

FC 22291

NH.

**Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.**

COMBINED FINANCIAL STATEMENTS

December 31, 2007

SATURDAY



AMWAW6EI

A18

10/01/2009

358

COMPANIES HOUSE

William Murray
President

[Signature]
Comptroller

[Signature]
CORPORATE SECRETARY

**Sheehan
& COMPANY**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
COMBINED BALANCE SHEETS	2
COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME.....	4
COMBINED STATEMENTS OF RETAINED EARNINGS	6
COMBINED STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS.....	9



A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

230 Park Avenue, 23rd Floor,
New York, NY 10169 • 212.962.4470

165 Orinoco Drive, Brightwaters, NY 11718
631.665.7040 • Fax: 631.665.7014

180 Main Street, Port Washington, NY 11050
516.883.5510 • Fax: 516.767.7438

www.sheehancpa.com

INDEPENDENT AUDITORS' REPORT

To the Stockholder
Nausch, Hogan & Murray, Inc.

We have audited the accompanying combined balance sheet of Nausch, Hogan & Murray, Inc., NHM International, Inc. and Nausch, Hogan & Murray, (V.I.) Inc. as of December 31, 2007 and the related combined statements of income and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Nausch, Hogan & Murray, Inc., NHM International, Inc. and Nausch, Hogan & Murray, (V.I.) Inc. as of December 31, 2006, were audited by other auditors whose report dated August 15, 2007, expressed an unqualified opinion on those financial statements. As the previous auditors did not report on the Company's statement of cash flows for the year ended December 31, 2006, the statement of cash flows is not comparative.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Nausch, Hogan & Murray, Inc., NHM International, Inc. and Nausch, Hogan & Murray, (V.I.) Inc. as of December 31, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sheehan & Company, CPA PC

September 15, 2008

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED BALANCE SHEETS

December 31, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 47,131,902	\$ 28,698,088
Commissions receivable	5,788,539	2,054,497
Prepaid assets	335,824	36,948
Total current assets	<u>53,256,265</u>	<u>30,789,533</u>
Fixed assets:		
Property and equipment, net	<u>898,785</u>	<u>1,133,506</u>
Other assets:		
Investment in Riverview Investment Company	-	1,931,078
Notes receivable	<u>3,903,556</u>	<u>1,402,847</u>
Total other assets	<u>3,903,556</u>	<u>3,333,925</u>
 Total assets	 <u>\$ 58,058,606</u>	 <u>\$ 35,256,964</u>

The accompanying notes are an integral
part of these financial statements

-2-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED BALANCE SHEETS

December 31, 2007 and 2006

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>2007</u>	<u>2006</u>
Current liabilities:		
Accounts payable	\$ 111,980	\$ -
Note payable, short-term borrowing	499,997	497,000
Note payable, current portion	571,000	-
Unremitted insurance premiums	28,564,852	18,707,930
Unremitted insurance claims	5,528,803	2,027,220
Insurance premium financing	251,246	-
Pension plan contribution payable	326,039	275,000
Accrued expenses	86,063	-
Accrued taxes	18,940	178,410
Employee withholding pension payable	12,931	3,642
Other current liabilities	147,417	75,540
Total current liabilities	<u>36,119,268</u>	<u>21,764,742</u>
Long-term debt (less current portion above):		
Mortgage payable	-	1,681,318
Note payable	5,139,000	2,957,488
Total long-term debt	<u>5,139,000</u>	<u>4,638,806</u>
 Total liabilities	 <u>41,258,268</u>	 <u>26,403,548</u>
Stockholder's equity:		
Common stock	21,600	21,600
Additional paid-in capital	1,642,624	1,642,624
Retained earnings	14,728,998	6,143,917
Accumulated other comprehensive income:		
Unrealized gains on foreign currency	407,116	248,650
Total stockholder's equity	<u>16,800,338</u>	<u>8,056,791</u>
 Total liabilities and stockholder's equity	 <u>\$ 58,058,606</u>	 <u>\$ 34,460,339</u>

The accompanying notes are an integral
part of these financial statements

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Commissions	\$ 23,484,259	\$ 15,296,530
Adjusters fees	-	1,018
Interest income	1,649,204	976,910
Other income	23,531	83,083
Total revenues	<u>25,156,994</u>	<u>16,357,541</u>
Expenses:		
Compensation and related costs	7,121,770	5,668,511
Payroll taxes	312,737	294,877
Pension contribution expense	326,039	275,000
Corporation taxes	148,300	96,730
Rent	521,825	542,260
Depreciation and amortization	239,054	317,476
Professional and consultant fees	1,292,874	1,219,788
Telephone	53,028	50,736
Bank charges	25,070	21,301
Automobile expenses	150,232	103,641
Commercial rent tax	14,884	14,384
Dues and subscriptions	20,004	20,286
Travel and entertainment	466,975	396,367
Interest expense	356,029	185,193
Insurance expense	1,034,847	997,822
General office expenses	4,524,369	3,940,858
Total expenses	<u>16,608,037</u>	<u>14,145,230</u>
Net income before provision for income taxes	8,548,957	2,212,311
Less provision for income taxes	<u>(36,124)</u>	<u>178,410</u>
Net income	<u>8,585,081</u>	<u>2,033,901</u>

The accompanying notes are an integral
part of these financial statements

-4-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Other comprehensive income:		
Unrealized gains on foreign currency arising during period	<u>\$ 158,466</u>	<u>\$ 134,568</u>
Total other comprehensive income	<u>158,466</u>	<u>134,568</u>
Comprehensive income	<u><u>\$ 8,743,547</u></u>	<u><u>\$ 2,168,469</u></u>

The accompanying notes are an integral
part of these financial statements

-5-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED STATEMENTS OF RETAINED EARNINGS

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Retained earnings at January 1, as previously reported	\$ 6,940,542	\$ 5,442,475
Adjustment for write-off of investment	<u>(796,625)</u>	<u>-</u>
Retained earnings at January 1, as restated	6,143,917	5,442,475
Net income (as restated in 2006)	8,585,081	1,237,276
Stockholder's distributions	<u>-</u>	<u>(535,834)</u>
Retained earnings at December 31	<u>\$ 14,728,998</u>	<u>\$ 6,143,917</u>

The accompanying notes are an integral
part of these financial statements

-6-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2007

2007

Cash flows from operating activities:

Net income	\$ 8,585,081
Adjustments to reconcile net income to net cash provided by operating activities:	
Unrealized gains on foreign currency	158,466
Depreciation and amortization	239,054
Loss on investment	1,134,453
(Increase) decrease in assets:	
Commissions receivable	(3,734,042)
Prepaid assets	(298,876)
Increase (decrease) in liabilities:	
Accounts payable	111,980
Unremitted insurance premiums	9,856,922
Unremitted insurance claims	3,501,583
Pension plan contribution payable	51,039
Accrued expenses	86,063
Accrued taxes	(159,470)
Employee withholding pension payable	9,289
Other current liabilities	71,877
Total adjustments to net income	11,028,338
Net cash provided by operating activities	19,613,419

Cash flows from investing activities:

Purchases of property and equipment	(4,333)
Proceeds advanced on notes receivable	(2,500,709)
Net cash (used) by investing activities	(2,505,042)

The accompanying notes are an integral
part of these financial statements

-7-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

COMBINED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2007

	<u>2007</u>
Cash flows from financing activities:	
Proceeds from note payable, short-term borrowing	\$ 2,997
Proceeds from insurance premium financing	452,243
Payments on insurance premium financing	(200,997)
Proceeds from note payable	5,710,000
Principal payments on mortgage	(1,681,318)
Principal payments on note payable	<u>(2,957,488)</u>
Net cash provided (used) by financing activities	<u>1,325,437</u>
 Net increase (decrease) in cash and cash equivalents	 18,433,814
 Cash and cash equivalents, beginning of year	 <u>28,698,088</u>
 Cash and cash equivalents, end of year	 <u><u>\$ 47,131,902</u></u>
 Supplemental disclosures:	
Cash paid for:	
Interest	\$ 356,029
Taxes	65,462

The accompanying notes are an integral
part of these financial statements

-8-

Sheehan
& COMPANY

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations and summary of significant accounting policies:

Description of business: Nausch, Hogan & Murray, Inc. (the "Company"), and its affiliates, is a non-public insurance organization arranging property, casualty and marine liability coverage to both domestic and foreign clientele.

The significant accounting policies followed by the Company and its affiliates are summarized as follows:

Principles of combination: The combined financial statements include the accounts of the Company and its affiliates.

Basis of presentation: The accompanying combined financial statements have been prepared on the accrual basis of accounting.

Cash equivalents and foreign cash conversions: Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Foreign currencies are converted to United States dollars using the prevailing exchange rates at the balance sheet date.

Commissions receivable: The commissions receivable balance is the amount management expects to collect on balances outstanding at year end and is presented in the Balance Sheets net of allowance for doubtful accounts. Management closely monitors outstanding balances and writes off, as appropriate, any balances that are deemed to be uncollectible. As management has significant experience with and knowledge of their clients, they have been successful in monitoring and collecting their receivables. At December 31, 2007 and 2006, the allowance for doubtful accounts had a zero balance based upon management's estimate of collectability.

Property and equipment: Acquisitions of property and equipment in excess of \$1,000 are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. Property and equipment is recorded at cost and is depreciated principally under the double declining method over the estimated useful lives of the respective assets. Depreciation and amortization expense for the years ending December 31, 2007 and 2006 was \$239,054 and \$317,476, respectively.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

1. **Nature of operations and summary of significant accounting policies (continued):**

Accruals, prepayments and expense recognition: Accruals and prepayments have been recognized including income tax.

Recognition of premium commission revenues: Property, casualty and marine liability premium commissions are generally recognized as revenue when earned.

Employee benefit plan: The Company sponsors a 401(k) savings plan that covers substantially all full-time employees. Benefits are a function of years of service and level of compensation, as well as employee elected salary deferrals. The Company's funding policy is to fund all accrued profit sharing costs on a current basis.

Taxes on income: Nausch, Hogan & Murray, Inc., with the consent of its shareholder, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the entity's taxable income. The Company is not taxed as an S corporation in New York City. Accordingly, the provision and liability reflects New York City taxes. The provision and liability for federal, state and city income taxes in the financial statements also includes taxes on the income of NHM International, Inc.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

2. **Line of credit:**

The Company has an open credit line of \$500,000 available from Barclays Bank, PLC, which is reviewed annually. Advances on the credit line are subject to interest at 1% above the prime rate and are secured by a letter of charge held by Barclays Bank, PLC.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

2. Line of credit (continued):

As of December 31, 2007 and 2006, the outstanding balance on the credit line was \$499,997 and \$497,000, respectively. Subsequent to December 31, 2007, the Company paid off the balance of \$499,997.

3. Note payable:

On December 12, 2007, the Company entered into a note with Capital One Bank, N.A. (formerly North Fork Bank) with a principal balance of \$5,710,000. Proceeds from the note were used to pay off principal balances on a mortgage and a previous loan from North Fork Bank, in the amounts of \$1,577,314 and \$2,431,524, respectively.

The note has a ten-year term, with principal payments of \$571,000 due annually on December 12. Interest is payable monthly at the rate of 4.75% to be adjusted annually on the 12th of each year at a rate of 0.75% in excess of the bank's one year certificate of deposit rate.

The future scheduled maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 571,000
2009	571,000
2010	571,000
2011	571,000
2012	571,000
Thereafter	<u>2,855,000</u>
	<u>\$5,710,000</u>

The note is collateralized by a certificate of deposit held with the bank. At December 31, 2007, the balance of the certificate of deposit was \$5,710,000.

In addition, the Company is required to maintain a minimum balance of \$2,000,000 with Capital One Bank, N.A., excluding the pledged certificate of deposit. At December 31, 2007, the Company was in compliance with the minimum balance requirements.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

4. Insurance premium financing:

Insurance premium financing consists of the following:

	<u>2007</u>	<u>2006</u>
Note payable, gotoPremiumFinance.com, due May 23, 2008, payable in nine monthly installments of \$51,492.64, which includes amortization and interest at 5.90%, secured by an interest in return premiums, dividend payments, and certain loss payments.	\$ 251,246	\$ -
Total insurance premium financing	<u>\$ 251,246</u>	<u>\$ -</u>

5. Operating leases:

The Company leases office space in New York City under an operating lease expiring on August 31, 2011. Under the terms of this lease, the Company is obligated to pay escalation rentals for certain operating expenses and real estate taxes. Minimum future rental payments under the lease as of December 31, 2007 are summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 379,065
2009	379,065
2010	379,065
2011	252,710
	<u>\$1,389,905</u>

Rent expense, including charges for operating expenses and taxes, for the years ending December 31, 2007 and 2006 was \$413,886 and \$409,037, respectively.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

5. Operating leases (continued):

The Company leases office space in Miami under an operating lease expiring on December 31, 2011. Under the terms of this lease, the Company is obligated to pay escalation rentals for certain operating expenses and real estate taxes. Minimum future rental payments under the lease as of December 31, 2007 are summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 78,659
2009	81,012
2010	83,448
2011	85,945
	<u>\$329,064</u>

Rent expense, including charges for operating expenses and taxes, for the years ending December 31, 2007 and 2006 was \$81,484 and \$110,219, respectively.

The Company leases office space in St. Thomas, Virgin Islands under an operating lease expiring on December 31, 2008. Under the terms of this lease, the rent may be adjusted to reflect increases in the Consumer Price Index. Minimum future rental payments under the lease as of December 31, 2007 are summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$21,087

Rent expense, including charges for operating expenses and taxes, for the years ending December 31, 2007 and 2006 was \$26,455 and \$23,004, respectively.

6. Concentrations of credit risk:

The Company maintains its cash balances in multiple financial institutions located in various countries. The balances held in accounts in the United States of America are insured by the Federal Deposit Insurance Corporation up to \$100,000. From time to time, the cash balances maintained by the Company may exceed the insured amount.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

6. Concentrations of credit risk (continued):

For the year ended December 31, 2007, a significant portion of the Company's operating income and total outstanding commissions receivable are related to the following sources:

	<u>Commissions</u>	<u>Commissions Receivable</u>
Customer A	37%	44%

7. Related party transactions:

Notes receivable at December 31, 2007 and 2006, were due from the following related parties:

	<u>2007</u>	<u>2006</u>
Note receivable from shareholder	\$3,600,000	\$1,200,000
Note receivable from employee	202,847	202,847
Accrued interest receivable on above notes	<u>100,709</u>	<u>-</u>
	<u>\$3,903,556</u>	<u>\$1,402,847</u>

Interest income related to these notes was \$100,709 and \$-0- during the years ended December 31, 2007 and 2006, respectively. Interest is calculated using the Applicable Federal Rate.

8. Property and equipment:

Property and equipment are summarized by major classifications as follows:

	<u>2007</u>	<u>2006</u>
Machinery and equipment	\$ 67,488	\$ 63,155
Furniture and fixtures	139,824	139,824
Leasehold improvements	10,348	10,348
Transportation	<u>2,682,040</u>	<u>2,682,040</u>
	2,899,700	2,895,367
Less accumulated depreciation and amortization	<u>(2,000,915)</u>	<u>(1,761,861)</u>
	<u>\$ 898,785</u>	<u>\$ 1,133,506</u>

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

9. Common stock:

Nausch, Hogan and Murray, Inc. was incorporated on August 17, 1976 and has been authorized to issue 200 shares of common stock, no par value, all of which are issued and outstanding as of December 31, 2007 and 2006.

NHM International, Inc. was incorporated on February 19, 1980, and has been authorized to issue 100 shares of common stock, no par value, all of which are issued and outstanding as of December 31, 2007 and 2006.

Nausch, Hogan and Murray, (V.I.) Inc. was incorporated on April 2, 2001, and has been authorized to issue 10,000 shares of common stock, no par value, all of which are issued and outstanding as of December 31, 2007 and 2006.

10. Guarantee of debt:

In connection with its accounts held at ABN AMRO Bank N.V., the Company is acting as a guarantor of various third parties' debts, totaling approximately \$123,405 at December 31, 2007. An example of an event that would require the Company to provide a cash payment pursuant to the guarantee is a loan default, which would result from the third parties' failure to service its obligations. Significant losses are not anticipated and there is currently no recorded liability for potential losses under this guarantee, nor is there any liability for the Company's obligation to "stand ready" to fund such guarantee.

11. Foreign operations:

Operations outside the United States include branch offices in England, Canada, Brazil, and the Netherlands. Foreign operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange.

Nausch, Hogan & Murray, Inc.
NHM International, Inc.
Nausch, Hogan & Murray, (V.I.) Inc.

NOTES TO FINANCIAL STATEMENTS

11. Foreign operations (continued):

Results of operations for the Company's foreign branch offices are translated from the local (functional) currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities are translated at the exchange rate in effect at the reporting date. Unrealized gains and losses on foreign currency at the balance sheet date are included in other comprehensive income in the equity section of the balance sheet. At December 31, 2007 and 2006, the unrealized gain was \$407,116 and \$248,650, respectively.

12. Retirement plans:

The Company maintains a discretionary defined contribution profit sharing and 401(k) plan covering all of its eligible employees. An employee must have been employed with the Company for at least one year in order to participate. Profit sharing contributions are funded by periodic, discretionary company contributions to the plans as well as voluntary payroll deductions from employees. The amount contributed by the Company to the plan for the years ending December 31, 2007 and 2006 is \$326,039 and \$275,000, respectively.

13. Income taxes:

The Company's provision for income taxes at December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Federal	\$(23,596)	\$ -
State	2,181	525
City	<u>(14,709)</u>	<u>177,885</u>
Total	<u><u>\$(36,124)</u></u>	<u><u>\$178,410</u></u>

14. Prior-period adjustment:

Retained earnings at the beginning of 2007 have been adjusted for an unrecognized loss in the prior year. The correction has no effect on the results of the current year's activities; however, the adjustment decreases beginning retained earnings for 2007 by \$796,625. As this adjustment occurred on Nausch, Hogan and Murray, Inc., a S corporation, there is no tax related adjustment as the entity's taxes are paid by the shareholder.