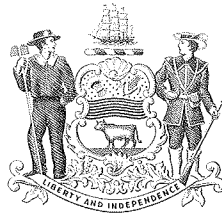


REPORT ON EXAMINATION
OF THE
WORK FIRST CASUALTY COMPANY
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

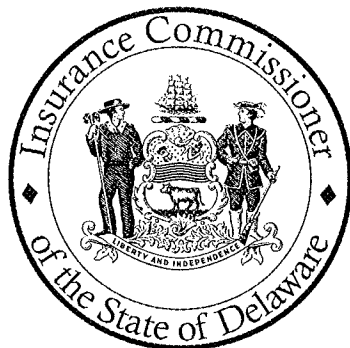
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009, of the

WORK FIRST CASUALTY COMPANY,

is a true and correct copy of the document filed with this Department.

ATTEST BY: Sonia C. Harris

DATE: June 7, 2011

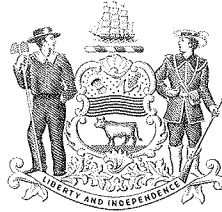


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7th day of June, 2011.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner




Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
WORK FIRST CASUALTY COMPANY
AS OF
DECEMBER 31, 2009

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 7th day of June, 2011

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SALUTATION

March 23, 2011

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
NAIC
Deputy Director and Superintendent of
Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg # 69-2
Cranston, Rhode Island 02920

Honorable Mila Kofman
Secretary, Northeastern Zone
Superintendent of Insurance
Department of Professional Regulation and
Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Honorable Sharon P. Clark,
Secretary, Southeastern Zone
Commissioner of Insurance
Kentucky Department of Insurance
P.O.Box517
Frankfort, Kentucky 40602-0517

Honorable Stephen W. Robertson,
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Monica J. Lindeen
Secretary, Midwestern Zone
Commissioner of Securities and Insurance
Montana State Auditor's Office
840 Helena Ave.
Helena, Montana 59601

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.10-012, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

WORK FIRST CASUALTY COMPANY

hereinafter referred to as "Company" or "WFCC" incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of the Company located at

2650 South Decker Lake, Suite 500, Salt Lake City, Utah. The statutory address of the Company is located at 3411 Silverside Road, Suite 101, Wilmington, Delaware.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2004. This examination covers the five (5) year period, from January 1, 2005 through December 31, 2009 and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed and are included in the workpapers of this examination:

- Agent and Employee Welfare
- NAIC Ratios
- Legal actions
- Regulatory agency correspondence
- All asset and liability items not mentioned

The examination was conducted under Specific Risk Analysis (SRA) guidelines. In planning and conducting the examination, consideration was given to the concepts of materiality, risk and the efficient allocation of examination resources. The workpapers of the Company's public accountant prepared in support of the Company's annual audit were reviewed, and utilized to the extent deemed appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

Mortgage Loans and Property

Subsequent to the examination date and due to valuation concerns, the Delaware Department of Insurance requested new appraisals on certain real estate investments and mortgages owned by the Company. These current new appraisal values are compared to Company reported values as of December 31, 2009 as follows:

Work First Casualty Company

| Mortgage or Real Estate Description | 2010 New Appraised Value (AV) | Original Appraised Value (AV) | 2009 Reported Book Value or Loan Balance | Difference between New AV and Original AV |
|---|-------------------------------------|-------------------------------------|---|---|
| 7566 W. Trails Drive | \$ 717,000 | \$ 1,176,200 | \$ 800,000 | \$ (459,200) |
| 7560 W. Trails Drive | 700,000 | 1,178,600 | 819,230 | (478,600) |
| 7572 W. Trails Drive | 590,000 | 948,300 | 650,000 | (358,300) |
| *Developed lots in Glendale, AZ | 162,000 | 2,500,000 | 980,770 | (2,338,000) |
| Vacant Lot in Running Y subdivision in Klamath Falls OR | 45,000 | 125,000 | 125,000 | (80,000) |

* Of the Company' ten (10) vacant developed lots in Glendale, AZ carried in 2009, one (1) lot was sold in the first quarter 2010.

The Company's reported carrying amounts in its 2010 Annual Statement compared to the new appraised amounts are as follows:

| <u>Mortgages on model homes</u> | <u>New Appraised Value</u> | <u>2010 A/S Reported BV</u> | <u>Difference</u> |
|---|----------------------------|-----------------------------|---------------------|
| 7566 W. Trails Drive | \$ 717,000 | \$ 750,850 | \$ 33,850 |
| 7560 W. Trails Drive | 700,000 | 757,350 | 57,350 |
| 7572 W. Trails Drive | 590,000 | 617,911 | 27,911 |
| 2010 non-admitted amount | | (319,200) | (319,200) |
| Sub-total mortgage loans | <u>\$ 2,007,000</u> | <u>\$ 1,806,911</u> | <u>\$ (200,089)</u> |
| 9 Developed Vacant Lots in AZ | \$ 162,000 | \$ 754,093 | \$ 592,093 |
| "Running Y" Vacant Lot in OR | 45,000 | 125,000 | 80,000 |
| Sub-total property | <u>\$ 207,000</u> | <u>\$ 879,093</u> | <u>\$ 672,093</u> |
| Total difference between appraised value and reported value | <u>\$ 2,214,000</u> | <u>\$ 2,686,004</u> | <u>\$ 472,004</u> |

The Company's 2010 reported net admitted amount for mortgage loans was \$200,089 less than the new appraised value. The Company's 2010 reported values of its 9 developed vacant lots in Glendale, AZ and its contributed vacant lot in Klamath Falls, OR exceeded the 2010 appraised values by \$672,093. Total 2010 appraised values as compared to 2010 Annual Statement reported values showed that these investments are overstated by \$472,004.

Short Term Investments

The Company non-admitted a short term investment for its Chileno Bay investment in the amount of \$1,023,000 in its second and third quarter 2010 statements. This was due to the default of payment of the loan at maturity as of May 18, 2010. Investment income for this short term loan

was also non-admitted by the Company. It should be noted that the Company re-admitted this short term investment in its 2010 Annual Statement at its original carrying value of \$1,023,000. The maturity date is reported the same in the Company's 2009 and 2010 Schedule DA – Part 1, as May 18, 2010.

Operations

The Company's 2010 Annual Statement shows that net admitted assets increased \$5.2 million, liabilities increased \$7 million primarily from loss and loss adjustment expenses (LAE) reserves which had increased \$6.9 million, and surplus as regards to policyholders decreased \$1.9 million giving the Company surplus as regards to policyholders \$10.3 million. Included in 2010 reported surplus was \$640 thousand of "Special Surplus Funds" as a result of provisions provided for in SSAP No. 10R used to calculate the Company's Net Deferred Tax Assets. Premiums earned increased \$3.3 million during the year and the Company reported a net loss of \$1.6 million, primarily as a result of increased loss reserves and claims payments.

Death of Owner

Subsequent to the examination date, the ultimate owner of the Company, Richard L. Wendt, passed away in August 2010. The Richard L. Wendt Revocable Living Trust dated March 8, 1995 replaced him as the ultimate owner. Nancy Wendt (widow of Mr. Wendt), Mark Wendt and Roderick Wendt (both sons of Mr. Wendt) collectively have been assigned as Trustees. Per a Designated Trust Agreement dated October 2010, Roderick Wendt was appointed as single Trustee to manage the Trust's ownership of Hire Calling Holding Company (HCHC) (the Parent Company) as set forth in that Agreement.

Effective November 2, 2010, Mr. Douglas P. Kintzinger replaced Mr. Richard Wendt as the Company's Board Chairman.

As of the above date, the members of the Board of Directors serving were as follows:

Director's Name

Douglas P. Kintzinger, Chairman of the Board

Roderick C. Wendt

John Wistar Courtney

James Christopher Madden

James Kenneth Steen

Principal Business Affiliation

President and CEO, IMS Capital

CEO, JELD-WEN

President, Next-Job, Inc.

President, WFCC

CEO, Director of WFCC

COMPANY HISTORY

As of December 31, 2004, the Company (previously Monumental General Casualty Corporation, a Maryland domicile) was a wholly owned subsidiary of AEGON USA, Inc.

Effective December 21, 2005, 100% of the issued and outstanding shares of common stock of the Company were acquired by Hire Calling Holding Company (HCHC), an unrelated Oregon holding company. Pursuant to Section 7-304 of the Insurance Article, Annotated Code of Maryland, the request for approval of the acquisition of control of the Company was granted by the Maryland Insurance Administration on December 15, 2005.

Effective December 15, 2005, the Maryland Insurance Administration also approved Articles of Amendment and Restatement of the Company changing its name to Work First Casualty Company. The name change became effective on January 13, 2006. Effective June 1, 2006 the Company was re-domesticated to Delaware.

Common Capital Stock and Paid-in Surplus

As of December 31, 2009 the Company had 160,000 authorized shares of common capital stock with a par value of \$30.00 per share. Of those authorized shares the Company had 101,894 issued and outstanding shares for a total common capital stock reported amount of \$3,056,820.

Dividends

The Board of Directors approved a \$10 per share ordinary dividend effective December 18, 2009. For its 100,000 shares the parent, HCHC, received a \$1,000,000 cash dividend. James Madden, the Company's president and only other shareholder, elected not to receive cash and opted to receive 123 additional shares of common stock. Mr. Madden had owned 1,771 shares of the Company's common stock at the time of the \$10 per share dividend which equals \$17,710 in dividends. He received 123 additional shares of \$30.00 par value common stock or an additional \$3,690 of common capital stock, and the remaining \$14,020 was reported as gross paid-in and contributed surplus by the Company.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of the Board of Directors.

Stockholder

In accordance with Article I, Section 1 of the Company's bylaws the annual shareholder's meeting shall be held each year on a date and time designated by the Board of Directors.

Board of Directors

Article II, Section 2 of the bylaws states that the number of directors shall be specified from time to time by resolution of the Board of Directors but shall be no more than nine (9) nor less than three (3).

The members of the Board of Directors serving as of December 31, 2009, were as follows:

| <u>Director's Name</u> | <u>Principal Business Affiliation</u> |
|---|--|
| Richard Lester Wendt, Chairman of the Board | Director, JELD-WEN, Inc. |
| John Wistar Courtney | President, Next-Job, Inc. |
| James Christopher Madden | President, Work First Casualty Company |
| James Kenneth Steen | CEO, Director of WFCC |

Committees

Article III, Section 1 of the bylaws provides that the board may appoint from among its members, an Executive Committee or such other committees as the board may deem advisable, including an Investment Committee (Section 5). As of December 31, 2009 the Board of Directors had no appointed committees.

Officers

Article IV, Section 1 of the bylaws provides that executive officers shall be a chairman, a vice chairman of the board, a chief executive officer, a president and one or more vice presidents, a secretary and a treasurer. One person may hold two positions but may not serve concurrently as both president and vice president. Officers are appointed annually by the board of directors and if any position becomes vacant during the year the board of directors can appoint a replacement during the year.

As of December 31, 2009 the Company's principal officers and their respective titles were as follows:

| <u>Officer</u> | <u>Title</u> |
|--------------------------|---------------------------------|
| Richard Lester Wendt | Chairman of the Board |
| James Kenneth Steen | Chief Executive Officer |
| James Christopher Madden | President and Secretary |
| Blaine Spencer Moon | Treasurer |
| Stephanie Jo Korab | VP and Assistant Secretary |
| Deborah Annette Nowak | VP – Claims and Loss Control |
| Bruce Allen Winterrowd | VP – Underwriting and Marketing |

Conflicts of Interest

The Company maintains a formal written conflict of interest policy, under which officers and directors are required to complete and sign a conflict of interest statement each year. The signed conflict of interest statements were reviewed and no conflicts of interest were noted.

Articles of Incorporation and Bylaws

There were several changes and amendments to the Company's Articles of Incorporation and Bylaws during the examination period and subsequent thereto. They were;

- Effective December 21, 2005, the Board of Directors changed the name of the Company from Monumental General Casualty Company to Work First Casualty Company.
- Effective February 27, 2006, certain sections of the bylaws were renumbered and Section 4.03 was added which allowed the Board of Directors to appoint a Chief Executive Officer.
- Effective March 15, 2006, the Company's bylaws were amended to reflect number of directors to be no less than three (3) and no more than nine (9).
- Effective June 1, 2006, the Board of Directors and shareholder approved the Company to re-domesticate to the State of Delaware from Maryland. The Company's Articles of Incorporation and bylaws so reflected this re-domestication.
- Effective January 26, 2007, the Board of Directors amended the Articles of Incorporation to have "the amount of total authorized capital stock of the corporation shall be \$3,000,000. The capital stock shall be represented by 100,000 shares having a par value of thirty dollars (\$30.00) each."
- Effective February 7, 2007, the Company's only shareholder, HCHC, approved the same above capital changes made by the Board of Directors.

- Effective March 26, 2008, the Company's only shareholder, HCHC, amended the Company's Articles of Incorporation to change the new registered office address and registered agent.

Corporate Records

The Company's corporate records were reviewed for the period under examination. The Certificate of Incorporation, as previously amended, was replaced in its entirety by the amended and restated Certificate of Incorporation effective December 31, 2008.

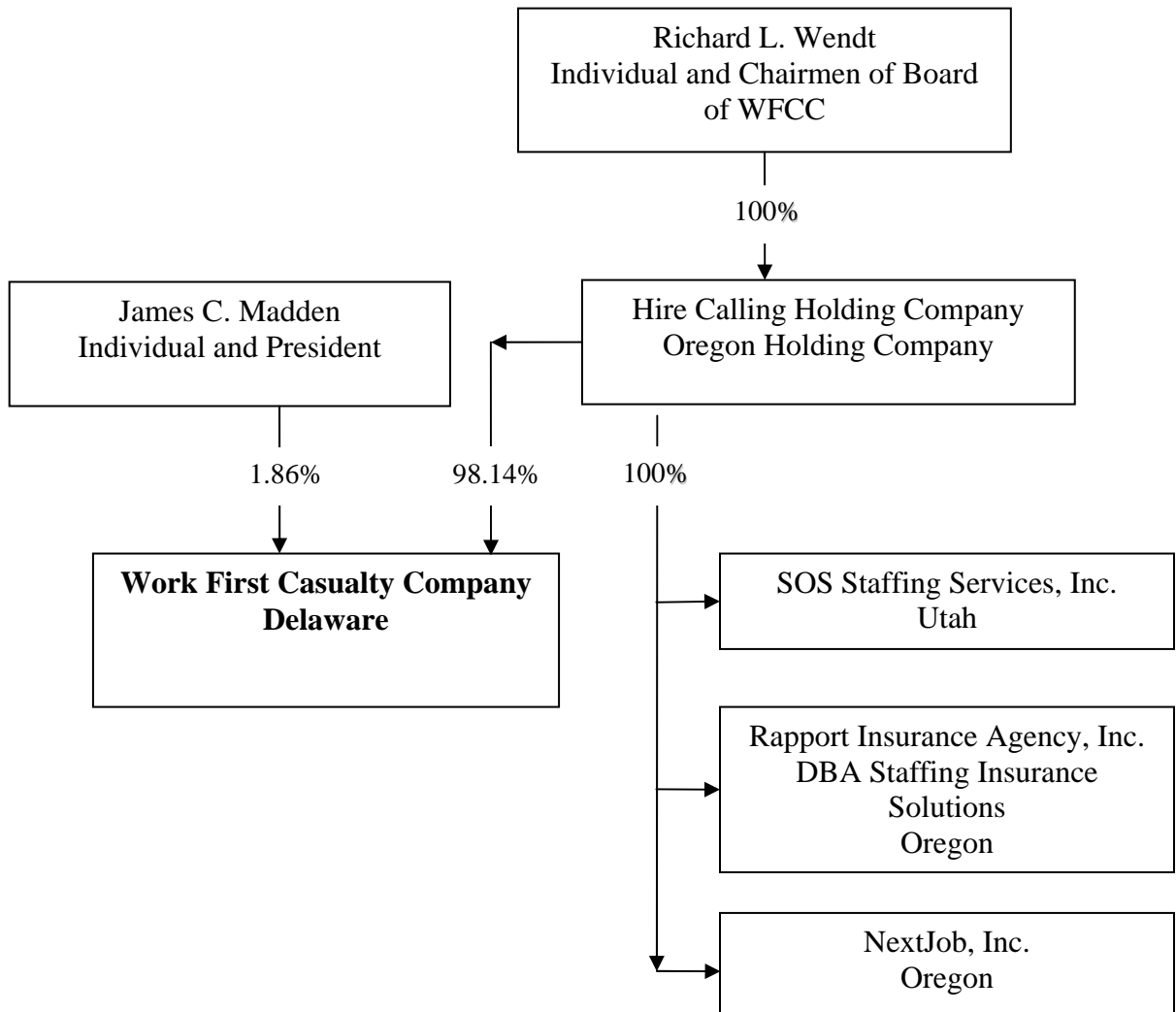
Holding Company System

The Company is a member of an Insurance Holding Company System and filed its Holding Company Registration Statement with State of Delaware as of May 5, 2009.

The Company is a wholly owned subsidiary of HCHC, an Oregon holding company which is ultimately owned by Richard L. Wendt, an individual. See SUBSEQUENT EVENTS.

The following abbreviated chart illustrates the Company and its affiliates within the current Holding Company System as of December 31, 2009:

Organizational Chart



Intercompany Management and Service Agreements

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2009.

The Company was a party to numerous inter-company agreements, which were disclosed by the Company in its Form B Registration Statement filings with the Delaware Department of Insurance. The agreements of significance are summarized below.

Consolidated Federal Income Tax Allocation Agreement

The Company entered into a consolidated federal income tax allocation agreement with Hire Calling Holding Company (HCHC), its parent, and other includable subsidiary companies. This agreement was effective for all calendar years beginning on or after January 1, 2005. Each includable subsidiary company (including the Company) remits their current tax liabilities at least quarterly and HCHC will simultaneously remit any tax refund and or benefits to the subsidiary companies no later than ninety (90) days after the end of the previous calendar quarter. The agreement provides for the filing of a consolidated tax return with HCHC. Each company is to have its tax liability or refund calculated as if it were filing a separate federal income tax return. Timely settlements between the affiliates are required by the terms of the agreement.

Administrative Services Agreement

Effective January 1, 2009, the Company entered into an Amended and Restated Administrative Services Agreement with SOS Staffing Services, Inc. (SOS) a Utah corporation and an affiliate. SOS provides the day-to-day administration of the Company's bookkeeping, accounting and related needs, which includes preparing of balance sheets, profit and loss statements, management reports, income tax returns, making disbursements (other than related to premiums and claims), drafting minutes of Directors meetings, assisting with the handling of legal matters before all insurance departments, and assisting with the handling of matters with the National Council on Compensation Insurance and other state compensation rating bureaus. The Company reimbursed SOS on a year-to-date determined monthly rate for general accounting services, information technology services, legal department, collections and human resource services.

Agency Marketing Agreement

Effective September 8, 2008, the Company entered into an agency marketing agreement with Rapport Insurance Agency, Inc. (dba Staffing Insurance Solutions), an Oregon corporation located in Klamath Falls, OR, an affiliate. This agreement appoints Staffing Insurance Solutions to act as a general agent for the Company and sell its' workers' compensation products to SOS and other affiliated staffing companies. Staffing Insurance Solutions wrote almost 22% (or almost \$ 3.9 million) of the Company's direct premiums in 2009.

External Management and Service Agreements

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2009:

Agency Marketing Agreement

Effective various dates, the Company entered into an agency marketing agreement with various non affiliated agents to act as nonexclusive Agent of Record for insurance coverages made available through the Company as described in the proposals (only workers' compensation coverage for staffing companies). The agents were allowed a commission based on the premiums collected by and on business submitted through the Company. The Company had eight (8) non affiliated agencies under this agreement who wrote the remaining 78% (or almost \$14.1 million) of its direct premiums in 2009.

Claim Service and Funding Agreement

Effective April 1, 2008, the Company entered into a claim service and funding agreement with Specialty Risk Services, LLC (SRS), a Delaware limited liability company in Hartford, Connecticut, as its third party administrator for claims management. SRS administers all aspects of claims management for all the Company's business. SRS also provides loss control consulting services for onsite inspection of insured operations. A Company Vice President of claims and loss

control, based in Klamath Falls, Oregon, oversees SRS provided claims services including claims administration and loss control.

Custodial Agreement

The Company is party to one custodial agreement for the purpose of safekeeping invested assets. A review of this agreement showed that it contained necessary and required safeguards protecting the Company's investments being held by the custodian. The agreement in place at December 31, 2009 was as follows:

- Effective July 19, 2006, the Company entered into an Amended Custodial Agreement with Wells Fargo Delaware Trust Company for the purpose of safekeeping the Company's invested assets. This agreement represents the custodial agreement originally entered into effective May 5, 2005 to incorporate changes by adding paragraph 14, Mandatory Provisions.

FIDELITY BONDS AND OTHER INSURANCE

The Company did not have fidelity bond coverage on officers, directors, or employees during the examination period. The NAIC suggested minimum amounts of fidelity insurance coverage for the Company as of year-end 2009 was between \$300,000 and \$350,000.

It is recommended that the Company obtain adequate fidelity bond coverage on officers, directors, or employees.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2009, the Company was licensed to transact business in the District of Columbia and all states except Colorado, Maine, New Hampshire, North Carolina, and Vermont. As noted in COMPANY HISTORY, the Company was acquired by HCHC in December 2005 as a

“shell” and was acquired to provide workers compensation insurance to the affiliated staffing companies, other non-affiliated temporary staffing companies, and other businesses. The Company has written only workers’ compensation insurance coverage since its acquisition by HCHC.

Plan of Operation

The Company provides workers’ compensation insurance to its affiliate SOS Staffing, Inc. (SOS), other temporary staffing companies, and other businesses with which the Company is familiar. The Company only offered workers’ compensation and related coverage’s to temporary staffing companies during the examination period.

The Company uses affiliated and non-affiliated agents and one General Agent to write its business. The Company’s affiliated agency, Rapport Insurance Agency, Inc. (DBA Staffing Insurance Solutions) only sells to SOS. The Company’s “Agency Marketing Agreements” and other related agency agreements are discussed in Intercompany and External Agreements.

All underwriting functions for workers’ compensation business written is performed by the Company with assistance coming from its only general agent where policies over the Company’s standard premium limit of \$25,000 are written.

GROWTH OF THE COMPANY

The following information was obtained from the Company’s filed Annual Statements and covers the period from the prior examination to December 31, 2009:

| <u>Year</u> | <u>Net Written Premiums</u> | <u>Surplus as Regards Policyholders</u> | <u>Net Written Premium to Policyholders Surplus</u> |
|-------------|-------------------------------------|---|---|
| 2005 | \$ 0 | \$ 7,085,303 | N/A |
| 2006 | 5,064,958 | 10,164,136 | 49.83% |
| 2007 | 16,533,025 | 10,675,246 | 154.87% |
| 2008 | 24,759,164 | 10,717,167 | 231.02% |
| 2009 | 17,288,470 | 12,210,917 | 141.58% |

Per the Company, the large premium decrease in 2009 was due to economic decline in the staffing industry in late 2008 that continued into 2009. The staffing industry began realizing job losses in late 2008, which negatively impacted the Company's premiums since premiums are based on insured staffing companies' payroll. SOS premiums comprised 21.3% of the Company's written premiums in 2009, and 29.3% written premiums for the Company in 2008. The Company anticipates fluctuations in premiums to continue, as the business of temporary staffing insureds is sensitive to economic conditions and the Company's primary driver of premiums (payrolls) fluctuates wider than most other businesses. The Company plans for future growth from writing additional policies through increased marketing and continuing to nurture relationships with its primary brokers.

REINSURANCE

The Company's reinsurance program includes mandatory participation as a member of the National Council on Compensation Insurance, Inc. (NCCI). As a participant, the Company assumes assigned pool on a pro-rata basis from NCCI designated states. The Company had two layers of excess of loss protection for its workers' compensation written business.

For 2009, the Company reported the following distribution of net premiums written:

| | |
|---|-----------------------------|
| Direct Written | \$ 17,936,991 |
| Reinsurance Assumed from Affiliates | 0 |
| Reinsurance Assumed from Non-Affiliates | 629,539 |
| Subtotal Reinsurance Assumed | <u>\$ 629,539</u> |
| Reinsurance Ceded to Affiliates | 0 |
| Reinsurance Ceded to Non-Affiliates | 1,278,060 |
| Subtotal Reinsurance Ceded | <u>\$ 1,278,060</u> |
| Net Premiums Written During Year | <u><u>\$ 17,288,470</u></u> |

Assumed

As a member of NCCI, the Company participates in NCCI assumed pool business. Businesses needing workers' compensation coverage that are unable to be placed with private carriers have an alternative market through the assigned risk pools managed by NCCI. All carriers within NCCI share in the underlying risk based on their pro-rata share of insurance premium written. Premiums, losses, underwriting expenses, and investment income is assigned to participating companies and reported quarterly by NCCI.

Ceded

Workers Compensation Excess of Loss Reinsurance Agreements (Various Reinsurers)

Effective April 1, 2009 the Company entered into a first and second excess of loss reinsurance agreement with various reinsurers as follows;

1st XOL – 100% of \$4 million ultimate net loss, excess of \$1 million

2nd XOL – 100% of \$5 million ultimate net loss, excess of \$5 million

Notwithstanding the above, as respect employers liability coverage, the agreements provides that the reinsurers' limit of liability is \$2 million ultimate net loss, each loss occurrence.

All of the Company's assuming reinsurers were unauthorized reinsurers. The Company was a beneficiary of an irrevocable standby letter of credit number 68023052 in the amount of \$3,183,393 issued by the Bank of America, N. A. Scranton, PA effective December 31, 2009 for benefit of these unauthorized reinsurers.

Retrocession – to Non-Affiliates

Workers Compensation Excess of Loss Retrocession Agreement

Effective as of July 1, 2007, and terminated April 1, 2009, HCHC, the Company's parent, established a Bermuda cell captive with an unrelated reinsurer, Bejar Indemnity LTD (Bermuda) (Bejar). The cell captive entered into a retrocessional reinsurance arrangement with Bejar whereby it assumed a portion of the first excess of loss reinsurance risk ceded by the Company as discussed above. The retrocession agreement provided coverage of 70% for the 2007 policy and 60% for the 2008 policy, of the excess of loss per occurrence limit for a single reinsurance loss and in the aggregate for the reinsurance period. HCHC provided letters of credit to Bejar guaranteeing the capital of the cell captive.

ACCOUNTS AND RECORDS

The Company's business is processed electronically through various systems. Underwriting is handled primarily through a Policy Administration System implemented in the third quarter of 2009. Historical information is retained in an MSAccess database and MSEXcel. Accounting functions are handled through Peachtree Accounting (billing/cash applications) for policies older than November 1, 2009, in the Policy Administration System for policies of an effective date November 1, 2009, and in QuickBooks (payroll). Accounting also utilizes MSEXcel for calculations and analysis. In addition, the Company has an administrative services agreement with its affiliate, SOS Staffing Services, Inc. (SOS), where some IT functions are handled,

including the sharing of network resources. Claims processing is processed through individual PC analysis and a TPA (Specialty Risk Services (SRS)). Claims information is accessed via the Internet.

An external accounting firm audits the statutory financial statement of the Company annually. The Company's external firm reviewed its internal control structure in order to establish the necessary audit procedures required to express an opinion. No significant or qualifying deficiencies were found to exist in the design or operation of the Company's internal control structure.

STATUTORY DEPOSITS

The Company's state statutory deposits are comprised primarily of U.S. Treasury Notes; the following statutory deposits were on file with the following states:

| STATE | Deposits For The Benefit of ALL Policyholders | | All Other Special Deposits | |
|-----------------------|---|---------------------|------------------------------|---------------------|
| | Book/Adjusted Carrying Value | Fair Value | Book/Adjusted Carrying Value | Fair Value |
| Arizona | | | \$ 549,332 | \$ 549,127 |
| Arkansas | | | 103,858 | 105,120 |
| Delaware | \$ 1,542,407 | \$ 1,577,343 | 1,050,266 | 1,050,266 |
| Florida | | | 159,764 | 161,725 |
| Georgia | | | 88,612 | 90,424 |
| Idaho | | | 258,342 | 260,996 |
| Kansas | | | 100,080 | 100,080 |
| Kentucky | | | 107,032 | 100,295 |
| Massachusetts | | | 99,853 | 101,078 |
| Montana | | | 24,963 | 25,270 |
| Nebraska | | | 111,424 | 121,964 |
| Nevada | | | 309,532 | 344,051 |
| New Mexico | | | 210,720 | 213,263 |
| Oregon | | | 1,418,645 | 1,423,207 |
| Rhode Island | | | 99,989 | 99,989 |
| Virginia | | | 127,811 | 129,380 |
| TOTAL DEPOSITS | \$ 1,542,407 | \$ 1,577,343 | \$ 4,820,223 | \$ 4,876,235 |

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2009, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2009

Liabilities, Capital and Surplus, December 31, 2009

Statement of Income and Capital and Surplus Account, December 31, 2009

Reconciliation of Surplus since last Examination

Analysis of Changes in Financial Statement from Examination

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the "exception basis" in the Notes to the Financial Statements section of this report.

Assets

As of December 31, 2009

| | <u>Assets</u> | <u>Non-Admitted Assets</u> | <u>Admitted Assets</u> | <u>Notes</u> |
|---|----------------------|--------------------------------|----------------------------|--------------|
| Bonds | \$ 13,344,551 | \$ 0 | \$ 13,344,551 | 1 |
| Common Stocks | 6,735,090 | 0 | 6,735,090 | |
| Mortgage loans on Real Estate -First Liens | 2,269,230 | 0 | 2,269,230 | 2 |
| Real estate properties occupied by the Company | 988,693 | 0 | 988,693 | 3 |
| Real estate properties held for the production of income | 1,406,500 | 0 | 1,406,500 | 3 |
| Real estate properties held for sale | 1,105,770 | 0 | 1,105,770 | 3 |
| Cash and short-term investments | <u>4,673,733</u> | <u>0</u> | <u>4,673,733</u> | 4 |
| Subtotals, cash and invested assets | <u>\$ 30,523,567</u> | <u>\$ 0</u> | <u>\$ 30,523,567</u> | |
| Investment income due and accrued | 526,065 | 337,634 | 188,431 | 5 |
| Uncollected premiums, agents' balance in the course of collections | 2,288,553 | 224,859 | 2,063,694 | |
| Reinsurance: | | | | |
| Amounts recoverable from reinsurers | 218,098 | 0 | 218,098 | |
| Funds held by reinsurance companies | 404,188 | 0 | 404,188 | |
| Other amounts receivable under reinsurance contracts | 337 | 0 | 337 | |
| Current federal income tax recoverable | 103,931 | 0 | 103,931 | |
| Net deferred tax asset | 1,778,599 | 883,977 | 894,622 | 6 |
| Electronic data processing equipment and software | 724,407 | 391,930 | 332,477 | |
| Claims payment deposit | <u>173,003</u> | <u>0</u> | <u>173,003</u> | |
| Totals | <u>\$ 36,740,748</u> | <u>\$ 1,838,400</u> | <u>\$ 34,902,348</u> | |

Liabilities, Capital and Surplus

As of December 31, 2009

| | | <u>Notes</u> |
|---|-----------------------------|--------------|
| Losses | \$ 17,471,835 | 7 |
| Loss adjustment expenses | 2,665,445 | 7 |
| Commissions payable, contingent commissions and similar charges | 185,352 | |
| Other expenses | 695,324 | |
| Taxes, licenses and fees due and accrued | 557,372 | |
| Unearned premiums | 1,469,433 | |
| Advance premiums | 6,304 | |
| Amounts withheld or retained by company for account of others | 8,330 | |
| Payable to parent, subsidiaries and affiliates | <u>64,970</u> | |
| <i>Total Liabilities</i> | <u>\$ 23,124,365</u> | |
| | | |
| Special surplus funds - Additional admitted deferred tax assets | \$ 459,041 | 6 |
| Capital stock | 3,056,820 | 8 |
| Gross paid in and contributed surplus | \$ 5,457,266 | 8 |
| Unassigned funds (surplus) | <u>2,804,856</u> | 5,7 |
| Surplus | <u>\$ 8,262,122</u> | |
| Surplus as regards policyholders | <u>\$ 11,777,983</u> | |
| <i>Totals</i> | <u>\$ 34,902,348</u> | |

**Statement of Income / Capital and Surplus Account
As of December 31, 2009**

| Underwriting Income | | Notes |
|--|-----------------------|--------------|
| Premiums earned | \$ 17,595,862 | |
| Deductions | | |
| Losses incurred | 11,564,909 | |
| Loss adjustment expenses incurred | 3,045,907 | |
| Other underwriting expenses incurred | 4,240,649 | |
| Total underwriting deductions | <u>18,851,465</u> | |
| Net underwriting gain or (loss) | <u>\$ (1,255,603)</u> | |
| Investment Income | | |
| Net investment income earned | 1,380,978 | |
| Net realized capital gains or (losses) | <u>(30,567)</u> | |
| Net investment gain or (loss) | <u>\$ 1,350,411</u> | |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | 0 | |
| Finance and services charges not included in premiums | 0 | |
| Reinsurance ceded balances charged off | 0 | |
| Total other income (loss) | <u>\$ 0</u> | |
| Net income before dividends to policyholders and before federal income taxes | \$ 94,808 | |
| Federal income taxes incurred | <u>87,011</u> | |
| Net income (loss) | <u>\$ 7,797</u> | |
| Capital and Surplus Account | | |
| Surplus as regards policyholders, December 31, 2008 | <u>\$ 10,717,167</u> | |
| Gains and (losses) in surplus | | |
| Net income | 7,797 | |
| Change in net unrealized capital gains or (losses) less capital gains tax of \$ 768,264 | 1,445,034 | |
| Change in net deferred income tax | 395,639 | |
| Change in non-admitted assets | 636,278 | |
| Capital changes: Paid-in | 3,692 | 8 |
| Surplus adjustments: | | |
| Paid-in | 14,050 | 8 |
| Dividends to stockholders | (1,017,740) | 9 |
| 2009 purposed Exam adjustments | <u>(423,934)</u> | 5,7 |
| Change in surplus as regards policyholders for the year | <u>1,060,816</u> | |
| Surplus as regards policyholders, December 31, 2009 | <u>\$ 11,777,983</u> | |

Reconciliation of Surplus since last Examination

| | <u>Common Capital Stock</u> | <u>Gross Paid-in and Contributed Surplus</u> | <u>Unassigned Surplus</u> | <u>Special Surplus Fund</u> | <u>Total</u> |
|---|---------------------------------|--|-------------------------------|---------------------------------|----------------------|
| December 31, 2004 | \$ 2,600,000 | \$ 0 | \$ 5,195,132 | | \$ 7,795,132 |
| Operations 2005 | | | (709,829) | | (709,829) |
| Operations 2006 | | | (493,166) | | (493,166) |
| Surplus adjustments: | | | | | |
| Surplus paid-in 2006 | | 2,572,000 | | | 2,572,000 |
| Surplus paid-in 2006 | | 1,000,000 | | | 1,000,000 |
| Operations 2007 | | | 511,110 | | 511,110 |
| Capital changes: | | | | | |
| Capital paid-in 2007 | 400,000 | | | | 400,000 |
| Surplus adjustments: | | | | | |
| Surplus paid-in 2007 | | (400,000) | | | (400,000) |
| Operations 2008 | | | (2,282,426) | | (2,282,426) |
| Capital changes: | | | | | |
| Capital paid-in 2008 | 53,130 | | | | 53,130 |
| Surplus adjustments: | | | | | |
| Surplus paid-in 2008 | | 169,870 | | | 169,870 |
| Surplus paid-in 2008 | | 1,200,000 | | | 1,200,000 |
| Surplus paid-in 2008 | | 901,346 | | | 901,346 |
| Operations 2009 | | | 2,484,750 | | 2,484,750 |
| Capital changes: | | | | | |
| Capital paid-in 2009 | 3,690 | | | | 3,690 |
| Surplus adjustments: | | | | | |
| Surplus paid-in 2009 | | 14,050 | | | 14,050 |
| Dividend to Stockholder | | | (1,017,740) | | (1,017,740) |
| Additional admitted DTA | | | (459,041) | | (459,041) |
| Reclass addition DTA to special surplus fund | | | | 459,041 | 459,041 |
| Purposed Exam Adjustments | | | (423,934) | | (423,934) |
| December 31, 2009 | <u>\$ 3,056,820</u> | <u>\$ 5,457,266</u> | <u>\$ 2,804,856</u> | <u>\$ 459,041</u> | <u>\$ 11,777,983</u> |

Analysis of Changes in Financial Statement from Examination

| <u>Description</u> | <u>Per Examination</u> | <u>Per Company</u> | <u>Surplus Increase (Decrease)</u> | <u>Note</u> |
|-----------------------------------|----------------------------|------------------------|--|-------------|
| Assets: | | | | |
| Investment Income Due and Accrued | \$ 188,431 | \$ 403,365 | \$ (214,934) | 5 |
| Adjusted Admitted Assets | <u>\$ 188,431</u> | <u>\$ 403,365</u> | <u>\$ (214,934)</u> | |
| Liabilities: | | | | |
| Losses and LAE | \$ 20,137,280 | \$ 19,928,280 | \$ 209,000 | 7 |
| Adjusted Liabilities | <u>\$ 20,137,280</u> | <u>\$ 19,928,280</u> | <u>\$ 209,000</u> | |
| Surplus as regards policyholder: | | | | |
| Unassigned funds (surplus) | \$ 2,804,856 | \$ 3,228,790 | \$ (423,934) | 5,7 |
| Adjusted Unassigned Funds | <u>\$ 2,804,856</u> | <u>\$ 3,228,790</u> | <u>\$ (423,934)</u> | |

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds: \$13,344,551

The Company's bond holdings totaled \$13.35 million and were approximately 38.0% of total admitted assets and 43.7% of the Company's total invested assets. Security composition for the year ending 2009 was comprised of the following:

| | |
|----------------------------|-------------------------|
| U.S. Governments | \$ 3.52 million |
| Industrial & Miscellaneous | <u>9.83 million</u> |
| | <u>\$ 13.35 million</u> |

The Company's bond holdings were made up of 66.4% class 1 and 2 with respect to NAIC credit quality standards and 33.6% of class 3, 4, and 5 rated bonds.

Note 2 - Mortgage Loans – First Liens: \$2,269,230

The Company's mortgage loans totaled \$2.27 million and were approximately 6.5% of total admitted assets and 7.4% of the Company's total invested assets. These mortgage loan investments were for three model homes in Glendale, Arizona. These loans were supported by appraisals and lien contracts dated April and May 2008. During the examination, the Delaware Department of Insurance ordered and received new appraisals on these mortgaged model homes. See SUBSEQUENT EVENTS for discussion on the new appraised value for these mortgaged model homes. The mortgage loan agreements were amended in April 2009 to defer interest income payments until maturity because of non-payment by the maker.

| | |
|---|---------------------|
| <u>Note 3 - Real Estate - Property occupied by Company:</u> | \$ 988,693 |
| <u>Note 3 - Properties held for production of income:</u> | 1,406,500 |
| <u>Note 3 - Properties held for sale:</u> | <u>1,105,770</u> |
| | <u>\$ 3,500,963</u> |

The Company's real estate investments totaled \$3.50 million and were approximately 10% of total admitted assets and 11.5% of the Company's total invested assets. The Company owned five (5) real estate properties as follows;

Property occupied by the Company:

The Company had \$988,693 in investment in real estate reported to be occupied by the Company (or 3.24 % of the Company's investments). This property is an office building in Klamath, OR occupied by the Company's parent Hire Calling Holding Company. This property was contributed to the Company as surplus in 2006.

Property held for production of income:

The Company had \$1.41 million in investment in real estate reported to be held for the production of income (or 4.61 % of the Company's investments). This property was an office building (known as Oak Avenue office building in Klamath, OR, with a 2009 reported carrying book value (BV) of \$98,000) and 1,093 acres of timberland in Klamath County, OR, with a 2009 reported BV of \$1.31 million.

Property held for sale:

The Company had \$1.11 million in investment in real estate reported to be held for sale (or 3.62 % of the Company's investments). This property included ten (10) vacant developed lots in Glendale, Arizona, located in the same subdivision as the Company's mortgage loan investments noted above. These 10 lots had a reported BV of \$980,770. The Company had an "Option Agreement" on these 10 vacant developed lots in that the seller (Optionee) had an option to re-purchase the lots for \$115,000 each until September 26, 2013. For this option, the seller paid 2%

over prime investment income to the Company each month. During the examination, the Delaware Department of Insurance ordered and received new appraisals on these developed lots. See SUBSEQUENT EVENTS for discussion on the new appraised value for these developed lots. The option agreement was amended in April 2009 deferring interest income payments until maturity due to non-payment by the Optionee. The other real estate held for sale is a vacant developed lot in Klamath, Oregon known as Lot 1139 – Running Y. Reported BV was \$125,000. During the examination, the Delaware DOI ordered and received a new appraisal on this lot. See SUBSEQUENT EVENTS for discussion on the new appraised value for this lot in Oregon. This lot and the Oak Avenue office building, note above, were contributed to the Company in 2008 by the Company’s President, Mr. James Madden, in exchange for 1,771 Company common stock shares in the Company.

| | |
|---|---------------------|
| <u>Note 4 - Cash:</u> | \$ 837,374 |
| <u>Note 4 - Short-Term Investments:</u> | <u>3,836,359</u> |
| | <u>\$ 4,673,733</u> |

The Company's cash holdings totaled \$837,374 and was approximately 2.4% of total admitted assets and 2.7% of the Company’s total invested assets. The Company's short-term holdings totaled \$3.84 million and were approximately 10.9% of total admitted assets and 12.6% of the Company’s total invested assets. \$1.02 million (or 26.7%) of the Company’s short-term investments was an investment in “Chileno Bay Development Partners” which is a “Senior Security 13% Promissory Note” issued by Chileno Bay Development Partners L.P. This development is located on the Baja Peninsula, Mexico. Interest payments totaling \$122,700 were in default as of the examination and were non-admitted by the Company. See Footnote No. 5 (below). See also SUBSEQUENT EVENTS for discussion and Company treatment of this Short-Term Investment in its 2010 Annual Statement.

Note 5 - Investment Income Due and Accrued: \$ 188,431

The above captioned amounts for Investment Income Due and Accrued was \$214,934 less than what was reported by the Company for investment income due and accrued as of December 31, 2009. The Examination determined that the an additional \$214,934 should have been non admitted, \$150,072 due from mortgage loans discussed in Footnote No. 2 for investment income over 90 days past due and \$64,862 in investment income over 90 days past due from “options” on 10 developed vacant lots in Glendale, Arizona discussed in Footnote No. 3. As noted above in Footnote No. 4, the Company had already non-admitted \$122,700 investment income due to its short-term investment in the Chileno Bay Development Partners being past due more than 90 days and in default.

It was recommended that the Company non-admit investment income over 90 days past due.

Note 6 - Net Deferred Tax Assets (DTA): \$ 894,622

Note 6 - Write-in for Special Surplus Funds - Additional admitted DTA: \$ 459,041

The Company took advantage of its option and qualified for provisions provided for in SSAP No. 10R to calculate its Net Deferred Tax Assets. As provided for in the temporary provisions of SSAP No. 10R, the Company gained an additional amount of “Special Surplus Funds” as of 12/31/2009 in the amount of \$459,041. Even with examination adjustments to the Company’s surplus, its RBC ratio was still over 300% and qualified to take advantage of SSAP No. 10R.

Liabilities

Note 7 - Loss and Loss Adjustment Expense Reserves: \$20,137,280

The Delaware Insurance Department retained the services of a consulting actuary, Michael W. Morro, ACAS, MAAA with the actuarial firm of INS Consultants, Inc. for the purposes of conducting an independent review of the Company's loss and loss adjustment expense reserves as of December 31, 2009. Based on their analysis, the above noted amount for loss and loss adjustment expense reserves is \$209,000 more than the Company's reported amount. Adjusted loss and loss adjustment expense reserves (LAE) represent 87% of the Company's liabilities at year-end 2009. The Company only writes workers' compensation.

Note 8 - Capital Change: Paid-in: \$ 3,692
Note 8 - Surplus Adjustment: Paid-in: \$14,050

The above adjustments were a result of Mr. James Madden, the Company's President, electing not to receive cash dividends but to receive additional shares of Company common stock in the Company in 2009. See the DIVIDENDS on page 8 for more information on these adjustments made by the Company.

Note 9 - 2009 Dividend Payments:

The Board of Directors approved a \$10 per share dividend effective December 18, 2009. The parent, HCHC, received a \$1,000,000 cash dividend and Mr. James Madden received the remaining \$17,710 in dividends in additional Company common stock. See Note 8 as to the type of payment received by Mr. Madden.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

This is the first examination of the Company under its current ownership.

SUMMARY OF RECOMMENDATIONS

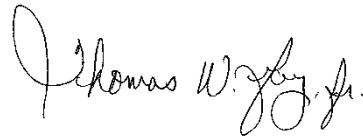
It is recommended that the Company obtain adequate fidelity bond coverage on officers, directors, or employees. (See Fidelity Bond and Other Insurance, page 15).

It is recommended that the Company non-admit investment income due and accrued over 90 days past due. (See Notes to Financial Statements - Investment Income Due and Accrued - Note 5, page 30).

CONCLUSION

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, Molatore, Scroggin, Peterson & Co. LLP, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Thomas W. Gay, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC