ORGANIZATIONAL EXAMINATION

of the

SHEFFIELD INSURANCE COMPANY

214 CENTERVIEW DRIVE
SUITE 259
BRENTWOOD, TN

RECEIVED
APR 13 2005
Dept. Of Commerce & Insurance
Company Examinations

as of
MARCH 14, 2005

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE
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Honorable Paula A. Flowers  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-2-103, a financial examination was made of the condition and affairs of the

SHEFFIELD INSURANCE COMPANY  
214 CENTERVIEW DRIVE  
SUITE 259  
BRENTWOOD, TN 37027

hereinafter and generally referred to as the Company, and a report thereon is submitted as follows:

**INTRODUCTION**

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on April 7, 2005. The examination was the “Organizational Examination” and was conducted by a duly authorized representative of “The Department of Commerce and Insurance”, State of Tennessee.

**SCOPE OF EXAMINATION**

Upon payment by the Company of the application fee of $675 prescribed in Tenn. Code Ann. § 56-4-101, this examination was conducted as of March 14, 2005 to determine if the Company has complied with the statutory and regulatory requirements to be issued a Certificate of Authority to establish and operate a property and casualty insurance company according to the provisions of Tenn. Code Ann. § 56-2, Part 1.
COMPANY HISTORY AND ORGANIZATION

The Company was incorporated on October 7, 2004 under the Tennessee Business Corporation Act as a for-profit corporation authorized to transact business in the State of Tennessee. The Charter and Bylaws are discussed in detail in this report under the caption “CHARTER AND BYLAWS”.

On October 21, 2004, the Incorporator acted by “Written Consent” to approve the following actions:

- Adopt and accept the Charter of the Corporation.
- Adopt the bylaws prepared for the Corporation by counsel.
- Direct that hereafter the Board of Directors of the Corporation be composed of two (2) people and elect the following directors to fill the vacancy created by the foregoing action and resignation of the Incorporator:
  
  Donald Eugene Capps  
  Donovan H. Gravlee

On October 21, 2004 following the above actions of the Incorporator, the Board of Directors acted by Written Consent to approve the following actions:

- All acts taken on behalf of the Company by T. Stephen C. Taylor, as Sole Incorporator, are hereby ratified and affirmed.
- Election of officers as follows:
  
  Donald Eugene Capps  
  Donovan H. Gravlee
  President  
  Secretary
- The Company shall transact banking at such banks as the President and Secretary may from time to time determine. President, Secretary and other officers designated by the Board are also empowered to execute and deliver the customary form of corporate banking resolutions.
- The fiscal year of the Company shall end on the 31st day of December in each year.
- The Company is authorized to issue 500,000 shares of the Company's Common Stock, $1.00 par value to each of Donald E. Capps and Donovan H. Gravlee for valid consideration received.
• The annual meeting of the shareholders of the Company shall be held in accordance with the Bylaws.

• Proper Officers are authorized and empowered to pay all fees and expenses incident to or arising from the organization of the Company, and reimburse any person who has made reasonable disbursements therefore.

• Proper Officers are authorized to take all such further action, and to execute and deliver all such further instruments and documents in the name and on behalf of the Company and to pay all such fees and expenses, which shall in their judgment be necessary, proper or advisable.

• Consent may be executed in two or more counterparts, each of which shall be deemed an original and together constitute one and the same consent.

**CHARTER AND BYLAWS**

**Charter:**

The Charter of the Company was filed and recorded with the Tennessee Secretary of State on October 7, 2004 after having been approved by “The Department of Commerce and Insurance”, State of Tennessee on September 28, 2004. Said Charter establishes and sets forth the following:

1. The name of the corporation is Sheffield Insurance Company.

2. The corporation is for profit.

3. The purpose of the corporation is to engage in the business of insurance as a principal, including but not limited to property or casualty insurance, and to engage in any other lawful business under the laws of the State of Tennessee.

4. The street address of the corporation’s principal office is:

   214 Centerview Drive  
   Suite 259  
   Brentwood, TN  37027  
   County of Williamson

   (a) The name of the corporation's initial registered agent is  

   Robins H. Ledyard
(b) The street address of the corporations initial registered office in Tennessee is:

315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
County of Davidson

5. The name and address of the incorporator is:

T. Stephen Taylor
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001

6. The number of shares of stock the corporation is authorized to issue is five million (5,000,000) shares of common stock, $1.00 par value.

7. The shareholders of the corporation shall not have preemptive rights.

Bylaws:

The Bylaws of the Company in effect at March 14, 2005 were adopted by the written consent of the Board on October 21, 2004 at the meeting of the Incorporators and have not been amended or changed during the period covered by this examination. The bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

An annual meeting of the shareholders of the Company shall be held at such time and place, either within or without this State, as may be designated from time to time by the directors. Special meetings of the shareholders may be called by the Board of Directors or by the holders of at least ten percent (10%) of the stock of the Corporation entitled to vote at such meeting. The place of such annual and special meetings shall be designated by the directors. If no place is fixed by the Board, the meeting shall be held at the principal office of the Corporation. A majority of shares entitled to vote on a matter by a voting group constitutes a quorum of that voting group for action on that matter.

The business and affairs of the Corporation shall be managed under the direction of a board of directors. The number of directors shall be not less than two members. The board may hold regular or special meetings either within or without the State of Tennessee. A majority of the directors shall constitute a quorum.

The officers for the corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer and such other officers as the board of directors shall from time to time deem necessary. One person may simultaneously hold more than one office
except the President may not simultaneously hold the office of Secretary.

MANAGEMENT AND CONTROL

Management:
The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the Corporation managed under the direction of the Board of Directors consisting of no fewer than two (2) members. Board members are elected by the shareholders. As of March 14, 2005, the Board of Directors of the Company was composed of the following:

Donald Eugene Capps
Donovan H. Gravlee

As of March 14, 2005, the following persons held office in the Company:

Donald Eugene Capps President/CEO
Donovan H. Gravlee Secretary/Treasurer

Control:
The Company is 50% owned by Donald Eugene Capps and 50% owned by Donovan H. Gravlee.

A holding company organizational chart is included at the last page of this examination report.

PROPOSED PLAN OF OPERATION

The Company's plan of operation states that it intends to write Workers' Compensation Insurance. The target market is for the small account risks in the State of Tennessee.

The Company will contract its underwriting and administration functions to be performed by Sheffield Group, Inc. and its claims handling and loss control operations functions to be performed by Sheffield Risk Management Services L.L.C. Both of these contractors are Alabama corporations owned by the same principals which control the Company. The contractors have experience in administrating the type of business which the Company plans to target.

Sheffield Group, Inc. has been a General Agent/Program Administrator in Tennessee
since 1997. The Group has been marketing the same type of coverage referenced above through fronting arrangements with other companies since it began business in Tennessee.

Sheffield Risk Management Services L.L.C. is licensed in Tennessee as a Third Party Administrator.

Solicitation of business will be through independent agents. The Tennessee Association of Professional Insurance Agents (PIA) has supported Sheffield programs since 1997. Sheffield Group, Inc. has already appointed numerous agents in Tennessee.

The Company intends to retain the first $500,000 of ultimate net loss on all Workers Compensation policies. It additionally intends to retain the first $500,000 on all Employers' Liability policies. The Company will in effect purchase specific excess insurance for claims cost excess of $500,000 per claim retention. Arrangements for the reinsurance program have been discussed with the insurance company for which Sheffield Group, Inc. has fronted business in Tennessee and with the fronted company's reinsurer.

The Company estimates written premium of approximately $6,000,000 in year one.

**STATUTORY DEPOSIT**

In compliance with statutory requirements, the Company maintained the following deposits at March 14, 2005:

<table>
<thead>
<tr>
<th>Where Deposited and Description</th>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Treasury 3.375%, due 2/28/2007</td>
<td>$100,000</td>
<td>$99,547</td>
<td>$99,547</td>
</tr>
</tbody>
</table>

Total general deposits held for the benefit of all enrollees of the Company

<table>
<thead>
<tr>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>99,547</td>
<td>99,547</td>
</tr>
</tbody>
</table>

Total

<table>
<thead>
<tr>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$99,547</td>
<td>$99,547</td>
</tr>
</tbody>
</table>

The above deposit was delivered to the commissioner on March 14, 2005. The security is held pursuant to a Depository Agreement with AmSouth Bank (315 Deaderick Street,
Nashville, TN 37237) dated March 14, 2005 and signed by the Commissioner of Commerce and Insurance, State of Tennessee on March 17, 2005.

**SUBSEQUENT EVENTS**

The Depository Agreement dated March 14, 2005 with AmSouth Bank referenced under the previous caption “STATUTORY DEPOSITS” was amended on March 30, 2005 to include an additional US Treasury in the amount of $25,000 par value. The said amendment was approved by the Commissioner of Commerce and Insurance, State of Tennessee on April 5, 2005. As of the date of this Examination Report, the Company maintains the following statutory deposits with "The Department of Commerce and Insurance", State of Tennessee.

<table>
<thead>
<tr>
<th>Where Deposited and Description</th>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Treasury 3.375%, due 2/28/2007</td>
<td>$100,000</td>
<td>$99,547</td>
<td>$99,547</td>
</tr>
<tr>
<td>US Treasury 3.375%, due 2/28/2007</td>
<td>25,000</td>
<td>24,956</td>
<td>24,956</td>
</tr>
</tbody>
</table>

Total general deposits held for the benefit of all enrollees of the Company

<table>
<thead>
<tr>
<th>125,000</th>
<th>124,503</th>
<th>124,503</th>
</tr>
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</table>

Total

| $125,000 | $124,503 | $124,503 |
FINANCIAL STATEMENT

There follows a statement of assets and liabilities at March 14, 2005, together with a statement of assets and liabilities established by this examination which reflects the subsequent increase in Statutory Deposits held by "The Department of Commerce and Insurance", State of Tennessee.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$100,000</td>
<td>$124,503</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$4,100,000</strong></td>
<td><strong>$4,124,503</strong></td>
</tr>
</tbody>
</table>

LIABILITIES, SURPLUS, AND OTHER FUNDS

<table>
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<tr>
<th></th>
<th>3/14/2005</th>
<th>4/11/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Common capital stock</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>3,100,000</td>
<td>3,124,503</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$4,100,000</strong></td>
<td><strong>$4,124,503</strong></td>
</tr>
</tbody>
</table>
COMMENTS

- The Company is hereby notified that pursuant to Tenn. Code Ann. § 56-2-104(5), the Company’s principal place of business, primary, executive, administrative and home office along with all original book and records of the Company must be located in the state of Tennessee.

- The Company is a member of a Holding Company as defined by Tenn. Code Ann. § 56-56-11-201. The controlling persons have filed their required Form B filings along with biographical data and financial statements.

The Company is hereby notified that the controlling persons are required to file a Holding Company Registration within fifteen (15) days after the Company is licensed and every year thereafter by April 30 of each year for the previous calendar year. Tenn. Comp. R. & Regs. Tit. Dep’t of Commerce and Ins., ch. 0780-1-67 exhibits the reporting forms and instructions.

The Company is also aware that agreements within a holding company are required to be submitted to the Department at least 30 days prior to the effective date. It plans to submit its agency agreement and claims service agreement for review at the time of licensure. Draft copies were submitted at time of examination.

- The Company has submitted a draft copy of its proposed Workers’ Compensation Anti-Fraud Plan as required by Tenn. Code Ann. § 56-47-112.
CONCLUSION

I have verified the foregoing financial statement as included in this examination report. In conjunction, I have inspected the following documents and records of the Company: Charter of Incorporation, Bylaws, minutes of the Board of Directors meetings, the issued and outstanding certificates of Common Stock of the Company, biographical sketches of all directors and officers and the plan of operation.

It appears that the Company has fulfilled all necessary requirements to receive a Certificate of Authority to establish and operate a property and casualty company in the State of Tennessee. Therefore, I recommend that Sheffield Insurance Company be issued a Certificate of Authority pursuant to Tenn. Code Ann. § 56-2, to establish and operate such property and casualty company in Tennessee.

Respectfully submitted,

[Signature]

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.
AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached Organizational Examination Report of Sheffield Insurance Company dated April 11, 2005, and made as of March 14, 2005, on behalf of "The Department of Commerce and Insurance", State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me
this 13th day of
April, 2005

Notary Helen 3W. Jercey
County Davidson
State Tennessee
Commission Expires 03/25/2006
ORGANIZATIONAL CHART

Donald E. Capps
50% of Issued and Outstanding
Common Stock

Donovan H. Gravlee
50% of Issued and Outstanding
Common Stock

Sheffield Insurance Company