1, 2009
- C. Second and Third Event Excess Catastrophe Reinsurance Contract, Effective June 1, 2009



**Allianz Risk Transfer AG (Bermuda Branch)**

A company incorporated in Switzerland

November 11, 2009

**VIA EMAIL (James.Irl@magnoliainsurance.us)**

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

Re: Quota Share Reinsurance Contract effective June 1, 2009 (the "Quota Share Contract"), issued to Magnolia Insurance Company by Allianz Risk Transfer AG (Bermuda Branch) ("ART Branch")

---

Dear Jim:

Since the inception of the Quota Share Contract, Magnolia Insurance Company has failed to remit any of the amounts due ART Branch in accordance with Article XIII and is in material breach. As of October 15, 2009, the amount due ART Branch by Magnolia Insurance Company for the period June 1, 2009 through September 30, 2009 was \$15,289,000, the calculation of which is reflected on Appendix A to this letter. Because of Magnolia Insurance Company's nonpayment, ART Branch hereby terminates the Quota Share Contract effective October 1, 2009 (the "Termination").

As a result of the Termination ART Branch has calculated the amounts due under the Quota Share Contract for the period beginning June 1, 2009 and ending September 30, 2009, with ART Branch's liability cutting off for any losses occurring after September 30, 2009 and assumption by Magnolia Insurance Company of all unearned premium as of September 30, 2009. Such calculation, reflected on Appendix B to this letter, reflects that as a result of the termination, the defaulted amount due and outstanding from Magnolia Insurance Company to ART Branch is \$5,068,000.

ART Branch is willing to consider immediate full and final commutation of the Quota Share Contract. Based on our understanding of the Ultimate Ceded Losses as calculated by George Dunlap in his estimation of September 30, 2009 Loss Reserves, ART Branch calculates the amount of future loss and LAE payments to be ceded to the Quota Share Contract in relation to loss occurrences from June 1, 2009 through September 30, 2009 to be \$4.241 million (without reduction for the time value of money). Therefore, ART calculates the appropriate net settlement amount to be a payment of \$0.827 million from Magnolia Insurance Company to ART Branch.



**Allianz Risk Transfer AG (Bermuda Branch)**

A company incorporated in Switzerland

H. James Irl, President  
Magnolia Insurance Company  
November 11, 2009

Page 2

Of course, this offer to commute, unless accepted and completed, is made without prejudice to the Termination. If you are interested in discussing commutation, please let us know.

Very truly yours,



Richard Boyd



c: Gregg Patterson



# Allianz Risk Transfer AG (Bermuda Branch)

A company incorporated in Switzerland

## APPENDIX A

Amount due ART Branch by Magnolia Insurance Company under the Quota Share Contract as at October 15, 2009, relating to the period up to September 30, 2009.

Calculation Item		Total
A	Gross Net Written Premiums	97,599
C	Allowable Premium ceded under Inuring Contracts	47,823
D	Net Written Premium (A minus C)	49,775
E	<b>Net Ceded Written Premium (D multiplied by 50%)</b>	<b>24,888</b>
F	<b>Ceding Commission (A multiplied 50% multiplied by 13%)</b>	<b>6,344</b>
G	Gross Loss Payments from accident months June to September 2009	6,509
H	<b>Ceded Loss Payments (G multiplied by 50%)</b>	<b>3,254</b>
I	<b>Net payment from Magnolia to ART (E minus F minus H)</b>	<b>15,289</b>

### Notes:

1. All values in \$000s
2. ART has not invoked that interest element of the Late Payment Clause at this stage



## 0-16 Gregg Patterson Sworn Statement

1

1 STATE OF FLORIDA  
2 DEPARTMENT OF FINANCIAL SERVICES  
3  
4

5 IN THE MATTER OF: THE FLORIDA  
6 DEPARTMENT OF FINANCIAL  
7 SERVICES AS RECEIVER OF  
MAGNOLIA INSURANCE COMPANY  
\_\_\_\_\_/

8  
9 SWORN STATEMENT OF GREGG PATTERSON

10 TRANSCRIPT OF PROCEEDINGS

11 DATE TAKEN: September 1, 2010  
12 TIME: 2:00 p.m. - 4:39 p.m.  
13 PLACE: The Alexander Building  
2020 Capital Circle SE  
Tallahassee, Florida

14  
15 This cause came on to be heard at the time and  
16 place aforesaid, when and where the following  
17 proceedings were reported by:  
18  
19

20 LISA A. BABCOCK, Court Reporter  
21 For the Record Reporting, Inc.  
1500 Mahan Drive - Suite 140  
22 Tallahassee, Florida, 32308  
23  
24  
25

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

2

1 APPEARANCES OF COUNSEL:

Page 1



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2 On behalf of the DEPARTMENT OF FINANCIAL SERVICES:

3 JODY E. COLLINS, ESQUIRE  
4 Division of Rehabilitation and Liquidation  
5 P. O. Box 0817  
6 Miami, Florida 33152-0817  
7 Phone: 786.336.1371  
8 Fax: 305.499.2271  
9 E-Mail: Jody.collins@myfloridacfo.com

7 On behalf of MR. PATTERSON:

8 DAVID A. YON, ESQUIRE  
9 Radey, Thomas, Yon & Clark  
10 301 South Bronough Street, Suite 200  
11 Tallahassee, Florida 32301  
12 Phone: 850.425.6654  
13 Fax: 850.425.6694  
14 E-Mail: David@radeylaw.com

12 \* \* \*

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3

1 INDEX TO WITNESS

2 WITNESS PAGE

3 GREGG PATTERSON

4 Examination by Ms. Collins 4  
Page 2



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\* \* \*

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\* \* \*

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4

SWORN STATEMENT

Whereupon,

GREGG PATTERSON

was called as a witness, having been first duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:

EXAMINATION  
Page 3



0-16 Gregg Patterson Sworn Statement

8 BY MS. COLLINS:

9 Q Would you state your full name, please.

10 A It is Gregg Baird Patterson, B-a-i-r-d, two  
11 Gs on the end of Gregg.

12 Q And Patterson with two Ts?

13 A That is correct.

14 Q Mr. Patterson, my name is Jody Collins. I'm  
15 an attorney with the Florida Department of Financial  
16 Services, and we are here today to take your sworn  
17 statement in the matter of the Magnolia Insurance  
18 Company receivership. Have you ever given a statement  
19 or deposition before?

20 A It seems to me I have but I don't remember  
21 when.

22 Q Okay. Let me just give you a few ground  
23 rules now. First of all you are here with your  
24 attorney today?

25 A Yes.

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

5

1 Q I'll be asking you questions about Magnolia  
2 Insurance Company and some of its affiliates and your  
3 employment at any of those companies.

4 A Okay.

5 Q If you don't understand any of my questions,  
6 let me know and I will be happy to repeat or rephrase  
7 it as necessary.

8 A Okay.

9 Q As you are doing, we'll need a full verbal  
10 response to all of my questions so that the court



0-16 Gregg Patterson Sworn Statement

11 reporter can take down all of your responses, as  
12 opposed to a nod of the head or a shake of the head or  
13 a "mmh-uh."

14 A Okay.

15 Q If at any time you need a break, let me know  
16 and we'll stop at the next logical stopping point.

17 A Okay.

18 Q If you feel that you need to guess at any of  
19 the answers, you can guess if you want to let me know  
20 that you are guessing.

21 A Okay.

22 Q Is that understood?

23 A I will do that.

24 Q Okay. What is your current address, please?

25 A 2122 Jenette Street -- need to spell it,

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6

1 J-e-n-e-t-t-e -- Street, Tallahassee, Florida, 32308.

2 Q Is that your home?

3 A That's correct.

4 Q And who do you live there with?

5 A My wife, and I currently have a daughter and  
6 son-in-law and grandson in transition.

7 Q Are you currently employed?

8 A I'm doing a little bit of consulting,  
9 freelance.

10 Q All right. You gave me your business card,  
11 which has the name on it Innovative Management  
12 Services, LLC and Innovative Insurance Resources, LLC.  
13 Is that one of the names that you are operating under?



0-16 Gregg Patterson Sworn Statement

14           A     Yes. That is what I did prior to Magnolia,  
15     and I'm going back, doing a little bit of private  
16     sector business, consulting.

17           Q     Is it under both of those names?

18           A     I have not been doing -- conducting any  
19     business under the insurance as of yet, but I hope to  
20     be able to expand to that.

21           Q     What kind of consulting work are you doing?

22           A     Doing business consulting. Right now, my  
23     specialty is crisis management, startups, and  
24     turnarounds, and in the interim, CFO work.

25           Q     Do you currently hold any licenses?

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7

1           A     I have a Florida 220 Agent's License.

2           Q     220?

3           A     Yes, ma'am.

4           Q     Is any of the consulting work you're doing  
5     call that license into play?

6           A     Has not.

7           Q     Prior to your -- let's just jump back a  
8     little bit. Prior to the work you were doing with  
9     Magnolia and the related companies, where were you  
10    employed?

11          A     This is what I was doing 15 years prior to.  
12    How far back do you want me to go? Immediately prior?

13          Q     Yes.

14          A     Immediately prior, I had this company right  
15    here doing the same thing, offering interim CFO work  
16    and consulting to companies.



0-16 Gregg Patterson Sworn Statement

17 Q And how long did you do that for?

18 A Probably 10, 12 years.

19 Q What is your educational background?

20 A I have a -- graduated from FSU Business  
21 School with a degree in accounting.

22 Q Do you have any graduate degrees?

23 A No, ma'am.

24 Q Have you ever held any other licenses besides  
25 the 220?

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8

1 A No, ma'am; not to my recollection.

2 Q How did you come to work at Magnolia?

3 A I do have an insurance background, have  
4 worked as a controller of an insurance company in the  
5 past, and I've worked in financial services. Through a  
6 mutual acquaintance, Jim Irl had contacted me probably  
7 in 2005 about potentially a startup -- putting together  
8 a startup company for homeowners in the state of  
9 Florida and asked if I would be interested, and then  
10 employed as a CFO.

11 Q What is your prior insurance company  
12 background?

13 A I was originally with a company called  
14 Protective Indemnity Insurance Company when I graduated  
15 from college, and we wrote homeowners in Florida and  
16 six other states.

17 Q How long were you with that company?

18 A Probably five or six years.

19 Q What was your position there?  
Page 7



0-16 Gregg Patterson Sworn Statement

20 A I was a controller.

21 Q Were you the controller for the entire five  
22 to six years that you worked there?

23 A Yes.

24 Q When Jim Irl -- so jumping ahead now to how  
25 you came to work with Magnolia -- when Jim Irl

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9

1 contacted you, how did he describe the status of  
2 Magnolia?

3 A He originally started in 2005. He was trying  
4 to raise money from various sources. And upon -- if he  
5 was able to raise enough sufficient capital, asked if I  
6 would be interested. He would call on occasion, say,  
7 "This deal worked," "This deal did not work," until, I  
8 think it was, early 2008, he called, said, "I may have  
9 a deal with the Bank of Tokyo," which turned into  
10 Allianz, and would I be interested in coming to work.

11 Q Did you have any participation in his  
12 negotiations with Allianz?

13 A I guess to a small degree at the very end,  
14 because he had called me -- we had never even met. He  
15 called me in, I think, February or -- January or  
16 February of '08 and asked if I'd be willing to come to  
17 the CGI offices in Tampa, because Allianz was going to  
18 be in attendance.

19 Q Did you, in fact, go to the CGI --

20 A Yes, I did.

21 Q -- offices? If you could just wait until I  
22 finish my question.



0-16 Gregg Patterson Sworn Statement

23 A Okay, sorry.

24 Q I forgot to give you that instruction. That

25 makes it easier for the court reporter. And when did

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

10

1 you go to the offices in Tampa?

2 A I believe it was in February of 2008.

3 Q Who all met there?

4 A There were people from Allianz. Do you want  
5 particular names?

6 Q If you have them.

7 A There were probably 20 people there. There  
8 was probably in attendance Bill Guffie -- I'm trying to  
9 remember the name of the fellow; my mind just went  
10 blank. There were two or three people from Allianz.  
11 I'm thinking the other one's name is out of Bermuda.  
12 There were people from CGI and there were people from  
13 AIG Benfield.

14 Q Why was AIG Benfield there?

15 A I think putting together the deal was  
16 probably predicated on putting together a reinsurance  
17 package.

18 Q What happened at that meeting?

19 A At that meeting, I think Jim, to the best of  
20 my recollection, Jim made a presentation: "Here is  
21 CGI, who's going to do the back office administration."  
22 Wanted me to be there to say -- you know, I was there  
23 as his potential CFO.

24 And from what I had seen, Jim had put  
25 together a business plan and package. And to the best



0-16 Gregg Patterson Sworn Statement

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11

1 of my knowledge, they had gone over that and this was  
2 probably a final meeting where they were going to make  
3 a decision to put the money in or not is my  
4 understanding.

5 Q By this point in time, could you determine if  
6 any of the agreements had been signed amongst any of  
7 these parties?

8 A I had no knowledge whether they were executed  
9 at that point in time or not.

10 Q Had the 20-something million in loans been  
11 made between Allianz and Magnolia?

12 A That money was not transferred until the  
13 Certificate of Authority was issued by the Department  
14 of Insurance.

15 Q And that had not been done by that time?

16 A No. This is -- the Certificate of Authority,  
17 I believe, was issued in April of '08.

18 Q So what happened after this February '08  
19 meeting?

20 A After the February '08 meeting -- this is  
21 just -- some of this is my perception of what  
22 happened -- I believe Allianz was close to making a  
23 decision to fund the \$20 million dollars. I think  
24 subsequent to that, we had multiple meetings with the  
25 Department.

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1 Q Did you attend any of those?

2 A Yes.

3 Q Did you attend all of them?

4 A I don't know. To the best of my knowledge, I  
5 attended most of them.

6 Q Were they here in Tallahassee?

7 A That is correct.

8 Q Did Jim Irl attend all of those that you  
9 attended?

10 A Yes.

11 Q What sorts of issues were addressed at those  
12 meetings?

13 A I think there were issues raised about the  
14 reinsurance, and I think there may have been some  
15 issues on the size of the takeout proposed.

16 Q What was the reinsurance issue?

17 A I think they were just trying to reconfirm  
18 that we would have -- there were some timing issues of  
19 having to put together the reinsurance package so --  
20 for a June takeout, which would be in the height of  
21 hurricane season. And I think OIR was trying to do the  
22 due diligence to make sure the reinsurance was put in  
23 place.

24 Because all at one time, you have to have the  
25 reinsurance put in place, the deal solidified with

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850. 222. 5491

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13

1 OIR -- I mean, with Allianz, OIR to issue its approval  
2 of a Certificate of Authority to be issued, and the



0-16 Gregg Patterson Sworn Statement  
3 \$20 million dollars to be transferred.

4 Q A lot of moving pieces; right?

5 A Tons of moving pieces.

6 Q Did Allianz attend any of the meetings with  
7 DOI or OIR?

8 A Early on, with me, I do not remember them in  
9 attendance. They may have; I just don't recollect.

10 Q We talked about you being hired as the CFO.  
11 You were to be the CFO of which company?

12 A Magnolia Insurance Company.

13 Q Were you to be an officer or a director of  
14 any other entities?

15 A I don't think that was discussed. But in  
16 review for this meeting, I saw a document where they  
17 had me listed as the CFO of the agency. I don't  
18 remember any direct conversation about that.

19 Q At some point, did you become aware that you  
20 had -- that you were serving as an officer or director  
21 of any other company besides Magnolia Insurance  
22 Company?

23 A I mean, some of it's intermingled, and there  
24 was never any discussion of, to the best of my  
25 knowledge, whether I was or I was not an officer. But

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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14

1 I was in Tallahassee. We were issuing the financial  
2 statements for the agency. I don't remember anything,  
3 to the best of my knowledge, officially, "You are  
4 appointed as the CFO."

5 Q Did you ever sign any documents on behalf of



0-16 Gregg Patterson Sworn Statement

6 Magnolia Agency?

7 A Probably.

8 Q Did you ever sign them as the Chief Financial  
9 Officer?

10 A That could have happened.

11 Q Would that have disturbed you if you knew, if  
12 you had realized it at the time?

13 A No, it wouldn't have.

14 Q Did you ever sign any documents on behalf of  
15 Irl Financial Group?

16 A I don't believe I ever did; no.

17 Q Were there any other entities that were  
18 related to Magnolia Insurance Company or whose names  
19 you saw?

20 A To the best of my knowledge, no. I know at  
21 one point in time, he formed a claims company because  
22 he was going to bring the claims in-house; but to the  
23 best of my knowledge, nothing ever happened with that.

24 Q So the three companies we're really talking  
25 about are Magnolia Insurance Company, Magnolia Agency,

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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15

1 and Irl Financial Group; right?

2 A Yes.

3 Q And to the best of your knowledge, the two  
4 that you would have been an officer or director of  
5 would be the insurance company and the agency; right?

6 A I believe my business cards said officer of  
7 the company. But did I ever act in that capacity of an  
8 officer of the agency? I don't know. I mean, I served



0-16 Gregg Patterson Sworn Statement  
9 the same functions, issued financials.  
10 Q Of the agency?  
11 A Yes. And I signed checks on behalf of the  
12 company.  
13 Q Was your title always Chief Financial  
14 Officer?  
15 A When the company was first being formed, the  
16 person that was going to handle the operations didn't  
17 pass a background check or something happened; someone  
18 I never met. And I said, "In the interim, I'll help  
19 you with the operations."  
20 They said, "Okay, you are the COO or VP of  
21 administration." So, you know, not knowing what I was  
22 getting myself into, I doubled my workload.  
23 Q How long did that last for?  
24 A The entire time.  
25 Q Oh.

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16

1 A So I think my official title was Chief  
2 Financial Officer and VP of Operations.  
3 Q Did you have a position on the board of  
4 directors for --  
5 A Yes.  
6 Q -- the insurance company?  
7 A Yes.  
8 Q What was that position?  
9 A I was a director.  
10 Q Was that only for Magnolia Insurance Company?  
11 A Yes.



0-16 Gregg Patterson Sworn Statement

12 Q Not for the agency?

13 A To my knowledge, the agency never even had a  
14 board of directors meeting.

15 Q That was my next question. I have some  
16 minutes we're going to look at for the board of  
17 directors of Magnolia Insurance Company. Did the board  
18 of Magnolia Agency ever meet?

19 A I believe that early on, I had mentioned to  
20 Jim that we need to have an organizational meeting, and  
21 we were sitting at the Key Biscayne Yacht Club. I  
22 said, "Officially, you need to have this," so I think I  
23 wrote up some minutes for that. But nothing ever came  
24 of it. And I believe now that we're talking about  
25 this, I may have called myself the Chief Financial

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17

1 Officer.

2 Q Do you know what happened to those minutes?

3 A No. They may have been in a board book.

4 Q Were they handwritten? You said you wrote up  
5 some minutes.

6 A I think I hand wrote them and then I probably  
7 put them in a Word document.

8 Q Is that the only meeting that you have any  
9 recollection of?

10 A Absolutely; yes.

11 Q Who attended that meeting?

12 A I think Jim Irl and I were having lunch.

13 Q Do you have any knowledge of any Irl  
14 Financial Group meetings, formal meetings?



15           A       0-16 Gregg Patterson Sworn Statement  
                  No.

16           Q       Did Irl Financial Group have any function,  
17 other than being the 100-percent owner of Magnolia  
18 Insurance Company?

19           A       Magnolia -- Irl Financial Group was Jim Irl,  
20 and it had no other business that I am aware of.  
21 Sometimes, payments to Allianz were made through Irl  
22 Financial Group.

23           Q       Okay. And we will talk about that in a  
24 little more detail, but you know of no other business  
25 it conducted?

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18

1           A       I do not.

2           Q       Who did you report to in your work at  
3 Magnolia Insurance Company or Magnolia Agency?

4           A       Jim Irl.

5           Q       100 percent?

6           A       Yes.

7                   (Whereupon, Exhibit No. 1 was marked for  
8 identification.)

9 BY MS. COLLINS:

10           Q       Okay. I'm showing you what we'll mark as  
11 Exhibit No. 1. Do you recognize this document?

12           A       It looks familiar; yes.

13           Q       Does Exhibit No. 1 appear to be the minutes  
14 of a board meeting of Magnolia Insurance Company held  
15 on December 16, 2008?

16           A       Yes.

17           Q       Who ran the board meetings of Magnolia



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18 Insurance Company?

19 A Jim Irl.

20 Q Jim Irl? Where were they held?

21 A They were held at the home office in Coconut  
22 Grove.

23 Q Were they ever held anywhere else?

24 A Not to my recollection.

25 Q Were they held on a regular basis?

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1 A Somewhat regular. I want to say that we had  
2 two or three board meetings.

3 Q If you want to take a minute to read through  
4 this --

5 A Okay.

6 Q All right. Now, the pages aren't numbered,  
7 but on the third page of the minutes, it refers to  
8 some -- it says, "Resolve that the minutes of the  
9 meeting of May 7th, 2008 meeting are hereby ratified."  
10 I haven't been able to locate those minutes. Based on  
11 your review of these minutes, would you be able to tell  
12 me anything of significance that happened at that  
13 May 7th, 2008 meeting?

14 A Off the top of my head, I don't recollect.

15 Q Might that have been the organizational  
16 meeting?

17 A Of May 7th, 2008? Could have been.

18 Q Okay. Going back to Page 2, in the third  
19 paragraph, it says, "Mr. Irl stated that Lee Stuart's  
20 contract for consulting work would expire on



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21 January 11th, 2009." What sort of consulting work was  
22 Mr. Stuart providing?

23 A I think he was hired to assist with the  
24 ramp-up of the voluntary business program to write new  
25 business for the company.

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1 Q Can you be more specific? What was he  
2 supposed to do about the ramp-up?

3 A The ramp-up was the implementation with CGI  
4 and the underwriting. He actually relocated to Miami  
5 and worked every day in the Miami office. He --

6 Q How long did he -- I'm sorry.

7 A And he also assisted me because I was trying  
8 to do operations, so he assisted with some of the  
9 issues with CGI.

10 Q How long did it take before you all at  
11 Magnolia became aware that it was not working out with  
12 CGI?

13 A I think probably in the latter part of 2008,  
14 we were starting to have some issues with issuing  
15 new pol -- issuing renewal policies.

16 Q So in about six to eight months from when  
17 Magnolia first opened?

18 A First takeout was in June, so I'd say three  
19 to four months.

20 Q And can you tell me specifically what the  
21 real problems with CGI were?

22 A Part of the problem, in trying to run a  
23 business, we could not see our data to be able to run



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24 the company; and there was a belief within the Magnolia  
25 that the upper management of CGI never really committed

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1 the resources for it to succeed. And trying to run a  
2 business without real-time data in today's world  
3 doesn't work. Also, we were starting to get a lot of  
4 complaints on claims.

5 Q So you said the first policies were taken out  
6 in June?

7 A That is correct.

8 Q So that's 6/08. So within the first three to  
9 four months, you could determine that CGI wasn't  
10 working out. And how long was Mr. Stuart under  
11 contract for?

12 A I'm trying to remember when he came to work.  
13 It was in -- I'd have to go back and look to see when  
14 he came to work. I'd say he worked there about a year.

15 Q And it says, "contract would expire January  
16 '09." So once -- so if you all had -- I'm just trying  
17 to pace this out. So Stuart's under contract and part  
18 of his duties are to ramp up contracts, and his  
19 contract is expiring in January '09, so by the time he  
20 leaves, you all are already aware that things are not  
21 working out with CGI; is that correct?

22 A That is correct. Now, Mr. Stuart was not  
23 with CGI.

24 Q I understand. He was an independent  
25 contractor hired by Magnolia Insurance Company --

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Page 19



1 A That is correct.

2 Q -- to assist Magnolia to get things going  
3 with CGI.

4 A Right.

5 Q Is that right?

6 A That is correct.

7 Q So by that time, by the time his contract was  
8 expiring, did Magnolia then perhaps change some of his  
9 responsibilities to work out some of the these kinks  
10 that you all had now seen developing with CGI?

11 A Working under Jim Irl, there was nothing very  
12 formalized in the company and there was very minimal  
13 staff, so your job duties could vary at times. I mean,  
14 we're a small company doing a lot of business.

15 Q All right. So since things were fluctuating,  
16 did Stuart's responsibilities change now that the  
17 problems with CGI --

18 A Yes.

19 Q -- had become apparent?

20 A Yes; that's correct.

21 Q Okay. So did he try to work out some of the  
22 problems with CGI?

23 A I think I was ahead of trying, outside of Jim  
24 Irl and within the company, trying to resolve things  
25 with CGI, but I had Lee Stuart to assist me in those

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1 responsibilities.



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2 Q Do you recall how much Stuart was paid under  
3 his contract?

4 A This is approximate; probably around \$10,000  
5 dollars a month.

6 Q Who negotiated that contract?

7 A I believe Jim Irl did.

8 Q On Page 3 of the minutes, about two-thirds of  
9 the way down, it says, "The next matter before the  
10 board was approval of the capitalization policy of the  
11 company." What was the capitalization policy?

12 A I believe the capitalization policy refers to  
13 depreciation of fixed assets, and I believe it was a  
14 thousand-dollar threshold. And I would want to go  
15 double check that, but it was something along those  
16 lines. It was a dot-the-I-and-cross-the-Ts for audits.

17 Q A little further down, it says, "The next  
18 matter before the board was approval of the new  
19 investment policy for the company." What was the new  
20 investment policy?

21 A We had been advised -- a lot of this had been  
22 done at the insistence of myself and the attorney --  
23 that these items need to be documented. So we put  
24 together an investment policy. And I believe, I need  
25 to go back and look at it, but it was something along,

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1 generic, but something along the lines of you can only  
2 invest in T-bills and liquid assets and try to have  
3 that -- I know the policy was in compliance with the  
4 Florida Statutes. I don't remember the name, 610 or --



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5 Q 624-something or other?

6 A Yes. Because I had had conversation with  
7 both accounting and legal to try to --

8 MR. YON: Probably 625.

9 BY MS. COLLINS:

10 Q Okay. So in other words, when you're saying  
11 "some of these new policies," you're just trying to  
12 help the company be in compliance with the regulatory  
13 requirements?

14 A Trying to do it right.

15 Q Okay. At the bottom of the page, there's a  
16 reference to -- it says, "the matter of board  
17 committees," and then it goes on to the next page,  
18 "amend the company by-laws to reflect change -- any  
19 committee requirements."

20 A And actually, in an insurance company, you  
21 are supposed to have investment committees and claims  
22 committees and --

23 Q Right; and there are some references we will  
24 see in some subsequent minutes. Did the company ever  
25 put together the committees that were required?

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1 A I believe there was discussion. And the  
2 investment committee, or one of the committees, was  
3 formed and did have one telephone conference.

4 Q At who was -- was there somebody on the board  
5 who was trying to push the idea of having these  
6 committees?

7 A I was, through counsel. And -- I think it  
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8 was mainly I was trying to through the advice of  
9 counsel.

10 Q Was there any resistance to that?

11 A I think it was a learning curve from Jim. I  
12 think that he felt he owned 100 percent of the company,  
13 and, Why do I need to have these committees?

14 Q Was he --

15 A That was my perception.

16 Q Was he saying that he didn't want them, or he  
17 just didn't understand why he needed them?

18 A I think he understood it was required by law,  
19 and I think he was willing to accept that that needed  
20 to be done. I think he's also getting advice from  
21 Jennifer Westerlund, who was his counsel, too.

22 Q Was he getting the advice that, yes, he  
23 should have them?

24 A Yes. If I remember correctly, she had  
25 someone else in attendance from her law firm at this

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1 meeting.

2 (Whereupon, Exhibit No. 2 was marked for  
3 identification.)

4 BY MS. COLLINS:

5 Q I'm showing you what's marked as Exhibit 2.  
6 Exhibit 2 indicates at the top these are the minutes of  
7 a March 6, 2009 board meeting. Do you have any reason  
8 to believe that is not the case?

9 A It appears to be as such.

10 Q Okay. Did you attend that meeting?



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11 A I believe I did; yes.

12 Q Okay. I'll give you a minute to look over  
13 the minutes.

14 A Okay.

15 Q On the second page near the top, in the  
16 second -- I guess it's the first full paragraph, it  
17 says, "Mr. Irl reported that the company paid a total  
18 of approximately 54 million for reinsurance its first  
19 year therein, suit of discussion of the layers of  
20 reinsurance" -- et cetera. Was that considered to be a  
21 lot or a little, that 54 million?

22 A \$54 million dollars is a lot to me. It is  
23 higher than the original projections that I had looked  
24 at; yes.

25 Q Did Mr. Irl feel that he had to justify that

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1 amount to the board?

2 A I don't believe so.

3 Q All right. And further down on the page, it  
4 says, almost near the bottom, it says, "Resolve that  
5 the board of directors will serve as the executive  
6 committee of the board of directors for the current  
7 term." And then again, they're talking about the  
8 formation of board committees. What committees were --  
9 sorry, were any board committees formed at that  
10 meeting?

11 A I believe, like the other one, I think an  
12 investment committee may have been formed, and there  
13 may have been one telephone meeting.



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14 Q Okay.

15 A I don't recollect any other executive  
16 committee meetings.

17 (Whereupon, Exhibit No. 3 was marked for  
18 identification.)

19 BY MS. COLLINS:

20 Q I'm showing you what we have marked as  
21 Exhibit 3. This document is identified at the top as  
22 the minutes of a board of directors meeting of Magnolia  
23 Insurance Company dated May 13, 2009. Do you have any  
24 reason to believe that this is anything but what it is  
25 identified as?

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1 A It appears to be the minutes of the meeting.

2 Q Did you attend that meeting?

3 A Yes.

4 Q And it talks about the committees again and  
5 that they are required by the by-laws. What committee  
6 was, in fact, formed at that meeting?

7 A Again, the only one I have recollection of,  
8 there was an audit committee meeting -- audit committee  
9 formed at one of the board meetings, and there was one  
10 telephone conference. I don't have recollection of any  
11 others.

12 Q Who was on the audit committee?

13 A Our audit committee -- it may have been  
14 investment committee; I don't recollect. It was either  
15 audit or investment. I believe a couple of the outside  
16 directors were appointed to it.



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17 Q Who were they?

18 A I can't remember if it was Peter Harrison or  
19 Ernesto Romand.

20 Q Could it have been both?

21 A Could have been.

22 Q Do you know how many people total would have  
23 been on the committee?

24 A Three, maybe four.

25 Q Were you on it as well?

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1 A I'm trying to remember, if it was audit  
2 committee, if I would have been on there, or could have  
3 or could not have been, being the CFO of the company.  
4 I believe it requires that you have to have the  
5 separation of duties, to the best of my knowledge. I  
6 think I was not but -- because of that.

7 Q Okay. On the next page, it says in the  
8 second paragraph, "The next matter to come before the  
9 board was an overview of financial results for the  
10 first quarter of 2009 by Gregg Patterson." What would  
11 your overview have consisted of?

12 A I would imagine I would have probably  
13 presented the first quarterly statement, statutory  
14 statement, is what I believe I presented.

15 Q Would you have given it just as a straight  
16 black-and-white description, or would you have given  
17 some more interpretation of it?

18 A I would have given a short -- usually, there  
19 was not much time in the meetings, and it wasn't high



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20 interest in the financials and I'd give a short  
21 black-and-white and answer any questions.

22 Q Were there ever any questions?

23 A I'm sure on occasion there were some  
24 questions. Do I remember it being a lot of  
25 questions? No.

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1 Q At this point in time, May 13, 2009, what was  
2 the financial condition of the company?

3 A I'd have to go back and take a look, but to  
4 the best of my knowledge, I don't remember it being an  
5 issue. At that point, there had not been the discovery  
6 of the development and the losses.

7 Q Okay.

8 A I'd want to look back at the quarterly  
9 statement and just double check.

10 Q You're welcome to look back at these, but  
11 either in looking at the list of folks who attended the  
12 meetings or in your recollection, did anyone from  
13 Allianz ever attend the meetings?

14 A I don't believe that they were at these  
15 meetings. They did not become active until later in  
16 the -- in time.

17 Q They did not become active; is that what you  
18 said?

19 A Yes.

20 Q At what point in time is that?

21 A That they started to become more active? I'd  
22 say August, September '09.



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23 Q Did they ever attend the board of directors  
24 meetings following that date?

25 A I do not remember them at a board meeting

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1 after that, but again, I would want to look and see  
2 because right now, I cannot remember if there was  
3 another board meeting after this.

4 Q That was my next question: Would there have  
5 even been a meeting after that?

6 A I don't remember there being one.

7 Q And when you say that Allianz folks became  
8 more active following -- or in August, September, what  
9 is it they did that caused you to make that statement?

10 A They -- well one, they came in after the  
11 June 30th statement and put together a 50-percent quota  
12 share treaty to help with, you know, surplus relief.  
13 And I know in Labor Day of '09, they came in with some  
14 consultants and were taking an active in-depth digging  
15 into the operations.

16 Q Which consultants were those?

17 A They had a gentleman by the name of John  
18 Hill, who was a former CFO of First Floridian, I  
19 believe; and they had Quin Netzel with the Ward Group.

20 Q What did John Hill do? What was he  
21 consulting about?

22 A He was looking more on the financial end. I  
23 think Quin Netzel was on the operations end.

24 Q Did -- was it clear to you that Allianz had  
25 hired these two consultants?



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1           A     Yes. Allianz -- I believe I went down there  
2 Labor Day weekend and met a couple people from  
3 Allianz who had come down to the Miami office.

4           Q     Were both of these consultants there at the  
5 same time?

6           A     Yes.

7           Q     They were overlapping each other?

8           A     Yes.

9           Q     And this was Labor Day '09?

10          A     I believe it was. In fact, I remember going  
11 down Labor Day -- Labor Day, flying to Miami to meet  
12 two people from Allianz because there was a Miami game  
13 with FSU.

14          Q     Funny how these things stand out in our  
15 minds. Who won that weekend?

16          A     Not the right people.

17          Q     Had they asked you to come down because of  
18 the financials that were being looked at?

19          A     I think they were becoming a little more  
20 alarmed of the condition of Magnolia. They were  
21 concerned about financial and oper -- and the running  
22 of the company.

23          Q     Was there somebody in particular that asked  
24 you, as the CFO, to come so that, for instance, John  
25 Hill could look at the financials?

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1           A     I -- it was one of the following: That Jim  
2     Irl mentioned that they wanted me to come down and meet  
3     with them because he wasn't going to be in town, or  
4     Grant Maxwell may have called and asked me to come  
5     down. He was with Allianz.

6           Q     You don't recall which one it was?

7           A     I'd have to go back -- I probably have email  
8     documentation some place. I'd have to go look.

9           Q     Whichever it was, you came down, and did you  
10    spend some time at the Miami office of Magnolia to  
11    assist them?

12          A     Yes.

13          Q     And you made the financials available to  
14    them?

15          A     Yes.

16          Q     Could you determine was it anything in  
17    particular that they were looking at?

18          A     It's my understanding they were looking at --  
19    they had some concerns about the running of the  
20    company, I think they had some concerns about Jim Irl,  
21    they had some concerns about the financial condition of  
22    the company.

23          Q     And you said that John Hill had previously  
24    been with what company?

25          A     I think it was First Floridian in Florida,

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1     but he was very knowledgeable on Florida property  
2     companies.



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3 Q How long were each of these consultants on  
4 site?

5 A I think they were on site until November.  
6 They were contemplating taking over the company.

7 Q Were they there -- and if it's a different  
8 schedule for each, we can break this question up -- but  
9 were they there consistently day in and day out from  
10 Labor Day to November?

11 A I can't say every day, but they were pretty  
12 consistently there; either there or they spent some  
13 time in the Tallahassee office, too.

14 Q Okay. Because then you eventually came back  
15 to Tallahassee; right?

16 A Yes.

17 Q So -- but you would have known if they were  
18 in and out of the Miami office?

19 A Yes. I had daily email, telephone contact.

20 Q The fact that Jim Irl was not there when  
21 they -- when you came down, where was he?

22 A I think he was on vacation in Alaska. I  
23 think my timing is right. Some time in there when  
24 Allianz was there, he was in Alaska and they were  
25 alarmed that he was on vacation.

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1 Q How long was he gone?

2 A A week or two.

3 Q Was anybody present from Allianz while  
4 Mr. Hill and Mr. Netzel were on site?

5 A It was Grant Maxwell and -- the person's name



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6 I couldn't recollect earlier was Richard Boyd, was  
7 there.

8 Q Boyd, B-o-y-d?

9 A Yes.

10 Q And how long were Maxwell and Boyd there?

11 A Boyd was there a short period of time.

12 Maxwell, I think, was back and forth from London on a  
13 weekly or biweekly basis probably the whole time.

14 Q When you say "the whole time," you mean the  
15 Labor Day to November period?

16 A Yes.

17 Q Okay. And during that time, were these two  
18 consultants in touch with you to ask you for  
19 information?

20 A Constantly.

21 Q Did you ever see -- oh, let me back up. Did  
22 either of them issue a report?

23 A I have been told that they issued a report  
24 but I have not seen it.

25 Q And I guess if they left in November, there

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1 wasn't much time between their departure and the  
2 arrival of the administrative supervisor?

3 A That is correct. I think there was a  
4 disagreement with their proposal to take over the  
5 company and Jim Irl threw them out.

6 Q Jim Irl threw who out?

7 A Allianz and the consultants; or banned them  
8 from the building.



9 Q Well, then, how long did Jim Irl leave --  
10 last?

11 A I think he was out in December.

12 Q So the way you understand it is Irl threw out  
13 the consultants because he what --

14 A My understanding is that they had made a  
15 proposal --

16 MR. YON: Let her finish asking her  
17 questions.

18 THE WITNESS: Oh, sorry about that. Thank  
19 you.

20 BY MS. COLLINS:

21 Q No, my question was your understanding was  
22 Irl threw out the consultants because what, he didn't  
23 like their proposal?

24 A That's correct.

25 Q And their proposal had something to do with

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1 purchasing the company?

2 A I believe that they were -- I heard two  
3 opposite stories, one from Allianz and one from Jim  
4 Irl, and they were on the opposite extremes of what  
5 happened.

6 Q Okay. Let's hear what you heard.

7 A I heard both. Allianz, the consultants were  
8 going to take over as -- CEO was going to be John Hill  
9 and the COO was going to be Quinn Netzel, and  
10 Allianz was going to recapitalize the company, and they  
11 were going to raise the quota shares from 50 percent to



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12 85 percent, and Jim Irl was going to be out.

13 Q And so these two guys, Netzel and Hill, would  
14 be working for Allianz?

15 A That's what is not clear. According to  
16 Allianz, they were going to continue to pay Jim Irl  
17 some consulting fee, take it over. We're not clear on  
18 what was or was not going to happen with the loan. I  
19 was under the impression that somehow that was not an  
20 issue.

21 According to Jim Irl, they were going to fire  
22 all of us, and he was going to be out, and he was still  
23 going to owe them the \$20 million dollars. So that's  
24 when the whole relationship fell apart.

25 Q But -- and in that last scenario, Irl says he

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1 threw out the consultants?

2 A He didn't say, "I threw them out," but he  
3 said that -- I think what happened is they were in the  
4 Tallahassee office. I was in Jacksonville on business.  
5 They called one of the employees, had the attorney call  
6 and said if -- we'd open the books and we were fully  
7 cooperating with Allianz. And the attorney told one of  
8 our employees if they want anything more than a pencil,  
9 they need to come through her, being the attorney.

10 Q The attorney is Jennifer Westerlund?

11 A Yes.

12 Q So is she the one that you heard the first  
13 story from about ART?

14 A I think I heard it from the employee that



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15 called in and said they just left, because I had to go  
16 and tell them I'm not giving them any more information.

17 Q Okay, wait. I think I'm missing a piece  
18 here. Who did you hear the first scenario from  
19 about --

20 A I had been --

21 MR. YON: Let her finish her questions.

22 THE WITNESS: Okay, sorry.

23 BY MS. COLLINS:

24 Q Who did you hear the first scenario from that  
25 it was -- that the consultants would come in under ART?

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1 A I had been hearing that from the consultants.

2 Q Okay. They told you directly?

3 A And Grant Maxwell, who is with Allianz.

4 Q Okay. Okay, so go ahead. You were saying  
5 about the attorney told you?

6 A I think they were in our office working on  
7 financial and operational. Jennifer Westerlund called  
8 the employee in our office because I was out, and  
9 communicated to Grant Maxwell and to John Hill that if  
10 they wanted any more information from the company other  
11 than a pencil, to ask for a pencil, that she was not to  
12 give it to them. Everything had to go through Jennifer  
13 Westerlund if they wanted the information. They got up  
14 and left.

15 Q Okay.

16 A That was the end of that story.

17 Q And within how much of a period of time did



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18 the administrative supervisor come in?

19 A I want to say that was the first part of  
20 November, and the administrative supervisor, I believe,  
21 came in at the end of December.

22 Q And from the time that the consultants left,  
23 at some point, Jim Irl was -- left or was gone?

24 A In December, the department was starting to  
25 get more involved, and I believe that they asked or

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1 required that he resign as part of the administrative  
2 supervision.

3 MR. YON: Isn't there an order?

4 THE WITNESS: I believe there is an order.

5 BY MS. COLLINS:

6 Q Were you and -- did you and Jim Irl  
7 communicate pretty well up until -- you know,  
8 throughout the time that you worked there?

9 A I think we did up until probably September of  
10 '09. It became a -- just didn't hear much from him.

11 Q Do you know if he officially resigned at some  
12 point?

13 A I believe, as part of the administrative  
14 order, he had to resign.

15 Q There were some other consultants -- well,  
16 let me just check: Is there any other information that  
17 you feel I should know about these two consultants or  
18 the, sort of, end of the -- that period of time?

19 A No. It was just my impression that  
20 Allianz was going to take over and save the company.



21 Q Did you have any more conversations with  
22 anybody at Allianz following the departure of Mr. Hill  
23 or Mr. Netzel?

24 A I think in -- had some part at the first part  
25 of this year, because we were under administrative

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1 supervision. There were several people that were  
2 looking to buy the company, and I was, for a period of  
3 time, trying to put together a group of people to look  
4 at the company.

5 And as one of the components that needed to  
6 be put together to facilitate a probable takeover of  
7 the company, a deal needed to be worked out with  
8 Allianz on the quota share and the loans. So I had  
9 some conversations as it related to those two issues if  
10 someone were to buy the company.

11 Q And did Allianz seem responsive?

12 A It was my opinion at the time that many  
13 people, including the cat reinsurers, were willing to  
14 put together a deal. Allianz kept just responding, "We  
15 don't get in the way of any deal, but we're not having  
16 anything to do with this anymore. We've had enough."

17 Q Okay. There's some other consultants that I  
18 have their names, if you could tell me what they did  
19 and when they were there. Bart Corredera,  
20 C-o-r-r-e-d-e-r-a?

21 A I have no clue.

22 Q No?

23 A There was times when we asked Jim Irl. One



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24 time, I heard he was a marketing person; and one time,  
25 I heard he was something else.

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1 Q Tom Aide, A-i-d-e?

2 A Aide is a consultant that was hired  
3 originally to, because of his connection with  
4 Travelers', was supposed to help with the marketing of  
5 the voluntary program.

6 Q When you say "the voluntary program," that's  
7 not the takeouts, but it's --

8 A It would be writing a brand new policy with  
9 Magnolia.

10 Q Okay. How long was -- you pronounced it  
11 Aid-E (phonetic)?

12 A Yes.

13 Q Okay. How long was Tom Aide working as a  
14 consultant for Magnolia?

15 A I think he was there at the beginning and was  
16 probably until administrative supervision.

17 Q Oh. So the whole life of the company?

18 A That's correct.

19 Q Did you see whether he brought any results?

20 A I realize that's a matter of opinion, but  
21 probably not. But he spent some time on it. With the  
22 voluntary program, in a year, we were at a hundred  
23 policies, or less than a hundred policies. Do I  
24 believe he went out and talked to some agents? Yeah.

25 Q How much was he paid?

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1           A     I think he was paid a larger amount to begin  
 2 with, and then Jim cut it back some place mid-term. I  
 3 want to say he was probably paid 10 or \$12,000 dollars  
 4 a month and then it ran back to 7 or \$8,000 dollars a  
 5 month.

6           Q     Which entity paid him?

7           A     I believe he was paid from the company.

8           Q     The insurance company?

9           A     Yeah.

10          Q     Did he have a contract?

11          A     That is something that Tom Aide used to call  
 12 up complaining to me about, that he couldn't get a  
 13 signed contract. He may have had one to begin with and  
 14 then Jim was going to change some items in it. Whether  
 15 that was ever executed, I don't think it was.

16          Q     Other than Mr. Hill and Mr. Netzel, were  
 17 there any consultants hired to determine why the  
 18 company was having financial problems later, you know,  
 19 on in 2009?

20          A     Well, we used our CPA firm on some financial  
 21 analysis, and we used a -- Jim hired a firm out of  
 22 Jacksonville to confirm some of the findings of  
 23 Allianz on the losses and the financials; and that was  
 24 at the point in time when we were trying to get our  
 25 arms around it to make sure that we had adequate

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1 surplus and we were not impaired when there were  
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2 starting to be some issues.

3 Q Was that the Buttner Hammock Accounting firm?

4 A Yes. I think we were also using Tim

5 Schoenwalder as legal counsel at that time with the

6 Blank Meenan Law Firm.

7 Q Okay. Was he doing anything related to the

8 financial situation of the company?

9 A I think he was -- he came in about the time  
10 we were starting to come under close scrutiny with OIR.

11 Q What did you understand Allianz's involvement  
12 or role with respect to Magnolia Insurance Company?

13 A Obviously, they were a lender, and this is  
14 something I shared with David Yon during lunch that --

15 MS. COLLINS: I just have to caution you not  
16 to tell me what you discussed with your attorney.

17 THE WITNESS: Okay, okay.

18 MR. YON: Thank you.

19 THE WITNESS: When Jim Irl first approached  
20 me or when I first looked at this, you know, it's  
21 high risk because you're in the hurricane business  
22 in the state of Florida; but it was high  
23 opportunity and I was pretty excited about ramping  
24 up a big company. Where my level of confidence --  
25 one of my levels of confidences was Allianz's

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1 involvement in this, in a Fortune Global 20  
2 company, being very active in the insurance  
3 industry.

4 That was one of the items that gave me a high  
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5 level of comfort coming into this business is they  
6 were a lender, but it was almost as if -- it was  
7 nothing official -- but it was almost as if they  
8 were the mother ship, too, because they would have  
9 had to look at any financial projections, they  
10 would have had to look at the assumptions. And so  
11 that was, like I said, a comfort factor when I  
12 came into the deal.

13 BY MS. COLLINS:

14 Q As time went by over the approximately  
15 two-year period that this company existed, did it  
16 appear that Allianz seemed to take a more active role  
17 in the company?

18 A Yes. It ramped up over time; yes.

19 Q In ramping up, did they make -- how did they  
20 display that ramping up? In other words, did they make  
21 more decisions -- I'm just giving you some examples --  
22 did they make more decisions? Did they ask more  
23 questions? Did they visit more? You know, those are  
24 some of the ways I'm asking you, did they insert  
25 themselves more into the relationship or some other

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1 ways that you want to tell me about?

2 A I think, as you express, there were more  
3 phone calls, more emails, more visits. They became  
4 active when they put together the 50-percent quota  
5 share as of June 1st of '09.

6 Q And what was that quota share agreement or  
7 who was it with?



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8           A     It was with Allianz.  
9                     (Whereupon, Exhibit No. 4 was marked for  
10   identification.)  
11   BY MS. COLLINS:  
12           Q     I'm showing you what we will mark as Exhibit  
13   4. Exhibit 4 is titled Advisory Services Agreement.  
14   Do you recognize this document?  
15           A     Yes.  
16           Q     Was this a document that you had become  
17   familiar with at Magnolia Insurance Company?  
18           A     I became familiar as we were in business and  
19   as I was able to start getting documentation from Jim  
20   Irl and whomever; yes.  
21           Q     Okay. All right, now, this agreement is  
22   between Magnolia Agency and we've been calling it ART,  
23   which is Allianz Risk Transfer; and I would point you  
24   to Article 2, Services. And if you could take a moment  
25   to read Section 2.1.

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1           A     Okay.  
2           Q     You're familiar with that section?  
3           A     As having just read it, yes.  
4           Q     Okay. Was Magnolia Agency required to make  
5   any payments to ART under this agreement?  
6           A     Yes.  
7           Q     Do you need to refer to the agreement or do  
8   you already know what those payments are?  
9           A     I have a decent recollection.  
10          Q     Okay. You're welcome to refer to the



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11 agreement but --

12 A But it was, to the best of my recollection,  
13 it was a million-dollar quarterly payment.

14 Q Okay. And also, if you'll look at Section  
15 4.1 on Page 3, does it also indicate there, there was a  
16 \$3 million-dollar initial payment on December 1st,  
17 2008?

18 A That's correct.

19 Q Was that first payment made?

20 A Yes.

21 Q And then were those quarterly payments of a  
22 million dollars also made?

23 A I believe they were made up through September  
24 of '09. I'd have to go back and verify it.

25 Q Was the September 1, '09 payment made?

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1 A I believe it was.

2 Q Okay. Did these payments cause any  
3 difficulties to Magnolia?

4 MR. YON: Agency or the insurance company?

5 MS. COLLINS: Well, I'm going to narrow it  
6 down in a minute.

7 THE WITNESS: I think it contributed to the  
8 cash requirements as one of the components; yes.

9 BY MS. COLLINS:

10 Q Which entity actually made these payments?

11 A I believe it was Magnolia Agency.

12 Q Okay. Did Magnolia Agency ever have to turn  
13 to Magnolia Insurance Company in order to obtain the



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14 funds to make these payments?

15 A Directly, I don't recall tit for tat, but  
16 towards the end, I think there was a balance due of  
17 \$3 million dollars-plus from the agency to the company,  
18 and this would have been a contributing factor to that  
19 issue.

20 Q Okay. And we're going to talk about that in  
21 a few minutes so --

22 A Okay.

23 Q But as far as you know, the payments were  
24 made from the agency to ART to comply with this  
25 Advisory Services Agreement?

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1 A That is correct.

2 Q Okay. Were there any occasions where  
3 Magnolia Insurance Company transferred funds to the  
4 agency in order for that payment to be made timely?

5 A I'd have to go back and look at the cash  
6 flow, but I don't remember a specific instance. Is it  
7 possible? Yes. But starting in June of '09 there were  
8 multiple factors as we discussed a minute ago.

9 Q The -- okay. Going back to Section 2.1 in  
10 the services that ART was to provide, prior to the time  
11 we just started talking about a few minutes ago where  
12 they put together that 50-percent quota -- where ART  
13 put together that 50-percent quota share reinsurance  
14 product, okay, prior to that, I think you indicated to  
15 me earlier that ART -- I don't want to put words  
16 in your mouth, so you correct me if I'm wrong -- ART



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17 sounds like they were kind of in the background. Is  
18 that accurate?

19 A To the best of my knowledge. But to clarify,  
20 at that point in time, most any discussions with ART  
21 were between Jim Irl and ART.

22 Q Okay. So, you know, you can only testify  
23 here to the best of your knowledge so --

24 A That's correct.

25 Q -- we're here today to find out what you

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1 know.

2 A Okay. To the best of my knowledge. I looked  
3 at the financial reports and as long as everything was  
4 okay, it was okay.

5 Q Okay. And you were never called upon to  
6 respond to any emails or questions or inquiries from  
7 ART?

8 A If it was, it was on occasion, but not on a  
9 consistent basis.

10 Q Okay. So as far as you know, up until the  
11 time when things started to change a little bit, do you  
12 have any information about what, if any, of these  
13 services ART was providing to Magnolia Agency?

14 A I do not.

15 Q You don't know if they were providing any of  
16 these services?

17 A I do not.

18 Q Okay. However, you do know that Magnolia  
19 Agency was making those quarterly payments?



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20 A That is correct.

21 Q Then things started to change a little bit,  
22 as you've told us, and the financial picture was  
23 changing at Magnolia Insurance Company; right?

24 A Uh-huh.

25 Q Is that a yes?

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1 A Yes, ma'am.

2 Q And ART started to get more involved in the  
3 day-to-day operations of Magnolia Insurance Company?

4 A Correct.

5 Q One of the things you mentioned was this  
6 50-percent quota share reinsurance of an  
7 Allianz product that they sold.

8 A Yes.

9 Q Is there anything else that you would mention  
10 that re -- you know, that you would specify indicating  
11 their stepped-up involvement?

12 A Probably nothing other than what we've  
13 discussed.

14 Q Okay. Well, if you look at, for instance,  
15 2.1, which starts on Page 1 of Exhibit 4 and goes on to  
16 Page 2, it lists all kinds of services. And maybe if  
17 you look at that, maybe that triggers any kind of  
18 activities or something that would remind you of things  
19 maybe that ART provided to Magnolia Insurance  
20 Company -- sorry, to Magnolia Agency?

21 A I am not aware of any of these.

22 Q Okay. Are you aware of any other loans or  
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23 sources of loans that IFG, Irl Financial Group, may  
24 have had, other than Allianz?

25 A I don't see any one that I am aware of.

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1 Q Did you ever review any of the paperwork that  
2 was filed with the Office of Insurance Regulation in  
3 order for Magnolia Insurance Company to be formed?

4 A I looked at the projections. In fact, I may  
5 have even helped put those together, based on Jim Irl's  
6 projections, to put it on the specific forms that they  
7 want; and I believe there was a written business plan  
8 that I looked at. It was a text plan so those  
9 documents I looked at, yes.

10 Q Do you have any knowledge whether all of the  
11 agreements and paperwork between IFG and agency and the  
12 loan work was properly disclosed to the OIR?

13 A It was my impression that it was. But do I  
14 know that as an absolute? No.

15 Q In other words, did you review any of the  
16 paperwork for that purpose?

17 A I was never given the job of reviewing the  
18 ART paperwork. I may or may not have seen it. I saw  
19 it in the projections, projections I was given that we  
20 would be making these payments, and I knew that the  
21 department had to approve everything.

22 Q Did Magnolia and IFG have counsel for that  
23 purpose?

24 A I believe they did.

25 Q Now, you also mentioned there was Benfield --



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1 there was a reinsurance product through Benfield;  
2 right?

3 A That is correct.

4 Q Do you know who arranged for that?

5 A Jim Irl.

6 Q Did he have to have that approved by Allianz?

7 A I believe that he had to have that approved  
8 by Allianz and the department initially.

9 Q Were there any discussions -- because I've  
10 seen the emails from the folks at ART to Jim Irl where  
11 they invoice for the quarterly payment, and so then,  
12 you know, there would have been some discussion inhouse  
13 at Magnolia, either the insurance company or the  
14 agency, "Now it's time to make a quarterly payment";  
15 right?

16 A Yes.

17 Q Okay. Did you ever have any discussions with  
18 Jim Irl about, "Is there any way to get out of this?  
19 Is there any way to renegotiate this?"

20 A I think there are times that I may have had  
21 conversations that, "This is a pretty draconian payback  
22 schedule," but then the discussion was, "This is a  
23 high-risk loan and approved by the department," that  
24 the business plan and the projection showed that we  
25 could pay it, original projections.

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1 Q But then it got into a time when maybe the  
2 projections were no longer showing that?

3 A And there are several areas that Magnolia did  
4 not meet its projections; that is correct.

5 Q So did you resume those discussions with  
6 Mr. Irl?

7 A I think there was always concern about the  
8 payment schedule. I think there was even discussion in  
9 the fall when they were coming in and they may take  
10 over the company that they may defer the advisory  
11 payments or they may defer the loan payments for a  
12 period of time.

13 Q Who is the "them"?

14 A I think I had that conversation -- I heard  
15 that from Jim. Whether I heard that or not from  
16 Allianz, I don't recollect.

17 Q Other than the contact you were telling us  
18 about earlier with the consultants who came up to  
19 Tallahassee and who asked you for documents and  
20 information, did that happen at any other times that  
21 you had direct contact with some of the Allianz people?

22 A Can you clarify that question? There's  
23 something I missed there.

24 Q Okay, let me just rephrase it. Throughout  
25 the time that you were the CFO at Magnolia Insurance

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1 Company, did you ever receive requests from Allianz for  
2 information or documents, other than the time we just



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3 talked about when the consultants were there?

4 A I believe that we had what we called a  
5 dashboard report we'd issue on a weekly basis, which it  
6 would show all the activity of every -- basically every  
7 check register. At some point in time, we started  
8 sending that to them on a weekly basis. I'd need to go  
9 back and see what point we started sending that to  
10 them.

11 Q Was there anything else besides that?

12 A It, like everything else, ramped up over  
13 time. As we evolved into the fourth quarter of 2009,  
14 there were numerous requests for information.

15 Q Directly -- these requests were made directly  
16 to you?

17 A Yes.

18 Q And they came from the ART people over in  
19 England?

20 A Either ART or the consultants.

21 Q Did -- aside from asking you for information,  
22 did they ever instruct you on what to do?

23 A When -- I mean, they spent some time -- I'm  
24 trying to think of the best way to communicate. When  
25 the consultant, John Hill, was here, I think the

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1 decision was made that, because they felt that I was  
2 overwhelmed between trying to do ops and finance, that  
3 John Hill would help put together the third quarterly  
4 statement working with my controller.

5 It would be subject to my signing off on the



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6 statement, and I would be able to concentrate on trying  
7 to straighten out the situation with CGI. And they  
8 were very active in looking at interacting with the  
9 actuaries and the CPA firms and -- on the financial  
10 part.

11 Q Did you play any role in negotiating the  
12 settlement with CGI?

13 A Very little. I mean, Jim was a pretty  
14 authoritative guy, and he put together that final deal.

15 Q Do you know the terms of it?

16 A I was involved, "Here is what the deal is,  
17 Here is what we need to pay, Do you agree with these,  
18 with the payables that CGI was alleging as part of the  
19 settlement?"

20 Q Did you agree?

21 A I would go through and verify that certain  
22 invoices were actually -- had been billed to the  
23 company, yes, what we had paid, what we had not paid.

24 (Whereupon, Exhibit Nos. 5, 6 and 7 were  
25 marked for identification.)

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1 BY MS. COLLINS:

2 Q I'm going to show you three documents,  
3 Exhibit 5 and Exhibit 6, which are the CGI agreements,  
4 and Exhibit 7, which is the settlement. Just a couple  
5 questions on the agreement: Who negotiated the terms  
6 of the agreement?

7 A Jim Irl.

8 Q Did you have any input on them?



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9           A     These right here?  
10          Q     Right.  
11               MR. YON:  "These" being?  
12               MS. COLLINS:  The Exhibit --  
13               THE WITNESS:  Really, none of them.  
14  BY MS. COLLINS:  
15          Q     Okay.  Are you familiar with the term in the  
16  in the agreements, Exhibits 5 and 6, related to the  
17  \$2.2 million-dollar letter of credit?  
18          A     I remember the letter of credit.  That's was  
19  part of the release.  They wanted the release of the  
20  letter of credit; yes.  
21          Q     Why was a provision regarding this letter of  
22  credit in favor of ART inserted in this agreement; do  
23  you know?  
24          A     It's my understanding that was part of the  
25  original deal for the \$20 million dollars, the initial

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1  funding of the \$23.8 million dollars.  
2          Q     So at the time, if I understand you  
3  correctly, at the time they, that ART and Magnolia and  
4  Jim Irl, were negotiating their loan deal, another  
5  facet of that was that there be a letter of credit in  
6  ART's favor in the CGI deal?  
7          A     Yes.  That's my understanding.  
8          Q     Okay.  Were you called upon to assist with  
9  any calculations in order to come up with these  
10  settlement calculations in Exhibit 7?  
11          A     I don't see an Exhibit 7.  Oh, this?  Right.



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Right, Settlement Agreement.

12 Q  
13 A My misunderstanding. Like I had mentioned  
14 earlier, to the best of my recollection, I was asked to  
15 verify, are these invoices the ones that were billed to  
16 the company, what have we paid, what have we not paid.

17 Q Okay.

18 A As far as a settlement of cash, the 2.1 or  
19 anything such as that, that was between Jim Irl and the  
20 attorney.

21 Q Well, the fact that Magnolia had to pay CGI  
22 2.1 million in order to get out of their deal with  
23 them, did that match your calculations?

24 A I'd want to go back and take a look at the  
25 numbers, but I want to say that there was probably a

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1 million dollars in invoices that were forgiven as part  
2 of that deal.

3 Q Which -- going which way? A million dollar  
4 in invoices to whom?

5 A I think that Magnolia owed to CGI. But  
6 again, I'd want to go back. It's been a while since I  
7 looked at that.

8 Q Do you have access to that now or is that  
9 something that--

10 A It's something I probably have a copy of some  
11 place.

12 Q Okay. I'd be curious about that. And going  
13 back to the letter of credit, do you have any  
14 information as to whether CGI was being compensated for



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15 that letter of credit?

16 A To my knowledge, no. I think -- to my  
17 knowledge, it was never activated, other than the cost  
18 of putting together the letter of credit. I have no  
19 knowledge of anything ever being paid to Allianz from  
20 CGI.

21 Q Okay. Who made the hiring and firing  
22 decisions at the insurance company and the agency?

23 A Jim Irl. I mean, I may have made some  
24 recommendations, but it was a pretty autocratic  
25 environment.

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1 Q Did he have to run any of those decisions by  
2 ART?

3 A I believe there was some provision that we're  
4 not supposed to hire someone over X amount that he was  
5 supposed to be run by ART, but I don't know.

6 Q Was that a written provision somewhere?

7 A It just seems to me, in one of the  
8 agreements, you could not commit to over X amount of  
9 dollars without the approval of ART, but I would,  
10 again, need to go back and look at the agreement --  
11 could not commitment to contracts over X amount.

12 Q How often did the ART folks come up to  
13 Tallahassee?

14 A I would say, starting in June or July of '09,  
15 it would vary from maybe once a month to, towards the  
16 end, they'd come for a weekly visit every other week  
17 for a period of time.



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18 Q Did you get the impression that Jim Irl did  
19 as he was told, or that he was his own man and these  
20 were his decisions that he was passing along?

21 A I think Jim Irl has always pretty much done  
22 as he saw fit, but he did have a pretty strong  
23 obligation to Allianz. How much that impacted -- he  
24 was very, "We must pay them, and we must pay them on  
25 time. We must have a good relationship."

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1 (Whereupon, Exhibit No. 8 was marked for  
2 identification.)

3 BY MS. COLLINS:

4 Q I'm showing you what's marked as Exhibit 8.  
5 Do you recognize that document?

6 A Yes.

7 Q What is it?

8 A It is a Managing General Agency Agreement.

9 Q Between what parties?

10 A Magnolia Insurance Company and Magnolia  
11 Agency.

12 Q And what is the main thrust of this document?

13 A It is an agreement that the agency will be  
14 the marketing arm and will receive a 26-percent  
15 commission, will have the obligation of paying the  
16 individual agents their commission and paying the  
17 administrator, someone in CGI's position.

18 Q Was there also a cost sharing agreement  
19 between the agency and the insurance company?

20 A We allocated some of the payroll to the



21 agency. People were all paid by Magnolia Insurance  
22 Company. There were certain employees that it was  
23 allocated that the costs and benefits would be charged  
24 to the agency and direct expenses, such as rent and  
25 utilities.

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1 Q Rent and utilities, I'm sorry, were paid by?

2 A Were paid directly by the agency. No, I  
3 misstated that. Anything they shared was the employee  
4 expenses. It was allocated.

5 Q Was any -- were any of those terms in  
6 writing?

7 A We may have -- we may have put something in  
8 writing for the employees. I don't recollect  
9 specifically, but I believe that's something we would  
10 have tried to document. There was a big push in  
11 Tallahassee to document everything.

12 Q So the cost of the employees is just -- does  
13 that just mean salaries, or does that include --

14 A Salaries, taxes and benefits.

15 Q Okay. Well, the agency rent and utilities,  
16 that would just mean the Tallahassee office; right?

17 A That is correct.

18 Q And then MIC's would be the Miami office, and  
19 they would pay their own?

20 A That's correct.

21 Q Okay. Did you ever discuss with Jim Irl  
22 having a cost sharing agreement?

23 A I believe there was some discussion on the



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24 cost sharing agreement on the employees. I can't  
25 specifically say I absolutely remember having that

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1 conversati on.

2 (Whereupon, Exhibit No. 9 was marked for  
3 identification.)

4 BY MS. COLLINS:

5 Q Let's mark this as Exhibit 9. I'm showing  
6 you a cover letter dated November 25th, 2008 with a  
7 couple of -- with an email and a chart attached. Do  
8 you recognize these documents?

9 A I believe I was the one that prepared the  
10 cover letter.

11 Q What caused you to prepare this?

12 A It was from advice and to document the  
13 advances and paybacks. Maybe I'm thinking of something  
14 else.

15 Q Take your time.

16 A This is to document the advances and plan  
17 paybacks.

18 Q What was the reason for these advances, at  
19 least in this exhibit?

20 A One of the payment of the life insurance, and  
21 I would need to go back and look, it would have been to  
22 either repay ART or it seems to me we had a  
23 \$3 million-dollar payment that was due in December of  
24 '08. I was -- the advance was made to fulfill the  
25 obligations of the agency and to document the repayment

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1     schedule.

2           Q     Okay, that's one of the items on here.

3           A     Okay. Let me -- okay.

4           Q     I'm trying to -- I guess my question to you  
5 then was, what were these advances for? On the last  
6 page, it says July advance, 500,000 and 2.2.

7           A     I believe the 500,000 was to pay CGI. The  
8 2.2 million appears to -- would have made sense to be  
9 to cover the payment to ART, but I would want to go  
10 back and look at the financials just to verify that.

11          Q     All right. And then the figures below that,  
12 October Estimated Repayment, November Estimated  
13 Repayment, and December, you are -- what are you doing  
14 there, you're projecting the repayments by the agency?

15          A     Yes. That's what it appears to be, based on  
16 its projected commission income, policy fee income.

17          Q     That's the 26 percent under the MGA  
18 agreement?

19          A     That is correct. Plus, the agency earns a  
20 policy fee.

21          Q     Okay. Did you ever receive those repayments  
22 from the agency?

23          A     I believe these were all paid.

24          Q     Okay.

25          A     But again, I would want to double check that.

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1           Q     Did you ever have any more communication  
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2 similar to this one?

3 A It seems to me there was two, maybe three of  
4 these.

5 Q Where you had to lay out a repayment  
6 schedule, you had to itemize the advances and lay out a  
7 repayment schedule?

8 A That's correct.

9 Q Were they ever actually signed by Mr. Irl?

10 A I believe so. Again, this is something I  
11 prepared and wanted to document the files with.

12 Q Why did you feel you needed to document it?

13 A At first, it was my understanding and I had a  
14 discussion with counsel and with people that are in the  
15 industry, and they say, "If you have an advance, you  
16 need to generate a document and show the ability to  
17 repay it and repay it."

18 Q Was there any other reason? Because I think  
19 you said "first," so I didn't know if there was a  
20 second reason.

21 A The whole purpose is to document it and  
22 formalize it to an agreement.

23 Q Where would I --

24 MR. YON: How are you doing total timewise?

25 MS. COLLINS: Let me just finish this

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1 question before I forget it. Sorry.

2 BY MS. COLLINS:

3 Q Where would I look to find these? If there  
4 were any more of these, where would I look for them?



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5           A     Could be -- particularly, if you look on what  
6     was on our server, we tried to scan all of our  
7     documents to the server.

8           Q     Because I never found any of these on site.  
9     I actually found this when I went up to look at  
10    Jennifer Westerlund's records, and I only found one of  
11    these.

12          A     Okay. That's the first place I'd look is on  
13    the server.

14          Q     Uh-hmm.

15                MS. COLLINS: Okay, off the record.

16                THE WITNESS: I would have thought we had  
17    some on site but --

18                MS. COLLINS: Right. Okay, off the record.

19                (Whereupon, a recess was had in the  
20    proceeding.)

21                (Whereupon, Exhibit No. 10 was marked for  
22    identification.)

23    BY MS. COLLINS:

24          Q     I'm showing you what's marked as Exhibit 10,  
25    which is entitled Organization Chart and Flow of Funds.

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1     Do you recognize that document?

2           A     Yes.

3           Q     Did you play any part in creating that  
4     document?

5           A     No. This was part of the business plan that  
6     Jim Irl had put together and was part of what he  
7     presented to me when I was contemplating joining the



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8 company.

9 Q Were any changes ever made to this document  
10 during the life of the company?

11 A I am not sure where it shows the box,  
12 "Magnolia Agency," if the original one -- there was,  
13 early on, there was -- IFG was the sole shareholder,  
14 but then I think there was an amended operating  
15 agreement, which made them a 50-percent shareholder.  
16 But this was done all about the time of the Certificate  
17 of Authority was issued. So this would have been way  
18 back.

19 Q To your knowledge, has ART always been a  
20 50-percent shareholder of Magnolia Agency?

21 A I want to say we've looked at the original  
22 Articles of Organization. I think IFG was the sole  
23 shareholder, this is the best of my memory, and then  
24 there's some negotiations with ART. They then became a  
25 50-percent shareholder and they added the Class A and

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1 Class B to the LLC. Again, this was all, if it  
2 happened, it was about the time prior to or during the  
3 Certificate of Authority.

4 Q Well, I don't have the Articles of  
5 Organization, but I do have Amended and Restated  
6 Operating Agreement that I can show you that talks  
7 about -- well, I've lost a page -- that talks about the  
8 membership interests of these entities. Would that  
9 assist you?

10 A I remember that document.



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11 Q Well, let me -- I won't mark it yet. I'll  
12 take a look at it, and I'll let you take a look at it.  
13 And if that will assist you, we can mark it.

14 A I do remember this -- having an Amended and  
15 Restated Operating Agreement.

16 Q Okay. Well, let's mark --

17 A And in it, it talked about them being  
18 50-percent shareholders, because I remember this  
19 Schedule 1 List of Members. That --

20 Q And that Schedule 1 says what?

21 A It says it's a list of members. It says  
22 Class A Members, Irl Financial Group, with a 50-percent  
23 owner membership interest; Class B Member, Allianz Risk  
24 Transfer with a 50-percent membership.

25 Q And were those membership interests

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1 identical?

2 A To the best of my recollection -- I was  
3 thinking about this earlier today -- I believe that  
4 there was a non-voting -- one was voting, one was  
5 non-voting. It seems that Jim Irl had made comment to  
6 me, at one point in time, the difference was  
7 Allianz would not receive any distribution of profits  
8 until the loan was paid off; and then after that, they  
9 would participate in the profits distribution, any  
10 planned profit distribution.

11 MS. COLLINS: All right. Well, we're going  
12 to mark this document we've been discussing  
13 entitled Amended and Restated Operating Agreement



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14 of Magnolia Agency, LLC as Exhibit 11. I'm going  
15 to leave that in the middle so we can make an  
16 extra copy.

17 (Whereupon, Exhibit No. 11 was marked for  
18 identification.)

19 BY MS. COLLINS:

20 Q Okay. So we're back to the flow of funds  
21 chart. So back then to our question is, do you believe  
22 that that 50 percent for IFG and 50 percent for ART is  
23 accurate and current?

24 A I believe it is.

25 Q Okay. Going down then from that box where it

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1 talks about Magnolia Agency, there's some breakdowns  
2 then of how -- DWP stands for direct written premium;  
3 right?

4 A That's my understanding.

5 Q Okay. There's some breakdowns of the  
6 application of direct written premium. And in the  
7 third one, it says, "2.3 percent of DWP goes to the ART  
8 advisory fee."

9 A Uh-huh.

10 Q Is that in addition to the -- what we saw in  
11 the agreement with ART for the quarterly payments of a  
12 million dollars, or is that what the 2.3 percent works  
13 out to?

14 A It's my understanding that that is one in the  
15 same. This ART advisory fee is the same as the one we  
16 discussed earlier.



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17 Q So a million per quarter comes out to  
18 approximately 2.3 percent of DWP?

19 A That must be as calculated by Jim Irl at some  
20 point in time and his projections at that point in  
21 time.

22 Q Okay. And the one below it, "3 percent of  
23 DWP goes to asset protection." Do you have any  
24 understanding of that?

25 A I think the asset protection was a

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1 \$6 million-dollar-a-year policy written for the benefit  
2 of Allianz should Magnolia fail due to a catastrophic  
3 storm that would cause us to run through the top of our  
4 catastrophe and reinsurance.

5 Q Should they fail -- I'm sorry, I missed the  
6 last part.

7 A Should Magnolia fail due to a catastrophic  
8 event that would cause us to run through our quota --  
9 or not quota share, but catastrophe reinsurance.

10 Q Was that an actual policy that was written?

11 A I think there is a policy that is written on  
12 that. Yes; I've seen it.

13 Q Written with who?

14 A I'd have to remember what the name of the  
15 company is. I don't remember off the top of my head.

16 Q It's not Allianz?

17 A I don't know if it's an affiliate or -- I  
18 don't know. It did not have Allianz's name on it.

19 Q Except as the beneficiary?



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20           A     I think it was a hedge fund.  
21           Q     Do you know where we'd find records on that?  
22           A     Maybe in that same server.  
23           Q     But it was specifically only if Magnolia  
24 Insurance Company should fail due to a catastrophic  
25 event?

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1           A     That is what I've been told. I have read the  
2 document; I know several people have read the document.  
3 And no one could understand what it was saying.  
4           Q     It wasn't if Magnolia should fail due to  
5 going into receivership, for instance?  
6           A     Originally, Jim Irl told me it was going to  
7 cover for our loss ratio -- our projected was 25 -- if  
8 it went over a certain percent. But he had told me  
9 later on that they had dropped that provision, and when  
10 I read the policy, you can't make heads or tails out of  
11 what the policy is even saying.  
12          Q     Is there anyone else who would have more  
13 information about it that we could find out where it  
14 is?  
15          A     Maybe on that same server I was telling you  
16 about. It seems to me --  
17          Q     Which server?  
18          A     We had a server in Tallahassee, which we  
19 documented and scanned everything. Jennifer Westerlund  
20 could have a copy.  
21          Q     Why do you think the insurance company  
22 failed?



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23           A     I believe there was a combination of factors,  
24 just like the perfect storm. I believe it failed  
25 because the projected loss ratio was 25 percent, ended

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1 up being 47 percent; the projected reinsurance costs  
2 were 38 percent, ended up being 55 percent; the  
3 projected investment income was 5 percent, ended up  
4 being 1 percent; the pick out of the Citizens; the  
5 geographic spread. I think that was our systemic  
6 problem.

7                   It heavily concentrated South Florida, the  
8 tri-county area of Palm Beach, Broward, Miami-Dade,  
9 Pinellas, Hillsborough, and the two sinkhole counties,  
10 Pasco and Hernando. That was 75 percent of our  
11 business. What happened from that is you ended up with  
12 higher reinsurance costs. You ended up with higher  
13 loss costs.

14                   You had more -- I think the wind mitigation  
15 program added to the mix; the PAs in Miami that you may  
16 have heard advertised; heavy concentration added to the  
17 mix; the strong payback from Allianz. A combination of  
18 all of those created a bit of a perfect storm. The  
19 rates from Citizens, had to stay with the Citizens'  
20 rate.

21                   The other item is I don't think anybody  
22 contemplated, when you take policies out of Citizens,  
23 they can opt back into Citizens up until renewal date.  
24 I don't think anyone ever contemplated the constant  
25 loss of business you have as people keep opting out and



1 going back to Citizens. So I think if you add all  
2 those together, it didn't work.

3 Q The first things you mentioned were the  
4 disparity in the numbers, basically the loss ratio  
5 numbers, the reinsurance numbers and that kind of  
6 thing. What do you think was the reason for that? Why  
7 were the projections so far off?

8 A I believe the geographic pick out of Citizens  
9 was a systemic problem with the concentration of the  
10 South Florida, the Tampa, and the sinkhole counties. I  
11 think that drove the reinsurance up, and Mr. Irl did  
12 the pick and wanted to go for the higher premium. And  
13 I think, as a result, we ended up with a higher loss  
14 ratio, higher reinsurance costs.

15 I think CGI not being able to see our data  
16 contributed. You know, we were not able to really see  
17 our losses developing. I don't know if we would have  
18 been able to do anything to stop it, but the business  
19 plan did not work.

20 And you have a very high payback with  
21 Allianz. We had to pay them back, I think, \$16 million  
22 dollars in the first 18 months. You could also add  
23 that we did not -- we were not -- probably had half the  
24 staff that we needed.

25 Q Were any of these issues raised with Jim Irl



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1 by a certain time that they might have been addressed?

2 A I think the pick out of Citizens, that was --  
3 once it was done, it was done, not much you could do  
4 about that. I don't know if you -- I think once you  
5 had that pick, in today's circumstances of the rates  
6 and the wind mits, there's not much you can go back and  
7 correct at that point in time. I mean, did we have  
8 management problems? Yes. But is that what sunk  
9 us? Probably not.

10 Q Was there any discussion in advance with him  
11 about the type of policies that he planned to pick?

12 A His conversations with me were he was going  
13 to pick the older Florida homes, and it was my  
14 assumption it would be spread throughout Florida. But  
15 I think when he made the pick, I think he wanted to  
16 meet his reinsurance as he was getting the quotes out  
17 of Benfield. This is speculation on my part, but he  
18 went for the higher-premium policies and the higher  
19 risk, and I think that was a fatal blow.

20 Q Have you talked to him since he left the  
21 company?

22 A I think he called me a couple times early  
23 part of this year when, I think, he was trying to put  
24 together some people to buy the company. I think the  
25 first couple of months, he'd call to ask me what's

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1 going on. And I'm trying to think when the last time I  
2 had a conversation; it's been several months.



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3 Q Do you know if he's involved in any new  
4 enterprises?  
5 A I have no knowledge of him being involved in  
6 anything. I've heard secondhand he was going to try to  
7 buy some agencies, but --  
8 Q Was his wife involved in the business at all?  
9 A Yes.  
10 Q What did she do?  
11 A She was hired as the marketing director.  
12 Q Did she perform that function?  
13 A I think she tried to perform that. I don't  
14 think she had experience. She had no insurance  
15 experience.  
16 Q What was she paid for that position?  
17 A I believe around 150.  
18 Q 150,000 a year?  
19 A Either 150 or 175; I'm not certain.  
20 Q Was she on the board?  
21 A No.  
22 Q Did she actually show up for work on a daily  
23 basis?  
24 A Yes, she did. But towards the end, she was  
25 out sick a lot.

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1 Q Does she suffer -- I'm sorry.  
2 A I was just going to say I was not in Miami  
3 all the time, so I can't say she came in every day.  
4 Q Did she suffer from -- without telling me,  
5 because of HIPAA rules, what it is, did she suffer from



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6 some disability while she was still working there?  
7 A She was diagnosed with some -- something that  
8 impacted her airways or breathing.  
9 Q But it didn't -- it wasn't caused from her  
10 working conditions or anything; right?  
11 A To my knowledge, no.  
12 Q Did she also have a friend that worked at the  
13 company?  
14 A She had several.  
15 Q The insurance company had a condo that they  
16 owned, that they rented out, or did they rent it?  
17 A There was a condo that was owned in the name  
18 of Cathy Paul that the insurance company rented for  
19 5,000 a month.  
20 Q What was the purpose for renting it out?  
21 A We had an underwriter out of -- whose home  
22 was in Atlanta, Georgia, lived there pretty much full  
23 time; Lee Stuart, the consultant stayed there; I stayed  
24 there on occasion when I would come to town.  
25 Q You mentioned earlier that you had reviewed

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1 some documents in anticipation of your statement today?  
2 A Uh-huh.  
3 Q Is that a yes?  
4 A Yes. Sorry about that.  
5 Q What documents did you review?  
6 A I just looked at some of the emails that  
7 are -- that I have that are on my computer that --  
8 because I used to work from home, and I have copies. I



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9 would document a lot of things and keep copies myself.

10 Q Are you still an officer of either of the  
11 companies?

12 A To my -- I hope not.

13 Q And you resigned as registered agent of the  
14 agency; right?

15 A Yes. I only became registered agent at the  
16 request of the administrative supervisor when Jennifer  
17 Westerlund resigned.

18 Q All right. We have one more exhibit to go  
19 over, kind of a three-parter. I think what I will do  
20 is staple it.

21 (Whereupon, Exhibit No. 12 was marked for  
22 identification.)

23 BY MS. COLLINS:

24 Q All right. I am showing you Exhibit 12,  
25 which are three separate spreadsheets. The first two

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1 are taken directly from the Magnolia records. The last  
2 one, we created just to make the distinction.

3 You'll notice -- let's make sure you have,  
4 yeah -- the first one is Due to Magnolia Insurance  
5 Company, and the second one is Due from Magnolia  
6 Insurance. Do you recognize these spreadsheets?

7 A Yes, ma'am.

8 Q Okay. Did you create them or participate in  
9 creating them?

10 A Probably I supervised the creation of these.  
11 We kept these records on QuickBooks in the



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12 Tallahassee office. I had personnel that worked under  
13 me that probably made the entries.

14 Q Okay. As I've represented to you, the  
15 receiver has not made any changes to the first or  
16 second spreadsheets. We've just taken them directly  
17 off the server as they were. Based on that  
18 representation then, can you tell me if those two  
19 spreadsheets are accurate as of the date you left  
20 Magnolia?

21 A It looks -- yeah. I want to say June of last  
22 year, it was at zero and there was \$500 dollars. It  
23 had been 3.2 -- yeah, it looks close, to the best of my  
24 recollection.

25 Q All right. Why would -- why would Magnolia

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1 Insurance -- why would Magnolia Agency owe 3.2,  
2 roughly, million to Magnolia Insurance Company?

3 A I believe that those are probably advances to  
4 cover the CGI settlement of two-and-a-half million  
5 dollars, to cover the interest payments to Allianz, to  
6 cover the couple of advisory fees of a million dollars  
7 a quarter, and paying commissions to agents.

8 MS. COLLINS: Can you read that back, please?

9 (Whereupon, the previous answer was read.)

10 BY MS. COLLINS:

11 Q What are the interest payments to Allianz?

12 A I think there was a monthly interest payment  
13 that would be due to Allianz to cover the  
14 \$23 million-dollar note or whatever -- whatever point



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15 amortization it was.

16 Q Approximately what were those monthly  
17 payments?

18 A 3 or \$400,000 dollars. I can look on there.  
19 It's got two-and-a-half million dollars as one of the  
20 items where they advanced funds for CGI settlement.

21 Q Which, if you can identify anything  
22 specifically, which one is the CGI settlement?

23 A That would be General Journal Number 193.

24 Q What's the date? Oh, I see it; 9/2/09?

25 A Yes, ma'am.

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1 Q Oh, I see. Advanced funds, CGI settlement,  
2 okay. \$2.5 million dollars?

3 A Yes.

4 Q Okay.

5 A And you can see up here 5/28/09.

6 Q Right.

7 A You see \$4 million dollars for advanced funds  
8 from MIC for asset protection.

9 Q Right. That's this insurance policy we  
10 talked about that we can't really find?

11 A That's correct. And as you'll see running  
12 down here, you'll see collection of Allianz loan  
13 payments, and you'll see some --

14 Q Interest payments --

15 A -- interest payments.

16 Q -- loan payments. So even though the  
17 insurance company was -- well, let me ask you this



18 because I need to back up: According to the MGA  
19 agreement we looked at, the agency received 26 percent  
20 of all premiums; right?

21 A That is correct.

22 Q Plus a \$25 dollar policy fee?

23 A That is correct.

24 Q Can you explain to me the flow of all that  
25 money; in other words, which bank account it came into,

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1 and who it went to, and how did the agency obtain its  
2 fee?

3 A And again, to help you in the future, on that  
4 server, there's probably a flow chart, because I  
5 remember we had a flow chart which lays out exactly all  
6 the flow of funds.

7 Q All right.

8 A But typically, what would happen on a monthly  
9 basis, based on the written premium -- it depends on  
10 where you want to me to start with the whole flow of  
11 funds -- but to relates to the 26 percent, based on the  
12 reported written premiums, 26 percent --

13 Q Wait, wait. Can we back -- I'd like, if you  
14 could, to backup -- I'm sorry to interrupt -- for when  
15 the premium comes in, who -- does it come into the  
16 insurance company, or does it come into the MGA?

17 A It would come into a premium trust account  
18 owned by the MGA, but the premium trust agreement was  
19 for the benefit of the company.

20 Q Right.



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21           A     So the monies would be collected into that  
22     account. Any money that that money could be spent for  
23     is -- the monies went out would be for return premiums  
24     and to pay agent commissions.

25                     And on a monthly basis, we would do a

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1     spreadsheet showing the policy fees and the  
2     commissions; and based on that, we would transfer the  
3     money from that account, the 26 percent would go to the  
4     agency operating the account, and the policy fees would  
5     go -- would go to the agency operating account -- and  
6     the premium would, that remaining premium, would go to  
7     the company.

8                     And I want to correct one thing. At times,  
9     probably to document the flow, we would probably  
10    transfer the entire premium to the company, and then --  
11    see, we could document the commission going back out.  
12    I'm trying to remember if we did that through a journal  
13    entry or if we did that through the flow of funds.

14           Q     Okay. That's what I was just -- I was just  
15    about to say, okay, so the company never got it's 100  
16    percent of premium and then came back and paid its 26  
17    percent?

18           A     I want to correct myself. I believe we -- if  
19    it was a million dollars in premium, I believe, and I  
20    want to go back and look, we transferred the million  
21    dollars to the company, and then the company would pay  
22    the 26 percent to the agency.

23           Q     So after the -- so I have to insert it with



24 my arrows here -- so after the money went into the  
25 premium trust account of the MGA, you are thinking you

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1 sent 100 percent of premium to the insurance company,  
2 and then you would have sent the 26 percent to the  
3 agency?

4 A Back to the agency -- operating. The only  
5 thing that I believe did not go to the company would be  
6 the policy fees. I think out of that premium trust  
7 account, the policy fees were transferred directly to  
8 the agency operating account.

9 Q So a hundred percent did not go to the  
10 insurance company?

11 A I think a hundred percent X of the policy  
12 fees.

13 Q Less the \$25-dollar policy?

14 A Yes, ma'am.

15 Q Less the \$25-dollar policy.

16 A Because, if memory serves me correct, the  
17 policy fee is a hundred percent earned, so --

18 Q It can't be backed out?

19 A Yeah.

20 Q Okay. If you have a way of checking, you're  
21 welcome to either tell your attorney or send me an  
22 email and copy him, whatever you prefer to do.

23 A I'll check. Okay.

24 MR. YON: I was just going to say, we need to  
25 make sure we're right on that one, because I know

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1           that's important to you.

2           MS. COLLINS: Right.

3           THE WITNESS: I believe -- I stand corrected  
4           on that. I believe that we transferred a hundred  
5           percent, but I will verify that.

6 BY MS. COLLINS:

7           Q     Okay. Whichever way it turns out to be is  
8           fine, just whatever the answer is. And I should --  
9           another sort of instruction I should have given you at  
10          the beginning that, as we're talking, if you think of  
11          other things any time throughout the depo or the  
12          statement today and, you know, as we're talking -- you  
13          haven't been at the company for two, three, four  
14          months, whatever.

15          A     That's correct.

16          Q     As you are thinking of things, if you want to  
17          go back and say to me, "Gee, you know, two hours ago,  
18          we were talking about so and so, and it just came to  
19          me," a name or a concept, or whatever it is, you are  
20          welcome to bring it up now; or, you know, if it's not  
21          now and you walk out of here and you say, "Oh, shoot, I  
22          just remembered this," we can do an errata sheet like  
23          we do for a depo, whatever.

24                  But, you know, as you think of things and as  
25          your mind gets refreshed, you're not limited to the

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

1     little question we are asking right now.



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2           A     That was a concern I was just having as, I  
3 hope I don't think tonight, Oh, I forgot.

4           Q     Right.

5           A     Because two or three hours, you just kind of  
6 get lost in trying to respond to the questions.

7           Q     Yeah. We're dredging up all kinds of old  
8 information.

9           A     Right.

10          Q     So, okay, whichever way that turns out to be,  
11 just let me know.

12          A     So if anything comes up, should I send that  
13 to you directly and copy David, or should I send it to  
14 David?

15               MR. YON: We should talk.

16               THE WITNESS: Okay.

17               MS. COLLINS: Yeah. He's your attorney, so  
18 whatever his preference is.

19 BY MS. COLLINS:

20          Q     Okay. So let's go back, though, to Exhibit  
21 12 here. We were talking about the reason for the  
22 advances and you pointed out some of the items here.  
23 How were the funds transferred between the agency and  
24 the insurance company? Was it all strictly, for  
25 instance, by these intercompany -- did they do it by

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 wire, for instance, or was it just strictly by paper?

2           A     I think the transfers were done through --  
3 they're all in Colonial Bank, and I think you can go  
4 online and transfer the money.



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5 Q When did Magnolia Insurance Company stop  
6 renewing policies?

7 A Uh -- to look at the date, but we had a  
8 telephone call with OIR sometime in November. And at  
9 that point, that's when we had engaged Ed Buttner's  
10 firm; we were working with Thomas Howell Ferguson; we  
11 were starting to have the concern, are we impaired or  
12 not. And there was debate over the lost development  
13 and the IVNR. I think Tim was pretty adamant it was  
14 overdevelopment.

15 And so I want to say a telephone call with  
16 OIR in November, but I have it someplace documented in  
17 emails with CGI. I made the decision, "I'm not going  
18 to take any chances," emailed CGI and said, "As of this  
19 date," and it was in November, "because we may be  
20 impaired, I don't want to take any chances. Stop  
21 renewing -- stop mailing and issuing any -- stop  
22 mailing any renewals and do not write any new  
23 business."

24 Q You said it was your decision?

25 A Well, I think we also had a conversation. I

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 think Jim Irl was on the phone, and I said, "We've  
2 got -- as officers of the company, we can not be taking  
3 any chances." So even when we thought we might be,  
4 that's when we made the decision. I think Jim Irl may  
5 have even sent an email to our underwriting manager to  
6 make sure that he did not issue any new business.

7 Q Does mid-November sound about right?



0-16 Gregg Patterson Sworn Statement

8           A     I think we issued in mid-November. Realize  
9     it's a 45-day window we're all mailing out, so it  
10    actually worked out it was in -- it must have been  
11    mid-November, because it was the first day or two in  
12    2010 when it stopped.

13          Q     Oh, okay. So you might have made the  
14    decision, but for 45 days, you still received renewals  
15    that you had to accept?

16          A     Yes.

17          Q     You couldn't have rejected those?

18          A     I don't know. That's a good question. I  
19    think the insured would have a problem.

20          Q     Yeah. You couldn't just tell them, "No. Go  
21    find another policy"; right?

22          A     See, I think you have a cancellation issue  
23    with it.

24          Q     Right.

25          A     With a hundred day --

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1           Q     You have to give notice?

2           A     I think, at that point, you're between a rock  
3    and a hard place on what you've got to do to comply  
4    with the statutes.

5           Q     All right. Well, that might -- okay.

6           A     But as soon as we -- I know myself -- as soon  
7    as I had any indication that there was any possibility  
8    of impairment, we stopped.

9           Q     So you think you may have made the  
10   decision -- I don't want to put words in your mouth,



0-16 Gregg Patterson Sworn Statement

11 but you may have made it mid-November, but you would  
12 have accepted them until the beginning of January?

13 A I don't think we had any -- it was my  
14 understanding we did not have any choice.

15 Q But do those dates sound right?

16 A Yes.

17 Q Okay.

18 A I want to say the first or second day of  
19 January was the stop.

20 Q All right. Then, if you look at the last --  
21 well, let me just make a pit stop at the agency -- Due  
22 from Magnolia Insurance, does that sheet also appear  
23 correct to you?

24 A I probably did not pay as close attention to  
25 this account as I did the other account, but it appears

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 to be reasonable entries that are being made on here.

2 Q One question on this one: If you look,  
3 December 31st, 2009, it says December '09 MGA Income,  
4 and there's actually a credit of 1,964,000. Do you see  
5 that?

6 A Yes.

7 Q Now, but that is -- that could still be MGA  
8 fees because you were still -- even if there were no  
9 renewals after November 15th, you were still getting  
10 renewals?

11 A We still had renewals in the last part of  
12 November and December.

13 Q Right. Is there any other reason you would  
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14 think of to explain that credit?

15 A No.

16 Q Okay.

17 A I would have to go back and look.

18 Q Okay. All right, then if you would go to the  
19 last page of that exhibit. As I said, this last page  
20 is something that our accounting staff put together,  
21 because when they started looking at some of the  
22 numbers, they had a question. Column 2, you see that's  
23 26 percent of direct written premium. Do you see where  
24 I am?

25 A Uh-huh.

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 Q Okay. And then Column 3, there was  
2 actually -- some of the times it was higher; sometimes  
3 it was lower, the amount that went to the MGA. So my  
4 question is, why would that number vary so much,  
5 sometimes higher, sometimes lower, but why would there  
6 be such a difference?

7 A I don't know. Is it possible the direct  
8 written premium number they're using include or not  
9 include policy fees? Could that be creating any  
10 problems? Off the top of my head, I don't know.

11 Q Because sometimes I noticed it was exactly  
12 the number from, you know, the Magnolia spreadsheet.  
13 Like this one, if you look at the December '09 figure,  
14 this 1,964,000 --

15 A Uh-huh.

16 Q -- the one we just talked about --



0-16 Gregg Patterson Sworn Statement

17 A Right.

18 Q -- that figure was the same. We had that  
19 figure -- oh, no, no, I'm sorry. That is the figure;  
20 that's a bad example. Okay, like on March 31st, '09,  
21 it's the exact same amount, 3870. So they're  
22 calculating -- they're using 26 percent.

23 A I'm not certain of the source of the  
24 information that they used on this so I don't know. I  
25 just -- I know the accounting staff I had in

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 Tallahassee was a very competent staff. Why there's a  
2 difference, I don't know.

3 Q Okay. I'll have to do some more digging, see  
4 what that's all about. All right. These -- going back  
5 to the first page of this Exhibit 12, the fact that the  
6 insurance company had to make these advances, why were  
7 there insufficient funds in the agency account to make  
8 these payments?

9 A It appears to me that there was not  
10 sufficient cash flow in the agency due to the not  
11 reaching its projected numbers as a result of all the  
12 opt-outs being higher than what they're supposed to be,  
13 and I think the takeouts occurred later than what they  
14 anticipated to be.

15 I know the MGA did not take a commission on  
16 the opt-outs and that that contributed, but it was a  
17 cash flow issue of not enough premium as compared with  
18 the projections and what was planned in the credit  
19 agreements.



0-16 Gregg Patterson Sworn Statement

20 Q Was Jim Irl always aware when these advances  
21 had to be made?

22 A Many times they were under his instructions.

23 Q Was Allianz aware that money had to be  
24 shifted from one account to another?

25 A I don't know. That's a good question. They

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1 did at the end.

2 Q Right.

3 A And they were aware of it when they were --  
4 in the fourth quarter of '09 when they were up here.

5 MS. COLLINS: Right. I don't have any  
6 further questions at this time. I guess it might  
7 be beneficial if we give you the opportunity to  
8 read and do an errata sheet, because then that'll  
9 help you with that one issue we talked about and  
10 maybe some others.

11 THE WITNESS: Okay.

12 MR. YON: We can get an answer.

13 THE WITNESS: We would document all of this  
14 so that's not going to be hard to do.

15 MS. COLLINS: Okay. Yeah, if you could check  
16 back on those things and then you can either do it  
17 by way of an errata sheet or some sort of  
18 supplement. That would be very helpful.

19 THE WITNESS: Yeah, I'm 99 percent certain  
20 when I first answered, I misstated. I don't know  
21 what I was thinking, that we transferred  
22 100 percent. But again, we document and have



0-16 Gregg Patterson Sworn Statement

23 payment sheets to go with that so.

24 BY MS. COLLINS:

25 Q All right. And I'm going to -- we've got to

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 check the server -- when you say it's on the server, do  
2 you know -- I mean, A, I'm not a computer person, but  
3 also, just being on the server, do you know under what  
4 category, under what folder, under what file?

5 A I would think the one that you're looking  
6 for, if my memory serves me right, is the Asset  
7 Protection Policy.

8 Q Okay. So that one --

9 A I would look under Allianz or Allianz  
10 Documentation.

11 Q And then there was something else you said  
12 was going to be on the server.

13 MR. YON: The advances.

14 THE WITNESS: The flow of the funds. There's  
15 probably going to be a spreadsheet.

16 MR. YON: What about the other surplus -- not  
17 the surplus, but the advances.

18 THE WITNESS: Oh, the advances. Yes, the  
19 cover sheets for --

20 BY MS. COLLINS:

21 Q Oh, these letters?

22 A Yes.

23 Q When you said there were two or three of  
24 these cost sharing documentations?

25 A Yes.



0-16 Gregg Patterson Sworn Statement

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1 Q Where do you think they'd be?

2 A They should be on the server, perhaps  
3 under -- either under Advances or under Magnolia  
4 Agency.

5 Q All right.

6 A And I'll look through my emails and see if I  
7 can find something. If I find it, I'll get with David  
8 and get that to you.

9 MS. COLLINS: Okay, great. Thank you very  
10 much.

11 (Whereupon, the witness did not waive reading  
12 and signing of the sworn statement and the deposition  
13 was concluded at 4:39 p.m.)

14 \* \* \*

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FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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0-16 Gregg Patterson Sworn Statement

1 CERTIFICATE OF OATH

2

3 STATE OF FLORIDA )

4 COUNTY OF LEON )

5

6 I, LISA A. BABCOCK, the undersigned authority,  
7 certify that GREGG PATTERSON personally appeared before  
8 me and was duly sworn.

9

10 WITNESS my hand and official seal this 15th day of  
11 September, 2010.

12

13

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16 \_\_\_\_\_  
LISA A. BABCOCK

17 Court Reporter

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FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850. 222. 5491

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1 CERTIFICATE OF REPORTER

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0-16 Gregg Patterson Sworn Statement  
3 STATE OF FLORIDA )  
4 COUNTY OF LEON )  
5  
6 I, LISA A. BABCOCK, do hereby certify that I  
7 was authorized to and did stenographically report the  
8 sworn statement of GREGG PATTERSON; that a review of  
9 the transcript WAS requested; and that the foregoing  
10 transcript, pages 1 through 95 is a true record of my  
11 stenographic notes.

12 I FURTHER CERTIFY that I am not a relative,  
13 employee, or attorney, or counsel of any of the  
14 parties, nor am I a relative or employee of any of the  
15 parties' attorney or counsel connected with the action,  
16 nor am I financially interested in the action.

17  
18 DATED this 15th day of September, 2010 at  
19 Tallahassee, Leon County, Florida.

20  
21  
22  
23  
24  
25

---

LISA A. BABCOCK  
COURT REPORTER

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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1 ERRATA SHEET  
2 DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES  
3 IN RE: Corrections to the Sworn Statement of GREGG  
4 PATTERSON, taken in the case of Re: the Florida  
Department of Financial Services as Receiver of  
5 Magnolia Insurance Company, on September 1, 2010.  
Page-Line Correction



0-16 Gregg Patterson Sworn Statement

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Under penalties of perjury, I declare that I have read the foregoing document and that the facts stated in it are true.

DATE \_\_\_\_\_ GREGG PATTERSON

CC: Jody Collins, Esq., and David Yon, Esq.

FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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STATE OF FLORIDA

DEPARTMENT OF FINANCIAL SERVICES

IN THE MATTER OF: THE FLORIDA  
DEPARTMENT OF FINANCIAL  
SERVICES AS RECEIVER OF  
MAGNOLIA INSURANCE COMPANY

IN RE: SWORN STATEMENT OF GREGG PATTERSON TAKEN  
SEPTEMBER 1, 2010



9 0-16 Gregg Patterson Sworn Statement  
DATE SENT TO WITNESS: September 15, 2010

10 TO: GREGG PATTERSON  
c/o DAVID YON, ESQUIRE  
11 RADEY, THOMAS, YON & CLARK  
301 South Bronough Street, Suite 200  
12 Tallahassee, Florida 32301

13 The referenced transcript has been completed and  
awaits reading and signing.  
14 If the reading and signing have not been completed  
prior to October 15, 2010, we shall conclude that you  
15 have waived the reading and signing of the transcript.  
The original of this deposition has been  
16 forwarded to the ordering party and your errata, once  
received, will be forwarded to all ordering parties as  
17 listed below.

18 Thank you.

19

20

21

22 Lisa A. Babcock, Court Reporter

23

24

CC: Jody Collins, Esq., and David Yon, Esq.

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FOR THE RECORD REPORTING TALLAHASSEE, FLORIDA 850.222.5491

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0-16 Gregg Patterson Sworn Statement

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FOR THE RECORD REPORTING TALLAHASSEE, FLORI DA 850. 222. 5491

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# Allianz Risk Transfer AG (Bermuda Branch)

A company incorporated in Switzerland

## APPENDIX B

Amount due ART Branch by Magnolia Insurance Company under the Quota Share Contract as at October 15, 2009, relating to the period up to September 30, 2009 following termination effective October 1, 2009

	Calculation Item	Total
A	Gross Net Written Premiums	97,599
J	UPR as at September 30, 2009	54,228
K	<b>Gross Earned Written Premium from June to September (A minus J)</b>	<b>43,371</b>
B	Written premiums ceded in respect of Inuring Contracts	60,096
L	Ceded UPR under inuring contracts as at September 30, 2009	40,064
M	<b>Earned premiums ceded in respect of Inuring Contracts (B minus L)</b>	<b>20,032</b>
N	<b>Net Earned Premium from June to September (K minus M)</b>	<b>23,339</b>
O	<b>Net Ceded Earned Premium from June to September (N multiplied by 50%)</b>	<b>11,669</b>
P	<b>Ceding Commission (K multiplied 50% multiplied by 15.4%)</b>	<b>3,347</b>
H	<b>Ceded Loss Payments (as before)</b>	<b>3,254</b>
Q	<b>Net payment from Magnolia to ART (O minus P minus H)</b>	<b>5,068</b>

### Notes:

1. The ceding commission of 15.4% is based on ART's understanding of the Ultimate Ceded Losses as calculated by George Dunlap in his estimation of 9/30/09 Loss Reserves



\*\*\*\*\*

IRL FINANCIAL GROUP INCORPORATED

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CREDIT AGREEMENT

dated as of February 27, 2008

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\$23,800,000

---

ALLIANZ RISK TRANSFER, INC.,  
as Administrative Agent

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EXHIBIT D -	Security Agreement
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EXHIBIT F -	Escrow Agreement
EXHIBIT G -	Personal Guaranty
EXHIBIT H -	Subordination Agreement
EXHIBIT I -	LLC Operating Agreement
EXHIBIT J -	Assignment Agreement
EXHIBIT K -	[Reserved]






EXHIBIT L -	Underwriting Guidelines
EXHIBIT M -	Reinsurance Program Guidelines



CREDIT AGREEMENT dated as of February 27, 2008 (this "Agreement"), by and among:

IRL FINANCIAL GROUP INCORPORATED, a corporation duly organized and validly existing under the laws of the State of Florida (the "Borrower");

Each of the lenders that is a signatory hereto identified under the caption "LENDERS" on the signature pages hereto or that, pursuant to Section 11.06(b) hereof, shall become a "Lender" hereunder (individually, a "Lender" and, collectively, the "Lenders") (it being understood that ALLIANZ RISK TRANSFER, INC., a New York corporation ("ART"), is the sole Lender hereunder as of the Effective Date (as defined below)); and

ALLIANZ RISK TRANSFER, INC., a New York corporation, as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Borrower has requested that ART make a term loan to the Borrower in the principal amount of \$23,800,000 on the Effective Date. ART is prepared to make such loan upon the terms and conditions hereof, and accordingly, the parties hereto agree as follows:

#### Section 1. Definitions and Accounting Matters.

##### 1.01 Certain Defined Terms.

As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Administrative Agent" shall have the meaning assigned to such term in the preamble of this Agreement.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in a form supplied by the Administrative Agent, with a copy of each completed Administrative Questionnaire delivered to the Borrower.

"Advance Date" shall have the meaning assigned to such term in Section 4.06 hereof.

"Advisory Services Agreement" shall have the meaning assigned to such term in Section 8.27.

"Affiliate" shall mean, as to any Person, any other Person that controls, is controlled by or is under common control with such Person. As used in this definition, "control" means the possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or ownership interests, by contract or otherwise).



"Agency Operating Expenses" shall mean the operating expenses of Magnolia Agency, LLC as reflected on the pro forma income statement attached as Schedule 8.20(b) to this Agreement, which shall exclude costs related to business process outsourcing such as claims administration or policy administration or other costs of third party administration paid by Magnolia Agency, LLC. Agency Operating Expenses shall also exclude independent agent commissions and the cost of the Asset Protection Agreement (as defined herein).

"Agreement" shall have the meaning assigned to such term in the preamble of this Agreement.

"AM Best" means A. M. Best Company, Inc.

"Amortization Table" shall mean the amortization table set forth on Schedule 3.01(b) hereto.

"Applicable Lending Office" shall mean, for each Lender, such office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office by which its Loans are to be made and maintained.

"Applicable Margin" shall mean 4.5% per annum.

"ART" shall have the meaning assigned to such term in the preamble of this Agreement.

"Asset Protection Agreement" shall mean an insurance policy as described in Section 8.09 herein.

"Bankruptcy Code" shall mean the United States Bankruptcy Code of 1978, as amended from time to time.

"Base Rate" shall mean, for any day, a rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

"Base Rate Loan" means a Loan which bears interest based on the Base Rate.

"Borrower" shall have the meaning assigned to such term in the preamble of this Agreement.

"Business Day" shall mean any day (a) on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to the borrowing of, a payment or prepayment of principal of or interest on a Eurodollar Loan or a notice by the Borrower with respect to any such borrowing, payment, prepayment, also on which dealings in Dollar deposits are carried out in the London interbank market.



"Change of Control" means any Person that owns less than 10% of the equity of the Borrower as of the Effective Date shall acquire or own more than 10% of the equity of the Borrower.

"Class B Membership Interest" means the Membership Interest in Magnolia Agency, LLC held by the Borrower and transferred to ART pursuant to the terms of a transfer agreement.

"Closing Fee" shall have the meaning assigned to such term in Section 2.08 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Commitment" shall mean, as to each Lender, the obligation of such Lender to make a Loan pursuant to Section 2.01 hereof in a principal amount equal to the amount set opposite such Lender's name on Annex 1 hereto under the caption "Commitment".

"Consolidated EBITDA" means Consolidated Net Income plus, to the extent deducted from revenues in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expense for taxes paid or accrued, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business minus, to the extent included in Consolidated Net Income, extraordinary gains realized other than in the ordinary course of business, all calculated for the Borrower and its Subsidiaries on a consolidated basis.

"Consolidated Interest Expense" means, with reference to any period, the interest expense (including without limitation interest expense under capital lease obligations that is treated as interest in accordance with GAAP of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Net Income" means, with reference to any period, the net income (or loss) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period in accordance with GAAP.

"Contracts" means contracts, agreements, arrangements, understandings, restrictive covenants, personal property leases, real property leases (including all rights to any and all improvements and fixtures thereon), memberships, warranties, registrations and similar documents, whether oral or written.

"Date of this Agreement" and "Date Hereof" shall mean February 27, 2008.

"Default" shall mean an Event of Default or an event that with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Dollars" and "\$" shall mean lawful money of the United States of America.



"Effective Date" shall mean the date on which all of the conditions set forth in Section 6.01 hereof shall have been satisfied or waived by the Lenders and the initial Loans shall be made.

"Escrow Account" shall mean an account of ART established by the Administrative Agent and the Escrow Agent into which the initial proceeds of the Loans will be deposited and held pursuant to the Escrow Agreement.

"Escrow Agent" shall mean ART in its capacity as the escrow agent with respect to the Escrow Agreement.

"Escrow Agreement" shall mean that certain Escrow Agreement dated as of the Date Hereof by and among the Borrower, the Administrative Agent and the Escrow Agent governing the Escrow Account on terms satisfactory to the Administrative Agent in its sole discretion.

"Eurodollar Base Rate" means, with respect to a Eurodollar Loan, the applicable British Bankers' Association LIBOR rate for deposits in Dollars as quoted on the applicable Bloomberg Reporting Service screen as of 11:00 a.m. (London time) two (2) Business Days prior to the first day such rate is applicable, and having a maturity of one month, *provided* that, if no such British Bankers' Association LIBOR rate is available to the Administrative Agent, the applicable Eurodollar Base Rate shall instead be the rate determined by the Administrative Agent to be the rate at which Citibank, N.A. or one of its affiliate banks offers to place deposits in Dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day such rate is applicable, in the approximate amount of the Lender's relevant Eurodollar Loan and having a maturity of one month.

"Eurodollar Loan" means a Loan which bears interest at the applicable Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Loan, the quotient of (a) the Eurodollar Base Rate determined by the Administrative Agent to be applicable to such Loan, divided by (b) one minus the Reserve Requirement (expressed as a decimal).

"Event of Default" shall have the meaning assigned to such term in Section 9 hereof.

"Excess Cash Flow" means, for any fiscal year, (a) Consolidated EBITDA for such fiscal year minus (b) the aggregate amount of taxes paid by the Borrower and its Subsidiaries during such fiscal year minus (c) the aggregate amount of all interest paid or payable in cash by the Borrower and its Subsidiaries during such fiscal year minus (d) the aggregate amount of all cash payments of the principal portion of the Loans during such fiscal year.

"Excluded Taxes" shall mean any present or future taxes, levies, imposts or other assessments or charges imposed on, or measured by, the overall net income of any Lender (or of



any Applicable Lending Office of such Lender) by the jurisdiction in which such Lender is organized or has its principal office (or in which such Applicable Lending Office is located).

"Expense Reimbursement" shall have the meaning assigned to such term in Section 2.10 hereof.

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the weighted average of quotations for such transactions received by the Administrative Agent on such Business Day from three federal funds brokers of recognized standing selected by the Administrative Agent.

"First Closing Fee" shall have the meaning assigned to such term in Section 2.08 hereof.

"First Payment Date" shall mean January 1, 2009; provided that if such date is not a Business Day, the First Payment Date shall be the next succeeding Business Day.

"FLOIR" means the Florida Office of Insurance Regulation or any successor governmental authority.

"Form W-8BEN" and "Form W-8ECI" shall have the respective meanings assigned to such terms in Section 5.02(a) hereof.

"GAAP" shall mean generally accepted accounting principles in effect from time to time in the United States of America.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services, (f) all Indebtedness of others secured by any lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances.

"Indemnified Tax" shall have the meaning assigned to such term in Section 5.02(c) hereof.



“Initial Funding” shall have the meaning assigned to such term in Section 2.01(b) hereof.

“Insurance Company Operating Expenses” shall mean the operating expenses of the Magnolia Insurance Company as reflected on the pro forma income statement attached as Schedule 8.20(c) to this Agreement which shall exclude reinsurance premiums paid by Magnolia Insurance Company, costs related to business process outsourcing such as claims administration or policy administration, losses paid on claims under insurance policies issued by Magnolia Insurance Company, and other costs of third party administration. Insurance Company Operating Expenses shall also exclude agency commissions or fees payable to Magnolia Agency, LLC, assumption commission paid to Citizens Property Insurance Corporation and premium taxes.

“Lender” or “Lenders” shall have the meaning assigned to such term in the preamble of this Agreement.

“Letter of Credit” shall have the meaning assigned to such term in Section 6.01(e) hereof.

“LLC Operating Agreement” shall mean that certain first amended and restated operating agreement by and among the Borrower, Magnolia Agency, LLC and ART, dated as of February 27, 2008.

“Loan Documents” means this Agreement, the Notes, the Pledge Agreement, the Escrow Agreement, the Subsidiary Guaranty, the Personal Guaranty, the Security Agreement and any other agreements, documents or instruments executed in connection therewith.

“Loans” shall mean the loans provided for by Section 2.01 hereof.

“Majority Lenders” shall mean (a) so long as there shall be only one Lender party hereto, such Lender and (b) otherwise, Lenders having more than 50% of the aggregate unpaid principal amount of the Loans.

“Material Adverse Effect” shall mean a material adverse effect on (a) the Property, business, operations, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole or individually, (b) the validity or enforceability of this Agreement or of the Notes and (c) the rights and remedies of the Lenders and the Administrative Agent hereunder and under the Notes.

“Material Contract” means any (a) Contract for the employment of any grandparent, parent, child, sibling, niece, nephew or any other familial relative of H. James Irl, whether such person is related to H. James Irl by blood, marriage or adoption as an employee, consultant or agent of the Borrower or any Subsidiary, (b) Contract for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary or any other Contract that when aggregated with all Contracts entered into by the Borrower and its Subsidiaries (excluding this Agreement, the other Loan Documents, the Advisory Services Agreement, the Processing Services Agreement and those Contracts for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary entered



into prior to April 30, 2008, in accordance with Schedule 2.01(b)), require expenditures by the Borrower and its Subsidiaries, taken as a whole, in excess of \$150,000 in any twelve (12) month period; provided, however, that any Contract entered into by the Borrower or any Subsidiary in the ordinary course of business that both (i) has a term of less than one (1) year and (ii) does not give rise to any liability in excess of \$20,000 shall not be considered a Material Contract for purposes of this clause (b), (c) Contract with any labor union or similar organization covering any employees of the Borrower or any Subsidiary, (d) Contract relating to any indebtedness or mortgage, pledge, conditional sales contract, security agreement, factoring agreement or other similar Contract, other than in the ordinary course of business or any Contract that will cause the Company's aggregate indebtedness (excluding indebtedness as a result of this Agreement or the other Loan Documents) to exceed \$150,000 in the aggregate at any time as a result of such Contract, (e) Contract for the sale, lease or license of any of the material assets of the Borrower or any Subsidiary or for the grant of any preferential right to purchase any material assets of the Borrower or any Subsidiary, (f) Contract prohibiting or restricting any of the Borrower or any Subsidiary from freely engaging in any business or activity or competing anywhere in the world, (g) Contracts to indemnify other Persons, (h) Contracts with any Members (as defined in the LLC Operating Agreement) or any Affiliate of any Member, (i) agency, management, managing general agency, producer, sub-producer or other production agreements with any insurers or other Persons, (j) any partnership or joint venture agreements, (k) Contracts relating to the purchase, lease or use of any real property and (l) any Contract which is material to the Borrower or any Subsidiary or the operation thereof. For the avoidance of doubt, the term Material Contract shall not include any policy of insurance issued by any Subsidiary.

"Material Indebtedness" means Indebtedness, or obligations in respect of one or more swap agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$100,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any swap agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such swap agreement were terminated at such time.

"Maturity Date" shall mean February 1, 2013; provided that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

"Maximum Initial Funding" shall mean an amount equal to \$405,000.

"Membership Interests" shall have the meaning assigned to such term in the LLC Operating Agreement.

"Notes" shall mean the promissory notes provided for by Section 2.05(b) hereof and all promissory notes delivered in substitution or exchange thereof, in each case as the same shall be modified and supplemented and in effect from time to time.

"Participant" shall have the meaning assigned to such term in Section 11.06(c) hereof.



"Payment Dates" shall mean the first calendar day of each month, commencing on the First Payment Date; provided that if any such date is not a Business Day, the Payment Date shall be the next succeeding Business Day.

"Payment Office" shall mean the office of the Administrative Agent designated for purposes of payments hereunder as set forth in Section 11.02 hereof.

"Payor" shall have the meaning assigned to such term in Section 4.06 hereof.

"Person" shall mean any individual, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"Post-Default Rate" shall mean a rate per annum equal to 7.5% plus the Base Rate as in effect from time to time.

"Prime Rate" shall mean for any day the U.S. prime rate as published for such Business Day (or, if such day is not a Business Day, the immediately preceding Business Day) in the Wall Street Journal under the caption "Money Rates, Prime Rate" (or, if prime rates are published for more than one jurisdiction, the one published for the United States), or if such rate is unavailable, the rate of interest per annum publicly announced from time to time by Citibank, N.A. as its prime rate in effect, at its principal office in New York, New York as its prime commercial lending rate; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Processing Services Agreement" means that certain processing services agreement by and between Magnolia Agency, LLC and CGI Technologies and Solutions, Inc., entered into as of February 26, 2008, with an effective date as of March 1, 2008.

"Property" shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Reference Banks" shall mean such financial institutions of recognized standing as the Administrative Agent shall select for this purpose.

"Regulations D, U and X" shall mean, respectively, Regulations D, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"Regulatory Change" shall mean, with respect to any Lender, any change after the Effective Date in Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks including such Lender of or under any Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.



"Required Payment" shall have the meaning assigned to such term in Section 4.06 hereof.

"Reserve Requirement" means the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on "Eurocurrency liabilities" (as defined in Regulation D).

"SEC" shall mean the United States Securities and Exchange Commission or any governmental authority succeeding to its principal functions.

"Second Closing Fee" shall have the meaning assigned to such term in Section 2.08 hereof.

"Standard & Poor's" means Standard and Poor's Ratings Group, a division of the McGraw Hill Companies, Inc.

"Structuring Fee" shall have the meaning assigned to such term in Section 2.09 hereof.

"Subsidiary" means any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the Borrower in the Borrower's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing 50% or more of the equity or 50% or more of the ordinary voting power or, in the case of a partnership, 50% or more of the general partnership interests are, as of such date, owned, controlled or held by the Borrower. For the avoidance of doubt, Magnolia Agency, LLC and Magnolia Insurance Company are each a Subsidiary of the Borrower.

"Tax Event" shall have the meaning assigned to such term in Section 5.02(b) hereof.

"Type" shall have the meaning assigned to such term in Section 1.03 hereof.

"U.S. Person" and "U.S. Taxes" shall have the respective meanings assigned to such terms in Section 5.02(a) hereof.

#### 1.02 Accounting Terms and Determinations.

Except as otherwise specified herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be furnished to the Administrative Agent or the Lenders hereunder shall be prepared, in accordance with GAAP.

#### 1.03 Types of Loans.

The "Type" of Loan refers to whether such Loan is a Base Rate Loan or a Eurodollar Loan, each of which constitutes a Type.



#### 1.04 Rules of Construction.

Unless the context otherwise clearly requires:

- (a) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined;
- (b) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms;
- (c) the words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation";
- (d) the word "will" shall be construed to have the same meaning and effect as the word "shall";
- (e) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein);
- (f) any reference herein to any Person, or to any Person in a specified capacity, shall be construed to include such Person's permitted successors and assigns or such Person's permitted successors in such capacity, as the case may be; and
- (g) all references in this instrument to designated "Schedules," "Exhibits," "Sections," "clauses" and other subdivisions are to the designated Schedules, Exhibits, Sections, clauses and other subdivisions of this Agreement as originally executed, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Schedules, Exhibits, Sections, clauses or other subdivisions.

#### Section 2. Loan.

##### 2.01 Loan.

- (a) Each Lender severally agrees, on the terms and conditions of this Agreement, to make a term loan to the Borrower in Dollars on the Effective Date in a principal amount equal to the amount of the Commitment of such Lender.
- (b) The Lender agrees, on the terms and conditions set forth in this Agreement and in accordance with this Section 2.01(b), to make a partial disbursement of the Loan in an amount not to exceed \$405,000 to the Borrower (the "Initial Funding") to be used by the Borrower for the start-up costs and expenses identified on Schedule 2.01(b) hereof, which Initial Funding shall be made available to the Borrower in monthly installments in the amounts and on the dates specified below:



(i) on February 27, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), an amount equal to \$170,000;

(ii) on April 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), if Magnolia Insurance Company (A) has obtained its (x) final certificate of authority from the FLOIR, (y) final approval of the rates and forms for insurance policies from the FLOIR and (z) final consent to assume not less than 60,000 direct and assumed insurance policies from the FLOIR by March 28, 2008, an amount equal to \$110,000 or (B) has failed to obtain any of (x), (y) or (z) above, an amount equal to \$60,000; and

(iii) on May 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), if as of such date, (A) the Borrower has fully satisfied the conditions specified in the Escrow Agreement for the release of the Loan proceeds held in the Escrow Account, an amount equal to \$125,000 or (B) the Borrower has failed to fully satisfy the conditions specified in the Escrow Agreement for the release of the Loan proceeds held in the Escrow Account, then no amount shall be disbursed on such date or any date thereafter.

The Borrower agrees that it shall not, without the prior written consent of the Administrative Agent, use any amount of the proceeds from the Initial Funding other than for the start-up costs and expenses identified on Schedule 2.01(b) hereof.

#### 2.02 Borrowing.

(a) The Lender shall make available the amount of each installment of the Initial Funding by remitting such amount to an account of the Borrower designated by it for such purpose by notice to the Administrative Agent as provided in Section 4.05 hereof, not later than 4:00 p.m. (New York City time) on the date specified in Section 2.01(b) for the payment of such installment of the Initial Funding.

(b) The Borrower shall give the Administrative Agent notice of the borrowing to be made as of the Effective Date hereunder as provided in Section 4.05 hereof. Not later than 4:00 p.m. (New York City time) on the date specified in such notice, each Lender shall make available an amount equal to the sum of (i) the Commitment minus (ii) the Maximum Initial Funding minus (iii) the First Closing Fee minus (iv) the Structuring Fee minus (v) the Expense Reimbursement, by remitting such amount by wire transfer to the Escrow Agent for deposit in the Escrow Account pursuant to the Escrow Agreement.

#### 2.03 Termination of Commitment.

(a) The Commitments shall automatically terminate upon the funding of the Loan(s) on the Effective Date.

(b) The Borrower shall have the right at any time prior to the making of the Loan(s) to terminate or reduce the Commitments; provided that (x) the Borrower shall give notice of each such termination or reduction as provided in Section 4.05 hereof and (y) each



partial reduction shall be in an aggregate amount at least equal to \$1,000,000 (or a larger multiple of \$1,000,000).

2.04 Remedies Independent.

Each of the amounts payable by the Borrower at any time hereunder and under each of the Notes to each Lender shall be a separate and independent debt and each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Lender or the Administrative Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

2.05 Evidence of Debt.

(a) Each Lender shall maintain, in accordance with its usual practice, records evidencing the indebtedness of the Borrower to such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder. The Administrative Agent shall maintain records in which it shall record (i) the amount of each Loan made hereunder, the Type thereof, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for account of the Lenders and each Lender's share thereof and such records shall constitute presumptive evidence, absent manifest error, of the accuracy of the information contained therein; provided that the failure of any Lender or the Administrative Agent to maintain such records or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(b) Any Lender may request that the Loan made by such Lender be evidenced by a single promissory note of the Borrower. In such event, such Lender shall submit a written request to the Borrower, together with written evidence of the consent of the Administrative Agent to such request, and Borrower shall prepare, execute and deliver to such Lender, a Note payable to such Lender substantially in the form of Exhibit A hereto.

(c) The date, amount, Type, interest rate of the Loan made by each Lender to the Borrower, and each payment made on account of the principal thereof, shall be recorded by such Lender on its books and, prior to any transfer of the Note evidencing the Loan held by it, endorsed by such Lender on the schedule attached to such Note or any continuation thereof; provided that the failure of such Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing hereunder or under such Note in respect of the Loan to be evidenced by such Note.

(d) No Lender shall be entitled to have its Note (if any) subdivided, by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all or any portion of such Lender's Loan and Note pursuant to Section 11.06(b) hereof.



2.06 Optional Prepayments.

Subject to Section 4.04 hereof, the Borrower shall have the right to prepay Loans, at any time or from time to time, provided that (a) the Borrower shall give the Administrative Agent notice of each such prepayment as provided in Section 4.05 hereof (and, upon the date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder) and (b) once prepaid, Loans may not be reborrowed hereunder.

2.07 Execution and Delivery.

The execution and delivery of this Agreement and all other Loan Documents by the parties hereto shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

2.08 Closing Fee.

On the Effective Date, the Borrower shall pay to the Administrative Agent a fee equal to the amount of \$1,595,000 (the "First Closing Fee") from the proceeds of the Loan simultaneously with the funding. The Borrower shall also pay to the Administrative Agent a fee equal to the amount of \$405,000 (the "Second Closing Fee" and, together with the First Closing Fee, the "Closing Fee") not later than the earlier to occur of (i) June 30, 2008 (or if such date is not a Business Day, on the next succeeding Business Day) and (ii) the day the Loan proceeds held in the Escrow Account are returned to the Administrative Agent following the Borrower's failure to satisfy the conditions specified in the Escrow Agreement for the release of such amounts. The amount of the Second Closing Fee shall be reduced by an amount equal to the difference of the (i) Maximum Initial Funding minus (ii) the amount of the Initial Funding actually made available to the Borrower pursuant to Sections 2.01(b) and 2.02(a).

2.09 Structuring Fee.

On the Effective Date, the Borrower shall pay to the Administrative Agent a structuring fee equal to the amount of \$1,000,000 (the "Structuring Fee") from the proceeds of the Loan simultaneously with the funding.

2.10 Expense Reimbursement.

On the Effective Date, the Borrower shall reimburse the Administrative Agent for its estimated expenses in connection with this Agreement and the transactions contemplated hereby in an amount equal to \$800,000 (the "Expense Reimbursement") from the proceeds of the Loan simultaneously with the funding.

Section 3. Payments of Principal and Interest.

3.01 Repayment of Loans.

(a) The Borrower hereby promises to pay to the Administrative Agent for account of each Lender the entire outstanding principal amount of such Lender's Loan on or before the Maturity Date. Loans (including any portion of such Loans) repaid hereunder may not



be reborrowed. Each Loan shall mature and shall be due and payable on or before the Maturity Date.

(b) The Borrower shall repay on each Payment Date an amount of principal of the Loan equal to the amount opposite such Payment Date on the Amortization Table attached hereto as Schedule 3.01(b). To the extent not previously repaid, all unpaid principal of the Loan shall be paid in full by the Borrower to the Administrative Agent on the Maturity Date.

### 3.02 Interest.

(a) The Borrower hereby promises to pay to the Administrative Agent for account of each Lender interest on the unpaid principal amount of the Loan made by such Lender for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full, at the following rates per annum (a) while the proceeds of the Loan (other than the amount of the Initial Funding) are maintained in the Escrow Account, at the Eurodollar Rate and (b) after the proceeds of the Loan (other than the amount of the Initial Funding) have been disbursed from the Escrow Account as provided in Section 6.03, at the Base Rate (as in effect from time to time) plus the Applicable Margin.

(b) Interest shall accrue as set forth in Section 3.02(a) and shall be capitalized and added to the principal of the outstanding Loan on the first (1<sup>st</sup>) day of each month beginning on April 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day). Accrued and unpaid interest shall be paid by the Borrower to the Administrative Agent on each Payment Date, beginning on the First Payment Date. For the avoidance of doubt, the amount of interest due and payable on the First Payment Date shall include all capitalized and accrued and unpaid interest as of such date.

(c) Notwithstanding the foregoing, the Borrower hereby promises to pay to the Administrative Agent for account of each Lender after the occurrence of an Event of Default which has not been cured or waived, interest at the Post-Default Rate on any principal of any Loan and on any other amount payable by the Borrower hereunder or under the Notes to or for account of such Lender. Accrued interest on each Loan shall be payable monthly on the Payment Dates and upon the payment or prepayment thereof or the conversion of the Loan to a Loan of another Type, except that interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to the Borrower.

### 3.03 Place of Payment.

All amounts of principal and interest due and payable by the Borrower pursuant to this Agreement or any Note shall be paid by the Borrower to the Administrative Agent in the City and County of New York, New York, unless otherwise directed by a Lender in writing.



Section 4. Payments; Pro Rata Treatment; Computations; Etc.

4.01 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by the Borrower under this Agreement and the Notes, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to an account of the Administrative Agent most recently designated by it for such purposes by notice to the Borrower, not later than 1:00 p.m. (New York City time) on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) The Borrower shall, at the time of making each payment under this Agreement or any Note for the account of any Lender, specify to the Administrative Agent (which shall so notify the intended recipient(s) thereof) the Loans or other amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that the Borrower fails to so specify, or if an Event of Default has occurred and has not been cured or waived, the Administrative Agent may distribute such payment to the Lenders for application in such manner as the Majority Lenders, subject to Section 4.02 hereof, may determine to be appropriate).

(c) Each payment received by the Administrative Agent under this Agreement or any Note for the account of any Lender shall be paid by the Administrative Agent promptly to such Lender, in immediately available funds, for account of such Lender's Applicable Lending Office for the Loan or other obligation in respect of which such payment is made.

(d) Except as otherwise provided herein, if the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension.

4.02 Pro Rata Treatment.

Except to the extent otherwise provided herein: (a) the borrowing of Loans from the Lenders under Section 2.01 hereof shall be made from the Lenders and each termination or reduction of the amount of the Commitments under Section 2.03(b) hereof shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitments; (b) each payment or prepayment of principal of Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loans held by them; and (c) each payment of interest on Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

4.03 Computations.

Interest shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable.



4.04 Minimum Amounts.

Each partial prepayment of principal of Loans (excluding any payments which may be required under Sections 4.08 or 8.09 hereof) shall be in an aggregate amount at least equal to \$250,000 or a larger multiple of \$250,000 provided the Borrower makes no more than four (4) such prepayments of the Loans in any one fiscal year.

4.05 Certain Notices.

Notices by the Borrower to the Administrative Agent of terminations or reductions of the Commitments, and notices by the Borrower of the borrowing to be made on the Effective Date, and optional prepayments of Loans shall be irrevocable and shall be effective only if received by the Administrative Agent not later than 11:00 a.m. New York City time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing or prepayment specified below:

<u>Notice</u>	<u>Number of Business Days Prior</u>
Termination or reduction of Commitments	2
Borrowing or prepayment of Base Rate Loans	same day

Each such notice of termination or reduction shall specify the amount of the Commitments to be terminated or reduced. Each such notice of borrowing or optional prepayment shall specify the Loans to be borrowed or prepaid and the amount (subject to Section 4.04 hereof) of each Loan to be borrowed or prepaid and the date of borrowing or optional prepayment (which shall be a Business Day). The Administrative Agent shall promptly notify the Lenders of the contents of each such notice.

4.06 Non-Receipt of Funds by the Administrative Agent.

Unless the Administrative Agent shall have been notified by a Lender or the Borrower (each a "Payor", as appropriate) prior to the date on which the Payor is to make payment to the Administrative Agent of the proceeds of a Loan (in the case of a Lender) to be made by such Lender hereunder or a payment to the Administrative Agent for account of one or more of the Lenders (in the case of the Borrower) hereunder (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date (the "Advance Date"); and, if the Payor has not in fact made the Required Payment to the Administrative Agent, the recipient(s) of such payment shall, on demand, repay to the Administrative Agent the amount so made available together with interest thereon in respect of



each day during the period commencing on the date demand for return of such amount was so made by the Administrative Agent until the date the Administrative Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid, in addition to interest thereon in respect of each day during the period commencing on the Advance Date until, but not including, the date demand for return of such amount was so made, provided that if neither the recipient(s) nor the Payor shall return the Required Payment to the Administrative Agent within three Business Days of the date of demand therefor, then, retroactively to the date of demand therefor, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows:

(i) if the Required Payment shall represent a payment to be made by the Borrower to the Lenders, the Borrower shall be obligated retroactively to the date of demand therefor to pay interest in respect of the Required Payment at the Post-Default Rate (and, in case the recipient(s) shall return the Required Payment to the Administrative Agent, this shall not limit the obligation of the Borrower under Section 3.02 hereof to pay interest to such recipient(s) at the Post-Default Rate in respect of the Required Payment); and

(ii) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to the Borrower, the Payor shall be obligated retroactively to the date of demand therefor to pay interest in respect of the Required Payment at the rate of interest had such a Required Payment been a payment subject to Section 3.02 hereof or, beginning three Business Days after demand, the Post-Default Rate (and, in case the Borrower shall return the Required Payment to the Administrative Agent, this shall not limit any claim the Borrower may have against the Payor in respect of the Required Payment).

#### 4.07 Sharing of Payments, Etc.

(a) The Borrower agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Lender may otherwise have, each Lender shall be entitled, at its option, to offset balances held by it for account of the Borrower at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loans or any other amount payable to such Lender hereunder, that is not paid when due (regardless of whether such balances are then due to the Borrower), in which case it shall promptly notify the Borrower and the Administrative Agent thereof, provided that such Lender's failure to give such notice shall not affect the validity thereof.

(b) If any Lender shall obtain from the Borrower payment of any principal of or interest on any Loan owing to it or payment of any other amount under this Agreement through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Administrative Agent as provided herein), and, as a result of such payment, such Lender shall have received a greater percentage of the principal of or interest on the Loans or such other amounts then due hereunder by the Borrower to such Lender than the percentage received by any other Lender, it shall promptly purchase from such other Lenders



participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans or such other amounts, respectively, owing to such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal of and/or interest on the Loans or such other amounts, respectively, owing to each of the Lenders. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) The Borrower agrees that any Lender so purchasing such a participation (or direct interest) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

#### 4.08 Mandatory Prepayment of Excess Cash Flow.

Following the end of each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 2008, the Borrower shall prepay Loans in aggregate amount equal to 100% of Excess Cash Flow of the Borrower for such fiscal year. Each prepayment pursuant to this paragraph shall be made not later than the earlier to occur of the tenth (10<sup>th</sup>) day after the date on which financial statements are delivered pursuant to Section 8.01 with respect to the fiscal year for which Excess Cash Flow of the Borrower is being calculated and the ninetieth (90<sup>th</sup>) day after the end of such fiscal year.

### Section 5. Yield Protection, Etc.

#### 5.01 Additional Costs.

(a) Without limiting the effect of the foregoing provisions of this Section 5.01 (but without duplication of any other requirement in this Section 5), if any Lender determines that any Regulatory Change regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lenders to a level below that which such Lender or such Lender's holding company could have achieved but for such Regulatory Change (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the



Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(b) Each Lender shall notify the Borrower in writing and by provision of a certificate, as set forth below, of any event occurring after the Date of this Agreement entitling such Lender to compensation under this Section 5.01 as promptly as practicable and the Borrower shall pay such Lender the amount shown as due on any such certificate within fourteen (14) days after receipt thereof; provided that if any Lender fails to give such notice after it obtains actual knowledge of such an event, such Lender shall, with respect to compensation payable pursuant to this Section 5.01 in respect of any costs resulting from such event, only be entitled to payment under this Section 5.01 for costs incurred from and after the date 270 days prior to the date that such Lender does give such notice. Any Lender so notifying the Borrower shall, at the Borrower's request, take such steps as may be available to it and acceptable to the Borrower to mitigate the effects of such event (which shall include efforts to book the Loan held by such Lender at another lending office of such Lender); provided that such Lender shall be under no obligation to take any step that, in its good faith judgment, would result in its incurring any additional U.S. Taxes or other additional costs in performing its obligations hereunder (unless the Borrower has agreed to reimburse it for the same) or would, in the good faith judgment of such Lender, be materially disadvantageous to such Lender or materially inconsistent with such Lender's internal policies. Anything herein to the contrary notwithstanding, no Lender shall have the right to demand compensation for under paragraph (a) of this Section 5.01, unless demand thereunder is made in accordance with a policy of such Lender being applied in good faith to all borrowers similarly situated. Each Lender will furnish to the Borrower a certificate setting forth the basis and amount of each request by such Lender for compensation under paragraph (a) of this Section 5.01 and computations made by such Lender to determine such amount. Determinations and allocations by any Lender for purposes of this Section 5.01 of the effect of the effect of capital maintained pursuant to paragraph (a) of this Section 5.01, on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive, provided that such determinations and allocations are made in good faith on a reasonable basis, including any reasonable averaging and attribution methods.

#### 5.02 Withholding.

(a) To the extent permitted by law and except to the extent provided in paragraph (b) below, all payments under this Agreement and under the Notes (including payments of principal and interest) shall be payable to each Lender that is not a U.S. Person free and clear of any and all present and future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein other than Excluded Taxes (collectively, the "U.S. Taxes"). If any U.S. Taxes are required to be withheld or deducted from any amount payable under this Agreement to any such Lender, then the amount payable under this Agreement shall be increased to the amount which, after deduction from such increased amount of all U.S. Taxes required to be withheld or deducted therefrom, will yield to such Lender the amount stated to be payable under this Agreement; provided that the foregoing obligation to pay such additional amounts shall not apply:



(i) to any payment to such Lender hereunder unless such Lender is, on the date hereof (or on the date it becomes a Lender as provided in Section 11.06(b) hereof) and on the date of any change in the Applicable Lending Office of such Lender, either entitled to submit a Form W-8BEN (relating to such Lender and entitling it to a complete exemption from withholding on all interest to be received by it hereunder in respect of the Loans) or Form W-8ECI (relating to all interest to be received by such Lender hereunder in respect of the Loans), or

(ii) to any U.S. Taxes imposed solely by reason of the failure by such Lender to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such Lender if such compliance is required by statute or regulation of the United States of America as a precondition to relief or exemption from such U.S. Taxes.

For the purposes of this Section 5.02, (x) "Form W-8BEN" shall mean Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) of the Department of the Treasury of the United States of America, (y) "Form W-8ECI" shall mean Form W-8ECI (Certificate of Foreign Person's Claim for Exemption from Withholding on Income Effectively Connected with the Conduct of a Trade or Business in the United States) of the Department of the Treasury of the United States of America (or in relation to either such Form such successor and related forms as may from time to time be adopted by the relevant taxing authorities of the United States of America to document a claim to which such Form relates) and (z) "U.S. Person" shall mean a citizen, national or resident of the United States of America, a corporation, partnership, limited liability company or other entity created or organized in or under any laws of the United States of America, a trust subject to the control of one or more U.S. Persons and the primary supervision of a court within the United States, or any estate or trust that is subject to Federal income taxation regardless of the source of its income.

(b) At least five Business Days prior to the first date on which any principal of or interest on any Loan or any fees are payable hereunder to or for the account of any Lender that is not a U.S. Person, such Lender that is not a U.S. Person shall deliver to the Borrower and the Administrative Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of U.S. Taxes. Each Lender which so delivers a Form W-8BEN or W-8ECI further undertakes to deliver to the Borrower and the Administrative Agent two additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, any such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Administrative Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any U.S. Taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it ("Tax Event") and such Lender advises the Borrower and the Administrative Agent that it is not capable of receiving payments without any deduction or



withholding of U.S. Taxes. If any Lender that is not a U.S. Person fails to comply with the provisions of this Section, the Borrower, may, as required by law, deduct and withhold Federal income tax payments from payments to such Lender under this Agreement and, unless a Tax Event shall have occurred, no payments will be due and owing by the Borrower to such Lender under this Section 5.02 in respect of such deduction and withholding.

(c) If any Lender has received or been granted a credit against or relief or remission for, or refund or repayment of, any U.S. Taxes paid or payable by it in respect of or which takes account of any U.S. Taxes with respect to which an additional amount was paid by the Borrower (an "Indemnified Tax") or other matter giving rise to such payment, such Lender shall, to the extent it determines in good faith that it can do so without prejudice to the retention of the amount of such credit, relief, remission, refund or repayment, pay to the Borrower such amount as such Lender shall determine in good faith to be attributable to such Indemnified Tax or other matter and which will leave such Lender (after such payment to the Borrower) in a position no better or worse that it would have been in had the Borrower not been required to deduct or withhold such Indemnified Tax or such other matter had not arisen; provided that the Borrower upon the written request of such Lender, shall return to such Lender the amount of any such refund, repayment or benefit of credit in the event that such Lender is required to repay such amount to the relevant taxing or other authority.

## Section 6. Conditions Precedent.

### 6.01 Conditions to Effectiveness.

The effectiveness of this Agreement is subject to the conditions precedent that the Administrative Agent shall have received the following documents, payments and other items (with sufficient copies, as applicable, except in the case of the Notes, for each Lender), each of which shall be satisfactory to the Administrative Agent (and to the extent specified below, to each Lender) in form and substance:

(a) Corporate Documents. (i) Certified copies of the certificate or articles of incorporation or organization and charter (or equivalent documents) and bylaws, operating agreements or other operational documents of the Borrower and each Subsidiary and of all corporate or limited liability company authority, as applicable, for the Borrower and each Subsidiary (including, without limitation, board of director resolutions and evidence of the incumbency and specimen signatures of officers) with respect to the execution, delivery and performance of this Agreement and the other Loan Documents and the Loans hereunder (and the Administrative Agent and each Lender may conclusively rely on such certificate until it receives notice in writing from the Borrower to the contrary) and (ii) a certificate from the Secretary of State of the State of Florida dated a date reasonably close to the Date Hereof as to the good standing of the Borrower and each Subsidiary.

(b) Opinion of Counsel to the Borrower. An opinion of outside counsel to the Borrower and each Subsidiary, substantially in the form of Exhibit B hereto and covering such other matters as the Administrative Agent or any Lender may reasonably request



(and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(c) Notes. If requested by any Lender pursuant to Section 2.05 hereof, the Note for such Lender, duly completed and executed.

(d) Sample Portfolio. Evidence satisfactory to the Administrative Agent of a sample portfolio for Magnolia Insurance Company of not less than 60,000 direct and assumed insurance policies, all of which conform to underwriting guidelines satisfactory to the Administrative Agent in its sole discretion.

(e) Letter of Credit. The Borrower shall have obtained a clean, irrevocable letter of credit listing the Administrative Agent as beneficiary in the face amount of not less than \$2,200,000 from an issuing bank acceptable to the Administrative Agent in its sole discretion under which drawings are available to repay the Loans (the "Letter of Credit").

(f) Pledge Agreement. The Borrower shall have executed a Pledge Agreement pledging its equity in Magnolia Insurance Company and Magnolia Agency, LLC as security for the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is set forth as Exhibit C hereto.

(g) Security Agreement. The Borrower and Magnolia Agency, LLC shall have executed a Security Agreement granting a security interest in the assets of each, including, without limitation, the rights of the Borrower and Magnolia Agency, LLC to payments under any reinsurance agreements, any agency commissions or fees, payments on any hedging agreements or swaps and any other general intangibles a form of which is attached hereto as Exhibit D.

(h) Subsidiary Guaranty. Magnolia Agency, LLC shall have executed a Guaranty with respect to payment by the Borrower of the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is attached hereto as Exhibit E.

(i) Escrow Agreement. The Administrative Agent, the Borrower and the Escrow Agent shall have executed the Escrow Agreement a form of which is attached as Exhibit F.

(j) Borrower Payments. The Borrower shall pay to the Administrative Agent the (i) First Closing Fee in the amount of \$1,595,000, (ii) Structuring Fee in the amount of \$1,000,000 and (iii) Expense Reimbursement in the amount of \$800,000, in each case, from the proceeds of the Loan simultaneously with the funding.

(k) Pro Forma Financial Statements. The Borrower shall have delivered to the Administrative Agent pro forma financial statements and a budget for the five-year period following the Effective Date which shall be satisfactory to the Administrative Agent in its sole discretion.



(l) Personal Guaranty. H. James Irl shall have executed a Guaranty with respect to payment by the Borrower of the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is attached hereto as Exhibit G.

(m) Subordination Agreement. The account party to the letter of credit provided as required by Section 6.01(e) shall have executed a Subordination Agreement a form of which is attached as Exhibit H.

(n) Benfield Letter. A letter to the Borrower and the Administrative Agent from Benfield that Benfield believes a reinsurance program and an Asset Protection Agreement satisfactory to the Borrower and the Administrative Agent can be placed for the first three years within the Borrower's budget.

(o) LLC Operating Agreement. ART, the Borrower and Magnolia Agency, LLC shall have executed the LLC Operating Agreement in the form attached hereto as Exhibit I.

(p) Magnolia Agency Member Interest. The Borrower shall have entered into a transfer agreement satisfactory to the Administrative Agent and transferred to ART the Class B Membership Interest of Magnolia Agency, LLC.

(q) Opinion of Florida Counsel to Administrative Agent. An opinion of outside Florida counsel to the Administrative Agent, Shutts & Bowen LLP with respect to insurance holding company issues and other issues satisfactory to the Administrative Agent.

#### 6.02 Loans.

The obligation of each Lender to make a Loan to the Borrower on the Effective Date is subject to the further conditions precedent that, both immediately prior to the making of such Loan and also after giving effect thereto and to the intended use thereof:

(a) no Default shall have occurred; and

(b) the representations and warranties made by the Borrower in Section 7 hereof shall be true and correct on and as of the date of the making of such Loan with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date).

The notice of borrowing pursuant to Section 2.02 hereof shall constitute a certification by the Borrower to the effect set forth in the preceding sentence (both as of the date of such notice and, unless the Borrower otherwise notifies the Administrative Agent prior thereto, as of the Effective Date).



### 6.03 Escrow.

The Loans made by the Lenders to the Borrower shall be remitted as provided in Section 2.02 by wire transfer to the Escrow Agent for deposit in the Escrow Account pursuant to the Escrow Agreement. Upon satisfaction of the conditions set forth in the Escrow Agreement, which shall include, without limitation, (i) evidence satisfactory to the Administrative Agent of final approval and issuance of a certificate of authority for Magnolia Insurance Company from the FLOIR granting Magnolia Insurance Company the authority to operate its business as contemplated in the Plan of Operations submitted to the FLOIR, including the authority to write homeowners multi-peril insurance policies and contracts in the State of Florida, (ii) evidence satisfactory to the Administrative Agent of final approval of the rates to be charged and forms to be used for insurance policies to be issued by Magnolia Insurance Company from the FLOIR, (iii) evidence satisfactory to the Administrative Agent of final consent for Magnolia Insurance Company to assume not less than 60,000 insurance policies from Citizens Property Insurance Corporation from the FLOIR, (iv) evidence satisfactory to the Administrative Agent of the issuance of an agency license to Magnolia Agency, LLC from the FLOIR granting Magnolia Agency, LLC the authority to operate as managing general agent for Magnolia Insurance Company, (v) delivery to the Administrative Agent of a firm and binding commitment for the reinsurance program for Magnolia Insurance Company from carriers and on terms satisfactory to the Administrative Agent in its sole discretion, (vi) delivery to the Administrative Agent of one or more firm and binding commitments to issue one or more Asset Protection Agreements for the sole benefit of the Lenders with a third party or third parties and on terms satisfactory to the Administrative Agent in its sole discretion, (vii) delivery to the Administrative Agent of an executed Advisory Services Agreement on terms satisfactory to the Administrative Agent, (viii) delivery to the Administrative of a key man life insurance policy covering H. James Irl in the amount of \$20,000,000 on terms satisfactory to the Administrative Agent, (ix) delivery of evidence satisfactory to the Administrative Agent that Magnolia Insurance Company's execution and delivery of, and performance under, the managing general agency agreement by and between Magnolia Agency, LLC and Magnolia Insurance Company dated as of February 26, 2008, has been duly and validly authorized by all requisite corporate and other action and (x) information sufficient to enable the Administrative Agent to satisfy its internal "Know Your Customer" requirements as mandated by the USA Patriot Act, \$19,700,000 of the Loan proceeds held in the Escrow Account shall be transferred to a trust account maintained with Northern Trust, N.A., subject to regulatory requirements, to provide statutory capital for Magnolia Insurance Company and \$300,000 of the Loan proceeds held in the Escrow Account shall be transferred to the Florida Division of Treasury, Bureau of Collateral Management to be held for the benefit of Magnolia Insurance Company in accordance with Section 624.411 and Chapter 625, Part III of the Florida Statutes.

## Section 7. Representations and Warranties.

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

### 7.01 Existence.

The Borrower and each of its Subsidiaries has done or caused to be done all things necessary to preserve and keep in full force and effect its corporate or limited liability company existence, as



applicable, rights (charter and statutory) and franchises, other than such right or franchise whose preservation, in the determination of the Borrower, is no longer desirable in the conduct of the business of the Borrower.

7.02 Litigation.

There are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Borrower) threatened against the Borrower or any Subsidiary except as disclosed in Schedule 7.02 hereto.

7.03 No Breach.

None of the execution and delivery of this Agreement, the other Loan Documents or the Notes, the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of the Borrower or any Subsidiary, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Borrower or any Subsidiary is a party or by which any of them or any of their Property is bound or to which any of them is subject, or constitute a default under any such agreement or instrument.

7.04 Action.

The Borrower and each of its Subsidiaries has all necessary corporate or limited liability company power, authority and legal right to execute, deliver and perform its obligations under this Agreement, the other Loan Documents and the Notes; the execution, delivery and performance by the Borrower and each Subsidiary of this Agreement, the other Loan Documents and the Notes, and the borrowing by the Borrower hereunder, have been duly authorized by all necessary corporate or limited liability company action on their respective parts (including, without limitation, any required shareholder approvals); and this Agreement and the other Loan Documents have been duly and validly executed and delivered by the Borrower and each of its Subsidiaries and constitute, and each of the Notes when executed and delivered by the Borrower for value will constitute, the legal, valid and binding obligation, enforceable against the Borrower or such Subsidiary, as applicable, in accordance with its terms, except as such enforceability may be (a) limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

7.05 Approvals.

No authorization, approval or consent of, and no filing or registration with, any governmental or regulatory authority or agency is required on the part of the Borrower for the execution, delivery or performance by the Borrower of this Agreement, the other Loan Documents or the Notes or for the borrowing by the Borrower under this Agreement, except that to the extent that the Borrower or any Subsidiary is required to satisfy any of its obligations under this Agreement, the Loan Documents or the Notes through the sale of insurance assets, such sale may require the consent of regulatory authorities.



7.06 Investment Company Act.

Neither the Borrower nor any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended, required to register thereunder. None of the execution and delivery of this Agreement and the Notes, the consummation of the transactions herein and therein contemplated or compliance with the terms and provisions thereof will violate the Investment Company Act of 1940, as amended.

7.07 Compliance with Applicable Laws.

The Borrower and its Subsidiaries are in compliance with the requirements of all applicable laws, rules, regulations and orders of all governmental authorities. Neither the Borrower nor any Subsidiary is in default under any agreement or instrument to which the Borrower or such Subsidiary is a party or by which it or any of its properties or assets is bound. No Default or Event of Default has occurred and is continuing.

7.08 Regulation U/Margin Stock.

Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

Section 8. Covenants of the Borrower.

The Borrower covenants and agrees with the Lenders and the Administrative Agent that, so long as any Commitment or Loan is outstanding and until payment in full of all amounts payable by the Borrower hereunder:

8.01 Financial Statements, Reports Etc.

The Borrower shall deliver to the Administrative Agent (and the Administrative Agent will promptly deliver to the Lenders):

- (a) as soon as available, and in any event within 45 days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Borrower, consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding periods in the preceding fiscal year (except that, in the case of such balance sheet, such comparison shall be to the last day of the prior fiscal year), accompanied by a certificate of a senior financial officer of the Borrower, which certificate shall state that said consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Borrower and its Subsidiaries, in conformity with GAAP, as of the end of, and for, such period (subject to normal year-end audit adjustments);



(b) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, consolidated statements of income, capital funds and cash flows of the Borrower and its Subsidiaries for such fiscal year and the related consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year, setting forth in each case in comparative form the corresponding consolidated figures as of the end of and for the preceding fiscal year, and accompanied by an opinion thereon of Kaufman Rossin & Co., P.A., 2699 South Bayshore Drive, Miami, FL 33133; Telephone: 305-858-5600, Facsimile: 305-856-3284, or other independent certified public accountants of recognized national standing or otherwise acceptable to the Administrative Agent, which opinion shall state that said consolidated financial statements present fairly, in all material respects, the consolidated financial condition and results of operations of the Borrower and its Subsidiaries as of the end of, and for, such fiscal year in conformity with generally accepted accounting principles;

(c) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all proxy statements so mailed;

(d) as soon as available and in any event within 5 Business Days after the end of each month, copies of the monthly report from CGI;

(e) as soon as possible after the Borrower learns of any of the following: the commencement of any litigation against the Borrower or any of its Subsidiaries, any default by a counterparty to any reinsurance agreement with Magnolia Insurance Company or any downgrade of any such counterparty; or any notice of any regulatory proceeding by any governmental authority or any filing with or by the FLOIR or any other governmental authority involving the Borrower or any of its Subsidiaries; and

(f) promptly after the Borrower knows that any Default has occurred, a notice of such Default describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that the Borrower has taken or proposes to take with respect thereto.

#### 8.02 Existence.

Subject to Section 8.05 hereof, each of the Borrower and its Subsidiaries will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate or limited liability company existence, as applicable, rights (charter and statutory) and franchises.

#### 8.03 Payment of Taxes and Other Claims.

The Borrower will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all taxes, assessments and governmental charges levied or imposed upon the Borrower or any Subsidiary of the Borrower or upon the income, profits or property of the Borrower or any Subsidiary of the Borrower, and (b) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Borrower or any Subsidiary of the Borrower; provided that the Borrower shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.



8.04 Payment of Second Closing Fee.

The Borrower will pay the Second Closing Fee to the Administrative Agent not later than the earlier of (i) June 30, 2008 (or if such date is not a Business Day, on the next succeeding Business Day) and (ii) the day the Loan proceeds held in the Escrow Account are returned to the Administrative Agent following the Borrower's failure to satisfy the conditions specified in the Escrow Agreement for the release of such amounts.

8.05 Limitation on Liens.

The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, create, issue, assume, incur or guarantee any indebtedness for money borrowed which is secured by a mortgage, pledge, lien, security interest or other encumbrance of any nature.

8.06 Consolidation, Merger, Conveyance, Transfer or Lease.

Neither Borrower nor any Subsidiary shall consolidate with or merge into any other Person or convey, transfer or lease its Properties substantially as an entirety to any Person, nor shall the Borrower permit any Person to consolidate with or merge into the Borrower or any Subsidiary or convey, transfer or lease its Properties substantially as an entirety to the Borrower or any Subsidiary.

8.07 Use of Proceeds.

The Borrower will use the proceeds of the Initial Funding hereunder exclusively to pay the start-up costs and expenses identified on Schedule 2.01(b) hereto. The Borrower will use the remaining proceeds of the Loans hereunder exclusively for four (4) purposes: to (i) pay the First Closing Fee in the amount of \$1,595,000, (ii) pay the Structuring Fee in the amount of \$1,000,000, (iii) pay the Expense Reimbursement in the amount of \$800,000, in each case, as provided in Section 6.01(j) and (iv) following the release of such amounts from the Escrow Account in accordance with the terms and conditions of the Escrow Agreement, provide statutory capital in the amount of \$20,000,000 for Magnolia Insurance Company, \$19,700,000 of which shall be deposited into a trust account maintained with Northern Trust, N.A. (subject to regulatory requirements) which can be accessed only to pay valid policy claims under insurance policies issued by Magnolia Insurance Company and \$300,000 of which shall be held by the Florida Division of Treasury, Bureau of Collateral Management in accordance with Section 624.411 and Chapter 625, Part III of the Florida Statutes.

8.08 Inspection.

The Borrower will permit the Administrative Agent, at the Borrower's expense, reasonable access for a reasonable duration during normal business hours to the books and records of the Borrower and any Subsidiary and to discuss the affairs, finances and accounts of the Borrower and any Subsidiary with their respective officers and accountants, provided that such access shall be permitted upon reasonable notice and at such reasonable times as the Administrative Agent may designate.



#### 8.09 Reinsurance Program.

The guidelines applicable to Magnolia Insurance Company's reinsurance program are set forth on Exhibit M attached hereto. The Borrower will cause Magnolia Insurance Company to maintain a reinsurance program that is in compliance with the reinsurance program guidelines attached hereto as Exhibit M. The Borrower will not obtain or permit Magnolia Insurance Company to obtain uncollateralized reinsurance from a counterparty with a financial strength rating issued by AM Best or Standard & Poor's of less than A or otherwise not satisfactory to the Administrative Agent in its sole and absolute discretion. Before Magnolia Insurance Company incurs risks under insurance policies and in any event by the first day of June, 2008 and thereafter not later than the tenth (10<sup>th</sup>) Business Day prior to the expiration of any reinsurance agreement then in effect, the Borrower will deliver to the Administrative Agent a firm and binding commitment from a counterparty or counterparties acceptable to the Administrative Agent in its sole and absolute discretion to enter into a reinsurance agreement with Magnolia Insurance Company on terms satisfactory to the Administrative Agent in its sole and absolute discretion. The Borrower will deliver to the Administrative Agent by not later than the tenth (10<sup>th</sup>) Business Day following execution thereof, a fully executed reinsurance agreement from a counterparty or counterparties acceptable to the Administrative Agent in its sole and absolute discretion on terms satisfactory to the Administrative Agent in its sole and absolute discretion.

The Borrower will cause the Administrative Agent to receive (i) an Assignment Agreement (a form of which is attached as Exhibit J) executed by Magnolia Insurance Company and the Administrative Agent, (ii) evidence satisfactory to the Administrative Agent that Magnolia Insurance Company has given notice satisfactory to the Administrative Agent of such assignment to each counterparty to the reinsurance agreements with Magnolia Insurance Company, and received a written acknowledgment of such assignment satisfactory to the Administrative Agent from each counterparty to such reinsurance agreements and a legal opinion from counsel to such counterparties confirming the enforceability of such Assignment Agreement against such counterparties that is satisfactory to the Administrative Agent in its sole and absolute discretion.

*waived  
by  
letter  
agmt.  
3/18/08*

#### 8.10 Asset Protection Agreement.

The Borrower will maintain one or more Asset Protection Agreements in the amount of the lesser of \$20,000,000 or the outstanding principal balance of the Loans for the sole benefit of the Lenders with carriers and with terms and conditions satisfactory to the Administrative Agent, in its sole and absolute discretion. Before Magnolia Insurance Company incurs risks under insurance policies and in any event by the first day of May, 2008 and thereafter not later than three months prior to the end of the term of the Asset Protection Agreement(s) then in effect, the Borrower will deliver to the Administrative Agent a firm and binding commitment from a third party or third parties satisfactory to the Administrative Agent in its sole and absolute discretion to renew the Asset Protection Agreement(s) on terms satisfactory to the Administrative Agent in its sole and absolute discretion. Not later than one month prior to the end of the term of the Asset Protection Agreement(s) then in effect, the Borrower will deliver to the Administrative Agent one or more Asset Protection Agreements from a third party or third parties and on terms satisfactory to the Administrative Agent in its sole and absolute discretion. Any payments received by the Lenders from the Asset Protection Agreement(s) shall be applied as a



prepayment of the Loans and shall be credited toward the accrued and unpaid interest and outstanding principal balance pursuant to the terms of this Agreement.

8.11 Compliance with Law.

The Borrower will comply, and cause each Subsidiary to comply with, all statutes and governmental rules and regulations applicable to it.

8.12 Indebtedness.

Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

(i) the Loans,

(ii) any obligation to reimburse the account party for any payment made to reimburse the issuing bank for any drawing made on the letter of credit provided pursuant to Section 6.01(e) provided any such obligation on the part of the Borrower or any of its Subsidiaries shall be subordinated to the Loans on terms satisfactory to the Administrative Agent in its sole discretion which shall include a complete prohibition of any payment of such Indebtedness by the Borrower or any of its Subsidiaries to such account party while any of the Loans remain outstanding, and

(iii) other Indebtedness incurred in connection with the start-up costs and expenses identified on Schedule 2.01(b) hereto, not to exceed \$150,000 at any time.

8.13 Investments.

Neither the Borrower nor any of its Subsidiaries shall directly or indirectly make or own any investment in or make any loan or advance to any other Person except:

(i) investments as set forth in Florida Statutes 625.306 through 625.338;

(ii) investments in cash equivalents;

(iii) investments consisting of deposit accounts maintained by the Borrower and its Subsidiaries; and

(iv) investments in any wholly-owned Subsidiaries.

8.14 Conduct of Business.

Neither the Borrower nor any of its Subsidiaries shall engage in any business other than the provision of primary insurance policies for damage to homes (other than mobile, manufactured



or trailer homes) in the State of Florida, or in any other state as approved in writing, by the Administrative Agent.

8.15 Restricted Payments.

The Borrower shall not declare or pay any dividends whatsoever or make any distribution on any capital stock of the Borrower (except in shares of, or warrants or rights to subscribe for any purchase shares of, capital stock of the Borrower), and shall not make any payment to acquire or retire shares of capital stock to the Borrower.

8.16 Transactions with Affiliates.

Neither the Borrower nor any of its Subsidiaries shall directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Borrower on terms that are less favorable to the Borrower or any of its Subsidiaries, as applicable, than those that might be obtained in an arm's length transaction at the time from Persons who are not such an Affiliate.

8.17 Underwriting Guidelines.

Magnolia Insurance Company's underwriting guidelines are set forth in Exhibit L attached hereto. Except as permitted below, the Borrower will not permit any of its Subsidiaries to underwrite any insurance policy that is not in accordance with such underwriting guidelines set forth in Exhibit L. Notwithstanding the foregoing, Magnolia Insurance Company may underwrite insurance policies with coverage in an aggregate amount of up to 10% of the total coverage under all of its insurance policies outside the underwriting guidelines set forth in Exhibit L, provided such policies are approved by the underwriting committee of Magnolia Insurance Company constituted of a non-executive director, the Vice President Underwriting, the Chief Executive Officer, the Vice President Reinsurance, the Vice President Claims, the Vice President Operations, the Regulatory Advisor, the Forms Advisor and the Actuarial Advisor. Any change in the membership of such underwriting committee shall be made only with the prior approval of the Administrative Agent, which shall not be unreasonably withheld.

8.18 Maintenance of Licenses.

The Borrower and each Subsidiary shall (i) maintain any insurance license or other governmental license issued by the appropriate regulatory authorities or governmental entities necessary to conduct its business, (ii) remain in compliance with the terms and conditions of all such licenses and (iii) ensure all such licenses remain valid and in full force.

8.19 Documents and Agreements.

Neither the Borrower nor any Subsidiary shall change, amend, modify or terminate its charter or bylaws or any other organizational document or any Material Contract to which it is a party including any reinsurance agreement or Asset Protection Agreement or waive any provision of any of the foregoing without the prior written consent of the Administrative Agent. Neither the



Borrower nor any Subsidiary shall enter into any (a) Material Contract or (b) Contract for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary prior to April 30, 2008 that is not in accordance with Schedule 2.01(b), in each case, without the prior written consent of the Administrative Agent.

8.20 Expense Ratios.

(a) Agent commissions paid to third parties by Magnolia Agency, LLC on business that Magnolia Agency, LLC places with Magnolia Insurance Company shall not exceed an amount equal to 15% of the gross written premiums paid to Magnolia Insurance Company with respect to such policies.

(b) The Insurance Company Operating Expenses shall not exceed the following amounts set forth below for the years listed below:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$4,075,000
2009	\$2,657,100
2010	\$2,821,110
2011	\$3,112,996
2012	\$3,366,296

provided, however, that if in any year beginning with 2009 the net written premiums (after reinsurance costs) exceeds the expected net written premiums for such year as reflected in the pro forma statement of expected net written premiums attached as Schedule 8.20(b) to this Agreement, the amount set forth above for such year shall be increased by an amount equal to 1.6% of the amount of the excess of such net written premiums above the expected level set forth in Schedule 8.20(b).

(c) The Agency Operating Expenses shall not exceed the amounts set forth below for the years listed below:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$0.00
2009	\$1,644,400
2010	\$2,095,540
2011	\$2,634,319
2012	\$2,936,751

provided, however, that if the commissions paid to Magnolia Agency, LLC as the managing general agent in any year exceed the amount set forth in the pro forma statement of expected commissions attached as Schedule 8.20(c) to this Agreement, then the amount set forth above for such year shall be increased for such year by 4.8% of the amount of such excess.



8.21 Regulation U/Margin Stock.

No part of the proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

8.22 Banking Relationships.

(a) Subject to regulatory requirements, the Borrower and each of its Subsidiaries shall hold all funds of the Borrower and each of its Subsidiaries in accounts with a financial institution acceptable to the Administrative Agent.

(b) The Borrower and Magnolia Agency, LLC and each of their respective Subsidiaries shall cause each bank or other financial institution in which it maintains any account to enter into a control agreement with the Administrative Agent, in form and substance satisfactory to the Administrative Agent.

8.23 Agency Fee.

If at any time a Lender in addition to ART shall make a Loan to the Borrower, the Borrower shall pay the Administrative Agent an annual agency fee of \$25,000 for each year or pro rata portion thereof during which more than one Lender is party to this Agreement, with the first installment of such fee being due and payable on the date such additional Lender makes a Loan to the Borrower and each subsequent installment on the anniversary of additional such date.

8.24 Compensation.

All compensation arrangements of the Borrower, including without limitation, any payment of salaries, fees or other compensation to officers or directors of the Borrower, shall only be entered into with the prior approval of the Administrative Agent.

8.25 Maintain Letter of Credit.

The Borrower shall maintain a clean, irrevocable letter of credit listing the Administrative Agent as beneficiary in the face amount of not less than \$2,200,000 from an issuing bank acceptance to the Administrative Agent in its sole discretion under which drawings are available to repay the Loans.

8.26 Compliance With Contracts.

The Borrower will comply, and cause each Subsidiary to comply, with all leases, contracts and other agreements to which it or such Subsidiary is a party, as applicable.

8.27 Advisory Services Agreement.

Magnolia Agency, LLC shall enter into an advisory services agreement with Allianz Risk Transfer, an insurance company organized under the laws of Switzerland, satisfactory to the



Administrative Agent, not later than ten (10) days after the Effective Date (the "Advisory Services Agreement").

8.28 Key Man Life Insurance.

The Borrower shall deliver to the Administrative Agent a key man life insurance policy covering H. James Irl in the amount of \$20,000,000 on terms satisfactory to the Administrative Agent in its sole discretion not later than forty five (45) days after the Effective Date.

8.29 Depopulation of Policies.

Magnolia Insurance Company shall assume not less than 60,000 direct and assumed insurance policies, all of which conform to Magnolia Insurance Company's underwriting guidelines which are set forth in Exhibit L attached hereto, no later than July 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day).

Section 9. Events of Default.

If one or more of the following events (herein called "Events of Default") shall occur and be continuing:

- (a) The Borrower shall fail to make a payment when due (whether at stated maturity or upon acceleration or mandatory or optional prepayment) of any principal of any Loan or any loan outstanding under this Agreement; or
- (b) The Borrower shall fail to make a payment of any interest on any Loan or any loan outstanding under this Agreement or any fee or any other amount payable by it hereunder or under this Agreement within three Business Days after the due date; or
- (c) Any representation, warranty or certification made or deemed made herein (or in any modification or supplement hereto) by the Borrower, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof, shall prove to have been false or misleading as of the time made, deemed made or furnished in any material respect; or
- (d) The Borrower shall fail in the performance of any of its obligations under Sections 8.04, 8.05, 8.06, 8.07, 8.09, 8.10, 8.12, 8.13, 8.14, 8.17, 8.18, 8.19, 8.20, 8.25 or 8.26 of this Agreement; or
- (e) The Borrower shall fail in the performance of any of its other obligations under this Agreement and such failure shall continue uncured and unwaived for ten (10) Business Days; or
- (f) The Borrower or any Subsidiary shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or
- (g) The Borrower or any Subsidiary shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or



liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate or limited liability company action for the purpose of effecting any of the foregoing; or

(h) An involuntary proceeding or case shall be commenced against the Borrower or any Subsidiary in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of the Borrower or any Subsidiary or of all or any substantial part of its Property, or (iii) similar relief in respect of the Borrower or any Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Borrower or any Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(i) The Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable; or

(j) Any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; or

(k) One or more judgments for the payment of money in an aggregate amount in excess of \$100,000 shall be rendered against the Borrower or any Subsidiary and such judgment shall continue unsatisfied for a period of forty-five (45) days; or

(l) A Change of Control shall occur; or

(m) Any pledge agreement, security agreement or guaranty entered into as provided in Section 6.01(f), (g) or (h) shall fail to remain in full force and effect against the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall take any action to discontinue or assert the invalidity or unenforceability of, or any action or circumstance results in the discontinuation or invalidity or unenforceability of any such agreement or any security interest created under any such agreement shall become unperfected or shall not have the priority contemplated by such agreement; or



(n) Magnolia Insurance Company shall fail to acquire at least 60,000 direct and assumed insurance policies, all of which conform to Magnolia Insurance Company's underwriting guidelines which are set forth in Exhibit L attached hereto, by July 1, 2008.

THEREUPON: (1) in the case of an Event of Default other than one referred to in clause (f), (g) or (h) of this Section 9, the Administrative Agent may and, upon request of the Majority Lenders, will, by notice to the Borrower, (A) terminate the Commitments and they shall thereupon terminate, and (B) declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the Notes to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower; and (2) in the case of the occurrence of an Event of Default referred to in clause (f), (g) or (h) of this Section 9, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the Notes shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

#### Section 10. The Administrative Agent.

##### 10.01 Appointment, Powers and Immunities.

Each Lender hereby irrevocably appoints and authorizes the Administrative Agent to act as its agent hereunder with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in Section 10.05 hereof and the first sentence of Section 10.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents): (a) shall have no duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Lender; (b) shall not be responsible to the Lenders for any recitals, statements, representations or warranties contained in this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any other document referred to or provided for herein or for any failure by the Borrower or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith, except for its own gross negligence or willful misconduct. The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Administrative Agent, together with the consent of the Borrower to such assignment or transfer (to the extent provided in Section 11.06(b) hereof, but subject to Section 11.06(d) hereof).



10.02 Reliance by Administrative Agent.

The Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including, without limitation, any thereof by telephone, telecopy, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. As to any matters not expressly provided for by this Agreement, the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions given by the Majority Lenders, and such instructions of the Majority Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

10.03 Defaults.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless the Administrative Agent has received notice from a Lender or the Borrower specifying such Default and stating that such notice is a "Notice of Default". In the event that the Administrative Agent receives such a notice of the occurrence of a Default, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall (subject to Sections 10.01, 10.07 and 11.04 hereof) take such action with respect to such Default as shall be directed by the Majority Lenders, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Lenders except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Lenders or all of the Lenders.

10.04 Rights as a Lender.

With respect to its Commitment and the Loan made by it, ART (and any successor acting as Administrative Agent), in its capacity as a Lender hereunder, shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity. ART (and any successor acting as Administrative Agent) and its affiliates may (without having to account therefore to any Lender) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with the Borrower (and any of its Subsidiaries or affiliates) as if it were not acting as the Administrative Agent, and ART and its affiliates may accept fees and other consideration from the Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

10.05 Indemnification.

The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed under Section 11.03 hereof, but without limiting the obligations of the Borrower under said Section 11.03) ratably in accordance with their respective Commitments (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought), for any and all liabilities,



obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other documents contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses that the Borrower is obligated to pay under Section 11.03 hereof or costs and expenses incurred in connection with a Default but excluding normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or of any such other documents, provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

#### 10.06 Non-Reliance on Administrative Agent and Other Lenders.

Each Lender agrees that it has, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or any other document referred to or provided for herein or to inspect the Properties or books of the Borrower or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Borrower or any of its Subsidiaries (or any of their affiliates) that may come into the possession of the Administrative Agent or any of its affiliates.

#### 10.07 Failure to Act.

Except for action expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the Lenders of their indemnification obligations under Section 10.05 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

#### 10.08 Resignation or Removal of Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving 30 days' written notice thereof to the Lenders and the Borrower, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving



of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, that shall be a bank that has an office in New York, New York and such bank has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

#### Section 11. Miscellaneous.

##### 11.01 Waiver.

No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

##### 11.02 Notices.

All notices, requests and other communications provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telecopy) to the intended recipient (in the case of each of the Borrower and the Administrative Agent) set forth in this Section 11.02, and in the case of each Lender, at its address set forth in its Administrative Questionnaire; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices from the Administrative Agent to the Lenders regarding the borrowing, payments, or prepayments and other notices pursuant to Section 2 hereof unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

Borrower Address:

260 Glenridge Road  
Key Biscayne, FL 33149



Attention: H. James Irl  
Telephone: +1 305-365-0181  
Facsimile: +1 305-365-1844  
Email: james@magnoliainsurance.biz

Administrative Agent Address:

Allianz Risk Transfer, Inc.  
350 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022  
Attention: Legal Department  
Telephone: +1 (646) 840-5000  
Facsimile: +1 (212) 754-2330  
Email: [mgabin@art-allianz.com](mailto:mgabin@art-allianz.com)

with a copy to:

Allianz Risk Transfer (Bermuda) Limited  
Overbay, 106 Pitts Bay Road  
Pembroke HM 08  
Bermuda  
Attention: Bill Guffey  
Telephone: +1 (441) 295-4722  
Facsimile: +1 (441) 295-2867  
Email: [bguffey@art-allianz.com](mailto:bguffey@art-allianz.com)

11.03 Expenses, Etc.

The Borrower agrees to pay or reimburse each of the Lenders and the Administrative Agent for: (a) all reasonable out-of-pocket costs and expenses of the Administrative Agent (including, without limitation, the reasonable fees and expenses of counsel to the Administrative Agent) in connection with (i) any Default and any enforcement or collection proceedings resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section 11.03; and (b) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the Notes or any other document referred to herein, provided that the Lenders who are not the Administrative Agent shall be entitled to reimbursement under this Section 11.03 for no more than one counsel representing all such Lenders (absent a conflict of interest in which case the Lenders may engage and be reimbursed for additional counsel).

The Borrower hereby agrees to indemnify the Administrative Agent and each Lender and their respective directors, officers, employees, attorneys and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses



incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Administrative Agent or any Lender, whether or not the Administrative Agent or any Lender is a party thereto) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified).

#### 11.04 Amendments, Etc.

Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Borrower and the Majority Lenders, or by the Borrower and the Administrative Agent acting with the consent of the Majority Lenders, and any provision of this Agreement may be waived by the Majority Lenders or by the Administrative Agent acting with the consent of the Majority Lenders; provided that: (a) (in the event there shall be more than one Lender party hereto) no modification, supplement or waiver shall, unless by an instrument signed by each Lender affected thereby or by the Administrative Agent acting with the consent of each Lender affected thereby: (i) extend the date fixed for the payment of principal of or interest on any Loan or any fee hereunder, (ii) reduce the amount of any such payment of principal, (iii) reduce the rate at which interest is payable thereon or any fee is payable hereunder, (iv) alter the terms of Section 4.07 hereof or this Section 11.04 or (v) modify the definition of the term "Majority Lenders" or modify in any other manner the number or percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof; and (b) any modification or supplement of Section 10 hereof shall require the consent of the Administrative Agent.

#### 11.05 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

#### 11.06 Assignments and Participations.

(a) The Borrower may not assign any of its rights or obligations hereunder or under the Notes without the prior written consent of all of the Lenders and the Administrative Agent and any assignment without such consent shall be null and void.

(b) Each Lender may assign any of its Loan and its Note (but only with the prior written consent of the Administrative Agent). Upon execution and delivery by the assignee to the Borrower and the Administrative Agent of an instrument in writing pursuant to which such assignee agrees to become a "Lender" hereunder (if not already a Lender) having a Loan specified in such instrument, and upon consent thereto by the Administrative Agent, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with



the consent of the Administrative Agent), the obligations, rights and benefits of a Lender hereunder holding the Loan (or portions thereof) assigned to it (in addition to the Loan, if any, theretofore held by such assignee). Upon each such assignment, the assigning Lender shall pay the Administrative Agent an assignment fee of \$3,500. (At no time shall the Borrower or any Subsidiary be liable to the Administrative Agent for any Lender's failure to pay such assignment fee.)

(c) A Lender may sell or agree to sell to one or more other Persons a participation in all or any part of any Loan held by it, in which event each purchaser of a participation (a "Participant") shall not, except as otherwise provided in Section 4.07(c) hereof, have any other rights or benefits under this Agreement or any Note (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by the Borrower to any Lender under Section 5 hereof in respect of any Loan held by it shall be determined as if such Lender had not sold or agreed to sell any participations in such Loan, and as if such Lender were funding such Loan in the same way that it is funding the portion of such Loan in which no participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder except that such Lender may agree with the Participant that it will not, without the consent of the Participant, agree to (i) extend the date fixed for the payment of principal or interest on the related Loan or Loans or any portion of any fee hereunder payable to the Participant, (ii) reduce the amount of any such payment of principal or (iii) reduce the rate at which interest is payable thereon, or any fee hereunder payable to the Participant, to a level below the rate at which the Participant is entitled to receive such interest or fee.

(d) In addition to the assignments and participations permitted under the foregoing provisions of this Section 11.06, any Lender may (without notice to or consent of the Borrower, the Administrative Agent or any other Lender and without payment of any fee) (i) assign and pledge all or any portion of its Loan and its Note to any Federal Reserve Lender as collateral security and (ii) assign all or any portion of its rights under this Agreement and its Loan and its Note to an Affiliate. No such assignment shall release the assigning Lender from its obligations hereunder.

(e) A Lender may furnish any information concerning the Borrower or any of its Subsidiaries in the possession of such Lender from time to time to assignees and Participants (including prospective assignees and participants), subject, however, to the provisions of Section 11.13 hereof.

(f) Anything in this Section 11.06 to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan held by it hereunder to the Borrower or any of its affiliates or Subsidiaries without the prior consent of each Lender.

#### 11.07 Survival.

The obligations of the Borrower under Sections 5.01 and 11.03 hereof and the obligations of the Lenders under Section 10.05 hereof, shall survive the repayment of the Loans and the termination of the Commitments. In addition, each representation and warranty made, or



deemed to be made by a notice of any Loan, herein or pursuant hereto shall survive the making of such representation and warranty, and no Lender shall be deemed to have waived, by reason of making any Loan, any Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Lender or the Administrative Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such Loan was made.

11.08 Captions.

The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.09 Counterparts.

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

11.10 Governing Law; Submission to Jurisdiction.

This Agreement and the Notes, and all matters and disputes arising out of or in any way relating to this Agreement or the Notes, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Agreement, the Notes or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

11.11 Waiver of Jury Trial.

EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR IN ANY WAY RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.12 Agent for Service of Process.

By the execution and delivery of this Agreement, the Borrower (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to the Note or this Agreement that may be



instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Lender or the Administrative Agent, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Borrower in the manner provided in Section 11.02, shall be deemed in every respect effective service of process upon the Borrower in any such suit or proceeding. The Borrower further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Agreement shall be in effect.

#### 11.13 Confidentiality.

(i) Except as provided in this Section 11.13, each of the Administrative Agent and Lenders expressly agrees to maintain as confidential and not to disclose, publish or disseminate to any third parties any Confidential Information (as defined below) provided to it, provided, however, that nothing herein shall limit the disclosure of any Confidential Information (a) to its Affiliates, counsel or other representatives reasonably required, in the opinion of the Administrative Agent or the Lender, as the case may be, to have such information, provided such Persons have agreed or are under a duty to keep all such information confidential in accordance with this Section 11.13 or pursuant to requirements of professional responsibility; (b) upon the request or demand of any regulatory agency, authority or self regulatory body having jurisdiction over or claiming authority to regulate or oversee any aspect of the business of such Administrative Agent or Lender; (c) to the extent required by applicable laws or regulations or pursuant to any subpoena, court or governmental order or similar legal process, provided that to the extent permitted by law and if practicable to do so under the circumstances, the Borrower is given prior notice of, and an opportunity to contest, the production of such Confidential Information (which notice and opportunity shall be reasonable under the circumstances); (d) to any prospective assignee or Participant in connection with any contemplated transfer pursuant to Sections 11.05 or 11.06, provided that such prospective transferee shall have expressly agreed to be bound by the provisions of this Section 11.13; (e) to any other party to this Agreement, (f) to any nationally recognized rating agency, (g) to the extent necessary in connection with the exercise of any remedy hereunder and (h) in connection with any litigation or dispute to which the Borrower or any of its Subsidiaries and one or more of the Administrative Agent or Lenders is a party. Each of the Administrative Agent and the Lenders agrees that it will only use the Confidential Information in connection with the evaluation and administration of this credit facility and its Loans and enforcement of its rights in connection therewith, and it will not use the Confidential Information for purposes of trading in the securities of the Borrower or any of its Subsidiaries in the future.

(ii) For purposes of this Section 11.13, "*Confidential Information*" means any written or oral information provided under this Agreement by or on behalf of the Borrower or any of its Subsidiaries that, in the case of written information, is clearly marked "*confidential*" and in the case of oral information, that has been identified by its source as confidential, other than any Confidential Information which: (a) is or becomes generally available to the public other than as the result of a breach of this Section 11.13, (b) is or becomes available to the



Administrative Agent or a Lender on a non-confidential basis from a source other than the Borrower, or one of its agents, any of its Subsidiaries or any of its agents, which source is not known by the Administrative Agent or Lender, as the case may be, to be bound by a confidentiality agreement with the Borrower or any of its Subsidiaries; (c) was known to the Administrative Agent or Lender, as the case may be, on a non-confidential basis prior to its disclosure to such party by the Borrower or one of its agents, any of its Subsidiaries or one of its agents, or another Lender; (d) the Borrower or any of its Subsidiaries has advised the party is no longer confidential or (e) to the extent the Borrower or any of its Subsidiaries shall have consents to such disclosure in writing.

(iii) The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement (excluding, however, any information obtained by such Lender pursuant to Section 8.07 hereof, except for use in connection with its rights or remedies under this Agreement), or in connection with the decision of such Lender to enter into this Agreement, with any such Subsidiary or affiliate, it being understood that any such Subsidiary or affiliate receiving such information shall be bound by the provisions of clause (i) above as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans and the termination of the Commitments.

#### 11.14 Indemnity.

The Borrower shall indemnify the Administrative Agent and each Lender, and each Affiliate of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, penalties, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the transactions contemplated hereby, (ii) the Loan or the use of the proceeds therefrom, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, penalties, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee.

#### 11.15 Counterparts; Integration; Effectiveness.

This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all



previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 6.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Delivery of an executed counterpart of a signature page of this Agreement electronically by PDF or by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

11.16 Severability.

Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

11.17 Termination.

This Agreement shall continue in effect until (i) this Agreement has terminated pursuant to its express terms and (ii) all of the Loans and obligations (other than contingent indemnification obligations) have been indefeasibly paid and performed in full.

11.18 USA PATRIOT ACT.

Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), such Lender may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with said Act.

*[The remainder of this page is intentionally left blank]*



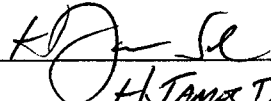
IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed and delivered as of the day and year first above written.

IRL FINANCIAL GROUP INCORPORATED

By

Name:

Title:

  
H. J. AMBROSE  
PRESIDENT

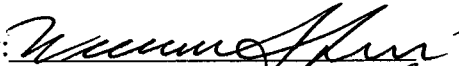
LENDERS

ALLIANZ RISK TRANSFER, INC.  
Individually and as Administrative Agent

By

Name:

Title:

  
William Scaldapini  
Lender

By

Name:

Title:





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IRL FINANCIAL GROUP INCORPORATED

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CREDIT AGREEMENT

dated as of February 27, 2008

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\$23,800,000

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ALLIANZ RISK TRANSFER, INC.,  
as Administrative Agent

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EXHIBIT L -	Underwriting Guidelines
EXHIBIT M -	Reinsurance Program Guidelines



CREDIT AGREEMENT dated as of February 27, 2008 (this “Agreement”), by and among:

IRL FINANCIAL GROUP INCORPORATED, a corporation duly organized and validly existing under the laws of the State of Florida (the “Borrower”);

Each of the lenders that is a signatory hereto identified under the caption “LENDERS” on the signature pages hereto or that, pursuant to Section 11.06(b) hereof, shall become a “Lender” hereunder (individually, a “Lender” and, collectively, the “Lenders”) (it being understood that ALLIANZ RISK TRANSFER, INC., a New York corporation (“ART”), is the sole Lender hereunder as of the Effective Date (as defined below)); and

ALLIANZ RISK TRANSFER, INC., a New York corporation, as agent for the Lenders (in such capacity, together with its successors in such capacity, the “Administrative Agent”).

The Borrower has requested that ART make a term loan to the Borrower in the principal amount of \$23,800,000 on the Effective Date. ART is prepared to make such loan upon the terms and conditions hereof, and accordingly, the parties hereto agree as follows:

#### Section 1. Definitions and Accounting Matters.

##### 1.01 Certain Defined Terms.

As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

“Administrative Agent” shall have the meaning assigned to such term in the preamble of this Agreement.

“Administrative Questionnaire” shall mean an Administrative Questionnaire in a form supplied by the Administrative Agent, with a copy of each completed Administrative Questionnaire delivered to the Borrower.

“Advance Date” shall have the meaning assigned to such term in Section 4.06 hereof.

“Advisory Services Agreement” shall have the meaning assigned to such term in Section 8.27.

“Affiliate” shall mean, as to any Person, any other Person that controls, is controlled by or is under common control with such Person. As used in this definition, “control” means the possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or ownership interests, by contract or otherwise).



“Agency Operating Expenses” shall mean the operating expenses of Magnolia Agency, LLC as reflected on the pro forma income statement attached as Schedule 8.20(b) to this Agreement, which shall exclude costs related to business process outsourcing such as claims administration or policy administration or other costs of third party administration paid by Magnolia Agency, LLC. Agency Operating Expenses shall also exclude independent agent commissions and the cost of the Asset Protection Agreement (as defined herein).

“Agreement” shall have the meaning assigned to such term in the preamble of this Agreement.

“AM Best” means A. M. Best Company, Inc.

“Amortization Table” shall mean the amortization table set forth on Schedule 3.01(b) hereto.

“Applicable Lending Office” shall mean, for each Lender, such office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office by which its Loans are to be made and maintained.

“Applicable Margin” shall mean 4.5% per annum.

“ART” shall have the meaning assigned to such term in the preamble of this Agreement.

“Asset Protection Agreement” shall mean an insurance policy as described in Section 8.09 herein.

“Bankruptcy Code” shall mean the United States Bankruptcy Code of 1978, as amended from time to time.

“Base Rate” shall mean, for any day, a rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

“Base Rate Loan” means a Loan which bears interest based on the Base Rate.

“Borrower” shall have the meaning assigned to such term in the preamble of this Agreement.

“Business Day” shall mean any day (a) on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to the borrowing of, a payment or prepayment of principal of or interest on a Eurodollar Loan or a notice by the Borrower with respect to any such borrowing, payment, prepayment, also on which dealings in Dollar deposits are carried out in the London interbank market.



“Change of Control” means any Person that owns less than 10% of the equity of the Borrower as of the Effective Date shall acquire or own more than 10% of the equity of the Borrower.

“Class B Membership Interest” means the Membership Interest in Magnolia Agency, LLC held by the Borrower and transferred to ART pursuant to the terms of a transfer agreement.

“Closing Fee” shall have the meaning assigned to such term in Section 2.08 hereof.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

“Commitment” shall mean, as to each Lender, the obligation of such Lender to make a Loan pursuant to Section 2.01 hereof in a principal amount equal to the amount set opposite such Lender’s name on Annex 1 hereto under the caption “Commitment”.

“Consolidated EBITDA” means Consolidated Net Income plus, to the extent deducted from revenues in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expense for taxes paid or accrued, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business minus, to the extent included in Consolidated Net Income, extraordinary gains realized other than in the ordinary course of business, all calculated for the Borrower and its Subsidiaries on a consolidated basis.

“Consolidated Interest Expense” means, with reference to any period, the interest expense (including without limitation interest expense under capital lease obligations that is treated as interest in accordance with GAAP of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

“Consolidated Net Income” means, with reference to any period, the net income (or loss) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period in accordance with GAAP.

“Contracts” means contracts, agreements, arrangements, understandings, restrictive covenants, personal property leases, real property leases (including all rights to any and all improvements and fixtures thereon), memberships, warranties, registrations and similar documents, whether oral or written.

“Date of this Agreement” and “Date Hereof” shall mean February 27, 2008.

“Default” shall mean an Event of Default or an event that with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Dollars” and “\$” shall mean lawful money of the United States of America.



“Effective Date” shall mean the date on which all of the conditions set forth in Section 6.01 hereof shall have been satisfied or waived by the Lenders and the initial Loans shall be made.

“Escrow Account” shall mean an account of ART established by the Administrative Agent and the Escrow Agent into which the initial proceeds of the Loans will be deposited and held pursuant to the Escrow Agreement.

“Escrow Agent” shall mean ART in its capacity as the escrow agent with respect to the Escrow Agreement.

“Escrow Agreement” shall mean that certain Escrow Agreement dated as of the Date Hereof by and among the Borrower, the Administrative Agent and the Escrow Agent governing the Escrow Account on terms satisfactory to the Administrative Agent in its sole discretion.

“Eurodollar Base Rate” means, with respect to a Eurodollar Loan, the applicable British Bankers’ Association LIBOR rate for deposits in Dollars as quoted on the applicable Reuters screen as of 11:00 a.m. (London time) two (2) Business Days prior to the first day such rate is applicable, and having a maturity of one month, *provided* that, if no such British Bankers’ Association LIBOR rate is available to the Administrative Agent, the applicable Eurodollar Base Rate shall instead be the rate determined by the Administrative Agent to be the rate at which Citibank, N.A. or one of its affiliate banks offers to place deposits in Dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day such rate is applicable, in the approximate amount of the Lender’s relevant Eurodollar Loan and having a maturity of one month.

“Eurodollar Loan” means a Loan which bears interest at the applicable Eurodollar Rate.

“Eurodollar Rate” means, with respect to a Eurodollar Loan, the quotient of (a) the Eurodollar Base Rate determined by the Administrative Agent to be applicable to such Loan, divided by (b) one minus the Reserve Requirement (expressed as a decimal).

“Event of Default” shall have the meaning assigned to such term in Section 9 hereof.

“Excess Cash Flow” means, for any fiscal year, (a) Consolidated EBITDA for such fiscal year minus (b) the aggregate amount of taxes paid by the Borrower and its Subsidiaries during such fiscal year minus (c) the aggregate amount of all interest paid or payable in cash by the Borrower and its Subsidiaries during such fiscal year minus (d) the aggregate amount of all cash payments of the principal portion of the Loans during such fiscal year.

“Excluded Taxes” shall mean any present or future taxes, levies, imposts or other assessments or charges imposed on, or measured by, the overall net income of any Lender (or of any Applicable Lending Office of such Lender) by the jurisdiction in which such Lender is organized or has its principal office (or in which such Applicable Lending Office is located).



“Expense Reimbursement” shall have the meaning assigned to such term in Section 2.10 hereof.

“Federal Funds Rate” shall mean, for any day, the rate per annum (rounded to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Lender of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the weighted average of quotations for such transactions received by the Administrative Agent on such Business Day from three federal funds brokers of recognized standing selected by the Administrative Agent.

“First Closing Fee” shall have the meaning assigned to such term in Section 2.08 hereof.

“First Payment Date” shall mean January 1, 2009; provided that if such date is not a Business Day, the First Payment Date shall be the next succeeding Business Day.

“FLOIR” means the Florida Office of Insurance Regulation or any successor governmental authority.

“Form W-8BEN” and “Form W-8ECI” shall have the respective meanings assigned to such terms in Section 5.02(a) hereof.

“GAAP” shall mean generally accepted accounting principles in effect from time to time in the United States of America.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services, (f) all Indebtedness of others secured by any lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances.

“Indemnified Tax” shall have the meaning assigned to such term in Section 5.02(c) hereof.

“Initial Funding” shall have the meaning assigned to such term in Section 2.01(b) hereof.



“Insurance Company Operating Expenses” shall mean the operating expenses of the Magnolia Insurance Company as reflected on the pro forma income statement attached as Schedule 8.20(c) to this Agreement which shall exclude reinsurance premiums paid by Magnolia Insurance Company, costs related to business process outsourcing such as claims administration or policy administration, losses paid on claims under insurance policies issued by Magnolia Insurance Company, and other costs of third party administration. Insurance Company Operating Expenses shall also exclude agency commissions or fees payable to Magnolia Agency, LLC, assumption commission paid to Citizens Property Insurance Corporation and premium taxes.

“Lender” or “Lenders” shall have the meaning assigned to such term in the preamble of this Agreement.

“Letter of Credit” shall have the meaning assigned to such term in Section 6.01(e) hereof.

“LLC Operating Agreement” shall mean that certain first amended and restated operating agreement by and among the Borrower, Magnolia Agency, LLC and ART, dated as of February 27, 2008.

“Loan Documents” means this Agreement, the Notes, the Pledge Agreement, the Escrow Agreement, the Subsidiary Guaranty, the Personal Guaranty, the Security Agreement and any other agreements, documents or instruments executed in connection therewith.

“Loans” shall mean the loans provided for by Section 2.01 hereof.

“Majority Lenders” shall mean (a) so long as there shall be only one Lender party hereto, such Lender and (b) otherwise, Lenders having more than 50% of the aggregate unpaid principal amount of the Loans.

“Material Adverse Effect” shall mean a material adverse effect on (a) the Property, business, operations, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole or individually, (b) the validity or enforceability of this Agreement or of the Notes and (c) the rights and remedies of the Lenders and the Administrative Agent hereunder and under the Notes.

“Material Contract” means any (a) Contract for the employment of any grandparent, parent, child, sibling, niece, nephew or any other familial relative of H. James Irl, whether such person is related to H. James Irl by blood, marriage or adoption as an employee, consultant or agent of the Borrower or any Subsidiary, (b) Contract for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary or any other Contract that when aggregated with all Contracts entered into by the Borrower and its Subsidiaries (excluding this Agreement, the other Loan Documents, the Advisory Services Agreement, the Processing Services Agreement and those Contracts for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary entered into prior to April 30, 2008, in accordance with Schedule 2.01(b)), require expenditures by the Borrower and its Subsidiaries, taken as a whole, in excess of \$150,000 in any twelve (12) month period; provided, however, that any Contract entered into by the Borrower or any Subsidiary in



the ordinary course of business that both (i) has a term of less than one (1) year and (ii) does not give rise to any liability in excess of \$20,000 shall not be considered a Material Contract for purposes of this clause (b), (c) Contract with any labor union or similar organization covering any employees of the Borrower or any Subsidiary, (d) Contract relating to any indebtedness or mortgage, pledge, conditional sales contract, security agreement, factoring agreement or other similar Contract, other than in the ordinary course of business or any Contract that will cause the Company's aggregate indebtedness (excluding indebtedness as a result of this Agreement or the other Loan Documents) to exceed \$150,000 in the aggregate at any time as a result of such Contract, (e) Contract for the sale, lease or license of any of the material assets of the Borrower or any Subsidiary or for the grant of any preferential right to purchase any material assets of the Borrower or any Subsidiary, (f) Contract prohibiting or restricting any of the Borrower or any Subsidiary from freely engaging in any business or activity or competing anywhere in the world, (g) Contracts to indemnify other Persons, (h) Contracts with any Members (as defined in the LLC Operating Agreement) or any Affiliate of any Member, (i) agency, management, managing general agency, producer, sub-producer or other production agreements with any insurers or other Persons, (j) any partnership or joint venture agreements, (k) Contracts relating to the purchase, lease or use of any real property and (l) any Contract which is material to the Borrower or any Subsidiary or the operation thereof. For the avoidance of doubt, the term Material Contract shall not include any policy of insurance issued by any Subsidiary.

"Material Indebtedness" means Indebtedness, or obligations in respect of one or more swap agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$100,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any swap agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such swap agreement were terminated at such time.

"Maturity Date" shall mean February 1, 2013; provided that if such date is not a Business Day, the Maturity Date shall be the next preceding Business Day.

"Maximum Initial Funding" shall mean an amount equal to \$405,000.

"Membership Interests" shall have the meaning assigned to such term in the LLC Operating Agreement.

"Notes" shall mean the promissory notes provided for by Section 2.05(b) hereof and all promissory notes delivered in substitution or exchange thereof, in each case as the same shall be modified and supplemented and in effect from time to time.

"Participant" shall have the meaning assigned to such term in Section 11.06(c) hereof.

"Payment Dates" shall mean the first calendar day of each month, commencing on the First Payment Date; provided that if any such date is not a Business Day, the Payment Date shall be the next succeeding Business Day.



“Payment Office” shall mean the office of the Administrative Agent designated for purposes of payments hereunder as set forth in Section 11.02 hereof.

“Payor” shall have the meaning assigned to such term in Section 4.06 hereof.

“Person” shall mean any individual, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

“Post-Default Rate” shall mean a rate per annum equal to 7.5% plus the Base Rate as in effect from time to time.

“Prime Rate” shall mean for any day the U.S. prime rate as published for such Business Day (or, if such day is not a Business Day, the immediately preceding Business Day) in the Wall Street Journal under the caption “Money Rates, Prime Rate” (or, if prime rates are published for more than one jurisdiction, the one published for the United States), or if such rate is unavailable, the rate of interest per annum publicly announced from time to time by Citibank, N.A. as its prime rate in effect, at its principal office in New York, New York as its prime commercial lending rate; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Processing Services Agreement” means that certain processing services agreement by and between Magnolia Agency, LLC and CGI Technologies and Solutions, Inc., entered into as of February 26, 2008, with an effective date as of March 1, 2008.

“Property” shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

“Reference Banks” shall mean such financial institutions of recognized standing as the Administrative Agent shall select for this purpose.

“Regulations D, U and X” shall mean, respectively, Regulations D, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

“Regulatory Change” shall mean, with respect to any Lender, any change after the Effective Date in Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks including such Lender of or under any Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“Required Payment” shall have the meaning assigned to such term in Section 4.06 hereof.



“Reserve Requirement” means the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on “Eurocurrency liabilities” (as defined in Regulation D).

“SEC” shall mean the United States Securities and Exchange Commission or any governmental authority succeeding to its principal functions.

“Second Closing Fee” shall have the meaning assigned to such term in Section 2.08 hereof.

“Standard & Poor’s” means Standard and Poor’s Ratings Group, a division of the McGraw Hill Companies, Inc.

“Structuring Fee” shall have the meaning assigned to such term in Section 2.09 hereof.

“Subsidiary” means any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the Borrower in the Borrower’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing 50% or more of the equity or 50% or more of the ordinary voting power or, in the case of a partnership, 50% or more of the general partnership interests are, as of such date, owned, controlled or held by the Borrower. For the avoidance of doubt, Magnolia Agency, LLC and Magnolia Insurance Company are each a Subsidiary of the Borrower.

“Tax Event” shall have the meaning assigned to such term in Section 5.02(b) hereof.

“Type” shall have the meaning assigned to such term in Section 1.03 hereof.

“U.S. Person” and “U.S. Taxes” shall have the respective meanings assigned to such terms in Section 5.02(a) hereof.

#### 1.02 Accounting Terms and Determinations.

Except as otherwise specified herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be furnished to the Administrative Agent or the Lenders hereunder shall be prepared, in accordance with GAAP.

#### 1.03 Types of Loans.

The “Type” of Loan refers to whether such Loan is a Base Rate Loan or a Eurodollar Loan, each of which constitutes a Type.

#### 1.04 Rules of Construction.



Unless the context otherwise clearly requires:

- (a) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined;
- (b) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms;
- (c) the words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation”;
- (d) the word “will” shall be construed to have the same meaning and effect as the word “shall”;
- (e) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein);
- (f) any reference herein to any Person, or to any Person in a specified capacity, shall be construed to include such Person’s permitted successors and assigns or such Person’s permitted successors in such capacity, as the case may be; and
- (g) all references in this instrument to designated “Schedules,” “Exhibits,” “Sections,” “clauses” and other subdivisions are to the designated Schedules, Exhibits, Sections, clauses and other subdivisions of this Agreement as originally executed, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Schedules, Exhibits, Sections, clauses or other subdivisions.

## Section 2. Loan.

### 2.01 Loan.

- (a) Each Lender severally agrees, on the terms and conditions of this Agreement, to make a term loan to the Borrower in Dollars on the Effective Date in a principal amount equal to the amount of the Commitment of such Lender.
- (b) The Lender agrees, on the terms and conditions set forth in this Agreement and in accordance with this Section 2.01(b), to make a partial disbursement of the Loan in an amount not to exceed \$405,000 to the Borrower (the “Initial Funding”) to be used by the Borrower for the start-up costs and expenses identified on Schedule 2.01(b) hereof, which Initial Funding shall be made available to the Borrower in monthly installments in the amounts and on the dates specified below:
  - (i) on February 27, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), an amount equal to \$170,000;



(ii) on April 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), if Magnolia Insurance Company (A) has obtained its (x) final certificate of authority from the FLOIR, (y) final approval of the rates and forms for insurance policies from the FLOIR and (z) final consent to assume not less than 60,000 direct and assumed insurance policies from the FLOIR by March 28, 2008, an amount equal to \$110,000 or (B) has failed to obtain any of (x), (y) or (z) above, an amount equal to \$60,000; and

(iii) on May 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), if as of such date, (A) the Borrower has fully satisfied the conditions specified in the Escrow Agreement for the release of the Loan proceeds held in the Escrow Account, an amount equal to \$125,000 or (B) the Borrower has failed to fully satisfy the conditions specified in the Escrow Agreement for the release of the Loan proceeds held in the Escrow Account, then no amount shall be disbursed on such date or any date thereafter.

The Borrower agrees that it shall not, without the prior written consent of the Administrative Agent, use any amount of the proceeds from the Initial Funding other than for the start-up costs and expenses identified on Schedule 2.01(b) hereof.

## 2.02 Borrowing.

(a) The Lender shall make available the amount of each installment of the Initial Funding by remitting such amount to an account of the Borrower designated by it for such purpose by notice to the Administrative Agent as provided in Section 4.05 hereof, not later than 4:00 p.m. (New York City time) on the date specified in Section 2.01(b) for the payment of such installment of the Initial Funding.

(b) The Borrower shall give the Administrative Agent notice of the borrowing to be made as of the Effective Date hereunder as provided in Section 4.05 hereof. Not later than 4:00 p.m. (New York City time) on the date specified in such notice, each Lender shall make available an amount equal to the sum of (i) the Commitment minus (ii) the Maximum Initial Funding minus (iii) the First Closing Fee minus (iv) the Structuring Fee minus (v) the Expense Reimbursement, by remitting such amount by wire transfer to the Escrow Agent for deposit in the Escrow Account pursuant to the Escrow Agreement.

## 2.03 Termination of Commitment.

(a) The Commitments shall automatically terminate upon the funding of the Loan(s) on the Effective Date.

(b) The Borrower shall have the right at any time prior to the making of the Loan(s) to terminate or reduce the Commitments; provided that (x) the Borrower shall give notice of each such termination or reduction as provided in Section 4.05 hereof and (y) each partial reduction shall be in an aggregate amount at least equal to \$1,000,000 (or a larger multiple of \$1,000,000).



2.04 Remedies Independent.

Each of the amounts payable by the Borrower at any time hereunder and under each of the Notes to each Lender shall be a separate and independent debt and each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Lender or the Administrative Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

2.05 Evidence of Debt.

(a) Each Lender shall maintain, in accordance with its usual practice, records evidencing the indebtedness of the Borrower to such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder. The Administrative Agent shall maintain records in which it shall record (i) the amount of each Loan made hereunder, the Type thereof, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for account of the Lenders and each Lender's share thereof and such records shall constitute presumptive evidence, absent manifest error, of the accuracy of the information contained therein; provided that the failure of any Lender or the Administrative Agent to maintain such records or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(b) Any Lender may request that the Loan made by such Lender be evidenced by a single promissory note of the Borrower. In such event, such Lender shall submit a written request to the Borrower, together with written evidence of the consent of the Administrative Agent to such request, and Borrower shall prepare, execute and deliver to such Lender, a Note payable to such Lender substantially in the form of Exhibit A hereto.

(c) The date, amount, Type, interest rate of the Loan made by each Lender to the Borrower, and each payment made on account of the principal thereof, shall be recorded by such Lender on its books and, prior to any transfer of the Note evidencing the Loan held by it, endorsed by such Lender on the schedule attached to such Note or any continuation thereof; provided that the failure of such Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing hereunder or under such Note in respect of the Loan to be evidenced by such Note.

(d) No Lender shall be entitled to have its Note (if any) subdivided, by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all or any portion of such Lender's Loan and Note pursuant to Section 11.06(b) hereof.

2.06 Optional Prepayments.

Subject to Section 4.04 hereof, the Borrower shall have the right to prepay Loans, at any time or from time to time, provided that (a) the Borrower shall give the Administrative Agent notice of each such prepayment as provided in Section 4.05 hereof (and, upon the date specified in any



such notice of prepayment, the amount to be prepaid shall become due and payable hereunder) and (b) once prepaid, Loans may not be reborrowed hereunder.

2.07 Execution and Delivery.

The execution and delivery of this Agreement and all other Loan Documents by the parties hereto shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

2.08 Closing Fee.

On the Effective Date, the Borrower shall pay to the Administrative Agent a fee equal to the amount of \$1,595,000 (the "First Closing Fee") from the proceeds of the Loan simultaneously with the funding. The Borrower shall also pay to the Administrative Agent a fee equal to the amount of \$405,000 (the "Second Closing Fee") and, together with the First Closing Fee, the "Closing Fee") not later than the earlier to occur of (i) June 30, 2008 (or if such date is not a Business Day, on the next succeeding Business Day) and (ii) the day the Loan proceeds held in the Escrow Account are returned to the Administrative Agent following the Borrower's failure to satisfy the conditions specified in the Escrow Agreement for the release of such amounts. The amount of the Second Closing Fee shall be reduced by an amount equal to the difference of the (i) Maximum Initial Funding minus (ii) the amount of the Initial Funding actually made available to the Borrower pursuant to Sections 2.01(b) and 2.02(a).

2.09 Structuring Fee.

On the Effective Date, the Borrower shall pay to the Administrative Agent a structuring fee equal to the amount of \$1,000,000 (the "Structuring Fee") from the proceeds of the Loan simultaneously with the funding.

2.10 Expense Reimbursement.

On the Effective Date, the Borrower shall reimburse the Administrative Agent for its estimated expenses in connection with this Agreement and the transactions contemplated hereby in an amount equal to \$800,000 (the "Expense Reimbursement") from the proceeds of the Loan simultaneously with the funding.

Section 3. Payments of Principal and Interest.

3.01 Repayment of Loans.

(a) The Borrower hereby promises to pay to the Administrative Agent for account of each Lender the entire outstanding principal amount of such Lender's Loan on or before the Maturity Date. Loans (including any portion of such Loans) repaid hereunder may not be reborrowed. Each Loan shall mature and shall be due and payable on or before the Maturity Date.

(b) The Borrower shall repay on each Payment Date an amount of principal of the Loan equal to the amount opposite such Payment Date on the Amortization Table attached



hereto as Schedule 3.01(b). To the extent not previously repaid, all unpaid principal of the Loan shall be paid in full by the Borrower to the Administrative Agent on the Maturity Date.

### 3.02 Interest.

(a) The Borrower hereby promises to pay to the Administrative Agent for account of each Lender interest on the unpaid principal amount of the Loan made by such Lender for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full, at the following rates per annum (a) while the proceeds of the Loan (other than the amount of the Initial Funding) are maintained in the Escrow Account, at the Eurodollar Rate and (b) after the proceeds of the Loan (other than the amount of the Initial Funding) have been disbursed from the Escrow Account as provided in Section 6.03, at the Base Rate (as in effect from time to time) plus the Applicable Margin.

(b) Interest shall accrue as set forth in Section 3.02(a) and shall be capitalized and added to the principal of the outstanding Loan on the first (1<sup>st</sup>) day of each month beginning on April 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day). Accrued and unpaid interest shall be paid by the Borrower to the Administrative Agent on each Payment Date, beginning on the First Payment Date. For the avoidance of doubt, the amount of interest due and payable on the First Payment Date shall include all capitalized and accrued and unpaid interest as of such date.

(c) Notwithstanding the foregoing, the Borrower hereby promises to pay to the Administrative Agent for account of each Lender after the occurrence of an Event of Default which has not been cured or waived, interest at the Post-Default Rate on any principal of any Loan and on any other amount payable by the Borrower hereunder or under the Notes to or for account of such Lender. Accrued interest on each Loan shall be payable monthly on the Payment Dates and upon the payment or prepayment thereof or the conversion of the Loan to a Loan of another Type, except that interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to the Borrower.

### 3.03 Place of Payment.

All amounts of principal and interest due and payable by the Borrower pursuant to this Agreement or any Note shall be paid by the Borrower to the Administrative Agent in the City and County of New York, New York, unless otherwise directed by a Lender in writing.

## Section 4. Payments; Pro Rata Treatment; Computations; Etc.

### 4.01 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by the Borrower under this Agreement and the Notes, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to an account of the Administrative Agent most recently designated by it for such purposes by notice to the Borrower, not later than 1:00 p.m. (New York City time) on the date on



which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) The Borrower shall, at the time of making each payment under this Agreement or any Note for the account of any Lender, specify to the Administrative Agent (which shall so notify the intended recipient(s) thereof) the Loans or other amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that the Borrower fails to so specify, or if an Event of Default has occurred and has not been cured or waived, the Administrative Agent may distribute such payment to the Lenders for application in such manner as the Majority Lenders, subject to Section 4.02 hereof, may determine to be appropriate).

(c) Each payment received by the Administrative Agent under this Agreement or any Note for the account of any Lender shall be paid by the Administrative Agent promptly to such Lender, in immediately available funds, for account of such Lender's Applicable Lending Office for the Loan or other obligation in respect of which such payment is made.

(d) Except as otherwise provided herein, if the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension.

#### 4.02 Pro Rata Treatment.

Except to the extent otherwise provided herein: (a) the borrowing of Loans from the Lenders under Section 2.01 hereof shall be made from the Lenders and each termination or reduction of the amount of the Commitments under Section 2.03(b) hereof shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitments; (b) each payment or prepayment of principal of Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loans held by them; and (c) each payment of interest on Loans by the Borrower shall be made for account of the Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

#### 4.03 Computations.

Interest shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

#### 4.04 Minimum Amounts.

Each partial prepayment of principal of Loans (excluding any payments which may be required under Sections 4.08 or 8.09 hereof) shall be in an aggregate amount at least equal to \$250,000 or a larger multiple of \$250,000 provided the Borrower makes no more than four (4) such prepayments of the Loans in any one fiscal year.



4.05 Certain Notices.

Notices by the Borrower to the Administrative Agent of terminations or reductions of the Commitments, and notices by the Borrower of the borrowing to be made on the Effective Date, and optional prepayments of Loans shall be irrevocable and shall be effective only if received by the Administrative Agent not later than 11:00 a.m. New York City time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing or prepayment specified below:

<u>Notice</u>	<u>Number of Business Days Prior</u>
Termination or reduction of Commitments	2
Borrowing or prepayment of Base Rate Loans	same day

Each such notice of termination or reduction shall specify the amount of the Commitments to be terminated or reduced. Each such notice of borrowing or optional prepayment shall specify the Loans to be borrowed or prepaid and the amount (subject to Section 4.04 hereof) of each Loan to be borrowed or prepaid and the date of borrowing or optional prepayment (which shall be a Business Day). The Administrative Agent shall promptly notify the Lenders of the contents of each such notice.

4.06 Non-Receipt of Funds by the Administrative Agent.

Unless the Administrative Agent shall have been notified by a Lender or the Borrower (each a “Payor”, as appropriate) prior to the date on which the Payor is to make payment to the Administrative Agent of the proceeds of a Loan (in the case of a Lender) to be made by such Lender hereunder or a payment to the Administrative Agent for account of one or more of the Lenders (in the case of the Borrower) hereunder (such payment being herein called the “Required Payment”), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date (the “Advance Date”); and, if the Payor has not in fact made the Required Payment to the Administrative Agent, the recipient(s) of such payment shall, on demand, repay to the Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date demand for return of such amount was so made by the Administrative Agent until the date the Administrative Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid, in addition to interest thereon in respect of each day during the period commencing on the Advance Date until, but not including, the date demand for return of such amount was so made, provided that if neither the



recipient(s) nor the Payor shall return the Required Payment to the Administrative Agent within three Business Days of the date of demand therefor, then, retroactively to the date of demand therefor, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows:

(i) if the Required Payment shall represent a payment to be made by the Borrower to the Lenders, the Borrower shall be obligated retroactively to the date of demand therefor to pay interest in respect of the Required Payment at the Post-Default Rate (and, in case the recipient(s) shall return the Required Payment to the Administrative Agent, this shall not limit the obligation of the Borrower under Section 3.02 hereof to pay interest to such recipient(s) at the Post-Default Rate in respect of the Required Payment); and

(ii) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to the Borrower, the Payor shall be obligated retroactively to the date of demand therefor to pay interest in respect of the Required Payment at the rate of interest had such a Required Payment been a payment subject to Section 3.02 hereof or, beginning three Business Days after demand, the Post-Default Rate (and, in case the Borrower shall return the Required Payment to the Administrative Agent, this shall not limit any claim the Borrower may have against the Payor in respect of the Required Payment).

#### 4.07 Sharing of Payments, Etc.

(a) The Borrower agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Lender may otherwise have, each Lender shall be entitled, at its option, to offset balances held by it for account of the Borrower at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loans or any other amount payable to such Lender hereunder, that is not paid when due (regardless of whether such balances are then due to the Borrower), in which case it shall promptly notify the Borrower and the Administrative Agent thereof, provided that such Lender's failure to give such notice shall not affect the validity thereof.

(b) If any Lender shall obtain from the Borrower payment of any principal of or interest on any Loan owing to it or payment of any other amount under this Agreement through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Administrative Agent as provided herein), and, as a result of such payment, such Lender shall have received a greater percentage of the principal of or interest on the Loans or such other amounts then due hereunder by the Borrower to such Lender than the percentage received by any other Lender, it shall promptly purchase from such other Lenders participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans or such other amounts, respectively, owing to such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal of and/or interest on the Loans or such other amounts, respectively, owing to each of the Lenders. To such end all the Lenders shall



make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) The Borrower agrees that any Lender so purchasing such a participation (or direct interest) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

#### 4.08 Mandatory Prepayment of Excess Cash Flow.

Following the end of each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 2008, the Borrower shall prepay Loans in aggregate amount equal to 100% of Excess Cash Flow of the Borrower for such fiscal year. Each prepayment pursuant to this paragraph shall be made not later than the earlier to occur of the tenth (10<sup>th</sup>) day after the date on which financial statements are delivered pursuant to Section 8.01 with respect to the fiscal year for which Excess Cash Flow of the Borrower is being calculated and the ninetieth (90<sup>th</sup>) day after the end of such fiscal year.

### Section 5. Yield Protection, Etc.

#### 5.01 Additional Costs.

(a) Without limiting the effect of the foregoing provisions of this Section 5.01 (but without duplication of any other requirement in this Section 5), if any Lender determines that any Regulatory Change regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lenders to a level below that which such Lender or such Lender's holding company could have achieved but for such Regulatory Change (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(b) Each Lender shall notify the Borrower in writing and by provision of a certificate, as set forth below, of any event occurring after the Date of this Agreement entitling such Lender to compensation under this Section 5.01 as promptly as practicable and the Borrower shall pay such Lender the amount shown as due on any such certificate within fourteen (14) days after receipt thereof; provided that if any Lender fails to give such notice after it



obtains actual knowledge of such an event, such Lender shall, with respect to compensation payable pursuant to this Section 5.01 in respect of any costs resulting from such event, only be entitled to payment under this Section 5.01 for costs incurred from and after the date 270 days prior to the date that such Lender does give such notice. Any Lender so notifying the Borrower shall, at the Borrower's request, take such steps as may be available to it and acceptable to the Borrower to mitigate the effects of such event (which shall include efforts to book the Loan held by such Lender at another lending office of such Lender); provided that such Lender shall be under no obligation to take any step that, in its good faith judgment, would result in its incurring any additional U.S. Taxes or other additional costs in performing its obligations hereunder (unless the Borrower has agreed to reimburse it for the same) or would, in the good faith judgment of such Lender, be materially disadvantageous to such Lender or materially inconsistent with such Lender's internal policies. Anything herein to the contrary notwithstanding, no Lender shall have the right to demand compensation for under paragraph (a) of this Section 5.01, unless demand thereunder is made in accordance with a policy of such Lender being applied in good faith to all borrowers similarly situated. Each Lender will furnish to the Borrower a certificate setting forth the basis and amount of each request by such Lender for compensation under paragraph (a) of this Section 5.01 and computations made by such Lender to determine such amount. Determinations and allocations by any Lender for purposes of this Section 5.01 of the effect of the effect of capital maintained pursuant to paragraph (a) of this Section 5.01, on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive, provided that such determinations and allocations are made in good faith on a reasonable basis, including any reasonable averaging and attribution methods.

#### 5.02 Withholding.

(a) To the extent permitted by law and except to the extent provided in paragraph (b) below, all payments under this Agreement and under the Notes (including payments of principal and interest) shall be payable to each Lender that is not a U.S. Person free and clear of any and all present and future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein other than Excluded Taxes (collectively, the "U.S. Taxes"). If any U.S. Taxes are required to be withheld or deducted from any amount payable under this Agreement to any such Lender, then the amount payable under this Agreement shall be increased to the amount which, after deduction from such increased amount of all U.S. Taxes required to be withheld or deducted therefrom, will yield to such Lender the amount stated to be payable under this Agreement; provided that the foregoing obligation to pay such additional amounts shall not apply:

(i) to any payment to such Lender hereunder unless such Lender is, on the date hereof (or on the date it becomes a Lender as provided in Section 11.06(b) hereof) and on the date of any change in the Applicable Lending Office of such Lender, either entitled to submit a Form W-8BEN (relating to such Lender and entitling it to a complete exemption from withholding on all interest to be received by it hereunder in respect of the Loans) or Form W-8ECI (relating to all interest to be received by such Lender hereunder in respect of the Loans), or



(ii) to any U.S. Taxes imposed solely by reason of the failure by such Lender to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such Lender if such compliance is required by statute or regulation of the United States of America as a precondition to relief or exemption from such U.S. Taxes.

For the purposes of this Section 5.02, (x) “Form W-8BEN” shall mean Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) of the Department of the Treasury of the United States of America, (y) “Form W-8ECI” shall mean Form W-8ECI (Certificate of Foreign Person’s Claim for Exemption from Withholding on Income Effectively Connected with the Conduct of a Trade or Business in the United States) of the Department of the Treasury of the United States of America (or in relation to either such Form such successor and related forms as may from time to time be adopted by the relevant taxing authorities of the United States of America to document a claim to which such Form relates) and (z) “U.S. Person” shall mean a citizen, national or resident of the United States of America, a corporation, partnership, limited liability company or other entity created or organized in or under any laws of the United States of America, a trust subject to the control of one or more U.S. Persons and the primary supervision of a court within the United States, or any estate or trust that is subject to Federal income taxation regardless of the source of its income.

(b) At least five Business Days prior to the first date on which any principal of or interest on any Loan or any fees are payable hereunder to or for the account of any Lender that is not a U.S. Person, such Lender that is not a U.S. Person shall deliver to the Borrower and the Administrative Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of U.S. Taxes. Each Lender which so delivers a Form W-8BEN or W-8ECI further undertakes to deliver to the Borrower and the Administrative Agent two additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, any such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Administrative Agent, in each case certifying that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any U.S. Taxes, unless an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it (“Tax Event”) and such Lender advises the Borrower and the Administrative Agent that it is not capable of receiving payments without any deduction or withholding of U.S. Taxes. If any Lender that is not a U.S. Person fails to comply with the provisions of this Section, the Borrower, may, as required by law, deduct and withhold Federal income tax payments from payments to such Lender under this Agreement and, unless a Tax Event shall have occurred, no payments will be due and owing by the Borrower to such Lender under this Section 5.02 in respect of such deduction and withholding.

(c) If any Lender has received or been granted a credit against or relief or remission for, or refund or repayment of, any U.S. Taxes paid or payable by it in respect of or



which takes account of any U.S. Taxes with respect to which an additional amount was paid by the Borrower (an “Indemnified Tax”) or other matter giving rise to such payment, such Lender shall, to the extent it determines in good faith that it can do so without prejudice to the retention of the amount of such credit, relief, remission, refund or repayment, pay to the Borrower such amount as such Lender shall determine in good faith to be attributable to such Indemnified Tax or other matter and which will leave such Lender (after such payment to the Borrower) in a position no better or worse that it would have been in had the Borrower not been required to deduct or withhold such Indemnified Tax or such other matter had not arisen; provided that the Borrower upon the written request of such Lender, shall return to such Lender the amount of any such refund, repayment or benefit of credit in the event that such Lender is required to repay such amount to the relevant taxing or other authority.

## Section 6. Conditions Precedent.

### 6.01 Conditions to Effectiveness.

The effectiveness of this Agreement is subject to the conditions precedent that the Administrative Agent shall have received the following documents, payments and other items (with sufficient copies, as applicable, except in the case of the Notes, for each Lender), each of which shall be satisfactory to the Administrative Agent (and to the extent specified below, to each Lender) in form and substance:

(a) Corporate Documents. (i) Certified copies of the certificate or articles of incorporation or organization and charter (or equivalent documents) and bylaws, operating agreements or other operational documents of the Borrower and each Subsidiary and of all corporate or limited liability company authority, as applicable, for the Borrower and each Subsidiary (including, without limitation, board of director resolutions and evidence of the incumbency and specimen signatures of officers) with respect to the execution, delivery and performance of this Agreement and the other Loan Documents and the Loans hereunder (and the Administrative Agent and each Lender may conclusively rely on such certificate until it receives notice in writing from the Borrower to the contrary) and (ii) a certificate from the Secretary of State of the State of Florida dated a date reasonably close to the Date Hereof as to the good standing of the Borrower and each Subsidiary.

(b) Opinion of Counsel to the Borrower. An opinion of outside counsel to the Borrower and each Subsidiary, substantially in the form of Exhibit B hereto and covering such other matters as the Administrative Agent or any Lender may reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(c) Notes. If requested by any Lender pursuant to Section 2.05 hereof, the Note for such Lender, duly completed and executed.

(d) Sample Portfolio. Evidence satisfactory to the Administrative Agent of a sample portfolio for Magnolia Insurance Company of not less than 60,000 direct and



assumed insurance policies, all of which conform to underwriting guidelines satisfactory to the Administrative Agent in its sole discretion.

(e) Letter of Credit. The Borrower shall have obtained a clean, irrevocable letter of credit listing the Administrative Agent as beneficiary in the face amount of not less than \$2,200,000 from an issuing bank acceptable to the Administrative Agent in its sole discretion under which drawings are available to repay the Loans (the "Letter of Credit").

(f) Pledge Agreement. The Borrower shall have executed a Pledge Agreement pledging its equity in Magnolia Insurance Company and Magnolia Agency, LLC as security for the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is set forth as Exhibit C hereto.

(g) Security Agreement. The Borrower and Magnolia Agency, LLC shall have executed a Security Agreement granting a security interest in the assets of each, including, without limitation, the rights of the Borrower and Magnolia Agency, LLC to payments under any reinsurance agreements, any agency commissions or fees, payments on any hedging agreements or swaps and any other general intangibles a form of which is attached hereto as Exhibit D.

(h) Subsidiary Guaranty. Magnolia Agency, LLC shall have executed a Guaranty with respect to payment by the Borrower of the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is attached hereto as Exhibit E.

(i) Escrow Agreement. The Administrative Agent, the Borrower and the Escrow Agent shall have executed the Escrow Agreement a form of which is attached as Exhibit F.

(j) Borrower Payments. The Borrower shall pay to the Administrative Agent the (i) First Closing Fee in the amount of \$1,595,000, (ii) Structuring Fee in the amount of \$1,000,000 and (iii) Expense Reimbursement in the amount of \$800,000, in each case, from the proceeds of the Loan simultaneously with the funding.

(k) Pro Forma Financial Statements. The Borrower shall have delivered to the Administrative Agent pro forma financial statements and a budget for the five-year period following the Effective Date which shall be satisfactory to the Administrative Agent in its sole discretion.

(l) Personal Guaranty. H. James Irl shall have executed a Guaranty with respect to payment by the Borrower of the Loans on terms satisfactory to the Administrative Agent in its sole discretion a form of which is attached hereto as Exhibit G.

(m) Subordination Agreement. The account party to the letter of credit provided as required by Section 6.01(e) shall have executed a Subordination Agreement a form of which is attached as Exhibit H.



(n) Benfield Letter. A letter to the Borrower and the Administrative Agent from Benfield that Benfield believes a reinsurance program and an Asset Protection Agreement satisfactory to the Borrower and the Administrative Agent can be placed for the first three years within the Borrower's budget.

(o) LLC Operating Agreement. ART, the Borrower and Magnolia Agency, LLC shall have executed the LLC Operating Agreement in the form attached hereto as Exhibit I.

(p) Magnolia Agency Member Interest. The Borrower shall have entered into a transfer agreement satisfactory to the Administrative Agent and transferred to ART the Class B Membership Interest of Magnolia Agency, LLC.

(q) Opinion of Florida Counsel to Administrative Agent. An opinion of outside Florida counsel to the Administrative Agent, Shutts & Bowen LLP with respect to insurance holding company issues and other issues satisfactory to the Administrative Agent.

#### 6.02 Loans.

The obligation of each Lender to make a Loan to the Borrower on the Effective Date is subject to the further conditions precedent that, both immediately prior to the making of such Loan and also after giving effect thereto and to the intended use thereof:

(a) no Default shall have occurred; and

(b) the representations and warranties made by the Borrower in Section 7 hereof shall be true and correct on and as of the date of the making of such Loan with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date).

The notice of borrowing pursuant to Section 2.02 hereof shall constitute a certification by the Borrower to the effect set forth in the preceding sentence (both as of the date of such notice and, unless the Borrower otherwise notifies the Administrative Agent prior thereto, as of the Effective Date).

#### 6.03 Escrow.

The Loans made by the Lenders to the Borrower shall be remitted as provided in Section 2.02 by wire transfer to the Escrow Agent for deposit in the Escrow Account pursuant to the Escrow Agreement. Upon satisfaction of the conditions set forth in the Escrow Agreement, which shall include, without limitation, (i) evidence satisfactory to the Administrative Agent of final approval and issuance of a certificate of authority for Magnolia Insurance Company from the FLOIR granting Magnolia Insurance Company the authority to operate its business as contemplated in the Plan of Operations submitted to the FLOIR, including the authority to write homeowners multi-peril insurance policies and contracts in the State of Florida, (ii) evidence satisfactory to the Administrative Agent of final approval of the rates to be charged and forms to



be used for insurance policies to be issued by Magnolia Insurance Company from the FLOIR, (iii) evidence satisfactory to the Administrative Agent of final consent for Magnolia Insurance Company to assume not less than 60,000 insurance policies from Citizens Property Insurance Corporation from the FLOIR, (iv) evidence satisfactory to the Administrative Agent of the issuance of an agency license to Magnolia Agency, LLC from the FLOIR granting Magnolia Agency, LLC the authority to operate as managing general agent for Magnolia Insurance Company, (v) delivery to the Administrative Agent of a firm and binding commitment for the reinsurance program for Magnolia Insurance Company from carriers and on terms satisfactory to the Administrative Agent in its sole discretion, (vi) delivery to the Administrative Agent of one or more firm and binding commitments to issue one or more Asset Protection Agreements for the sole benefit of the Lenders with a third party or third parties and on terms satisfactory to the Administrative Agent in its sole discretion, (vii) delivery to the Administrative Agent of an executed Advisory Services Agreement on terms satisfactory to the Administrative Agent, (viii) delivery to the Administrative of a key man life insurance policy covering H. James Irl in the amount of \$20,000,000 on terms satisfactory to the Administrative Agent, (ix) delivery of evidence satisfactory to the Administrative Agent that Magnolia Insurance Company's execution and delivery of, and performance under, the managing general agency agreement by and between Magnolia Agency, LLC and Magnolia Insurance Company dated as of February 26, 2008, has been duly and validly authorized by all requisite corporate and other action and (x) information sufficient to enable the Administrative Agent to satisfy its internal "Know Your Customer" requirements as mandated by the USA Patriot Act, \$19,700,000 of the Loan proceeds held in the Escrow Account shall be transferred to a trust account maintained with The Northern Trust Company, subject to regulatory requirements, to provide statutory capital for Magnolia Insurance Company and \$300,000 of the Loan proceeds held in the Escrow Account shall be transferred to the Florida Division of Treasury, Bureau of Collateral Management to be held for the benefit of Magnolia Insurance Company in accordance with Section 624.411 and Chapter 625, Part III of the Florida Statutes.

#### Section 7. Representations and Warranties.

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

##### 7.01 Existence.

The Borrower and each of its Subsidiaries has done or caused to be done all things necessary to preserve and keep in full force and effect its corporate or limited liability company existence, as applicable, rights (charter and statutory) and franchises, other than such right or franchise whose preservation, in the determination of the Borrower, is no longer desirable in the conduct of the business of the Borrower.

##### 7.02 Litigation.

There are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Borrower) threatened against the Borrower or any Subsidiary except as disclosed in Schedule 7.02 hereto.



7.03 No Breach.

None of the execution and delivery of this Agreement, the other Loan Documents or the Notes, the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of the Borrower or any Subsidiary, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Borrower or any Subsidiary is a party or by which any of them or any of their Property is bound or to which any of them is subject, or constitute a default under any such agreement or instrument.

7.04 Action.

The Borrower and each of its Subsidiaries has all necessary corporate or limited liability company power, authority and legal right to execute, deliver and perform its obligations under this Agreement, the other Loan Documents and the Notes; the execution, delivery and performance by the Borrower and each Subsidiary of this Agreement, the other Loan Documents and the Notes, and the borrowing by the Borrower hereunder, have been duly authorized by all necessary corporate or limited liability company action on their respective parts (including, without limitation, any required shareholder approvals); and this Agreement and the other Loan Documents have been duly and validly executed and delivered by the Borrower and each of its Subsidiaries and constitute, and each of the Notes when executed and delivered by the Borrower for value will constitute, the legal, valid and binding obligation, enforceable against the Borrower or such Subsidiary, as applicable, in accordance with its terms, except as such enforceability may be (a) limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

7.05 Approvals.

No authorization, approval or consent of, and no filing or registration with, any governmental or regulatory authority or agency is required on the part of the Borrower for the execution, delivery or performance by the Borrower of this Agreement, the other Loan Documents or the Notes or for the borrowing by the Borrower under this Agreement, except that to the extent that the Borrower or any Subsidiary is required to satisfy any of its obligations under this Agreement, the Loan Documents or the Notes through the sale of insurance assets, such sale may require the consent of regulatory authorities.

7.06 Investment Company Act.

Neither the Borrower nor any Subsidiary is an "investment company" within the meaning of the Investment Company Act of 1940, as amended, required to register thereunder. None of the execution and delivery of this Agreement and the Notes, the consummation of the transactions herein and therein contemplated or compliance with the terms and provisions thereof will violate the Investment Company Act of 1940, as amended.



7.07 Compliance with Applicable Laws.

The Borrower and its Subsidiaries are in compliance with the requirements of all applicable laws, rules, regulations and orders of all governmental authorities. Neither the Borrower nor any Subsidiary is in default under any agreement or instrument to which the Borrower or such Subsidiary is a party or by which it or any of its properties or assets is bound. No Default or Event of Default has occurred and is continuing.

7.08 Regulation U/Margin Stock.

Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

Section 8. Covenants of the Borrower.

The Borrower covenants and agrees with the Lenders and the Administrative Agent that, so long as any Commitment or Loan is outstanding and until payment in full of all amounts payable by the Borrower hereunder:

8.01 Financial Statements, Reports Etc.

The Borrower shall deliver to the Administrative Agent (and the Administrative Agent will promptly deliver to the Lenders):

(a) as soon as available, and in any event within 45 days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Borrower, consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding periods in the preceding fiscal year (except that, in the case of such balance sheet, such comparison shall be to the last day of the prior fiscal year), accompanied by a certificate of a senior financial officer of the Borrower, which certificate shall state that said consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Borrower and its Subsidiaries, in conformity with GAAP, as of the end of, and for, such period (subject to normal year-end audit adjustments);

(b) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, consolidated statements of income, capital funds and cash flows of the Borrower and its Subsidiaries for such fiscal year and the related consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year, setting forth in each case in comparative form the corresponding consolidated figures as of the end of and for the preceding fiscal year, and accompanied by an opinion thereon of Kaufman Rossin & Co., P.A., 2699 South Bayshore Drive, Miami, FL 33133; Telephone: 305-858-5600, Facsimile: 305-856-3284, or other independent certified



public accountants of recognized national standing or otherwise acceptable to the Administrative Agent, which opinion shall state that said consolidated financial statements present fairly, in all material respects, the consolidated financial condition and results of operations of the Borrower and its Subsidiaries as of the end of, and for, such fiscal year in conformity with generally accepted accounting principles;

(c) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all proxy statements so mailed;

(d) as soon as available and in any event within 5 Business Days after the end of each month, copies of the monthly report from CGI;

(e) as soon as possible after the Borrower learns of any of the following: the commencement of any litigation against the Borrower or any of its Subsidiaries, any default by a counterparty to any reinsurance agreement with Magnolia Insurance Company or any downgrade of any such counterparty; or any notice of any regulatory proceeding by any governmental authority or any filing with or by the FLOIR or any other governmental authority involving the Borrower or any of its Subsidiaries; and

(f) promptly after the Borrower knows that any Default has occurred, a notice of such Default describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that the Borrower has taken or proposes to take with respect thereto.

#### 8.02 Existence.

Subject to Section 8.05 hereof, each of the Borrower and its Subsidiaries will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate or limited liability company existence, as applicable, rights (charter and statutory) and franchises.

#### 8.03 Payment of Taxes and Other Claims.

The Borrower will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all taxes, assessments and governmental charges levied or imposed upon the Borrower or any Subsidiary of the Borrower or upon the income, profits or property of the Borrower or any Subsidiary of the Borrower, and (b) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Borrower or any Subsidiary of the Borrower; provided that the Borrower shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

#### 8.04 Payment of Second Closing Fee.

The Borrower will pay the Second Closing Fee to the Administrative Agent not later than the earlier of (i) June 30, 2008 (or if such date is not a Business Day, on the next succeeding Business Day) and (ii) the day the Loan proceeds held in the Escrow Account are returned to the Administrative Agent following the Borrower's failure to satisfy the conditions specified in the Escrow Agreement for the release of such amounts.



8.05 Limitation on Liens.

The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, create, issue, assume, incur or guarantee any indebtedness for money borrowed which is secured by a mortgage, pledge, lien, security interest or other encumbrance of any nature.

8.06 Consolidation, Merger, Conveyance, Transfer or Lease.

Neither Borrower nor any Subsidiary shall consolidate with or merge into any other Person or convey, transfer or lease its Properties substantially as an entirety to any Person, nor shall the Borrower permit any Person to consolidate with or merge into the Borrower or any Subsidiary or convey, transfer or lease its Properties substantially as an entirety to the Borrower or any Subsidiary.

8.07 Use of Proceeds.

The Borrower will use the proceeds of the Initial Funding hereunder exclusively to pay the start-up costs and expenses identified on Schedule 2.01(b) hereto. The Borrower will use the remaining proceeds of the Loans hereunder exclusively for four (4) purposes: to (i) pay the First Closing Fee in the amount of \$1,595,000, (ii) pay the Structuring Fee in the amount of \$1,000,000, (iii) pay the Expense Reimbursement in the amount of \$800,000, in each case, as provided in Section 6.01(j) and (iv) following the release of such amounts from the Escrow Account in accordance with the terms and conditions of the Escrow Agreement, provide statutory capital in the amount of \$20,000,000 for Magnolia Insurance Company, \$19,700,000 of which shall be deposited into a trust account maintained with The Northern Trust Company (subject to regulatory requirements) which can be accessed only to pay valid policy claims under insurance policies issued by Magnolia Insurance Company and \$300,000 of which shall be held by the Florida Division of Treasury, Bureau of Collateral Management in accordance with Section 624.411 and Chapter 625, Part III of the Florida Statutes.

8.08 Inspection.

The Borrower will permit the Administrative Agent, at the Borrower's expense, reasonable access for a reasonable duration during normal business hours to the books and records of the Borrower and any Subsidiary and to discuss the affairs, finances and accounts of the Borrower and any Subsidiary with their respective officers and accountants, provided that such access shall be permitted upon reasonable notice and at such reasonable times as the Administrative Agent may designate.

8.09 Reinsurance Program.

The guidelines applicable to Magnolia Insurance Company's reinsurance program are set forth on Exhibit M attached hereto. The Borrower will cause Magnolia Insurance Company to maintain a reinsurance program that is in compliance with the reinsurance program guidelines attached hereto as Exhibit M. The Borrower will not obtain or permit Magnolia Insurance Company to obtain uncollateralized reinsurance from a counterparty with a financial strength rating issued by AM Best or Standard & Poor's of less than A or otherwise not satisfactory to the Administrative Agent in its sole and absolute discretion. Before Magnolia Insurance Company



incurs risks under insurance policies and in any event by the first day of June, 2008 and thereafter not later than the tenth (10<sup>th</sup>) Business Day prior to the expiration of any reinsurance agreement then in effect, the Borrower will deliver to the Administrative Agent a firm and binding commitment from a counterparty or counterparties acceptable to the Administrative Agent in its sole and absolute discretion to enter into a reinsurance agreement with Magnolia Insurance Company on terms satisfactory to the Administrative Agent in its sole and absolute discretion. The Borrower will deliver to the Administrative Agent by not later than the tenth (10<sup>th</sup>) Business Day following execution thereof, a fully executed reinsurance agreement from a counterparty or counterparties acceptable to the Administrative Agent in its sole and absolute discretion on terms satisfactory to the Administrative Agent in its sole and absolute discretion. The Borrower will cause the Administrative Agent to receive (i) an Assignment Agreement (a form of which is attached as Exhibit J) executed by Magnolia Insurance Company and the Administrative Agent, (ii) evidence satisfactory to the Administrative Agent that Magnolia Insurance Company has given notice satisfactory to the Administrative Agent of such assignment to each counterparty to the reinsurance agreements with Magnolia Insurance Company, and received a written acknowledgment of such assignment satisfactory to the Administrative Agent from each counterparty to such reinsurance agreements and a legal opinion from counsel to such counterparties confirming the enforceability of such Assignment Agreement against such counterparties that is satisfactory to the Administrative Agent in its sole and absolute discretion.

#### 8.10 Asset Protection Agreement.

The Borrower will maintain one or more Asset Protection Agreements in the amount of the lesser of \$20,000,000 or the outstanding principal balance of the Loans for the sole benefit of the Lenders with carriers and with terms and conditions satisfactory to the Administrative Agent, in its sole and absolute discretion. Before Magnolia Insurance Company incurs risks under insurance policies and in any event by the first day of May, 2008 and thereafter not later than three months prior to the end of the term of the Asset Protection Agreement(s) then in effect, the Borrower will deliver to the Administrative Agent a firm and binding commitment from a third party or third parties satisfactory to the Administrative Agent in its sole and absolute discretion to renew the Asset Protection Agreement(s) on terms satisfactory to the Administrative Agent in its sole and absolute discretion. Not later than one month prior to the end of the term of the Asset Protection Agreement(s) then in effect, the Borrower will deliver to the Administrative Agent one or more Asset Protection Agreements from a third party or third parties and on terms satisfactory to the Administrative Agent in its sole and absolute discretion. Any payments received by the Lenders from the Asset Protection Agreement(s) shall be applied as a prepayment of the Loans and shall be credited toward the accrued and unpaid interest and outstanding principal balance pursuant to the terms of this Agreement.

#### 8.11 Compliance with Law.

The Borrower will comply, and cause each Subsidiary to comply with, all statutes and governmental rules and regulations applicable to it.

#### 8.12 Indebtedness.



Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

(i) the Loans,

(ii) any obligation to reimburse the account party for any payment made to reimburse the issuing bank for any drawing made on the letter of credit provided pursuant to Section 6.01(e) provided any such obligation on the part of the Borrower or any of its Subsidiaries shall be subordinated to the Loans on terms satisfactory to the Administrative Agent in its sole discretion which shall include a complete prohibition of any payment of such Indebtedness by the Borrower or any of its Subsidiaries to such account party while any of the Loans remain outstanding, and

(iii) other Indebtedness incurred in connection with the start-up costs and expenses identified on Schedule 2.01(b) hereto, not to exceed \$150,000 at any time.

#### 8.13 Investments.

Neither the Borrower nor any of its Subsidiaries shall directly or indirectly make or own any investment in or make any loan or advance to any other Person except:

(i) investments as set forth in Florida Statutes 625.306 through 625.338;

(ii) investments in cash equivalents;

(iii) investments consisting of deposit accounts maintained by the Borrower and its Subsidiaries; and

(iv) investments in any wholly-owned Subsidiaries.

#### 8.14 Conduct of Business.

Neither the Borrower nor any of its Subsidiaries shall engage in any business other than the provision of primary insurance policies for damage to homes (other than mobile, manufactured or trailer homes) in the State of Florida, or in any other state as approved in writing, by the Administrative Agent.

#### 8.15 Restricted Payments.

The Borrower shall not declare or pay any dividends whatsoever or make any distribution on any capital stock of the Borrower (except in shares of, or warrants or rights to subscribe for any purchase shares of, capital stock of the Borrower), and shall not make any payment to acquire or retire shares of capital stock to the Borrower.



#### 8.16 Transactions with Affiliates.

Neither the Borrower nor any of its Subsidiaries shall directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Borrower on terms that are less favorable to the Borrower or any of its Subsidiaries, as applicable, than those that might be obtained in an arm's length transaction at the time from Persons who are not such an Affiliate.

#### 8.17 Underwriting Guidelines.

Magnolia Insurance Company's underwriting guidelines are set forth in Exhibit L attached hereto. Except as permitted below, the Borrower will not permit any of its Subsidiaries to underwrite any insurance policy that is not in accordance with such underwriting guidelines set forth in Exhibit L. Notwithstanding the foregoing, Magnolia Insurance Company may underwrite insurance policies with coverage in an aggregate amount of up to 10% of the total coverage under all of its insurance policies outside the underwriting guidelines set forth in Exhibit L, provided such policies are approved by the underwriting committee of Magnolia Insurance Company constituted of a non-executive director, the Vice President Underwriting, the Chief Executive Officer, the Vice President Reinsurance, the Vice President Claims, the Vice President Operations, the Regulatory Advisor, the Forms Advisor and the Actuarial Advisor. Any change in the membership of such underwriting committee shall be made only with the prior approval of the Administrative Agent, which shall not be unreasonably withheld.

#### 8.18 Maintenance of Licenses.

The Borrower and each Subsidiary shall (i) maintain any insurance license or other governmental license issued by the appropriate regulatory authorities or governmental entities necessary to conduct its business, (ii) remain in compliance with the terms and conditions of all such licenses and (iii) ensure all such licenses remain valid and in full force.

#### 8.19 Documents and Agreements.

Neither the Borrower nor any Subsidiary shall change, amend, modify or terminate its charter or bylaws or any other organizational document or any Material Contract to which it is a party including any reinsurance agreement or Asset Protection Agreement or waive any provision of any of the foregoing without the prior written consent of the Administrative Agent. Neither the Borrower nor any Subsidiary shall enter into any (a) Material Contract or (b) Contract for the employment of any individual as an employee, consultant or agent of any of the Borrower or any Subsidiary prior to April 30, 2008 that is not in accordance with Schedule 2.01(b), in each case, without the prior written consent of the Administrative Agent.

#### 8.20 Expense Ratios.

(a) Agent commissions paid to third parties by Magnolia Agency, LLC on business that Magnolia Agency, LLC places with Magnolia Insurance Company shall not exceed



an amount equal to 15% of the gross written premiums paid to Magnolia Insurance Company with respect to such policies.

(b) The Insurance Company Operating Expenses shall not exceed the following amounts set forth below for the years listed below:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$4,075,000
2009	\$2,657,100
2010	\$2,821,110
2011	\$3,112,996
2012	\$3,366,296

provided, however, that if in any year beginning with 2009 the net written premiums (after reinsurance costs) exceeds the expected net written premiums for such year as reflected in the pro forma statement of expected net written premiums attached as Schedule 8.20(b) to this Agreement, the amount set forth above for such year shall be increased by an amount equal to 1.6% of the amount of the excess of such net written premiums above the expected level set forth in Schedule 8.20(b).

(c) The Agency Operating Expenses shall not exceed the amounts set forth below for the years listed below:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$0.00
2009	\$1,644,400
2010	\$2,095,540
2011	\$2,634,319
2012	\$2,936,751

provided, however, that if the commissions paid to Magnolia Agency, LLC as the managing general agent in any year exceed the amount set forth in the pro forma statement of expected commissions attached as Schedule 8.20(c) to this Agreement, then the amount set forth above for such year shall be increased for such year by 4.8% of the amount of such excess.

#### 8.21 Regulation U/Margin Stock.

No part of the proceeds of the Loans will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

#### 8.22 Banking Relationships.



(a) Subject to regulatory requirements, the Borrower and each of its Subsidiaries shall hold all funds of the Borrower and each of its Subsidiaries in accounts with a financial institution acceptable to the Administrative Agent.

(b) The Borrower and Magnolia Agency, LLC and each of their respective Subsidiaries shall cause each bank or other financial institution in which it maintains any account to enter into a control agreement with the Administrative Agent, in form and substance satisfactory to the Administrative Agent.

8.23 Agency Fee.

If at any time a Lender in addition to ART shall make a Loan to the Borrower, the Borrower shall pay the Administrative Agent an annual agency fee of \$25,000 for each year or pro rata portion thereof during which more than one Lender is party to this Agreement, with the first installment of such fee being due and payable on the date such additional Lender makes a Loan to the Borrower and each subsequent installment on the anniversary of additional such date.

8.24 Compensation.

All compensation arrangements of the Borrower, including without limitation, any payment of salaries, fees or other compensation to officers or directors of the Borrower, shall only be entered into with the prior approval of the Administrative Agent.

8.25 Maintain Letter of Credit.

The Borrower shall maintain a clean, irrevocable letter of credit listing the Administrative Agent as beneficiary in the face amount of not less than \$2,200,000 from an issuing bank acceptance to the Administrative Agent in its sole discretion under which drawings are available to repay the Loans.

8.26 Compliance With Contracts.

The Borrower will comply, and cause each Subsidiary to comply, with all leases, contracts and other agreements to which it or such Subsidiary is a party, as applicable.

8.27 Advisory Services Agreement.

Magnolia Agency, LLC shall enter into an advisory services agreement with Allianz Risk Transfer, an insurance company organized under the laws of Switzerland, satisfactory to the Administrative Agent, not later than ten (10) days after the Effective Date (the “Advisory Services Agreement”).

8.28 Key Man Life Insurance.

The Borrower shall deliver to the Administrative Agent a key man life insurance policy covering H. James Irl in the amount of \$20,000,000 on terms satisfactory to the Administrative Agent in its sole discretion not later than forty five (45) days after the Effective Date.



8.29 Depopulation of Policies.

Magnolia Insurance Company shall assume not less than 60,000 direct and assumed insurance policies, all of which conform to Magnolia Insurance Company's underwriting guidelines which are set forth in Exhibit L attached hereto, no later than July 1, 2008 (or if such date is not a Business Day, on the next succeeding Business Day).

Section 9. Events of Default.

If one or more of the following events (herein called "Events of Default") shall occur and be continuing:

- (a) The Borrower shall fail to make a payment when due (whether at stated maturity or upon acceleration or mandatory or optional prepayment) of any principal of any Loan or any loan outstanding under this Agreement; or
- (b) The Borrower shall fail to make a payment of any interest on any Loan or any loan outstanding under this Agreement or any fee or any other amount payable by it hereunder or under this Agreement within three Business Days after the due date; or
- (c) Any representation, warranty or certification made or deemed made herein (or in any modification or supplement hereto) by the Borrower, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof, shall prove to have been false or misleading as of the time made, deemed made or furnished in any material respect; or
- (d) The Borrower shall fail in the performance of any of its obligations under Sections 8.04, 8.05, 8.06, 8.07, 8.09, 8.10, 8.12, 8.13, 8.14, 8.17, 8.18, 8.19, 8.20, 8.25 or 8.26 of this Agreement; or
- (e) The Borrower shall fail in the performance of any of its other obligations under this Agreement and such failure shall continue uncured and unwaived for ten (10) Business Days; or
- (f) The Borrower or any Subsidiary shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or
- (g) The Borrower or any Subsidiary shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate or limited liability company action for the purpose of effecting any of the foregoing; or



(h) An involuntary proceeding or case shall be commenced against the Borrower or any Subsidiary in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of the Borrower or any Subsidiary or of all or any substantial part of its Property, or (iii) similar relief in respect of the Borrower or any Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Borrower or any Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(i) The Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable; or

(j) Any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; or

(k) One or more judgments for the payment of money in an aggregate amount in excess of \$100,000 shall be rendered against the Borrower or any Subsidiary and such judgment shall continue unsatisfied for a period of forty-five (45) days; or

(l) A Change of Control shall occur; or

(m) Any pledge agreement, security agreement or guaranty entered into as provided in Section 6.01(f), (g) or (h) shall fail to remain in full force and effect against the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall take any action to discontinue or assert the invalidity or unenforceability of, or any action or circumstance results in the discontinuation or invalidity or unenforceability of any such agreement or any security interest created under any such agreement shall become unperfected or shall not have the priority contemplated by such agreement; or

(n) Magnolia Insurance Company shall fail to acquire at least 60,000 direct and assumed insurance policies, all of which conform to Magnolia Insurance Company's underwriting guidelines which are set forth in Exhibit L attached hereto, by July 1, 2008.

THEREUPON: (1) in the case of an Event of Default other than one referred to in clause (f), (g) or (h) of this Section 9, the Administrative Agent may and, upon request of the Majority Lenders, will, by notice to the Borrower, (A) terminate the Commitments and they shall thereupon terminate, and (B) declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the



Notes to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower; and (2) in the case of the occurrence of an Event of Default referred to in clause (f), (g) or (h) of this Section 9, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the Notes shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

#### Section 10. The Administrative Agent.

##### 10.01 Appointment, Powers and Immunities.

Each Lender hereby irrevocably appoints and authorizes the Administrative Agent to act as its agent hereunder with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in Section 10.05 hereof and the first sentence of Section 10.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents): (a) shall have no duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Lender; (b) shall not be responsible to the Lenders for any recitals, statements, representations or warranties contained in this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any other document referred to or provided for herein or for any failure by the Borrower or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith, except for its own gross negligence or willful misconduct. The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Administrative Agent, together with the consent of the Borrower to such assignment or transfer (to the extent provided in Section 11.06(b) hereof, but subject to Section 11.06(d) hereof).

##### 10.02 Reliance by Administrative Agent.

The Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including, without limitation, any thereof by telephone, telecopy, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. As to any matters not expressly provided for by this Agreement, the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions given



by the Majority Lenders, and such instructions of the Majority Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

#### 10.03 Defaults.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless the Administrative Agent has received notice from a Lender or the Borrower specifying such Default and stating that such notice is a "Notice of Default". In the event that the Administrative Agent receives such a notice of the occurrence of a Default, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall (subject to Sections 10.01, 10.07 and 11.04 hereof) take such action with respect to such Default as shall be directed by the Majority Lenders, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Lenders except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Lenders or all of the Lenders.

#### 10.04 Rights as a Lender.

With respect to its Commitment and the Loan made by it, ART (and any successor acting as Administrative Agent), in its capacity as a Lender hereunder, shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity. ART (and any successor acting as Administrative Agent) and its affiliates may (without having to account therefore to any Lender) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with the Borrower (and any of its Subsidiaries or affiliates) as if it were not acting as the Administrative Agent, and ART and its affiliates may accept fees and other consideration from the Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

#### 10.05 Indemnification.

The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed under Section 11.03 hereof, but without limiting the obligations of the Borrower under said Section 11.03) ratably in accordance with their respective Commitments (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought), for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other documents contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses that the Borrower is obligated to pay under Section 11.03 hereof or costs and expenses incurred in connection with a Default but excluding normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or of any such other documents,



provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

10.06 Non-Reliance on Administrative Agent and Other Lenders.

Each Lender agrees that it has, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by the Borrower of this Agreement or any other document referred to or provided for herein or to inspect the Properties or books of the Borrower or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Borrower or any of its Subsidiaries (or any of their affiliates) that may come into the possession of the Administrative Agent or any of its affiliates.

10.07 Failure to Act.

Except for action expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the Lenders of their indemnification obligations under Section 10.05 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

10.08 Resignation or Removal of Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving 30 days' written notice thereof to the Lenders and the Borrower, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, that shall be a bank that has an office in New York, New York and such bank has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the



provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

## Section 11. Miscellaneous.

### 11.01 Waiver.

No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

### 11.02 Notices.

All notices, requests and other communications provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telecopy) to the intended recipient (in the case of each of the Borrower and the Administrative Agent) set forth in this Section 11.02, and in the case of each Lender, at its address set forth in its Administrative Questionnaire; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices from the Administrative Agent to the Lenders regarding the borrowing, payments, or prepayments and other notices pursuant to Section 2 hereof unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

#### Borrower Address:

260 Glenridge Road  
Key Biscayne, FL 33149  
Attention: H. James Irl  
Telephone: +1 305-365-0181  
Facsimile: +1 305-365-1844  
Email: james@magnoliainsurance.biz

#### Administrative Agent Address:

Allianz Risk Transfer, Inc.  
350 Park Avenue, 10<sup>th</sup> Floor  
New York, NY 10022



Attention: Legal Department  
Telephone: +1 (646) 840-5000  
Facsimile: +1 (212) 754-2330  
Email: [mgabin@art-allianz.com](mailto:mgabin@art-allianz.com)

with a copy to:

Allianz Risk Transfer (Bermuda) Limited  
Overbay, 106 Pitts Bay Road  
Pembroke HM 08  
Bermuda  
Attention: Bill Guffey  
Telephone: +1 (441) 295-4722  
Facsimile: +1 (441) 295-2867  
Email: [bguffey@art-allianz.com](mailto:bguffey@art-allianz.com)

#### 11.03 Expenses, Etc.

The Borrower agrees to pay or reimburse each of the Lenders and the Administrative Agent for: (a) all reasonable out-of-pocket costs and expenses of the Administrative Agent (including, without limitation, the reasonable fees and expenses of counsel to the Administrative Agent) in connection with (i) any Default and any enforcement or collection proceedings resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section 11.03; and (b) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the Notes or any other document referred to herein, provided that the Lenders who are not the Administrative Agent shall be entitled to reimbursement under this Section 11.03 for no more than one counsel representing all such Lenders (absent a conflict of interest in which case the Lenders may engage and be reimbursed for additional counsel).

The Borrower hereby agrees to indemnify the Administrative Agent and each Lender and their respective directors, officers, employees, attorneys and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Administrative Agent or any Lender, whether or not the Administrative Agent or any Lender is a party thereto) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified).



#### 11.04 Amendments, Etc.

Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Borrower and the Majority Lenders, or by the Borrower and the Administrative Agent acting with the consent of the Majority Lenders, and any provision of this Agreement may be waived by the Majority Lenders or by the Administrative Agent acting with the consent of the Majority Lenders; provided that: (a) (in the event there shall be more than one Lender party hereto) no modification, supplement or waiver shall, unless by an instrument signed by each Lender affected thereby or by the Administrative Agent acting with the consent of each Lender affected thereby: (i) extend the date fixed for the payment of principal of or interest on any Loan or any fee hereunder, (ii) reduce the amount of any such payment of principal, (iii) reduce the rate at which interest is payable thereon or any fee is payable hereunder, (iv) alter the terms of Section 4.07 hereof or this Section 11.04 or (v) modify the definition of the term "Majority Lenders" or modify in any other manner the number or percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof; and (b) any modification or supplement of Section 10 hereof shall require the consent of the Administrative Agent.

#### 11.05 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

#### 11.06 Assignments and Participations.

(a) The Borrower may not assign any of its rights or obligations hereunder or under the Notes without the prior written consent of all of the Lenders and the Administrative Agent and any assignment without such consent shall be null and void.

(b) Each Lender may assign any of its Loan and its Note (but only with the prior written consent of the Administrative Agent). Upon execution and delivery by the assignee to the Borrower and the Administrative Agent of an instrument in writing pursuant to which such assignee agrees to become a "Lender" hereunder (if not already a Lender) having a Loan specified in such instrument, and upon consent thereto by the Administrative Agent, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of the Administrative Agent), the obligations, rights and benefits of a Lender hereunder holding the Loan (or portions thereof) assigned to it (in addition to the Loan, if any, theretofore held by such assignee). Upon each such assignment, the assigning Lender shall pay the Administrative Agent an assignment fee of \$3,500. (At no time shall the Borrower or any Subsidiary be liable to the Administrative Agent for any Lender's failure to pay such assignment fee.)

(c) A Lender may sell or agree to sell to one or more other Persons a participation in all or any part of any Loan held by it, in which event each purchaser of a participation (a "Participant") shall not, except as otherwise provided in Section 4.07(c) hereof, have any other rights or benefits under this Agreement or any Note (the Participant's rights



against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by the Borrower to any Lender under Section 5 hereof in respect of any Loan held by it shall be determined as if such Lender had not sold or agreed to sell any participations in such Loan, and as if such Lender were funding such Loan in the same way that it is funding the portion of such Loan in which no participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder except that such Lender may agree with the Participant that it will not, without the consent of the Participant, agree to (i) extend the date fixed for the payment of principal of or interest on the related Loan or Loans or any portion of any fee hereunder payable to the Participant, (ii) reduce the amount of any such payment of principal or (iii) reduce the rate at which interest is payable thereon, or any fee hereunder payable to the Participant, to a level below the rate at which the Participant is entitled to receive such interest or fee.

(d) In addition to the assignments and participations permitted under the foregoing provisions of this Section 11.06, any Lender may (without notice to or consent of the Borrower, the Administrative Agent or any other Lender and without payment of any fee) (i) assign and pledge all or any portion of its Loan and its Note to any Federal Reserve Lender as collateral security and (ii) assign all or any portion of its rights under this Agreement and its Loan and its Note to an Affiliate. No such assignment shall release the assigning Lender from its obligations hereunder.

(e) A Lender may furnish any information concerning the Borrower or any of its Subsidiaries in the possession of such Lender from time to time to assignees and Participants (including prospective assignees and participants), subject, however, to the provisions of Section 11.13 hereof.

(f) Anything in this Section 11.06 to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan held by it hereunder to the Borrower or any of its affiliates or Subsidiaries without the prior consent of each Lender.

#### 11.07 Survival.

The obligations of the Borrower under Sections 5.01 and 11.03 hereof and the obligations of the Lenders under Section 10.05 hereof, shall survive the repayment of the Loans and the termination of the Commitments. In addition, each representation and warranty made, or deemed to be made by a notice of any Loan, herein or pursuant hereto shall survive the making of such representation and warranty, and no Lender shall be deemed to have waived, by reason of making any Loan, any Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Lender or the Administrative Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such Loan was made.



11.08 Captions.

The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.09 Counterparts.

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

11.10 Governing Law; Submission to Jurisdiction.

This Agreement and the Notes, and all matters and disputes arising out of or in any way relating to this Agreement or the Notes, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Agreement, the Notes or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

11.11 Waiver of Jury Trial.

EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR IN ANY WAY RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.12 Agent for Service of Process.

By the execution and delivery of this Agreement, the Borrower (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to the Note or this Agreement that may be instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Lender or the Administrative Agent, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Borrower in the manner provided in Section 11.02, shall be deemed in every respect effective service of process upon the Borrower in any such suit or proceeding. The



Borrower further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Agreement shall be in effect.

11.13 Confidentiality.

(i) Except as provided in this Section 11.13, each of the Administrative Agent and Lenders expressly agrees to maintain as confidential and not to disclose, publish or disseminate to any third parties any Confidential Information (as defined below) provided to it, provided, however, that nothing herein shall limit the disclosure of any Confidential Information (a) to its Affiliates, counsel or other representatives reasonably required, in the opinion of the Administrative Agent or the Lender, as the case may be, to have such information, provided such Persons have agreed or are under a duty to keep all such information confidential in accordance with this Section 11.13 or pursuant to requirements of professional responsibility; (b) upon the request or demand of any regulatory agency, authority or self regulatory body having jurisdiction over or claiming authority to regulate or oversee any aspect of the business of such Administrative Agent or Lender; (c) to the extent required by applicable laws or regulations or pursuant to any subpoena, court or governmental order or similar legal process, provided that to the extent permitted by law and if practicable to do so under the circumstances, the Borrower is given prior notice of, and an opportunity to contest, the production of such Confidential Information (which notice and opportunity shall be reasonable under the circumstances); (d) to any prospective assignee or Participant in connection with any contemplated transfer pursuant to Sections 11.05 or 11.06, provided that such prospective transferee shall have expressly agreed to be bound by the provisions of this Section 11.13; (e) to any other party to this Agreement, (f) to any nationally recognized rating agency, (g) to the extent necessary in connection with the exercise of any remedy hereunder and (h) in connection with any litigation or dispute to which the Borrower or any of its Subsidiaries and one or more of the Administrative Agent or Lenders is a party. Each of the Administrative Agent and the Lenders agrees that it will only use the Confidential Information in connection with the evaluation and administration of this credit facility and its Loans and enforcement of its rights in connection therewith, and it will not use the Confidential Information for purposes of trading in the securities of the Borrower or any of its Subsidiaries in the future.

(ii) For purposes of this Section 11.13, “*Confidential Information*” means any written or oral information provided under this Agreement by or on behalf of the Borrower or any of its Subsidiaries that, in the case of written information, is clearly marked “*confidential*” and in the case of oral information, that has been identified by its source as confidential, other than any Confidential Information which: (a) is or becomes generally available to the public other than as the result of a breach of this Section 11.13, (b) is or becomes available to the Administrative Agent or a Lender on a non-confidential basis from a source other than the Borrower, or one of its agents, any of its Subsidiaries or any of its agents, which source is not known by the Administrative Agent or Lender, as the case may be, to be bound by a confidentiality agreement with the Borrower or any of its Subsidiaries; (c) was known to the Administrative Agent or Lender, as the case may be, on a non-confidential basis prior to its disclosure to such party by the Borrower or one of its agents, any of its Subsidiaries or one of its agents, or another Lender; (d) the Borrower or any of its Subsidiaries has advised the party is no



longer confidential or (e) to the extent the Borrower or any of its Subsidiaries shall have consents to such disclosure in writing.

(iii) The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement (excluding, however, any information obtained by such Lender pursuant to Section 8.07 hereof, except for use in connection with its rights or remedies under this Agreement), or in connection with the decision of such Lender to enter into this Agreement, with any such Subsidiary or affiliate, it being understood that any such Subsidiary or affiliate receiving such information shall be bound by the provisions of clause (i) above as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans and the termination of the Commitments.

#### 11.14 Indemnity.

The Borrower shall indemnify the Administrative Agent and each Lender, and each Affiliate of any of the foregoing Persons (each such Person being called an “Indemnatee”) against, and hold each Indemnatee harmless from, any and all losses, claims, damages, penalties, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the transactions contemplated hereby, (ii) the Loan or the use of the proceeds therefrom, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, penalties, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee.

#### 11.15 Counterparts; Integration; Effectiveness.

This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 6.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Delivery of an executed counterpart of a



signature page of this Agreement electronically by PDF or by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

11.16 Severability.

Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

11.17 Termination.

This Agreement shall continue in effect until (i) this Agreement has terminated pursuant to its express terms and (ii) all of the Loans and obligations (other than contingent indemnification obligations) have been indefeasibly paid and performed in full.

11.18 USA PATRIOT ACT.

Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), such Lender may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with said Act.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed and delivered as of the day and year first above written.

IRL FINANCIAL GROUP INCORPORATED

By \_\_\_\_\_  
Name:  
Title:

LENDERS

ALLIANZ RISK TRANSFER, INC.  
Individually and as Administrative Agent

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



COMMITMENTS

<u>Lender</u>	<u>Commitment (\$)</u>
Allianz Risk Transfer, Inc.	23,800,000
<u>Total</u>	23,800,000



## START-UP COSTS AND EXPENSES

The start-up costs and expenses shall be as set forth in the table below based on the month in which Magnolia Insurance Company obtains a certificate of authority from the FLOIR granting Magnolia Insurance Company the authority to operate its business as contemplated in the Plan of Operations submitted to the FLOIR, including the authority to write homeowners multi-peril insurance policies and contracts in the State of Florida.

	March	April	May
Demotech/AM Best	\$35,000		
ISO			
Furniture, Computers, etc.		\$25,000	\$25,000
Office Lease		\$25,000	\$25,000
Phones	\$1,000	\$1,000	\$1,000
Association Fees			
Actuarial, Filings	\$25,000	\$3,000	\$2,000
Car Lease/Insurance			
T&E	\$8,333	\$8,333	\$8,333
Directors, other insurance			
Director Fees			
Audit			
Accounting	\$15,000		
Legal	\$25,000		
Misc.	\$10,000		\$5,000
Consultants	\$10,000	\$10,000	\$10,000
Salaries	\$37,500	\$37,500	\$37,500
Benefits			
Agency Expenses			



**TOTAL \$166,833 \$109,833 \$113,833**



**AMORTIZATION TABLE**

Payment Date	Principal Amount
1/1/2009	\$ 320,000.00
2/1/2009	\$ 320,000.00
3/1/2009	\$ 320,000.00
4/1/2009	\$ 320,000.00
5/1/2009	\$ 320,000.00
6/1/2009	\$ 320,000.00
7/1/2009	\$ 320,000.00
8/1/2009	\$ 320,000.00
9/1/2009	\$ 320,000.00
10/1/2009	\$ 320,000.00
11/1/2009	\$ 320,000.00
12/1/2009	\$ 320,000.00
1/1/2010	\$ 420,000.00
2/1/2010	\$ 420,000.00
3/1/2010	\$ 420,000.00
4/1/2010	\$ 420,000.00
5/1/2010	\$ 420,000.00
6/1/2010	\$ 420,000.00
7/1/2010	\$ 420,000.00
8/1/2010	\$ 420,000.00
9/1/2010	\$ 420,000.00
10/1/2010	\$ 420,000.00
11/1/2010	\$ 420,000.00
12/1/2010	\$ 420,000.00
1/1/2011	\$ 520,000.00
2/1/2011	\$ 520,000.00
3/1/2011	\$ 520,000.00
4/1/2011	\$ 520,000.00
5/1/2011	\$ 520,000.00
6/1/2011	\$ 520,000.00
7/1/2011	\$ 520,000.00
8/1/2011	\$ 520,000.00
9/1/2011	\$ 520,000.00
10/1/2011	\$ 520,000.00
11/1/2011	\$ 520,000.00
12/1/2011	\$ 520,000.00
1/1/2012	\$ 620,000.00
2/1/2012	\$ 620,000.00
3/1/2012	\$ 620,000.00



4/1/2012	\$ 620,000.00
5/1/2012	\$ 620,000.00
6/1/2012	\$ 620,000.00
7/1/2012	\$ 620,000.00
8/1/2012	\$ 620,000.00
9/1/2012	\$ 620,000.00
10/1/2012	\$ 620,000.00
11/1/2012	\$ 620,000.00
12/1/2012	\$ 620,000.00
1/1/2013	\$ 620,000.00
2/1/2013	\$ 620,000.00



LIST OF PENDING OR THREATENED LITIGATION

NONE



PRO FORMA NET WRITTEN PREMIUMS

	<b>Magnolia Insurance Company Statutory Income Statement (in \$000)</b>		
<b>Revenues</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Gross Written Premiums	202,078	177,434	187,292
Reinsurance Premiums Ceded	-31,051	-66,537	-74,522
Net Written Premiums	171,027	110,897	112,770
Net Earned Premiums	87,239	110,897	105,377
Investment Income	3,203	8,395	8,595
<b>Total Revenues</b>	<b>90,442</b>	<b>119,292</b>	<b>113,972</b>
<b>Expenses</b>			
Total Claims (excluding claims expenses)	44,572	58,203	62,076
Commissions on Policy Assumptions	9,315	0	0
Premium Taxes	1,725	3,253	3,425
Operating Expenses	4,075	2,657	2,821
General Agency Management Expenses	25,629	46,133	48,696
<b>Total Expenses</b>	<b>85,317</b>	<b>110,246</b>	<b>117,019</b>
<b>Gross Income</b>	<b>5,125</b>	<b>9,046</b>	<b>-3,047</b>
<b>Tax</b>	<b>2,050</b>	<b>3,618</b>	<b>0</b>
<b>Net Income</b>	<b>3,075</b>	<b>5,428</b>	<b>-3,047</b>



PRO FORMA COMMISSIONS

**Magnolia  
Agency, LLC &  
Irl Financial  
Group  
Incorporated  
("IFG")  
Income  
Statements  
(in \$000)**

<b>Revenues</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
MGA Commission	25,629	46,133	48,696
Policy Fees	895	2,013	3,370
Investment Income	45	101	168
<b>Total Revenues</b>	<b>26,569</b>	<b>48,247</b>	<b>52,234</b>
<b>Expenses</b>			
Agent Commissions	7,886	17,743	18,532
Other Acquisition Costs	0	0	0
Claims Administration	1,145	1,903	2,015
Policy Administration	5,253	6,388	6,701
Operating Expenses	0	1,504	1,956
Asset Protection	5,500	5,500	4,216
<b>Total Expenses</b>	<b>19,784</b>	<b>33,038</b>	<b>33,420</b>
<b>IFG</b>			
<b>Revenues</b>			
<b>Total Revenues</b>	<b>6,785</b>	<b>15,209</b>	<b>18,814</b>
<b>Expenses</b>			
Closing Fee	3,800	0	0
Interest Expense on Loan	0	4,003	1,367
Advisory Fee	3,000	4,000	4,000
Interest Expense on LOC	0	0	0
<b>Total Expenses</b>	<b>6,800</b>	<b>8,003</b>	<b>5,367</b>
<b>Gross Income</b>	<b>-15</b>	<b>7,206</b>	<b>13,447</b>
Tax	0	2,522	4,707
<b>Net Income</b>	<b>-15</b>	<b>4,684</b>	<b>8,741</b>
<b>Opening Cash</b>	<b>3,800</b>	<b>3,785</b>	<b>0</b>
Net Income	-15	4,684	8,741
LOC Drawdown	0	0	0
Scheduled Principal	0	3,840	5,040



Payment			
Additional Principal			
Payment		4,629	3,701
<b>Closing Cash</b>	3,785	0	0
<b>Loan Information</b>			
Opening Balance	23,800	23,800	15,331
Principal Payment	0	8,469	8,741
<b>Closing Balance</b>	23,800	15,331	6,590
<b>Available Line of</b>			
<b>Credit</b>	2,200	2,200	2,200
Opening Balance	0	0	0
LOC Drawdown	0	0	0
Principal Repayment	0	0	0
<b>Closing Balance</b>	0	0	0



[Form of Note]

## PROMISSORY NOTE

\$ \_\_\_\_\_

\_\_\_\_\_  
New York, New York

FOR VALUE RECEIVED, IRL FINANCIAL GROUP INCORPORATED, a Florida corporation (the "Borrower"), hereby promises to pay to \_\_\_\_\_ (the "Lender"), for account of its respective Applicable Lending Offices provided for by the Credit Agreement referred to below, at the Payment Office of Allianz Risk Transfer, Inc., the principal sum of \_\_\_\_\_ Dollars, in lawful money of the United States of America and in immediately available funds, on the date provided in the Credit Agreement, and to pay interest thereon, at such office, in like money and funds, for the period commencing on the date hereof until such sum shall be paid in full, at the rates per annum and on the dates provided in the Credit Agreement.

The date, amount and interest rate of the Loan made by the Lender, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof, provided that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing under the Credit Agreement or hereunder.

This Note is one of the Notes referred to in the Credit Agreement dated as of \_\_\_\_\_, 2007 (as may be modified and supplemented and in effect from time to time, the "Credit Agreement"), between Irl Financial Group Incorporated, the lenders named therein and Allianz Risk Transfer, Inc., as Administrative Agent, and evidences a Loan made by the Lender thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Credit Agreement.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Loans upon the terms and conditions specified therein.

Except as permitted by Section 11.06 of the Credit Agreement, this Note may not be assigned by the Lender to any other Person.

This Note shall be governed by, and construed in accordance with, the laws of the State of New York.

IRL FINANCIAL GROUP INCORPORATED

By \_\_\_\_\_  
Title:



## SCHEDULE

This Note evidences a Loan made under the within-described Credit Agreement to the Borrower, on the dates, in the principal amounts, bearing interest at the rates set forth below, subject to the payments and prepayments of principal set forth below:

Date of <u>Loan</u>	Principal Amount of <u>Loan</u>	Interest <u>Rate</u>	Amount Paid Or Prepaid	Unpaid Principal <u>Amount</u>	Notation <u>Made by</u>
---------------------------	--	-------------------------	---------------------------	--------------------------------------	----------------------------



[Form of Opinion]



[Form of Pledge Agreement]



[Form of Security Agreement]



[Form of Subsidiary Guarantee]



[Form of Escrow Agreement]



[Form of Personal Guarantee]



[Form of Subordination Agreement]



[Form of LLC Operating Agreement]



[Form of Assignment Agreement]



[Reserved]



**Underwriting Guidelines**



**Reinsurance Program Guidelines**

1. Primary layer attaching at no greater than thirty percent (30%) of surplus of Magnolia Insurance Company.
2. Limits bought to 1-in-100 as stipulated by Florida legislature.
3. Two (2) limits either pre-purchased or second limit reinstatable.
4. Cost capped at forty percent (40%) of anticipated gross written premium.
5. Reinsurer acceptable to Administrative Agent; provided, however, that the Administrative Agent will not unreasonably withhold its consent with respect to any reinsurer having a financial strength rating issued by AM Best of "A+" or higher or Standard & Poor's of "AA" or higher.



**FLOW OF FUNDS MEMORANDUM**  
**with respect to all Closing Date payments under the**  
**CREDIT AGREEMENT**

This Memorandum (this “**Memorandum**”) sets forth the flow of funds that will occur on February 27, 2008 (the “**Closing Date**”) in connection with that certain Credit Agreement by and between Allianz Risk Transfer, Inc., as the Administrative Agent for the lenders party thereto (the “**Lenders**”) and Irl Financial Group Incorporated, as the borrower (the “**Borrower**”, and together with the Lenders, the “**Parties**”), dated as of February 27, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), which Credit Agreement provides, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations by the Lenders to or for the benefit of the Borrower. The transactions described below (the “**Closing Date Transactions**”) shall all be deemed to occur simultaneously. Notwithstanding anything to the contrary in the Credit Agreement, the Parties agree that: (a) the Closing Date Transactions shall be offset in accordance with the Payment Instructions set forth in Section II below and (b) all payments shall be in United States Dollars. The Parties to this Memorandum hereby acknowledge and agree that the payments described hereunder shall fully satisfy the payment obligations of the Parties on the Closing Date under the Credit Agreement. Capitalized terms used herein, but not otherwise defined, shall have the meanings set forth in the Credit Agreement.

*I. Closing Transactions:*

Closing Transactions	Amount
<b>Payments on the Closing Date</b>	
Payment of the Commitment <u>minus</u> an amount equal to the Initial Funding <u>minus</u> the First Closing Fee payable to the Administrative Agent <u>minus</u> the Structuring Fee payable to the Administrative Agent <u>minus</u> the Expense Reimbursement payable to the Administrative Agent.	\$ 23,800,000 (Commitment) (minus) \$ 405,000 (Initial Funding) (minus) \$ 1,595,000 (First Closing Fee) (minus) \$ 1,000,000 (Structuring Fee) (minus) \$ 800,000 (Expense Reimbursement) <b>\$ 20,000,000 (Escrow Funding Total)</b>
Payment of the first installment of the Initial Funding to the Borrower in an amount equal to \$170,000.	<b>\$170,000 (1<sup>st</sup> Installment Total)</b>

*II. Payment Instructions:*

On the Closing Date, the following payments shall be made:

*1. Payments to the Escrow Account*

(a) The Lender shall initiate a wire transfer to the Escrow Agent, to be held in the Escrow Account in accordance with the Escrow Agreement, in the amount of \$20,000,000, which consists of \$ 23,800,000 (Commitment) minus \$ 405,000 (Initial Funding) minus \$1,595,000 (First Closing Fee) minus \$1,000,000 (Structuring Fee) minus \$ 800,000 (Expense Reimbursement);



(b) the wire transfer described above shall be sent using the following wire instructions:

Account No.:

ABA No.:

Account name: [Escrow Account - Allianz Risk Transfer, Inc.]

Bank: Mellon Bank N.A.

*2. Payment to the Borrower*

(a) The Lender shall initiate a wire transfer to the Borrower, in the amount of \$170000, which consists of the amount of the Initial Funding payable by the Lender to the Borrower on the Closing Date;

(b) the wire transfer described above shall be sent using the following wire instructions:

Account No.: 2840236949

ABA No.: 066009650

Account name: Irl Financial Group Incorporated

Bank: The Northern Trust Company

328 Crandon Blvd. Suite 101, Key Biscayne, FL 33149

This Memorandum may be executed in any number of counterparts, all of which taken together shall constitute one and the same Memorandum.



**IN WITNESS WHEREOF**, this Memorandum has been duly executed and delivered by the duly authorized officers of the Administrative Agent, the Lender, the Escrow Agent and the Borrower as of the date first above written.

**ALLIANZ RISK TRANSFER, INC., as Administrative Agent and Lender**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**ALLIANZ RISK TRANSFER, INC., as Escrow Agent**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**IRL FINANCIAL GROUP INCORPORATED, as Borrower**

By: \_\_\_\_\_  
Name:  
Title:



## LETTER AGREEMENT

May 29, 2008

**Private and Confidential**

Reference is hereby made to that certain Credit Agreement (the “**Credit Agreement**”), dated as of February 27, 2008, by and among IRL FINANCIAL GROUP INCORPORATED, a corporation duly organized and validly existing under the laws of the State of Florida (the “**Borrower**”), each of the lenders that is a signatory thereto and hereto identified under the caption “LENDERS” on the signature pages thereto and hereto or that, pursuant to Section 11.06(b) thereof, shall become a “Lender” thereunder (individually, a “**Lender**” and, collectively, the “**Lenders**”) (it being understood that ALLIANZ RISK TRANSFER, INC., a New York corporation, is the sole Lender thereunder and hereunder as of the date of this Letter Agreement) and ALLIANZ RISK TRANSFER, INC., a New York corporation, as agent for the Lenders (in such capacity, together with its successors in such capacity, the “**Administrative Agent**”). Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement and the rules of construction set forth in Section 1.04 of the Credit Agreement shall also apply to this Letter Agreement.

Notwithstanding the provisions of the Credit Agreement, the parties hereto agree as follows:

1. The parties hereto desire to make the following amendments to the Credit Agreement:
  - a. In Section 1.01, the amount of the Maximum Initial Funding of “\$405,000” is hereby deleted and replaced with “\$545,000”;
  - b. In the third line of Section 2.01(b), the amount of the Initial Funding of “\$405,000” is hereby deleted and replaced with “\$545,000”;
  - c. In Section 2.01(b), the following provision shall be added as a new Section 2.01(b)(iv):

“On May 29, 2008 (or if such date is not a Business Day, on the next succeeding Business Day), an amount equal to \$190,000”;
  - d. In the second line of Section 2.08, the amount of the First Closing Fee of “\$1,595,000” is hereby deleted and replaced with “\$1,455,000”;



- e. In the fourth line of Section 2.08, the amount of the Second Closing Fee of “\$405,000” is hereby deleted and replaced with “\$545,000”;
  - f. In the second line of Section 6.01(j), the amount of the First Closing Fee of “\$1,595,000” is hereby deleted and replaced with “\$1,455,000”; and
  - g. In the fourth line of Section 8.07, the amount of the First Closing Fee of “\$1,595,000” is hereby deleted and replaced with “\$1,455,000”.
- 2. For the avoidance of doubt, the parties hereto agree that any reference to the defined terms “Maximum Initial Funding”, “Initial Funding”, “First Closing Fee” and “Second Closing Fee” in the Credit Agreement or any other Loan Document shall mean such term as amended by this Letter Agreement.
  - 3. The parties hereto agree that, in any Loan Documents or certificates delivered in connection with the transactions contemplated by the Credit Agreement (whether executed or delivered prior, on or subsequent to the date hereof), any reference to the Credit Agreement shall be deemed to mean the Credit Agreement as amended by this Letter Agreement.
  - 4. This Letter Agreement, and all matters and disputes arising out of or in any way relating to this Letter Agreement, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Agreement, the Notes or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.
  - 5. Except as expressly amended or waived hereby, the Credit Agreement, as amended by this Letter Agreement, shall continue to be and shall remain in full force and effect in accordance with its terms. This Letter Agreement shall not constitute an amendment or waiver of any provision of the Credit Agreement except as expressly set forth herein. In the event of any inconsistency between this Letter Agreement and the Credit Agreement with respect to matters set forth herein, this Letter Agreement shall take precedence.
  - 6. This Letter Agreement may be executed in one or more counterparts, each of which when executed shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

**[The remainder of this page intentionally left blank.]**



IN WITNESS WHEREOF, the parties hereto have caused this Letter Agreement to be duly executed and delivered as of the day and year first above written.

IRL FINANCIAL GROUP INCORPORATED

By\_\_\_\_\_

Name:

Title:

LENDERS

ALLIANZ RISK TRANSFER, INC.

Individually and as Administrative Agent

By:\_\_\_\_\_

Name:

Title:

By:\_\_\_\_\_

Name:

Title:



### ADVISORY SERVICES AGREEMENT

This Advisory Services Agreement (this "Agreement") is made and entered into as of this 3<sup>rd</sup> day of March, 2008 (the "Effective Date") by and between Allianz Risk Transfer, an insurance company organized under the laws of Switzerland, with offices at Lavaterstrasse 67, CH-8002 Zurich, Switzerland ("ART") and Magnolia Agency, LLC, a Florida limited liability company with offices at 260 Glenridge Road, Key Biscayne, Florida 33149 (the "Company").

WHEREAS, the Company desires to market and offer certain homeowners insurance policies and contracts as the exclusive managing general agent for its Affiliate, Magnolia Insurance Company, a Florida property and casualty insurance company;

WHEREAS, ART and certain of its Affiliates are in the business of, among other things, providing consulting and advisory services with respect to risk management arrangements, reinsurance agreements and reinsurance portfolios;

WHEREAS, both Parties agree that neither ART nor any of its Affiliates, employees or representatives has any authority to bind Magnolia Insurance Company to any reinsurance contract, treaty, agreement or other arrangement and that the Company is not bound to accept any recommendations made by ART pursuant to this Agreement; and

WHEREAS, the Company and ART desire to enter into this Agreement which provides for reinsurance consulting and advisory services to be performed by ART for the Company in connection with the Company's managing general agency obligations.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and ART hereby agree as follows:

#### ARTICLE I. DEFINITIONS

Section 1.1 Definitions. Unless otherwise defined in the body of this Agreement, capitalized terms used in this Agreement shall have the meanings ascribed to them in Exhibit A which is attached hereto and incorporated herein by reference.

#### ARTICLE II. SERVICES

Section 2.1 Advisory and Consulting Services. The Company hereby engages ART to provide, from time to time at the request by the Company, certain consulting, advisory, evaluation and technical services (the "Services") to the Company pursuant to the terms and conditions of this Agreement in connection with the Company's obligations as managing general agent for Magnolia Insurance Company. The "Services" shall be provided in the following areas: recommendations on reinsurer selection, approval and suitability; commentary on proposed and in place reinsurance contracts and coverages; recommendations on reinsurance program structure and pricing; and recommendations regarding and analysis of



alternative reinsurance and risk management options. Subject to the foregoing, the "Services" shall also include services in such other areas as may be from time to time agreed to in writing by the parties; provided, however, that ART is not (i) authorized to bind the Company, Magnolia Insurance Company or any other insurance company for which the Company now or hereafter acts as an agent in any way, (ii) authorized and agrees not to solicit, negotiate, or place reinsurance cessions or retrocessions on behalf of the Company or Magnolia Insurance Company or any other insurance company for which the Company now or hereafter acts as an agent in any way, (iii) authorized to and agrees not to manage any part of any reinsurance assumed by Magnolia Insurance Company or any other insurance company for which the Company acts as agent, including management of any separate division, department or underwriting office of Magnolia Insurance Company or any other insurance company for which the Company acts as agent and (iv) authorized to otherwise act as agent for Magnolia Insurance Company or any other insurance company for which the Company acts as agent; provided, further, that with respect to any Service provided by ART to the Company, the Company shall be solely responsible for any decision, and shall make all decisions in its sole discretion, regarding whether to accept or reject any recommendation provided by ART pursuant to this Agreement.

**Section 2.2 Location of Services.** The Parties agree and acknowledge that all Services provided by ART to the Company hereunder shall be performed outside of the United States and that any employee that performs any Service or part of any Service on behalf of ART for the Company shall be physically located outside of the United States at the time of such performance.

### ARTICLE III. REPORTS AND RECORDS

**Section 3.1 Reports.** The Company shall provide ART with such reports and/or information as is reasonably required by ART to perform the Services hereunder, including, but not limited to, providing copies of the (i) annual financial statements and quarterly financial statements of Magnolia Insurance Company, prepared in accordance with Applicable Law and filed with the Florida Office of Insurance Regulation and (ii) annual financial statements and quarterly financial statements of the Company, prepared in accordance with generally accepted accounting principles as in effect from time to time, consistently applied.

**Section 3.2 Records.** The Company is the legal owner of the Records. Any Records maintained by ART hereunder shall be used by ART solely for the performance of the Services contemplated by this Agreement and shall be made available to the Company during normal business hours of any Business Day for review, inspection, examination and reproduction, provided that the Company provides ART with reasonable notice of its intention to inspect the Records. Upon termination of this Agreement, as reasonably required by the Company and at the Company's expense, ART shall transfer the Records to the Company within a reasonable time after termination. ART may retain at its discretion copies of all or a portion of the Records to the extent required to comply with its statutory record keeping obligations or to preserve its rights with respect to defending or prosecuting any claim in respect to this Agreement.



**Section 3.3 Inspection.** All Records maintained by the Company which pertain in any way to this Agreement or the subject matter hereof, shall be made available to ART during normal business hours on any Business Day for review, inspection, examination and reproduction, provided that ART provides the Company with reasonable notice of its intention to inspect the Records.

#### ARTICLE IV. COMPENSATION

**Section 4.1 Compensation.** In consideration of the Services rendered under this Agreement, the Company shall pay ART an advisory service fee equal to U.S.\$3,000,000 on December 1, 2008, or if such day is not a Business Day, the immediately following Business Day, and U.S.\$1,000,000 per quarter beginning on or after December 1, 2008 for the Term of this Agreement, payable quarterly in arrears on March 1, June 1, September 1 and December 1 of each year, commencing on March 1, 2009, or if any such day is not a Business Day, on the immediately following Business Day (the "Service Fee"). The Company shall remit payment by wire transfer of immediately available funds to an account identified to the Company by ART in writing. In the event that this Agreement is terminated in accordance with Article VII prior to the last day of any quarter, the Service Fee payable to ART for such quarter will be equal to the pro rata portion of the Service Fee for such quarter based on the number of days elapsed during such quarter prior to the termination, divided by the total number of days in such quarter.

#### ARTICLE V. DUTIES AND OBLIGATIONS OF THE COMPANY; RELATIONSHIP

**Section 5.1 Cooperation.** The Company agrees to cooperate and assist ART in the performance of the Services by ART under this Agreement, including, but not limited to, access to third party vendor property catastrophe models, provided that such access does not violate any agreements with such third party vendor or other Person.

**Section 5.2 Provision of Studies.** Upon request of ART, the Company shall provide ART with any reports prepared by or on behalf of the Company or Magnolia Insurance Company relating to any Reinsurance Contracts or to Magnolia Insurance Company's homeowners insurance policy portfolio or reinsurance portfolio, including, for example and without limitation, actuarial, loss reserving, and claims reports, provided that the provision of such reports does not violate any of the agreements between the Company and Magnolia Insurance Company, on the one hand, and the provider of such reports, on the other hand.

**Section 5.3 Contractual Relationship.** The only relationships between ART and the Company are the contractual relationships referred to in this Agreement and/or other written agreements. Nothing contained in this Agreement shall be construed to create the relationship of employer and employee or principal and agent, or to create a partnership, insurance management, or joint venture relationship between the Company and ART or between ART and the Company. Each Party's authority shall be limited to that which is expressly stated in this Agreement. Neither Party shall exercise any control over the hours, office location, consultants or employees of the other Party. The Company shall not represent to third parties, including Magnolia Insurance Company, Irl Financial Group Incorporated or any shareholder



of Irl Financial Group Incorporated, that ART is underwriting, binding reinsurance and/or acting as principal or agent on behalf of the Company or Magnolia Insurance Company. For the avoidance of doubt, (a) nothing in this Agreement creates any relationship, contractual or otherwise, between ART and any Affiliate of the Company, including, without limitation, Magnolia Insurance Company or Irl Financial Group Incorporated and (b) the Company shall be solely responsible for, and shall comply with all material terms of, the MGA Agreement.

**Section 5.4 Subcontractors or Assignments.** ART may subcontract for the performance of Services which ART is to provide hereunder or assign its rights and obligations under this Agreement; provided, however, that such subcontractor or assignee agrees to be bound by all the applicable obligations and covenants of ART hereunder; provided, further, that ART will not subcontract or assign its rights and obligations under this Agreement, without the Company's prior written consent, except to an Affiliate of ART, in which case, no consent is required. The Company may not assign this Agreement or its rights and obligations hereunder to any third party without the written consent of ART and any assignment attempted in violation of this Section 5.4 shall be null and void.

For the avoidance of doubt, nothing herein shall prevent ART from performing any and all administration, advisory risk management, underwriting, reinsuring and/or other services to or for any other Person, whether or not such Person(s) currently have a business relationship with ART, the Company or any of their respective Affiliates.

## ARTICLE VI. REPRESENTATIONS AND WARRANTIES

**Section 6.1 ART Representations and Warranties.** ART hereby represents and warrants to the Company that, as of the date hereof, (a) ART is a corporation duly organized, validly existing and in good standing under the laws of Switzerland, (b) this Agreement constitutes a valid and binding obligation of ART enforceable in accordance with its terms (except as such enforceability may be (i) limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (ii) subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law)) and (c) the undersigned officers have the full power and authority to execute and deliver this Agreement and no further action or authorization is necessary on the part of ART or the undersigned officers in order to consummate the transactions herein contemplated.

**Section 6.2 Company Representations and Warranties.** The Company hereby represents and warrants to ART that, as of the date hereof, (a) it is duly organized, validly existing and in good standing under the laws of the State of Florida, (b) this Agreement constitutes a valid and binding obligation of the Company enforceable in accordance with its terms (except as such enforceability may be (i) limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (ii) subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law)) and (c) the undersigned officers have the full power and authority to execute and deliver this Agreement and no further action or



authorization is necessary on the part of the Company or the undersigned officers in order to consummate the transactions herein contemplated.

## ARTICLE VII. TERM AND TERMINATION

Section 7.1     Term. The term of this Agreement shall commence on the Effective Date and shall continue in effect until the third anniversary of the Effective Date (the "Initial Term") or until terminated in accordance with the provisions of this Article VII or by the mutual consent of the Parties, whichever is earlier; provided, however, that unless either Party provides written notice to the other Party at least thirty (30), but no more than sixty (60) calendar days prior to the end of the Initial Term of its desire to terminate, this Agreement will automatically renew for successive one-year terms (each such term, a "Renewal Term") unless and until (i) either Party provides written notice to the other Party at least thirty (30), but no more than sixty (60) calendar days prior to the end of the then current Renewal Term of its desire to terminate, in which case the Agreement will terminate at the end of the then current Renewal Term or (ii) this Agreement is terminated in accordance with this Article VII.

Section 7.2     Termination. This Agreement may be terminated:

- (a) at any time upon the mutual written consent of the Parties hereto, which writing shall state the effective date and relevant terms of termination;
- (b) at the option of the Company, immediately, upon notice to ART, upon (i) the filing of any petition for insolvency, rehabilitation, conservation, supervision, liquidation or similar proceeding by or against ART or its statutory representative which petition remains undismissed for a period of ninety (90) calendar days, or (ii) fraud or willful misconduct by ART with regard to the Services provided pursuant to this Agreement;
- (c) at the option of the Company, immediately upon written notice to ART, if (i) ART is in material breach of this Agreement and such breach has not been cured within sixty (60) calendar days of notice from the Company of such breach or (ii) ART fails to have licenses and authorities required by Applicable Law of the State of Florida to perform all or a material portion of the Services under this Agreement; and
- (d) at the option of ART, immediately, upon written notice to the Company, (i) upon the filing of any petition for insolvency, rehabilitation, conservation, supervision, liquidation or similar proceeding by or against the Company or its statutory representative which petition remains undismissed for a period of ninety (90) calendar days, (ii) upon fraud or willful misconduct by the Company, (iii) if the Company is in material breach of this Agreement and such breach has not been cured within sixty (60) calendar days of notice from ART of such breach, (iv) ART fails to have licenses and authorities required by Applicable Law to perform all or a material portion of the Services under this Agreement or (v) the Company fails to have licenses and authorities required under Applicable Law to



perform all or a material portion of its duties under this Agreement or the MGA Agreement.

**Section 7.3 Remedies of the Company.** The Company shall not, and hereby waives any right to, pursue any right or remedy at law or equity to recover any losses, costs, claims, demands, damages, or attorneys' fees arising out of or caused by (i) any breach by ART (other than an intentional breach or as a result of willful misconduct, gross negligence or fraud) of this Agreement or (ii) any termination or other occurrence relating to ART's performance of Services pursuant to this Agreement. The rights and remedies available to the Company pursuant to this Agreement shall be the sole rights and remedies available to the Company with respect to any losses, costs, claims, damages, or attorneys' fees arising out of this Agreement. Notwithstanding the foregoing, the Company does not waive its rights to pursue the remedies available to it in law or equity for an intentional breach of this Agreement by ART or proven fraud by ART.

NOT WITHSTANDING THE ABOVE, IT IS EXPRESSLY UNDERSTOOD THAT ART'S LIABILITY TO THE COMPANY UNDER AND IN CONNECTION WITH THIS AGREEMENT, IN CONTRACT OR TORT, WHETHER KNOWN OR UNKNOWN, NOW OR IN THE FUTURE, SHALL IN NO EVENT EXCEED THE AMOUNT OF THE SERVICE FEES ACTUALLY PAID TO ART IN CONNECTION WITH THIS AGREEMENT.

**Section 7.4 Remedies of ART.** Except with regard to remedies available to ART pursuant to this Agreement, ART shall not, and hereby waives any right to, pursue any right or remedy at law or equity to recover any losses, costs, claims, demands, damages, or attorneys' fees arising out of or caused by (i) any breach (other than an intentional breach, including, without limitation, any failure to pay the Service Fee when due, or as a result of willful misconduct, gross negligence or fraud) of this Agreement by the Company, or (ii) any termination or other occurrence relating to the Company's performance of its obligations under this Agreement. Notwithstanding the foregoing, ART does not waive its rights to pursue the remedies available to it in law or equity for an intentional breach of this Agreement by the Company (including, without limitation, any failure to pay the Service Fee when due), gross negligence or proven fraud by the Company.

## ARTICLE VIII. CONFIDENTIALITY

**Section 8.1 Confidentiality.** Each Party agrees that all documentation, materials, data and information ("Confidential Information") provided or otherwise made available by one Party (the "Providing Party") to the other Party (the "Receiving Party") shall be kept confidential by the Receiving Party and shall not be used by the Receiving Party or any of its affiliates for any purpose other than the performance of its obligations under this Agreement, and the Receiving Party shall not disclose the terms or conditions of any Confidential Information to any third party without the prior written consent of the Providing Party; provided, however, the prohibitions of this Article VIII do not apply to (i) disclosures as may be required for United States' or Swiss regulatory, federal securities, tax, accounting or other reporting purposes; (ii) disclosures to legal counsel, independent accountants, statutory accountants, rating agencies and other representatives, provided such legal counsel,



independent accountants, rating agencies and other representatives shall be subject to the terms of this Article VIII; (iii) disclosures to Affiliates; (iv) disclosures pursuant to the terms of an order by any governmental authority, provided, however, that such Party subject to such order shall immediately after receiving notice of such order notify the other Party to this Agreement so that such Party may try to prevent the disclosure or otherwise obtain a protective order; (v) disclosures of matters of which there is public knowledge other than as a result of disclosures made in breach hereof; and (vi) disclosures otherwise required by Applicable Law or expressly authorized or reasonably occurring in connection with disputes over the terms of this Agreement.

## ARTICLE IX. MISCELLANEOUS

Section 9.1    Headings. The headings to the text of this Agreement are intended and inserted solely for convenience of reference and shall not affect the meaning, interpretation, construction or effect of this Agreement.

Section 9.2    Waiver. A waiver of any one provision of this Agreement in one instance shall not be deemed a waiver of the same or any other provision of this Agreement in any other instance, and no waiver or amendment shall be deemed made except upon the authority of the Party waiving such provision, in writing and signed by a duly authorized officer thereof.

Section 9.3    Amendments. This Agreement may be modified or amended, and supplemented by written addenda, exhibits, guidelines and other schedules, at any time in writing executed by duly authorized officers of each Party.

Section 9.4    Errors and Omissions. Unintentional errors or omissions caused by clerical oversight or a misunderstanding made in connection with this Agreement shall not relieve either Party from any liability, providing the error or omission shall be rectified as soon as possible after discovery.

Section 9.5    Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed delivered upon receipt, if delivered by hand, by overnight courier or by facsimile, or upon mailing, if sent by registered or certified mail, to the other Party, at the address specified on the first page hereof or such other address as the Parties shall specify.

Section 9.6    Governing Law; Submission to Jurisdiction. This Agreement, and all matters and disputes arising out of or in any way relating to this Agreement, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401, but otherwise without regard to conflicts-of-laws principles. Each of ART and the Company hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Agreement or the transactions contemplated hereby. Each of ART and the Company irrevocably waives, to the fullest extent permitted by Applicable Law, any objection that it may now or hereafter have to the laying of



the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

**Section 9.7 Construction.** The Parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Agreement.

**Section 9.8 Severability.** Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Applicable Law, but, if any provision of this Agreement shall be held to be prohibited or invalid under Applicable Law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

**Section 9.9 Survival.** Sections 3.2, 3.3, 5.3, 7.3, 8.1, 9.6, 9.7, 9.8, 9.9, 9.10, 9.11, 9.14 and 9.15 shall survive any termination of this Agreement.

**Section 9.10 Binding Effect.** This Agreement shall inure to the benefit of and be binding upon the Parties and their respective legal representatives, successors and permitted assigns (as herein expressly permitted).

**Section 9.11 Entire Agreement.** This Agreement constitutes the entire agreement between the Parties relating to the subject matter hereof. No prior or contemporaneous written or oral promises, representations or agreements shall be binding, it being intended that this Agreement supersedes and merges all such prior and contemporaneous promises, representations and agreements by and between ART and the Company.

**Section 9.12 Rights of Third Parties.** This Agreement is solely between the Company and ART, and no Person who is not a party to this Agreement has any rights in respect of this Agreement that may arise under any law purporting to provide rights to third parties.

**Section 9.13 Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

**Section 9.14 Company Agent for Service of Process.** By the execution and delivery of this Agreement, the Company (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to this Agreement that may be instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Party hereunder, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Company in the manner provided in Section 9.5 hereof, shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company further agrees to take any and all



action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Agreement shall be in effect.


Section 9.15 ART Agent for Service of Process. ART hereby appoints Allianz Risk Transfer, Inc., 350 Park Avenue, 10<sup>th</sup> Floor, New York, New York 10022, as its agent for service of process upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of any Party hereunder arising out of this Agreement, and such agent is authorized and directed to accept such service of process on behalf of ART and, upon the request of ART, to give a written undertaking to ART that it will enter a general appearance upon ART's behalf in the event such a suit shall be instituted.

*[Remainder of this page intentionally left blank]*

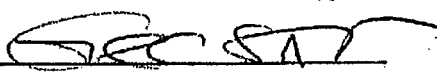


IN WITNESS WHEREOF, the Parties have duly executed this Advisory Services Agreement in multiple counterparts, each of which shall have the force and effect of an original, effective as of the Effective Date.

**MAGNOLIA AGENCY, LLC**

By:   
Name: K. James  
Title: PRESIDENT

**ALLIANZ RISK TRANSFER**

By:   
Name: Gerhard Geosits  
Title: Principal

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_




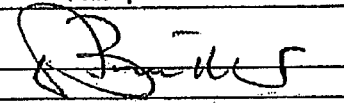
IN WITNESS WHEREOF, the Parties have duly executed this Advisory Services Agreement in multiple counterparts, each of which shall have the force and effect of an original, effective as of the Effective Date.

**MAGNOLIA AGENCY, LLC**

By:   
Name: JAMES S SIRE  
Title: PRESIDENT

**ALLIANZ RISK TRANSFER**

By:   
Name: Gerhard Geosits  
Title: Principal

By:   
Name: Thomas Bruendler  
Title: Principal







## **EXHIBIT A**

### **DEFINITIONS**

**"Affiliate"** shall mean, as to any Person, any other Person that controls, is controlled by or is under common control with such Person. As used in this definition, "control" means the possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or ownership interests, by contract or otherwise).

**"Applicable Law"** shall mean any statute, ordinance, rule decree, or regulation of any federal state, municipal or other domestic or foreign regulatory authority or court applicable to (i) ART and/or (ii) the Company, as the case may be.

**"Business Day"** shall mean any day on which commercial banks are not authorized or required to close in New York City, the State of Florida or Switzerland.

**"Confidential Information"** shall have the meaning set forth in Article VIII hereof.

**"Effective Date"** shall have meaning set forth in the Recitals of this Agreement.

**"Initial Term"** shall have the meaning set forth in Section 7.1 hereof.

**"MGA Agreement"** means that certain managing general agency agreement, dated as of February 26, 2008 by and between the Company and Magnolia Insurance Company.

**"Party"** shall mean either ART or the Company.

**"Person"** shall mean any individual, corporation, company, voluntary association, limited liability company, partnership, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

**"Providing Party"** shall have the meaning set forth in Article VIII of this Agreement.

**"Receiving Party"** shall have the meaning set forth in Article VIII of this Agreement.

**"Records"** shall mean the Company's business plans, investor information, client information, financial projections, marketing, operational plans and procedures, and underwriting guidelines and all information and plans used in conducting or forecasting the Company's business of whatever nature.

**"Reinsurance Contracts"** means reinsurance contracts, agreements, treaties and other arrangements covering property and casualty insurance risks in the state of Florida.

**"Renewal Term"** shall have the meaning set forth in Section 7.1 of this Agreement.

**"Service Fee"** shall have the meaning set forth in Section 4.1 of this Agreement.



**"Services" shall have the meaning set forth in Section 2.1 of this Agreement.**

**"Term" shall mean the Initial Term and any Renewal Term.**



## Broker Authorization Contract

This Contract is made by and between Magnolia Insurance Company (hereinafter "Insurer"), with offices at 2601 South Bayshore Drive, Suite 1215, Coconut Grove, FL 33133, and Benfield Inc. or one of its affiliated or successor corporations (hereinafter "Benfield"), with offices at 3600 American Boulevard West, Minneapolis, MN 55431.

1. Insurer hereby designates Benfield as its reinsurance broker for the purpose of procuring and servicing reinsurance in the kinds and amounts outlined in each reinsurance confirmation or reinsurance contract issued by Benfield and accepted by the Insurer. Further, Benfield hereby accepts such designation. In the event Benfield does not place a portion of said reinsurance, this Contract shall not apply to that portion of the reinsurance not placed through Benfield, and Benfield shall incur no liability to Insurer as respects that portion of said reinsurance.
2. This designation is effective on June 1, 2008, and shall continue in force until Benfield resigns this designation, Insurer terminates this designation, or Insurer appoints a successor broker of record. Notice of resignation, termination or appointment of a successor broker of record may be effective at any time, and may be given by first-class certified mail, delivered by hand, communicated by facsimile means evidenced by a confirmation sheet or delivered by recognized overnight courier service, unless otherwise required by applicable law. Unless Insurer elects otherwise, Benfield shall continue to service each individual reinsurance contract subject hereto, after termination thereof, until all accounts under that contract have been settled. Insurer agrees that if Insurer terminates this designation or appoints a successor broker of record on a reinsurance placement made by Benfield, then Benfield shall be entitled to the brokerage resulting from that reinsurance placement.
3. Insurer acknowledges and agrees that Benfield is compensated by the reinsurers for placements made by Benfield on behalf of Insurer, absent an agreement between Benfield and Insurer to the contrary. Benfield agrees to use reasonable efforts to disclose to Insurer the terms of any compensation Benfield receives from reinsurers for placements made by Benfield for Insurer, and Benfield, in any event, agrees to disclose those terms to Insurer upon request.
4. At least quarterly, Benfield will render accounts to Insurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing to, Benfield from Insurer. Benfield will remit all funds due to Insurer within 30 days of receipt (except to the extent that offset is permitted under the provisions of the reinsurance contract or contracts involved).
5. All funds collected for Insurer's account will be held by Benfield in a fiduciary capacity in a bank acceptable to the regulatory authorities involved. Benfield's records shall identify Insurer's ownership interest in any funds held for more than one insurance company. Upon request from Insurer, Benfield shall furnish copies of records relating to deposits and withdrawals for or on behalf of Insurer. It is understood and agreed that all fees and expenses charged by the bank(s) for services shall be paid by Benfield, and any interest on said funds shall accrue to Benfield. Insurer acknowledges that the ownership of the fiduciary funds, as between Insurer and



reinsurers, is governed by the terms of the subject reinsurance contract. Benfield's obligations under this paragraph are in addition to its obligations under any federal or state law.

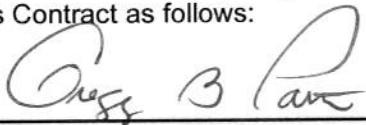
6. After expiration or termination of each reinsurance contract transacted through Benfield for Insurer, for a period of time at least equal to the period specified by the regulatory authorities having jurisdiction over this Contract, Benfield will keep a complete record for each transaction, showing the following:
  - a. Type of contract, limits, underwriting restrictions, classes of risks and territory;
  - b. Period of coverage, including effective and expiration dates, termination provisions and notice required of termination;
  - c. Requirements for reporting and settling balances;
  - d. Rate (or other method) used to compute the reinsurance premium;
  - e. Names and addresses of assuming reinsurers;
  - f. Rates of all reinsurance commissions, including the commissions on any retrocessions handled by Benfield which relate to the original reinsurance transaction;
  - g. Related correspondence and memoranda;
  - h. Proof of placement;
  - i. Details regarding retrocessions handled by Benfield which relate to the original reinsurance transaction, including the identity and address of retrocessionaires and percentage of each contract assumed or ceded;
  - j. Financial records, including but not limited to, premium and loss accounts;
  - k. Written evidence that each assuming reinsurer has agreed to assume the risk or, if placed through a representative of the assuming reinsurer, written evidence that the reinsurer has delegated binding authority to that representative and, when applicable, that the representative is considered qualified to act as such by regulatory authorities requiring this evidence.
7. Insurer recognizes that it has the sole authority and discretion for selection of each assuming reinsurer on reinsurance placed by Benfield on its behalf, and Benfield shall incur no liability for Insurer's decisions regarding its assuming reinsurers.
8. Insurer acknowledges that it is not Benfield's role to provide legal, regulatory or accounting advice or guidance to Insurer, and that Insurer is responsible for reviewing and understanding the terms of any contracts signed by Insurer.
9. Insurer and, where required by law, the regulatory authorities having jurisdiction over this Contract, will have access to and the right to copy and audit all accounts and




records maintained by Benfield related to Insurer's business. Benfield will maintain such accounts and records in a form usable by Insurer and such authorities.

10. Upon request of Insurer, but not less often than annually, Benfield will provide an audited statement of its financial condition, prepared and certified by a certified public accountant.
11. Benfield will comply with written standards, as established by Insurer and provided to Benfield, for the cession or retrocession of all risks.
12. Benfield will disclose to Insurer any relationship with any reinsurer to which business will be ceded or retroceded.
13. Both parties will comply with all statutes and regulations governing this Contract and this relationship.
14. Benfield may not assign this Contract, in whole or in part, without Insurer's approval.
15. To the extent Benfield receives "nonpublic personal information" or "customer information of a financial institution" as those terms are defined in the Gramm-Leach-Bliley Act (the "Act"), Benfield shall use such information only as permitted under the Act as implemented by regulation.

**In Witness Whereof**, the parties hereto by their duly authorized representatives have executed this Contract as follows:

  
\_\_\_\_\_  
Magnolia Insurance Company

  
\_\_\_\_\_  
Benfield Inc.

*Chief Financial Officer & U.P. of*  
\_\_\_\_\_  
Title *OPERATIONS*

*AVP*  
\_\_\_\_\_  
Title



## AGREEMENT

Based on the desire of the parties to establish a long term mutually beneficial relationship, this Agreement ("Agreement") is entered into this 22<sup>nd</sup> day of October, 2008, between Benfield Inc. with offices at 3600 American Blvd West, Minneapolis, MN 55431 ("Benfield") and Magnolia Insurance Company, with offices at 2601 South Bayshore Drive, Suite 1215, Coconut Grove, FL 33133, ("Client"), under the following terms and conditions:

1. In consideration for Client appointing Benfield as its reinsurance intermediary-broker for the placement and servicing of Client's Additional Layer Excess Catastrophe Reinsurance Contract Effective August 12, 2008 (the "Subject Business"), for the annual period beginning on August 12, 2008 and ending on June 1, 2009 (the "Agreement Year"), and other good and valuable consideration, Benfield agrees to share with Client a portion of Benfield's received and earned brokerage revenue derived from the Subject Business, excluding any brokerage paid to corresponding brokers including those affiliated with Benfield or sub-brokers ("Net Brokerage Revenue") by paying Client a one-time annual fee ("Annual Fee") for the Agreement Year equal to \$750,000. The Annual Fee shall only be paid from Net Brokerage Revenue so that if Net Brokerage Revenue is less than the Annual Fee Benfield shall have no obligation to pay any shortfall.
2. No Annual Fee shall be payable subsequent to any decision by Client to terminate or replace Benfield as its reinsurance intermediary-broker for any portion of the Subject Business. In addition, in the event Benfield is terminated as Client's reinsurance intermediary-broker for any Subject Business prior to the end of the Agreement Year, Client shall promptly reimburse Benfield for any Annual Fees previously paid by Benfield under this Agreement, if any. Client agrees to reimburse Benfield for any and all costs and expenses associated with collecting any reimbursement.
3. Unless otherwise specified, Benfield shall pay client the Annual Fee within 10 business days of the full execution of this agreement. In the event that Benfield must pay return brokerage to Client's reinsurers, Net Brokerage Revenue will be recalculated and Client will return to Benfield as soon as reasonably possible any amount due as a result of the recalculation.
4. This Agreement shall be governed by the laws of Minnesota without regard to principles of conflicts of law, and the parties agree that any disputes arising from this Agreement shall be resolved in the Minnesota courts.

BENFIELD INC.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

*William P. Henneman*  
\_\_\_\_\_  
William P. Henneman  
\_\_\_\_\_  
C.F.O.  
\_\_\_\_\_  
10-22-08  
\_\_\_\_\_

CLIENT

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

*H. James Inc.*  
\_\_\_\_\_  
H. James Inc.  
\_\_\_\_\_  
P. James  
\_\_\_\_\_  
10/27/08  
\_\_\_\_\_



## CONFIRMATION FOR INDEX LOSS SWAP

From: Magnolia Agency LLC ("Party A")

To: Poseidon Re Ltd. ("Party B")

Date: April [ ], 2008

The purpose of this letter agreement is to confirm the terms and conditions of the swap transaction (the "Transaction") entered into between us on the Trade Date specified below. This letter agreement constitutes a "Confirmation" as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. (the "Definitions")) are incorporated into this Confirmation. In the event of any inconsistency between the Definitions and this Confirmation, this Confirmation will govern. Each party represents and warrants to the other that (i) it is duly authorized to enter into this Transaction and to perform its obligations hereunder, (ii) this Transaction and the performance of its obligations hereunder do not violate any material obligation of such party, and (iii) the person executing this Confirmation is duly authorized to execute and deliver it.

In addition, you and we agree to use all reasonable efforts promptly to negotiate, execute and deliver an agreement in the form of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) and Credit Support Annex thereto (the "ISDA Form"), with such modifications as you and we will in good faith agree. Upon the execution by you and us of such an agreement, this Confirmation will supplement, form part of, and be subject to that agreement. All provisions contained or incorporated by reference in that agreement upon its execution will govern this Confirmation except as expressly modified herein. Until we execute and deliver that agreement, this Confirmation, together with all other documents referring to the ISDA Form (each a "Confirmation") confirming transactions (each a "Transaction") entered into between us (notwithstanding anything to the contrary in a Confirmation), shall supplement, form part of, and be subject to an agreement (the "Agreement") in the form of the ISDA Form as if we had executed an agreement in such form (but without any Schedule except for the election of the laws of the State of New York as the governing law and USD as the Termination Currency) on the Trade Date of the first such Transaction between us. In the event of any inconsistency between the provisions of that agreement and this Confirmation, this Confirmation will prevail for the purpose of this Transaction. All provisions contained in the Agreement will govern this Confirmation except as expressly modified below. In the event of any inconsistency between the provisions of the Agreement and this Confirmation, this Confirmation will prevail for the purpose of this Transaction.

The terms of this Transaction to which this Confirmation relates are as follows:

### 1. General Terms:

Trade Date:	1 <sup>st</sup> June 2008
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Effective Date:	1 <sup>st</sup> June 2008
Notional Amount:	USD 20,000,000
Funding Date:	Within 7 Business Days of the Effective Date.
Risk Period:	The period from the Effective Date to 31 <sup>st</sup> May 2009, both days inclusive, Local Standard Time at the location of the Event. All Losses resulting from Qualifying Catastrophes and/or Non-Cat Occurrences occurring within the Risk Period will be deemed to have occurred within the Risk Period.
Beneficiary:	Allianz Risk Transfer, Inc.
Termination Date:	At Beneficiary's option.
Qualified Institution:	A major U.S. commercial bank, or a foreign bank with a U.S. branch office, and which has assets of at least USD 10 billion and a Credit Rating of at least "A-" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("S&P"), or "A3" by Moody's Investors Service Inc. ("Moody's").
Business Days:	New York and Bermuda. Except as otherwise noted, all calculations with respect to time shall be by reference to standard time in New York City.
Business Day Convention:	Following
Calculation Agent:	The Beneficiary, acting in a commercially reasonable manner, whose calculations and determinations shall be binding absent manifest error. The Calculation Agent shall be responsible for the determination of all factual and computational matters and the Calculation Agent shall make such determinations and calculations on the basis of reports from the Index Provider.
Governing Law:	New York.
Jurisdiction:	Any court of competent jurisdiction within the United States



**A. Payments by Party A:**

Party A Payments:	US \$6,000,000 payable before the last day of the Risk Period. Party A may pay the Party A Payment(s) in installments directly into the Trust and such payments shall be deemed Eligible Collateral which is to be provided by Party B in accordance with Section 3.
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**B. Payments by Party B:**

Trigger Event Payment:	Within 5 Business Days following the Trigger Date, Party B shall pay to the Beneficiary, the Event Payout in accordance with Section 2 Event(s) Payout definition. For the avoidance of doubt, Party B's total liability hereunder shall not exceed the Notional Amount.
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**2. Other Terms:**

Trigger Date:	The first Business Day after receipt by Party B of written notice from the Beneficiary of a Covered Event.
Covered Territory:	Florida.
Event(s):	<ul style="list-style-type: none"><li>(a) A Qualifying Catastrophe occurring during the Risk Period and resulting in Losses greater than \$6,000,000 and such Losses are not otherwise recoverable under the Reinsurance Program;</li><li>(b) Qualifying Retention Catastrophes occurring during the Risk Period and resulting in aggregate Losses equal to or in excess of US\$18,000,000;</li><li>(c) <del>Occurrences occurring during the Risk Period and resulting in Subject Net Losses in excess of \$12,000,000.</del></li></ul>
Event(s) Payout	<p>The following amounts are the Event Payout for each respective Event:</p> <ul style="list-style-type: none"><li>a) Notional Amount</li><li>b) Notional Amount</li><li>c) <math>(1 + (18,000,000 / (18,000,000 - \text{aggregate Losses from Qualifying Retention Catastrophes occurring during the Risk Period})))</math> times (the aggregate of Subject Net Losses in excess of \$12,000,000),</li></ul>



Covered Event	The Index Provider reporting Losses to their Policies arising from Event(s) in the Covered Territory.
Reinsurance Program	The Index Provider's Catastrophe Reinsurance Program as detailed in the attached Addendum A. All coverages contained in Addendum A (each a "Reinsurance Coverage"), including the FHCF (as defined therein), shall be deemed in place and deemed recoverable by the Index Provider.
Qualifying Catastrophe	A "Loss Occurrence" as defined in the relevant Reinsurance Coverage and attached as Addendum B, provided, however, that only Loss Occurrences occurring during the Risk Period and resulting in Losses in excess of USD\$3,000,000 shall be considered a Qualifying Catastrophe.
Qualifying Retention Catastrophe	A Qualifying Catastrophe with associated Losses less than or equal to \$6,000,000.
Subject Net Losses	The greater of \$0 and the quantity i.) Attritional Losses less ii) 0.25 times the Index Provider's Gross Earned Premium during the Risk Period provided that ii) is subject to a minimum of \$27,500,000 and a maximum of \$32,500,000 plus, iii) aggregate Losses from Qualifying Retention Catastrophes.
Attritional Losses	Losses incurred by the Index Provider during the Risk Period in respect of the Initial Takeout Portfolio arising from Non-Cat Occurrences.
Initial Takeout Portfolio	All multi-peril Policies issued by the Index Provider.
Portfolio Pricing Warranty	Premium rates charged by the Index Provider and forms are consistent with the approved rate filing with the Index Provider's regulatory body. If other premiums are charged, whether voluntarily or as the result of administrative or state order, all calculations herein shall be performed using the greater of (i) the actual premium charged and the (ii) initial approved premium rate.
Non-Cat Occurrences	Occurrences in respect of the Index Provider's Policies which do not meet the definition of a "Loss Occurrence" as defined in the Reinsurance Coverage.
Policies	All policies, binders, contracts and other evidences of



	coverage issued by the Index Provider in the Covered Territory.
Gross Earned Premium	The Index Provider's earned premium (less cancellation and return premium) for Policies written during the Risk Period.
Losses	Sums paid or payable by the Index Provider in settlement of claims and in satisfaction of judgments rendered on account of such claims in respect of Policies, after deduction of all salvage, all recoveries and all claims on inuring reinsurance. Loss adjustment expense shall be included in such definition but deemed to be US\$650 per claim in respect of Attritional Losses.
Confidentiality:	The contents of this Confirmation and all other documents relating to this Transaction, and any information made available by one party to the other party with respect to this Transaction, is confidential and shall not be disclosed to any third party (nor shall any public announcement relating to this Transaction be made by either party), except for such information (i) as may become generally available to the public, (ii) as may be required or appropriate in response to any summons, subpoena, or otherwise in connection with any litigation or to comply with any applicable law, order, regulation, ruling, or accounting disclosure rule or standard, (iii) as may be obtained from a non-confidential source that disclosed such information in a manner that did not violate its obligations to the non-disclosing party in making such disclosure, (iv) as may be furnished to the disclosing party's Affiliates, and to each of such person's auditors, administrators, attorneys, advisors or lenders which are required to keep the information that is disclosed in confidence, (v) as may be furnished to a disclosing party's rating agencies in the course of the disclosing party's or its affiliates' rating process by such agencies.
Index Provider:	Magnolia Insurance Company.
Event Payout Return	To the extent that the Event Payout, if any, over-compensates the Beneficiary for any harm from Ev, <u>such over-compensation determination to be made at the Beneficiaries' sole discretion, ent(s), as determined by the Beneficiary at its sole discretion,</u> the Beneficiary may return any such overcompensation to Party B.



## 5. Collateral Provisions:

Independent Amount:	<p>US\$ 20,000,000.00</p> <p>On the Funding Date, Party B shall deliver into a Trust Account acceptable to the Beneficiary ("Trust") Eligible Collateral as specified hereunder totaling US\$14,000,000. Thereafter, Party A Payments shall be paid into the Trust until Eligible Collateral totals in aggregate not less than the Independent Amount.</p> <p>For purposes of this Transaction only and at all times hereunder, (i) the Beneficiary is deemed to be the Secured Party and Party B is deemed to be the Pledgor; and (ii) Exposure is deemed to be zero.</p>
Measurement Date:	One Business Day following the last day of the Risk Period.
Collateral Release:	<p>The Independent Amount shall be reduced to zero, and all amounts then held as Collateral pursuant to this Confirmation shall be released promptly to Party B, on the earliest of: (a) the first Business Day after the Termination Date (unless a Trigger Event Payment is due and unpaid), (b) the Measurement Date if no Event has occurred, or (c) on any other earlier date mutually agreed by Party A, the Beneficiary, and Party B.</p>
Independent Amount Insufficiency:	<p>If at any time the <del>Value-value</del> of the Eligible Collateral posted hereunder declines below an amount equal to 98% of US\$ 14,000,000 plus the initial value of any Party A Payments into the Trust (based on the Valuation Methodology set forth below), then Party B shall post Substitute Credit Support within 3 Business Days of receipt of notice from <del>Party A</del> the Beneficiary, such that the total <del>Value-value</del> of the Collateral posted hereunder is not less than the Independent Amount.</p> <p>If Party B fails to post sufficient Substitute Credit Support within the allotted time period (for purposes of this Confirmation, any such failure shall constitute a "Credit Support Default"), then the Beneficiary shall provide notice of default to Party B. If sufficient Substitute Credit Support has not been posted within 5 Business Days of the Beneficiary's transmission of such notice, then the Beneficiary shall have the right, at its sole discretion, to</p>



	<p>liquidate all Collateral posted hereunder and utilize the proceeds of such liquidation to purchase substantially the same Transaction protection ("Replacement Protection"), on terms and conditions acceptable to the Beneficiary. If the liquidated value of the Collateral exceeds the premium due and payable for the Replacement Protection, such excess amount shall be returned to Party B concurrently with payment of the premium for the Replacement Protection. If no Replacement Protection can be purchased, the Beneficiary shall be entitled to hold the proceeds of such liquidation until the Termination Date without penalty or interest. The foregoing remedy provided in this paragraph shall not be deemed to be the sole remedy available to the Beneficiary, and the parties agree that the Beneficiary shall have the right to pursue all remedies available to it (whether in equity or otherwise).</p> <p>The above notwithstanding, if Party B subsequently cures such Independent Amount <del>Insufficiency</del><u>insufficiency</u>, then, except to the extent of actions taken hereunder by the Beneficiary prior to the date of such cure, the provisions of this Section 3 shall remain in effect.</p>
Eligible Collateral:	<p>Party B shall post the following as Eligible Collateral:</p> <p>Cash and Treasury Bills</p> <p>The Value of the Treasury Bills shall be one hundred percent (100%) of the face value.</p> <p>Any <u>interest</u> payments received on the Collateral posted hereunder (other than any payments to the Beneficiary following the presentation of sight drafts by the Beneficiary under the Letters of Credit) will be for the account of Party B, and will be paid to Party B in a timely fashion following receipt of such payments.</p> <p>Notwithstanding the foregoing, if a Trigger Event occurs at any time or if there is a Credit Support Default at any time, any payments received on the Collateral posted hereunder will be held in accordance with this <u>Confirmation e Agreement</u> and will be considered as additional Collateral posted hereunder.</p>
Substitute Credit Support:	Substitute Credit Support shall include any of:



	(a) Cash and Treasury Bills (the Value of which shall be one hundred percent (100%) of the face value).
Valuation Agent:	The Beneficiary

**4. Additional Representations:**

Representations of the parties:	Each party makes the following representations:
	(a) <b>Non-Reliance.</b> It has made its own independent decision to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into the Transaction, it being understood that information and explanations related to the terms and conditions of the Transaction shall not be considered to be investment advice or a recommendation to enter into the Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of the Transaction.
	(b) <b>Assessment and Understanding.</b> It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and risks of the Transaction. It is also capable of assuming, and assumes, the risks of the Transaction.
	(c) <b>Status of Parties.</b> The other party is not acting as a fiduciary for or adviser to it in respect of the Transaction.
	(d) <b>Eligible Contract Participant.</b> It is an "eligible contract participant" as such term is defined in Section 1a(12) of the Commodity Exchange Act (7 U.S.C. § 1a(12)), and the material terms of each Transaction will be individually negotiated and tailored by it.

**5. Notice and Account Details:**



Notices to the Beneficiary:	<p>To: Allianz Risk Transfer, Inc. 350 Park Avenue 10<sup>th</sup> Floor New York, NY 10022</p> <p>Attention: Operations Telephone: +1-646-840-5000 Fax: +1-212-754-2330</p>
Notices to Party A:	As supplied by Party A from time to time in writing.
Account Details of the Beneficiary:	As supplied by the Beneficiary from time to time in writing.
Notices to Party B:	As supplied by Party B from time to time in writing.
Account Details of Party B:	As supplied by Party B from time to time in writing.

## 6. Additional Provisions:

- (a) “Affiliate” shall mean none with respect to Party A; *provided* that for purposes of the Confidentiality provisions herein only, “Affiliate” shall have the meaning specified in Section 14 of the Agreement. “Affiliate” shall have the meaning specified in Section 14 of the Agreement with respect to Party B.
- (b) The “Automatic Early Termination” provisions of Section 6(a) will not apply to Party A or Party B; *provided* that if the Event of Default specified in Section 5(a)(vii)(1), (3), (4), (5), (6) or, to the extent analogous thereto, (8) is governed by a system of law that does not permit termination to take place after the occurrence of the relevant Event of Default with respect to a party, then the Automatic Early Termination provision of Section 6(a) will apply to such party.
- (c) The “Cross Default” provisions of Section 5(a)(vi) will apply to both Party A and Party B. “Specified Indebtedness” will have the meaning specified in Section 14 of the Agreement, but will not include obligations in respect of deposits received in the ordinary course of the banking business, if applicable, of a party; *provided* that any payment default that results solely from wire transfer difficulties or an error or omission of an administrative or operational nature shall be excluded unless such payment default continues for more than three Business Days after notice. The “Threshold Amount” with respect to a party shall be an amount equal to 3% of such party’s total shareholder equity or net asset value (as the case may be), as specified in such party’s most recent audited financial statements.



- (d) "Termination Currency" means United States Dollars.
- (e) For purposes of Section 6(e), Loss and Second Method shall apply.
- (f) **Rights of Set-Off.** Any amount (the "**Early Termination Amount**") payable to one party (the "**Payee**") by the other party (the "**Payer**") under Section 6(e) of the Agreement, in circumstances where there is a Defaulting Party or one Affected Party in the case where a Termination Event under Section 5(b)(iv) of the Agreement with all outstanding Transactions as Affected Transactions has occurred, will, at the option of the party ("X") other than the Defaulting Party or the Affected Party), be reduced by its set-off against any amount(s) (the "**Other Agreement Amount**") payable (including amounts due and owing as of the date of set-off, but not yet paid) by the Payee to the Payer (irrespective of the currency, place of payment or booking office of the obligation) under any other agreement(s) between the Payee and the Payer or instrument(s) or undertaking(s) issued or executed by one party to, or in favor of, the other party (and the Other Agreement Amount will be discharged promptly and in all respects to the extent it is so set-off). X will give prior written notice to the other party of any set-off effected under this section.

For this purpose, either the Early Termination Amount or the Other Agreement Amount (or the relevant portion of such amounts) may be converted by X into the currency in which the other is denominated at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency.

If an obligation is unascertained, X may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

Nothing in this section shall be effective to create a charge or other security interest. This section shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

- (g) **Authorized Representative.** Clause (3) of Section 5(a)(v) of the Agreement is modified by inserting the words "through any authorized representative and in writing" immediately before the word "disaffirms". Clause (2) of Section 5(a)(vii) of the Agreement is modified by inserting the words ", through any authorized representative," immediately before the word "admits".
- (h) **Tax Representations:**

**Payer Representations.** For the purpose of Section 3(e) of the Agreement, Party A will make the following representation and Party B will make the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under



Section 2(e), 6(d)(ii) or 6(e) of the Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of the Agreement, (ii) the satisfaction of the agreement contained in Section 4(a)(i) or 4(a)(iii) of the Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of the Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of the Agreement, *provided* that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) of the Agreement by reason of material prejudice to its legal or commercial position.

(i) **Limited Recourse.**

Not applicable.

(j) **Governing Law.** This Agreement shall be construed in accordance with, and this Agreement and all matters arising out of or relating in any way whatsoever to this Agreement or any Transaction (whether in contract, tort or otherwise) shall be governed by, the law of the State of New York (without reference to any choice of law rules that would result in the application of the law of any other jurisdiction).

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by responding with three (3) Business Days by either returning this Confirmation in person or via facsimile to the attention of William Guffey, Principal, facsimile number +1-441-295-2867; telephone number +1-441-295-4722.

*Signature page follows*



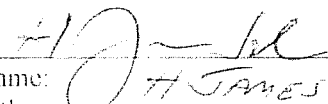
Yours Sincerely,

POSEIDON RE LTD.

By: \_\_\_\_\_  
Name:  
Title:

Confirmed as of the date first written above:

MAGNOLIA AGENCY LTD.

By:  \_\_\_\_\_  
Name: H. JAMES IRL  
Title: PRES.

By: \_\_\_\_\_  
Name:  
Title:

Confirmed as of the date first written above:

ALLIANZ RISK TRANSFER, INC.

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



**AMENDED AND RESTATED  
OPERATING AGREEMENT**

**OF**

**MAGNOLIA AGENCY, LLC**

February 27, 2008



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- Exhibit A Certificate of Conversion
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**AMENDED AND RESTATED OPERATING AGREEMENT  
OF  
MAGNOLIA AGENCY, LLC**

This **AMENDED AND RESTATED OPERATING AGREEMENT** (this "Agreement") is entered into as of the 27th day of February, 2008 by and among Magnolia Agency, LLC, a Florida limited liability company (the "Company"), Irl Financial Group Incorporated, a Florida corporation (the "Class A Member"), Allianz Risk Transfer, Inc., a New York corporation (the "Class B Member") and such other Persons as may become parties to this Agreement and be admitted as Members to the Company, in accordance with the provisions hereof from time to time.

**RECITALS**

**WHEREAS**, the Class A Member, previously the owner of one hundred percent (100%) of the capital stock of Magnolia Agency, Inc., formed and organized the Company by causing Magnolia Agency, Inc. to convert into a limited liability company under and pursuant to the Act (as defined below) by filing a Certificate of Conversion (the "Certificate of Conversion") on February 25, 2008 with the Secretary of State (a copy of which Certificate of Conversion is attached hereto as Exhibit A) (the "Conversion") and entering into an Operating Agreement with the Company as of such date (the "Original Operating Agreement");

**WHEREAS**, pursuant to that certain credit agreement by and between the Class A Member, as Borrower, and the Class B Member, as Lender, dated as of February 27, 2008 (the "Credit Agreement"), the Class A Member has agreed to convey and transfer to the Class B Member, the Class B Membership Interest and to enter into this Agreement;

**WHEREAS**, concurrently with entering into this Agreement and pursuant to that certain transfer agreement (the "Transfer Agreement") by and among H. James Irl, an individual residing in the State of Florida, the Class A Member and the Class B Member, the Class A Member has conveyed and transferred the Class B Membership Interest to the Class B Member;

**WHEREAS**, the parties have agreed to amend the Original Operating Agreement by entering into and adopting this Agreement, setting forth the respective rights, powers and interests of the Members (as defined below) with respect to the Company and their respective Membership Interests (as defined below) therein and to provide for the management of the business and operations of the Company.

**NOW, THEREFORE**, in consideration of the mutual promises and agreements made herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:



Class B Member, or, if the Class A Member and the Class B Member cannot agree on such an independent appraiser within five (5) Business Days after the Appraiser's declining to serve, an independent appraiser mutually acceptable to the Class A Member's and the Class B Member's independent accountants, provided that Fox Pitt Kelton Cochran Caronia Waller USA LLC or such other independent appraiser selected by the Class A Member and the Class B Member or their independent accountants shall not have any material relationship with the Class A Member or the Class B Member or their respective Affiliates unsatisfactory to the other party.

"Appraiser's Report" shall have the meaning set forth in **Section 6.11(b)**.

"Arbitrator" shall have the meaning set forth in **Section 12.14(a)**.

"Articles of Dissolution" means the Articles of Dissolution filed by the Company upon its dissolution pursuant to and as required by the Act.

"Articles of Organization" means the Articles of Organization of the Company filed with the Secretary of State (a copy of which Articles of Organization is attached hereto as Exhibit B).

"Bankruptcy" means, with respect to any Person, the happening of any one or more of the following events: (i) such Person (or, in the case of a Person which is a partnership, any general partner thereof): (A) makes an assignment for the benefit of creditors; (B) files a voluntary petition in bankruptcy; (C) is adjudged bankrupt or insolvent, or there has been entered against such Person (or general partner) an order for relief, in any bankruptcy or insolvency proceeding; (D) files a petition or answer seeking in respect of such Person (or general partner) any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation; (E) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Person (or such general partner) in any proceeding of a nature described above; or (F) seeks, consents or acquiesces in the appointment of a trustee, receiver or liquidator of such Person (or such general partner) or of all or any substantial part of such Person's (or such general partner's) properties; or (ii) one hundred twenty (120) days after the commencement of any proceeding against such Person (or such general partner) seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, if such proceeding has not been dismissed, or within ninety (90) days after the appointment without such Person's (or such general partner's) consent or acquiescence of a trustee, receiver or liquidator of such Person (or such general partner) or of all or any substantial part of such Person's (or such general partner's) properties, if such appointment is not vacated or stayed, or within ninety (90) days after the expiration of any such stay, if such appointment is not vacated.

"Board of Directors" means, at any time, the Board of Directors of the Company.

"Borrower" shall have the meaning set forth in the Credit Agreement.

"Budget" shall have the meaning set forth in **Section 5.2(q)**.



receive distributions, (b) all management rights, voting rights or rights to consent, (c) all rights to inspect the Company's books and records and (d) any other rights to which the Class B Member is entitled under the Act which are not inconsistent with the provisions of this Agreement.

"Class B Member's Put Right" shall have the meaning set forth in **Section 6.10(a)**.

"Certificate of Limited Liability Company Interest" shall have the meaning set forth in **Section 2.11**.

"Code" means the United States Internal Revenue Code of 1986, as amended, or any corresponding provision of any succeeding law.

"Commission" means the United States Securities and Exchange Commission and any successor governmental agency.

"Company" means Magnolia Agency, LLC.

"Company Property" or "Company Properties" means all interests, properties, whether real or personal, and rights of any type owned or held by the Company, whether owned or held by the Company at the date of its formation or thereafter acquired.

"Conditions of Transfer" shall have the meaning set forth in **Section 6.9**.

"Confidential Information" means any confidential or proprietary information, including information concerning methods or plans of operation, research and development, designs, computer programs, technical or non-technical data, ideas, devices, products, processes, formulae, formulations, compositions, methods, drawings, processes, inventions, technology, improvements, innovations, apparatus, know-how or methods, financial data, financial plans, product plans, lists of actual or potential customers or suppliers, or any confidential business information, plans or data. Confidential Information shall not, however, include any such information that: (i) as of the date of disclosure is demonstrably known to the Person receiving such disclosure or its Affiliates, other than by virtue of a prior confidential disclosure to such Person or its Affiliates; (ii) as of the date of disclosure is in, or subsequently enters, the public domain, through no fault or omission of the Person receiving such disclosure, (iii) through no improper action of, and with no breach of any confidentiality or similar obligation is obtained (without restriction on disclosure) by the Person receiving such disclosure, (iv) without use of or reference to such disclosed information is independently developed or obtained by the Person receiving such disclosure or (v) becomes available (without restriction on disclosure) to the Person receiving the disclosure from a source other than the disclosing Person, provided that such source is not known by the Person receiving the disclosure to be bound by a confidentiality agreement with, or other obligation of secrecy or confidentiality to the disclosing Person.

"Contracts" means contracts, agreements, arrangements, understandings, restrictive covenants, personal property leases, real property leases (including all rights to any and all improvements and fixtures thereon), memberships, warranties, registrations and similar documents, whether oral or written.



owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances.

"Indemnified Parties" shall have the meaning set forth in **Section 8.1(a)**.

"Lender" shall have the meaning set forth in the Credit Agreement.

"Loan" shall have the meaning set forth in the Credit Agreement.

"Loan Documents" shall have the meaning set forth in the Credit Agreement.

"Majority Vote" means, with respect to actions to be taken by the Board of Directors, the affirmative vote or consent of at least a majority of the Directors then serving on the Board of Directors.

"Material Contracts" means any (a) Contract for the employment of any grandparent, parent, child, sibling, niece, nephew or any other familial relative of H. James Irl, whether such person is related to H. James Irl by blood, marriage or adoption, as an employee, consultant or agent of the Company or any of its subsidiaries, (b) Contract for the employment of any individual as an employee, consultant or agent of any of the Company or any subsidiary or any other Contract that when aggregated with all of the Contracts entered into by the Company (excluding this Agreement, the Advisory Services Agreement, the Processing Services Agreement and those Contracts for the employment of any individual as an employee, consultant or agent of any of the Company entered into prior to April 30, 2008, in accordance with Schedule 2.01(b) of the Credit Agreement), require expenditures by the Company and its subsidiaries, taken as a whole, in excess of \$150,000 in any twelve (12) month period; provided, however, that any Contract entered into by the Company or any subsidiary in the ordinary course of business that both (i) has a term of less than one (1) year and (ii) does not give rise to any liability in excess of \$20,000 shall not be considered a Material Contract for purposes of this clause (b), (c) Contract with any labor union or similar organization covering any employees of the Company or any subsidiary, (d) Contract relating to any Indebtedness or mortgage, pledge, conditional sales contract, security agreement, factoring agreement or other similar Contract, other than in the ordinary course of business or any Contract that will cause the Company's aggregate Indebtedness (other than in connection with any Loan Document) to exceed \$150,000 in the aggregate as a result of such Contract at any time, (e) Contract for the sale, lease or license of any of the material assets of the Company or any subsidiary or for the grant of any preferential right to purchase any material assets of the Company or any subsidiary, (f) Contract prohibiting or restricting any of the Company or any subsidiary from freely engaging in any business or activity or competing anywhere in the world, (g) Contracts to indemnify other Persons, (h) Contracts with any Members or any Affiliate of any Member, (i) agency, management, managing general agency, producer, sub-producer or other production agreements with any insurers or other Persons, (j) any partnership or joint venture agreements, (k) Contracts relating to the purchase, lease or use of any real property and (l) any Contract which is material to the Company



from its value. The aggregate amounts calculated as set forth above shall constitute "Net Income" if positive, and "Net Loss" if negative.

"Nonrecourse Liability" means a liability (or that portion of a liability) with respect to which no Member bears the economic risk of loss as determined under Section 1.704-2 (b)(3) of the Treasury Regulations.

"Note" shall have the meaning set forth in the Credit Agreement.

"Notice" shall have the meaning set forth in **Section 12.2**.

"Notice Date" shall have the meaning set forth in **Section 6.11(a)**.

"Officer" means any officer of the Company, in each case as appointed or designated by the Board of Directors in accordance with **Section 5.3** hereof.

"Operating Expenses" shall have the meaning set forth in **Section 4.10**.

"Original Operating Agreement" shall have the meaning set forth in the recitals of this Agreement.

"Other Member" shall have the meaning set forth in **Section 6.12(a)**.

"Participants" shall have the meaning set forth set forth in **Section 6.12(d)**.

"Payment Date" shall have the meaning set forth in the Credit Agreement.

"Permitted Assignee" shall have the meaning set forth in **Section 6.12(b)**.

"Permitted Transferee" means, with respect to any Member: (i) any other Member and (ii) any Affiliate of such Member.

"Person" means any general partnership, limited partnership, corporation, limited liability company, joint venture, trust, business trust, governmental body or agency, cooperative, association, individual or other entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such person, as the context may require.

"Processing Services Agreement" means that certain processing services agreement by and between the Company and CGI Technologies and Solutions Inc., entered into as of February 26, 2008, with an effective date as of March 1, 2008.

"Receiving Party" shall have the meaning set forth in **Section 7.1(a)**.

"Regulations" means the income tax regulations, including any temporary regulations, from time to time promulgated under the Code.



**"Unrealized Loss"** means the excess (attributable to a Company Property), if any, of the Carrying Value of such property as of the date of determination (prior to any adjustment to be made pursuant to **Section 3.4(e)** as of such date) over its Agreed Value as of such date of determination.

**"Vesting Event"** means the earliest to occur of any of the following events:

- (c) the termination of the MGA Agreement for any reason;
- (d) a Change of Control of the Class A Member;
- (e) a Change of Control of Magnolia Insurance Company;
- (f) an Event of Default under the Credit Agreement;
- (g) a breach by the Class A Member or H. James Irl of any of their respective covenants set forth in the Transfer Agreement.

## **Article II Organization**

2.1. **Formation and Conversion.** The parties have organized a limited liability company pursuant to the Act and the provisions of this Agreement and, for that purpose, have caused the Certificate of Conversion to be prepared, executed and filed with the Secretary of State on February 25, 2008.

2.2. **Name of the Company.** The name of the Company shall be "Magnolia Agency, LLC". The Company may do business under that name and under any other name or names which the Board of Directors selects. If the Company does business under a name other than that set forth in its Articles of Organization, then the Company shall comply with any requirements of the Act or applicable law regarding the adoption or use of a name other than that set forth in its Articles of Organization.

2.3. **Purpose.** The nature of the business and of the purposes to be conducted and promoted by the Company are to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity for which limited liability companies may be organized under the Act, including, but not limited to, operating as an insurance agency or brokerage.

2.4. **Term.** The term of the Company shall begin upon the acceptance of the Articles of Organization by the Secretary of State and shall continue in existence until earlier terminated pursuant to **Article IX** of this Agreement.

2.5. **Registered Office; Principal Place of Business.** The registered office of the Company in the State of Florida and the principal office and principal place of business of the



2.12. Fiscal Year. The fiscal year of the Company shall end on the 31st day of December in each calendar year.

### **Article III Capital Contribution**

3.1. Additional Capital Contributions. No Member shall be obligated to make any Capital Contributions after the date of this Agreement.

3.2. Return of Capital Contributions. Except as otherwise provided in this Agreement, no Member shall have the right to receive the return of any Capital Contribution.

3.3. No Obligation to Make Loans. No Member shall be required or obligated to make any loans to the Company, guarantee any obligation of the Company or provide goods or services to the Company, without such Member's prior written consent.

3.4. Capital Accounts; Tax Treatment of Conversion and Transfer.

(a) (i) A single Capital Account shall be maintained for each Member in accordance with the requirements of Section 704(b) of the Code and the Treasury Regulations. Each Member's Capital Account shall be: (i) increased by (A) the amount of money and the value of any property (net of liabilities that the Company is considered to assume or take subject to Section 752 of the Code) contributed or deemed contributed by such Member to the Company, (B) allocations to such Member of Net Income, and (C) any special allocations of income or gain not included in Net Income; and (ii) decreased by (D) the amount of money and the value of any property (net of liabilities secured by the distributed property that such Member is considered to assume or take subject to Section 752 of the Code) distributed to such Member by the Company, (E) allocations to such Member of Net Loss, and (F) any special allocations of loss or expense not included in Net Loss.

(ii) Except as otherwise provided herein, whenever it is necessary to determine the Capital Account of any Member for purposes of this Agreement, the Capital Account of the Member shall be determined after giving effect to (i) all contributions made or deemed made to the Company, (ii) all allocations of income, gain, deduction and loss pursuant to Article IV for operations and transactions effected on or after the date of this Agreement and prior to the date such determination is required to be made under this Agreement and (iii) all distributions made on or after the date of this Agreement.

(b) For federal income tax purposes (and for applicable state, local and other tax purposes), the Conversion shall be treated as a liquidation of Magnolia Agency, Inc. at the effective time of the Conversion, whereupon the Company shall be disregarded as an entity separate from the Class A Member. None of the parties hereto shall take any position inconsistent therewith.



**Article IV**  
**Allocations, Distributions and Operating Expenses**

4.1. Allocations of Net Income and Net Loss; Corresponding Tax Allocations. The Company's Net Income and Net Loss shall be allocated to the Members as follows:

(a) With respect to each fiscal year prior to the fiscal year in which the Trigger Date occurs, and with respect to the portion of the fiscal year in which the Trigger Date occurs ending on and including the Trigger Date (determined on a "closing of the books" basis as of the close of the Trigger Date), the Company's Net Income and Net Loss shall be allocated 100% to the Class A Member.

(b) With respect to each fiscal year after the fiscal year in which the Trigger Date occurs, and with respect to the portion of the fiscal year in which the Trigger Date occurs beginning immediately after the Trigger Date (determined on a "closing of the books" basis as of the close of the Trigger Date), the Company's Net Income and Net Loss shall be allocated between the Members in accordance with their respective Membership Percentages.

(c) Notwithstanding paragraph (a) and (b) of this **Section 4.1**, Net Income and Net Loss (and items thereof) for a fiscal year in which there is a sale of all or substantially all of the Company Properties, first, shall be allocated in a manner so that, to the extent possible, the Capital Account balance of each Member is, relative to the aggregate balance of all Capital Accounts, in accordance with each Member's Membership Percentage and, second, shall be allocated between the Members in accordance with their respective Membership Percentages.

(d) In no event shall allocations of Net Loss cause a Member to have a negative Adjusted Capital Account balance.

(e) Except as provided in **Section 4.2**, net taxable income or loss will be allocated in the same manner as Net Income and Net Loss.

4.2. Section 704(c) Allocations.

(a) In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss, deduction and expense with respect to any property contributed or deemed contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its Carrying Value at the time of contribution.

(b) If the Carrying Value of any Company asset is adjusted pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(f), subsequent allocations of items of taxable income, gain, loss, deduction and expense with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Carrying Value in the same manner as under Code Section 704(c).



(i) With respect to (A) each fiscal year prior to the fiscal year in which the Trigger Date occurs and (B) the portion of the fiscal year in which the Trigger Date occurs prior to the Trigger Date, the Class A Member shall be distributed cash until the amount of cash distributed, and previously distributed, pursuant to this **Section 4.5(b)(i)** equals the amount of Net Income (reduced by Net Loss) allocated, and previously allocated, to the Class A Member pursuant to **Section 4.1(a)**.

(ii) With respect to (A) each fiscal year after the fiscal year in which the Trigger Date occurs and (B) the portion of the fiscal year in which the Trigger Date occurs after to the Trigger Date, each Member shall be distributed cash until the amount of cash distributed, and previously distributed, to such Member pursuant to this **Section 4.5(b)(ii)** equals the amount of Net Income (reduced by Net Loss) allocated, and previously allocated, to such Member pursuant to **Section 4.1(b)**. Amounts distributed pursuant to this clause (ii) shall be made pro rata based on the maximum amount distributable pursuant to this clause (ii).

(iii) Monthly Distributions pursuant to **Section 4.5(a)** and distributions to a Member pursuant to **Section 4.6** (relating to tax distributions) with respect to a fiscal year shall be regarded as a distribution under this **Section 4.5(b)**, and serve to discharge to the extent of such distribution the Company's obligations under this **Section 4.5(b)**. If, with respect to any fiscal year, the sum of Monthly Distributions pursuant to **Section 4.5(a)** and distributions to a Member pursuant to **Section 4.6** exceed the amount distributable to such Member under this **Section 4.5(b)**, amounts distributable to such Member under this **Section 4.5(b)** with respect to subsequent fiscal years shall be reduced by the amount of such excess.

(iv) Notwithstanding clause (i) and (ii) of this **Section 4.5(b)**, distributions following a sale of all or substantially all of the Company Properties (or an adjustment pursuant to **Section 3.4(e)** based on a hypothetical sale of all Company Properties) shall be made in accordance with Positive Capital Account balances and consistent with **Section 4.8**.

(c) The Board of Directors is authorized to withhold from distributions, or with respect to allocations, to the Members and to pay over to any federal, state, or local government any amounts required to be so withheld pursuant to the Code or any provision of any other federal, state, or local law and shall allocate any such amounts to the Members with respect to which such amount was withheld. All amounts withheld pursuant to the Code or any provision of any other federal, state or local law with respect to any payment, distribution or allocation to the Company or any Member shall be treated as amounts distributed to the Members with respect to which such amount was withheld pursuant to this **Section 4.5(c)** for all purposes of this Agreement.

**4.6. Distributions with Respect to Tax.** Prior to making any distributions pursuant to **Section 4.5(b)** with respect to a fiscal year (or portion thereof), but subject to the last sentence of this **Section 4.6**, the Company shall distribute to each Member an amount of cash equal to the product of (i) taxable income allocated to such Member with respect to such year (determined for



2010	\$2,095,540
2011	\$2,634,319
2012	\$2,936,751

; provided, however, that if the commissions paid to the Company as the managing general agent under the MGA Agreement in any fiscal year set forth above exceed the amount set forth in the pro forma income statement attached as Schedule 6.01(k) to the Credit Agreement, then the amount set forth above for such year shall be increased for such year by 4.8% of the amount of such excess and (ii) for each fiscal year beginning on or after January 1, 2013, the Operating Expenses for each fiscal year shall not exceed 12.5% of the Operating Expenses for the immediately preceding fiscal year.

(b) No Member shall be required to provide services or incur any Operating Expenses on behalf of the Company without such Member's prior written consent. Notwithstanding the foregoing, the Company and a Member may enter into agreement for the provision of services, supplies, materials, etc. by a Member to the Company or by the Company to a Member. The compensation and fees for any such services, supplies, materials, etc. shall be pursuant to the mutual good faith, arms-length agreement of the Member and the Company. For the avoidance of doubt each Member hereby agrees and acknowledges that the Advisory Services Agreement and the MGA Agreement have been entered into in good faith and on an arms-length basis.

## Article V Management: Rights, Powers, and Duties

5.1. Management of the Company. Except as required by the Act or otherwise expressly provided in this Agreement, including, without limitations, in **Sections 4.1, 6.2, 6.7 and 11.1 and Article I**, the powers of the Company shall be exercised solely by or under the authority of a Board of Directors, as described herein, and the Members shall have no power or authority to take any action or make any decision for or on behalf of the Company.

### 5.2. Board of Directors.

(a) Number and Election: The Board of Directors shall be composed of a minimum of one (1) Director and shall at all times consist solely of Director(s) selected by the Class A Member. The number of Directors may at any time and from time to time be increased or decreased by action of the Board of Directors, but no decrease in the number of directors shall (i) cause the Board of Directors to consist of less than one (1) Director or (ii) have the effect of shortening the term of any incumbent Director.

(b) Appointment of Directors: Only the Class A Member shall have the right to vote for the Directors of the Company. The initial Directors designated by the Class A Member in accordance with the terms set forth in this **Section 5.2** to serve on the Board of Directors are set forth on Schedule II hereof. Each Director shall be entitled to one vote at each properly called meeting of the Board of Directors.



(i) Manner of Action: The act of a majority of the Directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board of Directors.

(j) Presumption of Assent: A Director of the Company who is present at a meeting of the Board of Directors or a committee of it when action is taken shall be presumed to have assented to the action taken, unless he or she objects at the beginning of the meeting, or promptly on arrival, to holding the meeting or transacting specific business at the meeting, or he or she votes against or abstains from the action taken.

(k) Action Without a Meeting: Any action required or permitted to be taken at a meeting of the Board of Directors or a committee of it may be taken without a meeting if a consent in writing, stating the action so taken, is signed by all the Directors. Action taken under this Section is effective when the last Director signs the consent, unless the consent specifies a different effective date. A consent signed under this Section shall have the effect of a meeting vote and may be described as such in any document.

(l) Meetings by Means of Conference Telephone Call or Similar Electronic Equipment: Directors may participate in a meeting of the Board of Directors by means of a conference telephone call or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation by such means constitutes presence in person at a meeting.

(m) Resignation: Any Director may resign at any time by giving written notice to the Company, the Board of Directors, or its chairman. The resignation of any Director shall take effect when the notice is delivered unless the notice specifies a later effective date, in which event the Class A Member may fill the pending vacancy before the effective date if it provides that the successor does not take office until the effective date.

(n) Removal: Any Director, or the entire Board of Directors, may be removed at any time, with or without cause, by action of the Class A Member, unless the Articles of Organization provide that Directors may be removed only for cause.

(o) Vacancies: Any vacancy in the Board of Directors, including any vacancy created by an increase in the number of Directors, may be filled by the Class A Member. If at any time, for whatever reason, there are no Directors of the Company and the Class A Member is unwilling, unable or otherwise fails to fill such vacancy with at least one (1) Director within five (5) Business Days of the vacancy in the Board of Directors causing the Company to have no Directors, such vacancy may be filled by the Class B Member at its election.

(p) Compensation: Each Director that is neither an employee nor an officer of the Company may be paid the expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors as may from time to time be determined by action of the Board of Directors. No such payment shall be paid to any Director that also serves as an Officer or employee of the Company or in any other capacity and receives compensation for those services.



when delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Company accepts the future effective date, the Board of Directors may fill the pending vacancy before the effective date if the Board of Directors provides that the successor does not take office until the effective date.

(e) Removal of Officers: Any Officer of the Company may be removed from his or her respective office or position at any time, with or without cause, by the Board of Directors.

(f) President: The president shall be the chief executive officer of the Company and shall, subject to the control of the Board of Directors, generally supervise and control all of the business and affairs of the Company, and preside at all meetings of the Board of Directors and all committees of the Board of Directors on which he or she may serve. In addition, the president shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors, and as are incident to the offices of president and chief executive officer.

(g) Vice Presidents: Each vice president, if any are appointed by the Board of Directors, shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors.

(h) Secretary: The secretary shall keep the minutes of the proceedings of the Board of Directors in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of this Agreement or as required by law; and be a custodian of the records of the Company. In addition, the secretary shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors and as are incident to the office of secretary.

(i) Treasurer: The treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Company; receive and give receipts for money due and payable to the Company from any source whatsoever; and deposit all such money in the name of the Company in such banks, trust companies, or other depositories as shall be used by the Company. In addition, the treasurer shall possess, and may exercise such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors and as are incident to the office of treasurer.

(j) Other Officers, Employees, and Agents: Each and every other Officer, employee, and agent of the Company, if any, shall possess, and may exercise, such power and authority, and shall perform such duties, as may from time to time be assigned to him or her by the Board of Directors, the Officer appointing him or her, and such Officer or Officers who may from time to time be designated by the Board of Directors to exercise supervisory authority.

(k) Compensation: The compensation of the Officers of the Company shall be determined from time to time by the Board of Directors, subject to Section 6.2.



(v) any acquisition (by operation of law or otherwise) by the Company or a subsidiary of the Company of any equity interest in any Person (other than short-term investments made for cash management purposes);

(vi) the creation or liquidation of any wholly owned subsidiary of the Company or a subsidiary of the Company or any merger or consolidation of any wholly owned subsidiary of the Company (or its subsidiaries) with the Company or any other wholly owned subsidiary of the Company;

(vii) any issuance, sale or exchange, or agreement to issue, sell or exchange by the Company of any Membership Interests of the Company;

(viii) other than pursuant to the Advisory Services Agreement and the Processing Services Agreement, the hiring or termination of, or the setting or modification of the salary or compensation of, any employees, agents, independent contractors or consultants having a salary or compensation at a rate greater than \$200,000 per year; provided, however, that no separate approval of any salary or compensation arrangements existing as of the date hereof with respect to the Company's current employees shall be required.

(ix) the retention of an accounting firm and/or counsel to render any necessary assistance in connection with any Tax Audit;

(x) any voluntary liquidation, dissolution or termination of the Company, any merger or consolidation involving the Company or any other fundamental change in the legal structure of the Company;

(xi) the sale, lease, license, Transfer or other disposition by the Company of all or substantially all of its assets;

(xii) the filing of a petition for Bankruptcy by the Company; and

(xiii) any other matter requiring approval by all of the Members under this Agreement and the Act.

6.3. Scope of Members' Authority. The authority provided under Sections 6.2 supersedes any authority granted to the Members pursuant to the Act. Any Member who takes any action or binds the Company in violation of this Agreement shall be solely responsible for any loss and expense incurred by the Company as a result of the unauthorized action and shall indemnify and hold the Company, the other Members, the Board of Directors and Officers harmless with respect to the loss or expense. The indemnification provided in the preceding sentence shall survive the dissolution of the Company and the death, withdrawal, removal, incompetence, dissolution, liquidation or insolvency of any Person indemnified hereunder, and shall inure to the benefit of such indemnified Person's heirs, personal representatives, successors and assigns.



is not a Member or an Affiliate of a Member, including the right to receive from the Company a fair and reasonable compensation, price, fee, commission or other payment therefor. Neither the Company nor any Member shall have, as a consequence of the relationships created hereby, any rights in or to any income or profits derived from such employment or other transactions or relationships, unless expressly included in the terms of such relationship. The Company may employ or retain any Member or any of its Affiliates (and any other Person to which any of the foregoing are related or in which any of the foregoing are interested), and such Persons may receive from the Company compensation in addition to that expressly provided for in this Agreement. Any transaction or agreement between the Company and any Member or its Affiliates shall be entered into on an arm's-length basis for reasonably equivalent value. For the avoidance of doubt each Member hereby agrees and acknowledges that each of the Advisory Services Agreement, the MGA Agreement, the Security Agreement and the Subsidiary Guaranty have been entered into on an arm's-length basis for reasonably equivalent value.

6.7. Admission of Additional Members. Additional Members of the Company may only be added if the addition of any such proposed additional member is approved, in writing, prior to any such admission, by Unanimous Member Consent.

6.8. Restrictions on Transfers.

(a) Except as provided in subsection (c) of this **Section 6.8**, no Person may Transfer or otherwise dispose of all or any portion of its Membership Interest.

(b) Each Member hereby acknowledges the reasonableness of the prohibition contained in this **Section 6.8**, in view of the purposes of the Company and the relationship of the Members. Any Person to whom Membership Interests are attempted to be Transferred in violation of this **Section 6.8** shall not become a Member, shall not be entitled to vote on any matters coming before the Members at large, shall not be entitled to any distributions and shall not have any other rights in or with respect to the purported transferor's Membership Interests.

(c) Notwithstanding the prohibition against Transfer provided in this **Section 6.8**, any Member may Transfer any or all of its Membership Interests:

(i) in accordance with **Sections 6.10 and 6.12**;

(ii) with the prior written approval of all of the other Members; or

(iii) to any of its Permitted Transferees; provided that with respect to a Transfer to an Affiliate, the assigning party shall remain liable for the performance of this Agreement by such Permitted Transferee, regardless of whether the assigning party remains an Affiliate of such Permitted Transferee.

6.9. Conditions of Transfer. Notwithstanding any Transfer permitted under **Section 6.8(c)** hereof, no Person may Transfer all or any portion of its Membership Interest, unless the following conditions ("Conditions of Transfer") are satisfied:



Member's Membership Interest to the Class A Member (or its designee). Following the Class B Member's election to exercise the Class B Member's Put Right in accordance with **Section 6.10(a)**, the Class A Member may satisfy its obligation to purchase the Class B Member's Membership Interests pursuant to this **Section 6.10** either directly or through the Company or one or more of its Affiliates or assignees. The Class A Member and the Class B Member agree that upon exercising the Class B Member's Put Right, the Class B Member will become a creditor of the Class A Member until such time as the Class A member or its assignee purchases the Class B Membership Interests in accordance with this **Section 6.10**.

6.11. Determination of Appraised Value. For the purposes of determining the purchase price for the Class B Member's Membership Interests under **Section 6.10**, "Appraised Value" shall be determined as follows:

(a) As soon as practicable, and in any event within ten (10) days after the Class B Member has given its notice of the exercise of the Class B Member's Put Right, (the "Notice Date"), the Class A Member and the Class B Member shall engage the Appraiser for the purpose of determining the fair market value of the Company in accordance with **Section 6.11(b)**.

(b) The Appraiser shall determine the estimated fair market value of the Company as of the Notice Date, assuming that (i) the MGA Agreement has not been terminated and will remain in full force and effect for a period of seven (7) years following the Notice Date, (ii) Magnolia Insurance Company continues its operations in substantially the same manner as in the two (2) years preceding the Notice Date and (iii) the portion of the Company's operating and other expenses and capital investments in relation to its Net Income in future years will be consistent with such portion for the two (2) years preceding the Notice Date. The appraisal shall be determined using generally accepted methodology for the valuation of a similar insurance managing general agency without regard to any discount for the lack of liquidity or control rights or attributable to minority shareholder status or any premium attributable to majority shareholder status. For the purposes of determining the fair market value of the Company, the Appraiser shall include, without limitation, in the pre-tax income of the Company all commissions, fees, billing and premium finance income of the Company. The Appraiser shall set forth such determination in writing (together with reasonable detail showing the method of calculation thereof) and shall deliver a copy of such written determination (the "Appraiser's Report") to each of the Class A Member and the Class B Member, not later than thirty (30) days after the Notice Date.

(c) The Appraised Value determined in the manner described in this **Section 6.11** shall be binding and conclusive on all parties hereto.

(d) Each of the Class A Member and the Class B Member shall be responsible for and shall pay one-half of the costs and expenses of the Appraiser. The Class A Member and the Class B Member each agree to cooperate with the Appraiser in preparing its Appraiser's Report and shall promptly provide any information, including financial information, reasonably requested and which is readily available without undue burden.



Sale Interests that the Transferring Member may sell in the transaction shall be correspondingly reduced pursuant to **Section 6.12(d)**.

(d) Each Member electing to participate in the Transfer (including the Transferring Member, the "Participants") may sell all or any portion of its Membership Interests equal to the product obtained by multiplying (i) the Co-Sale Interest covered by the Sale Notice by (ii) such Participant's Membership Percentage.

(e) Each Participant shall effect its participation in the Transfer by promptly delivering to the Transferring Member for transfer to the prospective purchaser such instruments of conveyance and other documents as the Transferring Member may reasonably request to effect such Transfer.

(f) The instruments of conveyance that the Participant delivers to the Transferring Member pursuant to **Section 6.12(e)** shall be transferred to the prospective purchaser in consummation of the Transfer of the Membership Interests pursuant to the terms and conditions specified in the Sale Notice, and the transferee shall concurrently therewith remit to such Participant that portion of the Transfer proceeds to which such Participant is entitled by reason of such Participant's participation in such Transfer. If the Other Member Transfers membership interests pursuant to this **Section 6.12**, such Other Member shall pay its pro rata share (based on the pro rata share of such Member of the Membership Interests to be Transferred) of the expenses incurred by the Transferring Member in connection with such transfer and such Other Member shall be obligated to join on a pro rata basis (based on the pro rata share of such Other member of the Membership Interests to be Transferred) in any indemnification or other obligations that the Transferring Member agrees to provide in connection with such Transfer (other than any such obligations that relate specifically to a particular Transferring Member such as indemnification with respect to representations and warranties given by a Transferring Member regarding such Transferring Member's title to and ownership of Membership Interests; provided, however, that such Other Member shall not be obligated in connection with such Transfer to agree to indemnify or hold harmless any transferee with respect to an amount in excess of the net cash proceeds paid to such Other Member in connection with such Transfer).

(g) The exercise or non-exercise of the rights of the Other Member hereunder to participate in one or more Transfers of Co-Sale Interests made by the Transferring Member shall not adversely affect its rights to participate in subsequent Transfers of Co-Sale Interests subject to **Section 6.12**.

(h) To the extent that any prospective purchaser prohibits such assignment or otherwise refuses to purchase Membership Interests from a Participant exercising rights of co-sale hereunder, the Transferring Member shall not Transfer to such prospective purchaser any Co-Sale Interest unless and until, simultaneously with such Transfer, the prospective transferee shall purchase such Membership Interests from such Participant.

(i) If the Other Member elects not to participate in the Transfer of the Co-Sale Interests subject to the Sale Notice or exercise its rights set forth in **Section 6.12(b)**, the



(b) In the event the Class A Member violates any of its obligations under this **Section 6.13**, the Class B Member may proceed against it in law or in equity for such damages or other relief as a court may deem appropriate. Sellers acknowledge that a violation of this **Section 6.13** may cause the Class B Member irreparable harm which may not be adequately compensated for by money damages. The Class A Member therefore agrees that in the event of any actual or threatened violation of this **Section 6.13**, the Class B Member shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary and final injunctive relief against the Class A Member to prevent any violations of this **Section 6.13**, without the necessity of posting a bond. The prevailing party in any action commenced under this **Section 6.13** shall also be entitled to receive reasonable attorneys' fees and court costs.

(c) It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this **Section 6.13**, any term, restriction, covenant or promise in this **Section 6.13** is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency and any such court or agency shall have authority, as permitted by applicable law, to apply reformation or "blue pencil" principles to provide for the greatest possible duration, geographical territory and business scope to the covenants contained herein.

(d) The parties to this Agreement acknowledge that the covenants set forth in this **Section 6.13** are (i) reasonable in light of the transactions contemplated under this Agreement and in the Credit Agreement and (ii) an essential element of this Agreement and the transactions contemplated in the Credit Agreement and that, but for these covenants, the parties would not have entered into this Agreement or the Credit Agreement.



or alleged acts or omissions arising out of activities on behalf of the Company or in furtherance of the interests of the Company, including, but not limited to, any judgment, award, fine, settlement, reasonable attorneys' fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding or claim (civil, administrative, criminal or otherwise); provided that such indemnification shall not include indemnity for acts, omissions or alleged acts or omissions constituting fraudulent or criminal conduct committed by such Indemnified Party, or gross negligence by such Indemnified Party (as determined by a final, non-appealable judgment of a court of competent jurisdiction). Any such indemnification shall only be from the assets of the Company, and no Member shall have any personal liability on account thereof. Nothing in this **Section 8.1** shall be construed to provide indemnification for, or in any way limit the liability of, a Member with respect to such Member's breach of this Agreement.

(b) Advances. To the fullest extent permitted by applicable law, any Indemnified Party shall be entitled to receive, upon written application therefor, advances to cover the costs of defending any claim or action against such Indemnified Party relating to acts or omissions as a Member, Director or Officer or otherwise relating to the Company; provided, however, that such advances shall be repaid to the Company if such Indemnified Party is found by a court of competent jurisdiction, upon entry of a final, non-appealable judgment, to have violated any of the standards set forth in **Section 5.5**, which standards would preclude indemnification hereunder.

(c) Survival of Rights. All rights of the Indemnified Parties to indemnification under this **Article VIII** shall survive the dissolution of the Company and the death, withdrawal, removal, incompetence, dissolution, liquidation or insolvency of an Indemnified Party and shall inure to the benefit of such Indemnified Parties' heirs, personal representatives, successors and assigns.

(d) Severability. In the event that any of the provisions of this **Article VIII** shall be deemed unenforceable, to any extent, by a court of competent jurisdiction, such unenforceable provision shall be modified or stricken so as to give effect to this **Article VIII** to provide indemnification to the fullest extent possible, consistent with the general intent of this **Article VIII**.

## **Article IX**

### **Dissolution, Liquidation, and Termination of the Company**

9.1. Events of Dissolution. The Company shall be dissolved upon the first to occur of (i) the dissolution of the Company by the approval of each Member in accordance with **Section 6.2**, or (ii) the occurrence of any other event that causes the dissolution of a limited liability company under the Act.

9.2. Procedure for Winding Up and Dissolution. If the Company is dissolved, the Board of Directors shall wind up its affairs. Upon winding up of the Company, the assets of the Company shall be distributed in the following order of priority: (a) first, to pay the costs and expenses of the winding up, liquidation and termination of the Company; (b) second, to creditors



10.3. Annual Accounting Period. The annual accounting period and fiscal year of the Company shall be the calendar year. The Company's taxable year shall be determined by the Board of Directors, subject to the requirements and limitations of the Code and in the absence of such determination shall be the calendar year.

10.4. Reports. As soon as practicable after the end of each taxable year of the Company, but no later than March 31 of the ensuing year, the Board of Directors shall cause to be sent (i) to each Person who was a Member at any time during the taxable year then ended, a complete accounting of the affairs of the Company for that year, and (ii) to each Person who was a Member at any time during the taxable year then ended, such tax information concerning the Company which is necessary for preparing the Member's income tax returns for that year. In addition, the Board of Directors shall distribute to each Member annual and quarterly reports of the Company within forty-five (45) days after the end of each such fiscal period, which annual and quarterly reports shall include reasonably detailed financial statements, including a balance sheet as of the last day of such fiscal period and an income statement for such fiscal period.

10.5. Audits. Each Member shall have the right to conduct, or cause to be conducted, from time to time, but no more frequently than once in any calendar year, an audit of the books and records of the Company. The Member conducting the audit shall bear the entire expense of the audit, unless the audit reveals material discrepancies or errors not attributable to customary differences; in that event, the Company shall reimburse the Member for all reasonable third party costs and expenses incurred by such Member in connection with the conduct of the audit.

10.6. Tax Matters.

(a) The Board of Directors shall have the authority to make any and all tax elections for federal, state and local purposes, including, without limitation, any election, if permitted by applicable law: (i) to adjust the basis of Company property pursuant to Code Sections 754, 734(b) and 743(b), or comparable provisions of state or local law, in connection with Transfers of Membership Interests and distributions; (ii) to extend the statute of limitations for assessment of tax deficiencies against the Members with respect to adjustments to the Company's federal, state, or local tax returns; and (iii) to the extent provided in Code Sections 6221 through 6231 and similar provisions of federal, state, or local law, to represent the Company and the Members before taxing authorities or courts of competent jurisdiction in tax matters affecting the Company or the Members in their capacities as Members, and to file any tax returns and execute any agreements or other documents relating to or affecting such tax matters, including agreements or other documents that bind the Members with respect to tax matters or otherwise affect the rights of the Company and the Members. The Class A Member shall act as the "Tax Matters Person" of the Company under the Code and in any similar capacity under state or local law, which Tax Matters Person shall have the power and authority to perform in such capacity those duties as may be required to be performed by a "tax matters partner" under the Code. Any reasonable, out-of-pocket costs incurred by the Tax Matters Person in acting in such capacity (including, but not limited to, reasonable fees incurred in connection with the preparation of any tax return of the Company) shall be reimbursed by the Company.



11.1. Approval of Amendments. Except as otherwise required by law, amendments may be made to this Agreement, from time to time, only with prior Unanimous Member Consent.

11.2. Amendment of Articles of Organization. In the event this Agreement shall be amended pursuant to this **Article XI**, the Officers shall cause the Articles of Organization to be amended to reflect such change, if necessary.

## **Article XII**

### **General Provisions**

12.1. Further Assurances. Each Member shall execute all such certificates and other documents and shall do all such filing, recording, publishing and other acts as the Board of Directors reasonably deems appropriate to comply with the requirements of law for the formation and operation of the Company and to comply with any laws, rules and regulations relating to the acquisition, operation or holding of the property of the Company.

12.2. Notifications. Any notice, demand, consent, election, offer, approval, request, or other communication (collectively, a "Notice") required or permitted under this Agreement must be in writing and either delivered personally, sent by certified or registered mail, postage prepaid, return receipt requested, sent by recognized overnight delivery service or by facsimile transmittal. A Notice must be addressed to a Member at the Member's last known address on the records of the Company. A Notice to the Company must be addressed to the Company's principal office. A Notice delivered personally will be deemed given only when accepted or refused by the Person to whom it is delivered. A Notice that is sent by mail will be deemed given: (i) three (3) Business Days after such Notice is mailed to an address within the United States of America or (ii) seven (7) Business Days after such Notice is mailed to an address outside of the United States of America. A Notice sent by recognized overnight delivery service will be deemed given when received or refused. A Notice sent by facsimile shall be deemed given when sent, provided duplicate Notice by personal delivery, overnight delivery service or certified or registered mail is sent in connection with such facsimile transmission. Any Member may designate, by notice to all of the other Members, substitute addresses or addressees for Notices; thereafter, Notices are to be directed to those substitute addresses or addressees.

12.3. Specific Performance. The Members recognize that irreparable injury will result from a breach of any provision of this Agreement and that money damages will be inadequate to fully remedy the injury. Accordingly, in the event of a breach or threatened breach of one or more of the provisions of this Agreement, any Member who may be injured (in addition to any other remedies which may be available to that Member) shall be entitled to one or more preliminary or permanent orders (either in an arbitral tribunal pursuant to **Section 12.14(a)** or pursuant to **Section 12.14(e)**): (i) restraining and enjoining any act which would constitute a breach or (ii) compelling the performance of any obligation which, if not performed, would constitute a breach.



by that Person of the same or any other obligations of that Person with respect to this Agreement. Failure on the part of a Person to complain of any act of any Person or to declare any Person in default with respect to this Agreement, irrespective of how long that failure continues, does not constitute a waiver by that Person of its rights with respect to that default until the applicable statute-of-limitations period has run.

12.13. Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

12.14. Arbitration.

(a) Subject to **Sections 6.13(b), 7.1(b) and 10.6(b)**, in the event that any dispute shall arise out of this Agreement, whether occurring while this Agreement is in effect or thereafter, such dispute shall be submitted exclusively to binding arbitration, pursuant to the commercial rules of the American Arbitration Association, as amended (the "AAA Rules"). One arbitrator (each arbitrator, an "Arbitrator") shall be chosen by the Class A Member, a second Arbitrator shall be chosen by a Class B Member, and a third Arbitrator shall be chosen by the two Arbitrators selected by the Class A Member and the Class B Member. Each Arbitrator shall be a disinterested individual with expertise and experience in the property and casualty insurance industry. In the event that any Member should fail to choose an Arbitrator within thirty (30) days following a written request by another Member to do so, the other Member that has chosen its Arbitrator may select an Arbitrator to serve with the other Arbitrators already chosen.

(b) Each Member shall present its case with respect to the dispute to the Arbitrators within sixty (60) days following the last date of appointment of an Arbitrator, unless the parties mutually agree to an extension of time. The decision of the majority of Arbitrators shall be final and binding on all parties. In reaching their decision, the Arbitrators may, subject to the provisions hereof, award any appropriate remedy, other than punitive or exemplary damages. Judgment upon the final decision of the Arbitrators may be entered in any court of competent jurisdiction.

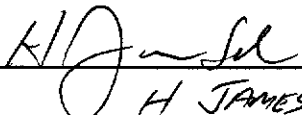
(c) Each Member shall bear its own legal expenses and the expense of its own Arbitrator, and shall jointly and equally bear with the others the expenses of the arbitration. In the event that an Arbitrator is chosen pursuant to the last sentence of **Section 12.14(a)**, then the expenses of the Arbitrators and the arbitration shall be equally divided among the Members.

(d) Any arbitration proceedings shall take place at a location mutually agreed upon by the Members, or, if they cannot agree, in New York, New York; but notwithstanding the location of the arbitration, all proceedings pursuant hereto shall be governed pursuant to the choice of law provision of **Section 12.10** hereof.




IN WITNESS WHEREOF, the parties have executed this Amended and Restated Operating Agreement as of the date set forth herein.

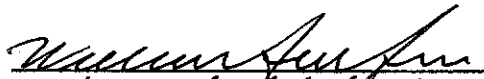
**MAGNOLIA AGENCY, LLC**

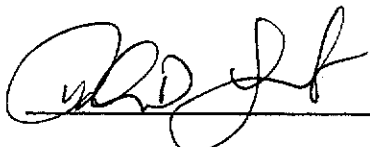
By:   
Name: H. JAMES IRL  
Position: PRESIDENT

**IRL FINANCIAL GROUP INCORPORATED**

By:   
Name: H. JAMES IRL  
Position: PRESIDENT

**ALLIANZ RISK TRANSFER, INC.**

By:   
Name: William Scalaprin  
Position: President

By:   
Name: [illegible]  
Position: [illegible]







**Schedule I**

**LIST OF MEMBERS**

<b><u>MEMBER</u></b>	<b><u>ADDRESS</u></b>	<b><u>TAX ID NUMBER</u></b>	<b><u>MEMBERSHIP PERCENTAGE</u></b>
<b><u>Class A Member</u></b>			
<b><u>Irl Financial Group Incorporated</u></b>	260 Glenridge Road Key Biscayne, Florida 33149	20-2873011	50%
<b><u>Class B Member</u></b>			
<b><u>Allianz Risk Transfer, Inc.</u></b>	350 Park Avenue, 10 <sup>th</sup> Floor New York, NY 10022	13-4006036	50%







**Schedule II**

**INITIAL OFFICERS AND DIRECTOR**

**Director**

H. James Irl

**Officers**

President

Chief Executive Officer

Chief Financial Officer

H. James Irl

H. James Irl

Greg Patterson







**Schedule III**

**INITIAL CAPITAL ACCOUNT AND CARRYING VALUES**

**Initial Capital Account Value:**

Class A Member	\$400.00
----------------	----------

Class B Member	\$100.00
----------------	----------

**Carrying Value:**

	\$500.00
--	----------







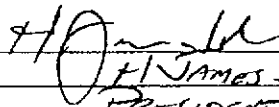
**EXHIBIT A**

**CERTIFICATE OF CONVERSION**

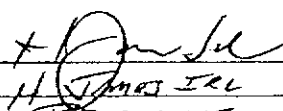


IN WITNESS WHEREOF, the undersigned have caused this Certificate to be executed by its officer this 25th day of February, 2008, and affirm as true the foregoing under the penalties of perjury.

MAGNOLIA AGENCY, INC.

By:   
Name: H. JAMES IRL  
Its: PRESIDENT

IRL FINANCIAL GROUP INCORPORATED,  
the sole member of Magnolia Agency, LLC

By:   
Name: H. JAMES IRL  
Its: PRESIDENT







**EXHIBIT B**

**ARTICLES OF ORGANIZATION**



**ARTICLES OF ORGANIZATION**

**ARTICLE I**

**Name**

The name of the Limited Liability Company (the "Company") is:

MAGNOLIA AGENCY, LLC

**ARTICLE II**

**Address**

The mailing address and principal office address of the Company is:

260 Glenridge Road, Key Biscayne, Florida 33149

**ARTICLE III**

**Registered Agent, Registered Office, and Registered Agent's Signature**

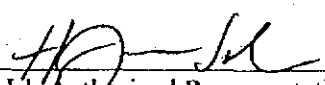
The name and the Florida street address of the registered agent of the Company are:

Kathleen A. Pall  
260 Crandon Blvd., Suite 25  
Key Biscayne, Florida 33149

*Having been named as registered agent and to accept service of process for the above stated limited liability company at the place designated in these Articles, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relating to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent as provided for in Chapter 608, F.S.*

  
Kathleen A. Pall  
Registered Agent

Date: February 25, 2008

  
H. James Irl, Authorized Representative

**FILED**  
08 FEB 26 PM 1:08  
SECRETARY OF STATE  
TALLAHASSEE, FLORIDA







**EXHIBIT C**

NUMBER

\*\*\*[ ]\*\*\*

**CLASS [ ] MEMBERSHIP CERTIFICATE**

**CERTIFICATE OF LIMITED LIABILITY COMPANY INTEREST  
FOR  
MAGNOLIA AGENCY, LLC**

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS CLASS [ ] MEMBERSHIP CERTIFICATE (THE "CLASS [ ] MEMBERSHIP INTERESTS") HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS, AND SUCH CLASS [ ] MEMBERSHIP INTERESTS MAY NOT BE SOLD, TRANSFERRED, CONVEYED, ASSIGNED, PLEDGED, ENCUMBERED, MORTGAGED, HYPOTHECATED, DONATED, DELIVERED OR OTHERWISE DISPOSED OF EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND SUCH STATE SECURITIES OR "BLUE SKY" LAWS.

Certificate Number: [ ]

[ ]% of Interests

Magnolia Agency, LLC, a Florida limited liability company (the "Company"), hereby certifies that [ ] (the "Holder") is the registered owner of [ ]% of the limited liability company interests in the Company (the "Interests"), which [ ]% Interest constitutes [ ]% of the Class [ ] Membership Interests. THE RIGHTS, POWERS, PREFERENCES, RESTRICTIONS (INCLUDING TRANSFER RESTRICTIONS) AND LIMITATIONS OF THE INTERESTS ARE SET FORTH IN, AND THIS CLASS [ ] MEMBERSHIP CERTIFICATE AND THE INTERESTS REPRESENTED HEREBY ARE ISSUED AND SHALL IN ALL RESPECTS BE SUBJECT TO THE TERMS AND PROVISIONS OF, THE AMENDED AND RESTATED OPERATING AGREEMENT OF THE COMPANY, DATED AS OF FEBRUARY 27, 2008, AS THE SAME MAY BE AMENDED OR RESTATED FROM TIME TO TIME (THE "AGREEMENT"). ANY SALE, OFFER FOR SALE, PLEDGE, HYPOTHECATION, TRANSFER, CONVEYANCE, DONATION, ENCUMBRANCE, MORTGAGE OR OTHER DISPOSITION OF THIS CLASS [ ] MEMBERSHIP CERTIFICATE AND THE INTERESTS REPRESENTED HEREBY IS RESTRICTED AS DESCRIBED IN THE AGREEMENT. By acceptance of this Class [ ] Membership Certificate, and as a condition to being entitled to any rights and/or benefits with respect to the Interests evidenced hereby, the Holder is deemed to have agreed to comply with and be bound by all the terms and conditions of the Agreement. The Company will furnish a copy of the Agreement to the Holder without charge upon written request to the Company at its principal place of business. The Company maintains books for the purpose of registering the transfer of Interests.



Each limited liability company interest in the Company shall constitute a "security" within the meaning of, and governed by, (i) Article 8 of the Uniform Commercial Code (including Section 8 102(a)(15) thereof) as in effect from time to time in the State of Florida, and (ii) Article 8 of the Uniform Commercial Code of any other applicable jurisdiction that now or hereafter substantially includes the 1994 revisions to Article 8 thereof as adopted by the American Law Institute and the National Conference of Commissioners on Uniform State Laws and approved by the American Bar Association on February 14, 1995.

This Class [ ] Membership Certificate shall be governed by and construed in accordance with the laws of the State of Florida without regard to principles of conflicts of laws.

IN WITNESS WHEREOF, the Company has caused this Class [ ] Membership Certificate to be executed by its President and Chief Executive Officer as of the date set forth below.

Dated: [ ]

\_\_\_\_\_  
Name:

Title:



**(REVERSE SIDE OF CERTIFICATE  
FOR INTERESTS OF MAGNOLIA AGENCY, LLC)**

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ (print or typewrite name of Transferee), \_\_\_\_\_ (insert Social Security or other taxpayer identification number of Transferee), the following specified percentage of Interests: \_\_\_\_\_ (identify the percentage of Interests being transferred), and irrevocably constitutes and appoints \_\_\_\_\_, as attorney-in-fact, to transfer the same on the books and records of the Company, with full power of substitution in the premises.

Dated: \_\_\_\_\_ Signature: \_\_\_\_\_  
(Transferor)

Address: \_\_\_\_\_  
\_\_\_\_\_



**AGREEMENT TO TRANSFER CLASS B MEMBERSHIP INTERESTS OF  
MAGNOLIA AGENCY, LLC**

This Agreement To Transfer Class B Membership Interests (“**Agreement**”) is made as of February 27, 2008 by and among Irl Financial Group Incorporated, a Florida corporation (the “**Transferor**”), Allianz Risk Transfer, Inc., a New York corporation (the “**Transferee**”) and Magnolia Agency, LLC (the “**Company**”) and solely as to Section 10 below, Henry James Irl, an individual resident of the State of Florida.

R E C I T A L S:

**WHEREAS**, the Transferor, previously the owner of one hundred percent (100%) of the capital stock of Magnolia Agency, Inc., formed and organized the Company by causing Magnolia Agency, Inc. to convert into a limited liability company under and pursuant to the Florida Limited Liability Company Act by filing a Certificate of Conversion on February 25, 2008 with the Secretary of State of Florida (the “**Conversion**”) and entering into an operating agreement with the Company as of such date (the “**Operating Agreement**”);

**WHEREAS**, the Transferor is the sole legal and beneficial owner of limited interests of the Company designated as the Class B Membership Interest in the Operating Agreement (the “**Interests**”) and desires to transfer, assign and convey the Transferor’s entire interest in such Interests to the Transferee;

**WHEREAS**, pursuant to that certain credit agreement by and among the Transferor, as borrower, and the Transferee, as lender and administrative agent, dated even date herewith (the “**Credit Agreement**”) and as partial consideration for the Transferee making the loan upon the terms and conditions set forth therein, the Transferor agreed to transfer, assign and convey the Interests to the Transferee;

**WHEREAS**, the Transferee desires to acquire the Interests from the Transferor for valuable and other consideration upon the terms of this Agreement as set forth herein;

**WHEREAS**, concurrently with the transfer of the Interests, the Transferor, Transferee and the Company are entering into the amended and restated operating agreement of the Company in the form attached hereto as Exhibit A (the “**Amended and Restated Operating Agreement**”); and

**WHEREAS**, the Company is willing to acknowledge such transfer upon the terms of this Agreement as set forth herein.

**NOW, THEREFORE**, in consideration of the premises, mutual covenants, representations, and warranties contained herein as made by the Transferor and Transferee, the parties hereto agree as follows:

1. Transfer of Interests. The Transferor hereby transfers, assigns, conveys and delivers all of its rights, title and interest in the Interests to the Transferee effective as of the date hereof. The Transferee hereby accepts such transfer and agrees to be bound by all the terms and conditions of the Company’s Articles of



Organization (the “**Articles of Organization**”) and, upon its execution and delivery, the Amended and Restated Operating Agreement with respect to the Interests.

2. Acknowledgement of Transfer. Pursuant to the Operating Agreement and the Amended and Restated Operating Agreement, the Company consents to the transfer of the Interests as described in Section 1 above.
3. Valuation of Interests. The parties hereto agree that for all federal, state, local and other tax purposes and any other applicable purposes, the agreed value of the Interests is \$100.00.
4. Representations and Warranties Made by the Transferor. The Transferor hereby represents and warrants to the Transferee as follows:
  - (a) The Transferor is duly formed and validly existing.
  - (b) The Transferor has full power and authority to enter into and perform its obligations under this Agreement, the Articles of Organization, the Operating Agreement and the Amended and Restated Operating Agreement.
  - (c) The Transferor is the sole legal and beneficial owner of the Interests free and clear of any and all Liens (other than Liens created in favor of the Transferee pursuant to the Credit Agreement and the transactions contemplated therein). For the purposes of this Agreement, “**Lien**” shall mean any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, assignment, claim, charge, security interest, conditional sale or other title retention agreement, preference, priority or other security agreement or preferential arrangement of any kind, and any defect in title, transfer restriction under any shareholder or similar agreement or other encumbrance of any kind.
  - (d) This Agreement has been duly executed and delivered by the Transferor and constitutes a legal, valid, and binding obligation of the Transferor, including, without limitation, in respect of the Interests.
  - (e) Magnolia Agency, Inc. recognized no income or gain for any federal, state, local or other tax purposes upon the Conversion.
  - (f) At all times following the Conversion through the date hereof, the Company has properly been disregarded as an entity separate from the Transferor for all federal, state, local or other tax purposes upon the Conversion.
  - (g) None of the assets of the Company will be ineligible for amortization for federal income tax purposes by reason of Section 197(c)(2) of the Code



(relating to certain self-created assets) or Section 197(f)(9) of the Code (relating to assets acquired in certain "churning" transactions).

- (h) The Transferor has received and reviewed a copy of the Amended and Restated Operating Agreement, a copy of which is attached hereto as Exhibit A.
- 5. Counterparts, Facsimile. This Agreement may be executed in one or more counterparts, each of which however shall constitute one document. Facsimile signature pages shall have the same binding effect as original copies of such signature pages.
- 6. Entire Agreement. This Agreement contains the entire agreement and understanding of the parties hereto relating to the transfer of the Interests and supersedes any prior agreements and understandings of the parties relating to such transfer.
- 7. Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.
- 8. Headings. The section headings herein are for convenience of reference only, and shall not affect in any way the interpretation of any of the provisions hereof.
- 9. GOVERNING LAW. THIS AGREEMENT AND ALL MATTERS AND DISPUTES ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, INCLUDING GENERAL OBLIGATIONS LAW § 5-1401 BUT OTHERWISE WITHOUT REGARD TO CONFLICTS-OF-LAWS- PRINCIPLES.
- 10. Non-Compete. H. James Irl, an individual resident of the State of Florida, hereby agrees to be bound by the agreements, covenants, obligations, restrictions and other provisions set forth in Section 6.13 of the Amended and Restated Operating Agreement in their entirety for so long as (i) Section 6.13 of the Amended and Restated Operating Agreement is in effect and (ii) H. James Irl is an Affiliate of the Transferor, the Company or Magnolia Insurance Company, a Florida insurance company, or any of their respective successors and assigns.

As used in this Section 10, the terms (a) "Affiliate" means, with reference to a specified Person, any other Person that directly or indirectly through one or more intermediaries Controls or is Controlled by or is under common Control with the specified Person; (b) "Control" as to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or equity



interests, by contract or otherwise and “Controlling” and “Controlled” shall have corresponding meanings; and (c) “Person” means any general partnership, limited partnership, corporation, limited liability company, joint venture, trust, business trust, governmental body or agency, cooperative, association, individual or other entity, and the heirs, executors, administrators, legal representatives, successors and assigns of such Person, as the context may require.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto as of the date above.

**IRL FINANCIAL GROUP INCORPORATED**

By: \_\_\_\_\_  
Name:  
Title:  
Address:

**ALLIANZ RISK TRANSFER, INC.**

By: \_\_\_\_\_  
Name:  
Title:  
Address:

By: \_\_\_\_\_  
Name:  
Title:  
Address:

**MAGNOLIA AGENCY, LLC**

By: \_\_\_\_\_  
Name:  
Title:

**Solely as to Section 10:**

\_\_\_\_\_  
H. James Irl  
(in his individual capacity)

Transfer Effective as of February 27, 2008



**EXHIBIT A**  
**AMENDED AND RESTATED OPERATING AGREEMENT**



## **SECURITY AGREEMENT**

THIS SECURITY AGREEMENT (this “Security Agreement”) is entered into as of February 27, 2008 by and among IRL FINANCIAL GROUP INCORPORATED, a Florida corporation (the “Borrower”) and MAGNOLIA AGENCY, LLC, a Florida limited liability company (together with the Borrower, the “Grantors”), in favor of ALLIANZ RISK TRANSFER, INC., a New York corporation, as Agent (the “Administrative Agent”) under the Credit Agreement (as defined below).

### **PRELIMINARY STATEMENT**

WHEREAS, the Borrower, the lenders party thereto (the “Lenders”) and the Administrative Agent have entered into that certain Credit Agreement of even date herewith (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), which Credit Agreement provides, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations by the Lenders to or for the benefit of the Borrower; and

WHEREAS, the Grantors have agreed to grant a security interest in substantially all of their personal property as security for the Loans (as defined in the Credit Agreement) and all of the Borrower’s indebtedness and liabilities in connection therewith, including, without limitation, all interest, fees and expenses as provided for in the Credit Agreement (collectively, the “Obligations”);

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### **ARTICLE I**

#### **DEFINITIONS**

1.1. Terms Defined in Credit Agreement. All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

1.2. Terms Defined in New York UCC. Terms defined in the New York UCC which are not otherwise defined in this Security Agreement are used herein as defined in the New York UCC.

1.3. Definitions of Certain Terms Used Herein. As used in this Security Agreement, the following terms shall have the following meanings:

“Accounts” shall have the meaning set forth in Article 9 of the New York UCC.

“Affiliate” shall mean, as to any Person, any other Person that controls, is controlled by or is under common control with such Person. As used in this definition, “control” means the



possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or ownership interests, by contract or otherwise).

“Article” means a numbered article of this Security Agreement, unless another document is specifically referenced.

“Chattel Paper” shall have the meaning set forth in Article 9 of the New York UCC.

“Collateral” means all Accounts, Chattel Paper, Commercial Tort Claims, Documents, Equipment, Goods, General Intangibles, Instruments, Inventory, Securities, Securities Entitlements, Investment Property, Financial Assets, Pledged Deposits, Deposit Accounts, Supporting Obligations, amounts payable under reinsurance agreements and agency commissions and fees, wherever located, in which the Grantor now has or hereafter acquires any right or interest, and the proceeds, insurance proceeds and products thereof, together with all books and records, customer lists, credit files, computer files, programs, printouts and other computer materials and records related thereto. Notwithstanding anything to the contrary contained in this definition, Collateral shall not include (i) contractual rights to the extent and for so long as the grant of a security interest herein would violate the terms of the agreement under which such contractual rights arise or exist to the extent such prohibition is enforceable under applicable law, (ii) rights under governmental licenses and authorizations to the extent and for so long as the grant of a security interest therein is prohibited by law, and (iii) any intent-to-use trademark or service mark application prior to the filing of a statement of use or amendment to allege use, or any other intellectual property, to the extent that applicable law or regulation prohibits the creation of a security interest or would otherwise result in the loss of rights from the creation of such security interest or from the assignment of such rights upon the occurrence and continuance of a Default.

“Commercial Tort Claims” means the commercial tort claims, as defined in the New York UCC, of the Grantor, including each commercial tort claim specifically described in Exhibit D.

“Control” shall have the meaning set forth in Article 8 or, if applicable, in Section 9-104, 9-105, 9-106 or 9-107 of Article 9 of the New York UCC.

“Default” means an event described in Section 5.1 hereof.

“Deposit Accounts” shall have the meaning set forth in Article 9 of the New York UCC.

“Documents” shall have the meaning set forth in Article 9 of the New York UCC.

“Equipment” shall have the meaning set forth in Article 9 of the New York UCC.

“Exhibit” refers to a specific exhibit to this Security Agreement, unless another document is specifically referenced.

“Financial Assets” shall have the meaning set forth in Article 8 of the New York UCC.



“General Intangibles” shall have the meaning set forth in Article 9 of the New York UCC.

“Goods” shall have the meaning set forth in Article 9 of the New York UCC.

“Instruments” shall have the meaning set forth in Article 9 of the New York UCC.

“Inventory” shall have the meaning set forth in Article 9 of the New York UCC.

“Loan Documents” shall have the meaning set forth in the Credit Agreement.

“New York UCC” means the New York Uniform Commercial Code as in effect from time to time.

“Person” shall mean any individual, corporation, company, voluntary association, partnership, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

“Pledged Deposits” means all time deposits of money (other than Deposit Accounts and Instruments), whether or not evidenced by certificates, which the Grantor may from time to time designate as pledged to the Administrative Agent as security for any Obligations, and all rights to receive interest on said deposits.

“Receivables” means the Accounts, Chattel Paper, Documents, Instruments or Pledged Deposits, and any other rights or claims to receive money which are General Intangibles or which are otherwise included as Collateral.

“Section” means a numbered section of this Security Agreement, unless another document is specifically referenced.

“Security” has the meaning set forth in Article 8 of the New York UCC.

“Securities Account” shall have the meaning set forth in Article 8 of the New York UCC.

“Securities Entitlement” has the meaning set forth in Article 8 of the New York UCC.

“Supporting Obligation” shall have the meaning set forth in Article 9 of the New York UCC.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

## ARTICLE II

### GRANT OF SECURITY INTEREST

2.1. Grantor Pledge. The Grantors hereby pledge, assign and grant to the Administrative Agent, for the benefit of the Lenders, a security interest in all of the Grantors’



right, title and interest, whether now owned or hereafter acquired, in and to the Collateral to secure the prompt and complete payment and performance of the Obligations.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

The Grantors represent and warrant to the Administrative Agent that:

3.1. Title, Authorization, Validity and Enforceability. Each of the Grantors has good and valid rights in or the power to transfer (and with respect to intellectual property rights, grant a security interest in) the Collateral owned by it and title to the Collateral with respect to which it has purported to grant a security interest hereunder, free and clear of all liens, and has full corporate, limited liability company or partnership, as applicable, power and authority to grant to the Administrative Agent the security interest in such Collateral pursuant hereto. The execution and delivery by each of the Grantors of this Security Agreement has been duly authorized by proper corporate, limited liability company or partnership, as applicable, proceedings, and this Security Agreement constitutes a legal, valid and binding obligation of the Grantors and creates a security interest which is enforceable against the Grantors in all Collateral either now owns or hereafter acquires, except as enforceability may be limited by (i) bankruptcy, insolvency, fraudulent conveyance, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) general equitable principles (whether considered in a proceeding in equity or at law). When financing statements have been filed in the appropriate offices against the Grantors in the locations listed on Exhibit B, and filing made in the appropriate filing offices for intellectual property, the Administrative Agent will have a valid, fully perfected first priority security interest in the Collateral owned by the Grantors in which a security interest may be perfected by filing.

3.2. Conflicting Laws and Contracts. Neither the execution and delivery by the Grantors of this Security Agreement, the creation and perfection of the security interest in the Collateral granted hereunder, nor compliance with the terms and provisions hereof will violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on either Grantor, or (ii) either Grantor's articles or certificate of incorporation or organization, charter, by-laws, operating agreement or other organizational or constitutional documents, or (iii) the provisions of any indenture, instrument or agreement to which either Grantor is a party or is subject, or by which it, or its property may be bound or affected, or conflict with or constitute a default thereunder, or result in or require the creation or imposition of any lien in, of or on the property of either Grantor pursuant to the terms of any such indenture, instrument or agreement.

3.3. Location. Each Grantor's mailing address and chief executive office is disclosed in Exhibit A. Neither Grantor has any office or place of business other than as disclosed on Exhibit A.

3.4. No Other Names. Except as set forth on Exhibit A, neither Grantor has conducted business under any name in the past five (5) years except the name in which it has executed this Security Agreement, which is the exact name as it appears in such Grantor's organizational



documents, as amended, as filed with such Grantor's jurisdiction of organization as of the date hereof.

3.5. No Default. No Default exists.

3.6. No Financing Statements. No financing statement describing all or any portion of the Collateral which has not lapsed or been terminated naming either Grantor as debtor has been filed in any jurisdiction except financing statements naming the Administrative Agent as the secured party.

3.7. Federal Employer Identification Number; Jurisdiction of Organization Number; Jurisdiction of Organization. The Grantors' federal employer identification numbers are, and the Grantors' jurisdiction of organization, type of organization and jurisdiction of organization identification number is, as listed on Exhibit E.

3.8. Deposit Accounts and Securities Accounts. Each of the Grantors' Deposit Accounts and Securities Accounts are identified on Exhibit F by financial institution and account number.

## ARTICLE IV

### COVENANTS

From the date of this Security Agreement and thereafter until this Security Agreement is terminated pursuant to the terms hereof, each Grantor agrees, until this Security Agreement is terminated pursuant to the terms hereof that:

4.1. General.

4.1.1 Inspection. The Grantors will permit any representatives designated by the Administrative Agent, upon reasonable prior notice, at the sole cost of the Grantors, (i) to visit and inspect any of either's property, including, without limitation, its respective Collateral, (ii) to examine and make extracts from the books and records of either Grantor relating to its respective Collateral and (iii) to discuss either Grantor's respective Collateral, affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested. In the absence of an Event of Default, the Administrative Agent exercising any rights pursuant to this Section 4.1.1 shall give the Grantors prior written notice of such exercise. No notice shall be required during the existence and continuance of any Default or Event of Default.

4.1.2 Taxes. Each Grantor will pay when due all taxes, assessments and governmental charges and levies upon the Collateral owned by the Grantor, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with GAAP and with respect to which no lien exists.

4.1.3 Records and Reports; Notification of Default. Each Grantor shall (i) keep and maintain complete, accurate and proper books and records with respect to the



Collateral owned by such Grantor and furnish to the Administrative Agent such reports relating to its respective Collateral as the Administrative Agent shall from time to time reasonably request and (ii) give prompt notice in writing to the Administrative Agent of the occurrence of any Default and of any other development, financial or otherwise, which could reasonably be expected to materially and adversely affect its respective Collateral.

4.1.4 Financing Statements and Other Actions; Defense of Title. Each Grantor hereby authorizes the Administrative Agent to file all financing statements describing the Collateral owned by such Grantor and other documents and take such other actions as may from time to time reasonably be requested by the Administrative Agent in order to maintain a valid, first priority perfected security interest in and, if applicable, Control of, the Collateral owned by such Grantor. Such financing statements may describe the Collateral in the same manner as described herein or may contain an indication or description of collateral that describes such property in any other manner as the Administrative Agent may determine, in its sole discretion, is necessary, advisable or prudent to ensure that the perfection of the security interest in the Collateral granted to the Administrative Agent herein, including, without limitation, describing, with respect to such Grantor's financing statement, such property as "all assets" or "all personal property, whether now owned or hereafter acquired." Each Grantor will take any and all actions necessary to defend title to the Collateral owned by such Grantor against all persons and to defend the security interest of the Administrative Agent in such Collateral and the priority thereof against any lien not expressly permitted hereunder or by the Credit Agreement.

4.1.5 Other Financing Statements. Neither Grantor will suffer to exist or authorize the filing of any financing statement naming it as debtor covering all or any portion of the Collateral owned by such Grantor, except any financing statement authorized under Section 4.1.4 hereof.

4.1.6 Liens. Neither Grantor will create, incur, or suffer to exist any lien on the Collateral owned by such Grantor.

4.1.7 Change in Corporate Existence, Type or Jurisdiction of Organization, Location, Name. Except as otherwise permitted in the Credit Agreement, each Grantor will:

- (i) preserve its existence and organizational structure as in effect on the date hereof; and
- (ii) not change its jurisdiction of organization.

unless, in each such case, the Grantor shall have given the Administrative Agent not less than 30 days' prior written notice of such event or occurrence and the Administrative Agent shall, in its reasonable discretion, have either (x) determined that such event or occurrence will not adversely affect the validity, perfection or priority of the Administrative Agent's security interest in the Collateral, or (y) taken such steps (with



the cooperation of such Grantor to the extent necessary or advisable) as are necessary or advisable to properly maintain the validity, perfection and priority of the Administrative Agent's security interest in the Collateral owned by such Grantor.

4.2. Instruments. Each Grantor will (i) deliver to the Administrative Agent promptly upon execution of this Security Agreement the originals of all Instruments constituting Collateral (if any then exist) and (ii) hold in trust for the Administrative Agent upon receipt and immediately thereafter deliver to the Administrative Agent any after-acquired Instruments constituting Collateral.

4.3. Accounts. Each Grantor will, within ten (10) days after the Effective Date, cause each bank or other financial institution in which it maintains (a) a Deposit Account to enter into a control agreement with the Administrative Agent, in form and substance satisfactory to the Administrative Agent in order to give the Administrative Agent Control of the Deposit Account to the extent it does not already possess such Control, (b) a Securities Account to enter into a control agreement with the Administrative Agent, in form and substance satisfactory to the Administrative Agent in order to give the Administrative Agent Control of the Securities Account to the extent it does not already possess such Control or to further evidence such Control, or (c) other deposits (general or special, time or demand, provisional or final) to be notified of the security interest granted to the Administrative Agent hereunder and cause each such bank or other financial institution to acknowledge such notification in writing.

4.4. Letter-of-Credit Rights. Each Grantor will, upon the Administrative Agent's request, cause each issuer of a letter of credit, to consent to the assignment of proceeds of the letter of credit in order to give the Administrative Agent Control of the letter-of-credit rights to such letter of credit.

4.5. Intellectual Property. If, after the date hereof, either Grantor acquires ownership of, or applies for or seeks registration of, any new patent, trademark or copyright in addition to the patents, trademarks and copyrights described in Exhibit C, which are all of such Grantor's patents, trademarks and copyrights as of the date hereof, then such Grantor shall give the Administrative Agent notice of such newly acquired or registered patent, trademark or copyright, as part of each compliance certificate provided to the Administrative Agent pursuant to the Credit Agreement. Each Grantor agrees promptly upon request by the Administrative Agent to execute and deliver to the Administrative Agent any supplement to this Security Agreement or any other document reasonably requested by the Administrative Agent to evidence a security interest in such intellectual property in a form appropriate for recording in the applicable federal office. Each Grantor also hereby authorizes the Administrative Agent to modify this Security Agreement unilaterally (i) by amending Exhibit C to include any future patents, trademarks and/or copyrights of which the Administrative Agent receives notification from such Grantor pursuant hereto and (ii) by recording, in addition to and not in substitution for this Security Agreement, a duplicate original of this Security Agreement containing in Exhibit C a description of such future patents, trademarks and/or copyrights.

4.6. Commercial Tort Claims. If, after the date hereof, either Grantor identifies the existence of a commercial tort claim belonging to such Grantor that has arisen in the course of such Grantor's business in addition to the commercial tort claims described in Exhibit D, which



are all of either Grantor's commercial tort claims as of the Effective Date, then the Grantor shall give the Administrative Agent prompt written notice thereof, but in any event not less frequently than monthly. Each Grantor agrees promptly upon written request by the Administrative Agent to execute and deliver to the Administrative Agent any supplement to this Security Agreement or any other document reasonably requested by the Administrative Agent to evidence the grant of a security interest therein in favor of the Administrative Agent.

## ARTICLE V

### DEFAULT

5.1. The occurrence of any one or more of the following events shall constitute a "Default":

5.1.1 The occurrence of any "Event of Default" under, and as defined in, the Credit Agreement.

5.1.2 The breach by either Grantor of any term or provision of Section 4.1 or 4.3.

5.1.3 The breach by such Grantor (other than a breach which constitutes a Default under 5.1.2 hereof) of any of the terms or provisions of this Security Agreement which is not remedied within 15 days after the earlier of such Grantor's knowledge of such breach and the giving of written notice to such Grantor by the Administrative Agent.

5.2. Acceleration and Remedies. Upon the acceleration of the Obligations under the Credit Agreement, pursuant to Section 9 thereof, all of the Obligations shall immediately become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Administrative Agent may exercise any or all of the following rights and remedies:

5.2.1 Those rights and remedies provided in this Security Agreement, the Credit Agreement, or any other Loan Document, provided that this Section 5.2.1 shall not be understood to limit any rights or remedies available to the Administrative Agent prior to a Default.

5.2.2 Those rights and remedies available to a secured party under the New York UCC (whether or not the New York UCC applies to the affected Collateral) or under any other applicable law (including, without limitation, any law governing the exercise of a bank's right of setoff or bankers' lien) when a debtor is in default under a security agreement.

5.2.3 Sell, lease, assign, grant an option or options to purchase or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, for cash, on credit or for future delivery, and upon such other terms as the Administrative Agent may deem commercially reasonable.



The Administrative Agent may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral, and such compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

5.3. Grantor' Obligations Upon Default. Upon the written request of the Administrative Agent after the occurrence and during the continuance of a Default, the Grantors will:

5.3.1 Assembly of Collateral. Assemble and make available to the Administrative Agent its respective Collateral and all records relating thereto at any place or places specified by the Administrative Agent.

5.3.2 Secured Party Access. Permit the Administrative Agent, by the Administrative Agent's representatives and agents, to enter any premises where all or any part of its respective Collateral, or the books and records relating thereto, or both, are located, to take possession of all or any part of the Collateral and to remove all or any part of the Collateral.

## ARTICLE VI

### WAIVERS, AMENDMENTS AND REMEDIES

No delay or omission of the Administrative Agent to exercise any right or remedy granted under this Security Agreement shall impair such right or remedy or be construed to be a waiver of any Default or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Security Agreement whatsoever shall be valid unless in writing signed by the Administrative Agent and the Grantors, and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Security Agreement or by law afforded shall be cumulative and all shall be available to the Administrative Agent until the Obligations (other than contingent indemnification obligations that have not yet arisen) have been paid in full. In the absence of a Default, the Administrative Agent will not exercise or enforce any rights with respect to Deposit Accounts under account control agreements entered into pursuant to Section 4.3.

## ARTICLE VII

### GENERAL PROVISIONS

7.1. Notice of Disposition of Collateral; Condition of Collateral. Each Grantor hereby waives notice of the time and place of any public sale or the time after which any private sale or other disposition of all or any part of the Collateral may be made. To the extent such notice may not be waived under applicable law, any notice made shall be deemed reasonable if sent to the Borrower, as designee for the Grantors, addressed as set forth in Article VIII, at least ten (10) days prior to (i) the date of any such public sale or (ii) the time after which any such private sale



or other disposition may be made. The Administrative Agent shall have no obligation to clean-up or otherwise prepare the Collateral for sale.

7.2. Compromises and Collection of Collateral. The Grantors and the Administrative Agent recognize that setoffs, counterclaims, defenses and other claims may be asserted by obligors with respect to certain of the Receivables, that certain of the Receivables may be or become uncollectible in whole or in part and that the expense and probability of success in litigating a disputed Receivable may exceed the amount that reasonably may be expected to be recovered with respect to a Receivable. In view of the foregoing, each Grantor agrees that the Administrative Agent may at any time and from time to time, if a Default has occurred and not been cured or waived, compromise with the obligor on any Receivable, accept in full payment of any Receivable such amount as the Administrative Agent in its sole discretion shall determine or abandon any Receivable, and any such action by the Administrative Agent shall be commercially reasonable so long as the Administrative Agent acts in good faith based on information known to it at the time it takes any such action.

7.3. Secured Party Performance of Grantor' Obligations. Without having any obligation to do so, and only after the occurrence and during the continuance of a Default, the Administrative Agent may perform or pay any obligation which the Grantors have agreed to perform or pay in this Security Agreement and the Grantors shall reimburse the Administrative Agent for any reasonable amounts paid by the Administrative Agent pursuant to this Section 7.3. The Grantors' obligation to reimburse the Administrative Agent pursuant to the preceding sentence shall be an obligation payable on demand.

7.4. Authorization for Secured Party to Take Certain Action. Each Grantor irrevocably authorizes the Administrative Agent at any time and from time to time in the sole discretion of the Administrative Agent and appoints the Administrative Agent as its attorney in fact (i) to execute on behalf of such Grantor as debtor and to file financing statements, financing statement amendments and continuations necessary or advisable in the Administrative Agent's sole discretion to perfect and to maintain the perfection and priority of the Administrative Agent's security interest in the Collateral, (ii) to endorse and collect any cash proceeds of the Collateral, (iii) to file a carbon, photographic or other reproduction of any financing statement with respect to the Collateral as a financing statement and to file any other financing statement or amendment or continuation of a financing statement (which does not add new collateral or add a debtor) in such offices as the Administrative Agent in its sole discretion deems necessary or advisable to perfect and to maintain the perfection and priority of the Administrative Agent's security interest in the Collateral, (iv) to enforce payment of the Instruments, Accounts and Receivables in the name of the Administrative Agent or the Grantor, (v) to apply the proceeds of any Collateral received by the Administrative Agent to the Obligations and (vi) to discharge past due taxes, assessments, charges, fees or liens on the Collateral (except for such liens as are specifically permitted hereunder or under any other Loan Document), and such Grantor agrees to reimburse the Administrative Agent on demand for any reasonable payment made or any reasonable expense incurred by the Administrative Agent in connection therewith, provided that this authorization shall not relieve the Grantor of any of its obligations under this Security Agreement or under the Credit Agreement. The Administrative Agent agrees to give the Grantor notice of those actions taken by the Administrative Agent in respect of clauses (iv) and (vii) above; provided that the Grantors' receipt of such notice shall not be a condition to the



Administrative Agent taking any such actions; provided, further, that the failure of the Administrative Agent to give such notice shall not impair in any manner, the right of the Administrative Agent to take any such actions.

7.5. Specific Performance of Certain Covenants. Each Grantor acknowledges and agrees that a breach of any of the covenants contained in Sections 4.1.6, 4.3, 5.3, or 7.7 hereof will cause irreparable injury to the Administrative Agent, that the Administrative Agent have no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of the Administrative Agent to seek and obtain specific performance of other obligations of the Grantor contained in this Security Agreement, that the covenants of the Grantor contained in the Sections referred to in this Section 7.5 shall be specifically enforceable against the Grantor.

7.6. Use and Possession of Certain Premises. Upon the occurrence and during the continuance of a Default, the Administrative Agent shall be entitled to occupy and use any premises owned or leased by either Grantor where the Collateral or any records relating to the Grantor's Collateral are located until the Obligations are paid or the Collateral is removed therefrom, whichever first occurs, without any obligation to pay such Grantor for such use and occupancy.

7.7. Benefit of Agreement. The terms and provisions of this Security Agreement shall be binding upon and inure to the benefit of the Grantors and the Administrative Agent and their respective successors and permitted assigns (including all persons who become bound as a debtor to this Security Agreement), except that the Grantors shall not have the right to assign their rights or delegate their obligations under this Security Agreement or any interest herein, without the prior written consent of the Administrative Agent and any assignment without such consent shall be null and void.

7.8. Survival of Representations. All representations and warranties of the Grantors contained in this Security Agreement shall survive the execution and delivery of this Security Agreement.

7.9. Taxes and Expenses. Any taxes (excluding income taxes owing by the Administrative Agent) payable, unless the validity of such taxes are being contested in good faith, or ruled payable by federal or state authority in respect of this Security Agreement shall be paid by the Grantors, together with interest and penalties, if any. The Grantors agree, jointly and severally, to reimburse the Administrative Agent for any and all reasonable out-of-pocket expenses and internal charges (including reasonable attorneys', auditors' and accountants' fees) paid or incurred by the Administrative Agent in connection with the administration, collection and enforcement of this Security Agreement and in the audit, analysis, administration, collection, preservation or sale of the Collateral (including the expenses and charges associated with any periodic or special audit of the Collateral to the extent such expenses and charges are required to be paid by the Borrower pursuant to the terms hereof and of the Credit Agreement). Any and all reasonable out-of-pocket costs and expenses incurred in the performance of actions required pursuant to the terms hereof shall be borne solely by the Grantor.



7.10. Headings. The title of and section headings in this Security Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Security Agreement.

7.11. Termination. This Security Agreement shall continue in effect (notwithstanding the fact that from time to time there may be no Obligations outstanding) until (i) the Credit Agreement has terminated pursuant to its express terms and (ii) all of the Obligations (other than contingent indemnification obligations that have not yet arisen) have been indefeasibly paid and performed in full and no commitments (including the Commitments) of the Administrative Agent which would give rise to any Obligations are outstanding, and the Administrative Agent shall immediately deliver documents, instruments and take all such further actions which the Grantors may reasonably request to evidence termination of this Security Agreement and the security interests granted hereby, including the filing of UCC-3 termination statements and the return of the Collateral.

7.12. Entire Agreement. This Security Agreement embodies the entire agreement and understanding between the Grantors and the Administrative Agent relating to the Collateral and supersedes all prior agreements and understandings among the Grantors and the Administrative Agent relating to the Collateral.

7.13. Governing Law; Jurisdiction; Waiver of Jury Trial.

7.13.1 THIS SECURITY AGREEMENT, AND ALL MATTERS AND DISPUTES ARISING OUT OF OR IN ANY WAY RELATING TO THIS SECURITY AGREEMENT, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, INCLUDING GENERAL OBLIGATIONS LAW §5-1401 BUT OTHERWISE WITHOUT REGARD TO CONFLICTS-OF-LAWS PRINCIPLES.

7.13.2 Each of the Grantors hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Security Agreement or the transactions contemplated hereby. Each of the Grantors irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Grantors agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Security Agreement or any other Loan Document shall affect any right that the Administrative Agent may otherwise have to bring any action or proceeding relating to this Security Agreement or any other Loan Document against either Grantor or its properties in the courts of any jurisdiction.

7.13.3 **WAIVER OF JURY TRIAL.** EACH GRANTOR HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW,



**ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH GRANTOR (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE GRANTOR HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE GRANTOR WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS SECURITY AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

7.14. Indemnity. The Grantors hereby agree, jointly and severally, to indemnify the Administrative Agent and its successors and assigns, and each Affiliate of any of the foregoing Persons, from and against any and all liabilities, damages, penalties, suits, costs, and expenses of any kind and nature (including, without limitation, all expenses of litigation or preparation therefor whether or not the Administrative Agent is a party thereto) imposed on, incurred by or asserted against the Administrative Agent or its successors and assigns, or each Related Party of any of the foregoing Persons, in any way relating to or arising out of this Security Agreement or any other Loan Document, or the manufacture, purchase, acceptance, rejection, ownership, delivery, lease, possession, use, operation, condition, sale, return or other disposition of any Collateral (including, without limitation, latent and other defects, whether or not discoverable by the Administrative Agent or the Grantors, and any claim for patent, trademark or copyright infringement), except as a direct result of the gross negligence, bad faith or willful misconduct of such identified person.

7.15. Construction. The parties hereto have participated jointly in the negotiation and drafting of this Security Agreement. In the event an ambiguity or question of intent or interpretation arises, this Security Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Security Agreement.

7.16. Execution in Counterparts. This Security Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

7.17. Severability. Whenever possible, each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but, if any provision of this Security Agreement shall be held to be prohibited or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement.

7.18. Merger. This Security Agreement and the other Loan Documents embody the final and entire agreement and understanding among the Grantors and the Administrative Agent and supersede all prior agreements and understandings among Grantors and the Administrative



Agent relating to the subject matter thereof. This Security Agreement and the other Loan Documents may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties hereto.

7.19. Execution and Delivery. The execution and delivery of this Security Agreement and all other Loan Documents by the parties hereto shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

7.20. Agent for Service of Process. By the execution and delivery of this Security Agreement, each Grantor (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to this Security Agreement that may be instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Lender or the Administrative Agent, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Grantors in the manner provided in Article VIII hereof, shall be deemed in every respect effective service of process upon each Grantor in any such suit or proceeding. Each Grantor further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Security Agreement shall be in effect.

## ARTICLE VIII

### NOTICES

All notices, requests and other communications to any party hereunder shall be given in the manner prescribed in Section 11.02 of the Credit Agreement with respect to the Administrative Agent at its notice address therein and, with respect to the Grantors, in the care of the Borrower at the address of the Borrower set forth in the Credit Agreement, or such other address or telecopy number as such party may hereafter specify for such purpose in accordance with the provisions of Section 11.02 of the Credit Agreement.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, the Grantors have executed this Security Agreement as of the date first above written.

IRL FINANCIAL GROUP INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

MAGNOLIA AGENCY, LLC

By: \_\_\_\_\_  
Name:  
Title:



Acknowledged and Agreed to:

ALLIANZ RISK TRANSFER, INC., as the Administrative  
Agent

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



EXHIBIT A  
(See Sections 3.3, 3.4 and 4.1.7 of Security Agreement)

Legal Name: Irl Financial Group Incorporated

Mailing Address: 260 Glenridge Road  
Key Biscayne, Florida 33149

Other Names Used in Last Five Years: None

Legal Name: Magnolia Agency, LLC

Mailing Address: 260 Glenridge Road  
Key Biscayne, Florida 33149

Other Names Used in Last Five Years: Magnolia Agency, Inc.



EXHIBIT B  
(See Section 3.1 of Security Agreement)

UCC FINANCING STATEMENT FILING LOCATIONS

<u>DEBTOR</u>	<u>JURISDICTION</u>
Irl Financial Group Incorporated	Florida
Magnolia Agency, LLC	Florida



EXHIBIT C  
(See Section 4.5 of Security Agreement)

PATENTS

None

TRADEMARKS

None

COPYRIGHTS

None



EXHIBIT D

(See Definition of “Commercial Tort Claims” and Section 4.6 of Security Agreement)

COMMERCIAL TORT CLAIMS

None



EXHIBIT E  
(See Section 3.7 of Security Agreement)

GRANTORS

<u>GRANTOR</u>	<u>FEDERAL EMPLOYEE IDENTIFICATION NUMBER</u>	<u>TYPE OF ORGANIZATION</u>	<u>JURISDICTION OF ORGANIZATION/INCORPORATION</u>	<u>ORGANIZATION NUMBER</u>
Irl Financial Group Incorporated	20-2873011	Corporation	Florida	P05000043668
Magnolia Agency, LLC	26-2034245	Limited Liability Company	Florida	L08000020113



EXHIBIT F  
(See Section 3.8 of Security Agreement)

DEPOSIT ACCOUNTS AND SECURITIES ACCOUNTS

<u>Grantor</u>	<u>Type of Account</u>	<u>Name on Account</u>	<u>Account Number</u>	<u>ABA (Routing) Number</u>	<u>Bank Name and Address</u>
Irl Financial Group Incorporated	Deposit Account	Irl Financial Group Incorporated	2840236949	066009650	The Northern Trust Company 328 Crandon Blvd. Suite 101 Key Biscayne, FL 33149
Magnolia Agency, LLC	Deposit Account	Magnolia Agency, LLC	2840236960	066009650	The Northern Trust Company 328 Crandon Blvd. Suite 101 Key Biscayne, FL 33149



## PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT, dated as of February 27, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time, this “Pledge Agreement”), is entered into by and between IRL FINANCIAL GROUP INCORPORATED, a Florida corporation (the “Pledgor”) and ALLIANZ RISK TRANSFER, INC., a New York corporation, as Administrative Agent (the “Administrative Agent”) for the Lenders defined below.

### RECITALS:

WHEREAS, the Pledgor and the Lenders have entered into that certain Credit Agreement of even date herewith (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), which Credit Agreement provides, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations to be made by the Lenders to or for the benefit of the Pledgor; and

WHEREAS, Pledgor wishes to secure its indebtedness and obligations under the Credit Agreement and the Notes (as defined in the Credit Agreement) to the Lenders and the Administrative Agent pursuant to the terms of this Pledge Agreement (the “Obligations”);

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Pledgor and the Administrative Agent hereby agree as follows:

SECTION 1. Pledge. Pledgor hereby pledges to the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, and grants to the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, a security interest in and to the collateral described in subsections (a) through (c) below (collectively, the “Pledged Collateral”):

(a) (i) All of the capital stock of the corporations and membership interests or other equity interests of the limited liability companies listed on Schedule I, now or at any time or times hereafter owned directly by Pledgor (such shares, membership interests or other equity interests being identified on Schedule I attached hereto) and any other Subsidiary of Pledgor, whether now in existence or organized hereafter (the “Pledged Entities”) and the certificates representing the shares of such capital stock and membership interests and other equity interests, all options and warrants for the purchase of shares of the stock, membership interests and other equity interests of the Pledged Entities now or hereafter held in the name of Pledgor (all of said capital stock, membership interests, and other equity interests, options and warrants and all capital stock, membership interests and other equity interests held in the name of the Pledgor as a result of the exercise of such options or warrants being hereinafter collectively referred to as the “Pledged Equity Interests”), herewith, or from time to time, delivered to the Administrative Agent accompanied by stock or membership interest powers in the form of Exhibit A attached hereto and made a part hereof (the “Powers”) duly executed in blank, and all dividends, cash, instruments, investment property and



other property from time to time received, receivable or otherwise distributed in respect of, or in exchange for, any or all of the Pledged Equity Interests;

(ii) All additional shares of capital stock, membership interests or other equity interests of the Pledged Entities described in Section 1(a)(i) above from time to time acquired by Pledgor in any manner, and the certificates, which shall be delivered to the Administrative Agent accompanied by Powers duly executed in blank, representing such additional shares, membership interests or other equity interests (any such additional shares, membership interests or other equity interests shall constitute part of the Pledged Equity Interests, and the Administrative Agent is irrevocably authorized to unilaterally amend Schedule I hereto or any Schedule I to any applicable Pledge Amendment to reflect such additional shares, membership interests or other equity interests), and all options, warrants, dividends, cash, instruments, investment property and other rights and options from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares, membership interests or other equity interests;

(b) The property and interests in property described in Section 3 below; and

(c) All proceeds of the collateral described in subsections (a) and (b) above.

**SECTION 2. Security for Obligations; Delivery of Pledged Collateral.** The Pledged Collateral secures the prompt payment, performance and observance of the Obligations. To the extent that any Pledged Collateral is now or hereafter becomes evidenced by certificates, promissory notes or instruments, all such certificates, promissory notes or instruments shall promptly be physically delivered to and held by or on behalf of the Administrative Agent, pursuant hereto, together with appropriate signed Powers and other endorsements in form and substance acceptable to the Administrative Agent.

**SECTION 3. Pledged Collateral Adjustments.** If, during the term of this Pledge Agreement:

(a) Any stock dividend or distribution of membership interests or other equity interests, reclassification, readjustment or other change is declared or made in the capital or other equity structure of either of the Pledged Entities, or any option included within the Pledged Collateral is exercised, or both, or

(b) Any subscription warrants or any other rights or options shall be issued in connection with the Pledged Collateral,

then all new, substituted and additional certificates, shares, membership interests, warrants, rights, options, investment property or other securities, issued by reason of any of the foregoing, shall, if applicable, be immediately delivered to and held by the Administrative Agent under the terms of this Pledge Agreement and shall constitute Pledged Collateral hereunder; provided, however, that nothing contained in this Section 3 shall be deemed to permit any distribution or stock dividend, issuance of additional stock, membership interests, warrants, rights or options, reclassification, readjustment or other change in the capital structure of the Pledged Entities which is not expressly permitted by the Loan Documents.



SECTION 4. Subsequent Changes Affecting Pledged Collateral. Pledgor represents and warrants that it has made its own arrangements for keeping itself informed of changes or potential changes affecting the Pledged Collateral (including, but not limited to, rights to convert, rights to subscribe, payment of dividends, cash distributions or other distributions, reorganizations or other exchanges, tender offers and voting rights), and Pledgor agrees that neither the Administrative Agent nor any of the Lenders shall have any obligation to inform the Pledgor of any such changes or potential changes or to take any action or omit to take any action with respect thereto. The Administrative Agent may, after the occurrence and during the continuance of an Event of Default, without notice and at its option, transfer or register the Pledged Collateral or any part thereof into its or its nominee's name with an indication that such Pledged Collateral is subject to the security interest hereunder; provided, however, with respect to Pledged Equity Interests of Magnolia Insurance Company, the Agent's right to transfer or register such Pledged Equity Interests pursuant to this Pledge Agreement shall be subject to any required prior consent, approval, authorization or other required action of the Florida Office of Insurance Regulation or other applicable governmental entity. In addition, the Administrative Agent may, after the occurrence and during the continuance of an Event of Default, exchange certificates or instruments representing or evidencing Pledged Equity Interests for certificates or instruments of smaller or larger denominations.

SECTION 5. Representations and Warranties. Pledgor represents and warrants as follows:

(a) Pledgor is the sole legal and beneficial owner of the percentage of the issued and outstanding capital stock and membership interests or other equity interests of the Pledged Entities set forth next to its name on Schedule I hereto and pledged to the Administrative Agent for the benefit of the Administrative Agent and the Lenders pursuant to this Pledge Agreement, free and clear of any Lien except for the security interest created by this Pledge Agreement and liens permitted by the Credit Agreement;

(b) As of the date hereof, all of the Pledged Collateral is currently represented by certificates, and Schedule I sets forth a complete and accurate list of all the Pledged Collateral, all of which has been delivered to the Administrative Agent, and the Pledged Collateral constitutes 100% of the issued and outstanding capital stock of Magnolia Insurance Company and 50% of the issued and outstanding membership interests or other equity interests of Magnolia Agency, LLC;

(c) Pledgor has the right and requisite authority to enter into this Pledge Agreement and to perform each and all of its obligations herein and this Pledge Agreement has been duly authorized, executed and delivered by Pledgor and constitutes a legal, valid and binding obligation of Pledgor enforceable against Pledgor in accordance with its terms;

(d) The exact legal name, domicile address and address of the chief executive office of Pledgor is set forth on Schedule II hereto, and Pledgor has not conducted business during the last five years under any name other than its exact legal name as set forth on Schedule II;



(e) No financing statement naming Pledgor as debtor and describing or purporting to cover all or any portion of the Pledged Collateral, which has not lapsed or been terminated, has been filed in any jurisdiction except for financing statements (i) naming the Administrative Agent as secured party, and (ii) in respect of liens permitted by the Credit Agreement;

(f) There are no restrictions upon the voting rights associated with, or upon the transfer of, any of the Pledged Collateral;

(g) Pledgor has the right to vote, pledge and grant a security interest in or otherwise transfer such Pledged Collateral free of any liens, except for (i) the pledge and security interest granted to the Administrative Agent hereunder and (ii) liens permitted by the Credit Agreement;

(h) Pledgor owns the Pledged Collateral free and clear of any pledge, mortgage, hypothecation, lien, charge, encumbrance or any security interest therein, except for (i) the pledge and security interest granted to the Administrative Agent hereunder and (ii) liens permitted by the Credit Agreement;

(i) None of the Pledged Collateral has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject and the pledge of the Pledged Collateral does not violate (1) the articles or certificates of incorporation or organization, by-laws or operating agreement, as applicable, of the Pledged Entities, or any indenture, mortgage, bank loan or credit agreement to which either of the Pledged Entities is a party or by which any of its properties or assets may be bound; or (2) any restriction on such transfer or encumbrance of such Pledged Collateral;

(j) Pledgor authorizes the Administrative Agent to file financing statements, financing statement amendments and continuations pursuant to the UCC as the Administrative Agent may reasonably deem necessary to perfect the security interest granted hereby;

(k) No authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either (i) for the pledge of the Pledged Collateral pursuant to this Pledge Agreement or for the execution, delivery or performance of this Pledge Agreement by Pledgor (except for the filing of financing statements contemplated pursuant to Section 5(j) hereof), or (ii) for the exercise by the Administrative Agent of the voting or other rights provided for in this Pledge Agreement or the remedies in respect of the Pledged Collateral pursuant to this Pledge Agreement (except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally);

(l) Upon delivery of each of the certificates representing the Pledged Collateral, or, as applicable, the filing of financing statements pursuant to Section 5(j) hereof, or upon execution of a control agreement, the pledge of the Pledged Collateral pursuant to this Pledge Agreement will create a valid and perfected first priority security interest in



the Pledged Collateral, in favor of the Administrative Agent, securing the payment and performance of the Obligations;

(m) Pledgor has (i) not registered the Pledged Collateral in the name of any other Person, (ii) consented to any agreement by either of the Pledged Entities in which such entity agrees to act on the instructions of any other Person, (iii) delivered the Pledged Collateral to any other Person, or (iv) otherwise granted “control” (as such term is used in Section 8-106 of the UCC) of the Pledged Collateral to any other Person;

(n) The Powers are duly executed and give the Administrative Agent the authority they purport to confer; and

(o) Pledgor has no obligation to make further capital contributions or make any other payments to the Pledged Entities with respect to its interest therein.

#### SECTION 6. Covenants.

(a) Pledgor agrees that it will not change its mailing address or place of domicile, unless Pledgor shall have given the Administrative Agent not less than 30 days’ prior written notice of such event or occurrence and the Administrative Agent shall have either (x) determined that such event or occurrence will not adversely affect the validity, perfection or priority of the Administrative Agent’s security interest in the Pledged Collateral, or (y) taken such steps (with the cooperation of Pledgor to the extent necessary or advisable) as are necessary or advisable to properly maintain the validity, perfection and priority of the Administrative Agent’s security interest in such Pledged Collateral;

(b) Pledgor will not (i) register the Pledged Collateral in the name of any Person other than the Administrative Agent, (ii) consent to any agreement between the Pledged Entities and any Person other than the Administrative Agent in which Pledged Entities agrees to act on the instructions of any such Person, (iii) deliver the Pledged Collateral or any related Power or endorsement to any Person other than the Administrative Agent or (iv) otherwise grant “control” (as such term is used in Section 8-106 of the UCC) of the Pledged Collateral to any Person other than the Administrative Agent, provided, however, that Pledgor shall, at the reasonable request and direction of the Administrative Agent at any time, promptly take any or all of such actions as set forth in clause (i) – (iv) above for the benefit of, and in a manner reasonably acceptable to, the Administrative Agent;

(c) Without limiting the provisions of clause (b), Pledgor will, at its expense, promptly execute, authorize, acknowledge and deliver all such instruments, certificates or other documents, and take all such additional actions as the Administrative Agent from time to time may reasonably request in order to ensure to the Administrative Agent the benefits of the first priority security interest in and to the Pledged Collateral intended to be created by this Pledge Agreement, including, without limitation, (i) the authorization and filing of any necessary UCC financing statements, financing statement amendments or continuations (ii) the delivery to the Administrative Agent of any certificates that may



from time to time evidence the Pledged Collateral, and (iii) the execution in blank and delivery of any necessary Powers or other endorsements, and will cooperate with the Administrative Agent, at Pledgor's expense, in obtaining all necessary approvals and consents, and making all necessary filings under federal, state, local or foreign law in connection with such security interests or any sale or transfer of the Pledged Collateral;

(d) Pledgor has and will defend the title to the Pledged Collateral and the security interests of the Administrative Agent in the Pledged Collateral against the claim of any Person and will maintain and preserve such security interests;

(e) Pledgor will, upon obtaining ownership of any additional Pledged Collateral promptly and in any event within five (5) Business Days deliver to the Administrative Agent a Pledge Amendment, duly executed by Pledgor, in substantially the form of Exhibit B hereto (a "Pledge Amendment") in respect of any such additional Pledged Collateral, pursuant to which Pledgor shall confirm its grant of a security interest in such additional Pledged Collateral pursuant to Section 1 hereof to the Administrative Agent, such grant being deemed effective as of the date hereof, regardless of whether such Pledge Amendment is ever executed pursuant to this paragraph. Pledgor hereby authorizes the Administrative Agent to attach each Pledge Amendment to this Pledge Agreement and to unilaterally amend Schedule I hereto pursuant to the terms of Section 2 hereof, and agrees that all Pledged Collateral listed on any Pledge Amendment delivered to the Administrative Agent, or amended Schedule I, shall for all purposes hereunder be considered Pledged Collateral (it being understood and agreed that the failure by Pledgor or the Administrative Agent to prepare or execute any such Pledge Amendment shall not prevent the creation or attachment of the Administrative Agent's lien and security interest in any such shares or membership interests which creation and attachment shall automatically, and be deemed to, occur pursuant to Section 1 hereof);

(f) Pledgor hereby irrevocably authorizes the Administrative Agent at any time and from time to time to file in any filing office in any UCC jurisdiction any financing statements or amendments thereto or continuations thereof that (a) describe the Pledged Collateral and (b) contain any other information required by Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment. Pledgor also ratifies its authorization for the Administrative Agent to have filed any financing statements or amendments thereto if filed prior to the date hereof;

(g) Pledgor will (i) deliver to the Administrative Agent immediately upon execution of this Pledge Agreement the originals of all certificates constituting Pledged Collateral and (ii) hold in trust for the Administrative Agent upon receipt and immediately thereafter deliver to the Administrative Agent any certificates constituting Pledged Collateral, in each case, together with stock or membership interest powers or endorsements executed in blank;

(h) Pledgor will permit the Administrative Agent from time to time to cause the appropriate issuers (and, if held with a securities intermediary, such securities intermediary) of uncertificated securities or other types of investment property not represented by certificates which are Pledged Collateral to mark their books and records



with the numbers and face amounts of all such uncertificated securities or other types of investment property not represented by certificates and all rollovers and replacements therefor to reflect the pledge of such Pledged Collateral granted pursuant to this Pledge Agreement. Pledgor will take any actions necessary to cause (i) the issuers of uncertificated securities which are Pledged Collateral and (ii) any securities intermediary which is the holder of any investment property, to cause the Administrative Agent to have and retain control over such securities or other investment property. Without limiting the foregoing, Pledgor will, with respect to investment property held with a securities intermediary, exercise commercially reasonable efforts to cause such financial intermediary to enter into a control agreement with the Administrative Agent in form and substance satisfactory to the Administrative Agent;

(i) Except as otherwise permitted by the terms of the Loan Documents, Pledgor will not (i) permit or suffer any issuer of privately held corporate securities or other ownership interests in a corporation, partnership, joint venture or limited liability company constituting Pledged Collateral over which it has voting control to dissolve, liquidate, retire any of its capital stock or other instruments or securities evidencing ownership, reduce its capital or merge or consolidate with any other entity, or (ii) vote any of the instruments, securities or other investment property in favor of any of the foregoing (except to the extent permitted by the Credit Agreement);

(j) Pledgor will permit any registerable Pledged Collateral to be registered in the name of the Administrative Agent or its nominee at any time after the occurrence and continuance of an Event of Default;; and

(k) Pledgor agrees that it will not without prior written consent of the Administrative Agent (i) except as otherwise permitted by the Loan Documents, sell or otherwise dispose of, or grant any option with respect to, any of the Pledged Collateral, or (ii) create or permit to exist any Lien upon or with respect to any of the Pledged Collateral, except for (i) the security interest under this Pledge Agreement and (ii) liens permitted by the Credit Agreement.

**SECTION 7. Voting Rights.** During the term of this Pledge Agreement, and except as provided in this Section 7 below, Pledgor shall have full rights to vote the Pledged Collateral. After the occurrence and during the continuance of an Event of Default, the Administrative Agent or the Administrative Agent's nominee may, at the Administrative Agent's or such nominee's option and following written notice from the Administrative Agent to Pledgor, exercise all voting powers pertaining to the Pledged Collateral, including the right to take action by shareholder consent, and as such (x) exercise, or direct Pledgor as to the exercise of all voting, consent, managerial, election and other membership rights to the applicable Pledged Collateral and (y) exercise, or direct Pledgor as to the exercise of any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to the applicable Pledged Collateral, as if the Administrative Agent were the absolute owner thereof, all without liability except to account for property actually received by it, but the Administrative Agent shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure so to do or delay in so doing; provided, however, with respect to the Pledged Equity Interests of Magnolia Insurance Company, the rights of the Administrative Agent



under this Section 7 shall be subject to any required prior consent, approval, authorization or other required action of the Florida Office of Insurance Regulation or other applicable governmental entity. Such authorization shall constitute an irrevocable voting proxy from Pledgor to the Administrative Agent or, at the Administrative Agent's option, to the Administrative Agent's nominee. After an Event of Default is cured or waived, Pledgor will have the right to exercise the voting and rights, powers, privileges and options that it would otherwise be entitled to exercise pursuant to the terms of the Pledge Agreement prior to the occurrence of any such Event of Default.

SECTION 8. Dividends and Other Distributions. (a) Until an Event of Default has occurred and is continuing:

(i) Pledgor shall be entitled to receive and retain any and all dividends, cash distributions and interest paid in respect of the Pledged Collateral to the extent such distributions are not prohibited by the Loan Documents, provided, however, that any and all (A) distributions, dividends and interest paid or payable other than in cash with respect to, and instruments and other property received, receivable or otherwise distributed with respect to, or in exchange for, any of the Pledged Collateral; (B) dividends and other distributions paid or payable in cash with respect to any of the Pledged Collateral on account of a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus; and (C) cash paid, payable or otherwise distributed with respect to principal of, or in redemption of, or in exchange for, any of the Pledged Collateral, shall be Pledged Collateral, and shall be forthwith delivered to the Administrative Agent to hold, for the benefit of the Administrative Agent and the Lenders, as Pledged Collateral and shall, if received by Pledgor, be received in trust for the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, be segregated from the other property or funds of Pledgor, and be delivered immediately to the Administrative Agent as Pledged Collateral in the same form as so received (with any necessary endorsement); and

(ii) The Administrative Agent shall execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies and other instruments as Pledgor may reasonably request for the purpose of enabling Pledgor to receive the dividends or interest payments which it is authorized to receive and retain pursuant to clause (i) above.

(b) After the occurrence of an Event of Default which has not been cured or waived:

(i) All rights of Pledgor to receive the dividends, distributions and interest payments which it would otherwise be authorized to receive and retain pursuant to Section 8(a)(i) hereof shall cease, and all such rights shall thereupon become vested in the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, which shall thereupon have the sole right to receive and hold as Pledged Collateral such dividends, distributions and interest payments; and

(ii) All dividends, distributions and interest payments which are received by Pledgor contrary to the provisions of clause (i) of this Section 8(b) shall be received in trust for the Administrative Agent, for the benefit of the Administrative Agent and the



Lenders, shall be segregated from other funds of Pledgor and shall be paid over immediately to the Administrative Agent as Pledged Collateral in the same form as so received (with any necessary endorsements).

Pledgor will reimburse the Administrative Agent and/or the Lenders for all expenses incurred by the Administrative Agent and/or the Lenders, including, without limitation, reasonable attorneys' and accountants' fees and expenses in connection with the foregoing.

SECTION 9. Remedies. (a) The Administrative Agent shall have, in addition to any other rights given under this Pledge Agreement or by law, all of the rights and remedies with respect to the Pledged Collateral of a secured party under the UCC. After the occurrence of an Event of Default which has not been cured or waived, the Administrative Agent (personally or through an agent) is hereby authorized and empowered, to transfer and register in its name or in the name of its nominee the whole or any part of the Pledged Collateral, to exercise all voting rights with respect thereto, to collect and receive all cash dividends or distributions and other distributions made thereon, and to otherwise act with respect to the Pledged Collateral as though the Administrative Agent were the outright owner thereof, Pledgor hereby irrevocably constituting and appointing the Administrative Agent as the proxy and attorney-in-fact of Pledgor, with full power of substitution to do so; provided, however, that the Administrative Agent shall have no duty to exercise any such right or to preserve the same and shall not be liable for any failure to do so or for any delay in doing so; provided, further, however, that the Administrative Agent agrees to exercise such proxy and powers only after an Event of Default which has not been cured or waived shall have occurred and following written notice thereof. In addition, after the occurrence and during the continuance of an Event of Default, the Administrative Agent shall have such powers of sale and other powers as may be conferred by applicable law and regulatory requirements. With respect to the Pledged Collateral or any part thereof which shall then be in or shall thereafter come into the possession or custody of the Administrative Agent or which the Administrative Agent shall otherwise have the ability to transfer pursuant to applicable law and/or regulatory requirements the Administrative Agent may, in its sole discretion, without notice except as specified below, after the occurrence of an Event of Default which has not been cured or waived, sell or cause the same to be sold at any exchange, broker's board or at public or private sale, in one or more sales or lots, at such price as the Administrative Agent may deem best, for cash or on credit or for future delivery, without assumption of any credit risk, and the purchaser of any or all of the Pledged Collateral so sold shall thereafter own the same, absolutely free from any claim, encumbrance or right of any kind whatsoever. The Administrative Agent and each of the Lenders may, in its own name, or in the name of a designee or nominee, buy the Pledged Collateral at any public sale and, if permitted by applicable law, buy the Pledged Collateral at any private sale. Pledgor agrees to pay to the Administrative Agent all reasonable expenses (including, without limitation, court costs and reasonable attorneys' and paralegals' fees and expenses) of, or incidental to, the enforcement of any of the provisions hereof. Pledgor shall remain liable for any deficiency following the sale of the Pledged Collateral.

(b) Unless any of the Pledged Collateral threatens to decline speedily in value or is or becomes of a type sold on a recognized market, the Administrative Agent will give Pledgor reasonable notice of the time and place of any public sale thereof, or of the time after which any private sale or other intended disposition is to be made. Any sale of the Pledged Collateral



conducted in conformity with reasonable commercial practices of banks, commercial finance companies, insurance companies or other financial institutions disposing of property similar to the Pledged Collateral shall be deemed to be commercially reasonable. Notwithstanding any provision to the contrary contained herein, Pledgor agrees that any requirements of reasonable notice shall be met if such notice is received by Pledgor as provided in Section 22 below at least ten (10) days before the time of the sale or disposition. Any other requirement of notice, demand or advertisement for sale is waived, to the extent permitted by law.

(c) In view of the fact that federal and state securities laws may impose certain restrictions on the method by which a sale of the Pledged Collateral may be effected after an Event of Default, Pledgor agrees that after the occurrence of an Event of Default which has not been cured or waived, the Administrative Agent may, from time to time, attempt to sell all or any part of the Pledged Collateral by means of a private placement restricting the bidders and prospective Lenders to those who are qualified and will represent and agree that they are purchasing for investment only and not for distribution. In so doing, the Administrative Agent may solicit offers to buy the Pledged Collateral, or any part of it, from a limited number of investors deemed by the Administrative Agent, in its reasonable judgment, to be financially responsible parties who might be interested in purchasing the Pledged Collateral. If the Administrative Agent solicits such offers from not less than four (4) such investors, then the acceptance by the Administrative Agent of the highest offer obtained therefrom shall be deemed to be a commercially reasonable method of disposing of such Pledged Collateral; provided, however, that this Section does not impose a requirement that the Administrative Agent solicit offers from four or more investors in order for the sale to be commercially reasonable.

(d) The Administrative Agent, on behalf of the Lenders, may comply with any applicable state or federal law requirements in connection with a disposition of the Pledged Collateral, and such compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Pledged Collateral.

(e) Notwithstanding anything contained herein to the contrary with respect to the Pledged Equity Interests of Magnolia Insurance Company, the rights of the Administrative Agent under this Section 9 shall be subject to any required prior consent, approval, authorization or other required action of the Florida Office of Insurance Regulation or other applicable governmental entity.

**SECTION 10. Administrative Agent Appointed Attorney-in-Fact.** Subject to the other provisions of this Pledge Agreement, Pledgor hereby irrevocably appoints the Administrative Agent its attorney-in-fact, coupled with an interest, with full authority, in the name of Pledgor or otherwise, from time to time in the Administrative Agent's sole discretion, with full power of substitution, to take any action and to execute any instrument which the Administrative Agent may deem necessary or advisable to accomplish the purposes of this Pledge Agreement, including, without limitation, to receive, endorse and collect all instruments made payable to Pledgor representing any dividend, distribution, interest payment or other distribution in respect of the Pledged Collateral or any part thereof and to give full discharge for the same and to arrange for the transfer of all or any part of the Pledged Collateral on the books of the Pledged Entities to the name of the Administrative Agent or the Administrative Agent's nominee.



SECTION 11. Waivers. (i) Pledgor waives presentment and demand for payment of any of the Obligations, protest and notice of dishonor or default with respect to any of the Obligations and all other notices to which Pledgor might otherwise be entitled except as otherwise expressly provided herein or in the applicable Loan Document.

(ii) Pledgor agrees that all of its obligations under this Pledge Agreement shall remain in full force and effect without defense, offset or counterclaim of any kind, notwithstanding that Pledgor's rights against the Pledged Entities may be impaired, destroyed or otherwise affected by reason of any action or inaction on the part of the Administrative Agent.

(iii) Pledgor hereby expressly waives the benefits of any law in any jurisdiction purporting to allow a guarantor or pledgor to revoke a continuing guaranty or pledge with respect to any transactions occurring after the date of the guaranty or pledge.

SECTION 12. Term. This Pledge Agreement shall remain in full force and effect until the Obligations shall have been indefeasibly and fully paid in cash and performed and the Loan Documents shall have terminated. Upon the termination of this Pledge Agreement as provided above (other than as a result of the sale of the Pledged Collateral), the Administrative Agent will release the security interest created hereunder and, if it then has possession of the Pledged Equity Interests, will deliver the Pledged Equity Interests and the Powers to Pledgor.

SECTION 13. Definitions. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined (and, with respect to such terms, the singular shall include the plural and vice versa and any gender shall include any other gender as the context may require), and the following term shall have the following meaning.

"UCC" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York, as amended or supplemented from time to time; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the Administrative Agent's and the Lenders' security interest in any Pledged Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions. Any and all terms used in this Pledge Agreement which are defined in the UCC shall be construed and defined in accordance with the meaning and definition ascribed to such terms under the UCC, unless otherwise defined herein.

SECTION 14. Acknowledgment. The Administrative Agent hereby acknowledges that in order to exercise any of its rights acquired under this Pledge Agreement with respect to the Pledged Equity Interests of Magnolia Insurance Company, the Administrative Agent must comply in all material respects with all applicable laws and regulations of the State of Florida, including, without limitation, all insurance laws and regulations.

SECTION 15. Successors and Assigns. This Pledge Agreement shall be binding upon and inure to the benefit of Pledgor, the Administrative Agent, for the benefit of itself and the Lenders, and their respective successors and permitted assigns, except that Pledgor shall not



have the right to assign its rights or delegate its obligations under this Pledge Agreement or any interests herein without the prior written consent of the Administrative Agent and any assignment without such consent shall be null and void. Pledgor's successors and permitted assigns shall include, without limitation, a receiver, trustee or debtor-in-possession of or for Pledgor.

**SECTION 16. GOVERNING LAW. THIS PLEDGE AGREEMENT AND ALL MATTERS AND DISPUTES ARISING OUT OF OR IN ANY WAY RELATED TO THIS PLEDGE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, INCLUDING GENERAL OBLIGATIONS LAW § 5-1401 BUT OTHERWISE WITHOUT REGARD TO CONFLICTS-OF-LAWS- PRINCIPLES.**

**SECTION 17. Consent to Jurisdiction; Waiver of Jury Trial.**

(a) **Pledgor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and any New York state court, in either case, sitting in New York County, and any appellate court therefrom, in any action or proceeding arising out of or relating to this Pledge Agreement, or for recognition or enforcement of any judgment, and Pledgor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Pledgor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Pledge Agreement shall affect any right that the Administrative Agent or the Lenders may otherwise have to bring any action or proceeding relating to this Pledge Agreement against Pledgor or its properties in the courts of any jurisdiction.**

(b) Pledgor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Pledge Agreement in any court referred to in Section 17(a). Pledgor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) **PLEDGOR HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS PLEDGE AGREEMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).**

**SECTION 18. Construction.** The parties hereto have participated jointly in the negotiation and drafting of this Pledge Agreement. In the event an ambiguity or question of intent or interpretation arises, this Pledge Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Pledge Agreement.



SECTION 19. Severability. Whenever possible, each provision of this Pledge Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but, if any provision of this Pledge Agreement shall be held to be prohibited or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Pledge Agreement.

SECTION 20. Further Assurances. Pledgor agrees that it will cooperate with the Administrative Agent and will execute and deliver, or cause to be executed and delivered, all such other stock or membership interest powers, proxies, instruments and documents, and will take all such other actions, including, without limitation, the execution and filing of financing statements, financing statement amendments and continuations (and Pledgor hereby authorizes the Administrative Agent to file any such financing statements, financing statement amendments and continuations), as the Administrative Agent may reasonably deem necessary from time to time in order to carry out the provisions and purposes of this Pledge Agreement.

SECTION 21. The Administrative Agent's Duty of Care. The Administrative Agent shall not be liable for any acts, omissions, errors of judgment or mistakes of fact or law including, without limitation, acts, omissions, errors or mistakes with respect to the Pledged Collateral, except for those arising out of or in connection with the Administrative Agent's (i) gross negligence or willful misconduct, or (ii) failure to use reasonable care with respect to the safe custody of the Pledged Collateral in the Administrative Agent's possession. Without limiting the generality of the foregoing, the Administrative Agent shall be under no obligation to take any steps necessary to preserve rights in the Pledged Collateral against any other parties but may do so at its option. All expenses incurred in connection therewith shall be for the sole account of Pledgor, and shall constitute part of the Obligations secured hereby.

SECTION 22. Notices. All notices, requests and other communications to any party hereunder shall be given in the manner prescribed in the Credit Agreement with respect to the Administrative Agent at its notice address therein and, with respect to Pledgor at the address of Pledgor set forth in the Credit Agreement, or such other address or telecopy number as such party may hereafter specify for such purpose in accordance with the provisions of the Credit Agreement.

SECTION 23. Amendments, Waivers and Consents. No amendment or waiver of any provision of this Pledge Agreement nor consent to any departure by Pledgor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Administrative Agent pursuant to the terms of the Loan Documents and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 24. Section Headings. The section headings herein are for convenience of reference only, and shall not affect in any way the interpretation of any of the provisions hereof.



SECTION 25. Execution in Counterparts. This Pledge Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

SECTION 26. Merger. This Pledge Agreement and the Loan Documents embody the final and entire agreement and understanding among Pledgor, the Administrative Agent and the Lenders and supersede all prior agreements and understandings among Pledgor, the Administrative Agent and the Lenders relating to the subject matter thereof. This Pledge Agreement and the Loan Documents may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties hereto.

SECTION 27. Execution and Delivery. The execution and delivery of this Pledge Agreement and all other Loan Documents by the parties hereto shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

SECTION 28. Agent for Service of Process. By the execution and delivery of this Pledge Agreement, the Pledgor (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to this Pledge Agreement that may be instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Lender or the Administrative Agent, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Pledgor in the manner provided in Section 22 hereof, shall be deemed in every respect effective service of process upon the Pledgor in any such suit or proceeding. The Pledgor further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Pledge Agreement shall be in effect.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, Pledgor and the Administrative Agent have executed this Pledge Agreement as of the date set forth above.

IRL FINANCIAL GROUP INCORPORATED, as  
Pledgor

By: \_\_\_\_\_  
Name:  
Title:

ALLIANZ RISK TRANSFER, INC., as Administrative  
Agent

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



SCHEDULE I  
to  
PLEDGE AGREEMENT

## EQUITY INTERESTS OF PLEDGED ENTITIES OWNED BY PLEDGOR

## Pledged Equity Interests

<u>Pledgor</u>	<u>Record Holder</u>	<u>Pledged Entity</u>	<u>Cert. No.</u>	<u>No. of Shares/Mem bership Interests</u>	<u>% of Shares/Membership Interests Held by Pledgor Pledged Hereunder</u>	<u>% of Total Outstanding Shares/Membership Interests of Pledged Entity Pledged Hereunder</u>	<u>Total # of Fully Diluted Shares/Membership Interests in Pledged Entity</u>
IRL Financial Group Incorporated	IRL Financial Group Incorporated	Magnolia Insurance Company	01	10,000	100%	100%	10,000
IRL Financial Group Incorporated	IRL Financial Group Incorporated	Magnolia Agency, LLC	01	NA	50% (100% of Class A Membership Interests held by Pledgor)	50% (100% of total outstanding Class A Membership Interests)	NA
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SCHEDULE II  
to  
PLEDGE AGREEMENT

LEGAL NAME OF PLEDGOR AND DOMICILE ADDRESS OF PLEDGOR

Legal Name of Pledgor

IRL FINANCIAL GROUP  
INCORPORATED

Domicile Address of Pledgor

260 Glenridge Road  
Key Biscayne, Florida 33149

PRIOR NAMES OF PLEDGOR  
DURING LAST FIVE YEARS

Pledgor

None

Prior Name

N/A

Date of Name Change

N/A



EXHIBIT A  
to  
PLEDGE AGREEMENT

**FORM OF EQUITY INTEREST POWER**

FOR VALUE RECEIVED, the undersigned does hereby sell, assign and transfer to \_\_\_\_\_ [Shares of Common Stock][Membership Interests] of \_\_\_\_\_, a \_\_\_\_\_ [corporation][limited liability company], represented by Certificate No. \_\_\_\_ (the "Equity Interest"), standing in the name of the undersigned on the books of said [corporation][limited liability company] and does hereby irrevocably constitute and appoint \_\_\_\_\_ as the undersigned's true and lawful attorney, for it and in its name and stead, to sell, assign and transfer all or any of the Equity Interest, and for that purpose to make and execute all necessary acts of assignment and transfer thereof; and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or substitute or substitutes shall lawfully do by virtue hereof.

Dated: \_\_\_\_\_

IRL FINANCIAL GROUP INCORPORATED

By:\_\_\_\_\_

Name:

Title:



EXHIBIT B  
to  
PLEDGE AGREEMENT

**FORM OF PLEDGE AMENDMENT**

Reference is hereby made to the Pledge Agreement (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Pledge Agreement”) dated as of [DATE], by and between Irl Financial Group Incorporated (the “Pledgor”) and Allianz Risk Transfer, Inc., as Administrative Agent (the “Administrative Agent”) under the Credit Agreement, whereby Pledgor has pledged certain capital stock, membership interests or other equity interests of the Pledged Entities as collateral to the Administrative Agent, for the ratable benefit of the Lenders, as more fully described in the Pledge Agreement. This Amendment is a “Pledge Amendment” as defined in the Pledge Agreement and is, together with the acknowledgments, certificates, and Powers delivered herewith, subject in all respects to the terms and provisions of the Pledge Agreement. Capitalized terms used herein and not defined herein shall have the meanings given to them in the Pledge Agreement.

By its execution below, Pledgor hereby agrees that (i) the capital stock of the corporation and the membership interests or other equity interests of the limited liability company listed on Schedule I hereto shall be pledged to the Administrative Agent as additional collateral pursuant to Section 1(a)(ii) of the Pledge Agreement, and (ii) such property shall be considered Pledged Equity Interests under the Pledge Agreement and be a part of the Pledged Collateral pursuant to Section 1 of the Pledge Agreement.

By its execution below, Pledgor represents and warrants that it has full power and authority to execute this Pledge Amendment. The Pledge Agreement, as amended and modified hereby, remains in full force and effect and is hereby ratified and confirmed.



IN WITNESS WHEREOF, Pledgor has executed and delivered this Pledge Amendment to the Pledge Agreement as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

IRL FINANCIAL GROUP INCORPORATED

By:\_\_\_\_\_

Name:

Title:



Schedule I  
to  
Pledge Amendment

## EQUITY INTERESTS OF PLEDGED ENTITIES OWNED BY PLEDGOR

## Pledged Equity Interests

<u>Pledgor</u>	<u>Record Holder</u>	<u>Pledged Entity</u>	<u>Cert. No.</u>	<u>No. of Shares/Membership Interests</u>	<u>% of Shares/Membership Interests Held by Pledgor Pledged Hereunder</u>	<u>% of Total Outstanding Shares/Membership Interests of Pledged Entity Pledged Hereunder</u>	<u>Total # of Fully Diluted Shares/Membership Interests in Pledged Entity</u>
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**PERSONAL GUARANTY**

THIS PERSONAL GUARANTY (this "Guaranty") is entered into as of February 27, 2008 by H. James Irl (the "Guarantor") in favor of Allianz Risk Transfer, Inc., a New York corporation, as Administrative Agent (the "Administrative Agent") for the Lenders (as defined below) under the Credit Agreement (as defined below). Capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement (as defined below).

**W I T N E S S E T H :**

WHEREAS, Irl Financial Group Incorporated (the "Borrower"), the lenders party thereto (the "Lenders") and the Administrative Agent have entered into that certain Credit Agreement of even date herewith (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), which Credit Agreement provides, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations by the Lenders to or for the benefit of the Borrower;

WHEREAS, it is a condition precedent to the extensions of credit by the Lenders under the Credit Agreement that the Guarantor execute and deliver this Guaranty, whereby the Guarantor, without limitation and with full recourse, shall guarantee the payment when due of the Loans, including, without limitation, all principal, interest and other amounts that shall be at any time payable by the Borrower under the Credit Agreement or the other Loan Documents (collectively, the "Obligations"); and

WHEREAS, in consideration of the direct and indirect financial and other support and benefits that the Borrower has provided, and such direct and indirect financial and other support and benefits as the Borrower may in the future provide, to the Guarantor, and in order to induce the Lenders to enter into the Credit Agreement, and to make the Loans to the Borrower, the Guarantor is willing to guarantee the Obligations under the Credit Agreement and the other Loan Documents;

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**SECTION 1. Representations, Warranties and Covenants.** The Guarantor represents and warrants to the Lenders as of the date of this Guaranty, giving effect to the consummation of the transactions contemplated by the Loan Documents on the date hereof as follows:



(a) that this Guaranty constitutes a legal, valid and binding obligation of such Guarantor, enforceable against such Guarantor, in accordance with its terms, except as enforceability may be limited by (i) bankruptcy, insolvency, fraudulent conveyances, reorganization or similar laws relating to or affecting the enforcement of creditors' rights generally, (ii) general equitable principles (whether considered in a proceeding in equity or at law), and (iii) requirements of reasonableness, good faith and fair dealing;

(b) that neither the execution and delivery by it of this Guaranty, nor the consummation by it of the transactions herein contemplated, nor compliance by it with the terms and provisions hereof, will (i) conflict with, result in a breach of or constitute (with or without notice or lapse of time or both) a default under any law, rule, regulation, order, writ, judgment, injunction, decree or award applicable to such Guarantor or his assets, or any provisions of any material indenture, instrument or agreement to which such Guarantor is party or is subject, or require termination of any such indenture, instrument or agreement, or (iii) result in the creation or imposition of any Lien whatsoever upon any of the property or assets of such Guarantor, other than Liens permitted or created by the Loan Documents; and

(c) that there are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Guarantor) threatened against the Guarantor.

**SECTION 2. The Guaranty.** The Guarantor hereby unconditionally guarantees the full and punctual payment and performance when due (whether at stated maturity, upon acceleration or otherwise) of the Obligations, including, without limitation, (i) the principal of and interest on the Loans made to the Borrower pursuant to the Credit Agreement, (ii) all other amounts payable by the Borrower under the Credit Agreement and the other Loan Documents, and (iii) the punctual and faithful performance, keeping, observance, and fulfillment by the Borrower and its Subsidiaries of all of the agreements, conditions, covenants, and obligations of the Borrower and its Subsidiaries contained in the Loan Documents (all of the foregoing being referred to collectively as the "Guaranteed Obligations"). Upon the failure by the Borrower, or of any other guarantor, to pay punctually any such amount or perform such obligation, subject to any applicable grace or notice and cure period, the Guarantor agrees that he shall forthwith on demand pay such amount or perform such obligation at the place and in the manner specified in the Credit Agreement or the relevant other Loan Document, as the case may be. The Guarantor hereby agrees that this Guaranty is an absolute, irrevocable and unconditional guaranty of payment and is not a guaranty of collection.

**SECTION 3. Guaranty Unconditional.** The obligations of the Guarantor hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(i) any extension, renewal, settlement, indulgence, compromise, waiver or release of or with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or with respect to any obligation of any other guarantor of any of the Guaranteed Obligations, whether (in any such case) by operation of law or otherwise, or any failure or omission to enforce any right, power or remedy with respect to the Guaranteed Obligations or any part thereof or any agreement relating thereto, or



with respect to any obligation of any other guarantor of any of the Guaranteed Obligations;

(ii) any modification or amendment of or supplement to the Credit Agreement or any other Loan Document, including, without limitation, any such amendment which may increase the amount of, or the interest rates applicable to, any of the Guaranteed Obligations guaranteed hereby;

(iii) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral securing the Guaranteed Obligations or any part thereof, any other guaranties with respect to the Guaranteed Obligations or any part thereof, or any other obligation of any person or entity with respect to the Guaranteed Obligations or any part thereof, or any nonperfection or invalidity of any direct or indirect security for the Guaranteed Obligations;

(iv) any change in the corporate, limited liability company, partnership or other existence, structure or ownership of the Borrower or its Subsidiaries or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other guarantor of the Guaranteed Obligations, or any of their respective assets or any resulting release or discharge of any obligation of the Borrower or its Subsidiaries or any other guarantor of any of the Guaranteed Obligations;

(v) the existence of any claim, setoff or other rights which the Guarantors may have at any time against the Borrower, any other guarantor of any of the Guaranteed Obligations, the Lenders or any other Person, whether in connection herewith or in connection with any unrelated transactions;

(vi) the enforceability or validity of the Guaranteed Obligations or any part thereof or the genuineness, enforceability or validity of any agreement relating thereto or with respect to any collateral securing the Guaranteed Obligations or any part thereof, or any other invalidity or unenforceability relating to or against the Borrower or any other guarantor of any of the Guaranteed Obligations, for any reason related to the Credit Agreement or any other Loan Document, or any provision of applicable law or regulation purporting to prohibit the payment by the Borrower or any other guarantor of the Guaranteed Obligations, of any of the Guaranteed Obligations;

(vii) the failure of the Administrative Agent or any of the Lenders to take any steps to perfect and maintain any security interest in, or to preserve any rights to, any security or collateral for the Guaranteed Obligations, if any;

(viii) the election by, or on behalf of, the Lenders, in any proceeding instituted under Chapter 11 of Title 11 of the United States Code (11 U.S.C. 101 et seq.) (the "Bankruptcy Code"), of the application of Section 1111(b)(2) of the Bankruptcy Code;

(ix) any borrowing or grant of a security interest by the Borrower, as debtor-in-possession, under Section 364 of the Bankruptcy Code;



(x) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the claims of the Lenders for repayment of all or any part of the Guaranteed Obligations;

(xi) the failure of any other guarantor to sign or become party to this Guaranty or any amendment, change, or reaffirmation hereof; or

(xii) any other act or omission to act or delay of any kind by the Borrower, any other guarantor of the Guaranteed Obligations, the Lenders or any other Person or any other circumstance whatsoever which might, but for the provisions of this Section 3, constitute a legal or equitable discharge of any Guarantor's obligations hereunder.

SECTION 4. Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances. The Guarantor's obligations hereunder shall remain in full force and effect until all Guaranteed Obligations shall have been paid in full in cash (other than contingent indemnification obligations that have not yet arisen), at which time, subject to all the foregoing conditions, the guarantees made hereunder shall be terminated. If at any time any payment of the principal of or interest on any Loan, Obligation or any other amount payable by the Borrower or any other party under the Credit Agreement or any other Loan Document is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, this Guaranty and the Guarantor's obligations hereunder with respect to such payment shall be reinstated to the extent of such rescission, restoration or return.

SECTION 5. General Waivers; Additional Waivers.

(a) General Waivers. The Guarantor irrevocably waives acceptance hereof, presentment, demand or action on delinquency, protest, the benefit of any statutes of limitations and, to the fullest extent permitted by law, any notice not provided for herein or under the other Loan Documents, as well as any requirement that at any time any action be taken by any Person against the Borrower, any other guarantor of the Guaranteed Obligations, or any other Person.

(b) Additional Waivers. Notwithstanding anything herein to the contrary, the Guarantor hereby absolutely, unconditionally, knowingly, and expressly waives, to the fullest extent permitted by law:

(i) any right it may have to revoke this Guaranty as to future indebtedness or notice of acceptance hereof;

(ii) (1) notice of any loans or other financial accommodations made or extended under the Loan Documents or the creation or existence of any Guaranteed Obligations; (2) notice of the amount of the Guaranteed Obligations, subject, however, to the Guarantor's right to make inquiry of the Lenders to ascertain the amount of the Guaranteed Obligations at any reasonable time; (3) notice of any adverse change in the financial condition of the Borrower or of any other fact that might increase such Guarantor's risk hereunder; (4) notice of presentment for payment, demand, protest, and notice thereof as to any instruments among the Loan Documents; (5) notice of any Default; and (6) all other notices (except if such notice is specifically required to be given



to such Guarantor hereunder or under the Loan Documents) and demands to which the Guarantor might otherwise be entitled;

(iii) its right, if any, to require the Lenders to institute suit against, or to exhaust any rights and remedies which the Lenders have or may have against, the other Guarantors or any third party, or against any Collateral provided by the other Guarantors, or any third party; and the Guarantor further waives any defense arising by reason of any disability or other defense (other than the defense that the Guaranteed Obligations shall have been fully and indefeasibly paid) of the other Guarantors or by reason of the cessation from any cause whatsoever of the liability of the other Guarantors in respect thereof;

(iv) (a) any rights to assert against the Lenders any defense (legal or equitable), set-off, counterclaim, or claim which such Guarantor may now or at any time hereafter have against the other Guarantors or any other party liable to the Lenders; (b) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Guaranteed Obligations or any security therefor; (c) any defense such Guarantor has to performance hereunder, and any right such Guarantor has to be exonerated, arising by reason of: the impairment or suspension of the Lenders' rights or remedies against the other Guarantors; the alteration by the Lenders of the Guaranteed Obligations; any discharge of the other Guarantors' obligations to the Lenders by operation of law as a result of the Lenders' intervention or omission; or the acceptance by the Lenders of anything in partial satisfaction of the Guaranteed Obligations; and (d) the benefit of any statute of limitations affecting such Guarantor's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Guaranteed Obligations shall similarly operate to defer or delay the operation of such statute of limitations applicable to such Guarantor's liability hereunder;

(v) any defense arising by reason of or deriving from (a) any claim or defense based upon an election of remedies by the Lenders; or (b) any election by the Lenders under Section 1111(b) of Title 11 of the United States Code entitled "Bankruptcy", as now and hereafter in effect (or any successor statute), to limit the amount of, or any collateral securing, its claim against the Guarantors; and

(vi) any and all rights to require marshalling of assets by the Administrative Agent or the Lenders

**SECTION 6. Subordination of Subrogation.** Until the Guaranteed Obligations have been fully and indefeasibly paid and performed (other than contingent indemnity obligations), the Guarantor (i) shall have no right of subrogation with respect to such Guaranteed Obligations and (ii) waives any right to enforce any remedy which the Lenders now have or may hereafter have against the Borrower, its Subsidiaries any endorser or any guarantor of all or any part of the Obligations or any other Person, and until such time, the Guarantor waives any benefit of, and any right to participate in, any security or collateral given to the Lenders to secure the payment or performance of all or any part of the Guaranteed Obligations or any other liability of the



Borrower or its Subsidiaries to the Lenders. Should the Guarantor have the right, notwithstanding the foregoing, to exercise its subrogation rights, the Guarantor hereby expressly and irrevocably (A) subordinates any and all rights at law or in equity to subrogation, reimbursement, exoneration, contribution, indemnification or set off that the Guarantor may have to the payment in full in cash of the Guaranteed Obligations until the Guaranteed Obligations are performed and paid in full in cash (other than contingent indemnity obligations) and (B) waives any and all defenses available to a surety, guarantor or accommodation co-obligor until the Guaranteed Obligations are performed and paid in full in cash (other than contingent indemnity obligations that have not yet arisen). The Guarantor acknowledges and agrees that this subordination is intended to benefit the Lenders and shall not limit or otherwise affect such Guarantor's liability hereunder or the enforceability of this Guaranty.

SECTION 7. Stay of Acceleration. If acceleration of the time for payment of any amount payable by the Borrower under the Credit Agreement or by the Borrower or any of its Affiliates under any other Loan Document is stayed upon the insolvency, bankruptcy or reorganization of the Borrower or any of its Affiliates, all such amounts otherwise subject to acceleration under the terms of the Credit Agreement or any other Loan Document shall nonetheless be payable by the Guarantor not a party to such insolvency, bankruptcy or reorganization hereunder forthwith on demand by the Administrative Agent.

SECTION 8. Notices. All notices, requests and other communications to any party hereunder shall be given in the manner prescribed in Section 11.02 of the Credit Agreement with respect to the Administrative Agent and the Lenders at its notice address therein and, with respect to the Guarantor, in the care of the Borrower at the address of the Borrower set forth in the Credit Agreement, or such other address or telecopy number as such party may hereafter specify for such purpose in accordance with the provisions of Section 11.02 of the Credit Agreement.

SECTION 9. No Waivers. No failure or delay by the Lenders in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided in this Guaranty, the Credit Agreement and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 10. Successors and Assigns. This Guaranty is for the benefit of the Lenders and its successors and permitted assigns, provided, that the Guarantor shall not have any right to assign its rights or obligations hereunder without the consent of the Lenders, and any such assignment in violation of this Section 10 shall be null and void; and in the event of an assignment of any amounts payable under the Credit Agreement or the other Loan Documents in accordance with the respective terms thereof, the rights hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This Guaranty shall be binding upon the Guarantor and his successors and assigns.



SECTION 11. Changes in Writing. Neither this Guaranty nor any provision hereof may be changed, waived, discharged or terminated orally, but only in writing signed by the Guarantor and the Lenders.

SECTION 12. Governing Law; Jurisdiction.

(a) THIS GUARANTY, AND ALL MATTERS AND DISPUTES ARISING OUT OF OR IN ANY WAY RELATING TO THIS GUARANTY, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, INCLUDING GENERAL OBLIGATIONS LAW §5-1401 BUT OTHERWISE WITHOUT REGARD TO CONFLICTS-OF-LAWS PRINCIPLES.

(b) The Guarantor hereby irrevocably and unconditionally submits, for himself and his property, to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Guaranty or any other Loan Document or for recognition or enforcement of any judgment, and the Guarantor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. The Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Guaranty or any other Loan Document shall affect any right that the Lenders may otherwise have to bring any action or proceeding relating to this Guaranty or any other Loan Document against any Guarantor or its properties in the courts of any jurisdiction.

(c) The Guarantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which he may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Guaranty or any other Loan Document in any court referred to in paragraph (b) of this Section. The Guarantor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

**SECTION 13. WAIVER OF JURY TRIAL. THE GUARANTOR HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT HE MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). THE GUARANTOR (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER GUARANTOR HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER GUARANTOR WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT HE HAS BEEN INDUCED TO ENTER INTO THIS GUARANTY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**



SECTION 14. Expenses of Enforcement, Etc. The Guarantor agrees to reimburse the Lenders for any costs and out-of-pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Lenders) paid or incurred by the Lenders in connection with the collection and enforcement of amounts due under the Loan Documents, including, without limitation, this Guaranty.

SECTION 15. Setoff. At any time after all or any part of the Guaranteed Obligations have become due and payable (by acceleration or otherwise), Lenders may, without notice to the Guarantor and regardless of the acceptance of any security or collateral for the payment hereof, set off and apply toward the payment of all or any part of the Guaranteed Obligations any and all deposits (general or special, time or demand, provisional or final and in whatever currency denominated at any time held) and other obligations at any time owing by Lenders or any of its Affiliates to or for the credit or the account of the Guarantor against any of and all the Guaranteed Obligations, irrespective of whether or not Lenders shall have made any demand under this Guaranty and although such obligations may be unmatured. The rights of Lenders under this Section are in addition to other rights and remedies (including other rights of setoff) which Lenders may have.

SECTION 16. Financial Information. The Guarantor hereby assumes responsibility for keeping himself informed of the financial condition of the Borrower and any and all endorsers and/or other guarantors of all or any part of the Guaranteed Obligations, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations, or any part thereof, that diligent inquiry would reveal, and the Guarantor hereby agrees that Lenders shall not have any duty to advise such Guarantor of information known to any of them regarding such condition or any such circumstances. In the event Lenders, in its sole discretion, undertakes at any time or from time to time to provide any such information to a Guarantor, Lenders shall be under no obligation (i) to undertake any investigation not a part of its regular business routine, (ii) to disclose any information which Lenders, pursuant to accepted or reasonable commercial finance practices, wish to maintain confidential or (iii) to make any other or future disclosures of such information or any other information to such Guarantor.

SECTION 17. Severability. Wherever possible, each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

SECTION 18. Merger. This Guaranty represents the final agreement of the Guarantor with respect to the matters contained herein and may not be contradicted by evidence of prior or contemporaneous agreements, or subsequent oral agreements, between the Guarantor and Lenders.

SECTION 19. Headings. Section headings in this Guaranty are for convenience of reference only and shall not govern the interpretation of any provision of this Guaranty.



SECTION 20. Execution and Delivery. The execution and delivery of this Guaranty and all other Loan Documents by the Guarantor shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

SECTION 21. Agent for Service of Process. By the execution and delivery of this Guaranty, the Guarantor (i) acknowledges that it has, by separate written instrument, designated and appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as its authorized agent upon which process may be served in any suit or proceeding arising out of or in any way relating to this Guaranty that may be instituted in any federal or New York state court located in The City of New York, in either case sitting in New York County, and any appellate court therefrom, or brought by any Lender or the Administrative Agent, and acknowledges that CT Corporation System has accepted such designation, (ii) submits to the jurisdiction of any such court in any such suit or proceeding, and (iii) agrees that service of process upon CT Corporation System, and written notice of said service to the Grantor in the manner provided in Section 8 hereof, shall be deemed in every respect effective service of process upon the Grantor in any such suit or proceeding. The Grantor further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of CT Corporation System in full force and effect so long as this Guaranty shall be in effect.

[SIGNATURE PAGES TO FOLLOW]



IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be duly executed as of the day and year first above written.

GUARANTOR:

---

H. James Irl



Acknowledged and Agreed to:

ALLIANZ RISK TRANSFER, INC.

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title:



## SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this “**Agreement**”) is entered into as of February 27, 2008 by and between CGI Technologies and Solutions, Inc. (the “**Junior Creditor**”) and Allianz Risk Transfer, Inc., a New York corporation, in its capacity as administrative agent (the “**Agent**”) for itself and the Lenders (as defined below).

WHEREAS, Irl Financial Group Incorporated, a Florida corporation (the “**Company**”), has entered into that certain Credit Agreement with the lenders party thereto (the “**Lenders**”) and the Agent dated as of February 27, 2008 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), which provides, subject to the terms and conditions thereof, for extensions of credit and other financial accommodations to be made by the Lenders to or for the benefit of the Company.

WHEREAS, the Company is or may become indebted to the Junior Creditor in connection with certain reimbursement obligations of Magnolia Agency, LLC or one of its affiliates in connection with a letter of credit issued for the benefit of the Agent on behalf of the Lenders pursuant to the Credit Agreement.

WHEREAS, as a condition to the Agent’s and the Lenders’ willingness to provide financial accommodations to the Company under the Credit Agreement, all present and future obligations of the Company to the Junior Creditor are to be subordinated to the indebtedness and the obligations of the Company to the Agent and the Lenders as more fully set forth below.

NOW, THEREFORE, for good and valuable consideration, receipt whereof is hereby acknowledged, the Junior Creditor agrees, for the benefit of the Agent and the Lenders as follows:

1. All obligations of the Company or any of its subsidiaries or affiliates, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, are called “**Liabilities**”. All Liabilities to the Agent and the Lenders under or in connection with the Credit Agreement and other Loan Documents (as defined in the Credit Agreement) are called “**Senior Liabilities**”; and all Liabilities to the Junior Creditor with respect to the reimbursement obligations of the Junior Creditor under the letter of credit provided pursuant to Section 6.01(e) of the Credit Agreement and exclusive of any obligation to pay policy administration fees or claims administration fees are called “**Junior Liabilities**”; it being expressly understood and agreed that the term “Senior Liabilities”, as used herein, shall include, without limitation, any and all interest accruing on any of the Senior Liabilities after the commencement of any proceedings referred to in Section 4 at the rate or rates prescribed in the Credit Agreement, notwithstanding any provision or rule of law which might (a) restrict the rights of the Agent or any Lender, as against the Company or anyone else, to collect such interest or (b) otherwise treat those rights as claims that are not allowed or allowable in any such proceeding.

2. The payment of all Junior Liabilities shall be postponed and subordinated to the indefeasible payment in full in cash of all Senior Liabilities, and no payment or other distribution whatsoever in respect of any Junior Liabilities shall be made by or on behalf of the Company,



nor shall any property or assets of or for the benefit of the Company be applied to the purchase or other acquisition or retirement of any Junior Liabilities, directly or indirectly, whether by setoff or otherwise, until all Senior Liabilities have been indefeasibly paid in full in cash.

3. The Junior Creditor will, from time to time, promptly notify the Agent of the creation of any Junior Liabilities, and of the existence or issuance of any promissory note or other instrument to evidence any Junior Liabilities.

4. In the event of any dissolution, winding up, liquidation, reorganization or other similar proceeding relating to the Company or to its creditors, as such, or to its property (whether voluntary or involuntary, partial or complete, and whether in bankruptcy, insolvency or receivership, or upon an assignment for the benefit of creditors, or any other marshalling of the assets and liabilities of the Company, or any sale of all or substantially all of the assets of the Company, or otherwise), all Senior Liabilities shall first be indefeasibly paid in full in cash before the Junior Creditor shall be entitled to receive and to retain any payment or distribution in respect of any of the Junior Liabilities, and, in order to implement the foregoing:

(a) all payments and distributions of any kind or character in respect of the Junior Liabilities to which the Junior Creditor would be entitled if the Junior Liabilities were not subordinated pursuant to this Agreement shall be made directly to the Agent (for the benefit of itself and the Lenders),

(b) the Junior Creditor shall promptly file a claim or claims, in the form required in such proceeding, for the full outstanding amount of the Junior Liabilities, and shall cause said claim or claims to be approved and all payments and other distributions in respect thereof to be made directly to the Agent, and

(c) the Junior Creditor hereby irrevocably agrees that the Agent may, at its sole discretion, in the name of the Junior Creditor or otherwise, demand, sue for, collect, receive and receipt for any and all such payments or distributions, and file and prove, and vote or consent in any such proceedings with respect to, any and all claims of the Junior Creditor relating to the Junior Liabilities.

5. In the event that the Junior Creditor receives any payment or other distribution of any kind or character from the Company or from any other source whatsoever in respect of any of the Junior Liabilities, such payment or other distribution shall be received in trust for the Agent and the Lenders and promptly turned over by the Junior Creditor to the Agent. The Junior Creditor will cause to be clearly inserted in any promissory note or other instrument which at any time evidences any of the Junior Liabilities a statement to the effect that the payment thereof is subordinated in accordance with the terms of this Agreement. The Junior Creditor will execute such further documents or instruments and take such further action as the Agent may reasonably from time to time request to carry out the intent of this Agreement.

6. All payments and distributions received by the Agent in respect of the Junior Liabilities, to the extent received in or converted into cash, may be applied by the Agent first to the payment of any and all expenses (including reasonable attorneys' fees and legal expenses) paid or incurred by the Agent in enforcing this Agreement, and any balance thereof shall, solely



as between the Junior Creditor and the Agent, be applied by the Agent, in such order of application as the Agent may from time to time select, toward the payment of the Senior Liabilities remaining unpaid; but, as between the Company and its creditors, no such payment or distribution of any kind or character shall be deemed to be a payment or distribution in respect of the Senior Liabilities; and, notwithstanding any such payment or distribution received by the Agent in respect of the Junior Liabilities and so applied by the Agent toward the payment of the Senior Liabilities, the Junior Creditor shall have no rights of subrogation to the rights of the Agent and Lenders in respect of the Senior Liabilities.

7. The Junior Creditor hereby waives:

- (a) notice of acceptance by the Agent or any Lender of this Agreement;
- (b) notice of the existence or creation or non-payment of all or any of the Senior Liabilities; and
- (c) all diligence in collection or protection of or realization upon the Senior Liabilities or any portion thereof or any security therefor.

8. This Agreement shall in all respects be a continuing agreement and shall remain in full force and effect (notwithstanding, without limitation, the dissolution of the Junior Creditor or that at any time or from time to time all Senior Liabilities may have been paid in full) until all Senior Liabilities shall have been finally paid in full in cash.

9. The Agent or any Lender may, from time to time, at its sole discretion and without notice to the Junior Creditor, take any or all of the following actions:

- (a) amend or otherwise modify the Credit Agreement and the other instruments, documents and agreements contemplated thereby, including, without limitation, amendments that increase the amount of or interest rate applicable to the Senior Liabilities;
- (b) retain or obtain security interests in any property to secure any of the Senior Liabilities,
- (c) retain or obtain the primary or secondary obligation of any other obligor or obligors with respect to any of the Senior Liabilities,
- (d) extend or renew for one or more periods (whether or not longer than the original period), alter or exchange any of the Senior Liabilities, or release or compromise any obligation of any nature of any obligor with respect to any of the Senior Liabilities, and
- (e) release its security interest in, or surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Senior Liabilities, or extend or renew for one or more periods (whether or not longer than the original period) or release, compromise, alter or exchange any obligation of any nature of any obligor with respect to any such property.



10. Any Lender may, from time to time, without notice to the Junior Creditor, assign or transfer its interest in any or all of the Senior Liabilities; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, such Senior Liabilities shall be and remain Senior Liabilities for the purposes of this Agreement, and every immediate and successive assignee or transferee of any of the Senior Liabilities or of any interest therein shall, to the extent of the interest of such assignee or transferee in the Senior Liabilities, be entitled to the benefits of this Agreement to the same extent as the applicable assignor or transferor.

11. Neither the Agent nor any Lender shall be prejudiced in its rights under this Agreement by any act or failure to act of the Company or the Junior Creditor, or any noncompliance of the Company or the Junior Creditor with any agreement or obligation, regardless of any knowledge thereof which the Agent or any Lender may have or with which the Agent or any Lender may be charged; and no action of the Agent or any Lender permitted hereunder shall in any way affect or impair the rights of the Agent or any Lender and the obligations of the Junior Creditor under this Agreement.

12. No delay on the part of the Agent or any Lender in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by the Agent or any Lender of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy; nor shall any modification or waiver of any provision of this Agreement be binding upon the Agent or any Lender except as expressly set forth in a writing duly signed and delivered on behalf of the Agent.

13. This Agreement shall be binding upon the Junior Creditor and upon the successors and assigns of the Junior Creditor; and all references herein to the Company and to the Junior Creditor, respectively, shall be deemed to include any successor or assign to such entity.

14. This Agreement, and all matters and disputes arising out of or in any way relating to this Agreement, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles.

15. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but, if any provision of this Agreement shall be held to be prohibited or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

16. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

17. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or



burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

18. The Junior Creditor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Agreement or the transactions contemplated hereby. The Junior Creditor irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

19. This Agreement embodies the entire agreement and understanding between the Junior Creditor and the Agent relating to the subject matter contained herein and supersedes all prior agreements and understandings among the Junior Creditor and the Agent relating to the subject matter contained herein.

20. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated except by a writing signed by the Agent (for the benefit of itself and the Lenders).

21. THE JUNIOR CREDITOR (AND, BY ACCEPTING THE BENEFITS HEREOF, THE AGENT AND EACH LENDER) HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR IN ANY WAY RELATING TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

22. The execution and delivery of this Agreement and all other Loan Documents (as defined in the Credit Agreement) by the parties hereto shall take place in person at the offices of Sidley Austin LLP, located at 787 Seventh Avenue, New York, New York 10019 on the date hereof.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, this Subordination Agreement has been duly executed as of the date first above written.

CGI TECHNOLOGIES AND SOLUTIONS,  
INC., as the Junior Creditor

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

ALLIANZ RISK TRANSFER, INC., as the  
Agent for itself and the Lenders

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

By \_\_\_\_\_  
Name: \_\_\_\_\_  
Title \_\_\_\_\_

The Company hereby acknowledges receipt of a copy of the foregoing Subordination Agreement, waives notice of acceptance thereof by the Agent or any Lender, and agrees to be bound by the terms and provisions thereof, to make no payments or distributions contrary to the terms and provisions thereof, and to do every other act and thing necessary or appropriate to carry out such terms and provisions.

Dated: February 27, 2008

IRL FINANCIAL GROUP  
INCORPORATED, as the Company

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_



## **Assignment of Rights**

*In connection with the proposed transaction involving Allianz Risk Transfer, Inc., a New York corporation (“ART”), and Irl Financial Group Incorporated, a Florida corporation (the “Borrower”), certain rights under the reinsurance agreements to be entered into by Magnolia Insurance Company, a Florida corporation and wholly owned subsidiary of the Borrower, will be assigned to ART. The assignment of these rights will require (i) assignment provisions in the relevant Eligible Reinsurance Agreement, Escrow Agreement and Credit Agreement; (ii) an assignment agreement; and (iii) a notice of assignment and an acknowledgement of assignment. Drafts of such assignment provisions, the form of assignment agreement and the forms of notice of assignment and acknowledgement of assignment are set forth below. All capitalized terms used herein and in such drafts shall have the meaning indicated below.*

“Closing Date” means February 27, 2008; provided that if such date is not a Business Day, the Closing Date shall be the next preceding Business Day.

“Eligible Reinsurance Agreement” means a reinsurance agreement, similar in form to the “Excess Catastrophe Reinsurance Contract” prepared by Benfield, Inc. between Magnolia Agency, LLC and a Reinsurer satisfying certain conditions specified in the Credit Agreement.

“Lenders” means Allianz Risk Transfer, Inc., a New York corporation, and each lender that becomes a signatory party to the Credit Agreement after the Closing Date.

“Credit Agreement” means that certain credit agreement by and between the Borrower and the Lenders, dated as of the Closing Date.

“Reinsurer” means any reinsurer who enters into an Eligible Reinsurance Agreement with Magnolia Insurance Company.

### **Modifications to the Form of Eligible Reinsurance Agreement<sup>1</sup>**

*To comply with applicable law regarding assignments, a new Article XXVIII will be added to the form of Eligible Reinsurance Agreement indicating the Reinsurer’s acknowledgement of and consent to the assignment by Magnolia Insurance Company of certain of its rights under or relating to the Eligible Reinsurance Agreement. Such provision will be in the following form:*

#### **Article XXVIII – Assignment**

The Reinsurer hereby consents to the assignment by Magnolia Insurance Company, in its sole discretion, to any person at any time (and such person’s assignment to any other person at any time), of:

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<sup>1</sup> These provisions assume that all eligible Reinsurance Agreements are in the form provided by Benfields. In the event that Magnolia Insurance Company enters into a non-conforming reinsurance agreement, the provisions will be revised accordingly.



- (i) Magnolia Insurance Company's right to receive payment of all amounts due and payable by the Reinsurer to Magnolia Insurance Company under this Eligible Reinsurance Agreement, including, without limitation:
  - (a) all reinsurance recoveries less any reinstatement premium corresponding thereto in accordance with the terms hereof and less any other unpaid reinsurance premium hereunder;
  - (b) all interest penalties determined in accordance with Article XIV; and
  - (c) all other moneys, income and proceeds payable hereunder or arising in respect thereof;

in each case, without any deduction whatsoever in respect of any other amount that may be due by Magnolia Insurance Company to the Reinsurer in respect of this Eligible Reinsurance Agreement or any other agreement whatsoever between Magnolia Insurance Company and the Reinsurer;

- (ii) the benefit of all agreements and covenants relating to payment of such amounts;<sup>2</sup>
- (iii) all rights of action in respect thereof and all powers and remedies for enforcing the same, including, without limitation, any action, claim, right or interest that Magnolia Insurance Company may have against the Reinsurer or its successor in any bankruptcy, insolvency, reorganization, liquidation, rehabilitation, conservation or similar proceeding involving the Reinsurer, its successor or affiliates; and
- (iv) the right to receive all reports, notices and accountings in respect of any rights to receive payments assigned in accordance with the terms hereof ((i), (ii), (iii) and (iv), collectively, the "Assignable Rights");

provided, that Magnolia Insurance Company provides notice to the Reinsurer of any such assignment within thirty (30) days of such assignment. The Reinsurer hereby agrees to execute and deliver, to any assignee of the Assignable Rights, an acknowledgment of the notice of the assignment within ten (10) days of the receipt of the notice of assignment.

The Reinsurer hereby acknowledges that, notwithstanding the foregoing, all obligations, representations and warranties of Magnolia Insurance Company under this Eligible Reinsurance Agreement shall nevertheless remain the obligations, representations and warranties of Magnolia Insurance Company and shall not be obligations, representations or warranties of the assignee.

*To conform the Eligible Reinsurance Agreement to the new Article XXVIII, paragraph B of Article XVII of the form of Eligible Reinsurance Agreement will be deleted in its entirety and replaced with the following:*

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<sup>2</sup> Pursuant to this assigned right, the assignee would be able to enforce any agreement or covenant of the Reinsurer under the Eligible Reinsurance Agreement to make payment of the relevant undisputed amount, *e.g.*, a provision requiring the Reinsurer to pay such amount within [XX] days of receipt of notice from Magnolia Insurance Company.



- B. Nothing herein is intended to confer any rights or remedies under or by reason of this Eligible Reinsurance Agreement on any persons other than the Reinsurer and Magnolia Insurance Company and their respective successors and permitted assigns; provided, however, that Magnolia Insurance Company and the Reinsurer hereby agree that Magnolia Insurance Company may assign the Assignable Rights in accordance with Article XXVIII to any person at Magnolia Insurance Company's sole discretion and any person (and its successors and permitted assigns) to whom Magnolia Insurance Company assigns the Assignable Rights in accordance with Article XXVIII hereof shall be a third party beneficiary of this Eligible Reinsurance Agreement as if a party hereto.



**Exhibit [●]**

**ASSIGNMENT AGREEMENT**

This ASSIGNMENT AGREEMENT (this “Assignment Agreement”) is made and entered into as of the [●] day of February, 2008, by and between Allianz Risk Transfer, Inc., a New York corporation (the “Assignee”), and Magnolia Insurance Company, a Florida corporation (the “Assignor”).

WHEREAS, Irl Financial Group Incorporated, the owner of one hundred percent (100%) of the issued and outstanding stock of the Assignor (the “Parent”), and the Assignee have entered into (i) the Credit Agreement, dated as of February 27, 2008 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), pursuant to which the Assignee has agreed to make a loan to the Parent, subject to the terms and conditions contained therein and (ii) the Escrow Agreement, dated as of February 27, 2008 (as amended, supplemented or otherwise modified from time to time, the “Escrow Agreement”), pursuant to which an escrow account has been established (the “Escrow Account”) into which the proceeds of such loan have been deposited;

WHEREAS, the Assignor has entered into that [●] Agreement (the “Eligible Reinsurance Agreement”), dated as of [●], by and between the Assignor and [●] (the “Reinsurer”);

WHEREAS, the Assignor has agreed to assign the Assigned Rights (as defined below) to the Assignee as a condition precedent to the disbursement of the loan proceeds from the Escrow Account to the Parent;

WHEREAS, as a condition precedent to the disbursement of the loan proceeds from the Escrow Account to the Parent, the Assignor (i) agreed to execute and deliver this Assignment Agreement; (ii) agreed to deliver the Notice of Assignment (as defined below) to the Reinsurer; and (iii) agreed to require the Reinsurer to deliver to the Assignee the written acknowledgement attached to the Notice of Assignment; and

WHEREAS, the Assignor desires to comply with the covenants contained in the Credit Agreement and Escrow Agreement by entering into this Assignment Agreement.

NOW, THEREFORE, in consideration of the premises and of the agreements herein, in order to comply with the covenants made by it and the Parent in the Credit Agreement and the Escrow Agreement and for good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the Assignor and the Assignee hereby agree as follows:

1. Assignment. In consideration of the receipt of good and valuable consideration, and in order to comply with the covenants contained in the Credit Agreement and the Escrow Agreement, effective as of the date of this Assignment Agreement, Assignor hereby irrevocably, fully and absolutely assigns, transfers, sets over and conveys to Assignee, pursuant to the terms hereinafter set forth, all of Assignor’s legal and equitable right, title and interest in, to and under:



- (i) the Assignor's right to receive payment of any and all undisputed and unpaid amounts that, at the date of this Assignment Agreement, have or may in the future become due and payable by the Reinsurer to the Assignor under and in accordance with the terms of the Eligible Reinsurance Agreement including, without limitation:
  - (A) all reinsurance recoveries less (1) any reinstatement premium corresponding thereto determined in accordance with the terms of the Eligible Reinsurance Agreement and (2) any other unpaid reinsurance premium under the Eligible Reinsurance Agreement;
  - (B) all interest penalties determined in accordance with Article XIV of the Eligible Reinsurance Agreement; and
  - (C) all moneys, income and proceeds payable under the Eligible Reinsurance Agreement or arising in respect thereof;

in each case, without any deduction whatsoever in respect of any other amount that may be due by the Assignor to the Reinsurer in respect of the Eligible Assignment Agreement or any other agreement whatsoever between the Assignor and the Reinsurer;

- (ii) the benefit of all covenants relating to payment of such amounts;
- (iii) all rights of action in respect thereof and all powers and remedies for enforcing the same, including, without limitation, any action, claim, right or interest that the Assignor may have against the Reinsurer or its successor in any bankruptcy, insolvency, reorganization, liquidation, rehabilitation, conservation or similar proceeding involving the Reinsurer; and
- (iv) the right to receive all reports, notices and accounting in respect of any rights to receive payments assigned in accordance with the terms hereof ((i), (ii), (iii) and (iv), collectively, the "Assigned Rights");

in each case, whether present or future, actual or contingent, to have and to hold the same unto Assignee, its successors and permitted assigns, subject to the terms, covenants and conditions contained in or with respect to the Assigned Rights; provided that notwithstanding such assignment of the Assigned Rights, all obligations, representations and warranties of the Assignor under the Eligible Reinsurance Agreement shall remain obligations, representations and warranties of the Assignor, as the case may be, and shall not be obligations, representations or warranties of the Assignee.

The Assignee hereby acknowledges its acceptance of all legal and equitable right, title and interest previously held by the Assignor in, to and under the Assigned Rights.

## 2. Representations and Warranties.

- (a) The Assignor hereby represents and warrants that:



- (i) The Assignor is a corporation duly organized, validly existing and in good standing (to the extent legally applicable) under the laws of the State of Florida.
- (ii) The execution and delivery of this Assignment Agreement by such party and the performance of its obligations hereunder have been duly authorized.
- (iii) This Assignment Agreement constitutes the legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms.
- (iv) The execution and delivery of this Assignment Agreement, the consummation of the transactions contemplated hereby and by the Eligible Reinsurance Agreement and the fulfillment of the terms hereof will not conflict with or result in the breach of any of the material terms and provisions of, constitute (with or without notice or lapse of time or both) a default under, or result in the creation of any lien upon any property or assets of the Assignor or any of its affiliates pursuant to, any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Assignor or any of its affiliates is a party or by which it or any of its properties is bound, except for any conflict, breach, default or lien which would not have an adverse effect on the transactions contemplated hereby or the ability of the Assignor to perform its obligations under this Assignment Agreement and under the Eligible Reinsurance Agreement.
- (v) There are no actions at law, suits in equity or proceedings by or before any governmental commission, bureau or administrative agency pending or, to the best knowledge of the Assignor, threatened against or involving the Assignor or any of its assets, that would adversely affect the ability of the Assignor to perform its obligations under this Assignment Agreement and under the Eligible Reinsurance Agreement, except for any such action, suit or proceeding which would not have an adverse effect on the transactions contemplated hereby.
- (vi) Except for such authorizations or approvals as will have been obtained prior to the date hereof, no authorization or approval or notice of any governmental agency or commission or public or quasi-public body or authority with jurisdiction over the Assignor or any of its assets (including, but not limited to, any State of the United States, the United States or the District of Columbia, or of any department or subdivision of any State of the United States, the United States or the District of Columbia) is necessary for the due execution and delivery of this Assignment Agreement or for the validity or enforceability hereof or of the Eligible Reinsurance Agreement.



- (vii) The Assignor is and shall be Solvent (as defined below) both before and immediately after giving effect to the transactions contemplated by this Assignment Agreement. For the purposes of this Assignment Agreement, “Solvent” means that (a) the assets of the Assignor are greater than the total amount of liabilities, including contingent liabilities, of the Assignor; (b) the present fair salable value of the assets of the Assignor is not less than the amount that will be required to pay the probable liability of Assignor on its debts as they become absolute and matured; (c) the Assignor does not intend to, and does not believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature; and (d) the Assignor is not engaged in a business or transaction, and is not about to engage in a business or transaction, for which the Assignor’s property would constitute an unreasonably small capital.
- (viii) The Assignor has all right, title and interest in and to the Assigned Rights, free and clear of any lien or encumbrance of any person. This Assignment Agreement constitutes a valid, full and absolute assignment to the Assignee of all legal and equitable right, title and interest of the Assignor in and to the Assigned Rights, free and clear of any lien or encumbrance of any person or entity.
- (ix) The execution and delivery of the Eligible Reinsurance Agreement by the Assignor was duly authorized by the Assignor by all necessary corporate action on its part and the Eligible Reinsurance Agreement constitutes a legal, valid and binding obligation of the Assignor, enforceable against the Assignor in accordance with its terms, except in each case as enforcement may be limited by bankruptcy, insolvency, examination, suspension of payments, fraudulent transfer, reorganization, moratorium and other similar laws of general applicability affecting the enforcement of creditors’ rights generally, public policy and general principles of equity (regardless of whether such proceeding is considered in a proceeding in equity or law).
- (x) As of the date of this Assignment Agreement:
  - (A) Exhibit [●] attached hereto is a full and complete copy of the Eligible Reinsurance Agreement.
  - (B) The Eligible Reinsurance Agreement remains in full force and effect in accordance with its terms.

3. Covenants. The Assignor hereby covenants that:

- (a) In the event that the Assignor receives any amounts due to the Assignee pursuant to the terms of this Assignment Agreement, all such amounts received by it shall be held in trust by the Assignor for the benefit of the Assignee, and the Assignor



shall promptly and in any event within two (2) Business Days endorse and remit to the Assignee any and all such amounts received by it.

- (b) The Assignor shall deliver, within five (5) Business Days following the date of this Assignment Agreement, a notice of its assignment of the Assigned Rights, substantially in the form of Exhibit A hereto (a “Notice of Assignment”) to the Reinsurer.
  - (c) The Assignor will not terminate, waive or modify any provision of, consent to any waiver or modification of any, provision of, or make or cause to be made any amendment to the Eligible Reinsurance Agreement without the prior written consent of the Assignee.
  - (d) The Assignor will comply with all terms of the Eligible Reinsurance Agreement and maintain the Eligible Reinsurance Agreement in full force and effect at all times.
  - (e) The Assignor will not take any action that might in any way release the Reinsurer from or in any way diminish the Reinsurer’s obligations under the Eligible Reinsurance Agreement, including, without limitation, the obligation to make payments under the Eligible Reinsurance Agreement.
  - (f) The Assignor agrees to do and perform, from time to time, any and all acts and to execute any and all further agreements, documents or instruments required or reasonably requested by the Assignee more fully to effect the purposes of this Assignment Agreement.
4. Amendments. This Assignment Agreement may not be modified, amended, waived or supplemented except by a writing signed by each of the parties hereto.
5. Law and Jurisdiction. This Assignment Agreement, and all matters and disputes arising out of or in any way relating to this Assignment Agreement, shall be governed by, and construed in accordance with, the laws of the State of New York, including General Obligations Law §5-1401 but otherwise without regard to conflicts-of-laws principles. The Assignor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court, in either case sitting in New York County, and any appellate court therefrom, for the purposes of all legal proceedings arising out of or in any way relating to this Assignment Agreement or the transactions contemplated hereby. The Assignor irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.
6. Severability. If any one or more of the covenants, agreements, provisions or terms of this Assignment Agreement shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Assignment Agreement and shall in no



way affect the validity or enforceability of the other provisions of this Assignment Agreement.

7. Interpretation. All capitalized terms used and not otherwise defined herein shall have the meaning given in the Credit Agreement.
8. Counterparts. This Assignment Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Assignment Agreement. A photocopy of this Assignment Agreement executed by the Assignor and/or the Assignee shall constitute sufficient evidence of the executed original of this Assignment Agreement for all purposes.
9. Acknowledgment. This Assignment Agreement shall come into effect upon the receipt by the Assignee of an Acknowledgment of Assignment in the form attached hereto as Exhibit B duly executed by the Reinsurer and shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and permitted assigns.

*[The remainder of this page is intentionally left blank]*



IN WITNESS WHEREOF, Assignor and Assignee have executed or caused to be executed this Assignment Agreement under seal as of the day and year first written above.

MAGNOLIA INSURANCE COMPANY, as Assignor

By: \_\_\_\_\_  
Name:  
Title:

ALLIANZ RISK TRANSFER, INC., as Assignee

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



**Exhibit A**

**FORM OF NOTICE OF ASSIGNMENT**

**[Magnolia Insurance Company Letterhead]**

[Reinsurer]

[Address]

[DATE]

Dear [●],

Further to and in accordance with **[Article XXVIII]** of the Eligible Reinsurance Agreement, dated [●] between you and us (the “**Eligible Reinsurance Agreement**”), we hereby give you irrevocable notice that we (the “**Assignor**”) have assigned to Allianz Risk Transfer, Inc. of [ADDRESS] (the “**Assignee**”) all of the Assignable Rights (in each case whether present or future, actual or contingent), as defined in the Eligible Reinsurance Agreement, and on the terms set out in the copy of the Assignment Agreement attached hereto.

Please acknowledge receipt of this notice by signing the acknowledgement on the enclosed copy of this notice and returning it to the Assignee at the address above.

For and on behalf of [REINSURER]

By: \_\_\_\_\_

Name:

Title:

cc: Irl Financial Group Incorporated

cc: Allianz Risk Transfer, Inc.



**Exhibit B**

**FORM OF ACKNOWLEDGEMENT OF ASSIGNMENT**

Allianz Risk Transfer, Inc.  
[ADDRESS]  
Attn: [●]

[DATE]

Dear [●],

At the request of the Assignee, we acknowledge receipt of a notice of assignment (attached hereto) and the terms set out in such notice regarding the assignment to the Assignee of the Assignable Rights relating to the Eligible Reinsurance Agreement.

All capitalized terms used and not defined herein have the meaning set forth in the above referenced notice of assignment.

We confirm that we will comply with the terms of that notice.

For and on behalf of [REINSURER]

By: \_\_\_\_\_  
Name:  
Title:

cc: [Assignor]