

REPORT ON EXAMINATION

OF THE

AGP SERVICES CORP.

AS OF

DECEMBER 31, 2010

DATE OF REPORT

MAY 7, 2012

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 7, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30841 dated April 13, 2012, attached hereto, I have made an examination into the condition and affairs of AGP Services Corp. as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate AGP Services Corp..

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The examination covers the period from the Company's licensing and commencement of business on July 1, 2006 through December 31, 2010, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York Insurance Department, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company, incorporated on November 16, 2005, is a wholly-owned subsidiary of P.C. Richard and Son, Inc. ("Parent"). The Company commenced operations as a pure captive insurance company under the laws of New York State. AGP Services Corp. provides an integrated insurance policy covering a multitude of risks to the Parent and its subsidiaries. Starting July 1, 2006, the Company has been participating in a quota share reinsurance treaty whereby the Company assumes a 70% share of the extended warranty agreement business sold by the Parent and its subsidiaries to their customers.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 7003 of the New York Insurance Law, subject at all times to the limitation on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-Laws

It appears that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

Pursuant to Section 7004(a)(1) of the New York Insurance Law, a pure captive insurance company incorporated as a stock insurer is required to possess, and thereafter maintain, unimpaired paid-in-capital and surplus of not less than \$250,000, in order to be issued a license to do captive insurance business in New York State. The Company's paid-in capital was \$100,000, consisting of 100,000 shares of \$1 par value per share common stock. The Company was initially capitalized at \$30,250,000, consisting of \$250,000 cash, plus a demand promissory note in the amount of \$30,000,000 issued to the Company's ultimate parent, P.C. Richard & Son, Inc.

D. Reinsurance

The Company entered into a 70% quota share reinsurance agreement with P.C. Richard Service Company, a related party through common ownership. This reinsurance agreement covers those extended warranty contracts sold by the P.C. Richard Service Company on or after July 1, 2006. The extended warranty coverage provides protection to the consumers after the manufacturer's warranty expires. The term of the extended warranties range from one year to ten years. The reinsurance agreement provides for a 15% commission to be paid to P.C. Richard Service Company. The total commissions on assumed reinsurance agreements entered into during 2010 were \$8,378,876. The Company incurred commission expenses of \$6,685,885, with deferred commissions of \$20,048,268 on the balance sheet as of December 31, 2010.

E. Corporate records

The corporate records reviewed appear to be substantially accurate and complete in all material respects.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law or any other person approved by the Superintendent.

The Company is managed by Aon Insurance Managers (USA) Inc., the captive management arm of Aon Risk Services Northeast, Inc., an insurance broker licensed by the Department. The Company entered into a management agreement with Aon Insurance Managers (USA) Inc. on January 1, 2006. The manager's duties, pursuant to the "management agreement," include monitoring the Company compliance with New York Insurance Law and filing requirements, acting as the Company's principal representative in communications with regulatory authorities, operating bank accounts in the name of the Company and maintaining the true and complete books of account and records of all business conducted under the agreement.

(ii) Board of Directors

The business of this corporation is managed under the direction of its board of directors. At December 31, 2010, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gregg H. Richard West Islip, NY	President, P.C. Richard & Son, Inc.
Gary Richard Bayshore, NY	Chief Executive Officer, P.C. Richard & Son, Inc.
Thomas P. Pohmer Garden City, NY	Vice President & Chief Financial Officer, P.C. Richard & Son, Inc.

The Company's by-laws state that the board of directors shall hold at least one meeting in the State of New York every calendar year. During the period covered by this examination, the board met five times. A review of the meeting minutes indicated that they were generally well attended. The only exception was Gary Richard, who did not attend any of the board meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is recommended that board members who are unable to or unwilling to attend board meetings should resign or be replaced.

(iii) Officers

The Company's by-laws state that the officers of the Company shall be the president, treasurer, secretary and such other officers as the board of directors may determine, including, but not limited to, a chairman of the board of directors, one or more vice-presidents, one or more assistant treasurers and one or more assistant secretaries.

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Gregg H. Richard	President
Gary Richard	Secretary
Kevin Hughey	Treasurer
Thomas P. Pohmer	Vice President

G. Certified Public Accountant ("CPA") and Actuarial Services

The Company was audited by the independent CPA firm Saslow Lufkin & Buggy, LLP, 101 Tower Lane, Avon, CT 06001, for the years covered by this examination. The Company's opening actuary as of December 31, 2010, was from Aon Risk Consultants, 55 East 52nd Street, NY, 10055.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

<u>Year</u>	<u>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2005	\$ 0	\$ 39,372	\$ 30,315,622	\$ 30,289,372
2006	\$ 6,602,199	\$ 4,477,823	\$ 79,131,646	\$ 34,767,195
2007	\$17,602,800	\$10,642,850	\$130,913,532	\$ 45,410,045
2008	\$35,066,765	\$18,440,562	\$183,456,561	\$ 63,850,607
2009	\$48,865,772	\$21,240,766	\$220,326,259	\$ 85,091,373
2010	\$54,711,839	\$23,664,658	\$256,176,060	\$108,756,031

The Company's shareholders equity as of the examination date included "Accumulated earnings" of \$78,506,031. Net income of \$39,372 for 2005, consisted only of interest income minus federal income tax expense.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements, present fairly, in all material respects, the financial position AGP Services Corp. as of December 31, 2010.

A Balance Sheet

BALANCE SHEET AS OF DECEMBER 31, 2010

Assets

Cash	\$ 41,190,366
Deferred policy acquisition costs	309,980
Investment income due and accrued	1,023
Note receivable for parent	184,656,602
Un-expensed ceding commissions	20,048,268
Deferred tax asset	<u>9,969,821</u>
Total assets	<u>\$256,176,060</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses	\$ 8,427,000
Unearned premium	138,402,170
Federal income tax payable to parent	493,419
Accrued expenses	<u>97,440</u>
Total liabilities	\$147,420,029

Surplus and Other Funds

Capital and surplus		
Paid in capital (par value)	\$ 100,000	
Contributed surplus	30,150,000	
Surplus (accumulated earnings)	<u>78,506,031</u>	
Total capital and surplus		<u>108,756,031</u>
Total liabilities, surplus and other funds		<u>\$256,176,060</u>

B. Statement of Income

Capital and surplus increased \$78,506,031 during the five-year and forty five day period subsequent to the Company's incorporated date of November 16, 2005 through December 31, 2010, detailed as follows:

STATEMENT OF INCOME

Underwriting Income

Net premiums earned		\$ 162,849,375
Deductions:		
Net losses and net loss adjustment expense incurred	\$ 35,850,880	
Premium tax expense	669,855	
General and administrative expenses	404,135	
Ceding commission	<u>16,757,966</u>	
Total underwriting deductions		<u>53,682,836</u>
Net underwriting gain		\$ 109,166,539

Investment Income

Interest income		<u>11,611,968</u>
Net income before taxes		\$120,778,507
Taxes		<u>42,272,476</u>
Net income		\$ <u>78,506,031</u>

C. Capital and Surplus Account

Capital and surplus as of November 16, 2005		\$ 30,250,000
	Gains in	
	<u>Surplus</u>	
Net income	\$ <u>78,506,031</u>	
Total gains and losses	\$ <u>78,506,031</u>	
Net increase in surplus		<u>78,506,031</u>
Capital and surplus per report on examination as of December 31, 2010		<u>\$108,756,031</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$8,427,000 is the same as reported by the Company as of December 31, 2010. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on the Company's actuarial information contained in the statement of actuarial opinion.

The Company's 2010 actuarial opinion states that the booked amount for loss and loss reserves of \$8,427,000 makes a reasonable provision in the aggregate for AGP's unpaid loss and allocated loss expense obligations of the Company as of December 31, 2010, under the terms of its insurance and warranty contracts and agreements. Further, the analysis was conducted in accordance with commonly accepted actuarial methods and principles and was based on actuarial assumptions that are relevant to policy provisions.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

P.C. Richard and Son, Inc. is a retailer of home appliances, televisions, consumer electronics and home office products principally in the New York, New Jersey, Connecticut and Philadelphia, Pennsylvania metropolitan areas.

7. INSURANCE PROGRAM

The Company provides an integrated risk policy to the Parent and its subsidiaries. Defense costs incurred are included within the limits of insurance. The following are the limits of insurance provided by the Company under the policy as of December 31, 2010:

<u>Coverage</u>	<u>Attachment Point</u>	<u>Aggregate Limits</u>
Excess liability coverage:		
Excess liability umbrella	\$ 25,000,000	\$100,000,000
Employment practices liability	\$ 5,000,000	\$ 95,000,000
Directors & officers liability	\$ 20,000,000	\$ 80,000,000
Excess fiduciary liability	\$ 10,000,000	\$ 75,000,000
Hacking, malicious mischief and virus (1st & 3rd party)	\$ 100,000	\$ 75,000,000
Property/Terrorism (Non- TRIA certified)	\$ 0	\$100,000,000
Intellectual Property/Advertising(1 st & 3 rd party)	\$ 100,000	\$100,000,000
Reputational Damage/Loss of Goodwill	\$ 100,000	\$100,000,000
Change in Technology/Inventory Loss	\$ 100,000	\$100,000,000
Credit Risk	\$ 100,000	\$ 50,000,000
Loss of Key Customers or Suppliers	\$ 100,000	\$ 50,000,000
Re-Construction of organizational records	\$ 100,000	\$ 50,000,000

All coverages are insured on a claims-made basis except for excess liability umbrella, employment practices liability, excess fiduciary liability and hacking, malicious mischief and virus liability, which are insured on an occurrence basis.

8. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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Management

It is recommended that board members who are unable to or unwilling to attend meetings should resign or be replaced.

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Respectfully submitted,

_____/s_____
Wei Cao
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/s_____
Wei Cao

Subscribed and sworn to before me
this _____ day of _____, 2012.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Wei Cao

as a proper person to examine the affairs of the

AGP NSERVICES CORP.

and to make a report to me in writing of the condition of said

CORPORATION

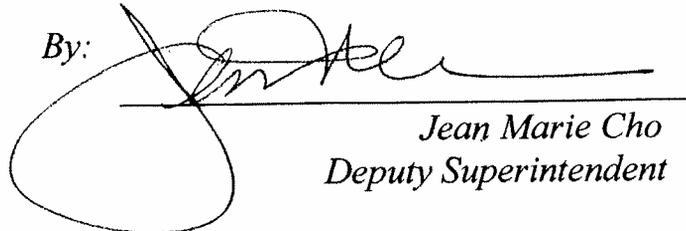
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 13th day of April, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Jean Marie Cho
Deputy Superintendent

