

**STATE BOARD OF ADMINISTRATION OF FLORIDA  
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM (“PROGRAM”)  
APPLICATION**

*IMPORTANT NOTES:*

- 1. INCOMPLETE APPLICATIONS WILL BE RETURNED TO THE APPLICANT, UNREVIEWED.*
- 2. THE FIRST TIME A WORD APPEARS IN THIS APPLICATION THAT HAS A SPECIAL DEFINITION, IT WILL BE SO INDICATED WITH AN ASTERICK (\*). THE DEFINITION IS CONTAINED IN RULE 19ER06-3 F.A.C., WHICH IS AVAILABLE ON THE BOARD’S WEBSITE, [WWW.SBAFLA.COM](http://WWW.SBAFLA.COM), UNDER “INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM” THEN “RULE 19ER0-3”.*

**Part I: Basic Information**

**CONTACT INFORMATION:**

Application Date: June 15, 2006

Insurer’s\* Name (“Applicant”\*) Southern Fidelity Insurance Company, Inc. NAIC#: 10136

Group Name, if applicable: Not Applicable                      Group NAIC#: Not Applicable

Address of Administrative Office: 2255 Killearn Center Blvd., Tallahassee, FL 32309

Contact Name and Title: James A. Graganella, President & CEO

Telephone Number: 850/521-0742                      Fax Number: 850/521-3072

Email Address: [jgraganella@preferredmanaging.com](mailto:jgraganella@preferredmanaging.com)

**SURPLUS NOTE\* REQUESTED:**

Principal Amount of Surplus Note Requested: \$25 million

Date Funds are desired: July 1, 2006

Amount of New Capital\* contributed: \$25 million

Anticipated date New Capital infused: July 1, 2006

Will the New Capital be encumbered? No    If yes, describe:

Source of New Capital: James Rudnick, William Evans, Troy Cox, Jim Gray, Robbie Browning

Address for the source of New Capital: 226 North Duval, Tallahassee, FL 32317

Contact Name for the source of New Capital: James Rudnick

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Telephone Number for the source of New Capital: (850) 671-1999

Fax Number for the source of New Capital: (850) 425-1904

Email Address for the Contact for the source of New Capital: jim@rudnickdev.com

Name of depository for New Capital: Bank Atlantic

Address of depository for New Capital: 2100 West Cypress Creek Road,

Ft. Lauderdale, FL 33309

Contact Name for the depository and Title: William Corson, Senior Vice President

Telephone Number for the depository: (954) 940-5213

Fax Number for the depository: (954) 940-5205

E-mail Address for the Contact at the depository: wcorso@BankAtlantic.com

**FINANCIAL INFORMATION:**

Current Surplus\* amount as of latest month end: \$6,876,373

Surplus as of most recently filed financial statement with the Office\*: \$6,650,230

Annualized Net Written Premium\* as of the latest month end: \$20,108,868

Annualized Net Written Premium as of most recently filed financial statement with the Office:  
\$19,322,294

Current ratio of Net Written Premium to Surplus as of latest month end: 1.96

Date Applicant estimates reaching the Minimum Writing Ratio\*, if not already obtained:

Assuming proper reinsurance can be obtained, we would like the ability to negotiate this date to assure the financial stability of the company.

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**Part II:**

**BUSINESS PLAN** – Please see attached

**REINSURANCE PROGRAM** – Please see attached

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**Part III: Interrogatories:**

1. Will the New Capital contribution be in excess of the Minimum Contribution? Yes.
2. Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year? Southern Fidelity Insurance Company’s goal will be to retain and grow surplus. Southern Fidelity Insurance Company, Inc. has only been in business for one year.
3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with the Program? Yes.
4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant’s Surplus Note under this Program? If yes, provide details. No.
5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state’s interest in the proceeds of the Surplus Note? No.
6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state? Yes. As long as the terms are agreeable.
7. Although not required, is the Applicant willing to prepay interest and principal for one year in advance? Maybe, this is something that can be negotiated.
8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default? Yes. If the applicant has more time to reach a 2:1 writing ratio that would reduce risk.
9. Has the Applicant fully place its 2006 hurricane season reinsurance program? Yes.
10. If the 2006 hurricane season reinsurance program has been fully placed, can the Insurer withstand a 1 in 100-year event? Yes.
11. What is the Applicant’s current writing ratio? 1.96
12. What was the Applicant’s writing ratio for the last five years? 2.4 in 2005 (Southern Fidelity has only been fully operational since 2005).

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13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security. Yes, only if this would not adversely affect solvency as well as reinsurance.
14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances. Yes, Demotech, Inc., A (Exceptional) Rating.
15. Is the Applicant currently being investigated by any federal or stat regulatory authority? No.
16. Is the Applicant under any type of regulatory control or order? No.

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**Part IV: Documents which must be provided with this Application**

1. A detailed business plan.  
-Please see attached business plan
2. A copy of the Applicant’s most recent audited financial statement and copies of the audited financial statements for the prior two years.  
- Please see attached audited financial statement for 2005
3. A copy of the Applicant’s most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S.  
-Please see attached annual statement for 2005
4. A resolution from the Applicant’s governing board which contains the following:  
-Please see the attached resolution
5. Provide a list of all officers and board members.  
-Please see attached
6. Provide biographical information on the executive officers (e.g., CEO, CFO, COO).  
-Please see attached
7. A signed copy of the attestation in Part IX of this application.  
-Please see attached
8. If any items listed in this Application are not provided, please identify the item and provide an explanation as to why it was not provided.  
-Not Applicable

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**Part V: False or Misleading Statements**

Any application or any documents provided with the application which contain false or misleading statements, will, if discovered prior to the execution of the Surplus Note, cause the application to be rejected, and if discovered after the execution of a Surplus Note, will cause the Surplus Note to be in default.

**Part VI: Selection Period**

The Applicant and its agents, officers principals, and employees will not engage in any written or verbal communication regarding its application or its participation in this Program during the “selection period” (defined below) with the Office or the Board or any employee thereof, whether or not such individual or employee is assisting in the evaluation of applications. Any unauthorized contact may disqualify the Applicant from further consideration. Normal business communications not related to the processing of the Surplus Note are allowed.

The Applicant will not engage in any lobbying efforts or other attempts to influence the Office, the Board, or any financial or insurance consultant employed by the Board in an effort to influence the Board’s decision with respect to executing the Surplus Note with a particular Insurer or Insurers under the Program. Any and all such efforts made by the Applicant or its agents, officers, principals, employees, or lobbyists will be disclosed to the Executive Director of the Board within five calendar days of its becoming known.

The “Selection Period” for this application begins on the date the application is submitted and continues until the Applicant is notified that it was or was not selected to participate in the Program.