

REPORT ON EXAMINATION
OF
NORMANDY HARBOR INSURANCE
COMPANY, INC.
MIAMI BEACH, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
GENERAL	2
PRIOR EXAM FINDINGS	2
SUBSEQUENT EVENTS.....	2
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS DEBENTURES	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	5
MANAGEMENT.....	5
AFFILIATED COMPANIES	7
ORGANIZATION CHART.....	8
FIDELITY BOND AND OTHER INSURANCE.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS.....	9
TREATMENT OF POLICYHOLDERS.....	10
COMPANY GROWTH.....	10
PROFITABILITY OF COMPANY	11
LOSS EXPERIENCE	11
REINSURANCE	11
ASSUMED.....	11
CEDED	12
ACCOUNTS AND RECORDS.....	12
CUSTODIAL AGREEMENT	12
MANAGING GENERAL AGENT AGREEMENT	13
REGULATORY STATEMENT PREPARATION AND FILING AGREEMENT	13

CONSULTING AGREEMENTS	13
INDEPENDENT AUDITOR AGREEMENT	14
INFORMATION TECHNOLOGY REPORT	14
STATUTORY DEPOSITS.....	15
FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17
STATEMENT OF INCOME.....	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	19
COMMENTS ON FINANCIAL STATEMENTS.....	20
ASSETS	20
LIABILITIES	21
CAPITAL AND SURPLUS.....	21
SUMMARY OF RECOMMENDATIONS.....	22
CONCLUSION	23

TALLAHASSEE, FLORIDA

December 9, 2010

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009, of the financial condition and corporate affairs of:

**NORMANDY HARBOR INSURANCE COMPANY, INC.
400 ARTHUR GODFREY ROAD, SUITE 508
MIAMI BEACH, FLORIDA 33140**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on September 13, 2010. The fieldwork commenced on October 11, 2010, and concluded as of December 9, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

General

In violation of SSAP No. 10, at December 31, 2009, the Company inappropriately recorded an income tax benefit of \$242,528 in the Statement of Income.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

SUBSEQUENT EVENTS

Effective August 1, 2010, the Company entered into a Policy Administration and Regulatory Compliance Consulting Services Agreement with Midwest Insurance Services Inc. (MIS), an unaffiliated party. In accordance with the provisions of the agreement, the minimum term will be for

four and one half (4 ½) years with minimum annual service fees of \$125,000 for year 2011; \$135,000 for year 2012; \$145,000 for year 2013; and \$155,000 for year 2014.

On October 7, 2010, the Office approved a \$3.1 million Subordinated Debenture issued to the sole shareholder. The Company had also requested that the Office remove the \$1.5 million imposed writing restriction on amount of premium the Company could write outside its affiliated Professional Employer Organizations (PEO). After review the Office raised this restriction to \$2.2 million later in October.

HISTORY

General

The Company was incorporated in Florida on December 9, 2004, and commenced business on September 14, 2007, as Normandy Harbor Insurance Company, Inc.

The Company was party to Consent Order 91621-07-CO filed September 10, 2007, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the consent order.

At December 31, 2009, the Company was authorized to transact Workers' Compensation coverage only in the State of Florida.

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

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, no dividends were declared and/or paid to its sole shareholder during 2009.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was reported as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by Simon Ganz, an individual, who owned 100% of the issued and outstanding stock. The filed Annual Statement for 2009 disclosed the issuance of 1000 shares of common stock to Mr. Ganz. Based upon examination, it was noted that as of December 31, 2009, the Company had only issued 500 shares at \$1.00 par value per share.

Subsequent Event: The Company issued the additional 500 shares of common stock to Mr. Ganz on November 30, 2010.

Surplus Debentures

In August 2009, the Company issued a subordinated surplus debenture in the amount of \$1.7 million to the sole shareholder, in exchange for cash. The surplus note bears interest at 6% annually. All interest payments and repayment of principal require prior approval by the Office.

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

The Company was not involved in any mergers, disposals, dissolutions or purchase or sales through reinsurance for this period of operations.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, are:

Directors

Name and Location	Principal Occupation
Simon Ganz Brooklyn, New York	Principal Owner
Edward Mylod Brooklyn, New York	CFO, Platinum HR Management
Kathleen Atkins-Gunter Tallahassee, Florida	Insurance Management Consultant
Michelle Newell Lovern Tallahassee, Florida	President & CEO, Innovative Edge Consulting, Inc.
Carol Ostapchuk Tallahassee, Florida	President, Ostapchuk & Associates
Benjamin Klein Piscataway, New Jersey	Real Estate Executive

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

Senior Officers

Name	Title
Simon Ganz	Chairman of the Board
Michelle Newell-Lovern (a)	Interim President & CEO
Howard E. Cosner (b)	CFO

(a) Effective with the First Quarter 2010 report, Theresa A. Stevens replaced Ms. Newell-Lovern as President and CEO.

(b) Effective with the Second Quarter 2010 report, Edward Mylod replaced Mr. Cosner as CFO.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2009:

Compensation Committee	Audit Committee	Investment Committee
Simon Ganz ¹ Benjamin Klein Simcha Feuer ¹ Chairman	Simon Ganz ¹ Simcha Feuer Kathleen Atkins-Gunter	Simon Ganz ¹ Benjamin Klein Carol Ostapchuck

Section 624.424 (8) (c), Florida Statutes, requires that the Board establish an audit committee of three or more directors of the insurer or an affiliated company. During the period under examination the Company had an audit committee member who was not a board member. Therefore, the Company was not in compliance with the statute.

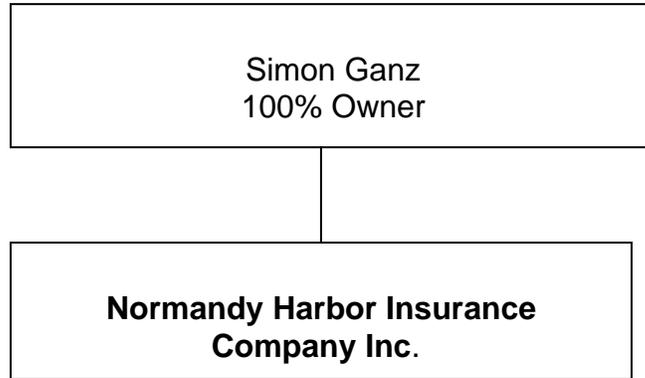
Affiliated Companies

At December 31, 2009, the Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting control of the Company, is reflected on the next page:

**NORMANDY HARBOR INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



The Company was not part of a holding company system as of December 31, 2009; therefore, no affiliated agreements were in effect for the period of operations covered by this examination. However, the Company's sole owner also owned three (3) companies who are policyholders. During 2009, the Company received premiums from Horizon Staffing, LLC in excess of \$1.5 million; from HGOP, LLC, doing business as Cambridge, of approximately \$800,000; and Contract Sewing Services, Inc. of approximately \$6,500.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

Subsequent Event: The Company obtained fidelity bond coverage, for the period May 1, 2010 to May 1, 2011, in the amount of \$200,000 with a deductible of \$10,000, which adequately reached the suggested minimum as recommended by the NAIC.

The Company maintained Directors and Officers (D&O) Liability insurance; Commercial Property and Business Owners Liability; Workers' Compensation and Wind Only Property insurance coverage as of December 31, 2009.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have pension, stock ownership or insurance plans in effect as of December 31, 2009.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida. For the period of operations, the Company provided workers' compensation insurance to the health care industry,

primarily through affiliated PEO. Written premiums were received in 2009 from the following companies owned or controlled by the Company's sole shareholder: Horizon Staffing, LLC, HGOP LLC, and Contract Sewing Services, Inc.

The Company obtained approval to write up to \$1.5M in business outside of the affiliated PEO during 2009. During 2010, the Company obtained approval to write up to \$2.2M in business outside of the affiliated PEO.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company's premiums have increased consistently from its inception. The Company incurred net losses in 2007, 2008 and 2009.

Profitability of Company

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

	2009	2008	2007
Premiums Earned	1,880,100	1,559,408	-
Net Underwriting Gain/(Loss)	(838,786)	(489,409)	(475,132)
Net Income	(436,998)	(298,322)	(203,712)
Total Assets	8,336,147	6,165,210	5,392,118
Total Liabilities	2,353,961	1,091,199	33,774
Surplus As Regards Policyholders	5,982,186	5,074,011	5,358,344

LOSS EXPERIENCE

The Company did not have significant changes in the loss experience as of December 31, 2009.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed no risk through reinsurance during the period of operations ending December 31, 2009.

Ceded

The Company ceded risk on an excess of loss basis to various Lloyd's Syndicates and to Aspen Insurance UK LTD, all authorized non-US insurers. Under terms of the agreements, the Company retained the first \$1 million of each loss occurrence and ceded up to \$4 million, per occurrence, with an \$8 million annual aggregate.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami Beach, Florida, where this examination was conducted.

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

The Company's accounting records were maintained on a computerized system.

The Company and non-affiliates had the following agreements:

Custodial Agreement

For the period ending December 31, 2009, the Company maintained cash and certificates of deposit, each specifically in the name of the Company, voiding the need for a custodial agreement.

Managing General Agent Agreement

Effective October 18, 2007 and remaining in effect for the year ended December 31, 2009, the Company entered into an agreement with USIS, Inc., Orlando, Florida, to provide risk management and claims handling services and to act as its sole managing general underwriter. The fees under this agreement were based on a percentage of direct, premium earned, and for certain services, based on the scope of work performed. Fees paid under the agreement during 2009 amounted to approximately \$178,600.

Regulatory Statement Preparation and Filing Agreement

Effective January 27, 2009, the Company entered into an agreement with Compass Solutions Group, LLC of Jacksonville, Florida to provide services regarding the preparation and filing of regulatory statements in accordance with the NAIC and the Office. The Company paid monthly fees in addition to actual travel expenses related to the services provided. During 2009, the Company paid approximately \$43,000 for the preparation of regulatory filings.

Consulting Agreements

Effective October 28, 2009, the Company entered into a financial and regulatory consulting service agreement with Innovative Edge Consulting, Inc. The Company paid for services provided plus reasonable and necessary expenses including but not limited to, travel and administrative expenses incurred.

Effective December 8, 2009, the Company entered into a financial and regulatory consulting service agreement with Innovative Edge Consulting, Inc., for the period of three (3) months, under which consulting services were provided relating to the duties and responsibilities of an interim

Company President and Chief Financial Officer. The President and CEO of Innovative Edge Consulting, Inc. was a member of the Company's Board of Directors as of December 31, 2009.

Effective August 1, 2009, the Company entered into a regulatory consulting service agreement with Carol A. Ostapchuk, a member of the Board, under which consulting services were provided in connection with various matters before the Office. Fees charged for the services provided were based on an hourly rate in addition to any reasonable and necessary expenses incurred on the Company's behalf.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Information Technology Report

Gary Farmer, CFE, AES performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Certificate of Deposit	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		\$ 250,000	\$ 250,000
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

NORMANDY HARBOR INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Cash	\$7,208,393	(\$1,700,000)	\$5,508,393
Investment income due and accrued	1,099		1,099
Premiums and considerations:			
Uncollected premiums	477,983		477,983
Deferred premiums	503,790		503,790
Receivables from parent, subsidiaries and affiliates	144,882		144,882
	<hr/>		
Totals	<u>\$8,336,147</u>	<u>(\$1,700,000)</u>	<u>\$6,636,147</u>

NORMANDY HARBOR INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,166,694		\$1,166,694
Loss adjustment expenses	227,510		227,510
Commissions payable	17,695		17,695
Other expenses	82,497		82,497
Taxes, licenses and fees	45,360		45,360
Unearned premium	754,887		754,887
Advance premiums	25,688		25,688
Ceded reinsurance premiums payable	33,630		33,630
Total Liabilities	\$2,353,961	\$0	\$2,353,961
Common capital stock	\$1,000		\$1,000
Surplus note	0	1,700,000	1,700,000
Gross paid in and contributed surplus	7,411,558	(1,700,000)	5,711,558
Unassigned funds (surplus)	(1,430,372)	(1,700,000)	(3,130,372)
Surplus as regards policyholders	\$5,982,186	(\$1,700,000)	\$4,282,186
Total liabilities, surplus and other funds	\$8,336,147	(\$1,700,000)	\$6,636,147

NORMANDY HARBOR INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$1,880,100
	Deductions:	
Losses incurred		\$1,029,322
Loss expenses incurred		310,396
Other underwriting expenses incurred		1,379,168
Total underwriting deductions		\$2,718,886
Net underwriting gain or (loss)		(\$838,786)

Investment Income

Net investment income earned		\$114,260
Net investment gain or (loss)		\$114,260

Other Income

Aggregate write-ins for miscellaneous income		45,000
Total other income		\$45,000
Net income before dividends to policyholders and before federal & foreign income taxes		(\$679,526)
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$679,526)
Federal & foreign income taxes		(242,528)
Net Income		(\$436,998)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$5,074,011
Net Income		(\$436,998)
Change in non-admitted assets		(268,657)
Contribution to surplus note		1,700,000
Aggregate write-ins for gains and losses in surplus		(86,170)
Examination Adjustment		(1,700,000)
Change in surplus as regards policyholders for the year		(\$791,825)
Surplus as regards policyholders, December 31 current year		\$4,282,186

A comparative analysis of changes in surplus is shown below.

**NORMANDY HARBOR INSURANCE COMPANY, INC.
Comparative Analysis of Changes In Surplus**

DECEMBER 31, 2009

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2009, per Annual Statement	\$5,982,186
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Cash	\$7,208,393	\$5,508,393	(\$1,700,000)
Receivables from Parent	\$144,882	\$144,882	\$0
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			(1,700,000)
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$4,282,186

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash and Cash Equivalents

\$5,508,393

In August 2009, the Company issued a surplus note in the amount of \$1.7 million to the sole shareholder in exchange for cash. At December 31, 2009, the Company reported the surplus note for \$1.7 million as cash and cash equivalents. Upon examination, it was noted that as of December 31, 2009, the \$1.7 million was not held in the Company's bank accounts and therefore, not available to the Company. The Company was found to be in violation of Section 625.012, Florida Statutes and SSAP No. 2. As of December 31, 2009, per examination, the \$1.7 million was reclassified from cash and cash equivalents and recorded as a receivable from the sole shareholder and then non-admitted. Subsequent event: In January 2010, the \$1.7 million was deposited into the Company's account and correctly reported on the First Quarter 2010 Financial Statement.

Receivables from Parent, Subsidiaries and Affiliates

\$ 144,882

Receivables from Parent, Subsidiaries and Affiliates reported as \$144,882 was increased by \$1,700,000 as a result of the reclassification noted above. The same \$1,700,000 was then non-admitted in accordance with Section 625.012, Florida Statutes and SSAP No. 2. Subsequent event: On the First Quarter 2010 Financial Statement, reflecting the deposit into the Company's account in January, the \$1.7 million was properly reported as a Subordinated Debenture.

Liabilities

Losses and Loss Adjustment Expenses

\$1,394,204

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, Alliance Actuarial Services Inc., to review the reserves carried in the Company's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

Federal and Foreign Income Taxes Incurred

\$242,528

The Company inappropriately recorded an income tax benefit of \$242,528 in the Statement of Income. Per SSAP No. 10 the amount should have been directly recorded to unassigned surplus balance.

Capital and Surplus

The amount adjusted by the examination of \$4,282,186, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Annual Statements Not Agreeing to the Audited Financial Statements

We recommend that the Company correctly report account balances on all future annual and quarterly statement filings as required in Section 625.012, Florida Statutes and SSAP No. 2.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Normandy Harbor Insurance Company, Inc.** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,282,186, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Roshanak Fekrat, CPA, CFE, CIA, Examiner-In-Charge, Cynthia Sikorski, CFE, and Aram Morvari, Participating Examiners, of Global Insurance Enterprises, Inc.; Richard Lo, FCAS MAAA, FCA, consulting actuary of Alliance Actuarial Services Inc.; and Gary Farmer, CPA, AES, CFE, IT Manager with Word Light LLC participated in the examination.

Respectfully submitted,

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