REPORT ON EXAMINATION

OF THE

ORISKA INSURANCE COMPANY

AS OF

SEPTEMBER 30, 2005

DATE OF REPORT	JUNE 6, 2007
EXAMINER	SHEIK MOHAMED

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

June 6, 2007

Honorable Eric R. Dinallo
Superintendent of Insurance
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 22426 dated October 13, 2005 attached hereto, I have made an examination into the condition and affairs of Oriska Insurance Company as of September 30, 2005, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 1310 Utica Street, Oriskany, NY 13424.

Wherever the designations "the Company" or "OIC" appear herein without qualification, they should be understood to indicate Oriska Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

As a result of this examination, the Company was insolvent at September 30, 2005 in the amount of $2,049,849 and its capital was impaired by $3,549,849. Additionally, the minimum surplus to be maintained of $2,200,000 was impaired in the amount of $4,249,849.

Subsequent to the examination date, in 2007, the Company received a surplus contribution of $700,000 from Oriska Corporation, $660,000 through the satisfaction of mortgage obligations encumbering the asset 'Properties held for sale' (March 5, 2007) and a $40,000 cash contribution (April 12, 2007).

Subsequent to the examination date, on November 28, 2006, the Company, as Carrier and/or Beneficiary, entered into the Rashbi and Oriska Insurance Company Irrevocable Trust Agreement ("Rashbi Trust") to further collateralize the US Management / Brand Group of policies (including Power PEO). As of April 30, 2007 the Department has confirmed directly with the Trustee, HSBC Bank USA, a balance of $6,000,000 in the Rashbi Trust. On June 14, 2007, the Rashbi Trust was amended to secure the promises in the deductible endorsement of the policy of any insured/policyholder whether or not listed on the original agreement under circumstances where no collateral or other security has been provided or for which collateral or other security has been provided in kind or quantum unacceptable to Oriska Insurance Company and which would otherwise prevent Oriska Insurance Company from reserving claims net of the deductible amount; and it was further amended to provide collateral security for workers' compensation insurance of any insured/policyholder of Oriska Insurance Company whether or not listed in the agreement, both current (in force) and expired, which are wholly or partly unsecured.

Lastly, subsequent to the examination date, on June 5, 2007, the Lijo Weber Irrevocable Trust was created by and among Lijo Weber Revocable Trust and its Trust Beneficiaries as "Grantor", and Hershel Weber and Oriska Insurance Company as Trustees, and Oriska Insurance Company as the Beneficiary, to be effective as of September 30, 2005. Pursuant to this Trust the Grantor agrees to provide collateral security for, and guarantee payment of a deductible retention for certain named insureds as well as for insureds/policyholders of Oriska Insurance Company whether or not listed under circumstances where no collateral or other security has been otherwise provided. On June 5, 2007, the two accounts to which

Oriska Insurance Company was granted a security interest in conjunction with this trust had a combined market value of $1,931,856. The balances in these two accounts were not confirmed by the examiners.

The subsequent event activity noted above eliminates the aforementioned insolvency subsequent to the examination date.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination originally commenced as an examination as of December 31, 2002 and was updated to December 31, 2003 and again updated to September 30, 2005. The examination covered the six and three quarter-year period from January 1, 1999 through September 30, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of September 30, 2005. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements
Market conduct activities

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

A. History

Oriska Insurance Company was formed by the employer members of the Open Shop Association, Inc., a not-for-profit corporation consisting of heavy/highway construction contractors to provide supplemental benefits to their employees. Under the provisions of Section 220 of the New York State Labor Law and the Federal Davis-Bacon Act, the monies required to be paid by an employer to provide supplemental benefits must be reconciled and expended on a quarterly basis. This does not permit the accumulation of reserves to pay claims under a program of self-insurance. The employer members determined that a domestic stock insurance company was the most appropriate vehicle for providing such supplemental benefits to its employees.

The Company was incorporated under the laws of the State of New York on April 27, 1990. The Company issued 100 shares of $10,000 par value per share common stock on June 19, 1992, and was licensed by this Department on January 14, 1993. On August 20, 1998, the Company amended its charter to increase the par value of its common shares from $10,000 per share to $15,000 per share. This increase was funded by a transfer from gross paid in and contributed surplus.

On December 30, 2002, an application for approval to acquire control of Oriska Insurance Company by IPA Acquisitions, Inc., a California corporation, was filed with this Department and approval was granted December 31, 2002.

Oriska Insurance Company is a wholly-owned subsidiary of Oriska Corporation, a New York corporation. Oriska Corporation is an 82.12% owned subsidiary of IPA Acquisitions, Inc., a California

Corporation. The Kernan Trusts own the remaining 17.88% of Oriska Corporation. Mr. James Kernan, President of the Company, owns 100% of IPA Acquisitions, Inc. IPA Acquisitions Inc. also owns 100% of a Florida domiciled insurer, Insurance Company of the Americas. Mr. James Kernan also owns 100% of Nor-Eastern Holding Inc., a Delaware Corporation. Nor-Eastern Holding Inc. owns 100% of two Illinois domiciled insurers, Reinsurance Company of America, Inc. and Financial Benefits Insurance Company.

Capital paid in is $1,500,000 consisting of 100 shares of $15,000 par value per share common stock. Gross paid in and contributed surplus is $7,859,068. Gross paid in and contributed surplus increased by $5,553,000 during the examination period, as follows:

Year	Description		Amount
1999	Beginning gross paid in and contributed surplus		$2,306,068
2000	Surplus contribution	$ 553,000	
2002	Surplus contribution	5,000,000	
	Total Surplus Contributions		$5,553,000
2005	Ending gross paid in and contributed surplus		$7,859,068

B. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The charter and by-laws require the board meet four times during each calendar year. At September 30, 2005, the board of directors was comprised of the following seventeen members:

Name and Residence	Principal Business Affiliation
Gary R. Buhl Richmondville, NY	Vice President Gardner & Buhl, CPAs
Ernest R. Caruso New Hartford, NY	Vice President, Caruso-McLean Investment Advisors
John T. Dillon Herkimer, NY	President, Tioga Construction Company, Inc.
Richard G. Dobell Endwell, NY	President, Sieba, Ltd.

Name and Residence	Principal Business Affiliation
Christopher D. Galasso East Amherst, NY	Broker/Counsel/Vice President, Briceland Agency, Inc.
Keith T. Hamlin Liberty, NY	President, Hamlin Construction Company, Inc.
William W. Houser Rome, NY	Dentist (retired)
Lisa E. Husted Whitesboro, NY	Assistant Producer, TMD, Inc.
James M. Kernan Oriskany, NY	President, CEO and Chairman of the Board, Oriska Insurance Company Sole Proprietor, Kernan Professional Group, LLP
Mary A. Kernan Ilion, NY	Agent, Allstate Insurance Company
Michael T. Kernan Manlius, NY	Physician, Research Foundation NYS Upstate Medical University
Robert J. Kernan Oriskany, NY	Partner, Kernan Engineering
Patrick J. Lynch Jr. Florham Park, NJ	Underwriter, ABSCO Ltd. Corp.
Patrick J. Lynch Sr. Denville, NJ	President, ABSCO Ltd. Corp.
Sharon Z. Martin Oriskany, NY	President, United Systems Administration, Inc.
Edward R. Penczek Boonville, NY	President, Penczek & Son Construction Company
Frank R. Talarico Herkimer, NY	President, (retired) Talsons Construction Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that two directors failed to attend at least 50% of the meetings they were eligible to attend.

Keith Hamlin and Christopher Galasso were absent for eighteen of thirty-three board meetings held between January 1, 1999 and September 30, 2005 and therefore did not satisfy the 50% requirement as of examination date.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It is noted that the prior report on examination included a similar comment concerning the attendance at board meetings. Subsequent to the examination date Christopher Galasso did not stand for re-election to the Board at the Annual Shareholders Meeting in April 2006. Also, Keith Hamlin died in January 2006.

At the meeting of the board of directors of Oriska Insurance Company held January 13, 2005 the following resolutions were unanimously passed:

- The investment committee shall be comprised of Ernest R. Caruso, Chairman; James M. Kernan, and Bipin B. Desai; and
- The audit committee shall be comprised of Patrick J. Hart, Ernest R. Caruso, and Anthony Martin.

Bipin B. Desai is not a member of the Oriska Insurance Company Board of Directors. Further based on the review of the board of directors / annual stockholders meeting minutes, Anthony Martin is not a member of the Oriska Insurance Company board of directors. Effective July 1, 2005 Patrick Hart resigned as treasurer and director for Oriska Insurance Company.

Section 712(a) of the Business Corporation Law states, in part:

> "if the certificate of incorporation or the by-laws so provide, the board, by resolution adopted by a majority of the entire board, may designate from among its members an executive committee and other committees, **each consisting of one or more directors (emphasis added),** and each of which, to the extent provided in the resolution or in the certificate of incorporation or by-laws, shall have the authority of the board…"

Article IV of the Oriska Insurance Company by-laws states that the finance committee shall be comprised of three or more members of the board of directors. Article V- Committees – General, Section 1 requires that each committee consist of three or more directors of the Company.

Hence, the composition of the Oriska Insurance Company investment committee and audit committee (passed January 13, 2005) is not in compliance with either the Oriska Insurance Company filed by-laws or Section 712 of the Business Corporation Law.

It is recommended that the Company comply with Section 712(a) of the Business Corporation Law and its filed charter and by-laws and appoint committees consisting of members of its board of directors.

In response to General Interrogatory #15 in its filed 2005 annual statement, the Company stated that it did establish a 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 which is in or is likely to conflict with the official duties of such person. Disclosure of potential conflicts of interest on the part of officers, directors and key personnel to the board of directors is generally considered a good business practice.

The Company provided completed conflict of interest questionnaires dated December 1999, December 2003, November 2004, and November 2005; however, none were completed for 2000, 2001, and 2002. It is noted that the prior report on examination included a comment concerning the completion of conflict of interest questionnaires on an annual basis. It is recommended that the Company have its officers, board members, and key personnel complete conflict of interest questionnaires on an annual basis and submit the completed questionnaires to the board of directors for their review.

Section 1411(a) of the New York Insurance Law states:

> "No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof

> responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

A review of the board of directors' minutes revealed that the board approved the investment transactions made since the prior meeting; however, in several instances there were no attachments showing the transactions that were approved. The Company was noted to be attaching copies of Schedule D Parts 3 and 4 of the various quarterlies to the minutes reviewed for the period under examination. The minutes of the March 18, 2003 meeting of the board of directors included as an attachment Schedule D Part 4 of the 2002 filed annual statement. Schedule D Parts 3 and 5 of the 2002 annual statement were not attached. Review of the minutes for 2003 indicated that the Company did not appear to be approving its short-term investments listed per Schedule D Part 5 of the annual statement. This matter was brought to the attention of management during the 2003 examination. It is noted that during 2004 and 2005 the board did approve the investment transactions as required by Section 1411(a) of the New York Insurance Law. It is nevertheless recommended that the Company continue to comply with Section 1411(a) of the New York Insurance Law and have all investments approved by its board of directors. It is also recommended that a detailed list of purchases and sales of investments be attached to the minutes.

As of September 30, 2005, the principal officers of the Company were as follows:

Name	Title
James M. Kernan	President
Frank R. Talarico	Secretary
Gary R. Buhl	Treasurer
Sharon Z. Martin	Assistant Secretary

C. Territory and Plan of Operation

As of September 30, 2005, the Company was licensed to write business in New York, Georgia, North Carolina, Pennsylvania, Tennessee, West Virginia, and the District of Columbia. However, as shown by the schedule below, the Company wrote the majority of its business in New York State.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total United States	Premiums Written in New York State as % of United States Premium
1999	$15,004,984	$15,021,028	99.89%
2000	$15,895,144	$16,057,386	98.99%
2001	$16,726,975	$17,076,496	97.95%
2002	$23,246,100	$23,396,085	99.36%
2003	$5,459,889	$5,490,020	99.45%
2004	$2,567,215	$2,560,646	100.26%
2005 (thru 9/30/2005)	$9,512,715	$9,511,864	100.00%

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
8	Glass
15	Worker's compensation and employer's liability
16	Fidelity and surety
24	Credit unemployment

During the examination period, the Company became aware that certain parties had caused workers' compensation coverage exposure to it in states where the Company did not possess a certificate of authority for the issuance of workers' compensation coverage. Those states include but are not necessarily limited to California, Texas, New Jersey, Pennsylvania, Montana, and Connecticut.

The Company issued policies in New York and exposures were extended to other states. The Company has stated that once the Company became aware of these unauthorized extensions of coverage, they took steps to assure that all people relying on coverage were taken care of to the extent that their claims and coverage could be proven.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $2,200,000.

The Company's largest line of business is workers' compensation, which accounted for 91.9% of the Company's direct premiums written as of September 30, 2005. In 2002, the Company shifted its focus away from group accident and health to the workers' compensation line of business. The Company placed most of its emphasis to writing workers' compensation coverage for the Professional Employer Organization ("PEO") market.

In addition to workers' compensation and employers' liability the Company writes a minimal amount of accident and health, fidelity and surety business.

D. Reinsurance

During the examination period the Company's assumed reinsurance business consists entirely of business assumed from the Company's affiliate, Insurance Company of the Americas, a Florida domiciled insurer, pursuant to a novation agreement between and among, Insurance Company of the Americas, Dallas Fire Insurance Company ("Dallas Fire"), a Texas domiciled insurer, and the Company. Pursuant to the agreement, the Company was substituted for Dallas Fire under certain reinsurance contracts. This agreement was submitted to the Department pursuant to Section 1505(d) of the New York Insurance Law and not objected to pursuant to a letter dated December 18, 2003. The Company reported in its 2003 annual statement Schedule F, Part 1 that $2,061,000 of its assets were pledged to secure letters of credit for this transaction. It was observed on examination that the Company had not established a letter of credit as of December 31, 2003. During September 2004, the Company established a Regulation 114 Trust Account for the benefit of Insurance Company of the Americas to secure its obligations pursuant to the novation agreement.

As of September 30, 2005 the Company has the following ceded reinsurance in effect:

Workers Compensation Per Occurrence Clash Catastrophe Excess of Loss (3 Layers)	$9 million excess of $1 million ultimate net loss on each loss occurrence.
100% Authorized / Accredited	

Prior to September 1, 2002, the reinsurance coverage for workers' compensation business was $4,750,000 excess of $250,000 per occurrence.

Effective September 1, 2002, the Company entered into excess of loss reinsurance to increase its workers' compensation coverage to $39 million excess $1 million. In 2004, the Company commuted its reinsurance with one of the reinsurers on this treaty, Max Re Limited, for the period September 30, 2002 to September 30, 2003. Prior to the commutation there were no ceded losses reported. As per the Company, the reinsurance with the second reinsurer on this treaty, Renaissance Reinsurance Limited, was constructively commuted at the end of 2004 and the accounting transactions were recorded in the 2004 annual statements. The Company states that it has reached an agreement but the commutation treaty has not yet been set in writing.

It is recommended that the Company only report commutations that can be supported by fully executed commutation agreements.

For the period September 1, 2003 through December 31, 2004, the Company entered into per occurrence clash catastrophe excess of loss reinsurance for workers' compensation business in the amount of $39 million excess $1 million.

The following risk transfer analysis information was provided by the Company for the per occurrence clash catastrophe excess of loss treaties covering the Group.

09-01-2003 to 12-31-2004 Treaty	
Total projected* excess losses	$9,723,704

Premium paid to Reinsurers	8,771,441
Transfer of Risk Potential	$ 952,263

12-31-2004 to 12-31-2005 Treaty

Total projected* excess losses	$3,915,039
Premium paid to Reinsurers	1,680,882
Transfer of Risk Potential	$2,234,157

* Calculated by the Company based on excess loss tables and profiles (Excess loss factors for hazard groups and per accident limitation of $1million multiplied by the booked 1st dollar premium.)

As noted, the transfer of risk potential on the 09-01-2003 to 12-31-2004 per occurrence clash catastrophe excess of loss treaty is minimal compared to the premium paid for this coverage.

No independent risk transfer analysis was performed by the examiners.

The Company also has reinsurance for fidelity and surety business for the period April 1, 2002 and prior on a quota share basis based on the value of the claim as well as excess of loss reinsurance for group accident and health up until 2004.

All ceded reinsurance agreements entered into during the examination period were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law, except as noted below:

- The Per Occurrence Clash Catastrophe Excess of Loss treaties entered into effective September 1, 2003 and effective December 31, 2004 provide reinsurance to multiple cedants that are not parties to an inter-company pooling agreement but are affiliates. In such situations the Department recommends that the following wording be contained in the reinsurance agreement, usually as a mutual offset clause:

  "Each party to this contract agrees to honor the terms set forth herein as if the contract were a separate agreement between the reinsurer and each individual named reinsured. Balances payable or recoverable by any reinsurer or each individual named reinsurer or individual named reinsured shall not serve to offset any balances payable or recoverable to or from any other reinsured party to the contract. Reports and remittances made to the reinsurer are to be in sufficient detail to identify both the reinsurer's loss obligations due each reinsured and each reinsured's premium remittance under the report."

It is recommended that the Company include the appropriate mutual offset clause in all ceded reinsurance agreements to which it is a cedant and there are multiple cedants on the treaty.

- Except for the April 1, 2002, First Workers Compensation and Employers' Liability excess of loss contract, the Company's 1999 to 2002 reinsurance contracts did not include an entire contract clause as is required by SSAP 62, Paragraph 8(c) which states that "the agreement must constitute the entire contract between the parties…"

It is recommended that the Company ensure that an entire contract clause be included in all ceded reinsurance treaties to which it is a party.

- In certain instances it was noted that the reinsurers' interest and liabilities were never executed (i.e. treaty numbers JPW No. 2409-99, JPW No. 2131-99, and JPW No. 2350-98) yet the Company reported reinsurance recoverable balances. In one instance the 2003 Schedule F, Part 3 reflected reinsurance with a reinsurer for which the Company was only able to produce a non-executed cover note. The Company advised the examiners that the reinsurance agreement was never effected.

It is recommended that the Company only report reinsurance recoverable balances for ceded reinsurance supported by valid reinsurance treaties.

- In accordance with NAIC Statements of Statutory Accounting Principles ("SSAP") 62, Paragraph 23, "…if an agreement entered into, renewed or amended on or after January 1, 1994 has not been finalized, reduced to a written form and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance arrangement, then the arrangement is presumed to be retroactive and shall be accounted for as a retroactive reinsurance agreement…"

On examination it was noted that the 2002 group accident and health reinsurance treaties were not signed within the nine-month time frame. It is recommended that the Company comply with SSAP 62, Paragraph 23 and ensure that its reinsurance arrangements are finalized, reduced to a written form and signed by the parties within nine months after commencement of the policy period covered or else account for the arrangement as retroactive reinsurance.

The Schedule F data reported by the Company in its filed 2003 annual statement did not accurately reflect its reinsurance transactions. As noted above, the Company reported that a letter of credit securing the obligations assumed from Insurance Company of the Americas was in place at December 31, 2003, when in fact said letter of credit was not in place. In addition, the Company reported reinsurance recoverable from one reinsurer for which the reinsurance agreement was never effected. Further, upon examination it was determined that amounts recoverable per the detail aging of reinsurance recoverable on paid loss and loss adjustment expenses as of December 31, 2003 did not agree with the individual reinsurers' amounts recoverable as shown on Schedule F, Parts 3 and 4. In total the amounts shown for reinsurance recoverable on paid losses and loss adjustment expenses agreed to the total per the detail; however, differences were noted by reinsurer.

In addition, the review of the Company's letter of credit related to its reinsurance with Renaissance Reinsurance Ltd. found the effective date to be May 30, 2003. The Company reported said letter of credit on its 2002 Schedule F, Part 5. Department Regulation 133, Part 79.6 states that a letter of credit may not be used to reduce any liability for reinsurance ceded to an unauthorized reinsurer in financial statements required to be filed with this Department unless:

> "a letter of credit, in compliance with the provisions of this Part with the filing ceding insurer as beneficiary, has been issued on or before the "as of" date of the financial statement of the ceding insurer."

Although the noted letter of credit was not needed as an offset at December 31, 2002, it was nevertheless reported on Schedule F, Part 5.

It is recommended that the Company accurately report its reinsurance transactions in Schedule F in all future statements filed with this Department. It is recommended that the Company only report letters of credit that are effective on or before the "as of" date on Schedule F, Part 5.

<u>Reinsurance Intermediary</u>

By a letter dated December 13, 2004, Gresham Insurance Brokers Ltd. ("Gresham Ltd.") was appointed as broker of record for both new and renewal business with immediate effect. Effective March 11, 2005, the Company and its affiliates, Insurance Company of the Americas, Reinsurance Company of America, and Financial Benefits Insurance Company entered into a reinsurance intermediary authorization agreement with Gresham Ltd. It is noted that Gresham Ltd. was not licensed by this Department as a reinsurance intermediary until January 19, 2006. Gresham Ltd. is identified as the reinsurance intermediary in the workers' compensation per occurrence clash catastrophe excess of loss reinsurance treaties in effect as of the examination date and replaced the intermediary on the workers' compensation per occurrence clash catastrophe excess of loss treaties that were effective September 1, 2003. It is further noted that the reinsurance intermediary authorization agreement includes the following:

> Gresham Insurance Brokers Ltd.
> New York State Department of Insurance License Number RI – 505850

The above noted license number RI – 505850 is the license number for Gresham North American Corporation. The sub-licensees for Gresham Ltd. are Robert J. Anderson, Jr., Richard J. Wells, Kevin P. Flynn, and Grahame G. Burnham.

The only sub-licensee for Gresham North American Corporation is Robert J. Anderson, Jr.

In accordance with Section 2102(a)(1) of the New York Insurance Law,

> "No person, firm, association or corporation shall act as … a reinsurance intermediary … in this state without having authority to do so by virtue of a license issued and in force pursuant to the provisions of this chapter."

In response to examination inquires regarding Gresham Ltd.'s lack of a license and the reference noted on the reinsurance intermediary authorization agreement to the license number for a separate legal entity, Gresham North American Corporation, the Company stated "Gresham Insurance Brokers, Ltd. represented to the Company prior to its appointment that it was operating in New York through an arrangement with Gresham North American Corporation. The Company was not furnished the details of that arrangement and instead pushed for effective licensing of Gresham Insurance Brokers, Ltd. as a reinsurance intermediary in the U.S…"

In light of the above, it is recommended that the Company verify the appropriate licensure by this Department, prior to appointment, all reinsurance intermediaries with whom it does business.

Lloyds Treaties / Advance Payment ($1 million)

As noted above, the Company's workers' compensation per occurrence catastrophe reinsurance provides coverage for multiple parties that are not subject to an intercompany pooling agreement but are affiliates. The treaty, effective September 1, 2003 to September 1, 2004, covered Oriska Insurance Company, Insurance Company of the Americas ("ICA"), and Reinsurance Company of America, Inc. ("RCA"). This treaty was extended through December 31, 2004. The estimated premium income written by the combined companies on the September 1, 2003 to September 1, 2004 treaty was $70 million. Since the contracts were extended for an additional four months to expire December 31, 2004, the estimated premium income written by the companies increased over this period so that the minimum and deposit premium based upon $70 million, was less than that which were actually earned when including the extended period. As a result, the companies deposited $1 million with Gresham Insurance Brokers, Ltd. on January 7, 2005. The money was wired from ICA's account. In June 2005, an allocation was made among the insurance companies based on the December 31, 2004 written premium resulting in the following distribution and creating intercompany payables/receivables to/from the companies:

ICA	77%
OIC	8%
RCA	15%

A second allocation was made during August 2005, based on updated premium information creating additional entries to the intercompany payable / receivable accounts. The revised allocation was as follows:

ICA	91%
OIC	5%
RCA	4%

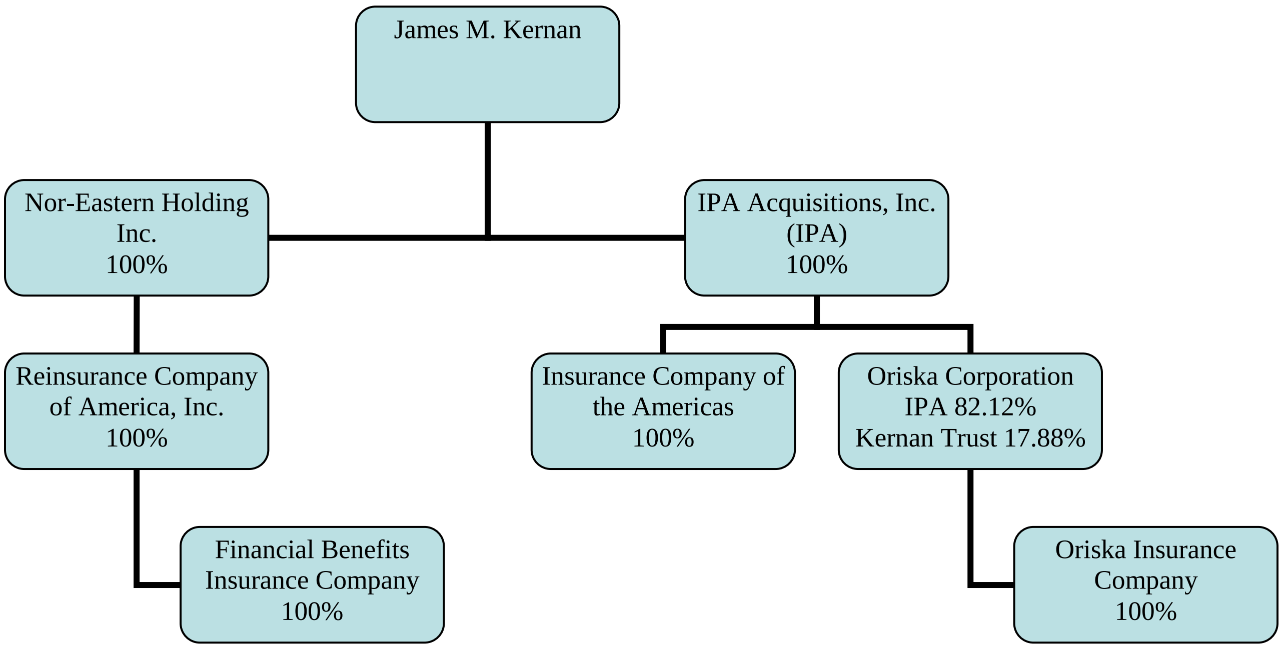
In September 2005, Oriska Insurance Company purchased ICA and RCA's share of the $1million advance resulting in payments of $39,609.54 and $909,673.37 from Oriska Insurance Company to RCA and ICA, respectively. The Company advised that the reason for OIC purchasing ICA and RCA's share was that during the second and third quarters of 2005 the companies had requested that Gresham Insurance Brokers, Ltd. place reinsurance for health insurance exposure of Oriska Insurance Company to support the expansion of its 24 hours health / workers' compensation portfolio. However, reinsurance to address the health / workers' compensation portfolio was not placed; therefore, during the third quarter of 2005, the premium due under the September 1, 2003 to December 31, 2004 treaty was trued-up and the $1 million was applied against the balance due the reinsurers. The true-up resulted in additional premium due the reinsurers of $1,471,440.75 and created an intercompany receivable back to Oriska Insurance Company from ICA of $499,951.76. The balance due from ICA was subsequently settled in November 2005.

E. Holding Company System

The Company is 100% owned by Oriska Corporation, a New York corporation, which is ultimately controlled by IPA Acquisitions, Inc. IPA Acquisitions, Inc. is 100% owned by James M. Kernan, President of Oriska Insurance Company.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete; however, the filings for the 1999, 2001, 2003, and 2004 statements were not filed timely. Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is a chart of the holding company system at September 30, 2005:



At September 30, 2005, the Company was party to the following agreements with other members of its holding company system:

Expense Sharing Agreement

Effective January 1, 2005, the Company entered into an expense sharing agreement with its affiliate Oriska Corporation, a New York business corporation; IPA Acquisitions Inc., a California corporation; Insurance Company of the Americas (ICA), a Florida insurance company; Reinsurance Company of America, Inc (RCA), an Illinois insurance company; Financial Benefits Insurance Company (FBI), an Illinois insurance company; and Nor-Eastern Holdings Inc., a Delaware business corporation. Oriska Corporation agreed to provide all services necessary for the day-to-day operation of the companies. This agreement was non-disapproved by the Department on February 18, 2005.

Prior Expense Sharing Arrangements

By agreement dated May 31, 2002, by and among Oriska Corporation, IPA Acquisitions, Inc., Insurance Company of the Americas, and Oriska Insurance Company, Oriska Corporation agreed to provide and make available to the companies the services of its personnel, office space and equipment. The Company contends that the agreement was submitted to this Department. However, on examination they were unable to provide proof of the submission. Further, it is noted that IPA Acquisitions, Inc. acquired 82.12 percent of Oriska Corporation and its wholly-owned subsidiary, Oriska Insurance Company, effective December 31, 2002; as such it is unclear how or why IPA Acquisitions, Inc. and its wholly-owned subsidiary Insurance Company of the Americas, acquired by IPA Acquisitions, Inc. on August 12, 2002, could be parties to an expense sharing agreement dated May 31, 2002.

Pursuant to this agreement, shared expenses i.e. office space, equipment and personnel were to be provided by Oriska Corporation, and allocated to each entity based upon the allocation of the costs of personnel. Personnel services made available by Oriska Corporation to the respective companies were to be provided on a cost reimbursement basis in accordance with actual time spent by each individual on the business of such company. Time sheets were to be maintained for this purpose. Time sheets supporting the 2003 allocation were requested during the examination as of December 31, 2003; however, none were provided for review. In lieu of utilizing time sheets, the allocation of expenses under the expense sharing agreement was made on a basis of gross written premiums. This is an alternative allocation method provided for in Department Regulation 30. However, pursuant to the expense sharing agreement dated March 31, 2002 the allocation basis should have been actual time spent.

The agreement also stated that Oriska Corporation would determine allocated costs and expenses on a monthly basis and present a bill within 30 days after the last day of each month. Settlements were to be made within 15 days of the presentation of the billing for the last month of the quarter. In 2003 there were no intercompany bills generated by the entities. Instead, Monument Agency, Inc. a related agency, was collecting written premiums for both “OIC” and “ICA” and allocating operating expenses to the insurers without any expense sharing agreement in place. Subsequent to the period under examination the Company began allocating expenses pursuant to an agreement that has been reviewed and non-objected to by the Department.

Starting January 1, 2004, the employees were transferred to a company named United Systems Administration, Inc. (“USA”) and USA began allocating expenses for the insurers and their holding companies effective January 1, 2004. Per a letter dated June 1, 2004, a submission was made to this Department, which included an expense sharing agreement with USA as provider to Oriska Corporation, IPA Acquisitions, Inc., Insurance Company of the Americas, RCA Acquisitions, Inc., Nor-Eastern Holdings, Inc., Reinsurance Company of America, Inc., and Financial Benefits Insurance Company.

This agreement was not approved by the Department. In a letter dated September 3, 2004 to this Department, the Company withdrew this agreement. However, USA was the provider of personnel and did handle the payment and allocation of expenses for the insurers throughout 2004. It is noted that Sharon Z. Martin is president of USA and also serves as a director and officer of OIC.

It is recommended that the Company ensure that all future expense sharing arrangements are reduced to writing prior to entering into such agreements.

<u>2003 Examination Findings</u>

Based upon a review of the 2003 general ledger detail and a sample of invoices selected from that detail the Company was noted to have incorrectly classified various expenses. Misclassifications were noted in the following expense categories:

Advertising
Travel and travel items
Rent and rent items
Miscellaneous expenses

It was also noted that the Company paid a number of expenses to consultants without corresponding invoices or agreements in place with the payees. It was also observed that checks were being cut to Mr. Kernan, President of Oriska Insurance Company, without supporting invoices. The Company advised the examiners that such payments were classified as “draws” which are paid to Mr. Kernan in lieu of a regular salary. The payments to Mr. Kernan were made during the transition of ownership and control of the Company which occurred in 2003, and ceased at that time.

During 2003, Monument Agency, Inc. was noted to have paid several expenses on behalf of Robert J. Anderson, also known as “Skip Anderson”, which were allocated to both Oriska Insurance Company and its affiliate Insurance Company of the Americas.

In response to an examination request to review 2003 expenses paid by Monument Agency, Inc. and allocated to Oriska Insurance Company, the Group, including Kernan Professional Group, LLP, Monument Agency, Inc., Oriska Corporation, Oriska Insurance Company, Insurance Company of the Americas, Reinsurance Company of America, Inc. and Financial Benefits Insurance Company (“the Group”) identified $53,109.74 of expenses that should not have been charged to Oriska Insurance Company, including the Robert J. Anderson related expenses identified on examination. On July 18, 2006 Monument Agency, Inc. issued a check to Oriska Insurance Company as reimbursement for those expenses.

September 30, 2005 Examination Findings

A review of the allocation of expenses during 2004 and 2005 was completed by the examiners. Based on that review, it was determined that the Group has made an effort to “clean-up” 2004 and 2005 (through September 30, 2005) expenses that should not have been allocated to the insurers by re-allocating these expenses back to Monument Agency, Inc., Kernan Professional Group and/or Oriska Corporation during the fourth quarter of 2005, as well as by obtaining reimbursement for certain expenses from the individuals on whose behalf the expenses were paid after their separation from the Group. In total, $813,762 of expenses were identified by the Group as being improperly allocated to the four insurers during 2004 and 2005 that should have been paid by either Kernan Professional Group or Monument Agency, Inc. The amount reimbursed to Oriska Insurance Company was $272,550. Nevertheless, the fact remains that expenses were paid by the insurers that should not have been, indicating significant deficiencies in the Company's internal controls over expenses. During this examination the following weaknesses in the internal controls over expenses were noted:

1. Several expenses sampled indicated verbal approvals to pay by MK, JMK, Bipin Desai and / or Gary Buhl.

2. Documentation supporting expenses paid by the insurers for Company credit card expenditures made by James M. Kernan, president of each of the insurance entities was found to be insufficient. The supporting documentation consists solely of the credit card billing statements without any charge slips attached. Further there is nothing provided by Mr. Kernan to identify the business purpose for these expenditures. Without adequate documentation supporting the business purpose for the expenditures there is no viable way for the examiners to determine which expenses relate to the insurance entities versus other entities or even personal expenditures.

3. Documentation supporting expenses paid to Kernan Professional Group, LLP ("KPG") as compensation for services rendered to the insurers by James M. Kernan, president of the insurers, as a member of KPG was not adequate. It is noted that Mr. Kernan does not draw a salary from the insurers but instead receives compensation through KPG. During 2004 expenses in the amount of $390,000 were allocated to the insurers through USA for such services. Detailed invoices were not provided. Instead the Group provided meeting minutes for the Group audit committee dated January 24, 2005, whereby these expenses were approved for allocation to the insurers in accordance with the November 2004 / December 2004 time study (64.86% ICA, 25.31% OIC, and RCA 9.83%). (Note: Initially, during 2004, these expenses were allocated 80-20, ICA-OIC). The underlying support for these expenses is an invoice **(undated)** from KPG to OIC, ICA and RCA for the total amount due of $391,339.17. The statement attached appears to be a dump of James Kernan's e-mail whereby bytes are somehow converted to dollars. Based on the documentation provided, there is no viable way for this examination to reach a conclusion as to whether or not the $391,339.17 invoiced was fair and equitable to the insurers. The only conclusion that can be drawn is that the expenses were approved for payment by the audit committee and the respective boards of directors and that the expenses were allocated in accordance with the time study. Similarly, the documentation supporting a 4th Quarter 2005 payment to KPG by Oriska Insurance Company for services rendered by Mr. Kernan through September 30, 2005 is supported by an invoice from KPG (not detailed) and the OIC board of directors' meeting minutes of January 24, 2005 whereby the Oriska Insurance Company's board of directors determined that Oriska Insurance Company is responsible for $169,577 due and accruing to KPG as compensation to Mr. Kernan through 2005. There is nothing in the minutes to support how the Oriska Insurance Company board of directors or audit committee arrived at the amounts due and accruing through 2005. The respective boards for the other insurers, ICA, RCA and FBI, approved payments as well.

4. Effective June 1, 2004, KPG entered into a consulting agreement with Branham Investigations, Inc. ("Branham") to act in the capacity of a special investigations unit through KPG for the four insurance entities. Pursuant to the agreement, Branham receives a retainer of $85,000 plus a monthly fee of $7,500 plus reasonable expenses. For Oriska Insurance Company, we found no evidence that the board of directors ever authorized James Kernan or KPG to enter into a consulting agreement to provide these services to Oriska Insurance Company. On examination certain expenses related to Branham were sampled. We noted that two of the Branham expenses were allocated between OIC, ICA and RCA equally. One sample represented one monthly fee to Branham. A second sample represented surveillance and other fees related to specific claimants. The Group was unable to justify why either the monthly fee or the specific claim related charges were allocated equally amongst the three insurers, OIC, ICA and RCA. Further the documentation supporting one of the expenses, which was a direct charge to OIC was simply an e-mail from James Kernan instructing $1,000 to be advanced for travel expenses. The Company claims the advance was subsequently supported by expense vouchers; however, they have never provided the documentation to support this. Similarly, a 4th Quarter 2005 sample which was allocated 15% OIC, 85% RCA, was only supported by a disbursement order indicating "per verbal approval of JMK."

5. The Group completed a time study during November / December 2004 and three additional time studies in 2005 to support their allocations of expenses. It appears that Group expenses were allocated in accordance with the time studies; however, we identified several expenses that were considered Group expenses that appear to be direct expenses to one insurer or another that were allocated amongst the four insurers. In addition, we noted expenses that were allocated 100% to OIC that do not appear to be direct expenses of OIC, but rather Group expenses or direct expenses of the other insurers. Further, we noted one expense that was allocated to the insurers as a Group expense that appears to be an expense of Oriska Corporation (2005 Lincoln) and another expense that was allocated as a Group expense related to plane expenses which the Group claims are for travel related charges for Mr. Kernan. The one sample involved a down payment on a vehicle registered to Oriska Corporation ("Oriska Corp."). The Group has indicated that this expense has since been transferred to Oriska Corp. and that it is anticipated that the operating expenses and amortized acquisition costs will be allocated to the insurance entities during 2006. Simply transferring the expense to Oriska Corp. and planning to allocate the operating expenses and acquisition costs to the insurance entities does not mitigate the need to maintain documentation to support the insurance entities' related business purpose for the expenditures. If the vehicle is utilized for travel for business other than that related to the insurance entities, or for personal travel, the expenditures should not be charged to the insurance entities. There is no viable way for the examiners to verify that the expenditures for plane expenses sampled are related to the insurance entities. It is noted that similar billings for plane expenses made in 2004 were allocated back to KPG as part of the expense "clean-up" yet the expenses paid in 2005 were not allocated back to KPG.

6. Other samples lack sufficient documentation to justify the business purpose or for the Company and/ or Group to effectively monitor expenses. A 2005 expense sampled related to expenses billed directly to Oriska Insurance Company by Mr. Gary Buhl, treasurer of Oriska Insurance Company, for professional services rendered through his CPA firm. The invoice provided does not indicate the dates of service covered, the number of hours billed, or whether the billing is a flat fee or an hourly rate. Further, Oriska Insurance Company does not have a formal written agreement in place with either Mr. Gary Buhl or his firm. A proposed agreement was subsequently provided.

7. A Group expense related to the quarterly rent charged the insurers by Monument Agency, Inc. was not supported by an invoice from Monument Agency, Inc. The expense was supported by a handwritten note on an Oriska Insurance Company note pad.

8. Several expenses were not reported in the appropriate expense classification as required by Department Regulation 30, Part 105. For example, expenses related to employee health insurance were reported as “Insurance” when they should have been reported as “Employee relations and welfare,” certain expenditures for surveillance fees incurred by Branham Investigations which appear to be claim specific were classified as “Legal and auditing” when if related to specific claims should have been classified as “Direct claim adjustment services,” and OIC insurance department examiner billings were classified as “Legal & auditing” when they should have been classified as “Taxes, licenses and fees – Insurance Department Licenses and fees.”

The lack of adequate supporting documentation as noted during the 2003 examination and in items 2, 3, 4, 5, 6 and 7 above are violations of Section 1217 of the New York Insurance Law which states, in part:

> “No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment. If such disbursement be for services and disbursements, such vouchers shall set forth the services rendered and itemize the disbursements;… If such voucher is unobtainable, the disbursement shall be evidenced by a statement of an officer or responsible employee affirmed by him as true under the penalties of perjury, stating the reasons therefor and setting forth the particulars above mentioned.”

Such documentation **must** support the legitimate business purpose of the expense as it relates to the insurance entities.

It is recommended that the Company comply with Section 1217 of the New York Insurance Law, henceforth.

It is recommended that the Company strengthen its internal controls over expenses by requiring that all expenditures be adequately supported by vouchers that sufficiently identify the services rendered, the nature of the disbursement and the business purpose as it relates to the insurer(s). It is further recommended that all approvals to disburse funds from the insurers be appropriately documented, in writing, by an officer or responsible employee of the insurer.

It is recommended that all expenses be properly classified in accordance with Department Regulation 30, Part 105.

It is recommended that the Company maintain records supporting the allocation of the costs of personnel in accordance with Department Regulation 30, Part 109.

It is recommended that the Company enter into formal written agreements with all parties that provide services to the insurer (i.e. services provided by parties such as USA & Mr. Gary Buhl).

Other Contractual Arrangements

Monument Agency

The Company leases office space and furniture and fixtures from Monument Agency, Inc. ("Monument Agency") pursuant to a lease agreement effective January 1, 1995, and expiring December 31, 2015. The principal shareholder of Monument Agency is the spouse of James M. Kernan, president of Oriska Insurance Company. Office space is also leased to Insurance Company of the Americas, Oriska Corporation, Kernan Professional Group, LLP and Kernan Engineering. The cost of the leased space is based on the square footage utilized by each company.

Pursuant to agency agreements dated January 1, 1995 and September 12, 2002 Monument Agency, Inc. has authority to act as an agent on behalf of the Company. Prior to August 5, 2004, Monument Agency, Inc. was responsible for the billing and collection of the Company's premium. Effective August 5, 2004 the Company instituted direct billing. On examination it was noted that during 2002, Monument Agency, Inc. remitted in excess of $1.9 million of Oriska Insurance Company premiums collected on behalf of PEO insureds to Insurance Company of the Americas, a then unaffiliated insurer. These premiums were reported as part of Oriska Insurance Company's intercompany receivable from Insurance Company of the Americas as of December 31, 2002. The balance was not settled until September 24, 2003. It is not clear why Monument Agency, Inc. would have remitted Oriska Insurance

Company's premiums to Insurance Company of the Americas nor is it clear why management of Oriska Insurance Company would have allowed these premiums to remain with Insurance Company of the Americas for a year or more. In essence, Insurance Company of the Americas received a non-interest bearing loan from the Company.

Kernan Professional Group, LLP

Kernan Professional Group, LLP ("KPG") provides legal counsel to the Company pursuant to a retainer agreement. KPG is owned by James M. Kernan, president of the Oriska Insurance Company. Legal services provided by KPG to the Company included filings of rates and policy forms, general supervision of insurance operations, and services related to the Company's planned expansion into new territories. It is noted that James M. Kernan receives no regular salary or wages in connection with his duties as president of the Company.

Kernan Engineering

James M. Kernan is a partner with Kernan Engineering. Pursuant to an agreement Kernan Engineering provides loss control and risk assessment services for the Company.

F. Involvement with Robert J. Anderson

In a letter to the Department dated August 4, 2002, James M. Kernan advised that:

> "Neither Mr. Zogob nor Mr. Anderson, exercise, or will exercise, any control, directly or indirectly, over the activities of the ICA, Oriska, IPA, or any entity owned or controlled by these companies."

Mr. Anderson, in reference to Robert J. Anderson, is prohibited pursuant to 18 U.S.C. §§ 1033 and 1034 from engaging in the business of insurance.

On examination, as previously noted, several expenses were noted to have been paid by Monument Agency, Inc. during 2003 on behalf of Robert J. Anderson, also known as "Skip Anderson," which were then allocated to Oriska Insurance Company and its affiliate Insurance Company of the Americas.

References to "Skip Anderson" and / or "Skip" were noted when examining documents related to the Company's reinsurance placed in the London market effective September 1, 2003.

During the review of Oriska Insurance Company's claims the following were noted in the notes for one claim file sampled:

"05/30/02 … Skip Anderson will review file and contact me…"

"06/07/02 awaiting a call from Skip Anderson to discuss file strategy."

"06/14/02 …I am still wishing to discuss this claim with Skip Anderson …"

On the Workers' Compensation Claim Management System maintained by Oriska Insurance Company's largest insured PEO, Skip Anderson's name was also found. The Workers' Compensation Claim Management System houses the claims data (paid histories, reserve information, and claims examiner notes) for claims related to a PEO named U.S. Management, Inc. and its related entities.

Within the Company's "Green Files" for All Staffing, Inc. a copy of a check with the following handwritten notation was included "Allen – This was the check cut to Oriska when Stan Costello and Doug Richards met with Skip and Jim."

Additionally, in a filing made to the Department's Consumers Services Bureau by Robert J. Anderson in connection with his application for a reinsurance intermediary license was a 2002 Form 1099 – MISC in the amount of $10,000 listing Monument Agency, Inc. as payer. On examination, a complete inventory of W-2's and Form 1099's were requested for years 2002 – 2005. The documentation provided by the Company, on examination did not include a 1099-MISC for Robert J. Anderson, despite the fact that other Form 1099-MISC were provided where Monument Agency, Inc. was the payer.

G. Relationship with Insureds

The Company's relationship with its insureds is not the typical insurer / insured arms-length dealing. Regarding the billing and collection, certain policies were found to be in effect for several months before the first billing was generated, thus exposing the Company to risk without receiving premium. One insured PEO made zero premium payments in one policy period and made zero reimbursements for claims paid in the deductible layer of the policy yet the Company renewed the policy.

During the 2003 examination, it was noted that policies were set up on installments to pay; however, the sum of the installments was far less than the total premium for the respective policies.

On the health insurance line of business one insured had a large balance due the Company from prior policy periods and had not made any payments since February 2005, yet the Company continues to provide coverage.

The Company's written premium is mainly from one source, U.S. Management / Brand Management Services, Inc. ("Brand Management") and its related entities. Although the Company and its affiliate, RCA, bill for each of the individual polices issued, separately, Brand Management remits one check intended to cover multiple policies and multiple installments without any accounting for the policies to be included in the remittance. The result is that Company tracks total premiums and total cash receipts related to the Brand Management policies on several Excel spreadsheets and then has to work out how to apply the receipts on a policy by policy basis (see write up for "Agents balances or uncollected premiums" for additional discussion regarding Brand Management).

H. Compliance with Sections 715 and 717 of the New York Business Corporation Law

It is noted that in accordance with Section 108 of the New York Insurance Law, and pursuant to Sections 715 and 717 of the New York Business Corporation Law, the directors and officers shall perform his duties, "…in good faith and with that degree of care which an ordinarily prudent person in like position would use under similar circumstances…". The lack of controls over expenses paid by the Company; allowing premiums due the Company to be remitted by a related agency to a then unaffiliated insurer and to remain with said insurer for almost a year, without any interest paid to the Company; the noted involvement with Robert J. Anderson; the renewal of policies in cases where the insured has not paid the premium or deductible losses from prior policy periods; and, not billing the first installments on policies that have been effective for several months, are instances identified on examination where the directors and officers of the Company have not performed their duties with the degree of care that an ordinarily prudent person in like position would use under similar circumstances. It is recommended that the board of directors and the officers of Oriska Insurance Company be mindful of their fiduciary responsibilities to protect the assets of Oriska Insurance Company.

I. <u>Abandoned Property Law</u>

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were never filed pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

J. Significant Operating Ratios

The following ratios have been computed as of September 30, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	N/A
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	186.8%*
Premiums in course of collection to surplus as regards policyholders	N/A

The above ratio denoted with an asterisk falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual value for the ratio of liabilities to liquid assets is the result of the examination change to loss and loss adjustment expense reserves. The ratios for net premium written and premiums in course of collection to policyholders' surplus were not calculated because the Company's policyholders' surplus per examination is negative.

The underwriting ratios presented below are on an earned/incurred basis and encompass the six and three quarter year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses	$63,049,191	80.78%
Other underwriting expenses incurred	18,818,591	24.11%
Net underwriting loss	(3,821,237)	(4.90)%
Premiums earned	$78,046,545	100.00%

K. Section 310 of the New York Insurance Law

During the 2003 examination, instances were noted in which employees of the Company and / or management were not conducting themselves in a manner consistent with Section 310 of the New York Insurance Law. Section 310(a)(3) states:

> "The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so."

The 2003 examination request log shows that out of 182 numbered examination requests, 68 (or 37%) were outstanding for more than 20 days. In addition, 21 of these requests were outstanding over 50 working days.

On the current examination, the Company's response time for examination requests improved (on average 18 days); however, several examination requests required follow-up requests for additional information or for clarification of the Company's initial responses.

It is recommended that the board of directors ensure that Company employees and/or management conduct themselves in a manner consistent with the provision of Section 310(a)(3) of the New York Insurance Law.

L. Accounts and Records

1. Annual and Quarterly Statement Filings

During the examination period, the Company has amended its filings made to this Department on several occasions. The 2002 Annual Statement, as originally filed, was amended during September 2003; the 2003 Annual Statement, as originally filed, was amended during May 2004; and the September 30, 2005 Quarterly Statement, as originally filed, was amended at the request of this Department during February 2006. Despite having filed amended statements as of December 31, 2003 and September 30, 2005, this examination has identified several significant changes to the amended filings.

When signing the Jurat Page of the Annual and Quarterly Statements filed with this Department, the officers of the reporting entity are attesting that the statement 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…"

It is recommended that in the future the Company exercise greater care when completing its annual and quarterly filings made to this Department.

2. Premium Related Data

The Company's data files supporting premium related accounts consists of numerous Excel spreadsheets. The Company does not have in place an automated premium receivable system that would allow them to book written premiums, apply cash receipts, calculate and age premium receivable balances, or calculate unearned premium reserves. There is no interface to the general ledger system. Instead, premium related data is entered into multiple Excel spreadsheets by multiple personnel. The worksheets are not linked thus data from one spreadsheet to another could reflect different information for the same policy and in fact, the examination noted instances where the policy effective / expiration dates for several policies differed on the premiums receivable spreadsheet from the data recorded per the unearned premium spreadsheet. Further the examination found errors in the calculation of the unearned premium reserve calculation supporting the initial September 30, 2005 quarterly statement caused by the failure of the Company personnel to carry a formula to particular cells within the worksheet.

Relative to the U.S Management, Inc. / Brand Management Services, Inc. and related policies, both the examiners and Company personnel had to spend an inordinate amount of time verifying the written premiums and cash receipts from inception of the policies to determine the premiums receivable and aging of the related premium receivable balances as of the examination date.

Overall, the Company's reliance on manual input of premium related data into multiple Excel spreadsheets exposes the Company to increased risk of reporting errors. It is recommended that the

Company improve its controls over premium related data. An automated premium system that includes an operational premiums receivable function that ages premiums receivable balances would vastly improve the Company's operations.

3. Premium Taxes on High Deductible Workers' Compensation Polices

Section 3443 of the New York Insurance Law permits the issuance of workers' compensation and employers' liability insurance policies containing deductibles. Pursuant to this section of law, the insurer pays from the first dollar on a compensable claim and is then reimbursed by the policyholder for the applicable deductible (See Market Conduct activities section for additional discussion). It is the position of both the Department and the New York State Department of Taxation and Finance that premium taxes must be collected and paid on these policies. The amount of the deductible paid by the policyholder to the insurer should be treated as premium paid to the insurer for the purpose of Section 1510 of the New York Tax Law.

The Department issued Circular Letter No. 10 (2001) dated April 13, 2001 to once again alert all insurers of their duty to pay premium taxes as required. The Company failed to include deductible reimbursements when computing the taxes imposed by Section 1510 of the New York Tax Law.

In view of the above, it is recommended that the Company pay its premium taxes in accordance with Section 1510 of the New York Tax Law as reinforced by Department Circular Letter No. 10 (2001). In addition, the Company is directed to remit the taxes owed on the reimbursement of deductibles that it has received on high deductible workers' compensation policies from insureds, retroactive to the inception date of the Company's high deductible workers' compensation policy program.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and as reported by the Company as of September 30, 2005:

Assets	Assets	Examination Assets Not Admitted	Net Admitted Assets	Company Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$4,793,423	0	$4,793,423	$4,793,423	$ 0
Common stocks	3,516,585	0	3,516,585	3,516,585	0
Properties held for sale	663,944	275,979	387,965	663,944	(275,979)
Cash, cash equivalents and short-term investments	1,563,656	0	1,563,656	1,563,656	0
Receivable for securities	20,804	0	20,804	20,804	0
Investment income due and accrued	50,782	0	50,782	50,782	0
Uncollected premiums and agents' balances in the course of collection	5,338,310	1,750,082	3,588,228	3,349,606	238,622
Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	0	0	0	0
Amounts recoverable from reinsurers	1,411,640	211,526	1,200,114	1,411,640	(211,526)
Other amounts receivable under reinsurance contracts	95,833	95,833	0	0	0
Current federal and foreign income tax recoverable and interest thereon	278,510	0	278,510	278,510	0
Net deferred tax asset	688,295	224,981	463,314	463,314	0
Receivables from parent, subsidiaries and affiliates	513,992	0	513,992	513,992	0
Health care and other amounts receivable	0	0	0	0	0
Aggregate write-ins for other than invested assets	5,218,877	5,072,772	146,105	146,105	0
Totals	$24,154,651	$7,631,173	$16,523,478	$16,772,361	$(248,883)

Liabilities, surplus and other funds	Examination	Company	Surplus Increase (Decrease)
Losses and Loss adjustment expenses	$13,010,933	$7,308,031	$(5,702,902)
Commissions payable, contingent commissions and other similar charges	144,578	105,841	(38,737)
Other expenses (excluding taxes, licenses and fees)	167,628	167,628	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	176,165	48,684	(127,481)
Current federal and foreign income taxes	431,820	431,820	0
Unearned premiums	3,752,942	3,752,942	0
Ceded reinsurance premiums payable (net of ceding commissions)	366,880	414,339	47,459
Amounts withheld or retained by company for account of others	334,812	334,812	0
Remittances and items not allocated	87,438	87,438	0
Provision for reinsurance	100,132	142,437	42,305
Total liabilities	$18,573,328	$12,793,972	$(5,779,356)
Common capital stock	$ 1,500,000	$ 1,500,000	$0
Gross paid in and contributed surplus	7,859,068	7,859,068	0
Unassigned funds (surplus)	(11,408,917)	(5,380,679)	6,028,238
Surplus as regards policyholders	$(2,049,849)	$ 3,978,389	$6,028,238
Totals	$ 16,523,479	$ 16,772,361	

Notes:

1: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 1999 through 2005. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

2: Upon examination it was determined that the Company has not complied with Department Circular Letter No. 10 (2001) as regards the proper method for collecting and paying premiums tax on workers' compensation and employers' liability insurance policies containing high deductibles. Accordingly, a contingent liability exists for premium taxes which may be owed to New York State on amounts recovered under high deductible policies.

3: As a result of this examination, the Company was insolvent at September 30, 2005 in the amount of $2,049,849 and its capital was impaired by $3,549,849. Additionally, the minimum surplus to be maintained of $2,200,000 was impaired in the amount of $4,249,849.

4: Subsequent to the examination date, in 2007, the Company received a surplus contribution of $700,000 from Oriska Corporation, $660,000 through the satisfaction of mortgage obligations encumbering the asset "Properties held for sale" (March 5, 2007) and a $40,000 cash contribution (April 12, 2007).

5: Subsequent to the examination date, on November 28, 2006, the Company, as Carrier and/or Beneficiary, entered into the Rashbi and Oriska Insurance Company Irrevocable Trust Agreement ("Rashbi Trust") to further collateralize the US Management / Brand Group of policies (including Power PEO). As of April 30, 2007 the Department has confirmed directly with the Trustee, HSBC Bank USA, a balance of $6,000,000 in the Rashbi Trust. On June 14, 2007, the Rashbi Trust was amended to secure the promises in the deductible endorsement of the policy of any insured/policyholder whether or not listed on the original agreement under circumstances where no collateral or other security has been provided or for which collateral or other security has been provided in kind or quantum unacceptable to Oriska

Insurance Company and which would otherwise prevent Oriska Insurance Company from reserving claims net of the deductible amount; and further it was amended to provide collateral security for workers' compensation insurance of any insured/policyholder of Oriska Insurance Company whether or not listed in the agreement, both current (in force) and expired, which are wholly or partly unsecured.

Lastly, subsequent to the examination date, on June 5, 2007, the Lijo Weber Irrevocable Trust was created by and among Lijo Weber Revocable Trust and its Trust Beneficiaries as "Grantor", and Hershel Weber and Oriska Insurance Company as Trustees, and Oriska Insurance Company as the Beneficiary, to be effective as of September 30, 2005. Pursuant to this Trust the Grantor agrees to provide collateral security for, and guarantee payment of a deductible retention for certain named insureds as well as for insureds/policyholders of Oriska Insurance Company whether or not listed under circumstances where no collateral or other security has been otherwise provided. On June 5, 2007, the two accounts to which Oriska Insurance Company was granted a security interest in conjunction with this trust had a combined market value of $1,931,856. The balances in these two accounts were not confirmed by the examiners.

The subsequent event activity noted in Items 4 and 5 above eliminates the aforementioned insolvency subsequent to the examination date.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $5,621,661 during the six and three quarter-year examination period January 1, 1999 through September 30, 2005, detailed as follows:

Underwriting Income		
Premiums earned		$78,046,545
Deductions:		
Loss and loss adjustment expenses incurred	$63,049,191	
Other underwriting expenses incurred	18,818,591	
Aggregate write-ins for underwriting deductions	0	
Total underwriting deductions		81,867,782
Net underwriting gain or (loss)		$(3,821,237)
Investment Income		
Net investment income earned	$1,255,365	
Net realized capital gain	819,281	
Net investment gain or (loss)		2,074,646
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(2,266,579)	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	(532,439)	
Total other income		(2,799,018)
Net income before dividends to policyholders and before federal and foreign income taxes		$(4,545,609)
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$(4,545,609)
Federal and foreign income taxes incurred		1,079,044
Net Income		$(5,624,653)

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 1998			$3,571,812
Net income		$5,624,652	
Net unrealized capital gains or (losses)	$1,034,040		
Change in net deferred income tax	688,295		
Change in nonadmitted assets		7,238,213	
Change in provision for reinsurance		100,131	
Change in excess of statutory reserves over statement reserves	66,000		
Surplus adjustments paid in	5,553,000		
Total gains and losses in surplus	$7,341,335	$12,962,996	
Net increase (decrease) in surplus			$(5,621,661)
Surplus as regards policyholders per report on examination as of September 30, 2005			$(2,049,849)

4. PROPERTIES HELD FOR SALE

The examination admitted asset of $387,965 is $275,979 less than the $663,944 reported by the Company as of September 30, 2005.

The property, an office building located in Long Island City, New York, was acquired by the Company May 27, 2003, via a deed in lieu of foreclosure. The Company accepted title to the real estate in partial settlement of unpaid insurance premiums from an insured, Sterling Business Solutions, LLC ("Sterling"). At the date of acquisition, the account receivable balance reported by Oriska Insurance Company as due from Sterling was $527,000. An appraisal dated January 12, 2001, the appraisal available at the date of acquisition, valued the property at $1,100,000. There are two mortgages with Marathon Bank encumbering the property. As of the December 31, 2003 examination, the valuation of the real estate was determined to be $388,000 as follows:

Appraisal Value of the Property	$1,100,000
Less Estimated Selling Costs	77,000
Net Value	$1,023,000

Mortgage - Marathon	$ 570,000	
Mortgage - Marathon - 2nd	65,000	
Total Mortgages		635,000
Net Realizable Value		$ 388,000

This valuation was consistent with Section 1414(d) of the New York Insurance Law which states that:

> "Real property acquired by foreclosure or by deed in lieu thereof, in the absence of a recent appraisal deemed reliable by the superintendent, shall not be valued at an amount greater than the unpaid principal of the defaulted loan at the date of such acquisition, together with any taxes and expenses paid or incurred by such insurer at such time in connection with such acquisition (but not including any uncollected interest on such loan), and the cost of additions or improvements thereafter made by such insurer and any amounts thereafter paid by such insurer on any assessments levied for improvements in connection with the property."

The Company received an updated appraisal dated September 10, 2004, which values the building at $1,400,000. The Company utilized this appraisal to increase its valuation of the real estate at December 31, 2004 and as of the examination date as follows:

Appraisal Value of the Property		$1,400,000
Less Estimated Selling Costs @7%		98,000
Net Value		$1,302,000
Mortgage - Marathon	$ 556,610	
Mortgage - Marathon - 2nd	81,446	
Total Mortgages		638,056
Net Realizable Value		$ 663,944
G/L Balance		663,944
Difference		$ 0

Pursuant to Section 1414(d) of the New York Insurance Law, after acquisition, the cost should only be adjusted for additions or improvements thereafter made by the insurer, not by a subsequent appraisal.

In addition, SSAP No. 40, Paragraph 10 states that:

> "Properties that the reporting entity has the intent to sell or is required to sell shall be classified as properties held for sale and carried at the lower of depreciated cost or fair value less encumbrances and estimated costs to sell the property consistent with paragraph 16 of FAS 121."

It is recommended that the Company comply with Section 1414(d) of the New York Insurance Law and SSAP No. 40, Paragraph 10.

5. AGENTS BALANCES OR UNCOLLECTED PREMIUMS

The examination admitted asset of $3,588,228 is $238,622 more than the $3,349,606 balance reported by the Company as of the examination date.

The examination change is the result of the following:

1. $314,770 increase in the asset reported for uncollected premiums and agents' balances in the course of collection (Quarterly Statement Page 2, Line 13.1, Column 1); and
2. $76,148 increase in the nonadmitted assets for uncollected premiums and agents' balances in the course of collection (Quarterly Statement Page 2, Line 13.1, Column 2).

The $314,770 increase in the asset reported for "Uncollected premiums and agents' balances in the course of collection" on Page 2, Line 13.1, Column 1 is based on the examination change to the workers' compensation net premiums receivable balance before the calculation of any non-admitted balances. The Company's reported net premium receivable balance for workers' compensation was $4,018,614. The revised balance after review by both the Company personnel and the examiners was determined to be $4,333,384. (See discussion below on the U.S. Management, Inc. / Brand Management Services, Inc. adjustments for further details).

The $76,148 increase in the non-admitted assets for uncollected premiums and agents balances in the course of collection is due to the following adjustments:

1. $410,361 increase in the non-admitted asset for uncollected premiums receivable as a result of the disallowance of the offset taken for funds in an IOLA Trust Account against receivables due Oriska Insurance Company from CEMA Construction Corp. ("CEMA") for health insurance

coverage. It is noted that as of September 30, 2005, $896,044, net of commission, is due from CEMA, most of which was receivable as of January 1, 2005. The Company utilizes an IOLA Trust Account to reduce the overdue receivable balance. In accordance with SSAP No. 6, paragraph 9a.,

"to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days past due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted."

The examination is not recognizing the funds in the IOLA Trust Account as such funds are deemed by this examination to be not available for the payment of losses and claims.

Subsequent to the examination date the Company has made application to the court to allow the funds in the CEMA IOLA Trust Account to be paid over to the Company.

2. $61,649 increase in the non-admitted asset for uncollected premiums receivable as a result of the nonadmittance of the balance due Oriska Insurance Company from General Herkimer Corporation for health insurance premiums. The balance as of September 30, 2005 represents the net premium receivable for January 2005 through May 2005. As the entire balance is over ninety days past due as of September 30, 2005, the balance will be nonadmitted on examination.

3. $395,862 decrease in the non-admitted asset for uncollected premiums receivable on workers' compensation business. The examination decrease is comprised of the following adjustments: $173,132 increase in the non-admitted assets for the Company's 'Other First Dollar Workers' Compensation' business; $81,442 decrease in the non-admitted assets reported for an insured PEO as a result of the examination allowance as an offset to the over 90 day premium receivable balance the related unearned premium reserve for the policy; and $487,552 decrease in the non-admitted assets reported for certain first dollar workers' compensation policies related to U.S. Management, Inc. / Brand Management Services, Inc. (See discussion below for further details on the U.S. Management, Inc. / Brand Management Services, Inc. adjustments).

<u>Subsequent Adjustments to Workers' Compensation Premiums Receivable Asset / Non-Admitted Assets for U.S. Management, Inc. / Brand Management Services, Inc. Related Policies</u>

As noted above the Company reported $4,018,614 for net premiums receivable on workers' compensation business. $3,934,579 or approximately 98% represented premiums receivable on policies (both high deductible and first dollar) issued by the Company to U.S. Management, Inc. / Brand Management Services, Inc. related entities ("U.S. Management / Brand Management"). The policies issued to U.S. Management / Brand Management related entities are serviced by Brand Management

Services, Inc. Premiums for most of the policies are paid by Brand Management Services, Inc. All claims (both high deductible and first dollar) are paid by Brand Management Services, Inc.

Upon examination it was noted that as of September 30, 2005, there were no premiums received on any of the U.S. Management / Brand Management related policies that were effective July 1, 2005, and in fact the first billing for most of the July 1, 2005 policies had not yet been invoiced by the Company. As such, the examination initially determined that the premium receivable related to the July 1, 2005 policies should have been non-admitted in accordance with SSAP No. 6, Paragraph 9 a. which states:

> "To the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted."

The examination had determined that the unbilled first installments on $4,057,913 of premiums receivable for policies effective July 1, 2005 were more than ninety days past due resulting in an increase in the Company's non-admitted assets of $784,296 after allowance of $3,273,616 of unearned premium reserve on the related July 1, 2005 policies.

In response to the examination findings the Company indicated that the examination had not considered overpayments emanating from multiple policies issued to U.S. Management / Brand Management related entities from earlier policy periods (May 1, 2002 to May 1, 2003; May 1, 2003 to May 1, 2004; and May 1, 2004 to July 2, 2005). It is noted that included in the Company's reported premiums receivable as of September 30, 2005 was a negative receivable for U.S. Management in the amount of $871,917, in essence indicating that premiums were owed by the Company back to U.S. Management.

In an attempt to validate the Company's position that there were in fact overpayments from prior policy periods available to apply to the July 1, 2005 policies, the examiners reviewed supporting documentation provided by the Company for both written premium and cash receipts for all of the U.S. Management / Brand Management related entities from inception, May 1, 2002 to September 30, 2005.

To fully understand the evolution of any overpayments, it was necessary to understand the evolution of the U.S. Management written premium. During 2002, the Company issued one master policy to U.S. Management, Inc., et al., for the policy period May 1, 2002 to May 1, 2003. During 2003 a second master policy was issued to U.S. Management, Inc., et al., for the policy period May 1, 2003 to May 1, 2004. The premiums calculated by the Company for the 2002 and 2003 policy periods were based on U.S. Management's self-reported payroll. Again, during 2004 a third master policy was issued to U.S. Management, Inc., et al., for the policy period May 1, 2004 to May 1, 2005. It is noted the Company was unable to provide this policy.

In August of 2004, the Company moved certain New Jersey clients that had been covered under the master U.S. Management policy to separate policies issued by the Company's new affiliate, Reinsurance Company of America. The Company was not licensed in New Jersey and should not have been providing workers' compensation coverage to these New Jersey clients.

The Company indicated that in early 2005 they became aware of New York requirements that a separate workers' compensation policy must be issued to each PEO / employee leasing company. The premium related to the one master policy effective May 1, 2004 was reversed and sixteen individual high deductible policies were issued to U.S. Management / Brand Management related entities. Also during 2004, in relation to a civil action between the Company and U.S. Management, the Company entered into a settlement agreement with U.S. Management, Inc. whereby it was agreed that U.S. Management, Inc. would pay premium calculated to be 1.225% of its taxable gross payroll for all policies issued from May 1, 2002 through May 1, 2005. As a result of this agreement, and the utilization of additional payroll information obtained by the Company from U.S. Management, Inc., the Company adjusted the written premium for the 2002 policy downward by $1,085,995 and increased the premium on the 2003 policy by

$205,795 and recalculated the premium on the sixteen individual 2004 policies. It is noted that the 2004 policies were extended to July 1, 2005. In addition, during 2004 the Company began issuing individual first dollar workers' compensation policies to entities related to U.S. Management.

Next, cash receipts from U.S. Management / Brand Management and its related entities were verified. It is noted that for most of the U.S. Management / Brand Management policies cash receipts are remitted by Brand Management Services, Inc. Although Oriska Insurance Company sends separate invoices for each individual policy, Brand Management Services, Inc. remits one check intended to cover multiple policies without any itemization of the policies / invoices the remittance is intended to cover. Further, the remittances have little or no relationship to the billings. The remittances are often round dollar amounts (i.e. $100,000).

As a result, the validation of any overpayments from prior policy periods required that the U.S. Management / Brand Management and related policy premiums and cash receipts be considered in bulk. The documentation provided by the Company indicates that the Company had received $246,786 cash receipts in excess of written premiums (gross of commission) for policies effective in prior periods that should be considered payable to U.S. Management / Brand Management as of September 30, 2005. Further, the Company provided a loss run supporting $184,208 of losses paid by Brand Management Services, Inc. on claims related to first dollar workers' compensation policies issued by Oriska Insurance Company to U.S. Management / Brand Management related entities.

The application of the excess receipts and the losses paid by Brand Management Services, Inc. on behalf of Oriska Insurance Company to the first installments due under the policies effective July 1, 2005 results in the restoration to admitted status the premiums receivable initially determined as non-admitted on examination.

Lastly, on examination it was noted that the Company had non-admitted the premiums receivable on certain first dollar workers' compensation policies related to U.S. Management / Brand Management, when in fact the premiums receivable were not more than 90 days past due. Further, for these policies that were more than 90 days past due the Company failed to avail itself of the allowed unearned premium reserve offset. Accordingly, the examination numbers were adjusted for these items.

Generally, as noted in SSAP No. 6, Paragraph 3, "premium transactions <u>conducted directly with the insured</u> result in uncollected premium balances." As such, the determination of non-admitted balances should be calculated on an individual insured policy basis.

Further, the policy should clearly define the payment plan if the policy is to be paid on installments and the premiums should be billed according to the frequency stated in the contract.

Due dates for premium balances should be determined in accordance with SSAP No. 6, Paragraph 7, which provides that original and deposit premiums shall be governed by the effective date of the underlying insurance contract; endorsement premiums shall be governed by the effective date of the insurance policy endorsement; and installment premiums shall be governed by the contractual due date of the installment by the insured.

Non-admitted amounts should be calculated in accordance with SSAP No. 6, Paragraph 9.

In light of the aforementioned, the following recommendations are made on examination:

i. It is recommended that the Company cease its current practice of evaluating premiums receivable and cash receipts for related policies on a "Group" basis, as was noted for the U.S. Management / Brand Management related policies.

ii. It is recommended that policies that are set up on installments clearly define the contractual due dates of the installments.

iii. It is recommended that the Company bill premium and installment premiums in a more timely manner.

iv. It is recommended that the Company require that the insured provide a proper accounting as to the application of premiums remitted when the remittance is intended to cover more than one policy. In lieu of a proper accounting, premiums received in such manner should be recorded as a liability under the caption 'Remittances and items not allocated' until such time as the proper written documentation is obtained supporting the allocation of the premium receipts. Such documentation should be retained by the Company and available for review upon examination by this Department.

v. It is recommended that the Company fully comply with SSAP No. 6 regarding uncollected premium balances.

vi. It is recommended that the Company only take credit as admitted assets, items allowed pursuant to Section 1301 of the New York Insurance Law.

6. AMOUNTS RECOVERABLE FROM REINSURERS

The examination admitted asset of $1,200,114 is $211,526 less than the $1,411,640 balance reported by the Company as of the examination date.

The examination change relates to a write-off of the Accident and Health amounts recoverable from reinsurers in December 2005. The Examiner reviewed the aging detail as of the examination date and found that recoverables from Continental Casualty Company, $31,200; QBE Reinsurance Corporation, $101,509; and Reliance Insurance Company, $78,817, were the same balances recoverable as of December 31, 2004. Upon further investigation it was noted that these balances were recoverable as of the initial examination, December 31, 2003.

At December 31, 2005 the Company wrote off all ($211,526.38) of the Accident and Health amounts recoverable from reinsurers as of September 30, 2005.

It is recommended that the Company write-off in a timely manner, all uncollectible recoverables in accordance with SSAP No. 62, paragraph 56.

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses and loss adjustment expenses of $13,010,933 is $5,702,902 more than the $7,308,031 reported by the Company in its September 30, 2005 filed quarterly statement.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed quarterly and annual statements. The following table reflects the examination changes:

Description	Company Carried	Department Indicated	Exam Change
Loss and loss adjustment expenses (all lines)	$7,308,031	$9,356,052	$2,048,021
Surety Recovery Adjustment (Net)			94,791
Disallowance of uncollateralized reserve credits (workers' compensation)			$3,560,090
Total			$5,702,902

As a result of the Department's analysis the Company's reported reserves for loss and loss adjustment expenses as of September 30, 2005 were found to be deficient by $2,048,021. The examination also adjusted the anticipated recoveries on three surety bonds, resulting in an additional adjustment, net of reinsurance, in the amount of $94,791. Lastly, the examination has disallowed $3,560,090 of reserve credits taken against losses and allocated loss adjustment expenses for high deductibles for which the Company has no collateral as of the examination date. See write up under the caption "Reserve Credits taken for High Deductible Policies" for subsequent event activity relative to the uncollateralized reserve credits.

Workers' Compensation

Relative to the Company's workers' compensation business the Company relies on third party administrators ("TPA's) and, in some cases, the insured Professional Employer Organizations and / or employee leasing companies ("PEO's") to adjust claims and to record the paid and outstanding loss data. Electronic data files from these outside sources are periodically uploaded to the Company's PDS System which is then utilized to prepare the Company's financial statements.

On examination, claim samples were selected from the Company's PDS system data for verification to the source data, the physical claim files. The following exceptions were noted:

<u>Brand Management, Inc. / U.S. Management, Inc. ("Brand") Claims Review</u>

Brand Management, Inc. (formerly U.S. Management, Inc.) and the Brand related policies represent the Company's largest insured, in terms of written premium for years 2002 through September 30, 2005. Policies have been issued by the Company to Brand / Brand related entities both on a high deductible ($500,000) and a first dollar basis (zero deductible). All Brand claims, both high deductible and zero deductible claims, related to the Brand policies are adjusted at the Brand Office in Brooklyn, New York. Two of the seven individuals responsible for the adjudication of the Brand claims are purported to be employees of Oriska Corporation; however, the salary paid by Oriska Corporation is minimal. The remaining five individuals that assist with the Brand claims handling are neither employed by Oriska Corporation nor by the Company. There is no agreement in place between the Company and Brand relative to these individuals to address their duties, payment of their salaries or reimbursement of their salaries. Claims paid by Brand on behalf of the Company are disbursed from a Brand Management Services, Inc. checking account. The checking account is also utilized for purposes other than Oriska Insurance Company claims related business.

Paid and outstanding loss and loss adjustment expenses are entered on Brand's Workers' Compensation Claims Management System. This system operates independently of Oriska Insurance Company's PDS System. On a monthly basis, Brand data files are forwarded to the Company to be uploaded onto the Company's system.

On examination a sample of 119 of the Brand claims were selected for review from the Company's PDS system data. Twenty four of the 119 claim files were not available for the examiners to review. The examiners were advised that these claim files were with attorneys pending hearings before the Workers Compensation Board.

Eight of the ninety five claims reviewed, although coded on PDS as New York claims were clearly New Jersey jurisdiction claims. Oriska Insurance Company is not licensed in New Jersey.

Errors were found on the payment histories for twenty of the ninety five claim files reviewed. Errors included the following:

- Overstatement of the indemnity payments as a result of double counting the fees paid to the claimants' attorney (sixteen instances);
- Incorrect posting of the paid amounts on the payment history (three instances);
- Failure to post paid amounts to the payment history (five instances);
- Billing / payment in claim file posted to another claim for the same claimant (one instance);
- Incorrect coding of penalties paid to the Workers' Compensation Board (one claim file, three instances);
- Double posting of payments other than claimants' attorney fees (two instances); and
- Unpaid medical bills within the claim file with no evidence of the reason for non payment (one claim file, nine bills).

It was also noted that one claim, although coded as a denied claim, was in fact a duplicate claim. Payments and reserves reported for the denied claim should have been included on the duplicate open claim for the same claimant and the denied claim should have been deleted. Denied claims are excluded from the Company actuary's evaluation of loss and loss adjustment expense reserves. By excluding the data reported on the claim coded as denied, total paid and reserve amounts used in the actuary's evaluation were understated. Although only one instance was noted, there are several claims coded as denied that were not reviewed on examination. All errors detected by the examiners were corrected by the Company.

All Staffing, Inc. ("ASI")

ASI is a PEO located in Lansford, Pennsylvania. The Company provided workers' compensation coverage to ASI, on a high deductible basis, $250,000, for each of the following periods:

March 1, 2002 to July 1, 2002
July 1, 2002 to July 1, 2003
July 1, 2003 to July 1, 2004

Similar to Brand, claims related to the Company's ASI policies are adjusted at ASI's office. However, the individuals responsible for adjusting the claims are not employed by the Company or by any member of the Oriska Group of companies. Instead, claims are adjusted by individuals employed by ASI. In response to an inquiry as to whether or not ASI or ASI's claim supervisor is licensed to adjust claims, the Company responded that "we have no knowledge of ASI or Paul Abbott being licensed as a third party administrator by New York State. Initially claims were being administered by a TPA at OIC's direction. ASI unilaterally began adjusting the files and not reporting claims to us."

On examination a sample of eighteen claims were selected from the Company's PDS system for verification to the physical claim files maintained by ASI. Neither the Company nor ASI was able to provide electronic payment histories for the claim files selected for review. However, within the physical claim files, manual payment histories for indemnity payments were found, although these histories were not current. No payment histories were provided for the medical expenses paid, thus the examiners were unable to determine the accuracy or completeness of the reported medical expenses paid for the claims sampled. Further, significant increases in the total paid and incurred were noted from the evaluation date, September 30, 2005, to the April 30, 2006 data file provided to the examiners by ASI during the on-site visit. Total payments through April 30, 2006 for one claim had reached $509,093. As previously noted, ASI's deductible is only $250,000, yet as of July 3, 2006, Oriska Insurance Company had not made any reimbursement to ASI for the amount over the deductible nor has ASI submitted a request to the Company for reimbursement.

Relative to the workers' compensation coverage afforded ASI, there is a contingent liability for additional exposure to the Company for the policy periods July 1, 2004 through July 1, 2005 and July 1, 2005 through July 1, 2006. It was noted on examination that the Company booked, billed and received premium from ASI for the period(s) post July 1, 2004; however, the premiums were returned to ASI and the related accounting was reversed in the Company's amended September 30, 2005 quarterly statement. Yet, while on-site at ASI, the examiners were provided, by ASI staff, with loss runs for the policy periods July 1, 2004 to July 1, 2005 and July 1, 2005 to July 1, 2006. A small sample of claim files reviewed identified Oriska Insurance Company as the insurer. Further, ASI staff forwarded to the examiners, e-mail communications from Oriska Insurance Company staff with certificates of insurance attached in a PDF format, for the period July 1, 2004 to July 1, 2005 for ASI clients. The examiners also found within one of the claim files sampled, a letter on Oriska Insurance Company letterhead signed by Frederick K. Davis, Vice President of Oriska Insurance Company, dated May 31, 2005, whereby he indicates that ASI's policies with the Company include the period July 1, 2004 to July 1, 2005. The letter states, "this letter is intended to provide proof of coverage for…by Oriska Insurance Company." In response to examination concerns about the potential coverage dispute the Company provided a copy of a stipulation & order entered into between ASI and Oriska Insurance Company dated November 30, 2005, whereby the Company and ASI agreed that there is no effective policy issued by Oriska Insurance Company for any period subsequent to July 1, 2004. Irrespective of the stipulation & order executed by the Company and ASI, there is uncertainty on the part of this examination as to whether or not the individual clients under ASI have workers' compensation coverage for the period post July 1, 2004 through Oriska Insurance Company.

<u>Reserve Credits taken for High Deductible Policies</u>

As of September 30, 2005, the Company is reducing its loss and loss adjustment expense reserves (taking reserve credits) for both outstanding case and incurred but not reported claims by $16,685,125.

This represents the amounts estimated to be within the deductible layer and to be retained by the insured policyholder(s) or PEO's. Despite the fact that the insured policyholders or PEO's are responsible for claims within the deductible layer, the Company is exposed to the credit risk of the PEO, should the PEO be unable to meet its obligations within the deductible layer. As of September 30, 2005, the collateral inventory list provided to the examiners only includes collateral for the US Management / Brand Group. Further, the collateral reported for the US Management / Brand Group includes a combination of collateral trusts, security interests in various bank accounts which are not in the custody or control of the Company, and a real estate collateral mortgage. Of the $16,685,125 total reserve credits taken by the Company for high deductibles as of September 30, 2005, $10,677,823 relates to $500,000 deductible policies, which represent the US Management / Brand Group of policies. An additional $2,447,212 relates to Power PEO, an insured attached to the US Management / Brand Group of policies. The remaining $3,560,090 of reserve credits relate to other than the US Management / Brand Group policies (including Power PEO) and is not collateralized. The Department requires that all Large Deductible Programs for Workers' Compensation Insurance approved for use in New York require that the policyholder provide as proof of ability to pay the portion of losses for which it is responsible, collateral acceptable to the Department as presented in the rating plan. Further, it is permissible to reserve for losses net as to deductibles as long as the collateral totals an amount equal to the insured's deductible liability. On examination the $3,560,090 of reserve credits taken by the Company that are not collateralized have been disallowed. The examination has not disallowed the $11,144,492 of reported collateral accepted by the Company for the US Management / Brand Group of policies (including Power PEO) despite the fact that said collateral is non-complying.

Subsequent to the examination date, on November 28, 2006, the Company, as Carrier and/or Beneficiary, entered into the Rashbi and Oriska Insurance Company Irrevocable Trust Agreement ("Rashbi Trust") to further collateralize the US Management / Brand Group of policies (including Power PEO). As of April 30, 2007 the Department has confirmed directly with the Trustee, HSBC Bank USA, a balance of $6,000,000 in the Rashbi Trust. On June 14, 2007, the Rashbi Trust was amended to secure the promises in the deductible endorsement of the policy of any insured/policyholder whether or not listed on the original agreement under circumstances where no collateral or other security has been provided or for which collateral or other security has been provided in kind or quantum unacceptable to Oriska Insurance Company and which would otherwise prevent Oriska Insurance Company from reserving claims net of the deductible amount; and it was further amended to provide collateral security for workers' compensation insurance of any insured/policyholder of Oriska Insurance Company whether or not listed in the agreement, both current (in force) and expired, which are wholly or partly unsecured.

Lastly, subsequent to the examination date, on June 5, 2007, the Lijo Weber Irrevocable Trust was created by and among Lijo Weber Revocable Trust and its Trust Beneficiaries as "Grantor", and Hershel Weber and Oriska Insurance Company as Trustees, and Oriska Insurance Company as the Beneficiary, to be effective as of September 30, 2005. Pursuant to this Trust the Grantor agrees to provide collateral security for, and guarantee payment of a deductible retention for certain named insureds as well as for insureds/policyholders of Oriska Insurance Company whether or not listed under circumstances where no collateral or other security has been otherwise provided. On June 5, 2007, the two accounts to which Oriska Insurance Company was granted a security interest in conjunction with this trust had a combined market value of $1,931,856. The balances in these two accounts were not confirmed by the examiners.

The above noted subsequent event activity collateralizes, subsequent to the date of this examination, the uncollateralized reserve credits disallowed by this examination.

Surety

Relative to the Company's reserves for the surety line of business, it is noted that the Company's carried reserve reflects a reduction for anticipated salvage and subrogation recoveries of $1,433,831. As noted in the actuarial reports prepared by the Company's own actuaries, "due to the lack of historical subrogation recovery data for the Company, there is additional uncertainty associated with the estimated subrogation recoverable."

On examination a sample of seventeen surety claim files were selected for review. For three of the seventeen claim files sampled, the Company was unable to provide sufficient documentation to support the $430,000 expected recoveries estimated by the Company and used to reduce the direct case reserves for these claims. Since these bonds fall within the time period for which the Company had reinsurance for its surety business, the effect of disallowing the recovery expected under the three bonds noted, net of reinsurance, is an examination increase of $94,791 to the total net reserves for surety.

Claim Counts

On examination it was noted that the Company did not report any claim count information on Schedule P Part 5D (Workers' Compensation) Sections 1 and 2 of its 2002, 2003 and 2004 annual statements. In addition, the claim count information reported in Section 3 was observed to be stagnant. Further, the workers' compensation claim counts provided in the 2005 annual statement were inaccurate.

In light of the aforementioned, the following recommendations are made as a result of this examination:

It is recommended that the Company comply with Section 1303 of the New York Insurance Law and "maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of the statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

It is recommended that the Company improve the quality of the data supporting its loss and loss adjustment expense reserves.

It is recommended that the Company monitor, on a periodic basis, the credit risk of its high deductible insureds and obtain sufficient collateral from the insureds. Such collateral should be in a form acceptable to the Department as presented in the approved rating plan.

It is recommended that the Company only take credit for anticipated recoveries on surety bonds that it can sufficiently document and support.

It is recommended that the Company report accurate and complete claim count information in Schedule P Part 5 in all future statements filed with this Department.

8. COMMISSIONS PAYABLE, CONTINGENT COMMISSIONS AND OTHER SIMILAR CHARGES

The examination liability of $144,578 is $38,737 more than the $105,841 balance reported by the Company as of the examination date. The examination change relates solely to the workers' compensation line of business.

As of the examination date, the Company reported commissions payable for workers compensation business in the amount of $(54,398). The examination determined that the commissions payable for workers’ compensation should have been $(15,661). The examination change, $38,737, is the net result of paid claims taken as an offset against premiums receivable, resulting in additional commissions payable of $19,158, and return premiums resulting in $34,819 of commissions previously paid due back to the Company.

A review of the schedule supporting the Company’s reported workers’ compensation commission payable balance as of the examination date revealed that as of January 1, 2005 workers’ compensation commission payable was $245,134. Commissions payable on 2005 workers’ compensation premium written was $670,653 and commissions payable on 2005 workers’ compensation premium received was

$970,185. As a result, as of September 30, 2005, the Company reported negative commissions payable or a contra liability for commissions payable on its workers' compensation business in the amount of $54,398.

On examination, the Company was unable to provide the examiners with the details relating to the workers' compensation commission payable balance of $245,133 as of January 1, 2005 and the commissions payable premium received balance of $970,185 as per the above noted schedule.

Based on the premium receivable information provided by the Company, the 2005 workers compensation direct premium received was $5,681,151, related commissions was $640,385, and commissions paid to Monument Agency was $644,803. Therefore, it would appear that the commissions payable for the workers' compensation line of business should have been $240,715, not $(54,398) reported by the Company.

In response to an examination memorandum, the Company claimed that the commission function of the old database was lost in 2002 and they were unable to recreate that detail of the commissions from the old system. The Company claimed that files were researched and it was determined that the failed database reflected commissions which were not owed. As such, the Company posted a reversing journal entry in the third quarter of 2005 reducing the commission payable balance by $280,889.

During the fourth quarter of 2005, the Company wrote off $228,128 of commissions payable. Based on documentation the Company provided the examiners on the 2003 examination, the balance for workers' compensation commissions payable as of January 1, 2002 was $107,436 and the December 31, 2002 balance was $149,998. Thus, it appears that a reduction of $280,889 is not appropriate.

In a follow-up examination request, the examiners requested that the Company provide the files that were researched and explain how the Company determined that the failed database reflected commissions that were not owed.

The Company agreed to do extensive research on a file by file basis to develop data on premium received and commissions payable to support the Company's position regarding agents' commissions.

In the absence of sufficient documentation to support the January 1, 2005 and prior workers compensation commissions payable balance, the examiners reviewed the general ledger activity for commissions paid subsequent to the examination date, September 30, 2005, on first dollar workers compensation policies written prior to 2005. This revealed that no commissions have been paid from the examination, September 30, 2005, to the date of review, which appears to support the Company's position that the liability for commissions payable on the workers' compensation line of business was overstated as of the examination date. Nevertheless, the Company has an obligation to maintain records to support its financial statements and any and all adjustments made to those financial statements.

Department Regulation 152 specifies the standards of records retention by insurance companies. Section 243.2(b)(7) states,

> "An insurer shall maintain a financial record necessary to verify the financial condition of an insurer, including ledgers, journals, trial balances, annual and quarterly statement workpapers, evidence of asset ownership, and source documents, for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, which ever is longer."

It is recommended that the Company comply with the standards of record retention pursuant to Part 243 of Department Regulation 152, forthwith.

9. TAXES, LICENSES AND FEES

The examination liability of $176,165 is $127,481 more than the $48,684 balance reported by the Company as of the examination date. The examination change relates to the Company carrying the December 31, 2004 accrual of $48,684 through to the fourth quarter of 2005.

It is recommended that the Company carry the proper accrual for "Taxes, licenses and fees" in all future financial statements filed with this Department.

10. CEDED REINSURANCE PREMIUMS PAYABLE

The examination liability of $366,880 is $47,459 less than the $414,339 balance reported by the Company as of the examination date. The examination change relates to the Company writing-off, in the fourth quarter of 2005, all $47,459 of the accident and health ceded reinsurance premiums payable as of September 30, 2005. The examination balance sheet reflects the write-off.

11. PROVISION FOR REINSURANCE

The examination liability of $100,132 is $42,305 less than the $142,437 balance reported by the Company as of the examination date. The examination change relates to the Company writing-off, in the fourth quarter of 2005, all of the accident and health amounts recoverable from reinsurers of $211,526, and ceded reinsurance premiums payable of $47,459 as of the examination date.

At September 30, 2005, the Company carried a Schedule F penalty of $42,305 (20% of $211,526). Since the examination reduced the Accident and Health amounts recoverable from reinsurers balance of $211,526 by 100%, "Provision for reinsurance" has been decreased by $42,305.

12. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims and complaint handling

The following exceptions were noted:

Compliance with Sections 3443 and 2108 of the New York Insurance Law

In accordance with Section 3443 of the New York Insurance Law,

> "an insurer issuing a workers' compensation and employers' liability insurance policy, …, may offer, as part of the policy or by endorsement, deductibles optional to the policyholder for benefits payable under the policy, subject to approval by the superintendent and subject to underwriting by the insurer, consistent with the following standards or factors:…(f) the insurer pays all of the deductible amount, applicable to a compensable claim, to the person or provider entitled to benefits and then seeks reimbursement from the policyholder for the applicable deductible amount…"

On examination it was noted that Oriska allows certain of its insured professional employer organizations ("PEO's"), leasing companies and individual insured employers to make payments for compensable claims, both within and beyond the deductible, to the person or provider entitled to benefits. In such cases the insured utilized their own checking accounts or related party checking accounts to make such payments. This was noted relative to Oriska's largest customer, Brand Management, Inc. located in Brooklyn, New York ("Brand Management" formerly known as U.S. Management, Inc.) and the related Brand Management accounts. It was also noted relative to a PEO named All Staffing, Inc. located in Lansford, Pennsylvania.

Claims related to Brand Management, Inc. and Brand Managements' related PEO's, leasing companies and individual policies, both high deductible and first dollar policies, are handled under the direction of two employees of Oriska Corporation that are located physically at the Brand Management offices. These two Oriska Corporation employees are assisted by five individuals that are not employed by Oriska Insurance Company or Oriska Corporation. Yet, on examination it was observed that these five individuals represented themselves as employees of Oriska Insurance Company. There is no agreement in place, other than insurance policies, between Oriska Insurance Company and Brand Management that spells out the terms of such an arrangement. Further, the examiners noted reimbursements requested by Oriska from Brand Management for the payroll and payroll related expenses of the Oriska Corporation employees located at Brand Management.

Claims against policies issued by Oriska to the PEO, All Staffing, Inc. ("All Staffing"), are handled by employees of All Staffing, not employees of Oriska Insurance Company or Oriska Corporation. Further, no evidence was produced on examination that such individuals were licensed by this Department or by any State Insurance Department to adjust claims.

Allowing the insured to make payments for compensable claims, either within or beyond the deductible amount, to the person or provider entitled to benefits is a violation of Section 3443(f) of the New York Insurance Law. Further, allowing individuals to act as claims adjusters without a license is a violation of Section 2108 of the New York Insurance Law.

It is recommended that the Company comply with the requirements of Section 3443(f) of the New York Insurance Law forthwith. It is further recommended that the Company ensure that individuals adjusting claims on behalf of the Company are properly licensed to do so, in accordance with Section 2108 of the New York Insurance Law.

Compliance with Section 2307 of the New York Insurance Law

In accordance with Section 2307(b) of the New York Insurance Law,

> "…no policy form shall be delivered or issued for delivery unless it has been filed with the superintendent and either he has approved it, or thirty days have elapsed and he has not disapproved it as misleading or violative of public policy…"

It is noted that the Company received approval for its large deductible plan on February 13, 2003, yet the Company began marketing high deductible workers' compensation policies ($250,000 and $500,000 deductibles) during 2002. Written premiums booked by the Company in its 2002 financial statements for such policies reflected a $5,000 deductible; however, the premium billings were set up "as if" the policy were on a high deductible basis. Effective January 1, 2003, the Company endorsed its PEO policies with the high deductible endorsement approved by the Department effective February 13, 2003, thus violating the prior approval requirement set forth in Section 2307(b) of the New York Insurance Law. The policy with U.S. Management, Inc. is a high deductible policy effective May 1, 2002 (see below).

It is recommended that in the future that the Company comply with Section 2307 of the New York Insurance Law.

Compliance with Sections 2305 and 2314 of the New York Insurance Law

In accordance with Section 2305(b) of the New York Insurance Law,

> "rate filings for (1) workers' compensation insurance … shall not become effective unless either the filing has been approved or thirty days, which the superintendent may with cause extend an additional thirty days and with further cause extend an additional fifteen days, have elapsed and the filing has not been disapproved as failing to meet the requirements of this article, including that rates be not otherwise unreasonable…"

In accordance with Section 2314 of the New York Insurance Law,

> "no authorized insurer shall, and no licensed insurance agent, no employee or other representative of an authorized insurer, and no licensed broker shall knowingly, charge or demand a rate or receive a premium which departs from the rates, rating plans, classifications, schedules, rules and standards in effect on behalf of the insurer, or shall issue or make any policy or contract involving a violation thereof."

In accordance with a settlement agreement made and effective March 31, 2004, by and between U.S. Management, Inc., an insured PEO, and the Company, U.S. Management, Inc. agreed to pay premiums calculated to be 1.225% of the PEO's taxable gross payroll or a rate other than the rate filed with and approved by this Department. This agreement covered policies issued to this PEO and related PEO's and or staffing companies from May 1, 2002 through May 1, 2005. The Company further extended the application of the terms of the agreement to July 1, 2005.

On examination the Company has been requested to recalculate the premiums that would have been charged had the Department's approved rates been utilized. As of the date of this report the Company has not yet responded to this request.

It is recommended that the Company comply with Sections 2305 and 2314 of the New York Insurance Law forthwith.

Compliance with Department Circular Letter No. 11 (1978)

The Company's complaint log is not in compliance with the Department Circular Letter No. 11 (1978). Several columns are missing that require valuable information. It is recommended that the Company maintain its complaint log in accordance with Department Circular Letter No. 11 (1978) and follow the other requirements of this circular letter.

13. CONCLUSION

As a result of this examination, the Company was insolvent at September 30, 2005 in the amount of $2,049,849 and its capital was impaired by $3,549,849. Additionally, the minimum surplus to be maintained of $2,200,000 was impaired in the amount of $4,249,849.

Subsequent to the examination date, in 2007, the Company received a surplus contribution of $700,000 from Oriska Corporation, $660,000 through the satisfaction of mortgage obligations encumbering the asset ‘Properties held for sale’ (March 5, 2007) and a $40,000 cash contribution (April 12, 2007).

Subsequent to the examination date, on November 28, 2006, the Company, as Carrier and/or Beneficiary, entered into the Rashbi and Oriska Insurance Company Irrevocable Trust Agreement (“Rashbi Trust”) to further collateralize the US Management / Brand Group of policies (including Power PEO). As of April 30, 2007 the Department has confirmed directly with the Trustee, HSBC Bank USA, a balance of $6,000,000 in the Rashbi Trust. On June 14, 2007, the Rashbi Trust was amended to secure the promises in the deductible endorsement of the policy of any insured/policyholder whether or not listed on the original agreement under circumstances where no collateral or other security has been provided or for which collateral or other security has been provided in kind or quantum unacceptable to Oriska Insurance Company and which would otherwise prevent Oriska Insurance Company from reserving claims net of the deductible amount; and it was further amended to provide collateral security for workers’ compensation insurance of any insured/policyholder of Oriska Insurance Company whether or not listed in the agreement, both current (in force) and expired, which are wholly or partly unsecured.

Lastly, subsequent to the examination date, on June 5, 2007, the Lijo Weber Irrevocable Trust was created by and among Lijo Weber Revocable Trust and its Trust Beneficiaries as “Grantor”, and Hershel Weber and Oriska Insurance Company as Trustees, and Oriska Insurance Company as the Beneficiary, to be effective as of September 30, 2005. Pursuant to this Trust the Grantor agrees to provide collateral security for, and guarantee payment of a deductible retention for certain named insureds as well as for insureds/policyholders of Oriska Insurance Company whether or not listed under circumstances where no collateral or other security has been otherwise provided. On June 5, 2007, the two accounts to which Oriska Insurance Company was granted a security interest in conjunction with this trust had a combined market value of $1,931,856. The balances in these two accounts were not confirmed by the examiners.

The subsequent event activity noted above eliminates the aforementioned insolvency subsequent to the examination date.

14. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eleven recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that the Company's board members who are unable or unwilling to attend meetings consistently resign or be replaced. The Company has not complied with this recommendation. A similar comment is made in this report.	5
ii.	It is recommended that the Company's board of directors approve all investment transactions made by the Company and that the minutes include a listing of the transactions so approved. During the examination it was determined that Company has not complied with this recommendation. However, during the examination this was brought to management's attention and the Company began to comply.	5-6
iii.	It is recommended that the Company have its officers, board members, and key personnel complete conflict of interest questionnaires on an annual basis and submit the completed questionnaires to the board of directors for their review. The Company has not complied with this recommendation in 2000, 2001, and 2002. A similar comment is made in this report.	6
iv.	It is noted that several of the Company's board members are also members of the board of directors for the Open Shop Association, Inc. This situation represents a potential and/or real conflict of interest regarding the rates negotiated between the Company and the Open Shop Association, Inc. for the employer members. The Company has changed ownership effective December 31, 2002.	6-7
B	Holding Company System	
	It is recommended that the Company's holding company registration statement include the appropriate reports or materials for all entities that own in excess of ten percent of the voting shares of Oriska Corporation, pursuant to Section 1504(a) of the New York Insurance Law and Section 80.4 of New York Regulation 52. The Company has complied with this recommendation.	14

ITEM		PAGE NO.
C	Custodial Agreement It is recommended that the Company amend its custodial agreements to include the required protective covenants and provisions. Initially the Company did not comply but are in compliance now.	16-17
D	Fidelity Bond It is recommended that the Company obtain adequate fidelity bond coverage. The Company has complied with this recommendation.	17
E	Accounts and Records	
	Regulation 30 It is recommended that the Company undertake a study to ensure that its salaries and other expenses are properly allocated to expense groups pursuant to the provisions of Part 109 of Department Regulation 30. The Company has complied with this recommendation. However, additional recommendations are made in this report regarding the allocation of expenses and Department Regulation 30.	18
	Aging of Premiums Receivable It is recommended that the Company ensure that the total premiums and agents' balances in course of collection on the database used to determine the not admitted asset for premiums and agents' balances more than 90 days due ties to the total premiums and agents' balances in course of collection reported on its annual statement. The Company has complied with this recommendation. However, additional recommendations are made in this report regarding the premiums receivable.	18-19
	Back-up of Database Files It is recommended that the Company maintain back-up copies of its database on the closing date used to generate the amounts reported on its filed annual statement. The Company has not complied with this recommendation.	19
	Third Party Administrators It is recommended that the Company require its third party administrators to provide them with computer files, in magnetic forms, on a monthly basis containing all relevant information so that the Company can properly track and monitor the administration of its claims and to ensure that its claims are settled in a prompt, fair and equitable manner pursuant to the requirements of Section 3224-a of the New York Insurance Law and Department Regulation 64. The Company has not complied with this recommendation.	20

15. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Capital Impairment	1 - 3

As a result of this examination, the Company was insolvent at September 30, 2005 in the amount of $2,049,849 and its capital was impaired by $3,549,849. Additionally, the minimum surplus to be maintained of $2,200,000 was impaired in the amount of $4,249,849.

Subsequent to the examination date, in 2007, the Company received a surplus contribution of $700,000 from Oriska Corporation, $660,000 through the satisfaction of mortgage obligations encumbering the asset 'Properties held for sale' (March 5, 2007) and a $40,000 cash contribution (April 12, 2007).

Subsequent to the examination date, on November 28, 2006, the Company, as Carrier and/or Beneficiary, entered into the Rashbi and Oriska Insurance Company Irrevocable Trust Agreement ("Rashbi Trust") to further collateralize the US Management / Brand Group of policies (including Power PEO). As of April 30, 2007 the Department has confirmed directly with the Trustee, HSBC Bank USA, a balance of $6,000,000 in the Rashbi Trust. On June 14, 2007, the Rashbi Trust was amended to secure the promises in the deductible endorsement of the policy of any insured/policyholder whether or not listed on the original agreement under circumstances where no collateral or other security has been provided or for which collateral or other security has been provided in kind or quantum unacceptable to Oriska Insurance Company and which would otherwise prevent Oriska Insurance Company from reserving claims net of the deductible amount; and it was further amended to provide collateral security for workers' compensation insurance of any insured/policyholder of Oriska Insurance Company whether or not listed in the agreement, both current (in force) and expired, which are wholly or partly unsecured.

Lastly, subsequent to the examination date, on June 5, 2007, the Lijo Weber Irrevocable Trust was created by and among Lijo Weber Revocable Trust and its Trust Beneficiaries as "Grantor", and Hershel Weber and Oriska Insurance Company as Trustees, and Oriska Insurance Company as the Beneficiary, to be effective as of September 30, 2005. Pursuant to this Trust the Grantor agrees to provide collateral security for, and guarantee payment of a deductible retention for certain named insureds as well as for insureds/policyholders of Oriska Insurance Company whether or not listed under circumstances where no collateral or other security has been otherwise provided. On June 5, 2007, the two accounts to which Oriska Insurance Company was granted a security interest in conjunction with this trust had a combined market value of $1,931,856. The balances in these two accounts were not confirmed by the examiners.

ITEM		PAGE NO.
	The subsequent event activity noted above eliminates the aforementioned insolvency subsequent to the examination date.	
B	Management	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It is noted that the prior report on examination included a similar comment concerning the attendance at board meetings.	8
ii.	It is recommended that the Company comply with Section 712(a) of the Business Corporation Law and its filed charter and by-laws and appoint committees consisting of members of its board of directors.	9
iii.	It is recommended that the Company have its officers, board members, and key personnel complete conflict of interest questionnaires on an annual basis and submit the completed questionnaires to the board of directors for their review.	9
iv.	It is recommended that the Company continue to comply with Section 1411(a) of the New York Insurance Law and have all investments approved by its board of directors.	10
v.	It is also recommended that a detailed list of purchases and sales of investments be attached to the minutes.	10
D	Reinsurance	
i.	It is recommended that the Company only report commutations that can be supported by fully executed commutation agreements.	13
ii.	It is recommended that the Company include the appropriate mutual offset clause in all ceded reinsurance agreements to which it is a cedant and there are multiple cedants on the treaty.	15
iii.	It is recommended that the Company ensure that an entire contract clause be included in all ceded reinsurance treaties to which it is a party.	15
iv.	It is recommended that the Company only report reinsurance recoverable balances for ceded reinsurance supported by valid reinsurance treaties.	15
v.	It is recommended that the Company comply with SSAP 62, Paragraph 23 and ensure that its reinsurance arrangements are finalized, reduced to a written form and signed by the parties within nine months after commencement of the policy period covered else account for the arrangement as retroactive reinsurance.	15

ITEM			PAGE NO.
	vi.	It is recommended that the Company accurately report its reinsurance transactions in Schedule F in all future statements filed with this Department.	16
	vii.	It is recommended that the Company only report letters of credit that are effective on or before the "as of" date on Schedule F, Part 5.	16
		Reinsurance Intermediary	
		It is recommended that the Company verify the appropriate licensure by this Department, prior to appointment, all reinsurance intermediaries with whom it does business.	18
E		Holding Company System	
		It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	19 - 20
		Prior Expense Sharing Arrangements	
		It is recommended that the Company ensure that all future expense sharing arrangements are reduced to writing prior to entering into such agreements.	22
		September 30, 2005 Examination Findings	
	i.	It is recommended that the Company comply with Section 1217 of the New York Insurance Law, henceforth.	26
	ii.	It is recommended that the Company strengthen its internal controls over expenses by requiring that all expenditures be adequately supported by vouchers that sufficiently identify the services rendered, the nature of the disbursement and the business purpose as it relates to the insurer(s).	26
	iii.	It is further recommended that all approvals to disburse funds from the insurers be appropriately documented, in writing, by an officer or responsible employee of the insurer.	26
	iv.	It is recommended that all expenses be properly classified in accordance with Department Regulation 30, Part 105.	27
	v.	It is recommended that the Company maintain records supporting the allocation of the costs of personnel in accordance with Department Regulation 30, Part 109.	27
	vi.	It is recommended that the Company enter into formal written agreements with all parties that provide services to the insurer (i.e. services provided by parties such as USA & Mr. Gary Buhl).	27

ITEM		PAGE NO.
H	Compliance with Sections 715 and 717 of the New York Business Corporation Law	
	It is recommended that the board of directors and the officers of Oriska Insurance Company be mindful of their fiduciary responsibilities to protect the assets of Oriska Insurance Company.	31
I	Abandoned Property Law	
	The Company's abandoned property reports for the period of this examination were never filed pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	31
K	Section 310 of the New York Insurance Law	
	It is recommended that the board of directors ensure that Company employees and/or management conduct themselves in a manner consistent with the provision of Section 310(a)(3) of the New York Insurance Law.	33
L	Accounts and Records	
	Annual and Quarterly Statement Filings	
	It is recommended that in the future the Company exercise greater care when completing its annual and quarterly filings made to this Department.	34
	Premium Related Data	
	It is recommended that the Company improve its controls over premium related data. An automated premium system that includes an operational premiums receivable function that ages premiums receivable balances would vastly improve the Company's operations.	34-35
	Premium Taxes on High Deductible Workers' Compensation Policies	
	It is recommended that the Company pay its premium taxes in accordance with Section 1510 of the New York Tax Law as reinforced by Department Circular Letter No. 10 (2001). In addition, the Company is directed to remit the taxes owed on the reimbursement of deductibles that it has received on high deductible workers' compensation policies from insureds, retroactive to the inception date of the Company's high deductible workers' compensation policy program.	35
M.	Properties Held for Sale	

ITEM		PAGE NO.
	It is recommended that the Company comply with Section 1414(d) of the New York Insurance Law and SSAP No. 40, Paragraph 10.	42
N.	Agents Balances or Uncollected Premiums	
i.	It is recommended that the Company cease its' current practice of evaluating premiums receivable and cash receipts for related policies on a "Group" basis as was noted for the U.S. Management / Brand Management related policies.	47
ii.	It is recommended that policies that are set up on installments clearly define the contractual due dates of the installments.	47
iii.	It is recommended that the Company bill premium and installment premiums in a more timely manner.	47
iv.	It is recommended that the Company require that the insured provide a proper accounting as to the application of premiums remitted when the remittance is intended to cover more than one policy. In lieu of a proper accounting, premiums received in such manner should be recorded as a liability under the caption 'Remittances and items not allocated' until such time as the proper written documentation is obtained supporting the allocation of the premium receipts. Such documentation should be retained by the Company and available for review upon examination by this Department.	47 - 48
v.	It is recommended that the Company fully comply with SSAP No. 6 regarding uncollected premium balances.	48
vi.	It is recommended that the Company only take credit as admitted assets, assets allowed pursuant to Section 1301 of the New York Insurance Law.	48
O.	Amounts Recoverable from Reinsurers	
	It is recommended that the Company write off in a timely manner all uncollectible recoverables in accordance with SSAP No. 62, paragraph 56.	48
P.	Losses and Loss Adjustment Expenses	
i.	It is recommended that the Company comply with Section 1303 of the New York Insurance Law and "maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of the statement, whether reported or unreported, which are unpaid as of such date and for which such	56

Respectfully submitted,

_____________/s/____________
Sheik H. Mohamed, CFE, CPCU
Senior Insurance Examiner

STATE OF NEW YORK)
) SS:
)
COUNTY OF ALBANY)

SHEIK H. MOHAMED, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

______/s/_________________
Sheik H. Mohamed

Subscribed and sworn to before me

This_________ day of ___________________, 2006.

***Appointment No** 22426*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Sheik Mohamed

as proper person to examine into the affairs of the

ORISKA INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 13th *day of* October, 2005

HOWARD MILLS
Superintendent of Insurance